Treasury Trends

ISSUE 445 — FEBRUARY 2023

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Soaring levels of inflation, a rapid increase in interest rates, falling revenues, volatile markets and escalating input costs are some of the major economic issues that impacted on businesses, large and small, throughout 2022. These themes are highly likely to continue into 2023. Ongoing challenges imposed by the Covid-19 pandemic on liquidity and working capital have also placed extra demands on the time and resourcing of corporate treasury teams.

Treasury is not a silo

As a multitude of corporate treasury surveys are reported at the start of the year, the majority of key take-aways show a 'top three' areas of focus for the coming 12 months. Risk management, cash/liquidity and technology are regular members of the top three club – with honourable mentions for the likes of funding, regulation and ESG. In reality, treasury is seldom managed in silos, and the interaction between the top seven or eight areas of focus means we need to cast the net wider to achieve high levels of effective and efficient management.

EuroFinance's 2022 Global Treasury Survey continues a theme from earlier versions of the survey of having cash management and liquidity as a "*top priority for treasurers*". With the need to ensure appropriate funding structures remain in place, along with fit for purpose working capital and supply chain processes, cash and liquidity is pivotal – and non-negotiable. Perhaps surprisingly, there is still a push to lift the level of visibility over cash (surprising in the sense that it is not an automatic must have). Working with the right banking and third party providers is key and the ability to have access to, and then analyse, data is a growing demand.

Back to basics

Especially in the current economic environment, corporate treasury would rather not over-borrow, under-invest, or be unduly exposed to high-interest rates and volatile foreign exchange rates. Accurate information on the cash position and future cashflows can therefore help to prevent costly mistakes.

The AFP's 2022 Strategic Role of Treasury Survey Report commented similarly on the importance of cash management and forecasting – likely stepping up in priority since the advent of the pandemic. A revisit of the basics around cashflow forecasting is not wasted time and, with many businesses still lacking a fully automated process in this area, ensuring an efficient time and resource allocation is necessary. Development of AI and machine based learning will only serve to improve the accuracy of forecasts, but work is still being done in this area.

Data quality is key

The quality of data being "*the main hurdle to improve the accuracy of cashflow forecasts*" was highlighted in *Deloitte's Global Treasury Survey* late last year. The uptake of full treasury management systems, or specialist cashflow models/systems, is a plus for treasury generally, but however sound the technology, the quality and robustness of source data has to be high. This needs a team effort – and not just the treasury team. Organisation wide buy-in is important, strong communication, realistic input to forecasts and an open minded approach to variance analysis and monitoring will drive 'better' and certainly more useful outcomes.

- Understand the purpose of the forecast, agree outcomes and accuracy measures. Ensure all parties are on the same page as to the appropriate level of granularity – don't miss the big picture for wont of getting bogged down on 'unnecessary' detail.
- Apply commercial and common sense to where the numbers come from. Challenge inputs as appropriate and work through variance analysis with a pragmatic lens. Adjust the process as needs be but apply overarching materiality tests as good practice.
- Maintain contact with contributors to and users of the forecast information. Explanation of outcomes, and maybe the level of detail required/requested, may need to be tailored to specific demands. But this will ensure relevance to the business at large.

- Encourage buy-in from all parties. Demonstrating how the resulting information has helped working capital efficiency, lowered borrowing costs, etc will support collaboration across teams and help treasury lift its profile.

New opportunities, clear financial benefits

With data and liquidity at the heart of a robust working capital position, the arrival of new infrastructures and tools and the ability to right-size a solution for your organisation, ensures the optimisation of cashflows is an attainable goal for many more businesses. What once was too expensive or too time consuming to implement may, in a more digital environment, now be possible and cost-effective. We have run multiple projects recently focusing on cashflow forecasting and working capital optimisation, noting that what works for one organisation can be quite different to that of another.

Case Study - Efficient working capital allocation

Our client was concerned with visibility of daily cash and its cash asset not being fully optimised.

Background

An organisation with a large branch network required assistance with its cash/liquidity management processes which were manual, inefficient and insufficient to enable reliable decision making. Implementing our strategic advice and adopting a dashboard approach to managing short-term liquidity enabled the organisation to release over $5m in excess cash, reduce costs and improve the return on cash.

Challenges

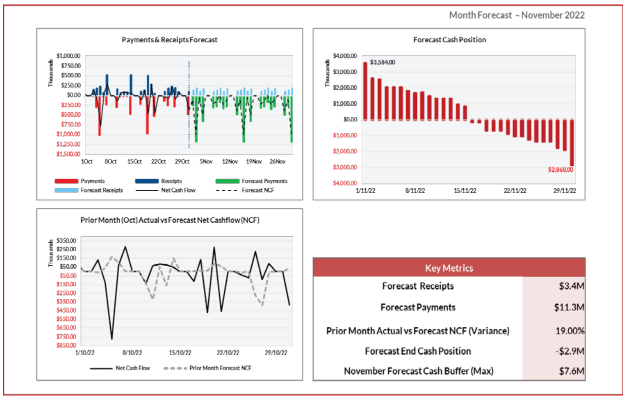
- Multiple bank accounts and term deposits with pockets of cash spread across the branch network.
- Management time taken up with manual and error prone spreadsheet-based processes to manage cash and liquidity.
- No intra-month visibility of cash and difficulty tracking branch cash positions and term deposits.

Solutions

- Implement recommended liquidity/account structure - reduce the number of accounts, increase cash centralisation and eliminate idle cash.
- Reduce manual effort to extract data, strengthen cash forecasting process and adopt the cash & liquidity dashboard visualisation tool with specific key metrics to manage working capital dynamically.
- Interbranch process that minimises excess daily cash held.

Benefits

- >$5m excess cash identified.
- ~25% reduction in FTE time.
- Improved data quality with 100% cash visibility.
- Improved working capital management.



Screenshot - Cash & Liquidity Visualisation Dashboard

To understand the amount, and so materiality of cash that might be 'available' in your business, please talk to your advisor.

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