

Main sources

Internally generated funds

- Retained cash deposits
- Proceeds from sale of unproductive assets
- Increased working capital from tighter management

Debt finance

- Overdraft
- Term loans
- Mortgage loans
- Hire purchase/leasing
- Hire purchase
- Finance leases
- Sales and "lease back"

Equity/development capital

- Venture capital – private; Regional Venture capital funds; VCTs
- Business angels
- Seed-corn capital
- Family and friends
- Stock exchange listing

Other sources

- Factoring/invoice discounting
- Trade investment eg significant suppliers/customers
- DTI Loan Guarantee Scheme (SFLGS)
- Selective Finance for investment (SFI) (replaces Regional Selective Assistance (RSA) and Regional Enterprise Grants (REGs))
- Other DTI Grants – delivered through Business Links and other state sector bodies
- Soft loans
- Tax breaks

Alternative funding sources - pros and cons

Internal funds

- Self justification only
- Fast decision making
- Total management control
- Often required by financiers to demonstrate commitment
- No external costs (fees etc)
- Use of internal funds for fixed asset investment reduces working capital flexibility and can restrict further growth

Bank overdrafts

This is an appropriate financial instrument for working capital needs associated with the proposed investment

- Flexible and easy to arrange
- Interest only paid on outstanding balance
- Relatively low cost
- No fixed capital repayments
- Wide range of uses
- The overdraft can be inappropriate for a capital investment as it does not match the life of the asset. Its use for fixed asset purchase ties up working capital. In addition, it is:
 - Repayable of demand

- Usually requires security
- Normally based on variable interest rates (but interest rate protection products are available)
- A fixed facility which can be reduced

Term loans/mortgage loans

- Repayments may be matched to asset life
- Not normally repayable on demand
- Fixed interest rates may be available
- Often require asset purchased as security
- Additional security may be requested
- Breach of contract agreement may trigger on-demand repayment
- Use of funds is restricted to the asset being purchased
- Capital repayment holidays may be arranged to match income earning profile of asset purchased

Hire purchase/leasing

- Flexible and easy to arrange
- Fixed term (not on-demand repayment)
- Fixed or variable rentals
- 100 per cent funding available
- Asset specific - usually no additional security required
- Complex range of options/products
- Use of funds is restricted to asset being purchased
- High-technology assets may require additional security/shorter terms/enhanced deposits
- Asset is secured - requires owner's permission for disposal

Equity and development capital

- Investors prepared to accept risk
- Not normally repayable
- Reduces gearing and may enable faster growth
- May provide access to management expertise
- Trade investors can improve trading opportunities
- More expensive and slower to arrange
- Cost of individual payments
- Problems may arise if investors and management have differing objectives
- May be expensive/difficult to buy out investors at a later stage

Factoring/invoice discounting

This is an appropriate financial instrument for working capital needs associated with the proposed investment

- Flexible source of working capital (which may be associated with the investment)
- Bad debt protection available
- A high proportion of trade debtors can be financed
- Can reduce administrative cost
- Not suitable for funding fixed assets
- Not appropriate for all businesses, products and services
- Factor facilities will vary with sales

DTI Loan Guarantee Scheme

- As for term loans, but with reduced requirements for security/track record
- Additional cost of guarantee premium
- Not all businesses eligible
- Proportion of loan guaranteed restricted

Grant assistance

- No servicing costs or repayment requirements
- No security required
- Eligibility is restricted
- Application process may take time
- Projects cannot normally start until grant is approved
- Grant may be recovered/reduced if objectives not met

Tax breaks

Such as R&D Tax credits

- Strict rules
- Some chance of IR investigation
- May need professional advice to secure

South West & other agencies:

South West Ventures – equity to £500k, two tranches

Finance South West – mix of debt/equity £50k, to £1m, objective 2

Finance Cornwall – of debt/equity £50k, to £1m, objective 1

Sulis - £9m University fund

IQ CAPITAL UK's first £25M Enterprise Capital Fund - initial investments £250k-600k

Beer & Partners (national)

SWAIN (SW Angel & Investor Network)

Set-Squared – incubation facilities in Bristol, Bath, Swindon

NESTA (National Endowment for Science, Technology and Arts) £30 – 85k typically, 1 in 20 success rate

ERDF (European Regional Development Funds). Matched funding, no limit, strict criteria – joint applications between public/private sector bodies preferred.

Business Link Guides:

No-Nonsense Guide to Small Business Funding

No-Nonsense Guide to Finance for High Growth Companies

Both available through www.businesslink.gov.uk

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