

New body insists debt collection is a key factor to a company's health

- Much-maligned industry adopts a new approach in attempt to redress its poor image
- June conference planned to spread the word

Paul Rogerson

SCOTLAND'S factoring industry is planning a concerted push to boost its popularity among cash-strapped businesses and their advisers.

According to the Scottish Factors & Discounters Forum, formed this month, employing a financial institution to chase up unpaid debts is still a taboo subject for many.

"A few years ago, factoring had a bad reputation and was seen very much as a "last resort funding mechanism," said Graeme Cullen, the forum's first chairman. "Too many people still think it means a company is in dire straits."

Factoring is a simple idea, explained Mr Cullen, the regional manager of Glasgow's RDM Factors Scotland. A financial institution pays perhaps 75% of a company's unpaid invoice "up front" and chases the debt. When it receives full payment, a further 20% will go back to the client, with 5% retained by the institution.

Of eight specialist factors in Scotland, four are divisions of banks. They include Bank of Scotland Cashflow Finance and Royal Bank of Scotland Commercial Services.

The figures confirm Mr Cullen's assertion that factoring is rapidly increasing in popularity. The combined turnover of the 29,000 small companies employing members of the Factors & Discounters Association (FDA) rose to £77bn in 2000, an 18% rise on the previous year. Mr Cullen estimates the current size of the Scottish market at about £5bn. As at 31 December 2000, FDA members were providing more than £6.2bn of funding to small businesses – a 26% rise on 1999.

Critics view factoring as expensive. But so is chasing your debts, and Mr Cullen

LEGISLATION

Falling at first hurdle

THE Commercial Debts (Interest) Act 1998 allows creditors to charge interest on late payment, but a survey last week by the magazine *Accountancy Age* shows that three out of five finance directors believe the measure has failed to improve the health of SMEs. The survey coincided with the end of consultation on a European Directive that will add compensation to the legislation.

believes that, for SMEs, factoring will replace the bank overdraft as the principal source of cashflow finance. "What happens when you hit your overdraft limit? The bank might not give you any more money or you might have to provide more security. Factoring grows with your business."

Mr Cullen's problem is convincing corporate accountants and the private firms which advise them. So the forum is planning a June conference to spread the word.

"It astonishes me when professional advisers say factoring does not work for businesses," he said. "There are multinational companies out there which are factoring their debts."

Late payment legislation proved popular, but ultimately unsuccessful. The main reason for the Commercial Debts (Interest) Act 1998 act's ineffectiveness is that SMEs are fearful of alienating bigger clients. "If you're Fred Bloggs supplying your product to a High Street multinational and they are 46 days late paying you [the average for a plc], you're not going to take them to court," said Mr Cullen. "If you do, they'll tell you to take a running jump."

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Link: www.factors.org.uk



Graeme Cullen: 'Factoring grows with your business' Picture: Drew Farrell

Tweedie's legacy lives on as companies get to grips with new wave of standards

- Company Reporting says changes being adopted early
- More groups providing in-depth EBITDA figures

Paul Rogerson

SIR David Tweedie may have left the Accounting Standards Board, but his influence continues to be keenly felt in UK company boardrooms.

The latest bulletin from an Edinburgh accounts analyst, Company Reporting, showed that the final raft of standards issued by Sir David before he left for the International Accounting Standards Committee are already affecting company accounts, although their adoption has yet to become mandatory.

FRS 19, which requires full provisioning for deferred tax, was published in December but does not take effect until 2002. But in its latest annual report, BG (formerly British Gas) revealed to analysts that early adoption of the rule would have meant providing for all potential deferred tax liabilities – to the tune of £392m.

Another controversial rule, FRS 17, will require more dis-



Sir David Tweedie

closure of the impact of a company's pension scheme on its accounts.

The rule does not become fully effective until June 2003, but Barclays has already given notice of its impact. The bank said that the rule will result in the recognition on its balance sheet of assets and liabilities in respect of the surplus or deficit arising on its defined benefit pension schemes.

Because pension costs will

become far more volatile, some in the pensions industry predict that FRS 17 will prompt companies to bar new employees from joining defined benefit schemes. BT imposed just such a bar this month.

Elsewhere, the analyst reported that more companies are providing a figure for earnings before interest, tax, depreciation and amortisation (EBITDA) because they believe that this is the best measure of underlying performance.

Sanctuary, the media group, is among them. The company said that, as the capitalisation of intellectual property depends on whether it was acquired or created before or after the introduction of FRS 10 on goodwill, the amortisation charge does not fully reflect the use of its total assets.

BG goes further, providing an EBITDA per share figure to replace the headline earnings per share figure it provided last year.

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E-mail account with a difference launched

- Service modelled on hotmail adds a professional touch for those on the move

Paul Rogerson

IF YOU want to let the world know you're an accountant, an enterprising Scottish IT company has the answer.

Dunbar's AccountingBC, a systems supplier and e-commerce consultancy, is starting a free e-mail service designed specifically for accountants.

Operating in the same way as Microsoft's Hotmail product, users will be able to choose a mail address based around the configuration yourname@accountingbc.net.

They will be able to access their mail from any web-enabled computer anywhere in the world.

Mark Kennedy-Stewart, the company's owner, said: "From Kazakhstan to New York and any place in between, this service is free of charge."

"Be trendy with your mail – come out of the closet and tell the world that you are an accountant."

Password and user name will

both be required to access the system, said Mr Kennedy-Stewart. Spam will be kept off the server and local news relevant to accounting systems will be updated on the log-on site on a regular basis.

One reason for establishing the service, Mr Kennedy-Stewart said, is to show accountants what can be done "relatively easily" for their clients or employers' websites. But there is a hard-nosed commercial justification too.

"We are giving something back to the web community or, more precisely, to the accounting world," he added.

"But we will of course reserve the right to bombard [users] with our corporate news and promotional entertainment every time they return to our website to collect their mail."

To sign up for the service, users should log onto the AccountingBC website at www.accountingbc.net or www.accountingbc.co.uk.

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BRIEFS

Christie in charge at institute

ANDREW Christie, professor of taxation at Heriot-Watt University, was installed as the new president of the Scots institute of chartered accountants at the body's annual meeting in Glasgow on Friday. The former Arthur Andersen partner succeeds Grenville Johnston, senior partner of the Highland firm WD Johnston & Carmichael.

Accounts not up to scratch

THE Institute of Chartered Accountants in England and Wales has reported a £600,000 deficit in its 2000 accounts. The 119,000-member body has warned that fees may have to rise by more than inflation in the next few years, although 2001's increase is limited to an inflation rise.

Watchdog role for Vallance

SIR Iain Vallance was appointed vice-chairman of the accounts watchdog the Financial Reporting Council (FRC) last week, the day before he announced his departure as chair of BT.

Three on board at Brodies

BRODIES has appointed three new partners. Joan Cradden joins the employment team, Nick Scott specialises in property investment and finance and Colin Moss advises Moss Bros and easyEverything on retail issues.

Research service launched online

THE legal publisher W Green launched its Scots law online legal research service, Westlaw UK Scots Law, last week. The service combined the content of W Green with Sweet & Maxwell's online platform, Westlaw UK.





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