How to finance your account work

If your Company carries out Account Work you will know that on average you should be able to receive payment of invoices on average in about 45 days. Some Accounts will pay quicker and others will take longer. However long they take you have to finance this work, as you will mostly be paying your drivers weekly or fortnightly.

Although the work is taken off your drivers' circuit fee, it is still less money coming in each week until you get paid, and this can compromise your cash flow.

A lot of Companies will be financing their cash flow with a bank overdraft, this can be a normal overdraft with security and personal guarantees in place or you can get an overdraft backed by your book debt where the bank will finance approximately half. This of course varies bank to bank and also with regard to your personal circumstances.

An alternative to the bank is by using a Factoring Company; this comes in many guises and is known also as Invoice Discounting.

A simple definition of this service is that when you raise your invoices you effectively "sell" them to the Factoring Company, you are then able to draw a percentage of the gross sales value of that invoice, typically about 80% although there are Firms that will let you have 85%. So if you invoice the previous week's account work on a Monday you can draw the money down on Tuesday. This is a great way for improving Cash Flow but not without its drawbacks, I will run through all of the Pros and Cons that I perceive to be linked to Invoice Factoring.

Invoice discounting – Getting started

1. Before a Company will grant you a factoring agreement they will audit your books and procedures.
2. The Factoring Company will take a floating Charge over the entire book debt; this means that any invoices that you raise which you do not sell to the Factoring Company are still included within the charge.

3. The owner or Directors of the Company will also have to sign a personal guarantee, this is not so much about guaranteeing the amount of money borrowed but more to safeguard against the Company raising fictitious invoices, or indeed inflated invoices.
4.

Invoice discounting – Credit Control

The Factoring Company will take on the role of your Credit Control, which on the face of it is good, as you have no need to employ a credit controller, however, this is not all as it appears. Factoring Companies utilise their Credit Controllers in different ways, they may assign one person to collect your money or they may assign the person by the Companies they are collecting from i.e. you may have one person chasing the BBC and another chasing Unilever, as sometimes the accounts are distributed alphabetically. Please ensure that you know who will be collecting money on your behalf before signing.

The other problem is that the Credit Controllers at these Companies have "Cash Targets" to reach so as you might expect they are more interested in collecting money from the largest Debtors, leaving your small accounts with no contact, and of course no incentive to pay, as we all know that when paying out, human nature dictates that we pay the Company that gives us the most grief. So it wise to think of this aspect as well, as you will need to chase the smaller amounts. Some Companies however offer just the finance side of things, which will mean you will need to chase all of your debts, this person doesn't need to be an experienced credit controller so the hourly rate will be less.

The Company will almost certainly "reserve" against certain accounts mainly when the debt goes over 90 days, which means you won't have access to that money should this happen. Other reasons for reserving include disputed invoices, even if this is for 10 minutes waiting time on one journey, and the worst one that I have come across is when a Customer requested a copy invoice I suddenly found that they treated that invoice as a dispute.

Invoice discounting – Charges

They will also charge you for the service, this generally comes in several forms. Firstly, is the Factoring charge itself, this will be based on a percentage of the gross invoice, this can be anything from 1.25% to 5%. The Company will set a minimum Factoring Charge which you are liable for whether you reach that charge or not.

Then there is the interest charge on the money that you "borrow", this is in the region of 2.5% over base rate. You will also find incidental charges such as TT charges again normally about £25,00 each. They may offer payment by BACS, which does not incur a charge, but the money takes 3 days to get to your account.

You may also find that when you enter into a factoring agreement that your bank will not offer you overdraft facilities as they would believe that you would not need additional borrowing as your finance needs should be met by the factoring Company.

Invoice discounting – Auditing

As a rule of thumb once you have entered into a factoring agreement the Company will want to “Audit” you every 3 months or so which will be a case of looking at invoices and trying to match jobs to drivers and proof of the journey as well as looking at your HMRC payments making sure everything is up to date.

Invoice discounting – Protection

The Company you choose may offer Invoice protection which would guarantee payment of your invoices, however they will set a credit limit on each customer and you will find that these tend to be rather low and may inhibit your ability to service the account. In my experience a lot of Companies will pay money without sending a remittance which means that allocation of the funds to the correct invoices is difficult, you will find yourself ringing your customer to see what they have paid and then informing the factoring Company, this can be time consuming, however if you don’t then you may find that although invoices are paid, no monies have been allocated to it and that could then go on “reserve” when the invoice gets to 90 days old.

Invoice discounting – The advantages!

- You will be able to finance a greater percentage of your invoice thereby improving your cash flow at a greater rate enabling you to trade effectively.
- They will send out monthly statements on your behalf, giving every one of your customers the ability to check their ledger against the statement to ensure that they balance.
- You don’t have to draw the money down, only when you need it, such as when the VAT is due or when wages need to be paid.
- They will keep your sales ledger, and most have online systems so you can see at a glance what you are owed and the paying performance of each of your customers. It may be that the fares will go up to slow payers thereby increasing profitability on those accounts.
- A larger customer may have several accounts, therefore producing several invoices for one customer each week, The factoring Company will post all of these invoices to one account which is easier to see what is owed rather than having to look at each individual account on your system.

It may seem that I am anti Factoring, which is not the case as I have used factoring for years, I just want to make sure that everyone has the information they need before entering into a factoring agreement, as I have found the above out mainly by experience of many years and several Factoring Companies and thought I would share my experiences with you.