Treasury policy in housing associations

The Housing Corporation release of Circular 01/07, Treasury Management by Housing Associations, is the culmination of the consultation process which started last year and to which the ACT contributed.

The policy restates basic expectations:

- that housing associations must have the skills, knowledge and experience, at both board and officer levels, as well as the systems and access to independent advice, which are necessary for identifying and managing the treasury risks to which they are exposed; and
- that they must use derivative instruments solely for the purposes of managing treasury risk.

The revised approach to treasury management by housing associations continues progress to a full risk-based approach to regulation, giving the associations the freedom – within the parameters of the regulatory framework – to run their businesses and manage risks as they see fit. ■

Late payers 'biggest threat' to businesses

Late payment of invoices is costing the UK economy up to £20bn a year, according to the latest research.

A survey conducted by the Credit Management Research Centre revealed that just over a third of companies responding considered late payment to be the biggest threat to their business.

The survey followed The Treasurers' Conference, where delegates said liquidity management was the biggest risk they faced.

Mark Flower, Managing Director of trading register Prompt Payer, which commissioned the survey, said: "Late payment affects every company, harming reputation and damaging business relationships."

This is borne out by the research findings, which indicated that a quarter of all insolvencies resulted from late payment of invoices.

The research revealed that only 21% of businesses used statutory penalties to enforce payment. The Late Payment Act 1998, which gave businesses the right to claim interest on late payments, seems to have done little to improve the situation.

The most common reasons for late payment are intentional delays on the part of the payer (35%), cashflow difficulties (23%) and administrative inefficiency (17%), according to European Commission research. ■

Trustees ignore pensions trigger

At least 30% of pension schemes are prepared to set funding targets below the 'trigger' levels set out by the Pensions Regulator under the statutory funding objective (SFO) regime, according to a survey by Mercer Human Resource Consulting.

Mercer's SFO valuations survey studied 230 UK pension schemes across a variety of industry sectors and analysed the policies adopted following the introduction of the regime

Tim Keogh: 60% of schemes could be affected

in December 2005, and some of the governance issues arising.

The SFO requires trustees to set scheme-specific funding targets. While no specific figures have been laid down for the appropriate level of target, the Pensions Regulator has set 'trigger points', below which a scheme's approach may be subject to additional investigation.

Tim Keogh, Worldwide Partner at Mercer, said: "The data shows that at least 30% of trustee bodies are prepared to 'trigger' and take their chances with the regulatory follow-up. The actual total of triggering cases could be as high as 60%, though we don't know the exact figure as the full trigger formula has not been made public."

At the time of the study, 49 of the cases surveyed had presented plans to the regulator for assessment. The regulator had told 23% of the 49 that it would not intervene, but challenged 20% to justify their approach, although this did not mean they had to change it. The remaining 57% had received no response at all from the regulator.

Keogh said: "We have been surprised at the lack of response over several months on some cases. However, where there has been pushback it has been in line with expectations. Generally, trustees have been asked to justify their position rather than having their plans rejected out of hand."

Recovery plans – the name given to policies adopted to increase the assets in schemes with a deficit – are becoming shorter. Currently, 94% of schemes plan to achieve their new funding target in 10 years or less, compared with only 38% two years ago. 10% plan to settle the deficits almost immediately through extra contributions.

The survey revealed that schemes had increased their funding targets by 8% on average over the last two years, primarily to meet increased longevity expectations.

Mercer said that pension funds no longer assumed a standard longevity for their membership. Three-quarters of schemes assume a life expectancy for a male pensioner aged 65 of between 19.7 and 21.8 years, but the difference between the top and bottom of this range is equivalent to increasing a typical scheme's funding by around 8%.

Keogh said: "Schemes continue to respond to the external evidence of demographic change, the significant impact of which explains the enthusiasm of the regulator to scrutinise their approach in this area."

ACT and Mercer are conducting a survey on managing pension financial risk. See www.treasurers.org ■

Government warned over gold-plating liability regime

The ACT has told the government there is no overall requirement to extend or 'gold-plate' the current liability regime for issuer misstatements.

The ACT was responding to the government review of issuers' liability for false or misleading statements being carried out by Paul Davies (see *The Treasurer*, May, page 10).

The intention of any disclosure regime should not be to place the regulatory requirements for senior markets on companies resourced to manage junior market disclosures, where they could be considered burdensome. It would be counterproductive, the ACT argued, if fears over liability prompted a reduction in information flow.

In the event of a move towards extending liability, the ACT strongly argued that any such extension for corporate statements should be appropriate to the market investors to whom they are directed.

A 'one size fits all' approach should not become the prevailing position. In the same way as there are clear differences in the general requirements for listing between regulated and unregulated markets, the ACT hopes to see proportionate treatment in respect of company disclosures. ■

Pension schemes forecast to be in surplus by 2010

Employers are in danger of contributing too much to pension schemes and creating future disputes with scheme members over the application of surpluses, according to Aon Consulting, a leading pension, benefits and HR consulting firm.

The latest combined FRS 17 deficit across the 200 largest pension schemes in the UK was £26bn at the end of March, while the figure for the FTSE 100 was £19bn. However, projecting the figures forward revealed there was a 61% chance that UK pension schemes would have a combined surplus within only three years, and an 84% chance of a combined surplus within 10 years.

Paul McGlone, Head of Employer Advice at Aon Consulting, said: "The likelihood of future surplus for each employer is very different and is dependent not just on the current deficit but on the investment and contribution strategy being pursued.

"A new problem starting to emerge is that of an unrecognisable accounting surplus. With an estimated 80% of UK pension schemes now closed to new members, and up to 15% closed to future accrual, the opportunity to recover surplus can be limited."

Aon Consulting forecasted that the largest 200 UK pension schemes were likely to show an aggregate surplus in 2010, rather than a deficit.

"This is great news for pension scheme sponsors in the UK," McGlone said. "It shows that deficits are once again expected to resolve themselves without the need for additional action. However, companies need to consider more innovative ways than cash contributions for funding pension schemes." ■

On the move...

- **James Adams**, AMCT, has been promoted from Group Accountant to Treasury Dealer at Tesco.
- **Janusz Diemko**, AMCT, has been appointed CEO – President of the Board at Polcard (Poland's largest POS acquirer and ATM/card outsourcing company). Previously he was at Euronet Worldwide as Director for Mergers and Acquisitions EMEA.
- **Nicholas Luff**, MCT, has been appointed Group Finance Director at Centrica. Previously he was Chief Financial Officer at the Peninsular & Oriental Steam Navigation Company.
- **Adrian Maconick**, AMCT, has joined Finsbury Solutions, the provider of spreadsheet control systems, as Managing Director. Previously he was a Partner at Atos Consulting.
- **Stuart Nelson**, AMCT, previously Assistant Group Treasurer at Electrocomponents, has joined Centrica as Treasury Accountant.
- **Janine Peake**, FCT, has joined Intermediate Capital Group as Head of Investor Relations. Previously she was Managing Director at New Grafton Gallery.
- **Olga Polozhenko**, AMCT, has been appointed Treasury Controller at BAA. She was formerly Manager Treasury Accounting at Ahold Finance Company.
- **Leo Porter**, AMCT, previously Associate Director at Royal Bank of Scotland, has joined Ambac Assurance UK.
- **Scott Wadlow**, AMCT, previously Liquidity Manager at Lehman Brothers, has joined Barclays Capital as Global Head of Asset and Liability Management.

MEMBERS' DIRECTORY

*Members' contact details are updated regularly at **www.treasurers.org** Email your changes to Zoe Norris **znorris@treasurers.org***

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Small business welcomes speedier EU payments

The Forum of Private Business (FPB) has welcomed the landmark vote from the European Parliament that will speed up the process of making cross-border payments in the internal market, making life significantly easier for small UK businesses trading in the EU.

"An estimated 40% of business insolvencies are caused by late payment," said the FPB's EU spokesman, Martin Smith. "While this Directive does not explicitly address debtors who don't pay up, what it does do is speed up the receipt of the money when they do pay up, and also takes away a potential excuse foreign debtors may use for not paying. They will no longer be able to claim that they have sent the money and it is stuck in the system."

EU member states have until December 2009 to enact the Directive into national legislation and the European Commission will hold them accountable to keeping to deadline.

Smith said: "The implementation of Directives is always key, and something that the Commission often forgets once it finally gets a proposal through."

See Technical Update, page 6. ■

Final call for survey

Treasurers have just a few days to complete the 2007 ACT/Mercer survey on managing pension risk. Although pleased with the level of response so far, the ACT would encourage more treasurers to complete the survey to ensure as full a picture as possible.

The survey takes only a few minutes to complete. Go to www.treasurers.org to fill it in online. ■

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