

Supply

National SME Engagement Programme

Helping you win more Government business

OPPORTUNITY KNOCKS

OVER
£230bn
MARKETPLACE

SHOWCASE YOUR TALENT TO THE UK'S SINGLE LARGEST MARKET

**Growing your business:
A Guide to SME Finance**

Growing your business: A Guide to SME Finance

By Michael Crosby
Supply Communications Officer

Follow us on Twitter

[@SupplyContracts](https://twitter.com/SupplyContracts)

Connect on LinkedIn

Michael Crosby: uk.linkedin.com/in/michaelcrosby2/

Supply: http://www.linkedin.com/groups?gid=4571375&trk=my_groups-b-grp-v

Growing your business: A Guide to SME Finance

Contents

- 3 | Introduction
- 4 | SME finance trends and perceptions
- 5 | Queen's Speech 2014
- 8 | Finance options
 - Traditional
 - Government initiatives
 - Alternative finance
- 10 | Further advice and guidance
- 11 | Prepare your business for success

Introduction

Business Secretary Vince Cable has made finance for small businesses a main priority of the Coalition Government over the past four years, stating that encouraging firms to grow is key to the UK's economic stability and recovery from the global financial crisis. He said: *"The most important single factor which is going to make recovery from this profound crisis difficult is the current access to finance for growing companies."*

SMEs make up 99% of the UK market, so a thriving SME sector is crucial to the country's overall growth potential and access to appropriate finance is fundamental to helping small firms realise their potential.

In addition, research by the CBI published in March 2014 found that small firms are more confident than ever in their ability to succeed in coming years, with 46% saying they were more optimistic than three months previously, compared to just 10% who felt less optimistic.

With the recovery now getting under way and with confidence returning to the markets, making sure that your firm invests in its future wisely and carefully is critical to ensuring stable and safe growth. Various forms of financing exist to help take your firm to its next level, from traditional bank loans and borrowing to new Government schemes designed to help boost SMEs.

This guide from the Supply National SME Engagement Programme is designed to outline the routes to finance available to you, examining the pros and cons to help you effectively plan for the growth that is right for your company.

SME finance trends and perceptions

According to the SME Finance Monitor report released in May 2014, the proportion of SMEs using external finance in Quarter 1 of 2014 was 33%, the lowest level to date.

However, Business Secretary Vince Cable is keen to reverse this downward trend in SMEs seeking finance and get more SMEs applying for finance to grow their business and boost the economy.

The Finance Monitor report found that 45% of UK SMEs planned to grow their business in the next 12 months. Of those who planned to apply for external finance to do so, lack of access to funds was less likely to be seen as a barrier to growth, down from 27% in Q1 2013 to just 16% in Q1 2014, suggesting that SMEs had started to see greater access to finance than in previous years.

According to the February 2014 SME Business Barometer report released by the Department for Business, Innovation and Skills (BIS), of those firms which had sought external finance previously, the breakdown of the type of finance sought was as follows:

Bank loan	45%
Bank overdraft	23%
Leasing or hire purchase	16%
Factoring or invoice discounting	10%
Mortgage	4%
Trade finance	4%
Grant	3%
Equity investment	1%

The main reasons for seeking finance in February 2014 were for working capital or cash flow (40%), to acquire capital equipment or vehicles (35%), improve buildings (10%) and buy land/equipment (5%).

When asked if they had encountered any difficulties in obtaining finance from the first source they approached, 53% reported no difficulties at all, while 46% noted some difficulty and 44% said they were unable to obtain finance from their first source.

Confidence among SMEs in their ability to obtain external finance is also very high, with 77% saying they are confident that they would be granted finance compared to just 23% who are not confident that they would be successful. This is a marked improvement from the 2013 Barometer results, which placed the split at 66% confident to 34% not confident.

Queen's Speech 2014

Highlighting the importance of the SME finance issue, it was a central pillar of the most recent Queen's Speech, which sets out the Government's policies and proposed legislative programme for the new Parliamentary session.

Delivered to Parliament on 4 June 2014, the speech placed businesses at the heart of the Government's agenda for the coming year, with several announcements aimed at helping small firms to access finance in particular.



"Legislation will be introduced to help make the United Kingdom the most attractive place to start, finance and grow a business. The Bill will support small businesses by cutting bureaucracy and enabling them to access finance."
– HM Queen Elizabeth II

Small Business, Enterprise and Employment Bill

The Small Business, Enterprise and Employment Bill aims to give small firms fair access to government and other public sector procurement, as well as setting up a 'register of beneficial ownership' which will outline who owns and controls British companies.

It is also anticipated that the Bill will include laws that compel banks who turn down businesses for loans to inform them of alternative sources of finance, such as invoice and asset finance.

The Bill also outlines tougher penalties for firms flouting minimum wage rules and abusing zero hours contracts.

Commenting on the proposals set out in the Queen's Speech, CBI Deputy Director-General Katja Hall said:

"Successfully getting credit to our small and medium-sized businesses will underpin the recovery, so we support action to match firms with providers and there is merit in formalising and extending existing referral arrangements."

"We also back measures that improve access to credit data, which should help facilitate better decisions by providers."

"Growing businesses rely on cash flow and are too often hampered by late payers, so we back a 'comply or explain' system for payment terms of more than 60 days."

Finance options

Traditional

Taking a business on to the next stage – moving to larger premises, hiring new staff or investing in new equipment – will almost always require further financial investment. Most businesses will use a mixture of financing sources and choosing the most suitable depends on a variety of factors unique to each business.

Overdrafts and bank loans are the most common sources of finance for SMEs. The most significant benefit they have over external investors is that neither involves relinquishing any share of ownership, control of the business or power over direction or over the product or service.

Loans

Pros	Cons
terms can be tailored to suit the needs of the business	banks can be reluctant to lend money to new businesses
repayment plans agreed in advance	lack of flexibility once terms are agreed
there is tax relief on the interest payments	being locked into a rigid repayment schedule could be a problem if cash flow is seasonal or erratic
	security required against the loan

Overdrafts

Pros	Cons
easy to set up and agree with the bank	can be called in if the bank thinks the business is in difficulty
interest only paid on the amount of money used	penalties may be imposed in certain circumstances
	security or signatories may be required

Government initiatives

Funding for Lending Scheme

The Funding for Lending Scheme (FLS) allows banks and building societies to borrow at cheaper rates from the Bank of England for periods of up to four years.

The aim of FLS is to boost consumer and business confidence and support demand for finance as well as reducing the cost of credit.

The FLS creates strong incentives for banks to increase lending to UK households and businesses and should act as a driver for competition among lenders, which should benefit both consumers and businesses.

The Scheme was formally opened on 1 August 2012.

Find out more at http://www.hm-treasury.gov.uk/ukecon_fundingforlending_index.htm

Business Finance Partnership

The Business Finance Partnership (BFP) aims to increase the supply of capital through non-bank lending channels and diversify the sources of finance available to businesses.

The BFP will invest a total of £1.2bn through these channels matched by private sector capital.



Successful proposals from the first round of investment were announced at the Autumn Statement 2012.

Who can apply: Businesses in the UK with a turnover of up to £500m.

Further details have been set out at <http://www.hm-treasury.gov.uk/bfp.htm>

Enterprise Finance Guarantee

The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme which helps banks and other lenders to offer loans to small businesses which lack a proven track record.

Loans will be guaranteed up to a value of £1.2m if the term is no more than five years and £600,000 if the term is between five and ten years.

This scheme makes around £350m of extra lending possible each year.

Who can apply: Small and medium-sized businesses with turnovers of up to £41m.

For more information, see the [Enterprise Finance Guarantee guidance](#).

Start-up Loans

The Start-up Loans programme provides support to young people to help them start up their own business.

The scheme provides loans and mentoring support to applicants who would not normally be able to access traditional forms of finance because of a lack of track record or assets.

The average loan size is around £4500; however, the final amount will be determined by a business plan and there is no definite limit.

The applicant is required to pay back the loan within five years at a fixed rate of interest.

Who can apply: Applicants in England aged 18-30.

You can find out more at <http://www.startuploans.co.uk>

Alternative finance

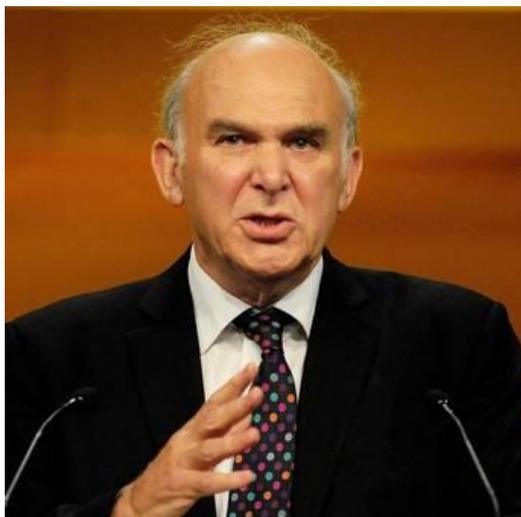
While traditional forms of finance such as bank loans may always be the first port of call for a business looking to access funds, it is worth noting the new routes to finance being explored by Government in an attempt to boost SME opportunities.

“The most important single factor which is going to make recovery from this profound crisis difficult is the current access to finance for growing companies [...]

“It is very, very important that we have mutuals for finance both on the equity side and the loans side.

“Alternative finance is already making a significant impact but it’s a very small shell in a growing market.” – Business Secretary Vince Cable

Business Bank



The Business Bank is a long-proposed Coalition Government project to help finance providers, including banks, to get finance to businesses. It has been allocated £1bn of funding from Government on top of capital from existing schemes.

The focus of the bank will be on promoting greater diversity of debt finance available to SMEs by encouraging the growth of smaller lenders and new entrants in the market. Investments will be made via new and existing private sector lending channels, such as Funding Circle, on a commercial basis.

The bank is expected to become a fully operational new institution in autumn 2014.

The first investment programme for the bank is now inviting proposals from lenders.

Full details are available at <https://www.gov.uk/investment-programme-to-encourage-lending-to-smes>

Alternative Business Funding

Alternative Business Funding is a new web portal designed to direct SMEs to the most appropriate source of non-bank funding.

It aims to provide a shortcut to finance options that business owners may not be fully aware of.

The portal is a joint venture between CrowdCube, Funding Circle, Market Invoice, Platform Black, Seedrs, Zopa and Pensionledfunding.com. Collectively, these lenders make up 85% of the alternative finance market in the UK.

The portal has also been backed by Government, with Business Secretary Vince Cable commenting: *“A new alternative business funding portal that seven funding bodies put together will enable redirection of customers. Anything that redirects people who are turned down by one lender, is an advance.”*

For more information, visit <http://www.alternativebusinessfunding.co.uk/>

Challenger Banks

So-called ‘challenger banks’ have been experiencing a rise in popularity since 2010 in response to the oligopoly of the ‘big four’ high street banks and their lending policies.

Challenger banks are new and smaller institutions borne out of the breakdown of the huge money machines which were torn apart by the financial crisis.

The current leading challenger banks include Metro, Handelsbanken, Aldermore and Cambridge & Counties.

Further competition in the banking sector could create more favourable conditions for businesses looking to access finance, and could serve to increase confidence in a firm’s chances of securing stable growth.

The banks have the full support of Business Secretary Vince Cable, who pledged his support of the idea as a solution to the lack of SME finance currently affecting small UK firms.

Speaking in 2013 before the recent surge in business confidence, Mr Cable said: *“We desperately need challenger banks as there is a distinct problem with SME lending from the incumbent institutions.”*

“We are told by the big banks that there is a lack of demand from SMEs for financing but this is absolute nonsense. The only way for lending to filter through to SMEs is by putting new banks on the high street, such as Aldermore and other non-traditional institutions, in order to increase competition.”

Technology Strategy Board

The Technology Strategy Board delivers a number of business research and development and innovation schemes to support technology-led innovation in SMEs. Some of their funding includes:

Smart

Previously known as the Grant for Research and Development, this scheme offers funding to SMEs to engage in R&D for their products. Three types of grant are available:

- up to £25,000 to assess the commercial viability of a project
- up to £100,000 to explore the technical feasibility and the commercial potential of a new project
- up to £250,000 for new technical innovations

Available to: Pre start-ups, start-ups, and small and medium-sized businesses from all sectors.

Small Business Research Initiative

The Small Business Research Initiative (SBRI) enables government bodies to connect public sector challenges with innovative ideas from industry, supporting companies to generate economic growth.



More than 1300 SBRI contracts valued at more than £130m have been awarded since April 2009. In his March 2013 Budget, Chancellor of the Exchequer George Osborne signalled his intention to dramatically increase the value of SBRI contracts to £200m in 2014/15.

Available to: Any company, but particularly relevant for early-stage businesses and small and medium-sized enterprises.

Knowledge Transfer Partnerships

Knowledge Transfer Partnerships (KTPs) support UK businesses wanting to improve their competitiveness, by enabling them to access the knowledge and expertise available within UK universities and colleges.

KTPs enable companies and academic institutions to transfer knowledge, technology or skills which they consider to be of strategic competitive importance to the business.

Although the partnerships are part-funded by government grant, companies may also be expected to contribute to the overall cost of the project.

Available to: Companies from any sector.

Further advice and guidance

Turning your business proposals into reality can be a daunting prospect, and in an uncertain market it is important to get all the advice and support you can to make the transition to business growth as easy as possible.

Business Banking Insight

The Business Banking Insight (BBI) site is jointly driven by the Federation of Small Businesses and the British Chambers of Commerce and identifies how SMEs rate their banks based on performance, service and business understanding.

Setting out results from a survey conducted by independent research firm ICM across 5000 small to medium-sized UK businesses, the BBI is the first survey of its kind to access the banking sector as a whole, looking at the performance of individual banks and financial providers as perceived by micro, small and medium-sized businesses.

The research will be repeated and the findings updated via the website every six months.

Chancellor of the Exchequer George Osborne said: *"I welcome the first set of results from the new Business Banking Insight survey, which I commissioned to provide Britain's*

small and medium-sized businesses with a clear and credible way to judge how their bank compares to its competitors.

“A key part of our long term economic plan is increasing competition and choice in banking, and ensuring Britain's SMEs get the best possible service from their bank. This new survey will be a powerful tool for these businesses, providing them with the means to see who's up for the challenge and who isn't.”

For more information and to explore the results, visit <http://www.businessbankinginsight.co.uk/>

UK Export Finance

UK Export Finance (UKEF) is a government agency dedicated to working with UK banks to provide exporters with finance solutions to help them win and deliver export contracts.

UK Export Finance provides support by guaranteeing bank loans to overseas buyers to finance the purchase of goods and services from UK exporters; insuring UK exporters against non-payment by their overseas buyers; and sharing credit risks with banks in order to help exporters raise contract bonds, access working capital finance and secure confirmations of letters of credit.

It also provides free advice for UK exporters through UKEF's network of Export Finance Advisors.

For more information, visit <https://www.gov.uk/government/organisations/uk-export-finance/>

GOV.UK

GOV.UK makes it simpler, clearer and faster for businesses to access high-quality, detailed and impartial guidance from 24 ministerial departments and 331 other public bodies.



It is a single website that contains information on setting up a business, running a company, business rates, property, growth guides and more.

Find out more at www.gov.uk/

Prepare your business for success

Small and medium-sized enterprises are the backbone of the economy. They make up 99% of businesses and account for approximately 14 million private sector jobs in the UK.

The Government is eager to ensure that SMEs are given every possible opportunity to succeed in these tough economic times. With improvements such as those outlined in this Guide helping to open up opportunities for SMEs, the Government hopes to stimulate growth, create jobs and help the UK succeed and prosper in a competitive global economic environment.

In 2011, the Coalition set itself a challenge to award 25% by value of all Government business to SMEs. This is an ambitious undertaking and, according to the Cabinet Office's most recent report, Making Government business more accessible to SMEs: Two Years On, it is one which looks set to be achieved by the 2015 deadline.

In 2009-10, just 6.5% of central government's direct procurement spend went to SMEs. Spending with SMEs has since increased from £3bn in 2009-10 to £4.5bn, a total of 10.5%, in 2012-13, with a further £4bn (9.4%) in indirect spend via the supply chain. With the markets improving and with new finance options emerging for SMEs looking to grow, there has never been a better time to invest in your firm's future success.

Registering free with Supply provides a key route to finding new public sector contracts and awards information.

Supply published over 58,000 UK contract notices in 2013 alone, making it the clear choice to help you grow your business in the public sector.

[Start winning more Government business today with the Supply National SME Engagement Programme](#)



2014 © BiP Solutions Limited (BiP)

No part of this document or accompanying material may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the copyright holder.