The election certainly didn’t go the way that it was expected to and we are left with a coalition based upon a significant cash bung for Northern Ireland. How long that lasts is anyone’s guess, but in theory it will be five years!

The Brexit negotiations have started and we face an uncertain two years, politically and economically. Still, despite all the uncertainty, UK plc continues to grow albeit not quite as strongly as we’d like!

Interest rates are still low and those businesses who have strong balance sheets and decent profit performance can borrow at attractive rates to update equipment or leverage off trade debtors to fund working capital growth. In this issue, we look at how asset based lending can help support growth and investment for your business.

Confidence is a cause for investment and there must be some confidence within the new coalition for the major Infrastructure project of HS2 has taken a step forward with the announcement of the routes North up the west coast and east coast lines, ploughing a furrow through the English countryside, and, according to the BBC news, some new housing estates.

Supposedly bringing investment and opportunity to the North, the scheme has its critics who anticipate the widening of the commuter belt into London rather than the expansion of business around the destinations.

Locally, the new Mersey crossing is a major infrastructure project which should benefit the region but make sure you register with Merseyflow to avoid a £60 fine before you cross.

As well as the asset based lending feature, we also look at how to improve your cashflow.

**DIGITAL SKILLS SHORTAGE HAMPERS BUSINESS GROWTH**

A lack of digital skills is affecting business productivity and growth, according to the British Chambers of Commerce (BCC).

More than 4 in 5 (84%) firms say digital and IT skills are more important than 2 years ago, however 76% say they are facing a digital skill shortage.

**Adverse effects of skills shortages include:**
- increased workload for existing staff (52%)
- higher operating costs (29%)
- difficulty meeting customer needs (28%)

**Barriers to solving the problem include:**
- no time for staff training (41%)
- identifying the right training (32%)
- cost of training (25%)

Adam Marshall, director general of the BCC, said:
“The evidence is clear: better digital skills make firms more productive and a lack of digital skills holds them back. Businesses themselves need to do a lot more to tackle the digital skills shortages they face and their leaders need to be alive to the fact that a failure to tackle this issue will have an impact on their bottom line.

Too many firms are stuck in an unproductive cycle, where the failure to take action has serious consequences.”

**Government help**

The government has created a digital strategy designed to help people get the skills businesses need and help business exploit digital opportunities. The strategy aims to give training to 2.5 million people by 2020. For businesses, the plan is to create 5 international hubs in emerging markets to connect UK companies and local tech firms.
If your business does not have a steady stream of money flowing into it, you will be unlikely to be a going concern in 12 months.

On the other hand, every business will have regular costs that they have to pay out. These payments can range from the cost of buying materials to making sure your staff remain sufficiently caffeinated.

A successful business needs to keep the balance between money coming in and money going out weighted on the side of the former.

**WHY CASHFLOW IS IMPORTANT?**

Thinking of good cashflow as a balancing act can be a useful metaphor. Your instinct may be to tip the scales heavily in favour of money going out, but that will help you increase your sales.

It is unlikely that your cashflow will be perfect and there is no room for improvement. Inefficiencies can build up over time in any system and lead to wastage that can be hard to spot. There is no one-size-fits-all solution for improving cashflow, but the following points are some common strategies.

**MONEY IN**

Payment terms

Your relationship with your customers is vital for any business and agreeing payment terms in writing in advance can help ensure continued good will.

Other points to consider:

- include text informing the customer you will exercise your statutory right to claim interest on invoices
- raising a further invoice for interest and late payment charges will ensure it comes to their attention.

Having a range of ways that customers can pay you can also be an important way of facilitating quick payments. You could also consider rewarding quick payments with discounts.

Invoice correctly

An effective invoice contains all of the relevant information that a customer needs to know in a concise and easy to read format.

Payment terms and conditions should be printed on your invoices. You may want to send out more detailed payment terms once they have been agreed so that you can include an abridged version on the invoice.

A customer should never be surprised at anything they find on an invoice. Your service charges and product prices should have been clearly explained earlier in the transaction process.

It may be helpful to give your client a breakdown of the costs that will be found on the invoice before you send it.

**MONEY OUT**

Cut your costs

The most obvious way of improving your cashflow is to control your outgoings.

Some areas where you could save money:

- travel and travel expenses
- conducting meetings over the internet for (example)
- moving internal IT systems to the cloud
- use of contractors

Bear in mind that reducing costs too far may negatively affect your cashflow by hurting your ability to make sales, maintain relationships or incentivize your staff.

If you have a diverse range of stock with some high-sellers and lots of low-selling items, you may want to focus on where the majority of your profit comes from. You can either offer less or hold fewer of the low-selling items in stock.

Discount

Just as you may want to reward good customers, your suppliers may want to do the same to you.

Making sure you pay promptly will allow you to negotiate better deals or discounts for early or fast payments. Having a strong relationship also means telling suppliers as early as possible if a payment is going to be delayed.

Tax efficiency

A firm’s tax liability is likely to be a large part of its regular outgoings so any actions that increase tax efficiency will affect cashflow.

A full breakdown of the technical details of business taxation is beyond the scope of this article. Contact an expert to explore tax planning further.

Some examples of the tax reliefs that may apply to your business:

- R&D relief – companies can obtain a 230% tax deduction for qualifying projects
- Holdover and rollover relief – postpone tax on the disposal of qualifying assets
- Patent box – reduces corporation tax to 0% for profits based on UK or European patents

Being able to accurately forecast your cashflow over a long period of time is incredibly valuable. If your business is seasonal in nature or has busy periods, you will be able to plan accordingly.

Before you can start creating a cashflow forecast you will need a:

- sales forecast – how much you expect to sell over a period time
- profit and loss forecast – your business income and its day-to-day running costs
- giving a profit projection.

There can be a lot of complexity involved in creating the above forecasts, so seek expert help if you are unsure about any aspect.

To create a cashflow forecast, you should look at the following:

Money in = your sales forecast + any non-sales income

Money out = your profit and loss forecast + any other costs (such as tax and Christmas parties)

The combination of these 2 figures is an estimate of your future cashflow.
ASSET BASED LENDING

Andrew Moss, corporate partner at DSG Chartered Accountants, says “In recent years, there’s been a definite shift by banks away from overdraft facilities and towards invoice finance, where they have a direct charge on the trade debtors rather than just a general charge over the business.

This gives the banks more visibility and certainty over their security and more control of the borrowing. Invoice finance (IF) can also be used in a management buyout or buy-in scenario as a potential source of funds to help finance the acquisition and leverage off the debtor book. Managed properly, IF can provide growth finance and also a facility to draw upon if required in lieu of an overdraft. Compared with an option like stock finance, which typically yields no more than 50 percent of cost, IF can generate up to 95 percent of invoice value. One of the most common reasons to raise capital is to buy property, most likely of cost, IF can generate up to 95 percent of invoice value. One of the most common reasons to raise capital is to buy property, most likely very secure form of ABL and banks tend to be keen to lend to businesses who want to buy their rented premises, because the loan will often cost less than the rent, so they know the business can service the debt.”

CASE STUDY – Tipografic in Birkenhead is the UK’s largest printer of wet glue labels and producer of reel-fed OPP and ROSO labels.

The company has grown considerably over the past 25 years and has a range of printing and finishing facilities across the food and drink, pharmaceutical, newspaper and magazine, gift card and telecoms sectors. But having customers on a 60-day payment cycle meant that the company suffered from cash flow problems. Tipografic has worked with chartered accountant firm for the past four years to solve this issue. Andrew Moss head of corporate says: “we’ve used various forms of asset-based lending (ABL) including invoice financing, to help clients who need to generate cash as a result of long invoice payment waiting times.

Tipografic found this method of ABL helped it to access cash quickly and effectively. The company had begun using invoice financing shortly after it started out, and this is often the case when a company is growing. The nature of this business was such that its payment pattern involved many customers being given up to 60 days to pay their invoices. Instead of waiting almost two months to receive payment, invoice finance meant it was able to have the money as early as the next day.

LIFETIME SAVINGS

April 2017 saw the launch of the Lifetime ISA (LISA), a tax free savings account designed to help under 40s buy their first home or save towards retirement. To open a LISA, you have to be over 18 and under 40.

Once opened, the maximum that you can save into a LISA each tax year is £4,000 until you reach the age of 50. For every £4 you deposit, the government will add a bonus of £1, up to a maximum of £1,000 a year, again until you reach the age of 50.

This means that the maximum possible bonus amount is £32,000 – say, you opened a LISA at 18, and deposited £4,000 into it every year until you reached 50.

This gives the banks more visibility and certainty over their security and more control of the borrowing. Invoice finance (IF) can also be used in a management buyout or buy-in scenario as a potential source of funds to help finance the acquisition and leverage off the debtor book. Managed properly, IF can provide growth finance and also a facility to draw upon if required in lieu of an overdraft. Compared with an option like stock finance, which typically yields no more than 50 percent of cost, IF can generate up to 95 percent of invoice value. One of the most common reasons to raise capital is to buy property, most likely of cost, IF can generate up to 95 percent of invoice value. One of the most common reasons to raise capital is to buy property, most likely very secure form of ABL and banks tend to be keen to lend to businesses who want to buy their rented premises, because the loan will often cost less than the rent, so they know the business can service the debt.”

If you are a parent or grandparent, you can pay into a LISA opened by your child or grandchild. If you are approaching 40, you can open a LISA before your 40th birthday and save into it until your 50th birthday. If you use the money saved in a LISA to buy your first home, you can then keep the accounts open and use the balance of the funds to save towards retirement.

The Lifetime ISA is part of your overall annual ISA limit – for the current 2017/18 tax year this overall limit is £20,000.

You can hold more than one LISA at a time, but you won’t be able to pay into more than one in the same tax year.

WITHDRAWING THE FUNDS

Withdrawals from the LISA are tax-free but if you make any withdrawals under the age of 60, other than to buy a first home costing up to £450,000, from April 2018 you will be hit with a 25% penalty. Even if you use the funds to buy a first home, you have to wait at least 12 months after opening your LISA before you can make a withdrawal to buy the property.

If you do incur a penalty you will lose out overall – for example, if you deposited £1,000 into a LISA you would receive a bonus of £250, making a total balance of £1,250. If you then withdrew the whole amount for a noneligible reason, you would be hit by a penalty of £312.50. This would leave you with £937.50, less than you put in.

SHOULD I OPEN A LISA?

LISAs are not suitable for everyone. The government bonus is attractive, however if you withdraw any savings before 60 except for a qualifying house purchase, you will be charged a 25% penalty and end up with less than you put in, ignoring any growth in the investments.

Saving into a personal pension may be a more suitable option for you, depending on what you want to achieve with your savings and your personal tax position.

If you want any advice on whether a LISA or a personal pension is the better option for you, please do not hesitate to contact your financial advisor.