Benchmarking Workshop

Cash and Treasury Management

Introduction

These notes summarise the key points from a workshop held on Tuesday 14 March 2006 at CFDG in London, on the topic of cash and treasury management. The notes are structured as follows:

- Key findings on cash and treasury management from Finance Count™ 2005
- Case study from Royal National Theatre
- Emerging Good Practice

PROMOTING BEST PRACTICE IN CHARITY FINANCE

Agenda Consulting

Key findings from Finance Count™ 2005

Finance Count™ 2005 involved benchmarking the financial management processes of 127 medium and large voluntary and community organisations in the UK. The aims were to enable those organisations to compare their performance with each other, to pinpoint their strengths and weaknesses, and to build an overall picture of the financial management of VCOs in the UK.

Findings relating to cash and treasury management are as follows:

- There was large variation in the minimum bank balance as a percentage of income. The median was 6.6%, but 25% of respondents had a figure lower than 2% and 25% had a figure higher than 21%.
- There was large variation in the maximum balance as a percentage of income. The median here was 21%, but 25% of respondents had a figure lower than 13% and 25% had a figure higher than 26%.
- The most common factors driving the reserves policy was: a) ensuring a proportion of unrestricted funds to meet short term requirements (79%), assessment of income, expenditure and cash flow needs (75%), based on risk portfolio (62%).
- In relation to the percentage of input VAT recovered, the median was 38%, but there was significant variation. Also larger organisations tended to recover a higher percentage of their input VAT than smaller ones.
- The value of free reserves as a % of unrestricted income was 23% at the median.
- The average rate for on call deposits in December 04 was 4.46%.
- 76% of respondents had designated funds.
- 24% of respondents use short-term overdraft as part of their funding structure.

Case study: Cash and Treasury Management
Organisation: Royal National Theatre
Presenters: Lisa Burger (Finance Director), Grace Chan (Head of Financial Accounting), Soka Kapundu (Financial Accountant)

- Size: £45 million turnover

In overview, National Theatre (NT) is based on the South Bank in London, has 3 theatres, 900 employees and a cost base of £45m. There were 800,000 paid admissions last year, and there is also trading income from a number of sources including bookshops, restaurants, bars and a car park. Income breakdown is as follows: Bacs/direct debits – 54%, cash/cheques – 15%, credit cards 32%.

Lisa observed that the relationship with one’s bank is an important one, particularly when there are financial issues and one needs one’s bank to understand the context. There were a number of reasons that the NT wanted to change their bank. These were:

- Poor service – there was little attempt on the part of the bank to understand the client, no value added skills or services offered and a considerable amount of frustration experienced in resolving day to day issues.
- It is widely seen as good practice to review banking arrangements.

* There is continuous pressure at NT to drive down the cost base. By reviewing their banking arrangements, the Finance department could demonstrate its contribution to this.
* Fraud at the bank's parent company accelerated the above reasons.

However, there were also some perceived barriers that resulted in NT taking time before deciding to switch banks. These were:

* Perception that NT was getting a good deal – costs appeared low.
* Perception that change would be difficult, particularly given the high number of direct debit transactions.
* Uncertainty about how long the process of change would take.
* A worry that service levels might fall if the bank knows that we are looking elsewhere.

The process of change that the NT embarked on took 6 months in total. The main steps were:

1. Develop an invitation to tender. This to include selection criteria, levels of service quality required, and all core requirements.
2. Send the ITT to interested banks.
3. Review tenders received.
4. Shortlist for interview based on review of tenders against the ITT.
5. Interview short listed banks and score against ITT.
6. Make recommendation to Finance and Audit Committee.
7. Inform selected bank and existing bank.
8. New bank undertakes due diligence.
9. Change over process once new bank has been appointed (2-3 months).

The change over process is quite time consuming and there is a lot of work to get the new account live. In particular direct debits and standing orders will be switched over automatically but this depends on the outgoing bank telling the new bank the details. It is safe to allow a month for this.

Key learning points:

* Just do it – it is an important part of the finance function to review its own costs and demand high standards from suppliers.
* You need a good bank relationship – particularly in relation to specific needs of the charity sector and cash flow management.
* Ensure that during the process of change your relationship with your outgoing bank does not break down – you will need information from them!
* Keep at least on account open with the outgoing bank to catch any credits from customers – otherwise they will be returned to sender.
* NT will save around £20k over 5 years from changing banks.

Other savings and improvements undertaken by NT

* Foreign exchange payments were outsourced to an independent provider.
* NT has an internal Cash Office – which consolidates bank processing.
* Use of company credit cards.
* Bank statements are formatted to assist with automatic General Ledger reconciliations. This has been a great improvement.
* Increase receipts and payments through BACS – NT has had a drive in this area.
* Online banking – and reduced interest payments as a result.

- It is important to manage risk – e.g. for NT a significant number of credit card payments means that it is important to be up to speed on latest thinking on credit card processing.
- To reduce risk, NT decided to split cash between 2 banks.

Emerging Good Practice arsing from the discussion at the meeting

Market test your bank:
- You deserve a good relationship and low costs.
- Define your requirements – the service you want.
- Complain – when service not up to scratch.
- Shop around.
- Some banks take the charity sector seriously. Banks considered by participants to offer the charity sector a good service include: Coutts, Barclays, RBS.

Getting more from your bank:
- Move some cash out.
- Explain your needs to your manager.
- Persevere.

Change Management re changing your bank:
- Allow 6 months overall.
- Allow 3 months from appointment of new bank to go live date.
- Keep old account and main relationship with outgoing bank.
- Use a tender process.

Cash management:
- Diversify cash beyond the main bank.
- Use overnight sweeps and ensure that your money is earning interest.
- Sweep in from other accounts.
- Ensure that the interest rate is based on the holdings in all accounts – not just the main account.
- Use an IFA to advise on a money market account.

Creditor payments:
- Pay swiftly to avoid receiving calls from suppliers and resulting inefficiency.

Investments:
- Can put out management of investments to tender as well.
- Use of an investment consultant can be useful.
- Develop a policy for your investments and involve experts on your investment committee.

Cash Flow forecasting
- A 12-month rolling forecast is effective.
- Reconcile actuals and projections – and highlight any differences.

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