Business Finance Advice Scheme: FAQs

Q. Why was the Business Finance Advice Scheme created?

The Business Finance Advice kitemark scheme helps businesses find professionally qualified accountants who are best able to offer independent business finance advice.

Q. What can a member of the scheme help me with?

Business Finance Advice scheme members are experts in:

- business planning
- starting-up
- small scale equity issues
- bank loans and overdrafts.

Q. Why should I use a Business Finance Advice Scheme member?

There is a range of finance options available- and lenders and investors are looking for a range of financial information. Business Finance Advice Scheme members can save you time and increase your chances of success. Aside from funding advice, qualified accountants can offer a wide range of services that will help your business grow – they are recognised as being trusted advisers to businesses.

Q. How can I be sure of BFA members' quality?

All Business Finance Advice Scheme (BFA) members are qualified professionals with ACCA, ICAEW or ICAS. They provide advice in at least the four key specialisms but many offer a wider range of business finance advice.

According to recent research very few businesses seek professional advice before applying for finance. In fact, the mid-year review by the SME Finance Monitor revealed that, only 10% of overdraft applicants and 18% of loan applicants spoke to an advisor.

Of these, the businesses that were least likely to ask for help were smaller businesses and the main reason for this was that they did not know who to ask. However, the BFA scheme helps businesses by identifying accountancy firms with a government endorsed logo.

If you're considering raising finance it's always best to talk to a finance adviser who can identify the alternative types of finance, help you decide which is most appropriate for your business at its current stage of development and which finance providers to approach.

Q. I've identified some BFA firms what do I do next?

Invest time in finding the right accountant. It is likely to be a long term relationship.

- Telephone three to six firms and arrange to meet with at least three of these
- Check in advance whether the first meeting to discuss their appointment is free of charge; specific advice may be charged for
- Tell them about your business and its financing needs and check whether they offer the services you will need to build your business
- If you already have a business plan ask them for their comments. If you think you need finance immediately, you will need a plan. How much would they charge to do one with you?
- Establish what the fees will be and when they are payable
- Establish who at the firm will be dealing with your work - it may not only be the person you are meeting with. Do you get on with this person; is this someone you can work with? Do you feel happy that he/she will be able to help you access the finance you need?
- Ask to speak to existing clients - references are always important
- Ask what their experience is in raising finance for businesses like yours whether it is a start-up or early stage business, an established undertaking or high growth. What types of finance have they raised?

When you have decided which firm to choose inform them. They will issue you with a letter setting out the terms and conditions including the basis of fees.

Q. What are the key questions to consider when thinking about raising finance?

The key questions to consider before seeking finance:

- How much are you looking to raise?
- Are monies needed for short (1-3 years) or long term (over five years) needs?
- Are monies needed for growth or just to sustain your business?
- Are you prepared to offer security over an asset being personal or business?
- Are you prepared to bring in an outside investor and give up either a minority or majority stake?

Q. What are the main types of debt finance?

The most commonly used types of business debt finance are:

- Loans – these are monies borrowed for a set period and set repayment dates with fixed or variable interest applied. Normally this type of finance is secured whereby the lender has a charge over asset(s). There are often conditions attaching to the loan which can trigger a demand for immediate repayment if they are not met.

- Overdrafts – the lender provides a facility with a limit at an agreed interest rate and this will probably be secured. The business can dip in and out of the facility up to the limit.
- Factoring or Invoice Discounting – the sales debtor book is used to provide finance. The finance company pays a percentage of the debtor book immediately to your business, with the balance paid once the debt is collected from the customer.
- Buying an asset using deferred payment – if you are considering capital expenditure the 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.
- Buying property with a mortgage – a mortgage would normally be used to finance a property acquisition or to expand an existing business premises. The features of this funding are similar to the bank loan above with the mortgage usually being secured over the premises.

Q. What self-help finance alternatives are available to a start-up or young business?

Most businesses start with some finance from the business owner – sometimes called self-funding. Alternatively friends and family might be a useful source of start-up funding. This can be provided by way of a loan or equity finance. It is important to understand the expectations of the family and / or friends on what they will receive back. To avoid arguments the key features of the arrangement must be put into a written agreement.

Businesses with high growth potential should also consider small scale equity from business angels who can bring (up to £2m) finance to a business and they normally have experience in what makes a successful business. They could ask for a stake in your business and so it is important for you to consider how much you are prepared to give up. For finance over £2m you would need to talk with venture capitalists who would also look for a stake in your business.

However if you obtain equity finance whether from say friends, family, business angels or other private investors, be prepared to relinquish a share of your business.
There are also other options for example grants. The main issue with grants is that the criteria for each grant can be difficult to meet. In addition, grants are usually for projects that have not started and restrictions are often imposed.

As with other types of finance, it is also important to show your commitment by detailing how much money you have placed in the project, or how much you will be investing once the project is underway. Only in the rarest circumstances will a business receive 100% funding for a project.

Q. I've heard about businesses raising finance through crowd funding. Can you explain how this works?

In the last few years the new sources of financing have been created via the internet. Websites have arrived which seek to match businesses looking for finance with individuals and businesses looking for diversification of risk and yield. A variety of models offer either debt funding, equity finance or working capital funding – factoring and invoice discounting. The business models vary and it is vital to understand how the risk of the proposition has been assessed. The cost of finance on offer is usually proportionately higher than bank finance but in part this is a recognition that risk often greater.

Q. I have a poor credit rating – how is this compiled?

Whether you are an individual or limited company, lenders have access to a range of information.

Experian, Equifax and Callcredit compile information, allowing them to send data on any UK individual to prospective lenders. All lenders use at least one agency when assessing your file. This data comes from five main sources:

- Electoral roll information. This is publicly available and contains address and who lives with whom details.
- Court records. County Court Judgments (or Decrees in Scotland) and Bankruptcies indicate if you have a history of debt problems.
- Search, address and linked data. This includes records of other lenders who've searched your file when you've applied for credit, addresses you're linked to or other people you have a financial association with.
- Fraud data. If you've committed a fraud (or someone has stolen your identity and committed fraud) this will be held on your file under the CIFAS (The UK's Fraud Prevention Service) section.
- Banks, building societies, utilities companies and other organisations compile details of all your payments and transactions on credit/store cards, loans, mortgages, bank accounts, energy and mobile phone contracts.

Around 350m records a month are tracked including details 'default data', where you're officially in default, and 'full data' which incorporates how you generally operate the account, from being the model customer to defaulting.

'Default data' has always been shared by financial companies but since the late 1990s 'full data' is shared too. This means each lender now has access to all information about you from other organisations.

However, if you've had accounts open since before the year 2000, there's a possibility no data on you from that bank will be shared - due to older data protection laws being in place then - meaning some of your credit history could be missing. It's worth speaking to that bank to ask them to start sharing it.

What will be discussed at a first meeting with a Business Finance Advice Scheme member?

The first discussion will consider the current position of your business.

You will be asked to bring:

- past annual financial reports
- information on current trading – management accounts if you have them
- cash book and bank statements
- a business plan if you have one
- aged debtor and creditor schedules.

The adviser will need to know what your plans for the future are. Do you have any major capital expenditure (on plant or equipment or new premises) or an expansion into a new market or a new product or service planned?

They will be checking to ascertain if the business does need more finance and what type of finance would be more appropriate. They may feel that with better management of cashflow and working capital the business may manage without more finance or less than you had in mind.

This may take more than one meeting but you should have a good idea of how they wish to proceed by the end of that meeting. The next stage may be for the BFA to work with you to prepare a finance application.

Whatever the BFA adviser recommends you should ask for an estimate of the cost.

How can I tell if a firm is part of the BFA Scheme?

The BFA scheme logo or BFA initials will be on the ICAEW, ACCA, ICAS website directory of firms against the firm's name. The logo is below.

BUSINESS
FINANCE
ADVICE