

Finance and banking for a Limited Company (Ltd CO)

Funding

Financing your business through grants

There are many ways of funding a new business, including using your own capital or drawing on existing assets like property. However, there are also business grants and awards, which could give you the capital you need without risking your own money.

There are many types of grant, for example for a specific project or research. There are also government funds available for training and development in assisted areas.

Grants and awards are particularly appropriate for:

- **Business start-ups**
- **Younger people in business**
- **Businesses in urban areas with below-average employment levels**
- **Businesses in rural areas**
- **A business which has a specific project it could not otherwise undertake**

Other resources for government grant initiatives include:

Whilst you do not usually need to repay a grant, they can be difficult to obtain and are often limited to specific projects or locations. However, if you are starting out in business you will already be familiar with the maxim “**if you don’t try, then you won’t know**”, so investigate the grants available to you as you may be eligible. You can get information from local authorities, Local Enterprise Agencies (www.nfea.com), Learning and Skills Councils (www.lsc.gov.uk) and Business Link (www.businesslink.gov.uk). You should also undertake your own research to find more obscure sources of grants. The Internet is a good resource for this.

Other resources for government grant initiatives include:

BERR - The Department for Business, Enterprise and Regulatory Reform www.berr.gov.uk

The role of BERR includes promoting investment, skills, employment, efficiency, innovation and competitiveness. It encourages business start-ups in disadvantaged communities and groups.

The Prince’s Trust www.princes-trust.org.uk

Are you aged 18-30, unemployed, have an idea for a business but can’t raise all the cash you need from anywhere else? The Prince’s Trust could help you get up and running.



European funding

Funding for research and development is available through a number of schemes including the European Regional Research and Development Fund. Try www.grantsonline.org.uk

Finding the money to start a business

There are many ways to fund a business, and each has its own risks, advantages and disadvantages. Below are some of the ways you can secure funds for your company.

Using your own assets

If you have capital such as savings, or equity in your home or pension, you can use these to finance your business. If you want to raise funds from a lender, they may want to see you invest your own capital first.

Be very careful when using your home or other essential asset to finance a business. Consider what the loss of your property would mean to you and your family, and build mortgage repayments into your business and financial plans. Losing your business is bad enough, but losing your home is heartbreaking. Protect yourself with insurance and seek professional financial advice before releasing equity. You can also use a mortgage against a new property such as business premises to fund your business, by over borrowing.

Borrow the money from friends

Many people fund their business with goodwill loans or investment from friends or family. It's a great way to secure capital and could mean a nice return for them in interest or dividends when your business blooms.

However, you cannot risk personal friendships and relationships over something like money, so protect your interests and theirs with proper documentation, outlining how much you are borrowing, under what terms, and how much interest is payable. If necessary, seek professional advice to help you draw up this document so all parties are aware of the terms of the deal.

Ask your bank

There are two ways to borrow from a bank: overdraft, or loan.

An overdraft is a quick fix if you are in a tight spot financially. The bank will let your business borrow a fixed amount without notice and you pay interest daily. The advantage is that you only pay interest on what you borrow, so you can use it as a flexible cushion for difficult periods. However, it is an expensive way to borrow and should not be used as a long-term financing option.

A bank loan is an excellent way to raise capital if you can offer security. Many banks do not like to give unsecured loans to new businesses, so if you cannot offer security then you might have to investigate an alternative such as the Government's Enterprise Guarantee Scheme.

However, if you can prove a steady cash flow, your bank may offer you a small unsecured loan, but you will need to make the monthly repayments regardless of how your business is performing.

