



➤ Mark Eden and Lukas Markou from accountancy firm Jerroms

# Finance picture is changing as the outlook improves

**T**HE benefits of an improving economy are filtering through to growing businesses, though access to finance remains a challenge.

It is against this background that Solihull and Bromsgrove-based accountants and business advisers Jerroms is sponsoring the finance category at the 2014 *Birmingham Post Business Awards*.

Jerroms director Lukas Markou said: "Finance is the most challenging aspect

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of starting a business or building it beyond the early stages.

"Our sponsorship recognises this and runs alongside a key area of our own business - that of providing advice, introductions to potential funders and investors and assistance with business plans and budgets."

Mr Markou says that the improving economic backdrop has combined with a continuing generous tax allowance for investment in plant and machinery to encourage more business activity in the West Midlands and elsewhere.

"This is partly because there are more good business ventures looking for investment, but also the climate for most kinds of finance for business has improved," he said.

"For example, though the largest banks continue to be criticised for a lack of response to the needs of small and medium-sized businesses and though they are indeed somewhat more risk averse these days, most are willing to lend to a sound business with a track record where the business plan stacks up.

"The same can be said for some of the smaller banks, which can also show a little more flexibility and benefit from shorter lines of communication and quicker decision taking.

"But, in all cases, the key remains a credible and well presented business plan and professional advice can be vital both in setting out the prospects of the business and in identifying a mix of finance that will work both for the business and for lenders.

"Beyond that, once the lending is approved, it is important to maintain a good relationship with the lender, for example through the provision of management accounts. This is another area where professional advice can play a key part."

Mr Markou emphasises that the right balance of finance is vital and points out that there are many other financing options apart from bank lending.

"Additional equity can create a sound platform for bank or other loan finance as well as lowering the risk associated with developing the business at the cost of spreading the rewards if all goes well.

"Equity investors can benefit directly from tax breaks under the Enterprise Investment Scheme (EIS) or, for smaller entities, the Seed Enterprise Investment Scheme" he said. He cites the fact that the EIS can provide income tax relief of 30 per cent against the cost of up to £1m of investment in a trading business, while also benefiting from capital gains tax exemptions going forward.

Apart from taking in equity capital, Mr Markou adds that alternative financing options should be considered, including the Regional Growth Fund (RGF), 'peer to peer' lending through Internet based networks, commercial mortgages and asset finance such as lease purchase.

He said: "The picture is constantly changing in relation to finance - for example, peer to peer lending was hailed as filling a gap after the banking crisis, though the associated interest rates were and remain higher as a reflection of the greater risk to lenders.

"Now, some construction firms are able to access lease purchase finance at an interest rate of only three per cent."

The likelihood of interest rate rises in the months ahead will be a cause for concern for any businesses which have relied excessively on bank borrowing or lending generally.

Jerroms director Mark Eden urges businesses to consider the potential impact of this trend when

they seek finance. "The level of increases we are expecting is not going to be a problem if the investment is set to generate strong returns and if the proportion of debt finance involved is not excessive," he said. "But the prospect of higher rates is another argument for an appropriate mix of finance and for active cash and working capital management. For example, tight control over purchasing and stocks will help keep overdraft levels and therefore interest costs down.

"This is particularly important as banks look to convert any 'long-term' working capital finance from overdraft to loan, moving to the point where overdrafts are minimised, with loans being reduced by regular repayment.

"This could bring difficulties if trading conditions improve to the extent where businesses need to operate with higher levels of stock and debtor levels and have only limited access to additional overdraft facilities."

In summary, Mr Eden and Mr Markou say that the doors to finance are open for sound businesses which have good business plans and an anticipation of good returns. Economic growth has created a situation where there are more such plans around; a trend which has helped financiers have a more positive viewpoint.

Another consequence of the improved economic climate has been that the interest of potential buyers of businesses has been re-engaged, which has led to more sales and management buyouts.

Mr Markou, who advises on such deals, said: "The increased number of these transactions is due to both increased confidence by MBO teams and buyers, an improved financing climate and a backlog caused by sellers holding off in the wake of the economic troubles of a few years ago."

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