



Tips for Finance

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Finance

When you set up a recruitment agency, there's more than just initial set-up costs to consider. There are a number of financial services you may need to ensure 100 per cent cash flow in your business, depending on the field of recruitment you go into.

In this section you will find guidance on the various aspects of finance you need to consider before your business gets off the ground.

Temp/Contracting or Perm?

Whether you're supplying temp/contract or permanent staff, each can bring different financial and logistical implications to your business. With permanent placements, you can earn your fee and move on to the next job without the worry of payroll.

Temp/contractors need to be paid each week and in most cases you will be paying them before you receive the money from your client. There are different options available as to how you pay your workers, such as:

Agency PAYE

You will be responsible for paying your candidates as well as employers National Insurance Contributions (NICs) and holiday pay. In addition, you have all of the employer's liability and associated risk. It is potentially the least beneficial option for a candidate as

they have to pay full tax and national insurance contributions on all of their earnings. It also doesn't allow the worker to claim tax relief on valid business expenses, which could help reduce tax and NI liabilities and increase their take home pay.

Taking on the payroll yourself means you'll need to balance the administration and compliance burden while also making time for business development. This is why choosing a finance and back office partner could be the perfect option, freeing you up to concentrate on finding clients and growing your business.

Umbrella PAYE

This is where the candidate becomes an employee of an Umbrella company allowing them to work on a series of assignments.

It means you don't have any employer's liabilities, including auto enrolment pension costs/administration, Employers NI, or holiday pay.

You are not responsible for providing employees' entitlements and benefits (e.g. Maternity, Paternity or Sick Pay). They may also be able to claim tax relief on certain expenses such as travel and subsistence (T&S) and are likely to receive an auto enrolment pension with employer's contributions from the Umbrella company.

Personal Service Company (PSC)

Alternatively, a candidate may wish to operate as a one-person limited company, known as a Personal Service Company (PSC). In this case, a PSC can seek the services of a third party intermediary for accounting, tax and book-keeping solutions.

Cash Flow

It doesn't matter whether you go down the route of temp/contracting or perm, cash flow is critical.

You need to consider how much work you can expect to put through your business in the first few months, and factor in delays around placements and payments. Securing a steady income is a priority for your fledgling agency so you need to be realistic about how and where the money will come from.

Fortunately, there are options available to agencies to overcome this hurdle, including invoice financing. A good financing provider will cover up to 100 percent of your temp invoicing, as well as your perm billing. This means that you will get the money before the client pays.

Dedicated recruitment financing businesses will work with you to reduce your risk, managing important processes including:

- Raising invoices on your behalf
- Applying for credit insurance to protect you against bad debt
- Credit control
- Chasing payment of your invoices to clients
- Making monthly returns required under the bad debt protection policy
- Paying PAYE/NIC direct to HMRC
- Supporting maintenance of a healthy cash flow.

Financing Options

Aside from personal savings, here are the self-financing options available with an overview of the benefits and drawbacks of each:

- **Bank loan:** It is common for financiers to look for some form of personal guarantee, especially for a start-up with no trading history or assets
- **Overdrafts:** Not great for lump sums but useful to aid cash flow
- **Unsecured loan:** Relatively easy to obtain, but difficult to get a large sum and not recommended to support longer term growth
- **Commercial lenders i.e. insurance companies and building societies:** Potential for lower interest rates and less restrictive, but subject to fewer regulations than banks and may also look for a Personal Guarantee
- **Credit cards:** Quick cash and no questions. However, like an unsecured loan, this option is not suitable for long term growth
- **Getting a mortgage or second mortgage:** Always approach with caution, but this can provide a ready source of capital nevertheless. Security is always required
- **Borrowing privately:** A good option if you have supportive family/friends. Private investors will want to see a return on investment though
- **Equity split with a partner:** Half the funding, but you'll need twice the spoils to share the same victory as going it alone.

Financing for Recruitment

Factoring

This and other forms of invoice finance allow recruitment agencies to get 'paid' earlier. In factoring, a recruitment agency can sell its invoices to a factoring company at a discount, before the end-customer has paid. This means that for a relatively modest fee, agencies can get immediate cash flow and do not have to worry about chasing invoices.

Invoice Discounting (ID)

This is effectively borrowing against unpaid invoices. The end results are similar to factoring, although invoice discounting is closer to 'pure' lending as, unlike a factoring facility, you retain responsibility for chasing payment and managing the sales ledger.

For many temp agencies, factoring/invoice discounting are essential tools. The key is to choose your finance partner carefully and ask yourself:

- Do they provide back office support in addition to funding?
- As your business grows, how well-placed are they to grow with you? Can their services scale from factoring and full back office right through to invoice discounting as you bring some of your financial support functions in-house?
- What is their experience in the recruitment sector? Do they understand the cash flow characteristics of employment businesses?
- Do they understand the compliance issues specific to the recruitment industry, that can impact on your finances?
- Do they have a transparent fee structure to allow you to forecast accurately?