

News

March 2006

Our Partners Are Your Partners



Busy Or Productive?

Is 'being busy' set to become *the* disease of the twenty first century? Take a minute to think about your own habits or a busy colleague and consider what may be the real effects on your productivity. The drive or the need to be busy can actually destroy productivity and, at its worst, can kill a person. How can you change your habits and improve your productivity?

When measured correctly, productivity is not measured by how many hours you work. It should be measured by what you are producing or delivering. Spending too much time at work can lead to poor productivity if there is no time left for a balanced lifestyle – important things like enjoying your life, sleeping, eating, and exercising. Working too many hours might reduce your productivity when it leads to a lack of clarity and creativity, and when poor decisions are made due to fatigue or slow thinking. How much better is your productivity when your mind is sharp? Do some simple math – if you can work 8 hours at 95% productivity, you will achieve just as much as 9.5 hours at 80% productivity.

NO TIME TO REST?

What if you (or that colleague?) are so busy that you spend barely a few minutes a day on your health and very little time each week to rest, relax, and enjoy yourself? This can be described as working up a state of deferred living. This deferment of living puts off many good intentions and life-enhancing activities to the future – a future that may never eventuate. You may have witnessed the frenzy that busy people create in the lead up to their holiday. Or even just to take a weekday off to create a long weekend or to play golf. Many of those busy people work themselves

into a body thrashing and brain killing pace to earn their break or justify their absence. Have you hear the claim... "I end up doing an extra week's work so I can have a week off!"

Worse still are those people who extend their deferred living all the way until their retirement. What if you don't make it that far? As a consequence of 'being busy' the average Australian male now has his first heart attack or stroke at the age of 56 and it is not uncommon for busy people to have their first stroke at 35 or 40. The average Australian female might live to around 82 years of age and will have her first heart attack or stroke at around 64. The biggest risks of dying are health related conditions of cancer, heart attack, and stroke.

GOOD HEALTH ... GOOD PRODUCTIVITY

Consider the simple correlation of your health and productivity. Given that you get paid for your ability to make good decisions, how much better are those decisions or how much easier are they to make when you feel healthy? Then consider how much better your business operates or your job gets done when you make good decisions. If good productivity helped you to get the work done in fewer hours, you could spend the extra hours enjoying life and good health. In turn this could help you maintain good productivity – rather than being stuck in a vicious circle you could be in a healthy circle.

Poor health reduces your focus, concentration, and capacity to make good decisions. Think about the times of poor health that lead to fatigue and foggy thinking, result in increased irritability and annoyance, and then cause mistakes. You may be ill for a short while and feel "I cannot afford to be sick" – this is when you are extremely run down and recognise your condition. Consider the longer time periods that go unrecognised – you may not be at 100% productivity but do not recognise it while you feel 'normal'.

Being 'busy' often means a lack of time to eat well. Poor food, poorly chewed is more difficult to digest. This increases problems for your digestive system such as indigestion, bloating, gas, and constipation. Plus you simply will not get the best nutrition from poor food choices and you will diminish your mental and physical capacity.

Then what can I do? Take some time to think about the issues, spend time each day on your health, and read next month's issue for some further guidance.

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In Search Of Super

You can now search for your lost (or misplaced) superannuation benefits quickly and easily using *SuperSeeker*. This is an ATO backed service available either online or by calling a 24/7 self-help phone service on 13 28 65.

To make use of the service you will need your tax file number, your name (for online searches), and your date of birth. Superannuation funds

began collecting members' tax file numbers on their application forms and other documents some years ago. The TFN allows the funds to send details of money (and lost members) to the ATO.

If you want to check online >
<https://superseeker.super.ato.gov.au>

SuperSeeker can instantly provide you with possible matches to superannuation funds which have reported you as lost – essentially when they cannot locate you for two years and there has been no action on your account. If you can recall or suspect you should have some old superannuation amounts scattered about, look into it. Your money could be sitting idle and it is worth investigating.

Good News For Trustees

Directors of corporate trustee companies can once again breathe normally. The traditional interpretation of the law relating to individuals acting as trustee directors has been re-established with the necessary amendments to the Corporations Act having royal assent. Trustees should not be personally liable for the debts of the trust.

The amendment was introduced by the Government last year to ensure that directors of corporate trustees are treated fairly in comparison to other company directors. It was made in response to the Hanel case judgement of December 2003 which extended the circumstances in which a director of a corporate trustee company would be held personally liable under subsection 197(1) of the Corporations Act.

The judgement, made by the Full Court of the South Australian Supreme Court, meant that directors of corporate trustees were regarded as effectively guaranteeing trust liabilities in the event that there were insufficient trust assets to meet the liabilities. Prior to that judgement, trustees had understood that in ordinary circumstances they were entitled to be indemnified against trust liabilities out of the trust assets and were only liable to that extent.

The court judgement may have been inconspicuous except for the possible wider-reaching effects. Whether or not the



possible adverse implications arising from the court's interpretation were considered, they needed to be addressed. The amendment to the Act is sensible.

There are of course still reasons to be cautious and circumstances where trustees can be liable for trust debts. The amended law could still hold a director of a corporate trustee personally liable where there has been a breach of trust or where the trustee has acted beyond the scope of its powers embodied in the trust deed. Also, if a

restriction exists in the terms of the trust that denies or limits a right of indemnity against the trust assets, this may also result in the directors being personally liable.

Trustees of course should always act for and in the best interests of the trust beneficiaries. Trustees should not incur debts that the trust cannot pay as and when they fall due and should not trade in an insolvent manner – just as in any business structure. Contact your Sothertons partner for more information.

DESK DIARY

"Let it go. Let it out. Let it all unravel.
Let it free and it can be
A path on which to travel."

Michael Leunig

Cash Management – It's Vital



One of the most frightening things to a business owner is the thought of running out of cash. Many stories demonstrate how many businesses fail to have a well planned cash strategy and suffer a cash crisis. Such a crisis can result in a loss of confidence across many areas – the financial stakeholders can lose faith in management, suppliers become reluctant to deliver, growth and improvement are impeded, and try explaining to staff why their wages cannot be paid on time!

Your cash management strategy will include your cash forecast, measurement against that forecast, analysis of variances, creditor payment planning and debtor collection procedures. There are considerable benefits for businesses which develop a sound cash management strategy including:

- improved shareholder value by ensuring sufficient cash flow for current requirements and future developments;
- strengthening the underlying business by encouraging management to focus on areas directly within their control;
- helping management understand and sustain the future cash position and requirements of the business;
- creating confidence with the financial stakeholders as the business delivers on cash flow forecasts and maintains a positive position; and,
- opening up improvement and growth opportunities which can be met with cash reserves.

Whilst cash is not the only necessity of a business, it is vital. Like water (or oxygen even?) you can only go so long without it before the consequences are diabolic. So you should have a cash management strategy that links to the rest of your business plan and operating procedures to ensure that the cash position remains 'in the

black'. A lack of consideration to the importance of cash and a cash management strategy may be indicated by:

- KPI measurements based on sales growth and other earnings bases, even profit, without reference to cash;
- Divisions and subsidiaries being measured on operating profit and ignoring cash flows;
- Management incentives being based on sales and profit targets rather than cash targets;
- Those profit targets omitting a charge for the cost of capital;
- Cash forecasts being prepared on a 'bottom up' rather than 'top down' basis with little regard to or understanding of actual cash flows;
- Cash flow forecasts from subsidiaries used only for reporting and not built in to the parent's cash management strategy;
- Treasurers that see their role as managing financing facilities, not cash performance; and,
- Loose controls and procedures to preserve and generate cash.

When cash reserves run out and the position becomes tight the situation can quickly get worse. Suppliers who are not paid on time may react by reducing the credit period offered (due to diminished confidence) or even demanding payment COD - just what you do not need! Employees concerned with the cash position may consider their tenure to be weak and seek employment elsewhere forcing you into expensive recruitment costs. Shareholders and financiers become concerned over their investment and may be reluctant to put more funds in when you realise that you are undercapitalised and ask for more cash. Just when you need to be 'cut some slack'

the noose is more likely to tighten!

The consequences of paying insufficient attention to cash flows and cash management strategy can be:

- Management decisions are made based on profit rather than cash - what if this is counter-productive to the business's ability to generate cash?
- Business is not adequately focused on generating cash and does not meet targets or cash requirements.
- Actions taken by the business that do generate cash do not enjoy the maximum or optimal cash flow benefits.
- Divisions absorb too much cash, without penalty or without being reigned in early enough.
- The true cash requirements of the business are unclear resulting in regular differences between cash positions and cash forecast.
- Business units insist that they need a large cash balance to operate but do not consider cash as their responsibility.
- The business fails to meet refinancing or repayment targets, potentially causing a breach of covenant and expensive remedial or legal costs.
- Cash flows out without sufficient regard to the cash balance or cash inflows and cash reserves soon dry up.
- Cash reserves get very low and the business starts to behave in an insolvent manner (which may be self-fulfilling).
- Inefficient use of cash and high capital demands result in a low return on capital.

Accurate cash flow forecasting is an important consideration at the beginning of any business and at regular review intervals. Those forecasts must prepare the business for its cash requirements so that the financial stakeholders can ensure that the business is adequately capitalised. A sensitivity analysis should also be conducted – sufficient tolerance must be built in as when cash reaches a crisis point there is little room or time to move. Not surprisingly many businesses without a clear cash management strategy soon suffer from cash flow crises. Without appropriate remedies, these businesses can soon fail – wouldn't you rather plan ahead properly and prosper?

Did You Know?

According to the Private Health Insurance Administration Council, over 43% of Australians now hold private health insurance. 8.5million people apparently have private ancillary cover making a total of over 10 million people with some form of cover.

The number of people with hospital cover jumped with the introduction of the 1% Medicare Levy surcharge and Lifetime Health Cover in the year 2000. At the end of 1999, just under 6 million people had hospital cover and a year later the figure was over 8.7 million (with a large jump in June 2000!). That number has remained stable with increases and decreases being less than 1% each calendar year until the 1.2% increase in 2005.

There is a lower than average representation in the younger age categories – particularly in the 20 to 29 age category. Over the last 5 years the general trend has been increases in persons aged 20 to 24 and aged 55 and over whilst at the same time there were decreases for 25 to 54 year olds and those aged under 20. In 2005 there was an increase in membership for persons aged 25 to 29.

Pop quiz: Are you one who visits the physiotherapist (or the chiropractor/dentist/etc.) and never finds time to fill in the claim form for the health fund reimbursement?

IMPORTANT: Professional advice should be considered before acting in any area. Clients and readers should not act solely on the material contained in this newsletter which is in the nature of general comments only. Material may or may not be applicable to your particular circumstances and changes in legislation sometimes occur quickly.

For details of each firm's financial planning arrangements and assistance with your financial affairs, please contact your Sothertons partner. Any decision to invest or not to invest should only be made after considering the specific advice of a licensed financial adviser.

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