

Starting from scratch

NAV BATISH TELLS **GRAHAM BUCK** HOW HE SPEARHEADED A TWO-MONTH PROJECT TO SET UP A TREASURY DEPARTMENT AT UK POWER NETWORKS, A MAJOR PLAYER IN THE ELECTRICITY SECTOR.

With more than eight million customers in London, the south-east and the east of England, UK Power Networks is the UK's largest distributor of electricity. The group owns and operates a vast network of cables, pylons, power lines and more than 130,000 substations. Yet a year ago it did not exist.

UK Power Networks was formed just eight months ago, following a £5.8bn deal that was finally concluded last summer. French power group EDF agreed to sell off its UK networks business as part of a planned greater focus on nuclear power. The buyer was a consortium headed by Hong Kong tycoon Li Ka-Shing, whose investment vehicle Cheung Kong Infrastructure Holdings (CKI) already owns and operates electricity distribution businesses in Hong Kong, Australia and New Zealand.

The agreement was announced to the world on 30 July. As the company taking over the EDF networks business, UK Power Networks was scheduled to come into existence just three months later, on 29 October 2010. This was already a tight deadline, yet initially little action was taken towards setting up a treasury division for the entity.

This led to senior treasury professional Nav Batish being parachuted in at the start of September 2010 to set up a new treasury function (which included the forming and training of a new team) in less than two months.

The networks business formed part of EDF Energy, which had a centralised treasury team of seven full-time staff. With two members based in Scotland and the remainder in central London, they handled all areas of the group's business. The task of replicating their operation was made harder by an agreement that none of these individuals would be migrating across to the new company.

Batish, now the owner of and a consultant for NAS Finance, already had experience of working with a number of major names, including a two-year stint at Bank of America Merrill Lynch as senior vice president during the crisis period of 2007 to 2009. However, he describes this most recent project, acting as a freelance independent, as one of his most fascinating and challenging to date.

In addition to having to recruit a new team, Batish learned that the treasury management at the new company would have to replicate each system and process employed by EDF for all its activities.

"EDF Energy had a treasury function that had been developed over a number of years, had excellent automated end-to-end team processes, including highly centralised payment processes, and employed all of the latest technology including SunGard's Integrity, WebSeries, Commidea and FXall," says Batish. "A timeframe of less

than two months didn't allow for a full assessment of the business to be conducted, although on my first day in the new job we held a forum that included company representatives, external vendors,



stakeholders and bankers. As the plans for the new business were outlined, it began to dawn on me just how enormous the task that I'd undertaken actually was."

UNSHIFTABLE DEADLINE Perhaps the most daunting aspect was that the deadline for completion of 29 October was set in stone and couldn't be put back. By that date the new company's treasury team had to have new systems, policies and controls in place, which all had to be set up, tested and integrated over nine weeks.

The first fortnight was not helped by the temporary absence or unavailability of key members from EDF's treasury team. However, Batish commenced work and his first moves included fact-finding and project planning, liaising with a team of dedicated IT consultants on the systems and with Ernst & Young on issues of corporate governance. He also recruited two accountants to the new team; neither had any previous experience of treasury but both were still able to provide some valuable assistance.

"Although this was first and foremost a treasury separation and start-up project, the sheer amount and complexity of systems set up meant that it was crucial to get EDF's IT team fully aligned to the tasks from the outset," recalls Batish. "Decisions had to be made quickly in what was a challenging and stressful assignment, with individual parts of the overall project each having their own deadline to meet, such as setting up and integrating SunGard Integrity. I felt a little like the spider at the centre of this intricate web, providing my experience of treasury."

A steering committee was set up, headed by senior personnel and with the finance director wielding ultimate control. Batish communicated back on how the project was progressing, enabling any problems to be addressed at any early stage, escalated if necessary and rapidly fixed.

"Good teamwork, coupled with a sense of urgency, was also a vital factor," he says. "The bureaucracy so often found in a big organisation had to be shortcircuited if the 29 October deadline was to be met. The chief executive stressed that establishing a fully operational treasury function for UK Power Networks in time was a crucial project."

There was, however, a contingency plan ready should the worst happen: EDF's treasury team would then continue providing services for the new company on an outsourced basis. "However, I was determined that the new treasury department would be in place and ready to function by the due date, and the fallback wouldn't be needed, especially as there was no question of extending the deadline," says Batish.

But doing so involved a demanding schedule, with a typical working day commencing at 7am and extending through to 10pm. "Weekend working was also vital, but fortunately my previous work with the bank had accustomed me to long hours," adds Batish.

TICKING OFF THE TASKS As the October deadline approached, other time-consuming tasks such as putting in place notional cash pools, setting up electronic banking systems, bank mandates, BAC's software and automated cheque printing were accomplished. EDF's

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system was able to provide some of the interfaces, as well as static data.

"Getting stakeholders on board was also vital, particularly as some were sceptical as to whether the project could be completed in time," explains Batish. "And as the new company UK Power Networks didn't yet exist, an interim company had been set up for legal agreements, but we still had to tackle problems such as executing

bank documents and achieving bank recognition for the new company in the period before it came into existence. Fortunately I had some previous insight into how banks work.

"EDF's main bank was HSBC and around 45 bank accounts were due to come under the new ownership, requiring new cash pooling arrangements to be set up before the new company came into being."

Batish reports that elements of P2P (purchase/procure to pay) were to be embedded within the new treasury activities, enabling great control over all types of outgoing payments. This was achieved by implementing Bottomline Technologies' WebSeries product, which gave treasury control over 95% of the payments going out from the company. WebSeries was integrated with SAP enterprise software, providing efficiencies and control, and proved to be a significant piece of the overall treasury setup.

Meanwhile, the IT commitments team carried out operational testing, and the treasury team conducted user acceptance testing. As Batish observes, this could have taken months in different circumstances but "as time was a luxury we didn't have" was confined to two weeks and limited to devising various potential scenarios and deciding how the new team would operate once UK Power Networks began operating.

"As it transpired, we were actually ready to go with time to spare," he reports. "Day one went extremely smoothly and to plan; any glitches experienced once we started trading were only minor. So there was a brief period of calm just before we went live – and immediately the new company was up and running it all went crazy again. There were, for example, more than 100 new interest rate swaps – including index-linked – that had to be transacted, confirmed and accounted for, with all the associated hedge effectiveness testing and hedge accounting.

"Documents and facilities that had been set up in the name of 'Interim Company' had to be updated to refer to 'UK Power Networks'. ISDAs [International Swaps and Derivatives Association standardised contracts] needed to be agreed, and various other activities, as dictated by a number of loan and pension agreements, also required transacting."

ON SCHEDULE UK Power Networks began operating as planned from 1 November and was promptly downgraded by the ratings agencies during its first week – a response that had been anticipated due to the change of ownership.

The new team, consisting of Batish as head of treasury with three individuals under him, switched their efforts from start-up to management. They had to implement effective segregation of duties, processes and procedures, and did so by means of "a great deal of teamwork and communication".

operations and controls

CASE STUDY



"As none of the individuals, who were recruited from within the organisation, had any previous treasury experience I'm proud that I could train them so that the dealer was ready to do deals and

manage cash from the outset and the treasury accountant and back office were similarly equipped. The activities were all very well managed from the start, although I do wonder whether, because they didn't have this knowledge initially, I was the only one who fully appreciated the scale of the challenge at the outset."

However, Batish agrees that completing a similar project back in 2008, when the financial crisis was at its worst, would have been far harder. Two years on, calmer market conditions were a distinct advantage and made the financing of the deal easier.

He remained with the new company until the end of March this year, after a permanent new head of treasury, Mike Hirst, joined the group from Lonmin, enabling Batish to step down and enjoy a well-deserved break.

"I was able to prove that it was possible to set up a new treasury from scratch in under two months," he concludes. "Although I wouldn't necessarily recommend taking on a similar project to anyone else. It's definitely not good for stress levels, but on reflection also immensely rewarding with a great sense of achievement."

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