Ask the experts:

Achieving more with less

WHAT ARE THE KEY ISSUES IN CASH AND LIQUIDITY MANAGEMENT? SPEAKERS FROM THE RECENT ACT CASH MANAGEMENT CONFERENCE GIVE THEIR VIEWS.

Sara Davies, treasurer, Wolseley

The key responsibilities for Wolseley group treasury are short-term liquidity, currency risk management, interest rate risk management and longer-term funding. All of which puts forecasting at the very heart of the treasury function. In managing cashflow in the short term in our business we have developed three key principles: we recognise that cash forecasting is a craft rather than an art or a science, and we have to avoid over-engineering forecasts; that a one-size-fits-all cash forecast does not exist; and that the reports we produce require continual tweaking to maintain optimal results.

Following these principles keeps us on track. Cashflow forecasting has to be built around the business and not the other way round. Group treasury needs to tread carefully in understanding what the operating units are doing and building the forecasts around the facts. Wolseley is a highly decentralised operation, with more than 7,000 branches, so cash management and forecasting is best handled in a decentralised manner. Group treasury works with each country to optimise local bank pooling arrangements and each country is responsible for its short-term cash forecast.

In terms of methodology we see that short-term cashflows are best approached by detailed analysis of actual payables and receivables to establish the precise amounts and dates of cashflows. That means we obtain forecasts from sales and purchase ledgers. These are then consolidated with the treasury management system, which tracks funding, money market and foreign exchange transactions, which account for the largest cashflows.

The result should be that short-term forecasts are precise, giving daily projected balances which allow us to manage cash with sufficient accuracy for a month or so. Our business is cash-generative and the prolonged crisis in the financial markets has prompted us to improve working capital practices around the group. In the longer term we are bringing more centralised practices to a decentralised culture which we hope will remain in place, and we have seen closer communication between treasury and the businesses.

It is really important to stand back and remember what we have been charged with doing and so avoid being lost in the detail. So many of the fundamentals have shifted over the last few months and this underlines the fact that at a time of crisis cash forecasting really comes into its own. Cash forecasting is at the heart of what we do.

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Richard Martin, global cash and trade, Barclays Commercial

From the treasury and banking perspective it is clear that banks, analysts and the financial press are looking at how corporations are effectively managing the cash and the liquidity in their business. A treasurer of a major multinational told me that it is during times of difficulty that treasurers demonstrate their true worth to the business. Who would disagree with that? I think that is quite right, as it has to be said that when times are good the benefits that the treasury role can bring are not uppermost in the mind of the board. And now? Well, it is clear that cash generation and liquidity are the key drivers of the financial strength of the business. One of the most important elements of the ACT annual cash management conference is to look at how treasurers can embed best practice in this area into their organisation.

Every company must operate an efficient cash management operation, ensuring liquidity is available where and when it is needed. Good processes and systems provide financial strength and minimise financial risk, at the same time ensuring regulatory compliance, which continues to be an ever increasing burden.

Cash is always at the centre of everything a company does and at the moment everyone should be focused on optimising working capital to ensure that cash comes in and that managing the necessary cash outflows is optimised, although not necessarily maximised.

To achieve treasury optimisation, treasurers have to make the best use of their time and this is where automation of the day-to-day tasks is crucial. This includes cost-effective integration of systems both internally and externally, and automated cash position management.

In my experience it seems that the best-practice treasuries create more time to spend working on initiatives that let them act as strategic partners to the business to ensure that areas such as risk and regulation are kept under control. They can help to ensure that the business has efficient tax and legal structures and cost-effective governance and controls. Above all, they keep it simple.

Jonathan Williams, Director of communications and product strategy, Experian Payments

The list of payment methods available to corporate treasurers is constantly growing due in part to our inability to kill off legacy systems. But despite the plethora of instruments encompassing UK domestic, European and cross-border payments, it is possible to identify a clear trend in the take-up of automated systems, such as Bacs Direct Credit, and a corresponding decline in the use of cash and cheques.

Against this background of change, the industry continues to innovate. An example is the UK Faster Payments scheme – meaning payment within four hours – which was launched in May 2008 and allows personal telephone and online banking payments of up to £10k and standing orders up to £100k. We are seeing a gradual roll-out across Faster Payments member banks, with volumes reaching just under 20 million in December 2008. Changes in the payment landscape are happening in terms of providers and services, standards and technologies. Non-bank providers are entering the market, priority services are being introduced and we are seeing the development of mobile payments and business-to-business direct debits.

The development of standards such as ISO 20022 – the universal financial industry message scheme – should see interoperability between financial institutions, market infrastructures and users such as corporates and treasurers. Convergence on one standard should happen in the long term but in the meantime Experian Payments believes several standards will need to co-exist.

All of this means that corporate treasurers have a lot of work to do in reviewing their current usage of payments instruments and evaluating new schemes, looking at payment options for customers and suppliers and seeing how they fit with their existing banking relationships. However individual corporates organise their payments, treasurers should expect to realise benefits from upgrading to new payment systems: efficiency improvements, cost reduction, improved risk management, better customer service and reduced complexity of processes and systems.

Paul Smee, chief executive, Payments Council

The Payments Council sets the strategy for UK payments. Born out of an Office of Fair Trading (OFT) taskforce it was set up to ensure that the UK payments system and services meet the need of users, payment service providers and the wider economy. Designed and led by the industry it aims to be proactive not reactive and has three core objectives:

- to provide a strategic vision for co-operative payment services;
- to ensure payment systems are open, accountable and transparent; and
- to ensure operational efficiency, effectiveness and integrity.

A national payments plan was published in May 2008 to provide a blueprint for the next five to 10 years, and which tries to keep in mind the council's three objectives. One of the big issues that the payments industry has to tackle is what to do with paper-based payments. It seems that neither corporates nor individuals particularly like cheques and see electronic payments as easier. The latest research suggests that no one will unduly mourn the passing of cheques. But there is the practical question of how to make a payment, for instance, for the school trip or in the middle of a field where a PIN terminal is simply not available.

We acknowledge that it is up to the payment industry to come up with alternatives. A system based on mobile payments may be suitable for some payments: it may be possible in time to make a payment from bank account to bank account via a mobile phone for person-to-person payments where all you need to know is the mobile phone number. And although we are talking about abolishing cheques by 2018, that won't become a firm date until we have done all the work.

We also have dealt with long-standing technical sores, such as the problem of non-standard account numbers, and ensure that we are constantly asking ourselves the question of how to deal with fraud. Other key questions for the council are establishing the right relationship with regulators and satisfying external stakeholders such as corporates.

See The Quest for Visibility, page 26.