

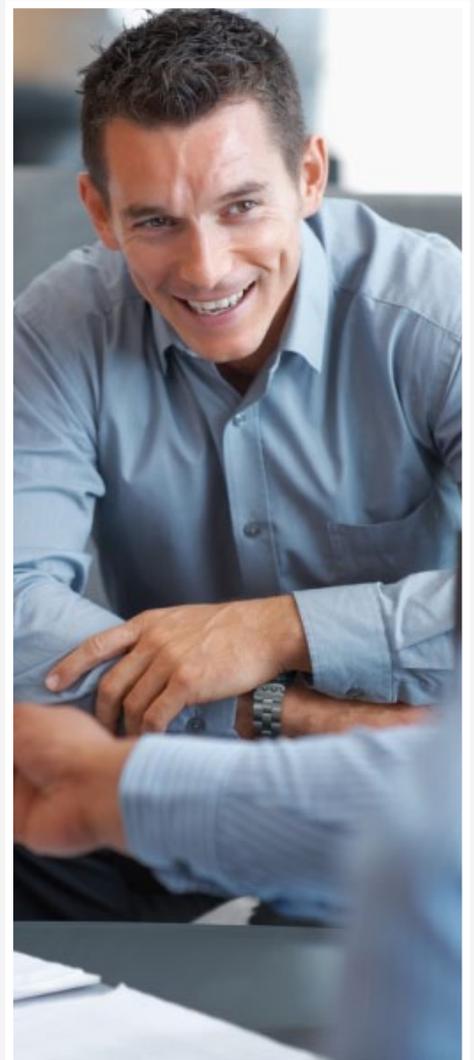
BUSINESS FUNDING OUTLOOK

An Overview of the Economic Development and Business Funding Landscape



Contents

Introduction	3
Challenges businesses face in accessing funding	4
The changing funding landscape	6
Key funding programmes	10
Local business support organisations	13
Accessing support	15
References	17



Introduction

The prospects for new and growing small businesses are in a state of dynamic change.

Whether the task at hand is securing finance for initial start-up costs, support for expansion, or backing for innovation and product development, the UK business sector is being challenged like never before.

In these difficult financial times, businesses are doing all they can to identify new sources of funding to boost their growth and development in line with seeking the support available from the public sector. Idox – which currently supports some 250 local authorities, Chambers of Commerce and Business Improvement Districts (BIDs) across the UK in accessing and securing funding – has published this paper to examine some of the issues businesses are facing in the current economic climate, the funding programmes available to support wide-ranging business activities, and how entrepreneurs and business owners can identify such support quickly and cost-effectively.

Siôn Stedman

Idox – Grants UK

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Challenges businesses face in accessing funding

Where entrepreneurs and business people have made their start-up and growth plans a reality, they speak of the powerful sense of achievement they experience as a result. Clearly, success brings great pride and provides fulfilment at an individual level. But today, given the vital role of small and medium enterprises (SMEs) in helping drive the country's economic recovery, their collective accomplishments must also be considered.

Government statistics report that there are 4.5 million SMEs in the UK, employing a total of 13.8 million people. Their activity accounts for £1.5 billion of turnover and the success of the country's smaller, local businesses contributes significantly to national economic performance¹. For people thinking of starting a business, finding support for their project is a high priority. Understanding funding and making a case for it can be a real test for many would-be entrepreneurs. Once a start-up is off the ground, the daunting task of growing the business to the next level must begin. The positive news is that most businesses experience the same or very similar problems and opportunities when it comes to growth – they can learn a great deal from those who have made the journey before.

Accessing any commercial sector with a new enterprise comes with challenges, yet an ambitious and motivated small business culture endures – even in the trying circumstances of the post-financial crisis years. As a Nottingham Business School research paper compiled during the first phase of the downturn notes, whilst the prospects for the UK economy may not have been greatly encouraging in the short to medium term, there remained a high degree of optimism from companies about their own commercial future based on a combination of factors including accessing overseas markets, improving the way they do things, better customer relations and product innovation².

It is in terms of such innovation that business support organisations have continued to hold significant influence and in turn help SMEs to succeed, particularly when it comes to signposting funding support for the activities and projects entrepreneurs wish to carry out.

A report in which the Prime Minister's Enterprise Advisor, Lord Young, reviewed the changing face of UK small businesses during 2010-15 notes that there are now a record number of small firms in the UK – the total number increasing by some 760,000 since 2010 – and a record number of people in work³. Entrepreneurial ambition may be reassuringly undimmed, but the obstacles facing businesses remain. These include identifying support in the following key areas:

- **Increased stringency in bank lending – making it difficult to access finance**
- **Transitioning from start-up to SME**
- **Retaining strategic focus to avoid the dilution of product and service quality**
- **Increases in tax and interest rates**
- **Increasing costs e.g. energy and travel**
- **Skills shortages**

Support organisations such as Chambers of Commerce, local authorities and development agencies all have a role to play in helping entrepreneurs and local businesses to establish and grow. What distinguishes those businesses that do not succeed from those that do is often their approach to growth. Companies that understand growth is a change process – and that change carries risk – become those best placed for successful growth. To enable entrepreneurs and start-ups to meet their business challenges, what is required is backing from organisations that demonstrate a wholehearted commitment to support a management team through all market conditions – both good times and bad. Accessing funding to support growth projects can be a significant undertaking in itself. This means facilitating the level and flexibility of funding that businesses need to meet their working capital and growth aspirations. In the post-downturn economic environment, providing information about a wide range of funding opportunities becomes even more important.

The changing funding landscape

After a difficult period, the UK's economic situation is improving – but long-term growth remains as important a priority as ever. Whilst many initiatives have enabled new businesses to access finance for clearly-defined start-up projects, restricted access in the future is perceived to be a problem that would inhibit growth and development. A Nesta report on the UK alternative finance industry notes that businesses relying on the support of banks can also have concerns about their willingness to provide the necessary finance⁴. Some applicants report instances where – in their view – banks were stipulating unreasonable terms for investment. The banks themselves admit that lending criteria are stricter than before and would-be entrepreneurs and business growers preparing with anything less than total diligence are highly likely to meet with frustration.

As Nottingham Business School observed during the initial years of the downturn, many businesses made efforts to improve their arrangements for the management of cash and working capital which had somewhat deteriorated over a period of several years⁵. The continuing problems with securing bank loans coupled with potential future liquidity difficulties meant that effective cash and working capital management was still seen as a managerial priority. In such circumstances, there is undoubtedly a case for a government role in assisting businesses with liquidity problems and in providing some access to capital finance where other approaches have proved fruitless. Indeed, the Government has in recent years launched a number of initiatives as it looks to support economic development in such a manner. This has taken the form of the Business in You and Start-up Loans schemes, and major initiatives such as the Regional Growth Fund. The latter was established specifically to encourage private-sector enterprise by providing support for projects with the significant potential for economic growth; and to support in particular those areas and communities that currently depend on the public sector to make the transition to sustainable private sector-led growth and prosperity.

Finding finance, not coming up with an innovative idea, is often the biggest problem faced by those starting up in business. Government support remains especially important – considering bank and investment initiatives are more likely to increase where backed by public finance. Since 2010, the Government's drivers for business have placed an emphasis on removing obstructions to starting a business, opening up the way for entrepreneurship.

As Lord Young's 2012 report on the role of start-ups and SMEs acknowledges, the fundamental issue facing entrepreneurial SMEs at this time is underfunding, rather than overtrading⁶.

To counter this, many businesses are exploring the opportunities afforded by alternative forms of finance, including Asset Based Lending (ABL). For a business owner, the key advantage to an ABL facility is that it generates a higher level of working capital than traditional sources of finance can release, based on a complete mix of assets.

Usually at the core of every ABL facility is invoice discounting, which provides an immediate injection of cash and ongoing working capital as a revolving credit facility. These initiatives are enabling entrepreneurs and SMEs to obtain much-needed finance, which in many cases they would not otherwise be able to secure.

Unpredictability and the shifting nature of the funding scene make it all the more important for support networks and organisations to be certain they can provide quality information on funding from a range of sources, without their communities being reliant on Government programmes

As noted in a Department for Business, Innovation & Skills guidance document on SME finance schemes, business funding in the form of grants comes from a wide variety of providers, many of which may not be known to those new to business funding⁷.

alone. From funding streams provided by the European Commission to public sector investment distributed via bodies such as the Local Enterprise Partnerships (LEPs), there are thousands of business grants available to help cover start-up and expansion costs. Alternative means of financial support available to help businesses include awards, loans and venture capital funding programmes. Support is also available in other forms, including free or subsidised advice services. All programmes have a part to play in facilitating and increasing trade, as well as improving productivity and growth across the economy.

But when finding support for their enterprise, particularly when matching their own funding to that of others, it is important for business owners to evaluate what they are committing to. Whether they access support from business angels, regional funds, government programmes or banks, entrepreneurs are advised to keep the following in mind as they navigate the funding landscape:

Working with investors

Where entrepreneurs have been fortunate enough to have gathered resources sufficient to launch their business without need of financial assistance, they will be in a strong position to make the best of the return for themselves and any partners. More commonly, however, they will require some form of support, be it a loan, capital or in-kind assistance such as business training to turn their start-up idea from vision to reality. Whilst this may have implications in terms of the length of time before they will be able to stand on their own feet financially, the backing of others can be positive in itself. Honing a business plan together with investors can lend a start-up vital stability, as well as confidence about its future direction as the project gets off the ground.

Planning for success

Once an entrepreneur has identified a way forward, refining their approach will be influenced by the amount of investment they take on at the outset. In turn, once they have the means to fund their enterprise, they will be able to stay focused on the business plan, marketing and operations.

This is a good time to research business strategy, which can reveal new and stimulating aspects of their particular commercial sector, taking account of the business' potential size, turnover and client base. Increased understanding will aid planning with insight into how the relationships between customers, projects and the business' services work.

Seeking guidance

Business starters and those looking to become self-employed are likely to face many questions and obstacles during their early days of development. Going it alone when finding their market allows the most control and most rewards once the business is established, but taking this approach means their business acumen reaches only as far as their own personal experience. Having professional investors involved in the business venture offers access to valuable guidance as well as financial backing. Working with others in a mentoring capacity and accessing the full range of advice and support on offer through Chambers of Commerce can give the boost business owners need, and in a way that does not limit their horizons.

As observed in a 2014 Social Market Foundation report on Britain's productivity challenge, the UK economy is finally recovering, with GDP surpassing its pre-crisis peak and unemployment gradually decreasing⁸. But there is still a long way to go, and there are underlying problems that are yet to be resolved. When growth begins, the business person often realises that there is only so much that they can achieve without requiring the enabling support of others – particularly in terms of identifying funding opportunities – so that they can continue to focus on their products and services and satisfying customer needs through their business. Business support organisations can assist in these areas, whether helping entrepreneurs to take advantage of a new business opportunity and break into a market, or to put their specialist skills and knowledge to work for themselves – for which support programmes exist across the funding landscape.

Key funding programmes

Where an individual is starting out or seeking to develop their business, getting financial support is likely to be their number one objective. Business funding comes from a variety of sources, including regional programmes provided by the European Commission and public sector funding streamed through organisations such as the LEPs. Together with venture capital and angel investment networks, there are thousands of funds available to support new and growing small businesses.

Each year, hundreds of millions of pounds in grants, as well as finance such as loans and equity investment are on offer to help SMEs undertake an array of business-related projects and activities. Key sources of funding currently in operation include the following:

Energy Catalyst

This new 'catalyst' fund is intended to support innovative UK companies and researchers in developing their early-stage low carbon energy technologies into commercial successes.

Funding body: Department of Energy and Climate Change (DECC)

Max. value: £25,000,000

Website: <https://interact.innovateuk.org>

Start-up Loans

A personal loan-style funding initiative for entrepreneurs in the UK wishing to start up a new business.

Funding body: Department for Business, Innovation and Skills (BIS)

Max. value: £25,000

Website: <http://www.startuploans.co.uk>

HSBC Business Growth Fund

The Business Growth Fund is a £6 billion programme aimed at helping small and medium-sized businesses in the UK to realise their growth ambitions.

Funding body: HSBC Bank Plc

Website: <http://www.business.hsbc.co.uk/1/2/commercial-banking>

Santander Breakthrough Programme

Support to help the UK's fastest-growing small and medium-sized enterprises to accelerate their operations. Selected businesses will receive funding and financial advice, as well as the chance to visit successful companies and learn from leading entrepreneurs.

Funding body: Santander Corporate Banking

Website: <http://www.santandercb.co.uk/breakthrough>

Recruitment Entrepreneur of 2015

Funding and mentoring from business expert and investor James Caan to help one exceptional entrepreneur in the UK to start or grow their own recruitment business.

Funding body: Resourcing Capital Ventures Limited

Max. value: £500,000

Website: <http://recruitmententrepreneur.com>

Transmit Start-Up Loans

Start-up loans available to new business founders aged 18 and over in Scotland and England.

Funding body: HM Government

Max. value: £25,000

Website: <http://www.transmitstartups.co.uk/start-up-loans>

Innovate UK Innovation Vouchers

Vouchers providing funding for UK businesses, enabling them to work with external experts for the first time, gaining new knowledge to help them innovate, develop and grow.

Funding body: Innovate UK

Max. value: £5,000

Website: <https://vouchers.innovateuk.org/home>

Welsh Government Innovation Vouchers

Financial assistance available to SMEs in Wales to access private and academic sector expertise and services to facilitate innovative development.

Funding body: Welsh Government

Max. value: £25,000

Website: <http://business.wales.gov.uk/growing-business/welsh-government-support-1>

SuperConnected Cities Connection Vouchers

Funding for small and medium-sized businesses in cities including Aberdeen, Belfast, Birmingham, Bradford, Brighton and Hove, Bristol, Cambridge, Cardiff, Coventry, Derby, Derry/Londonderry, Edinburgh, Leeds, London, Manchester, Newcastle, Newport, Oxford, Perth, Portsmouth, Salford and York to help them connect to better quality, high-speed broadband.

Funding body: Department for Culture, Media and Sport (DCMS)

Max. value: £3,000

Website: <https://www.connectionvouchers.co.uk>

Local business support organisations

In many towns and cities, the council was once the biggest employer by far. Today, this is much less likely to be true and may be changing the relationship between local people and the local authority. Councils have risen to the challenge of evolving to become service commissioners rather than the heartbeat of the local economy. It would be naïve not to expect a general trend towards scaling back the size of public sector services to have an impact on the ability of organisations to provide support to their economic communities, making increased efficiency and ‘working smarter’ a key priority. In this environment, the role of the council and support from Chambers of Commerce becomes all the more significant. As local associations promoting and protecting the interests of the business community in a particular place, they can offer support in a unique, focused way.

Alongside the work of councils, vital support is delivered at a local level by the country’s Chambers of Commerce. The national network of chambers – the British Chambers of Commerce – represents 135,000 businesses. Every square inch of the United Kingdom is covered by a chamber, totalling over 50 in all. Each chamber has thousands of members and affiliates, representing all types of businesses in their local area. Indeed, many chambers represent a more diverse cross-section of companies than any other organisation in their area, including a high proportion of their region’s largest companies. There are five main areas in which chambers support their members. These objectives are designed to help companies prosper, thereby boosting productivity and creating jobs that help to sustain the local economy:

- **Providing business advice, guidance and support to start-up, growing and established businesses**
- **Organising networking events and producing publications designed to raise the profile of their members’ companies together with their products and services**
- **Providing training services**

- **Promoting international trade support opportunities and assisting companies with their exporting projects**
- **Representing their members by lobbying on their behalf to regional and national policy makers**

However, as acknowledged in a 2013 Journal of Small Business and Enterprise Development survey, despite the endeavours of local authorities and chambers, the support available for entrepreneurship is not always known to local communities⁹. Findings from a survey of entrepreneurs and potential entrepreneurs in a deprived community in Leeds, examining support mechanisms for business start-ups in the area, revealed that:

- 28% of participants said they did not know where to go for support;
- the most commonly cited source of support was friends or family (33%), with only 7% saying they would use forms of publicly-funded support; and
- only 15% of those who were in the process of setting up a business had accessed support.

This offers compelling insight into the perception of SME support available and highlights a clear opportunity for Chambers of Commerce and local bodies to demonstrate how they can help their business communities to share in growth and development.

Accessing support

Each year, hundreds of millions of pounds in grants, loans, awards and other funds are on offer to help businesses:

- retrain and employ new staff;
- invest in new facilities, equipment and processes;
- carry out innovative R&D;
- diversify into new markets;
- undertake marketing initiatives; and
- export.

For local authorities, Chambers of Commerce and Business Improvement Districts seeking to support the growth of local businesses, keeping abreast of thousands of dynamic funding opportunities is no mean feat. Entrepreneurs and small business owners are always on the go, so their access to this ever-changing funding information needs to be immediate and available at any time of the day.

Idox has been providing funding information solutions for the last 30 years, and its **Open 4 Business** web portal offers business support organisations an up-to-date and local funding information service without the need to commit additional resources or staff time.

Open 4 Business offers:

- Comprehensive coverage of all available funding opportunities, including European Union, national Government programmes, regional schemes and local initiatives
- Added value functionality such as ability for users to set up automatic email alerts so they are first to know when relevant new or updated funds are added, as well as signing up to weekly funding newsletters

- Vital intelligence on who is using the service. Full monthly statistical breakdowns are also provided to help evaluate the portal's impact and help demonstrate its return on investment

Investing in **Open 4 Business** gives support organisations the peace of mind that their local business community has ready access to EU and national funding opportunities. Across the UK, Idox's funding solutions have helped to secure hundreds of millions of pounds' worth of grants over the last five years alone, empowering support organisations to bring in much-needed resource and finance to their local area.

As Margaret Danbury, Senior Strategic Funds Officer, City of Bradford MDC notes, '**Open 4 Business** is an important resource for our local businesses, large and small. The comprehensive and easy to search funding database gives them access to a range of funding options to help them grow their ventures. There is no comparable service that offers the range and quality of **Open 4 Business**.'

For more information about **Open 4 Business** and Idox's full range of services, please contact:

Idox

Marketing Department

First Floor, Alderley House

Alderley Road

Wilmslow

Cheshire SK9 1AT

T: 0844 874 0739

E: grants.marketing@idoxgroup.com

W: www.idoxgroup.com/funding-solutions



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