Access to Finance Guide:

1. Bank Finance Options

Overdrafts

An overdraft is a flexible way for you to manage short-term borrowing requirements. Business overdrafts are traditionally easy to arrange and give you instant access to funds. Applications are available via your Bank. Key features and benefits:

- A convenient way to manage your business cash-flow needs.
- Match your business overdraft limit to your borrowing requirements, including how much you need and how long you wish to borrow money for.
- Easy to arrange and can often be considered without the requirement for associated bank security, although this will vary according to the lender's own risk assessment of the applicant.
- Provides instant access to funds
- Business overdrafts are available for any period up to 12 months
- Match your business overdraft limit to your borrowing requirements, including how much you need and how long you wish to borrow money for
- You only pay interest charges when you start using your overdraft and drawing money
- As a general rule overdraft interest is based on a lenders variable rate and tracks the Bank of England Base Rate.
- A set up or arrangement fee can be levied

Business Loans

If you require cash for working capital, refurbishment, property development, new machinery or equipment then a business loan is worth considering and available from all High Street Banks in varying forms. Key features and benefits:

- A straightforward way to get extra business finance with repayment over an agreed term.
- Match your loan requirements to your business plans
- Flexible repayment options can be agreed to best suit your business needs
- Various interest rate options are available in the market including tracking variable rate against Bank of England Base Rate or Libor.
- Fixed interest rates are often available so you know exactly what the cost will be for the duration of the facility
- A Capital Repayment Holiday period can often be agreed at the start of your loan term (interest will still be charged and debited from your current account)

- Pay off lump sums of the loan or repay the entire loan early (a fee and breakage cost may be charged)
- As with all lending, any property used as security, which may include your home, may be repossessed if you do not keep up repayments on your lending facilities

Commercial mortgages

Traditionally used when purchasing a commercial property or releasing equity from your existing one, various forms of commercial mortgage are available from Banks and Financial Institutions. Terms are negotiated on a case by case basis and as a general rule security will be required. Key features and benefits:

- Repayment periods up to 25 years can be seen
- A Capital Repayment Holiday period can often be agreed at the start of your loan term, (interest will still be charged and debited from your account)
- Choices include variable, capped or fixed-interest rate, with the option to change your selection during the mortgage term
- Borrowing typically available up to 70/80% of the lower of your business property's valuation or purchase price available in the market place
- Lending fees and associated borrowing costs apply and can sometimes be added to the loan
- Early repayment charges often apply if you repay all or part of the mortgage before the expiry of the fixed term

Government Backed Schemes

Enterprise Finance Guarantee (EFG) – this was launched by the Government in January 2009, the Enterprise Finance Guarantee (EFG) scheme supports Banks in lending to customers where traditional bank lending would not have been available. It provides the Bank with a partial guarantee (75%) from the Government on borrowing, and means they are now able to offer qualifying businesses loans, overdrafts or invoice finance facilities of up to £1 million.

Borrowing supported by the EFG scheme can be used for a wide variety of purposes, including working capital and other business expenditure, and are available to most businesses.

Invoice Finance

Invoice Finance is a source of short-term funding and has the capacity to increase in line with the expansion of a business. Invoice financing can give businesses a timely cash injection by releasing money tied up in outstanding invoices, effectively providing an ongoing supply of capital that is linked to company sales.

As an invoice is raised, it is sent to the Invoice Finance provider and a percentage, (as much as 85%), of the value of that invoice is released within a very short time period e.g. 24 hours. Interest is charged once drawn.

The remaining value, less a service fee is paid once the customer settles the invoice.
Key Finance Options:

- Immediate injection of cash against outstanding invoices
- Flexible financing as Invoice Finance provides an ongoing supply of cash against invoices as they are raised
- Ideally suited to growing businesses

Further details can be provided by your local bank.

Asset Finance

Asset finance is a funding solution to support the acquisition of new business assets. Outright purchases can be a significant drain on working capital and not always the most efficient way to manage capital expenditure. Funding through asset finance can enable you to fund asset purchases without using up cash reserves.

Types of Asset Finance solutions

There are a range of asset finance options. These can be summarised as follows:
• Hire Purchase – the payment of a fixed amount across a specific period to cover the cost of the asset.
• Operating Lease – Allows you to lease your asset from a provider over an agreed period. Typically, there is a built in residual value for the asset, which reduces the monthly payments, thereby bringing further cash flow benefits to the customer.
• Finance Lease – Allows you to lease the asset from a provider over an agreed period. Repayments are spread over the economic life of the asset and can typically be tailored to customer requirements.
• Contract Hire – covers vehicle fleet management, repair, maintenance and productivity.

Types of Assets funded

• Moveable (i.e. not part of a building)
• Identifiable (i.e. an asset with an individual serial or registration number)
• Valuable (i.e. where the asset would have a second hand value in the market place)
Typical examples of assets financed would include cars, trucks, trailers, machinery, printing

presses and certain IT and office equipment

What are the benefits?

• Improved cashflow for the customer
• The payment structure can be matched to cashflow patterns making budgeting and planning much easier
• There is a choice of either fixed or linked rate funding
• Can often be tax efficient depending on the tax allowances available
• The finance is secured on the asset funded so additional security is not usually required

Where can I find out more?

Further details can be provided by your local bank.

Structured Trade Finance

Structured Trade Finance covers a range of products used to assist importers and exporters to both mitigate the risks associated with trading overseas and also provide bespoke funding options to aid cashflow.

When is Structured Trade Finance used?

Structured Trade Finance can be used to provide funding to either importers or exporters who trade using any of the below methods.

Open Account Trading

Extremely beneficial to Importers who may not require to pay for the goods until sale proceeds received.
Exporters who accept Open Account terms, may need funding assistance. Structured Trade Finance can be used to bridge the gap prior to sale proceeds being received..

Collections – Against Acceptance or Payment

Like Open Account, a funding gap can exist between receipt of firm order and receipt of sale proceeds. The funding requirement depends on terms of the collection. Typically, Structured Trade Finance is used to purchase the goods from the seller until funds become available from the buyer.

Documentary Credits - Confirmed and Unconfirmed

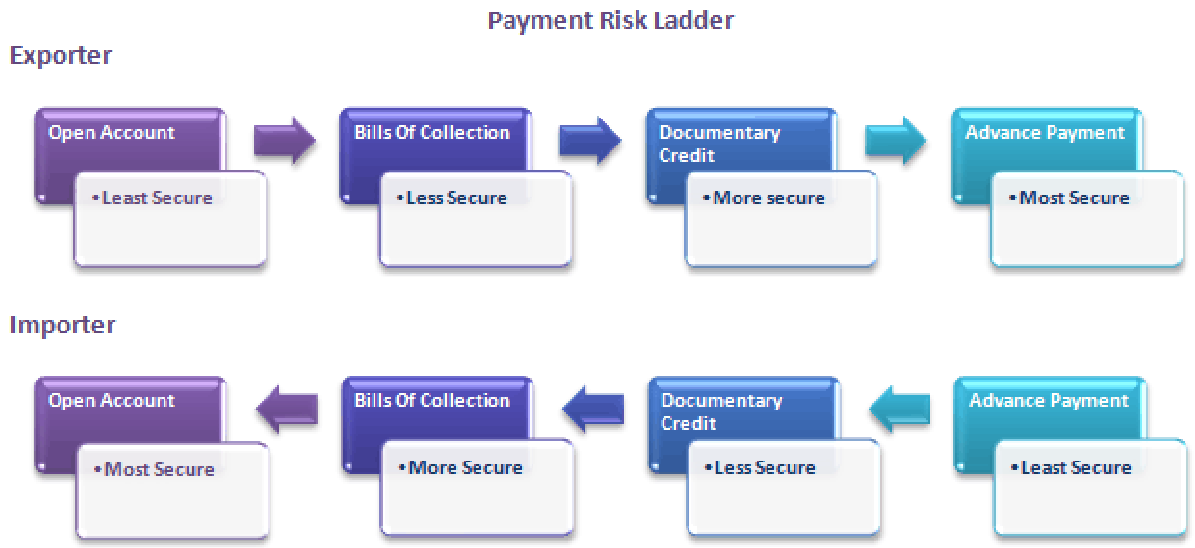
Structured Trade Finance can also be used to provide guarantees to buyers and sellers through the use of Documentary Credits. This bank guarantee system gives the assurance to sellers that they will be paid for their goods, provided correct documentation is presented.

Conversely, it provides certainty to buyers that funds will only be paid away once correct documentation is received..
Funding can also be made available where the seller requires immediate payment.

Advance Payments

Considered the highest risk for the buyer, payment is made before goods are shipped. Although attracting a higher risk, Structured Trade Finance can also be used for these payment methods. Usually a percentage of the invoice is supported using Structured Trade Finance for a pre authorised period of time.

Below shows the Risk Ladder and how each of the above effects the risk to both the Importer and Exporter:



Access to Finance Guide:

2. Alternative Routes to Finance

Fredericks Foundation – A registered charity lending business loans up to £10K for start up's & up to £20k for established businesses. A written Bank decline is required. We do not lend for property construction or property investment. Whilst lending to sole traders, partnerships and limited companies the individuals concerned (including directors and shareholders) must have utilised their own assets first.
www.fredericksfoundation.org/contact-us/gloucestershire

South West Loans Fund – lend small business loans up to £50K for growing small businesses businesses. This is one of the Governments Solutions for Business products, fund managed by SWIG Services. The SWLF criteria includes a strong management team & the loan is mainly aimed at business to business & not business direct to general public. They do NOT do retail, nor loans for building, or property investment. Again you need a Bank decline but they are happy if the individual has assets outside of the business.
www.swloansfund.co.uk

FC Fund Managers is the fund manager of Finance for Business within the South West Loans Fund which is currently taking applications for loans of £50K to £250K and is raising further mezzanine and equity funds. Loans are to solvent, growth oriented, viable businesses in South West England that are unable to secure all of their funding needs from conventional sources. The fund may provide loans of up to £250,000 on commercial terms.
www.swloansfund.co.uk

Princes Trust - Enterprise programme - supports unemployed (or less than 16 hours per week) young people aged 18-30 to work out if their business ideas are viable and whether self-employment is right for them. Small amounts of start-up funding requests are assessed in relation to a number of factors including perceived risk, business viability and individual need. www.princes-trust.org.uk

Business Angels - Business Angels are high net worth individuals who invest on their own, or as part of a syndicate, in high growth businesses. There are many successful entrepreneurs in Gloucestershire, who, having created their own wealth or successfully exited a business, are looking for new investment opportunities. A benefit of such Business Angels is that in addition to money, they often bring their own skills, experience and contacts to the company that they invest in. A benefit to the investors is that, if your company is eligible under the Enterprise Investment Scheme, they may receive tax benefits.

The British Business Angels Association (BBAA) represents many organisations including the vast majority of business angel networks across the UK, early stage venture capital funds, as well as professional service providers and advisers, including banks, corporate finance houses, accountants, law firms, regional development agencies, universities and public policy-makers.

The BBAA exists to represent UK early stage investment and performs a number of roles which include:

- Promoting angel and venture capital as smart money and the primary mechanism for new and high growth potential businesses to fund their capital requirements;
- Facilitating contact and the exchange of best practice and experience between angel groups, venture capitalists, and other sources of early stage funding through networking events and regular communication with its membership;
- Engaging in regular dialogue with Government, opinion formers and leaders at a national level to help shape policy for the benefit of the industry;
- Creating links with other like-minded UK and international associations and organisations;
- Having an agreed code of conduct for all Members to promote best practice and transparency across the industry.

Business Angel networks

One of the biggest advantages of working through a network rather than going it alone and seeking out potential investors independently is that the network will help with a lot of the very essential work that precedes an investment. In addition to introducing suitable companies to investors, the network will screen the investment prospects on behalf of members. This means that the network will play an educational role – assisting companies with their business plans and funding propositions, educating the investors about the prospects and vice versa. They will also handle the packing of the investment in terms of valuations and eligibility for the Enterprise Investment Scheme (EIS). Networks offer a captive audience for a wide range of pre-screened investment opportunities.

How do you find an angel or investor network?

A good place to start is the BBAA – the British Business Angels Association (http://www.bbaa.org.uk/).

What other useful sources of information are there?

www.betterbusinessfinance.co.uk (this has more information about the various methods of raising finance)

www.envestorslondon.co.uk/raising-finance (try the Tools & Tips section under either Early Stage or Established Company links for the dos and don’ts of attracting business angels)

www.swain.org.uk (South West Angel Investment Network)

Peer to Peer

A relatively new source of loan funding available in various forms, effectively matching individual or institutional investors needs with those of potential borrowers. For more information a good place to start is: www.p2pfinanceassociation.org.uk

Access to Finance Guide:

3. Applying for Finance? Top Tips

Finance application checklist

Whether you're considering applying for borrowing or looking to re-finance existing borrowing, it's important that a lender understands the background to your request.

A thorough understanding allows a lender to assess your ability to repay any borrowing and enables you to choose the most appropriate product to meet your individual needs.

This "checklist" aims to provide you with details of the type of information a lender may ask you to provide to support your application. The list and questions we ask you may vary depending on the amount you wish to borrow, the complexity of the business proposition and your circumstances.

For all borrowing requests a bank is likely to ask you:

- How much you want to borrow.
- How long you would like to borrow it for.
- Why you want to borrow it.
- How you will repay it.
- A profile of the business, the owner and/or management team including experience, expertise and track record.
- How much have you and/or the management team got personally invested in the business?
- Where assets for security are available, to provide details, including an estimate of valuation (professional valuations will be required in some instances).
- Whether you have any other borrowing commitments.

Additional information - Depending on your request a bank may also ask you to provide them with:

- Business plans – usually covering the next 3-5 year period.
- Cashflow and / or profit forecasts – usually covering the next 3-5 year period.
- Details of your business assets and liabilities, including any additional income from other sources.
- Management accounts (if an existing business)
- Historic financial accounts (if an existing business)

Top Tips for a Business Plan

To help the lender make the right decision, it's important that you prepare a convincing Business Plan with a strong, clear statement of objectives which you genuinely believe in.

Be transparent and, as well as all the positive things within your business and market place, also be up-front about the possible risks.
Back up your information with evidence of where your market is going and how you will achieve the goals set out in your plan.
Your Business Plan will help your lender get a really good understanding of you and your business and will ensure that the lender makes the right decision about providing finance to you.
Opening summary - Start your business plan with an 'executive summary' to provide readers with a quick overview of the whole report.
A good business plan should be:

- clear and concise
- free of jargon
- well-researched
- achievable

Don't be put off if you don't have all the information you need from the start. A basic outline can be filled out as more details become available and even a simple financial forecast can be beneficial to help start the process. Your lender will be pleased to provide support and guidance on how to create your business plan and who you can talk to for further guidance if you need it.

The structure of your business plan
As a basic starting point, divide your plan into four sections:

- Where are you now? Include details of your line of business and the products and/or services you offer, as well as your growth to date if applicable.
- Where you want to be by (date). Include a brief outline of your vision.
- Your strategies for getting there.
- Actions required, by whom and by when.
-

How does a lender assess your business and any funding request?
A general aid that some lenders use frequently to understand what level of borrowing is appropriate for a business is '**CAMPARI**', which looks at the following:
C: Character of the business - examining the management, resources, skills, culture, trading activity, industry outlook, competition and market.
A: Ability to repay - how will it repay funding and from what source, apply sensitivities and perform a break-even analysis.
M: Margin - a bank assesses the risk margin based on the level of risk in the capital structure.

P: Purpose of the loan - ensuring that funding is in the best interest of the borrower and that the bank is not funding a loss.
A: Amount of the loan - is the amount appropriate, can it be repaid, what is the business' stake?
R: Repayment terms - interest rate margin, the longer the term, the higher the risk.
I: Insurance - against the possibility of the borrower being unable to repay.

A final 'top tip' on this subject is about communication. Communicating with your lender at an early stage of your planning is essential and will help you formulate your plans to ensure the best outcome is achieved for everyone.

Available Grants
The Government has recently announced the launch of a new £82.5 million student-loan style initiative for young entrepreneurs in England who are planning to start a new business. Initial plans for the StartUp Loans scheme were first announced by the Government in the 2012 Budget. Based on the current student loan system, the scheme will enable young people who choose not to go to university to access low interest loans to help them start up a company. The scheme is open to 18-24 years-olds who are planning to start up a business enterprise in England. Applicants will need a "viable" business idea in order to qualify for support. http://www.startupbritain.org/loans

The Government has also issued two requests for proposals to manage the remaining £500 million available through the Business Finance Partnership (BFP). The BFP aims to ease the flow of credit to small and mid-sized businesses in the UK by diversifying their sources of finance and making them less reliant on bank lending. It is part of a wider £21 billion credit easing programme being taken forward by government to open up new channels of finance for businesses. Click here for further information (external)