

## **A simple guide to business finance during these difficult times.**

What a few months this has been since the 23<sup>rd</sup> March 2020, and the unprecedented times involving the lockdown of the nation following the COVID-19 pandemic reaching a high within the UK. To say that these are challenging times does not begin to describe the trials and tribulations most businesses are experiencing. I have never seen anything like it, certainly not in the 31 years of my working life.

As a finance provider, I've been busy during lockdown but it's fair to say the 'nature' of my working day has changed. There were very few new enquiries (no surprises there!) during the early time of the lockdown period, most of my time being spent assisting clients that required additional financials support. For example, with requests to defer their existing finance monthly payments. This meant working with the funders on my panel to ensure that they provided an initial 3-month repayment holiday.

However, it was not just the typical financial question that a business owner asked me. I was asked to also help them with more general business decisions such as, 'how does the Furloughing of staff scheme work?' Can I help with their CBILS Loan Scheme application or Bounce Back Loan Scheme application? In general, I was on hand to help those customers in need and to be there as a sounding board should they feel it necessary or have a need to speak with somebody.

Since the outbreak of COVID-19, I have never known so many types of finance be available to select from for the SME market. But, with the increase in options comes the inevitable confusion over what type of finance is right for you.

**So, I thought it might be helpful if I provided a simple guide, presented in simple terms and avoiding the confusing jargon that litters my industry. Here are some of my thoughts; I hope this helps.**

So, where shall I start...

Well, traditional forms of finance are still available –

**Cashflow Finance – Overdraft, Factoring & Confidential Invoice Finance (CID)**, these 3 forms of funding solutions are still available to businesses. These three solutions are generally bank related solutions, so typically, 'you' the business owner, would approach your bank manager to discuss. With reference to 'factoring' and 'CID' there are many other funders, other than the UK Bank in the High Street, offering these solutions. Banks don't generally like to offer an overdraft facility should a business require some additional funding for cashflow purposes. The bank would usually look to see if the more relevant solution of CID would be more appropriate. CID is not applicable to all trading businesses, for example, construction is typically a difficult sector, due to how it receives payments of their invoices. However, there are lots of funders in the independent market that can provide niche funding solutions.

**Asset Finance** – It is interesting that confusion surrounding asset finance is not uncommon in the business community. I would say that this is because asset finance is not clearly understood and typically, not all business owners even know it exists. The asset finance solutions are –

**Hire/Lease Purchase** which is still the most common form of asset finance solution. If your business wants to purchase an asset such as a Vehicle or some Plant & Machinery and if you want to own it, then this finance solution is the correct way to finance the purchase.

**Finance Lease** is the best option should your business want to finance a fixed asset but does not want to own it. Plus, you can spread the VAT liability over the term of the lease.

**Operating Lease/Contract Hire (Vehicles)** There are varying forms of these types of leases, again this is typically the way cars/vans can be financed over a contract term, VAT paid monthly, with maintenance as an option. The vehicle is simply handed back at the end of the contract term. You will never own the asset, however other forms of Operating Leases are available for other assets such as Manufacturing Equipment, usually appropriate for assets that carry a higher value.

**Re-Finance (Sale & HP Back or Sale & Lease Back)** A business will have the ability to raise an amount of capital against its tangible fixed assets that are free of existing finance. So, if your business has for many years paid cash for its fixed assets and those fixed assets still have a value, they can be re-financed on either finance solution. I have seen many transactions during my many years working within Asset Finance. It could be that there is a Management Buy Out/Buy In, or it could be that the business has won and secured a large contract and it needs to be financed. The traditional bank cannot take security over fixed assets such as Vehicles and Plant & Machinery, so this form of finance can work for some businesses that are seeking additional capital. I see this as a key opportunity for existing trading businesses to raise capital; simply finance the amount required over a term that suits the cashflow and the repayment capability of your business. Amazingly, this not widely known but it's a great way for you raise some cash.

**Commercial Loans/Mortgages** are a traditional form of finance more commonly known when your business is looking to purchase premises. A mortgage would be the relevant way to finance the bricks and mortar over a longer term.

### **Other Types of Finance Post the Outbreak of COVID-19**

**Coronavirus Business Interruption Loan Scheme (CBILS)** This was the first subsidised lending scheme that the Government rolled out to help small and medium sized-businesses access loans up to £5 million. The government guarantees 80% of the finance to the lender and pays interest for the first 12-months. Again, there will be criteria upon application, and this was initially rolled out to the High Street Bank. However, there are now over fifty lenders that all have access to this type of lending. You can either finance the amount you require on a 'Loan' or you can look at an 'Overdraft' or 'Invoice Discounting'.

**Bounce Back Loan Scheme (BBLs)** was introduced by the government to support the smaller business access finance quickly during the outbreak of COVID-19. BBLs is aimed at small and medium size businesses and you can apply for a loan of up to 25% of your turnover with the maximum loan being £50,000. The government will guarantee 100% of the loan and you will not pay any fees or interest for the first 12-months. After 12-months, the interest rate will be 2.5% per annum. There is a modest amount of exclusions, as there always are with loans; again the high street bank would be your port of call to apply. The difference between this loan and the CBILS, is that this loan is backed 100% by the government, so the bank should be agreeing this loan quickly and efficiently.

### **Can I Help You?**

I always strive to help others and that is why I enjoy what I do, having lent money for many years and supporting businesses of all different types and sizes, it still gives me a sense of satisfaction. I never assume anything, preferring to spend some time to really understand your business needs. I

am not entirely sure what the immediate future is going to bring? All I can say is that PVS Finance will be delighted to support you anyway we can. Regardless of how you want to talk, face to face or on a video conference call, I will make it happen.

I hope you found this helpful. Please stay safe and I sincerely hope that the UK economy starts to move forward to allow your business to thrive. As my Mum always says, “good always follows bad”, so hang in there, good things are just around the corner.

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