

# FUNDING SOLUTIONS

Innovative solutions that boost your cashflow

December 2017

Welcome to the December 2017 edition of the Funding Solutions Bulletin – our regular round-up of news, views and advice to help you improve your business’s cashflow.

We know that cashflow is everything for companies, and this principle underpins everything that PKF Littlejohn’s Funding Solutions team does. Please get in touch with us or [visit our website](#) if you have any questions.

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## Have you got the right funding for your business?

*The range of funding options has increased dramatically over the past few years and there are now over 350 lenders in the UK. But 50% of small and mid-sized businesses still only contact one finance provider when looking for funding, meaning that they’re unlikely to have secured the best source of finance to allow them to unlock their potential. In this article, Alan MacRae provides an introduction to some of the most common types of funding available for your business.*

**Loans from banks** are the most common type of funding. Loans can be a good source of finance for businesses, as they’re usually for a fixed time and have an agreed repayment amount each month, which helps with cashflow planning. You’ll typically need to submit a business plan to the lender to prove your business is viable and that you have a strategy for repayment and growth.

**Unsecured business loans** are designed for businesses that don’t have assets such as property or equipment to offer as security. This type of loan is good for new businesses without collateral; however, interest rates may be higher than for secured loans, and a personal guarantee from a director (if you’re a limited company) may be needed.

**Secured loans** tend to be cheaper than unsecured facilities, and they’re backed using the equity in assets owned by the borrower. They’re good for borrowing larger amounts and are easier to obtain than unsecured loans if you have a limited credit history. Depending on the amount needed, a personal guarantee may still be needed, and non-payment of the loan could result in the loss of business assets.

**Asset Finance** providers offer funds for companies to buy assets for use within the business, such as IT, manufacturing equipment or vans. Asset finance can be good for a company’s cashflow as it means you don’t have to find a large sum upfront to buy equipment; in essence, the finance company buys the asset and leases it back to the business. This can be more expensive than buying the equipment outright and you may not be able to cancel an agreement once you’ve entered into it.

If you’re comfortable with selling a stake in your business, you can find an investor or develop a crowdfunding campaign. Raising finance through an **equity sale** can work well for many business owners: you won’t have to make repayments as you would if you took out a loan, although profits have to be shared with the investors. Remember, though, that you’ll have responsibilities to shareholders, including consulting with them before taking major decisions, so this may not suit every owner.

**Crowdfunding** is becoming increasingly popular amongst many companies, enabling them to invest in their growth. Not only does crowdfunding help you raise funds, it can also give you access to a large number of shareholders who can help you raise awareness of your products (and hopefully buy some as well).

Crowdfunding companies such as Crowdcube and Seedrs have helped many businesses raise funds and awareness, but running a campaign means around two to three months of work (setting up the campaign and then raising the funds). Look out for costs: crowdfunders will charge up to 7% of all funds raised through their site. Also, unlike a bank loan, you’ll have shareholders who may want to be kept up to date with trading performance

If crowdfunding doesn't appeal, either because you don't want to run a campaign or don't want to deal with multiple investors, then finding one or two **investors** may be a better option. Most areas have a group of 'business angels' that you can make a pitch to. Raising finance in this way is not just about the money, it can be a great way of bringing on board someone with skills that you may be lacking in the business (such as finance or marketing).

Finally, although scarcer than a few years ago, there are still **grants** available for helping companies grow. Many Local Enterprise Partnerships (LEP) will offer cash grants alongside private funding. For example, if you wanted to purchase new equipment for £50,000, your local LEP may give you a grant of £10,000 leaving you £40,000 to find from other sources such as a bank loan.

You can find out more about these and other funding options in our '[Guide to finance for SMEs](#)'.

In general, when looking at raising funds, review your business plan and only borrow what you really need as outlined in your plan. This assures you keep a disciplined approach to your business and demonstrates you are credible to lenders and financiers.

For more information, please contact **Alan MacRae** on [amacrae@pkf-littlejohn.com](mailto:amacrae@pkf-littlejohn.com) or +44 (0)20 7516 2265.

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## Could you unlock cash from a commercial dispute?

*Pursuing a commercial dispute has tended to be a costly, lengthy and risky undertaking. It's hardly surprising, then, that many businesses decide against making a claim and reluctantly write-off what they are owed. Chris Clay explains how the new Escalate dispute resolution process - which was recently named 'Innovation of the Year' at the British Accountancy Awards - is helping businesses unlock millions of pounds from commercial disputes.*

The traditional commercial dispute resolution process is stacked against small and mid-sized businesses that want to make a claim – cases typically take 18 months; you are often billed by the hour; you may be required to pay for disbursements, such as court fees or the costs of an expert, up front; and you are at risk from large legal bills from your advisers and exposure to the defendant's costs in the event of an unsuccessful outcome.

Escalate, by contrast, helps businesses to achieve a prompt settlement to a wide range of commercial disputes, with fixed fees payable only on a successful outcome and no upfront costs. You can find out more about the advantages of the Escalate process over traditional dispute resolution in our '[Guide to resolving disputes](#)'.

Research from the Federation of Small Businesses, amongst others, shows that SMEs have over £10 billion locked up or lost annually in commercial disputes. If you're thinking about taking on new funding for growth, consider first if you have any historic disputes or bad debts that could be resolved to provide you with an unexpected cash injection – particularly as Escalate tackles cases that are up to three years old.

The following recent example illustrates the impact that Escalate can have:

We were introduced to a sports club that had sold part of its land to a developer in return for the construction of a new clubhouse on the organisation's remaining land.

As construction costs over-ran, the developer stopped work and refused to return until additional funds were provided by the sports club. This resulted in a stand-off that saw lawyers instructed by both sides.

The case got stuck for over 12 months in a legal process that made little headway, other than to highlight weaknesses in the contract that meant each side had some form of potential argument with which to attack the other.

The case had amassed over £50,000 in legal costs before it stalled when the sports club exhausted its fighting fund. Their incumbent lawyer was uncomfortable in offering a conditional agreement and was not prepared to cover disbursements.

**The sports club's accountant recommended that it transfer the case to Escalate, and we agreed a heads of terms settlement within just six weeks.**

Dragging the case away from the lawyers and moving the discussions on from the respective legal merits was a key factor here, with negotiations held directly between Escalate and the developer. The fact that, via Escalate, the club was able to demonstrate that the case was funded to the High Court meant that the developer needed to agree to a deal or risk a significant gamble through the court system.

For more information, please contact **Chris Clay** on [cclay@pkf-littlejohn.com](mailto:cclay@pkf-littlejohn.com) or +44 (0)20 7516 2226.

We hope you've found this issue useful. If people from your business would like to receive future issues, please send their details to Julia Krol (jkrol@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Funding Solutions specialists.

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