



Getting sight of cash

A need for efficiency and visibility drives Anglian Water's approach to cash management

Cash management is at the heart of Anglian Water's plan for its business, Andrew Griffiths, assistant treasurer (cash & covenants) at Anglian Water, told delegates.

It's an ethos informed by the utility's ownership structure and management approach. Previously a FTSE-listed company, Anglian Water has been owned by infrastructure and pension funds since 2006. Driving long-term sustainable cash flows from the business is paramount to its owners.

And there are challenges: Anglian Water has more than six million customers, an asset base of just under £7bn and a public-service ethos to supply domestic, commercial and public-sector users with clean, safe water.

Three years ago, the treasury function set out to provide a more integrated view of the company's cash. To that end, Anglian Water's treasury function installed a new treasury

management system (TMS) and moved from disparate applications and an in-house server to a hosted TMS solution that brings together cash-data feeds with bank account and trading information.

Simplifying cash visibility

The cash picture in the business includes daily forecasts from all its divisions and data from more than 100 bank accounts all visible on the TMS so that the team can see exactly what's within each bank account individually. There are four feeds a day on bank balances, not quite real-time, Griffiths said, but sufficient for the company's needs.

"One of the things we are able to control centrally from treasury is any one-off payments. Very early in the day, we can see our consolidated position and we're able to make investments in just a few entities to get the best return,"

he said. Where possible, though, the team looks to reduce surplus cash, because of the cost of carry.

The previous set-up was more 'insular' in terms of the data held; the inputs were made solely by team members, Griffiths said. "Now we have a situation where [the TMS] is updated four times a day with the banking information, but also it brings in information from our Bloomberg feed. It takes forward curves and rating information – so when our dealer looks at the cash position in the morning, he's also looking at a report that shows a rating on all of our counterparties."

The company is a heavy user of BACS; 65% of customers pay by direct debit. "We send hundreds of thousands of BACS messages per week. We've also gone through a process to reduce reliance on cheques, inbound and outbound. We push as much as we can through the BACS network and we also repay customers wherever possible by direct debit."

The new efficiencies and improved visibility of cash forecasts coming into the treasury means that treasury can make a key contribution to the utility's management-reporting process. "Rather than the business looking only at the profit and loss report, there are cash reports alongside that every month. We're closing the loop in terms of forecasts and actuals," Griffiths said.

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Moving the daily cash management process into the TMS has had a huge pay-off in terms of the integrated view of cash. "We also moved from in-house server to hosted solution. That took some time to get right, but the benefits far outweigh the pain of getting there."

Integrated controls

As a central function, the treasury team at Anglian Water has final sight of all money that leaves the business.

ANGLIAN WATER IN NUMBERS

Serves
6.2 million
customers

Investing
£2.3bn
over five years
in infrastructure

Maintains
114,200km
of pipes (38,000 water and
76,200 waste water)

"Although there are divisions that manage their own cash, any BACS or same-day payments come through us," Griffiths said. "That, for us, is an absolutely key control." It is an upgrade, he said, on a situation where a division might manage its own payments, which would lead to cash positions at the end of the day not matching the forecast position.

Another key control element is a small pool of mandated signatories. Only 10 people in the business can sign off on payments; they are all well-informed individuals, who will be able to spot if a payment doesn't look right and can challenge those that look wrong.

Streamlined structures

The TMS can incorporate almost all the bank accounts; only three or four accounts are outside the system. In addition, using physical or notional pooling has helped take a lot of granular work out of daily cash management.

Improved forecasting helps with key business priorities, such as the infrastructure-investment programme. "We're spending £2bn over a five-year period and working with a series of partners in order to do that. There is a complicated delivery structure, and forecasting the cash isn't always at the top of people's agenda," Griffiths said. Treasury's position within the business and its mandate to persuade and engage other functions on the importance of cash has helped get the message on the primacy of cash across. "The key one for me is we are part of the business; we're not just the finance function. There is one plan," he said. "Cash isn't just an afterthought in that process."

The decision to move to a TMS was a key step on the way to enhanced cash visibility at Anglian Water, Griffiths said. "While traditionally a water company may not be seen as at the cutting edge of technology, we're recognising that embracing tech and working out what it can do for us is an absolutely essential part of what we do in treasury." ♦

SETTING UP THE POOL IN CHINA – THE INTERTEK EXPERIENCE

With operations in more than 100 countries, revenues of £2.1bn and a skilled workforce covering electrical engineers, chemists, biologists, geologists and medics, Intertek's testing and inspection services take its expert personnel into the global supply chains of leading brands and household names.

The FTSE-listed company's journey towards cash centralisation began in 2010, when the treasury team established the twin objectives of improving visibility on cash and repatriating cash.

Assistant treasurer Paul Tydeman described the business to delegates as not particularly capital-intensive, but with considerable issues around managing currency risk and repatriation. And Intertek's

operation in China has provided a particularly interesting experience in terms of developing those goals.

Intertek China accounts for 15% of group revenues and employs more than 9,000 people across 30 cities. Since 2014, the group has had a domestic renminbi pool, cross-border renminbi sweeping and a renminbi revolver facility in the UK. "A big part of managing cash at Intertek is managing cash in China," Tydeman said.

Until recently, very little could be done on repatriation, apart from annual dividends. Options such as paying dividends more frequently proved unworkable, but in 2012, Intertek was invited to enter into a pilot programme run by the People's Bank of

China (PBoC) that would allow it to move cash out of the country. In 2013, with the help of another pilot scheme, Intertek gained approval to do the same out of Guangzhou and Beijing. The landscape changed again in 2014, when the central bank approved revolver facilities, and the final piece of the puzzle came in towards the end of 2014, when the company was able to move from a manual push-and-pull arrangement to automated sweep.

The situation is, of course, fluid. In January, the PBoC suspended two-way sweeps, but Intertek's structure overall is still operational, and central treasury and a strong in-country cash management team keep the situation closely under review.