BUSINESS Banks are not the only way to get a loan. Are you aware of all the options?

GIVE ME SOME CREDIT, PLEASE

The UK government's long-awaited Bank Referral Scheme finally came into force on 1 November 2016. This means nine main banks are now obliged to pass on details of businesses they reject for finance – with their consent – to three alternative finance platforms, which can then direct firms towards potential lenders.

"Many business owners are under the misunderstanding that banks are the only route to business borrowing, and that being declined a loan from the bank is the end of the road," says Jeff Long, an SME consultant at Business Doctors. "The reality is that, with so many alternatives available, it's probably just the start." In fact, research from the British Bankers' Association suggests 40% of businesses would welcome a referral, and the hope is that around half will find funds as a result.

The three platforms – FundingXchange, Business Finance Compared and Funding Options – provide access to a range of possible sources of debt or asset-based finance. Conrad Ford, founder and CEO of Funding Options, says: "Our platform is more of a comparison site than anything else. The more you tell us about what you're looking for and your circumstances, the more we can match you with suitable lenders." For surveyors, the new scheme could help firms find finance for a variety of different needs, ranging from short-term cashflow to longer-term loans. Below are some of the many alternative finance options available.

FIVE-POINT PRIMER

Bank referrals UK banks must now pass on details of businesses they have rejected for loans to alternative providers.

Loan ranges Niche outfits lend against specific assets, such as property, or offer short-term loans linked to cashflow.

Peer reviews If you are adept at selling a concept, consider peer-to-peer lending.

Chain bridge Supply-chain finance allows businesses to borrow against funds due from customers.

Critical mass Crowdfunding should become more viable as investors buy into the concept.

BUSINESS LOANS

In some cases, particularly for larger amounts, it may be that an alternative bank is the best option, says Ford.

It's also possible to find niche lenders, who can loan money against particular assets. Quivira Capital, for instance, is a bridging lender focused on lending against property. "We have seen huge volume increases in our lending over the last five years, as the banks are not able to keep up with the lending required," says director and founder Rajiv Nathwani.

Another option: short-term loans based around a firm's cashflow. "The repayments are linked to this cashflow so you only ever have to pay us back when your customers pay you," says Rob Straathof, CEO of Liberis. "It's ideal for seasonal firms or those craving flexibility and transparency."

Peer-to-peer loans are an alternative. Here, the business can borrow money in the form of loans from individuals or groups of people through sites such as Funding Circle, in exchange for a set interest rate and repayment date. This can provide quick access to funds, but only if investors like the idea, so organisations will need to be able to show what they will be using the money for.

INVOICE DISCOUNTING

New platforms, such as MarketInvoice, now offer businesses the ability to "sell" individual debts to specific investors, who take a percentage in return.

"The main issue for surveyors is cashflow funding, and banks have generally provided an overdraft to service this," says Andrew Holgate, co-founder and chief credit officer at Assetz Capital. "But, as the new capital adequacy rules for banks take hold, the availability of overdraft funding is rapidly reducing. There are now specialist funders who provide working capital, either through revolving credit facilities or through discounting invoices."

This concept also extends to supply chain finance, where businesses can borrow against future funds on the basis of contracts they have with customers. "Surveyors and building contractors often find themselves in a double bind," says Colin Levins, CEO of supply chain finance provider Whitehall Finance. "Banks can be reluctant to lend to them, yet their cashflow is frequently stretched as they tend not to be paid until

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well after the work is completed. The way it works is for the developer – or the lead contractor – of a project to 'pre-approve' the invoices of suppliers. The model gives suppliers quick access to money that would otherwise be tied up in unpaid invoices."

CROWDFUNDING

This is a form of equity funding, which is not currently supported by the government scheme. However, James Nichols, investment partner at surveying firm Paul Nichols and Company, and founder of Transcendent Real Estate – which offers crowdfunding opportunities for those looking to back commercial property investments – believes this could be more of an option for surveying firms in the future.

"Crowdfunding is in its infancy at the moment," he says. "But there needs to be a shift towards these alternative options."

Yet anyone hoping to borrow money through alternative lenders needs to go in with their eyes open, warns Ford. "We find that something over half is financeable by the commercial finance market, so there should be no unrealistic expectations," he says. "A large minority isn't financeable but a significant proportion can get finance."

"We have seen huge volume increases in our lending over the last five years, as the banks are not able to keep up with the amount of lending required"

RAJIV NATHWANI Director and founder, Quivira Capital

ON THE RICS UK SMALL BUSINESS HUB

The UK government has published a guide to the support available to small business owners looking to raise finance: *SME access to finance schemes: measures to support small and medium-sized enterprise growth.*

The guide contains advice on how to obtain loans and investment, help on how to win government contracts, and details of other business advice and financial support programmes.

To download the guide, and for more factsheets on topics such as developing a business plan and practice finance, go to the Small Business Toolkit on the RICS Small Business Hub: ***rics.org/smetoolkit***

LEGAL 101

When is a contract not a contract?

KEVIN ANDERSON
Construction lawyer, Sintons

How and when a contract is formed can sometimes be confusing for parties on a construction project. Surely, you would think, a contract has to be signed?

This is not always the case. The law recognises contracts of all types, ranging from an executed deed, to a signed contract, to an unsigned contract evidenced in writing, to a verbal contract.

In short, the essence of a contract requires: an intention to create a contractual relationship; some consideration by both parties (for example, "I'll pay you this to do that"); an offer capable of unconditional acceptance by the other party; and unconditional acceptance by that other party.

How do we know when the contract arises? It all starts with the invitation to tender; normally, "give me your price to do this work in accordance with these terms". When the tender is submitted, it is usually an offer capable of unconditional acceptance by the employer. However, what if the employer says "congratulations on getting the job", but the formal contract is delayed?

If that communication is an unconditional acceptance, then the contract exists and is evidenced in writing. The parties would then proceed to formalise things with the written and signed contract, but this is not, strictly speaking, necessary.

What if we are still negotiating? Assuming the tender is accepted, but some important detail is still being resolved, then we do not have an offer capable of unconditional acceptance – since it is conditional on the final details being agreed. So the negotiations go on. If you start work, then some contract must exist despite the ongoing negotiations.

Of course, if the ongoing negotiations are about something as fundamental as the price, you are asking for trouble. Fail to agree after the work has started and the law will pay a "reasonable" price. Both parties may have differing opinions about what is "reasonable", running the risk of generating a dispute.

What if the contract is on a daily basis just to do the work that day? This is why people enter into letters of intent; literally "it is my intent to contract with you in this manner once the negotiations are completed, but in the interim please do this bit of work for this price". This creates a contract just for that bit of the work.

Can we stick with a letter of intent? If the letter of intent is open ended and nobody terminates it, you can, in theory, complete the entire project. However, most define the work element, the cost element and an expiration date. You should not exceed any of these three, in case it is argued against you that "we didn't have a contract for the extra work you did". A signed contract is preferable, but it is not the only way to enter into a contract.
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