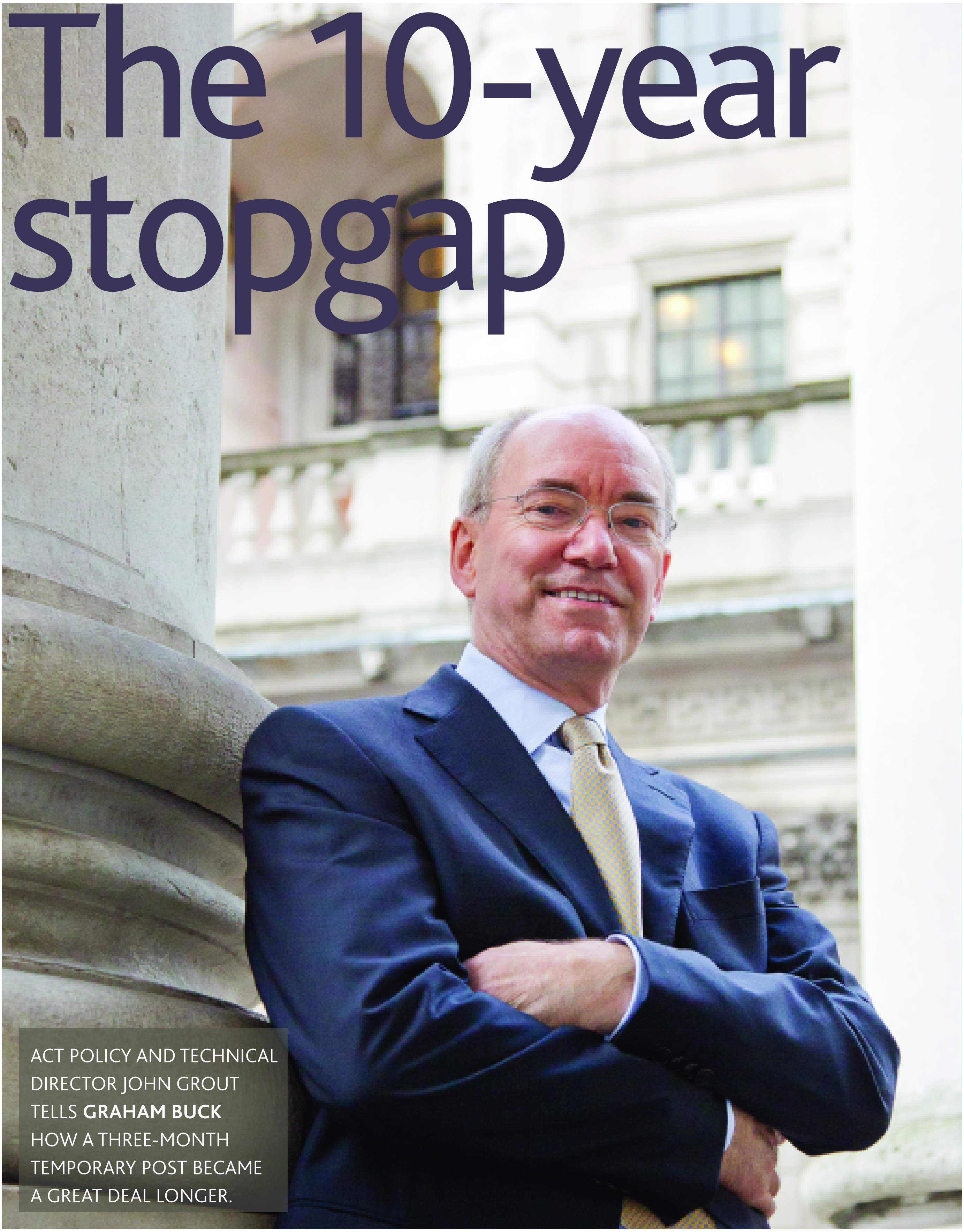

The 10-year stopgap

ACT POLICY AND TECHNICAL DIRECTOR JOHN GROUT TELLS **GRAHAM BUCK** HOW A THREE-MONTH TEMPORARY POST BECAME A GREAT DEAL LONGER.

Despite fully intending to enjoy a well-earned retirement at the end of the 1990s and spend more time with his young son, John Grout just couldn't resist a 2002 invitation from the ACT. The chief executive at the time, Richard Raeburn, wanted him to take on an unpaid three-month "one-off" assignment preparing a submission to a government inquiry after the ACT had lost its policy and technical people.

"I agreed, and it quickly became clear that regulatory changes such as the Financial Services Action Plan from Brussels meant that we needed a new team," recalls Grout, who has been the ACT's part-time policy and technical director for a decade now. He describes his role as "a tremendous privilege", particularly at a time of economic volatility. "We meet with and talk to many treasurers, which enables us to synthesise their views," he says. "This proved particularly valuable to the authorities in the early days of the financial crisis."

He says the ACT has made important contributions to the crisis response, adding: "Often we've only been able to improve things to merely unacceptable as opposed to completely disastrous."

In contributing to legislation and regulation, the ACT usually deals with public servants rather than government ministers. This becomes "fantastically difficult" when proposals emanate from Brussels or the G20 rather than Westminster. Grout believes that MEPs and politicians generally have little business experience and even less real understanding of how wholesale financial markets work.

"The ACT works closely with the European Association of Corporate Treasurers in getting our message through to Brussels. We have the advantage of not representing the banking sector, but are UK-based – and of course everyone supposedly knows that Anglo-Saxon business culture is the root cause of the crisis."

In a recent blog on the ACT website he lamented the UK's effective marginalisation when policy for the European single market is being decided. "It's fortunate that the EACT flies the flag on behalf of treasurers throughout Europe and does such a great job," he says.

Regulation rarely appeared on the ACT radar until the mid-1980s, with the Financial Services Bill looking to control the industry by a mix of outside regulation and self-regulation. The ACT was represented by Grout and Redland treasurer Gareth Jones at a meeting with Michael Howard, then a trade minister at the DTI.

"Our message to him was that he had a major problem with the Bill, which would effectively bring UK commerce and industry to a halt," says Grout. Howard was convinced enough to ask Grout to work with civil servants to resolve the issues raised before the legislation was finally enacted.

In this same period, the ACT met with HM Treasury's permanent secretary Peter Middleton, who was concerned that the accelerating corporate use of bills of exchange meant that the Bank of England risked losing control of the money supply. "We explained how and why the bill mountain was growing and suggested how it could be stopped – to companies' disadvantage," says Grout. "The BoE promptly reversed its actions and the bill mountain dissolved."

Offered a quid pro quo by Middleton for what companies had lost out on, the ACT suggested legitimising the sterling commercial paper (CP) market. After initial BoE, opposition, the recommendation was adopted. The new market got under way in May 1986, less than six months before the "Big Bang" deregulation of the City.

"The Financial Services Act and the creation of the sterling CP market were my first experiences as a working treasurer of ACT policy matters," Grout remarks.

In the interim period, he also served as ACT Council chairman in 1991 and 1992. "It was a time of great penury," he recalls. "It was quite a task with Gerry Leahy, then director general, persuading Council not to pull the plug on the association."

LIFE BEFORE THE ACT Grout's career outside the ACT spanned car maker British Leyland (BL), cables and construction group BICC (now Balfour Beatty) and Cadbury Schweppes. After university at the start of the 1970s he joined BL. After Rolls-Royce had failed and been nationalised in 1971, it soon became evident that BL was also in trouble and part government rescue followed four years later.

Despite BL's problems, Grout looks back fondly on his time there: "I was working alongside the most talented finance people, whom I still meet up with. I finished up as BL's deputy treasurer. By 1973 I had established an international treasury centre in Lausanne, Switzerland – a concentration centre for the non-UK operations and UK exports as we were still in an era of exchange controls."

After 12 years at BL he moved to BICC in 1982 as director of treasury, responsible for tax, treasury and corporate finance – including mergers and acquisitions, disposals and contract risk management. Among his team members was Stuart Siddall, later to become AMEC's FD and, until earlier this year, ACT chief executive.

Next stop, in 1987, was Cadbury Schweppes as director of treasury, overseeing treasury, tax, corporate finance, including all project

review, capital and revenue, M&As and long-term plans, and later picking up property and insurance. "I'd been recruited as part of a plan to double the size of the company through acquisition ultimately, to pave the way for it to double again," he says.

In 1993 Grout moved from group treasury to become FD of the global confectionery business. Cadbury was contemplating a move into Eastern Europe, with manufacturing in Poland and Russia, and had China in its sights as well as expanding existing businesses.

"The moves were all about long-term planning, maximising real options," Grout says. "I've always believed in the importance of long-term planning. Treasury needs to be at the heart of planning, so plans and risks are accommodated on the balance sheet."

Long-term planning still guides Grout today in his private role as a small business angel to new companies. He observes that start-ups first approach "family, friends and fools" as potential investors, before moving on to small business angels. "The difference between companies with treasurers and early-stage companies is that the latter's value resides entirely in the real options. Such a firm's assets are nearly all for research and development and don't represent a commercial proposition. There are no sales. I tend to invest in hi-tech and biotech. The timescale from putting money in to any possible realisation ranges from three years to a decade or more."

He readily admits that for every 10 investments perhaps four will fail and lose his money entirely, four will produce no more than modest returns, and one or two may flourish, paying for the rest if he's lucky.

"If we decide not to invest in a new firm it's often not that we lack sufficient faith in the project but in the people. That can mean delivering a tough message: the idea is good but you're only ready to invest if they themselves step out of the project."

As for ACT policy, Grout says that is determined by a process of evolution: "We always attempt to tell it how it is."

The association gave a cautious welcome to the recent Vickers Report but still has "major concerns" over some proposals and Grout recently attended the House of Commons to offer evidence.

"Major concerns are the ability of retail banks to sell bail-in bonds and to hold wholesale deposits. If there is any question over a bank, wholesale money will go out. So while the purpose of the exercise is to prevent bank runs, they remain a very real prospect. Nonetheless it is a better report than many of us expected, given the circumstances."

He adds that feedback from treasurers that the ACT passed on to the authorities when the financial crisis was at its height in 2007–08 was gained not just through face-to-face meetings and phone calls, but also through the ACT online service that members can use to submit questions.

"Although the ACT doesn't offer advice we can provide generic answers," he says. "This is part of the policy and technical team's work, and totally confidential. Another great aspect of the job is the various committees we sit on. My favourite committee is the FSA's market abuse practitioners' group, which, as the name suggests, considers abuse of the system.

"An important part of the ACT's work is in keeping company and financial services regulation congenial for treasurers, helping to give effect to BoE director Andy Haldane's plea at October's Wincott memorial lecture "to start regulating as though the real economy matters".

Graham Buck is a reporter on The Treasurer.
editor@treasurers.org

Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR COLLEAGUES? Well, are you sure about that? The academic evidence is...

WORDS YOU MOST OFTEN SAY TO YOUR TEAM? That's interesting. Thanks.

DOUBLE DIP AHEAD? Medium term, no; long term, yes.

ADVICE FOR TREASURERS? Fund early and fund long.

DEBT OR EQUITY? Much more equity than in the past.

FIXED OR FLOATING? Floating in the short-to-medium term, fixed long term.

BIGGEST SUCCESS? Selling a business worth -$150m for +$400m.

PROUDEST ACHIEVEMENT? Recruiting bright people and seeing them prosper.

MOST VALUABLE PART OF ACT MEMBERSHIP? Early on, qualification; later, the network.

WHY ATTEND ACT EVENTS? Networking (and updating).

EVER-PRESENT GADGET? Samsung Galaxy Tab tablet PC.