ACT sharpens the liquidity focus

An ACT-chaired working group has concluded that supply chain finance can still play a major role in improving the liquidity of small and mid-tier companies.

Concerned about "constrained" levels of bank lending to smaller companies, the Bank of England asked the ACT to set up the group to review ways of providing additional capital.

The group's report concluded that although lending conditions have improved since the start of the year, there is still a key role for supply chain finance.

Various structures have been developed to meet a variety of needs. Although the report did not single out any as the preferred option, it cited buyer-driven receivable programmes (BDRPs) as particularly suited to helping ease funding conditions in the current market, where credit quality has become a key issue.

BDRPs are regarded as less complex than other supply chain finance structures, as funding is based on the credit standing of the buyer rather than the supplier. In addition, the buyer rather than the lender takes responsibility for the supplier; for example, dealing with adjustment for returned or faulty goods.

The full report is available at www.treasurers.org/scf

See Chain Gain, page 10

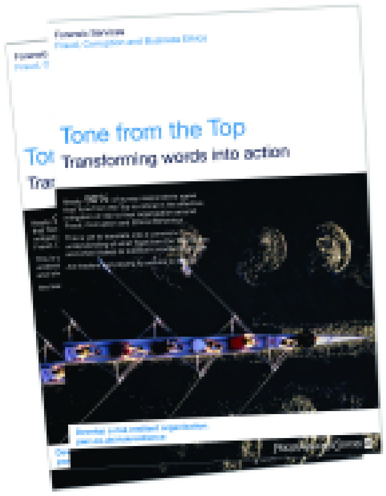
Bosses must lead on ethics and integrity

Setting the right tone at the top of an organisation is an increasingly important leadership skill, according to a new report by PricewaterhouseCoopers.

PwC also pointed out that the values that corporates want employees to abide by are not regularly measured or evaluated, and might be undermined by the behaviour of the leadership team.

"Today, almost all companies articulate sets of ethical values and principles, though many are still struggling to walk the proverbial walk at senior levels," said PwC director Tracey Groves.

"More stringent regulation and new UK legislation with a wider net are two reasons this issue is moving up the corporate agenda. A further motivating factor is that organisations will gain competitive advantage by strengthening their value and goodwill with investors through the building of integrity and trust."



Required: leadership, not lip service

The report said that some organisations paid lip service to ethical behaviour and neglected to measure and report on their ability, and that of their employees, to act with integrity.

It noted that the issue would become even more relevant given that the Ministry of Justice is about to publish the "adequate procedures" that companies will need to demonstrate in order to comply with the new Bribery Act. ■

OBITUARY

Gerald Whieldon Leahy

Gerry Leahy, who served as the first director general of the ACT, has died at the age of 75. His death on 6 August followed a long illness.

As well as being the first ACT director general he was a former president, a member of council and chair of the education committee. His role in the early development of the ACT was considerable, in particular his contribution towards establishing the qualifications and the professional nature of the association.

He became a member of the ACT and council in 1980, shortly after its inception. He was chairman of the education committee from 1983 to 1985, ACT vice president from 1984 to 1985, ACT president from 1986 to 1987, and director general from 1988 to 1995. He was made an ACT honorary fellow in 1995.

A fuller appreciation will appear in the October issue of The Treasurer. ■

ICMA looks at repo shake-up

A white paper published by the International Capital Market Association (ICMA) has called for a restructure of the European repo market.

ICMA commissioned the paper from its European Repo Council (ERC) in response to regulatory concerns and recognition of the repo market's importance in maintaining an efficient and stable financial system.

ICMA said: "There is concern that regulatory initiatives should not constrain the capacity of the repo market in Europe at a time when increasing demands are being made of it, both by the regulators themselves in terms of proposals for enhanced collateral management to reduce risk and by governments in terms of increased debt issuance."

The paper's author, Richard Comotto of the ICMA Centre, said that proposals to restrict the practice of short-selling would have unintended consequences for the securities market by increasing costs and risks for issuers and investors. However, he added that the reporting of short positions to regulators would assist them in monitoring short-selling and identifying potential abusive behaviour.

Comotto said there was an urgent need to reform the settlement infrastructure by removing barriers to the effective cross-border transfer of securities. The paper highlights infrastructure problems that caused failures in the system during the recent difficult market conditions and proposes solutions.

The paper can be accessed at ICMA's website: www.icmagroup.org

Small firms broaden their bank choices

Nearly one in three small to medium enterprises (SMEs) now use at least two banks to provide services for their business. However, the percentage still lags behind the 53% of larger companies with an annual turnover above £1m that have more than one banking provider.

These findings, from a study by Santander Corporate Banking, suggest that the credit crunch has encouraged multibanking. More businesses are dissatisfied with the relationship and level of support offered by their bank and are shopping around in response. One in seven of the SMEs surveyed had increased the number of their banking partners over the past seven years.

Just over half of the firms with multiple banking relationships said they had moved in order to spread risk in the event of bank failures, following the government bailouts of several major names. In addition, 44% said they had moved to multiple banking relationships so they could take advantage of the most competitive interest rates, while 43% felt their main bank was failing to offer the products best suited to their business.


Pateman: service inflexibility

"Businesses have traditionally had one banking partner, which has acted as depositor, creditor and guarantor," said Steve Pateman, head of UK corporate and commercial banking at Santander Corporate Banking. "However, we are increasingly finding that this role has changed and become more fragmented as the overall level of service offered by many banks has become less flexible in meeting the needs of their corporate and commercial customers." ■

No end to pensioner longevity surge

FTSE 100 company pension schemes have increased the longevity assumptions for their pensioners for the fourth year in succession, according to the latest survey by Mercer.

The HR and financial advice group reported that life expectancy assumptions had been extended by around six months in 2009, pushing up scheme liabilities by around 1.5%.

The assumptions have typically added five months to the expected lifespan of current pensioners, and seven months for future retirees. On average, after they retire, scheme members aged 45 are now expected to live nearly two years longer than a member currently aged 65.

Mercer said that the accounting assumptions for FTSE 100 companies showed a diversity of views on the future key US assumptions for price inflation and investment returns, in addition to life expectancy.

Scheme liabilities have also increased to reflect companies' changing assumptions about market conditions and the economic outlook. Assumptions on inflation vary from 3.1% a year to 3.9%, while the expected long-term rate of return on equities ranges between 6.9% and 9.2% a year.

"Accounting assumptions really make a difference to the assessment of a company's pension liabilities," said Warren Singer, Mercer's UK head of pension accounting. "Rising life expectancy continues to have serious financial implications for pension schemes. Overall, changes in accounting assumptions have increased the median FTSE 100 company's pension liabilities by around 20%.

"The wide range of views taken by companies on accounting assumptions, in the face of economic uncertainty, makes it very difficult for users of accounts to compare pension accounting disclosures. There is no single correct answer for these assumptions. Therefore, the IASB is proposing to address the diversity of views by requiring additional disclosure information, such as the sensitivities of liabilities to assumption changes."

Cover crackdown urged by Airmic

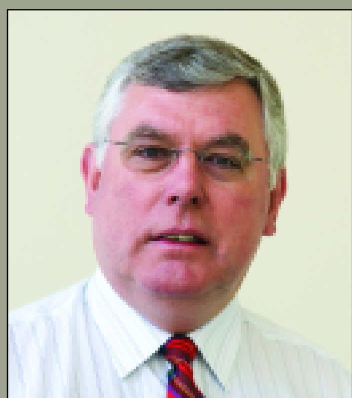
The Association of Insurance and Risk Managers (Airmic) has called on the government to crack down on companies that fail to buy employers' liability insurance or which carry less insurance than they are legally required to.

Airmic was responding to the Cabinet Office's review of health and safety and the compensation culture. It described enforcement of the Employers' Liability (Compulsory Insurance) Act as "woefully inadequate", and added that health and safety regulation suffered from the same problem.

Paul Hopkin, Airmic technical director, said: "Apart from the obvious moral and legal imperative to protect staff, it is unfair that our members are placed at a competitive disadvantage because they observe the letter of the law. Firms that save money by taking shortcuts on employee safety are getting away with it because of inadequate enforcement."

The association also wants ministers to scrap or relax "over-prescriptive" workplace rules that increase costs but do not improve safety. It called for a review of the personal injury claims process, which it said had allowed costs to spiral in recent years.

In its submission to the Cabinet Office, the association said: "Recent government consultations and reviews have failed to improve the situation in relation to case track limits and the claims process for personal injury claims. There is considerable scope for claims to be handled in a much more cost-effective manner, and Airmic hopes that the government will take this opportunity to review, simplify and thereby significantly reduce claims handling costs."


Hopkin: competitive disadvantage

Blue chips plug DB black holes

FTSE 100 companies pumped a record £17.5bn into their defined benefit (DB) pension schemes last year, a 50% increase on 2008, to reduce massive funding shortfalls, according to Lane Clark & Peacock.

The actuarial firm said the aggregate FTSE 100 pensions deficit had fallen as a result to £51bn from a record £96bn in 2008, helped by increases in asset values and strong investment returns.

The report found more companies using alternatives to cash funding to bridge the gap between the amounts demanded by pension trustees and what they were willing and able to pay. Examples include Diageo using maturing whisky as collateral, while Marks & Spencer, Tesco, Sainsbury and Whitbread opted for property transactions.

LCP partner Bob Scott said: "Pension scheme trustees have sought more money from their sponsoring companies to fund soaring pension deficits, leading to a record level of contributions last year. While this is reassuring for scheme members, such increases in contributions reduce the scope for companies to pay dividends and to invest in their businesses."

The trend to pension scheme closure may be accelerated from 2012 as it becomes compulsory for companies to enrol all staff in a pension scheme and to offer a minimum level of contribution or benefit accrual.

The biggest single scheme contributor was Shell with £3.3bn. And eight FTSE 100 firms – BAE Systems, BA, Invensys, Lloyds, Wm Morrison, Rolls-Royce, Serco and Wolseley – all paid more into their pension schemes than they did to shareholders through dividends.

Scott: big contributions draining businesses

ECJ approves VAT on salary sacrifice

AstraZeneca's recent lost court case on the VAT treatment of retail vouchers provided to employees has implications for other company staff benefit schemes, law firm DLA Piper has warned.

European Court of Justice (top) Woolich (right): VAT could impact scheme take-up

The European Court of Justice ruled against the pharmaceuticals group and advised HM Revenue and Customs that it should be collecting VAT on certain salary sacrifice schemes. The schemes enable employees to elect to take certain benefits such as retail vouchers, additional holiday entitlement or private healthcare in lieu of salary as part of their remuneration package.

They have been widely adopted by larger companies as a popular means of promoting employee loyalty and performance, while saving income tax and national insurance costs.

The ECJ ruling could now cost UK employers up to £500m in unpaid VAT over the past four years and a further £100m annually going forward.

"The ruling means that businesses which use this, or any similar voucher and salary sacrifice arrangements, will have to review the VAT treatment of benefits on offer to their employees, and may look to restructure their systems to make sure any benefits are free of VAT liability," said Richard Woolich, tax partner at DLA Piper.

"Employers may face poor take-up of the schemes in the workplace if they pass on the VAT cost to employees. It is not clear to what extent HMRC may seek to recover underdeclared VAT for previous years."

Steve Hodgetts, VAT partner at accounting firm Baker Tilly, added: "Many employers were shocked at the advocate general's opinion delivered in April, but have waited until this judgment was released. Now it confirms their fears, we recommend that they look at their salary sacrifice arrangements as a matter of urgency. It is likely to cost them a substantial amount of money, as HMRC is entitled to assess employers for any output tax due over the last four years." ■

ACT Digest.

Events

■ Annual Dinner

The ACT's annual dinner, which will be held at London's Grosvenor Hotel on Wednesday 10 November, will have Alastair Campbell as this year's guest speaker.

For a full listing of upcoming events, visit: **www.treasurers.org/events**

■ ACT Middle East Pre-conference workshop

The ACT Middle East's annual conference, which takes place at Dubai's Shangri-La hotel on Wednesday 13 October, has added a pre-conference workshop at the same venue on 12 October.

The session will focus on treasury's role in sourcing financial solutions to deliver the business strategy, help place corporate treasury in context and set the scene for the conference sessions the following day.

For more information on ACT Middle East, visit: **www.actmiddleeast.org**