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ICAEW Business Advice Service

Prepare for success

Start-up finance

ICAEW Business
Advice Service

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Prepare for business

Decisions you take in the early years of your business can be the most difficult as well as the most important, particularly if you are a first-time entrepreneur.

Prepare for success

The **ICAEW Business Advice Service** experts will help you make those crucial first steps and then grow your business with confidence.

Book a free consultation NOW
businessadviceservice.com

Start-up finance

When setting up a new business one of the first questions you must answer is 'Will I need finance to set up my business?' This might be to fit out a premises, to pay staff while they are training or to buy equipment.

Many businesses start off with 'owners equity' – money they put into the business to fund the start-up. But when they get the business going they may need finance.

Do you need finance or better cash flow management?

A business should have a continuous focus on cash flow. Many businesses can get by without raising finance as the cash flow is well managed. You must commit time to manage cash flow so that it doesn't dictate to you. This means having regular procedures such as the ones listed below.

- Have clear credit agreements with customers and suppliers.
- Have a system for keeping the aged debtor schedule up to date with payments from customers.
- Regularly chase up late receipts from customers.
- Chase customers at management level. Don't get stuck in their accounts department; get onto your contacts in the buyers department.
- It's vital that you know your current bank balance and how you expect it to change over the next three months.

Good financial management not only helps manage cash, it will reassure finance providers. If your business is growing it can mean increased working capital. You should arrange your finances to meet any anticipated increased need. Arranging finance in plenty of time demonstrates to finance providers that you are in control of your business.

Getting the appropriate finance for your business

If you decide you need finance, here are some key questions to consider before approaching finance providers.

- How much are you looking to raise?
- Do you need the money for short or long-term plans?
- Do you need the money for growth or just to sustain your business?
- Are you prepared to offer security over an asset, either personal or business?
- Are you prepared to bring in an outside investor and give up either a minority or majority stake?
- How will you repay the finance?

Possible types of start-up finance

- Your own personal savings
- Friends and family
- Credit cards
- Credit Unions
- Community Development Finance Associations
- Grants (usually for specific groups of people or sectors)
- Start-up loans
- Bank finance – overdraft or loans
- Invoice factoring and discounting
- Hire purchase, leasing or hiring
- Small scale equity finance such as Business Angels
- Crowd funding or peer-to-peer lending

Own personal savings and friends and family

- A business owner with their own funds, or your friends and family, injects money into your business. People who have previously run a business are often more prepared to lend/invest.
- The money can be given as a loan or equity finance.
- It is important to understand the expectations of the lender so they know what they will receive back and when. To avoid arguments, put the key features of the arrangement into a written agreement.

Credit cards

- A regular source of finance for start-up businesses.
- Often used for items such as travel, stationery, petrol, car repairs.
- A good way of smoothing out unexpected big bills.
- Allowing debt to get out of control will damage your credit rating.

Credit Unions

- Association of British Credit Unions (ABCUL) website provides information about member credit unions (CU) and their services and locations.
- Some larger CUs offer current account facilities.
- Savers in a CU (usually for a period of at least three months) will allow you to access lending facilities.

Community Development Finance Associations (CDFAs)

- Community Development Finance Associations (CDFAs) are social enterprises that support communities by providing affordable finance that would otherwise not be available. By making loans, they are able to recycle this finance again and again into neighbourhoods where it is most needed.
- CDFAs lend money to those unable to get finance from high street banks. They fill the gaps in mainstream lending, addressing market failures and offering an affordable alternative to high interest doorstep lenders.
- There are currently around 60 active CDFAs operating across the UK.

Grants

- Grants and support tend to be sector specific, so your trade body or association is a good place to make enquiries.
- The Local Enterprise Partnership should also be a first port of call for grants and training courses.
- Technology and green projects can be incentivised. Use the finance and support for your business area on the GOV.UK website to see what your business is eligible for.
- The government offers help with moving from benefits to work/self-employment and the Job Centre Plus will have details.

Start-up loans

- Start-up loans are loans aimed at young entrepreneurs who are living in England and looking for finance to start a business.
- After applying online a Delivery Partner is selected to identify what stage you're at in your idea process, and help you present your business proposal to a panel where you will pitch for a loan.
- The maximum amount has recently been increased to a maximum of £25,000. The loans are typically less than £10,000 and currently average around £5,000.

Bank loans

- These are arranged for a set period with set repayment dates and fixed or variable interest applied.
- Normally secured by a charge over asset(s).
- Conditions are often attached to the loan ('covenants') which can trigger a demand for immediate repayment if they are not met.

Bank overdraft

- The lender offers a facility that has a limit with an agreed interest rate and is probably secured.
- The business can dip in and out of the facility up to the limit.

Getting the best from your bank

- Banks require detailed information to support applications.
- Greater transparency leads to a better relationship.
- Increased information should make it easier for banks to understand your business and its business plan.
- Trends, changes and unplanned events should quickly become apparent.
- Banks do not like surprises, so try to balance bad and good news.
- Try to build a relationship and keep the bank informed.

The business risk profile matters

- Finance providers use a variety of information to assess risk.
- Behavioural scoring data shows how accounts are run, facilities repaid and any evidence of a drop in turnover.
- Credit reference data is also referred to (paying suppliers later, court judgments, late filings at Companies House).
- If your business is a limited company, finance providers will look behind the company at the directors' credit history.

Invoice factoring and discounting

Invoice factoring

- To consider factoring, your business needs debtors with a good credit record.
- The factoring company pays a percentage of the debtor book immediately to your business.
- The debt becomes the asset of the factor who chases the customer for payment.
- The balance is paid once the debt is collected from the customer.
- Under non-recourse factoring, the risk of the customer not paying transfers to the factor.

Invoice discounting

- Allows the business to administer the sales ledger and the customer is unaware that the debt has been discounted.

Hire purchase, leasing or hiring and mortgages

Outright purchase or deferred payment

- Asset(s) can either be purchased outright or paid for by instalments.
- There are various types of deferred payment – hire, hire purchase or leasing.
- Leasing can be either a finance lease or an operating lease. Each type of deferred payment is different but essentially you use the item of capital over a fixed period with regular payments.

Mortgage

- Normally used to finance a property acquisition or to expand an existing business premises. Similar to a bank loan with the mortgage usually being secured over the premises.

Small scale equity finance

- Businesses sell a share in the business to friends, family, Business Angels or other private investors.
- You must be prepared to give others a say in how the business is run.
- Business Angels bring (up to £2m) finance to a business and they normally have experience in what makes a successful business.
- For over £2m talk to venture capitalists who would also look for a stake in your business.

Online sources of finance

- Debt funding (peer-to-peer lending) including working capital funding, factoring and invoice discounting. The funder provides finance in return for interest and eventually repayment of the debt.
- Equity finance (equity crowdfunding) – the sale of shares in a business.
- Donation crowdfunding – funders meet some charitable or social cause.
- Reward crowdfunding – lenders are offered money in return for a product or service not generally available.

Whichever type of online finance you choose the basic model is the same. Online finance providers are seeking to match businesses looking for finance with individuals and businesses (the crowd) looking for a reward or return. Business models vary. It’s vital that you understand how the risk of the proposition has been assessed. The cost may be higher than bank finance but the risk is often greater.

If you need further help with financing your business, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit businessadviceservice.com

Start-up finance useful websites

Credit Unions

Association of British Credit Unions
abcul.org/home

CFDAs

Community Development Finance Association
cdfa.org.uk/about-cdfis

Grants

The GOV.UK website has a 'Business finance and support finder'
gov.uk/business-finance-support-finder

Start-up loans

startuploans.co.uk

Banks

betterbusinessfinance.co.uk

Invoice factoring and discounting

Asset Based Finance Association
abfa.org.uk

Hire Purchase, Leasing or Hiring and Mortgages

Finance & Leasing Association
betterbusinessfinance.co.uk

Internet finance

Peer2peer Finance Association
p2pfa.info/
UK Crowdfunding Association
ukcfa.org.uk

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Prepare for business, prepare for success.

ICAEW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

ICAEW Chartered Accountants are the biggest source of business advice, reaching over 1.5m businesses from more than 20,000 offices across the UK.

>> Book a free consultation NOW
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