Bank building

DAVID STEBBINGS EXPLAINS THE GOALS, CHALLENGES AND BENEFITS FOR TAQA, ABU DHABI'S NATIONAL ENERGY CHAMPION, IN THE SETTING UP OF A CENTRAL TREASURY FUNCTION WHICH INCLUDED AN IN-HOUSE BANK AND PAYMENT FACTORY.

Set up in 2005, TAQA is now one of the largest companies listed on the Abu Dhabi Securities Exchange and satisfies more than 95% of the Emirate of Abu Dhabi's electricity and water needs. The company, in which the Abu Dhabi government holds a majority stake, has built up a substantial portfolio of upstream, midstream and power and water assets worth over $28bn as at 30 September 2010. TAQA has a workforce of over 2,800 and operations in numerous locations around the world, including the UK, Netherlands, US, Canada, Morocco, India and Ghana, as well as the United Arab Emirates.

In 2007 as a result of its acquisitions TAQA was facing a number of treasury challenges. The decentralised treasury organisation meant there was a lack of clear visibility of cash and risk and the debt programme placed high demand on the limited treasury resources. With further expansion planned the company realised it needed new treasury systems and processes to manage its cash, debt and financial risks to the standard required.

In late 2007, PwC was engaged to help develop a best-in-class Global Treasury Centre with TAQA to provide "multi bank, multi asset data aggregation, analytic reporting, and state of the art treasury workflow tools". Given the desire to increase central oversight this resulted in significant change to treasury, cash, banking and payment practices; a centralised treasury vehicle was set up, incorporating an in-house bank and a central payment factory. The assignment drew on the treasury and finance skills of an international PwC team.

PROJECT PHASES The project involved three key phases. The first, lasting three months, focused on developing a "blueprint" for the desired treasury operations such that management could be sure it supported the business objectives. This set out:

- the business context;
- a summary of the key risk and existing practices; and
- the key operating principles and recommended treasury framework including:
  - governance and key treasury policies;
  - the organisation framework;
  - systems standards and architecture;
  - banking and cash management design;
  - management information, reporting and KPIs; and
  - key processes and controls.

Once this was approved by TAQA phase two involved the detailed design and the selection of TAQA's preferred banking partners (to replace the numerous banks previously working with group businesses around the world) and its preferred treasury management and banking systems. This six-month phase also saw the development of draft treasury policy and process guidelines, reporting and forecasting formats, organisation plans and control documentation.

The final, third phase, which began in late 2008, saw the implementation of the final banking and treasury structures and treasury systems completing in late 2009.

One of TAQA's key requirements was a scalable centralised treasury management approach in line with the overall business model that could easily absorb new businesses as and when they were acquired. Hence, a key decision in phase two concerned the location of the Global Treasury Centre. While based in Abu Dhabi, TAQA has significant operations around the world, but particularly in Canada. Given the time difference between these two key locations, centralising the expert treasury function midway between them was a logical move. PwC helped TAQA to assess its options, with Amsterdam initially emerging as the preferred choice given that TAQA already had an office there. However, following the completion of the project changing business priorities has meant that the central treasury team has been relocated to Abu Dhabi and Canada, although the robustness of the process set up led to a very smooth transition.

For most organisations, the choice treasury location almost always involves some compromise. A variety of factors needs to be considered, including the regulatory, tax and business environments, internal factors (including availability of sufficient office space), infrastructure and software support, set up costs, and the availability of personnel with appropriate expertise.

IN-HOUSE BANK IMPACT For all businesses over which TAQA has full ownership and control, the group's in-house bank performs numerous activities:

- all foreign exchange (FX) and soon commodity contracts, as required;
- pooling and management of all surplus cash with a daily sweep of cash balances to optimise returns and reduce financing costs;
- checking that treasury policies are approved and operational;
- management of all external and inter-company debt;
- management of in-house and external bank accounts;
- treasury and financial instrument accounting;
- reporting including a monthly pack for the treasury committee; and
- cash forecasting.

The establishment of the in-house bank has achieved numerous efficiency benefits. For example, the implementation of global cash pooling has generated a saving between borrowing costs and deposit returns, and improved returns on cash assets. The centralised treasury team can also achieve improved pricing on financial instruments owing to the higher volume of transactions.

The availability of consolidated information has led to improved cash and exposure forecasting, generating improved returns on daily cash management and improved long-term forecasts for risk management. Consolidated information also facilitates improved bank relationship management. Finally, the fact that treasury transactions are handled in one location results in reduced errors and associated costs.

While efficiency improvements are valuable and important, a key driver behind TAQA centralising its treasury function and creating an in-house bank was the desire to increase control and oversight over treasury and cash activities. This rationale has increased in importance for TAQA as it has for many organisations, given the financial crisis and recent uncertain economic climate.

For TAQA, greater oversight has been achieved in various ways. For example, the consistent application of treasury policies, reporting and processes across all wholly owned businesses greatly facilitates the effective management of counterparty, FX and commodity risk, as well as banking, cash and interest rate risk. All the group's treasury-related instruments are held on one system, which enables greater control and the ability to account for and report on these instruments effectively. Uniting a highly qualified team in a single treasury centre of excellence creates a critical mass of experts and allows for the appropriate segregation of duties. The centralisation of information also facilitates reporting under International Financial Reporting Standards and meeting treasury internal control requirements.

The in-house bank is also scalable. New businesses can be brought into the treasury framework quickly, so maximising control and integration benefits.

PAYMENT FACTORY A key element of TAQA's treasury vision was the creation of a payment factory for all group commercial payments within the Global Treasury Centre. While group companies still approve purchases and invoices for payment, all payments are then channelled through the central treasury. Payments for sums greater than a certain amount or not meeting certain criteria must pass through an additional central approval and release process.

The payment factory has generated significant control benefits for TAQA. The common delegation of authority has enabled greater centralised visibility and control over all commercial payments for group businesses. Control is also enhanced by the use of standardised payment systems, interfaces and processes, with all payments made via a single brand of carefully selected payment software. Fewer manual processes are required to make payments and perform reconciliations and associated accounting.

There are efficiency savings too. By rationalising its banking for all wholly-owned businesses, TAQA has been able to reduce bank fees. This has also meant a reduced number of bank payment system interfaces, and hence fewer payment errors. The new set up makes significantly less use of cheques in Canada and the US and greater use of lower cost automated payments.

The centralised payment factory also enables a more efficient approach to cross border payments – in essence, there are now fewer external (and hence expensive) cross border payments and greater use of inter-group payments. If a group business in the UK needs to pay a supplier in the US, the payment factory can ensure this is done via a group business in the US, with the appropriate intra-group account entry made.

CENTRALISATION CHALLENGES When setting up a global treasury centre certain limitations may be imposed by regulatory or tax restrictions in the countries in which the business operates as was the case with TAQA. There were also technical challenges to be overcome, particularly the need to address different payment methods and formats, timing differences, banking structures and cash management practices in different countries. Configuring the central payment system to satisfy all formats can be a complex process. A further challenge involves the actual transfer of processes and activities to a central function both from a pure logistical, cost and time spent point of view and because established functions in group businesses may have a reduced focus as aspects of their formal role, such as managing bank relationships, will be lost.

While these challenges should not be underestimated, the potential benefits that arise from a centralised treasury framework are substantial particularly in an era when cash is king and financial risk is back on the board agenda. Cost savings can be achieved in interest and banking costs which for TAQA were substantial. However, for TAQA, the key driver was the desire for greater control and visibility over group cash and financial risk, and this was achieved.

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