The liquidity lode

WITH OPERATIONS ALL OVER THE PLANET FROM ALASKA TO AUSTRALIA TO AZERBAIJAN, WEIR GROUP NEEDS SIMPLE BUT ROBUST DISCIPLINES TO KEEP ITS CASH MANAGEMENT WHEELS TURNING, AS ITS TREASURER JOHN JACKSON EXPLAINED TO **PETER WILLIAMS**.

UK mining and engineering company Weir runs a truly global business. Around one-third of its 2011 revenues came from the fast-growing economies of Asia Pacific, South America, the Middle East and Africa, as global demand for resources continues. The group prides itself on being close to its customers, from upstream oil and gas production in North America to nuclear power generation in South Korea and copper mining in Chile. So it comes as no surprise that it is highly experienced at working in many different currencies. Group treasurer John Jackson says: "If we are dealing with a Chilean mining company, we are paid either in Chilean pesos or US dollars, for instance."

Currencies that the group uses on a regular basis include, in its mining division alone, Australian dollars, South African rands, Brazilian reals and Russian roubles, and, as Jackson notes, "all sorts of interesting currencies". The company's two other operating divisions are oil/gas and power/industrial.

Weir's cash management philosophy is to keep it as simple as possible. Jackson says: "The straightforward strategy is to get as much cash as possible back to the treasury centre in Glasgow. Wherever possible we will utilise cash pooling and we will fund or defund those pools from the centre as required."

Cash can be accumulated notionally (i.e. the cash is not actually moved) or zero-balanced (i.e. it is moved). The method that is used in a country depends on the custom of that country.

Whichever method, the organisation ends up with a pool which is either overdrawn or has cash. The objective of pooling is to adjust so that the net effect is to keep the pool as close to zero as possible taking into account the cash movements which the treasury department expects to take place that day.

For instance, Weir has a US pool for its US companies that is defunded via London. The group has an assistant treasurer in the US who manages that pool on a daily basis. Because the group's US business extends to California it is important to be aware of the impact that different time zones have on pooling policy. Jackson says: "You have to be careful not to take the cash out at the beginning of the day as the West Coast may need some of it at some point later on."

In effect, treasury creates loans between the pool and the centre that are then subject to currency swaps. Jackson says: "We will swap surplus cash back into sterling or US dollars and are all fully hedged as a result."

The wide geographical spread of the banking services Weir receives across the globe leads to considerable variability, says Jackson. "There is not a commonality in the offering and customer service, even within banks which purport to be global. There is a long way to go before we see a truly uniform approach and common standards."

However, Jackson says Weir is reluctant at the moment to put all its eggs in one basket with a global cash management solution. The Weir approach is to appoint relationship banks to provide a cash management service on a per country basis.

Despite Weir working in so many parts of the globe Jackson dismisses the idea of the company having any trouble repatriating cash to where it wants to send it. He says: "We don't have restricted cash. There is nowhere within our operations where we could not get cash out if we really needed to."

In the end it comes down to a cost/benefit analysis. For instance, are you willing to suffer a high level of withholding tax on a remittance? Some countries have more challenges – corporates operating in South Africa have to obtain permission from the South African Reserve Bank before moving funds in or out of the country. But Jackson says that such systems can be made to work reasonably well, especially if there is local knowledge. "We fund South Africa mainly on an intercompany basis, having obtained all the local permissions for payment of principal or interest."

The other key element is to think ahead. "It is important to try and manage the in-country position in order to be as effective as possible," says Jackson. He cites as an example Weir's recent construction of a facility in Brazil which it funded through locally generated cash and so avoided the situation of paying a dividend into the centre and then injecting cash back out to Brazil to fund a significant capital expenditure programme.

Weir's treasury is currently examining how to utilise the cash surplus that it does hold. Banks are looking for longer-term corporate deposits because of the beneficial treatment that may result under the capital rules set out by bank regulators. Jackson says: "You have to trade a bit of liquidity but these days banks are offering significantly more for longer-term deposits. Of course, if another acquisition opportunity comes along, then the cash management stance would be changed as a result."

Weir takes its cash forecasting seriously. Within its treasury management system (TMS) there is a regular refresh of short-term receipts and payments forecasts from operating subsidiaries that look about two weeks ahead. On a longer horizon within the budgeting and quarterly revision process, longer-term forecasts are maintained.

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For more on Weir, see The Treasurer, April 2012, page 28.

The central line

WEIR'S TREASURY DEALER NEIL STIRLING OUTLINED THE ENGINEERING SERVICES GROUP'S CASH VISIBILITY AND CASH POOLING POLICY AT THE ACT ANNUAL CASH MANAGEMENT CONFERENCE. **GRAHAM BUCK** REPORTS.

Stirling told the conference that cash visibility and control must be a key priority for a business that generated revenues of nearly £2.3bn in 2011 from 140 manufacturing facilities and service centres spread over 70 countries.

This global spread means Weir holds more than 400 bank accounts and deals in a total of 34 different currencies, with FX exposure hedged by the Glasgow-based central treasury team that oversees cash management throughout the group.

Over 60% of the group's bank accounts are in countries with a cash pool, while 70% of its cash generation takes place in countries managed via a cash pool.

Wherever possible, Weir uses relationship banks for its cash management requirements. The group has been in acquisitive mode in recent times, and bank accounts for the group's newly acquired or newly created companies are integrated into cash pools at the earliest opportunity. The type of cash pool used, be it a notional pool or zero balancing arrangement, tends to depend on local regulation.

The UK, Dubai, France, Australia and South Africa currently run notional pooling across a number of currencies. Zero-balancing arrangements operate in the US, Italy and China, while there are plans for cash pools in the Netherlands and Canada. Weir is also in the early stages of a South American bank tender process which has identified the opportunity for setting up a cash pool in Chile.

Currently 90% of surplus funds are swept back to the centre (although China and South Africa's current exchange control restrictions prevent sweeping being carried out on a daily basis), significantly improving controls over net debt. Stirling estimates that the use of cash pooling saves Weir between $5m and $6m annually in interest costs and significantly reduces bank counterparty credit risk.

The group's treasury team have also established bilateral loan agreements for surplus cash in regions without cash pools. Jurisdictions without cash pools include the Netherlands, Canada, Chile, Russia, Azerbaijan and South Korea. These intercompany loans are hedged via FX swaps, while non-deliverable currencies are hedged onshore in the local jurisdiction.

In addition to implementing cash pooling Weir has recently adopted SWIFT messaging for balance reporting and payments. SWIFT implementation will further improve the group's counterparty credit risk and trim interest costs.