

Treasury Trends

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INQUIRING MINDS NEEDED

As countries around the world embark on Royal Commissions and independent inquiries to assess response and performance in the COVID-19 era, this might be a prompt for some organisations to review the contribution of treasury to overall business outcomes during the same period of uncertainty and fast paced change to operating conditions.

Even amongst the most prepared businesses that had strong planning for the unexpected, few had scenarios that tested the extremes that many were to witness. A drop in income can occur for many reasons, but the suddenness of no cash 'now' brought treasury to the fore – and, in most cases, demonstrated the ability to flex, adapt, negotiate, etc. The perfect storm could be turned into the perfect indicator of treasury's value to an organisation.

The terms of reference of any investigation or review are key, and in our opinion, little or nothing should be off limits. Look at what you used to do (was that working well?), what you had to change as a result of COVID-19, or any other reason of late (how, when, by whom?), what has happened since any immediate adjustments (return to 'normal', re-set to 'new normal', etc?), what are the impacts on future operations (more growth, settling down period, contraction, re-setting of debt/investment, new markets, etc?).

The value of any review will be if its findings are insightful, a basis for learning and the recommendations resulting are pragmatic. From a treasury perspective, and based on the work we've been involved with in the past couple of years, we offer up some core areas to consider.

Cash

Much is spoken about the importance of cash but never has this been so true as over the past two to three years. At the outset of the pandemic, we saw examples of 'panic' when knowledge of cash was suboptimal – ie not knowing how much cash a business had, where it was located, who controlled it and, importantly, how to get control of it.

Key Points

- Now is a good time to check the basics are right
- Ensure reporting is relevant and timely
- Check policies/procedures/resourcing remain fit for purpose
- Invest time in your banking relationship(s)
- Use the 'right' technology

Recommendation: Ensure there is a single record of bank accounts, practical policies around cash management, an effective account structure, and that the 'right' channels for payments and receipts are being employed across the business. Once known, better principles can be applied to general cash and working capital management. Dashboard reporting is now a requirement for most, rather than a 'would like'.

Risk

On the risk front, many businesses that worked effectively within Board/Council approved policy hedging bands were suddenly faced with material changes to exposure numbers. Sales stopped overnight, suppliers were unable to meet demands or customers closed their doors/wallets. Borrowers suddenly saw capex projects stall as their Boards and Councils had to reassess the appropriateness of 'growth' strategies, with implications for future debt drawdowns – and hedging programmes.

Recommendation: Review performance under the extremes, how quickly were decisions able to be taken, would other hedging products be worth including in any future mix. Is the business now a little or a lot different to pre pandemic times and, if so, test policies and procedures to ensure they address the 'new' risk profile and tolerances.



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Resourcing

With seemingly the whole world now faced with skill shortages across the board, the full time Treasurer role appears to be growing ever closer to extinction. And yet the roles and requirements of treasury are increasing. Recognition and trust need to be built, and earned, but treasury has to be seen as an integral value-add to a business as opposed to a cost centre. Treasury needs to be involved early in many business decisions – all too often it is ‘advised’ late in the piece to find answers without the opportunity to explore all options, assess ‘what if’ solutions.

Chasing an acquisition opportunity or purchasing/developing a new production site are all encouraging signs for a business – but not if they can’t be financed! Selling into a new market with no clear pricing approach, or under ‘bush lawyer’ wording in a contract, might not prove to be a profitable strategy.

Recommendation: Identify the ‘right’ person/people for the treasury role(s) and ensure they hold the gravitas to work across the business, having an ability to ask the ‘right’ questions at the ‘right’ time, be part of relevant meetings and committees before decisions are taken.

Bank relationships

From our perspective, the help and support provided by banks in the early days of COVID-19 lockdown was greatly appreciated by most. There will always be casualties of course but, in the main, the value of good treasury relationships allowed for full and open dialogue – and a mutual desire to ‘get through’. Cost is nearly always seen as a key factor when establishing funding facilities or other bank lines – but availability and reliability should not be understated in any evaluation.

For all the public and political condemnation of banks making ‘excess’ profits in recent times, we have all seen the merits of having a strong banking sector. Banks have been subject to many new rules of late and it is in each customer’s interests to ensure it still has strong support within the bank, remains a fit with its bank’s (or banks’) wider strategies - and communication is open. No one likes surprises in treasury.

Recommendation: Undertake a review of the bank funds in place – noting that focus should not be narrowed to price. In a typical assessment we look at things such as structure, general headroom, tenor and reporting requirements.

Technology

If there can be a ‘winner’ from the COVID-19 experience, it is likely the advance of automation and technology. Banks were forced to fast-track solutions to assist businesses move money around and the WFH experience for many businesses encouraged a step up in security and access to ensure the integrity of data. Whether there is a business case for a fully comprehensive treasury management system or desire to find more specific solutions to assist hedge accounting, cash management, leasing, etc, we have been part of an ever growing number of discussions with clients interested to know ‘what is out there?’. Strong governance should identify and mitigate key person risk, reduce over-reliance on ‘old’ spreadsheets, general protection of data, etc as well as recognising the emergence of new technology to remain competitive as a matter of course.

The key in our opinion is to articulate clearly what you need from a system or solution prior to inviting vendor presentations. Demonstrations are designed to embarrass existing excel or other reporting formats – but your need to know if the solution fits your own needs/wants? Do the scoping well, and the process of selection and decision taken will follow a logical path.

Recommendation: Understand where automation or technology might save time and cost for your finance and treasury team and/or lift the integrity of data/information.

Advice

Please talk to your advisor if you have interest in developing a scope of review for any or all of the above. Over the past 30 years, we have become the trusted advisor for many. We are transparent around fees and operate on a fee for service model - there is no royal commission for us ...

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