



**Howsons**  
Chartered Accountants

*Business Matters*

## Sources of Finance for your Business

**Get the financing right and you will have a healthy business.** Financing may be required at any stage of the business's development – when you first commence in business, or later on when you need to expand. There are many places where you can source finance, some are more well-known than others. This factsheet details just some of the options available.

### Banks Loans and Overdrafts

When most people think about trying to obtain extra finance, their first port of call is the bank. In small business and start-up situations, banks invariably prefer to give overdrafts or extend credit limit rather than make a formal loan. Overdrafts are a very flexible form of finance which, with the help of a healthy income, can be paid off more quickly than a formal loan. If, during the period you are financing your overdraft an investment opportunity arises, you can look to extend the options on your overdraft facility to help finance the project.

For many businesses, there are advantages with fixed term loans. There's the comforting knowledge that the regular payments to be made on the loan make cash flow forecasting and budgeting more certain. Sometimes, it is considered that with a long term loan a bank is more committed to their business for the whole term of the loan. An overdraft can be called in, but, unless you fail to make payments on a loan, the banks cannot take the finance away from you.

Dependent upon the size of the loan, security against the loan may be required. Commonly, a business owner will offer their home as security but this is personal choice, depending upon your risk-threshold. If you do decide to offer your house as security, it is important that any co-owners are fully aware of the situation and possible consequences. Another source of security would be the Enterprise Finance Guarantee Scheme. This scheme provides funding to viable business for working capital, business development and growth. It provides a government guarantee of up to 75% of the bank's lending in return for a premium of 2% on the outstanding loan balance. The minimum amount of loan under this scheme is £1,000 up to a maximum of £1 million.

### Savings and Friends

When you start your new business, very often any initial finance will come from the individual's personal savings. It's also not uncommon to approach relatives and friends to help finance your venture. Obviously you should make it clear that they should only invest amounts that they can afford to lose. It's advisable to show them your business plan and give them time to mull it over. If they decide to invest in your business, always put the terms of any agreement in writing.

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## Issue of shares

If you have a corporate business, you could always issue more shares. It's always a welcome addition and a helpful addition to the company's balance sheet. You need to consider however, where the finance is coming for subscribing to new shares. If the original proprietor of the business wishes to subscribe for these shares, then they may have to borrow money (in a similar way to that discussed earlier). If shareholders in this position are at the limit of funds they can borrow, it may be worthwhile considering having a third party to buy shares. The obvious downside to this is a potential loss of control or influence on how the business is run.

## Venture Capital

If you approach venture capital houses for finance, this will also mean an issue of new shares. The main advantage is the amount of capital that they can introduce into the business. Because of the size of their investment, they will likely expect a seat on the board. Their business expertise will also strengthen your business. The Government has also introduced various tax-efficient schemes such as Enterprise Investment Scheme (EIS) and Venture Capital Trusts which encourage entrepreneurs to invest in a growing business.

## Retained Earnings and Drawings

The well-being of a business is directly connected with its cash-flow. If a proprietor of a business requires more cash, it may be necessary to re-examine the money that they are withdrawing from the business for personal use.

## Other Finance

**Factoring** – provides finances against invoices that customers have yet to pay. You can receive up to 85% of the value of in the invoice immediately and the balance (less the costs that apply) when the customer pays.

**Hire Purchase (HP)** – used to finance purchase of equipment. The business purchases the equipment but the capital and interest payments are extended over an agreed period.

**Leasing** – is used to finance equipment without the need to own it. It is often used when financing vehicles. The equipment is rented rather than owned and the rental payment can be spread over a period of time.

## How we can help

Howsons actively encourages clients to write their own business plans, to promote ownership of the plan. We will provide a framework in which to write the plan and can assist with any aspect of the plan, particular in relation to any financial forecasts and requirements.

## Call our New Business Specialists for more help

We have offices throughout Staffordshire. Our new business specialists are:

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