A magical evening

The Gala Dinner of the ACT Annual Conference was held this year at the beautiful Prestonfield House Hotel in Edinburgh. The evening took place in an impressive marquee where guests enjoyed a champagne reception and some serious networking before the spectacular dinner.

After-dinner speaker, former Liverpool and Scotland footballer Alan Hansen, proved himself just as adept in front of an audience as he had been on the field. He regaled guests with tales from the glory days of Liverpool, including insights into some of the characters who occupied the Anfield dressing room.

All in all, a memorable night.

Playing the blame game

BROADCASTER AND NEWSPAPER EDITOR **ANDREW NEIL** GRILLED THE FINANCIAL EXPERTS AT THE ACT'S ANNUAL CONFERENCE IN EDINBURGH.

Known for his no-nonsense, straight-to-the-point and sometimes brutal manner, Andrew Neil, CEO of Press Holdings Media and Chairman of ITP and BBC Broadcaster, turned up the heat at a debate which allowed the audience at the ACT Annual Conference to ask a panel of experts what their thoughts were on the movements of the economy.

On the panel was Sahar Hashemi, entrepreneur and co-founder of Coffee Republic; Angela Knight CEO of the British Bankers' Association; Chris Skinner, Chairman of the Financial Services Club; Robert Waugh, Head of UK Equities, Scottish Widows; and Trevor Williams, Chief Economist for Lloyds TSB.

When asked whether businesses were prepared for stagflation, the panel gave a mixed response.

Williams believed that the economy was "a long way from stagflation", but Knight disagreed. "Stagflation does stalk the corridors," she said, "but industry is doing well and there will be enough finance available to fund corporate growth. The big surprise will be globalisation as services are put into other countries and taken out of the UK, which will keep our inflation down."

Another question from the audience was how the growth in the Middle East and Asia would affect the US and UK economies.

"Developing countries will pick up growth," Knight said, "but it is a question of political stability, and whether the growth in the developing countries will be able to withstand developed nations' slowdown."

Waugh, on the other hand, thought that US growth would be less than 1%, and down by 0.2% in developing countries.

The debate hotted up when the credit crunch became the topic. During the question time, Neil pointed out that at the 2007 Annual Conference only 4% of treasurers had predicted that the credit crunch bubble would burst.

Chris Skinner of the Financial Services Club asked: "Why should we have confidence in the banks?" He added that some banks were more exposed than others.

This was followed by another controversial question asking whom banks could blame for the current mess other than themselves.

"Banks take a lot of responsibility but so too should the government," Knight answered.

"Banks can take a lot of the blame but there are others," said Williams. "The US interest rate was cut because of a crisis and therefore a new model was developed in the banking sector. The risks should have been known."

The question time concluded with reference to the current financial market turmoil and how it had affected the equities market.

Waugh said that there was no disconnect between the two markets even though the equity firms in the FTSE 100 gave the impression that the equity market hadn't been hit hard. "Only one-third of the equity market has been doing well," Waugh pointed out. "In the last 10 years equity returns have halved."

Hashemi added: "As an entrepreneur, I have to be optimistic. We mustn't allow the panic to set in and talk ourselves into financial turmoil."

Williams ended the question session a happier note, saying: "The good news is that we should see some growth soon. We just need to rebalance the economy." ■

How C&W reinvigorated cash management performance

A new era of greater financial volatility has seen corporates turn their focus back to cash performance.

That was the message of Roger Burge, Director of Treasury and Corporate Finance at telecoms group Cable & Wireless, at the ACT Annual Conference. The return to this traditional strategy has also provided treasurers with the opportunity to go out and manage.

C&W has a £3.5bn market capitalisation, revenues for 2007 of £3.3bn and EBITDA of £492m. The parent group, C&W, has two main business units: International and Europe, Asia and US (EAU).

One of the group's main weaknesses in recent years is that its working capital hasn't always been as tightly managed as it could be and cash conversion of earnings has been weak in the EAU business unit. C&W's Chairman, Richard Lapthorne, has devised a long-term incentive plan to address the situation, and improve the performance of the EAU businesses.

Poor working capital performance is an indicator of poor business performance, so improving both is a prerequisite for securing any upgrades from the ratings agencies.

For a telecoms group, failure to relieve working capital pressure can trigger a vicious cycle, with dissatisfied customers providing fewer new orders so that revenue diminishes even further and operating cashflow diminishes.

The main constituents of strong cash conversion are:

- accurate order capture;
- rapid order processing;
- rapid service provisioning;
- timely and accurate billing; and
- timely and efficient collection.

How then is C&W driving cash performance? Burge said the group's "secret weapon" was its long-term incentive plan, based on quick wins as well as longer-term opportunities.

Under Lapthorne, C&W has introduced a private equity-style scheme designed to drive financial performance. Employees are incentivised by cash targets, with management allocating a cash pool equal to 10% of equity market value creation. Cash forecasting had once more become important, Burge said.

Each of C&W's businesses has a notional balance sheet, with debt to be serviced before the equity return is calculated.

To deter all unnecessary spending, the EAU businesses are charged at 15% annually for all cash used to finance the turnaround.

C&W'S TOP TIPS FOR SUCCESS

- The project sponsor should be the chief executive, not the chief financial officer.
- Ensure that incentives are aligned to deliver better cash performance.
- Cash needs to matter to the whole executive committee, not just to finance.
- Link sales bonuses to cash receipts, not just revenue.
- Set operations/billing targets to improve cash performance.
- Motivate collections staff to chase the difficult bills.
- Use existing agreed performance measures.
- Undertake project management and progress monitoring.
- A transversal company project needs a good internal project manager.
- Progress should be reviewed on a monthly basis by the chief executive.
- A baseline cash budget is needed to measure progress against.
- The reported impact of improvements should be validated by finance.

With its employees once more motivated to push financial performance, C&W has also put into operation its working capital action plan, which has six main constituent parts:

- a bottom-up health check of the cash cycle;
- identifying and quantifying opportunities;
- prioritising by value-added and deliverability;
- agreeing between five and 10 actions with the Chief Executive, assigning responsibility and delivery dates;
- building into the cash budgeting process; and
- the Chief Executive reviews progress each month.

Burge said that C&W's turnaround programme still had some way to go, but had undoubtedly achieved results. The long-term incentive plan had "fundamentally changed behaviour" and cash now mattered, he said.

Cash forecasting for the EAU business has dramatically improved and working capital is now actively managed, while the group's international cash repatriation has also improved.

Work still in progress includes improving the cash forecasting of C&W's international units, further reducing its international business unit cash balances and making further improvements to working capital management at its EAU business.

But some challenges remain. As wit every multi-national, operating in 33 countries presents cross-border and cultural obstacles. ■

Companies begin carbon trading

Corporates are getting to grips with the European Union Emission Trading Scheme and the fledgling carbon markets, according to Tom Sargent, Director of Western European Power Trading for E.ON Energy Trading, who gave a talk on how the carbon markets work.

Based on its commitment under the Kyoto Protocol to reduce greenhouse gas emissions, the EU has developed a scheme for the trading of carbon dioxide emissions among large CO_2 emitting companies in Europe. The EU's Emission Trading Scheme, which involves all 25 EU member states, started on 1 January 2005.

The scheme is the first carbon dioxide trading scheme in the world and is claimed to be the most cost-effective way for the EU to achieve its Kyoto target.

The Community Independent Transaction Log (CITL) records the issue, transfer, cancellation, retirement and banking of allowances that take place in the registry. Each EU member state must have a national registry.

The number of registries that have gone online can be seen from the CITL website.

Sargent said: "All of us are developing our understanding and our approach to the market and the Emission Trading Scheme is increasing every year." ■

Risk management and cross-border acquisition

Delegates at the session on risk management at this year's ACT Annual Conference were asked to vote on the most important risk management step in merger and acquisition activity, both before and after the presenters had spoken.

Neil Wadey, Treasurer for Corporate Finance and Financial Risk at British American Tobacco, set out the issues arising from a cross-border acquisition. BAT is a prime example of a FTSE 100 company that has expanded worldwide through major acquisitions, including B&W and RJ Reynolds in the US and Italy's former state tobacco company ETI.

Most important step	Before	After
Involvement in the preparation phase	63%	85%
Setting up, changing and harmonising treasury policy	9%	4%
Deciding on banks vs bonds vs internal financing	13%	3%
Hedging the transaction market risks	15%	8%

"The first step for the treasurer in any transaction is 'be prepared'," said Wadey. "This involves reviewing the capital structure, deciding the financing principles, rating strategy, the banking panel to be used and treasury policies. Also to be decided are the issues of flexibility versus cost, and the risk map and risk tolerances, which will be different for every business."

The next step is for the corporate finance and treasury team to know their network – all other parties involved in decision-making, ranging from the commercial team to the tax team.

A risk map is useful for articulating risk. Coupled with an understanding of the business drivers, it will influence hedging and structuring decisions. Risks to be assessed include:

The commercial risk Treasury input can be crucial in understanding the business proposal and the impact on economic exposures. "Commercial managers are typically focused on revenue and cost synergies, while treasury should be the voice of hidden exposures!" said Wadey.

Currency exposure This risk comes into play:
- pre-deal in determining bid timing and format;
- during the execution for structure-induced risk and the interest differential, foreign exchange and local balance sheet; and
- post-deal for the balance sheet and cashflow.

Funding Again, this can be broken into stages:
- pre-bid in deciding on settlement currency or funding currency, and in isolation or portfolio;
- settlement certainty: when are funds needed and what are the lead times?; and
- refinancing: which markets to use after weighing up cost against flexibility.

Hedging Can be addressed via forwards, options or contingents. Beware bankers and insurers, who "will show products to transfer away all the value", warned Wadey. Retain all significant portfolio benefits that are core to the business.

Interest rate and other risks Post-acquisition, pensions, insurance, deal execution and acquisition integration must also be considered. ■

The exhibition

The ACT would like to thank all the delegates, speakers, exhibitors and sponsors who contributed to making the ACT Annual Conference such a success. We would also like to thank the Edinburgh International Conference Centre for its hospitality.

Co-lead sponsors

Deutsche Bank

HSBC The world's local bank

RBS The Royal Bank of Scotland

Treasury game show raises thousands for children's charity

This year's ACT Annual Conference got off to a cracking start with a quiz show hosted by TV celebrity Esther Rantzen.

Two teams, the Philanthropists and the Utilitarians, battled to answer questions on treasury issues, while strobe lighting dazzled and show music was played.

Rantzen played the generous host who willed the contestants to correctly answer the questions in order to raise more money for child-focused development charity Plan UK.

On the Philanthropists team were Nick Feaviour of Kingfisher, Alison Dolan of British Sky Broadcasting, and Nick Goddard of British Airways. Their rivals, the Utilitarians, were Graham Wood of EON International Finance, Alison Stevens of National Grid and Carsten Rueth of RWE Npower.

Each correctly answered question raised £250 for charity. Rantzen, comparing herself to fellow broadcaster Jeremy Paxman, urged on the contestants to ensure that they kept those figures high for the sake of charity.

The game raised more than £14,000 for Plan UK. The cash was generously donated by the quiz organiser Deutsche Bank.

The show provided much amusement and interactive involvement where even members of the audience had opportunity to win money for charity using handsets to answer questions in a round of multiple choice questions. And what an intelligent, well-informed lot treasurers are!

The cryptic hangman round provided the most laughs, with the job title finance director cropping up more than once, being a handy anagram of "ratified concern" and "fornicated nicer".

Surely no way to describe the treasurer's favourite colleague? ■

When boldly going, take top brass along

Treasury departments upgrading their treasury management system (TMS) should make sure they first get the backing of senior management, according to Chris Rowland, Group Treasury Accountant at Tesco. "A commitment to act when TMS upgrade issues escalate," was, he said, key.

In his talk, called To Boldly Go Where No Treasury Has Gone Before, at the technology showcase, Rowland explained Tesco's upgrade of its outdated treasury system using SunGard, Oracle, Swift and Misys. Key objectives of the migration were to achieve real-time quotes, to create price tension across the banks the company uses for transactions, and to improve management information.

Rowland advised companies implementing a new TMS to keep their contracts clear, to maintain a positive approach, and to pinpoint all IT issues before embarking on the upgrade.

"Our implementation was due to take nine months," Rowland said.

He added: "We were happy with the outcome despite it being five weeks overdue, but I strongly advise backing from senior management. Although it can be scary at times, the pressure can help keep you focused." ■

Keep on top of the pension risks

Treasurers must consider the causes of unfortunate outcomes when identifying risks, advises David Fogarty, Worldwide Partner for Mercer Financial Strategy Group.

In a session on pensions risk, Fogarty said: "To find a solution we need to understand and think about the propensity of risks and how risks break down."

Fogarty added there was a need to be aware of liability risks such as interest rates, inflation and longevity as well as asset exposures.

John Ashworth, Director for Pensions, Insurance and Leasing at Littlewoods Shop Direct Group, said that before embarking on risk management, treasurers should ensure they do the right things such as asset allocation and risk management, value-at-risk, and implementing a risk programme.

Ashworth added: "It is important to have a treasurer involved who knows what the banks are saying. At Littlewoods we have a couple of bankers working with us and it has helped immensely when dealing with different types of swaps, such as interest rate swaps." ■