



2011 WINNING CASE STUDY Finance and Risk Management Novo Altum with Northern Rock



Executive Summary

It has been said that “determination, patience and courage are the only things needed to improve any situation”.

In February 2009, HM Treasury announced the legal and capital restructuring of Northern Rock following its £27 billion refinancing and, precipitated by the first run on a UK bank for 150 years. The acting Chief Financial Officer knew that he would need more than that – he would need a trusted, professional adviser.

Being faced with the unprecedented challenge of delivering such a highly complex and technically demanding restructuring programme with a Finance function, he urgently required a team of highly experienced consultants to define a pragmatic way forward.

It was important to Northern Rock that its professional adviser demonstrated leadership in defining a solution that would exactly meet its requirements; the bank also needed „navigators“ to provide the specialist knowledge and insight, and „coaches“ to instil a collaborative way of working – that would develop and rebuild the Finance function.

Together, this team defined and delivered the separation of Northern Rock plc’s Finance function in just nine months.

In doing so, it separated the accounting, general ledger, financial systems, organisation, operating and service delivery model, the management and regulatory reporting, changed the UK primary tax legislation for carried forward tax liabilities, while delivering the financial year end to ensure that two Finance functions were fully operational and functioning on day one.

Novo Altum – the team behind the headlines.

Project and approach

The client problem

August 9th, 2007 was the day the markets froze. For the global financial markets, it marked the beginning of a period of unprecedented turmoil that redrew the entire economic landscape. For our client, Northern Rock, the UK’s fifth largest mortgage lender, it meant a devastating end to the wholesale financing on which it relied.

On September 14th, 2007 the world’s media reported that tens of thousands of Northern Rock customers were queuing outside branches. Over the ensuing four days and despite the repeated

assurances from the Bank of England and the FSA, a total of 20% (approximately) of all deposits were withdrawn. It was the first run on a UK bank since 1866!

HM Government, HM Treasury and the Bank of England were forced to inject £27 billion into Northern Rock to prevent its collapse. Northern Rock was taken into temporary public ownership; a new board and management team took control and 1,300 employees were made redundant.

Following a strategic review, HM Treasury, announced the legal and capital restructuring of Northern Rock into two new entities – Northern Rock plc and Northern Rock (Asset Management) plc.

Such a restructuring programme had never been undertaken in the UK before, it was without precedent. Consequently, the precise details of the design and how the split could be achieved had not been determined, nor the features necessary to satisfy EC requirements.

It was widely recognised that the overall success of the restructuring programme would have a significant dependency on the successful division of the Finance and Treasury functions. Moreover, the bank could not be legally separated until the accounting, general ledger, financial systems, organisation, operating model and the management and regulatory reporting had been separated.

The acting CFO at the time recognised that to successfully deliver such a complex and technically challenging restructuring programme, whilst maintaining „business as usual“, with an already exhausted and battle scarred Finance team, was an impossible task.

The solution and objectives

Following the HM Treasury announcement of the legal and capital restructuring of Northern Rock, Tom Wood, MD Finance initiated a selection process to appoint a professional advisor to support Finance, Treasury and Tax.

He says: “During each interaction throughout the formal selection process, one firm clearly stood out – Novo Altum. We were extremely impressed by their successful delivery of a complex, time-critical and global assignment at another client. As a specialist Finance and Performance Management advisory firm, we quickly recognised that their team of highly experienced consultants demonstrated a clear understanding of our situation and had defined a solution that would exactly meet our requirements.”

Together, we successfully delivered the following key objectives:

- Conducted a “pathfinder” review of Finance, Treasury and Tax to validate the proposed solution and ensure that it would deliver all of the clients’ requirements.
- Defined the strategy, design and future architecture of Finance, Treasury and Tax for each of the new legal entities.
- Produced and managed a comprehensive programme and implementation plan that specified: the activities to be undertaken (5,000+); assigned owners; target dates for completion; known interdependencies; associated risks and issues; mitigation and contingency plans; testing and validation management; transition management and resource requirements.
- Worked with HM Treasury to secure a permanent change in the taxation legislation to enable the carry forward of £700 million of tax liabilities associated with the existing mortgage book.

- Developed a comprehensive communication and stakeholder engagement plan to ensure open, transparent, consistent, structured and timely engagement across the Finance, Treasury and Tax functions.
- Provided of a team of highly experienced consultants with the required technical capabilities and competencies to ensure the successful implementation of the programme (including a dedicated, professional project management office).
- Coached and developed the clients' people so that the requisite skills, capabilities and competencies were embedded in the organisation to ensure the sustainability of this vast programme of change.

The successful completion of these key objectives was a fundamental part of the successful legal and capital restructuring of Northern Rock plc. At 00:01 on January 1, 2010, the legal and capital restructure of the former Northern Rock business was successfully completed to create a new retail bank with £19 billion of retail deposits and an asset management vehicle of £50 billion of mortgage accounts.

Process & skills

Novo Altum used the client's formal selection process to determine the exact resource requirements, and then matched our people with the right skills, cultural fit and values to the preferred team structure. The initial team consisted of three resources, and was lead by Shane Mugan.

We agreed with Northern Rock, that the most pragmatic approach would be to conduct a "pathfinder" review to better understand the client's situation, define scope and validate a solution that would deliver all requirements. Together, we determined the additional resources requirements and produce a comprehensive programme plan.

We ensured that each person in the Novo Altum team had a minimum of 12 years of relevant experience in complex change programmes in Finance.

Working with our client, we proactively ensured that a balance was maintained between the in-depth internal knowledge of how the bank operated, and significant consulting experience. This ensured that Northern Rock would retain control and responsibility for its own future and ensured that the change was sustainable.

Over the course of this assignment, we provided the following skills and capability; business and technical architects; financial systems experts; testing managers; transition managers; programme and project managers; change managers; and IFRS accountants.

The challenges faced

When you are involved in a high profile project of national significance and the proposed solution has never been attempted before, the challenges that you are likely to face will be unique and demand innovative responses.

The project was governed by an extraordinary stakeholder environment, including; HM Government, HM Treasury, FSA, Bank of England, European Commission, two new PLC board and management teams, two PLC CFOs, two steering groups, 200 employees in Finance and the 62 million citizens of the United Kingdom. The intense public scrutiny, pressure and expectation were palpable!

The client team was severely depleted and understandably exhausted having already worked through a prolonged period of extreme pressure and uncertainty. Further, there was a high degree of scepticism regarding the engagement of a consulting partner and their ability to deliver on their commitments.

It had been determined that the restructuring programme needed to be completed within nine months, which coincided with the financial year-end.

The formidable technical challenge was also remarkable – splitting a bank into two new legal entities with separate; general ledgers, financial systems, accounting policies and procedures, cash management, organisations, management teams, controls environment, reporting requirements, data, and liquidity, capital and deposit requirements all to be fully operational on day one.

This programme called for an extraordinary approach that would bring the best out of everyone on the programme, client as well as consultant.

Our approach

The exceptional nature of the challenges presented by the restructuring programme meant that it became increasingly important for Finance to retain ownership of both the problem and the solution.

We knew that in order for that to happen, we would need to earn the trust of the client team, clearly demonstrate leadership, capabilities and specialist expertise as well as evidence of our commitment to sustainable change.

Our approach was simple – we became our client!

We kept the consulting team to no more than five resources and worked hard to fully integrate with the client team – which extended to our team wearing client staff badges, using only client technology and equipment (laptops, email accounts and BlackBerrys), and locating ourselves in the middle of the Finance staff in an open-plan office.

The initial ‘path finder’ review, allowed us to understand the client’s situation and define a solution that would exactly meet their requirements; we were able to demonstrate our experience and insight and became trusted by our client.

Through that experience, each person that we encountered at Northern Rock recognised our commitment to sustainable change and leadership, which was further evidenced by our collegiate approach and open, honest and transparent ways of working.

Outcomes

Fundamentally, the success achieved on this unique restructuring assignment ensured the seamless transition and operation to the two new legal entities – Northern Rock plc. and Northern Rock (Asset Management) plc.

In reality, this meant that:

- Two Finance functions were fully operational from day one, at the same time as the financial year end, normally the busiest times of the year for any finance function.
- It created two “fully tested” separate general ledgers to accurately record and report transactions separately and immediately following the separation to allow liquidity management, daily reconciliations, management reporting, regulatory reporting and financial accounting continue for two separate businesses without interruption.
- CFOs and their respective Finance teams were in place for both companies.
- All procedures and processes were implemented to ensure a robust control environment.
- Confidentiality of information, service level agreements and conflicts of interests were also being managed effectively.
- That year end was delivered in accordance with the normal timetable with month end management accounts and regulatory reports for both companies.
- Petitioning HM Treasury and HM Government to successfully secure the necessary changes to the primary tax legislation to ensure tax losses could be carried forward.
- Independent recognition at the North East Accountancy Awards, which awarded Northern Rock Tax Team of the Year 2010, and Tax Advisor of the Year 2010.
- Being the first bank to receive UK and EC approval, paving the way for the separation – similar transformation projects at Lloyds and Royal Bank of Scotland are still ongoing.

Client testimonials

“Engaging Novo Altum early in the Finance project was one of the best decisions I made on the entire project. Their commitment, professionalism and years of experience resulted in us being ahead of the game at all times and ultimately in the smooth delivery of the split on time and error free. We would not have achieved what we did in the timeframe without them”.

Dave Jones, Acting CFO, Northern Rock Plc.

“Novo Altum fielded a team of consultants with such a vast range of financial sector re-engineering expertise; complex project management abilities; deep specialist subject matter knowledge and practical transition management skills that they made an immediate and lasting impact. With an emphasis on sustainable change fully aligned with corporate strategic objectives this was management consultancy at its best. This would not have happened without the Novo Altum team.”

Paul Davies, Head of Tax, Northern Rock Plc.