Business Comment: Terry Murden

Banks are more cautious – but still prone to self-harm

THE time is long past when the bankers went into the reporting season puffing out their chests, ready to reveal another round of record profits and plans to take on the world. These days they must approach the annual set-piece announcements with a mix of hope and trepidation.

Eric Daniels will at least leave Lloyds on a positive note, having restored the bank to profit and with all the numbers heading in the right direction. It has been a theme of this column that the bank would accelerate disposal plans to meet halfway those calling for a full-scale break-up, and his successor, Antonio Horta-Osorio, appears committed to such a programme.

Over at Gogarburn, nerves are still jangling and, as we reveal today, the sensitive issue of pay remains a touchy one that will require some careful handling.

Royal Bank of Scotland is out of intensive care, but is still deep in recovery mode. Arguably, chief executive Stephen Hester's most notable achievement is not so much the progress he has made in turning it around but in managing expectations.

He continues to play down talk of the government selling its stake early or of any likely appreciation in the share price which would help determine such an outcome.

But he is clearly frustrated by the restrictions that the banking crisis inevitably forced upon the company. On pay, on lending, on expansion of any kind, he must heed the Treasury's guidance and do nothing that suggests a move back toward risk and excess.

When he pronounces the bank's latest results this week he will be at pains to emphasise its impeccable behaviour, its commitment to shrinking the balance sheet, meeting lending targets and its adherence to the will of government to the extent that it has paid some £4 billion in taxes and fees despite making a bottom line loss.

The pay issue will be brushed aside though, as we reveal today, there is a continuing struggle over paying good money for the best people while meeting the public's demands for greater restraint. Hester has the capacity to speak his mind, but knows that the banking industry's bargaining position with politicians and regulators is not what it was, even though the banks emerged from the Project Merlin talks with little more than a few flesh wounds.

As we await the recommendations of the Independent Commission on Banking on the future shape of the sector, the banks will want to shift opinion away from break-ups and further punitive taxes and regulations. But they are not helped by the revelation that Barclays paid just £113 million in corporation tax in 2009 despite making profits of £12bn. In what looks like a complex form of tax avoidance, it has emerged that Barclays' top line tax payment of £2bn was mainly in employees paying income tax and national insurance.

A new controversy in the sector is the last thing that RBS and Lloyds need ahead of their presentations this week, but this latest revelation shows that the banks retain the ability to shoot themselves in the foot.

PM's letter shows the stakes are high

DAVID Cameron's intervention in the dispute between Cairn Energy and the Indian government indicates how serious it has become. The Prime Minister's letter to his counterpart Manmohan Singh is a rare move in trade relations, but the stakes are high for all concerned.

The state-owned Oil and Natural Gas Corporation wants to alter the terms of a deal on Cairn's Rajasthan asset, held by Cairn India, so that the Scottish company pays royalties.

Cairn requires the £5.4bn sale of a 51 per cent stake in Cairn India to Vedanta Resources to help fund its explorations off the coast of Greenland. Vedanta would need to find alternative means of expanding in India if the deal collapses.

It also risks damaging trade relations between Britain and India, hence Cameron's missive last week.

In fact, India could be the biggest loser. It badly needs foreign investment to meet the cost of a massive infrastructure programme, but its actions are likely to act as an added deterrent to its already damaged reputation for corruption and by a lawsuit against Vodafone for $2.5bn in capital gains tax that was supposed to be exempt.

Sir Bill Gammell, Cairn's chief executive, at least has the comfort of knowing that should the deal be called off he'll be left with an asset that has appreciated in value since the sale was announced last summer.

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Pre-fab firm sprouts as its market changes

Focus shifts as Wishaw company plans £100m global assault

Scott Reid
Deputy Business Editor

A LANARKSHIRE manufacturer of prefabricated buildings is planning a £100 million global assault after signing up a string of licensees.

Powerwall, which runs a ten-acre production site in Wishaw and employs about 80 staff, said it was seeing "significant interest" in its building technology from across the world. The firm's fabricated structural frames, reaching up to 22 storeys, can be used in housing developments, schools and hotels and are said to offer major time and cost savings over traditional building techniques.

Focus has been on the domestic market but the company is planning a major UK and international expansion.

It has signed up five partners who will be able to use Powerwall's patented "volumetric" building system on either side of the Irish border, in the south-east of England, Saudi Arabia and Qatar and is currently eyeing other areas of the Middle East, mainland Europe and North America.

Joe Pacitti, who was brought in to head up the licensee division ten months ago, said there was the potential to sign up 100 partners within the next ten years, providing the Scots firm with a global footprint.

There would be manufacturing in each local market, with Powerwall pocketing an upfront licence fee.

'We get an initial fee but the key is the royalty for every square metre'

Pacitti said the major revenue would come from a royalty payment for every square metre of modular constructed.

"Over the next five to ten years, we could be looking at £50m to £100m of business," he said. "We get an initial licence fee but the key is the royalty for every square metre or foot.

"In Canada, for example, we could have three licensees and between six and ten in the US. I reckon that for every 12-15 million of population there could be a manufacturing plant without encroaching on other operators.

"We could be looking at 100 licensees in ten years, but that could come earlier as we build up a head of steam. As it is based on a royalty system, we are looking at a recurring revenue stream."

The company, which turns over some £15m, began developing its modular building technology about 20 years ago but admits to having faced a "very conservative" construction sector at the time, with limited uptake.

Having "quietly worked away in the background" on more conventional areas such as rendering, the firm has recently benfited from market changes.

An increasing number of developers, housebuilders and architects are opting for structures that are fabricated off-site and under cover before being trucked in and assembled on location.

Musician Jim Duncan has now sold 50,000 of his capo keyrings in ten countries. Photograph: Phil Wilkinson

Key gadget strikes a chord with guitarists

Erikka Askeland

JIM Duncan was an out-of-work musician when his girlfriend told him it was time to get a job. Instead, he invented a device that is gathering its own fan base.

He has created a keyring for the capo that musicians use to slide up and down the neck of a guitar to change the pitch.

The trouble for Duncan was, when it came time to make his guitar gently weep, he could never locate his capo.

So the concept of creating the capo as a harder-to-lose keyring was born.

Its success came after Duncan's decision to approach legendary amplifier brand, Marshall, to endorse the product.

As a result, Duncan's capo keyring, bearing Marshall's logo, is available for sale on its website as well as in music shops. Duncan has since sold 50,000 of the keyrings in ten countries.

Having taken up all the support he could find, from the Job Centre to the Business Gateway, he resisted one piece of advice to have the keyring made in the Far East.

Instead he chose to work with a Glasgow injection moulding firm, Pascoe Engineering.

Clive Robinson, a technology adviser at Napier University's EDTC Technology Gateway, another of Duncan's supporters, said: "This is one of the best products I have seen coming through our centre.

"It is not only a great design in its own right but it is a great vehicle for marketing such as company endorsements. It is also very well put together."

Network Rail moves to regional structure

Dominic Jeff

NETWORK Rail's Scottish operation is set to become a semi-independent business as the company moves to a more "devolved" structure.

The company, set up by the UK government to manage Britain's rail infrastructure, plans to give greater autonomy to its nine regional operations, known as "routes".

Each division will be run by a managing director, with Scotland route director David Simpson a likely candidate to run the new business north of the Border.

Ron McAulay, one of two directors representing Scotland on the Network Rail board, announced recently that he was stepping down.

Network Rail said in a statement that it was restructuring "to better align itself to the needs of both its customers and passengers".

Chief executive David Higgins said: "Network Rail has saved money and transformed the railway through central control, but to make further improvements in all areas we now need to increase responsiveness at a local level.

"We're devolving accountability to the route level so that we can get closer to our customers and be in a better position to deliver improvements to passengers and freight users, while reducing costs."

David Higgins: reducing costs

He said each new route managing director would, in effect, be running their own infrastructure railway business with significant annual turnover and resources, although a central company will remain.

The Scotland and Wessex routes will be the first to make the change, starting in April. Assuming the changes prove successful, the other routes will follow.

Rail companies are bracing themselves for heavy criticism when Sir Roy McNulty presents his independent review of value for money in the industry in April.

An interim report in December found the industry was "fragmented" with "anomalies in the relationships and misaligned incentives" and savings of up to £1 billion a year could be made without cutting services or lowering quality.

Centrica heads for storm over profits

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disaster. A referral is unlikely, they said last week as they raised their weighting on Centrica's stock.

Centrica – which also has substantial exploration and production activities, including the North Sea assets of the former Venture Production and a 20 per cent stake in British Energy – is expected to unveil operating profits of some £2.2bn on Thursday, and pre-tax profits of about £1.9bn, up from £996m in 2009.

Within this, British Gas is expected to post a 24 per cent rise in operating profits to £740m, a figure that will no doubt chafe the millions of customers bearing the latest 7 per cent rise that came into effect in December.

The irony will resonate particularly in Scotland, where experts have warned that rising costs and job losses could leave households in the grip of economic misery for another five years to come.

"Consumers in Scotland will be asking is it fair if Scottish Gas announces bumper profits so soon after customer price rises," said Trisha McAuley, deputy director at Consumer Focus Scotland.

"It poses awkward questions over whether customers are getting a raw deal."

She added that although British Gas has been better than the other Big Six suppliers at opening its books, "greater openness is long overdue".

Otherwise, consumer mistrust will only increase.

"We recognise companies need to make reasonable profits and invest in our energy infrastructure, but Ofgem also needs to ensure customers are being charged fairly," McAuley said.

'It poses questions over whether customers get a raw deal'

"We are also urging the UK government to embrace new EU legislation so that Ofgem can force suppliers to disclose the prices they pay for energy."

Ofgem's retail energy market review, which is examining the relationship between wholesale costs and domestic bills, is due to be published next month.