

FRESH START

Thames Tideway Tunnel is an environmental initiative designed to clean up London's River Thames. Enabling this from behind the scenes is a treasury department that group treasurer Pedro Madeira is building up from scratch

Words: **Ben Poole**
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“It is an exciting time at the moment,” enthuses Pedro Madeira, group treasurer of Thames Tideway Tunnel from the company’s canal-side offices in London. Madeira’s enthusiasm stems from the fact that, while the nascent infrastructure project is a big deal for the UK capital’s main river, the treasury department is being built from scratch. “It is a £4.2bn project and the biggest infrastructure task ever undertaken by the UK water industry and largest supported government project, but at the same time it is a new company, so it has very much of a start-up feel about it,” he says.

When his own career was starting up, Madeira worked at Shell, initially in a short-term accounting role when the company was centralising all of its European finance operations in Glasgow. Then, in 2002, he had his first experience of treasury working on a project to centralise Shell’s bank accounts and operations into the UK. “This project was enjoyable and made me want to work in treasury,” says Madeira. “I was so convinced that I wanted to go back into treasury immediately, I started the AMCT qualification at this time.”

While Madeira moved offices with Shell from Glasgow to London as a management accountant, he finished his AMCT

and moved into Shell’s treasury in 2006. “Even back then, the middle- and back-office side of things was so much better than accounting,” he says.

Career take-off

Madeira moved to Heathrow Airport in 2008. While Shell had been focused on liquidity and FX, he had a variety of responsibilities during his time at Heathrow. “Initially, as I had done forecasting at Shell, I was to put in place the medium-term treasury forecast, except it was completely different from Shell,” he explains. Heathrow was completely debt-focused as opposed to the cash and FX focus at Shell. While the operations side may have been reasonably simple compared with his previous employer, the financing and derivatives side was far more complex.

“Managing a large derivatives portfolio does add another dimension to the treasurer’s job,” says Madeira. “Counterparty risk management is unique in the sense that it has both a quantitative aspect to it, but also softer relationship implications.” At Heathrow he took a dynamic approach in managing and monitoring exposure, often assisting banks to move exposure, bringing new counterparties into



VITAL STATISTICS

£4.2bn

the anticipated cost of the Thames Tideway Tunnel project (2011 prices)

500

the number of people employed on the Thames Tideway Tunnel project at the end of 2014

9,000

the number of anticipated direct and indirect jobs created by the project at the peak of construction

25km

the length of the completed tunnel, from Acton in west London to Abbey Mills in the east

35-65 metres

the depth range of the Thames Tideway Tunnel

7.2 metres

the diameter of the tunnel, which is the width of an average UK single-carriageway road

48 hours

the time it would take to empty the Thames Tideway Tunnel when full

PEDRO'S CV

2015-present

Group treasurer, Thames Tideway Tunnel

2010-2015

Assistant/deputy treasurer, Heathrow

2008-2010

Treasury manager, Heathrow/BAA

2006-2008

Treasury analyst, Shell

2004-2006

Management accountant, Shell

2001-2004

Various roles, Shell

QUALIFICATIONS

AMCT (2005), CIMA (2006)

the relationship and working with existing counterparties to bring them into other products.

It is always important to bear in mind that derivatives are a risk management tool, rather than a speculation tool, and that they have their time and place. In Madeira's eyes, treasurers can fall into one of two extremes when it comes to derivatives: "Some treasurers love derivatives too much and use them too often and badly, while others will simply run a mile from them," he says. "Heathrow had quite a large derivatives portfolio and I think that was absolutely the correct approach based upon its risk strategy."

Madeira has four basic rules for hedging:

- Do not use derivatives if you can achieve the same result, and as economically, through natural hedging.
- Do think about the risk you are hedging and do not use something that is inappropriate or too long.
- Do not put any extra features in the derivatives on top of those you know you need. If you are planning on holding it to maturity, do not put breaks on it; make sure you have considered the cash-flow impacts of all the clauses.
- Always have an eye on counterparty risk.

Thames Tideway Tunnel

Connecting east and west London, the Thames Tideway Tunnel will link to the London sewer system and to water-treatment plants owned by Thames Water to clean up the River Thames. The tunnel will be delivered through the formation of a new regulated business – the 'Infrastructure Provider' – dedicated to the implementation of the project. Under the provisions of the Flood and Water Management Act 2010, it will have its own licence from Ofwat. The company will build, own, finance and maintain the project and will be regulated by Ofwat.

As a well-known project in the big infrastructure area, Madeira was well aware of it and, when the role of group treasurer came up, it was a natural position for him to go for. "A lot of my responsibilities are to do with the company," he says. "Everything is new and many of the people I meet have been working here for a year or less."

Madeira's key responsibilities have included putting the treasury team in place, establishing the appropriate systems, policies and processes, and ensuring all is in place for day one.

"One of the company's priorities is to change the relationship between London and the river"

Work at this point has been progressing in two stages, the first of which revolved around the company becoming fully independent from Thames Water on 24 August 2015. The second stage is focused on automation. Both stages were worked on in parallel, with the recognition that the fully automated straight-through processes would not be possible on day one. The medium-term objectives also look to the funding side and the risk strategy that is part of putting a stable funding platform in place.

"We do some external reporting, and will present results to investors, which is a fascinating thing about big private equity," says Madeira. Private equity companies have a limited number of shareholders, but can also have a lot of debt investors. This means that investor relations can become a treasury responsibility. Treasury may have to do town hall presentations and publish results, for example. "This is interesting as it is not usually something that treasury is as involved with – talking with the comms department, understanding what the message is that we are presenting, even writing part of the company's press releases," he says.

While the Thames Tideway Tunnel's strategic goal is obviously to deliver the project, the company has higher ambitions than that. "One of the company's priorities is to change the relationship between London and the river," says Madeira. "London relates to the Thames and vice versa, so to clean up the river will be a very wonderful thing."

The other priority of the company is health and safety. The CEO has a strong vision on this, to the point that if something cannot be done safely, the company will have to find another way to achieve the result. Even as treasurer, Madeira has been on a full-day safety course. Treasury supports the health-and-safety vision by being the enabler – on the cash-flow side treasury is responsible for all the payments and visibility over liquidity. Then there's the funding aspect to the project. "Although that debt comes a lot later in the project, it is up to the treasury to first set up the framework and then manage this and the relationships with all the key stakeholders, such as investors and the ratings agencies," he says.

As a company in its early stages, the big questions, such as what the treasurer is responsible for, what the CFO is responsible for and what should go to the board, are all open to discussion. "I look at the start-up nature of the company very much as an opportunity and, to be honest, this kind of fresh start very much attracted me to the role," says Madeira.

Having featured in the ACT's *Ones to Watch* for 2014, the chance to design a treasury department from the ground up is a fitting next step in Madeira's



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career. Speaking about his rise to the role of group treasurer, he acknowledges that networking is very important. “As a treasurer, pretty much every opportunity that you will have will come through your network or through executive search,” he says. “You can expand your network by speaking at conferences, building on your day-to-day work contacts, by being part of industry groups. The ACT provides a wonderful framework for you to expand your contacts in a variety of ways. You should do whatever works for you. But I definitely encourage my team to go to things like the ACT events whenever the opportunity arises, and to actively take the chance either to present or to network.”

Ben Poole is a business and finance journalist

PEDRO'S TOP TIPS FOR SUCCESS



“A treasurer should always be prepared to either ask for help, or even recruit it when needed. You will have your own area of expertise, your ‘angle’, and you will be a decent generalist, but no one can fully master or be an expert at everything.”



“I also believe that you should always reward good processes rather than good results. Treasury is a profession that has very visible results, but the focus should be on the processes: was this the right decision independently of the result, does this fit with the company’s risk strategy?”



“The AMCT has helped me in two ways. First, when I applied for an interesting treasury analyst position in Shell, I was the only one of 12 internal candidates who had the AMCT – it was the key factor in my selection. Second, today I’m in a position in which I regularly employ staff. When I see that someone has the AMCT, I know that they have a solid base level of knowledge across treasury.”



“My favourite gadget is my laptop. I am very old school in that regard. I even take it on holiday with me... my wife tried to convince me on the merits of tablets. So now we end up taking the laptop and two tablets.”



“The secret to my career success is actually something I am still working on. I tend to talk too much! So I am trying to listen more and to talk less.”



“My CFO always asks a very nasty question: ‘Why do you say that?’ He always wants to understand how sound the reasoning is behind what we are doing. This can be a challenge, but when you explain the workings and he agrees that it sounds right, you do feel a lot more confident. It also makes you think a lot more about why you do what you do.”



“The best way to unwind after a stressful day is definitely with a pint of beer in a pub close to the office by the canal. The location here is definitely an upgrade to the hotel bar next to Heathrow.”