Outsider set to control our skies

Dominic O'Connell

AIRLINES and the Treasury are set to sell a controlling stake in Britain's air-traffic control service to an outside investor.

Aviation sources said the sale — likely to be controversial — could be announced in the next few months. Investors will be offered a majority stake in National Air Traffic Services (Nats), the partly privatised company that operates Britain's airways.

The state owns 49% of Nats, and a group of six airlines including British Airways, Virgin and Easyjet 42%. BAA, the airport operator, has 4%, and employees own 5%.

Nats, which has 5,000 staff, controls nearly all flights — 2m a year — in British airspace. Last year it had sales of £770m and made a £106m profit, from which it paid a dividend of £40m.

Its future has been uncertain since chancellor George Osborne announced last year that he planned a sale. Hopes of a quick deal were dashed by the complexities — and political sensitivities — of air-traffic control. The airlines were also divided on the best way forward.

It is understood, however, that all six have agreed to stay in. They are likely to cut their stake to about 20%, with the government selling down to a similar level. BAA would also sell. The new investor would take a controlling stake.

Insiders say final government sign-off on the scheme has been held up by Budget deliberations, but the airlines are intent on a joint sale with the government rather than selling independently.

The auction is likely to attract a wide field of bidders, among them infrastructure funds and rival air-traffic control providers. Deutsche Flugsicherung (DFS), the German air-traffic service, has been tipped as a leading contender. It wants the deal to be a catalyst for a radical shake-up of European air traffic control.

CASHMERE KING

Brunello Cucinelli is seeking long-term guardians for his brand

Brunello and the golden fleece

ANOTHER fashion brand is set to cash in on investors' insatiable lust for luxury with a Milan float later this year, *writes Kate Walsh.*

Brunello Cucinelli, the Italian maker of £1,600 cashmere sweaters — whose website claims "beauty will save the world" — is preparing to go public in May. Sources said this could value the business at up to €500m (£420m).

The listing comes hot on the well-turned heels of several other luxury floats, including those by Michael Kors, Prada and Salvatore Ferragamo. Graff, the high-end British jeweller, filed for a Hong Kong listing last month.

Cucinelli, which has a store in Mayfair, posted a pre-tax profit of €30m last year on revenue of €242m. The company's founder, who describes himself as a keen philosopher, said he wanted to go public to find "new long-term guardians" for the business he founded in 1978 by selling coloured cashmere sweaters.

HBOS hid bad loans from its auditors

High street bank concealed disastrous deals and told staff to focus on revenue not risk, finds watchdog's report

Iain Dey

HBOS, the collapsed high street banking giant, hid problem loans from its own auditors as it hurtled towards financial ruin, the City watchdog has revealed.

The Financial Services Authority (FSA) said on Friday that it had found the bank guilty of "serious misconduct" during the last two years of its life.

The report reveals a catalogue of errors, misjudgments and failings in the lead up to the bank's rescue by Lloyds Banking Group in September 2008. The enlarged group had to be bailed out by British taxpayers a few weeks later.

A loose system of controls ensured that loans were not being identified by the bank as "high risk" — even in instances where the borrower had already missed payments or defaulted. Warnings from the bank's auditors at KPMG over soaring bad debts and the worsening economic climate were ignored by the company, according to the regulator's report.

Although the FSA's report does not name any individuals at the bank, it is focused on the its corporate lending arm, which was run by Peter Cummings. The key period of scrutiny coincides with the reign of Andy Hornby — who now runs Coral, the bookmaker — as the bank's chief executive.

A "culture of optimism" in the corporate lending arm of HBOS was so ingrained that it turned a blind eye to the risks, the FSA said. The true extent of the problems was "not visible" to the auditors, regulators or senior management, owing to the systemic failings.

"The culture of optimism meant that, even when potential or actual default had been identified, the business area was slower than it should have been in referring the transaction to the high risk team," the FSA report said. It added that "the slow migration to high risk meant that the full extent of stress in the corporate portfolio was not visible to KPMG".

The FSA said that HBOS deserved to be hit with a "very substantial" fine owing to the scale of its failings. Such a fine was pointless, however, as it would hit taxpayers again for the bank's collapse.

The decision was criticised by Andrew Tyrie, chairman of the Commons Treasury committee. "Given the deterrent role of a fine, it would also have been helpful if the FSA could have given us an idea of the scale of the fine it would have imposed," he said.

It is understood that a separate investigation into Cummings is continuing. It is not clear whether any other former executives are under scrutiny. The report suggests that Cummings was put under pressure to generate bigger profits by Hornby. When budgeting for 2007, Cummings proposed to the bank's management that he could grow profits in the bank's corporate division by 10%-12%.

Once that proposal was discussed with the executive team, led by Hornby at the time, the profit growth target was raised to 22%. By June 2007, the corporate division was under orders to grow its profits by 35%, and lending by 10%.

About 75% of the bank's loan portfolio would have been ranked as "sub-investment grade" by global ratings agencies, the regulator said. HBOS deliberately made risky loans "to avoid losing the customer to a competitor", the report said.

"Staff were incentivised to focus on revenue rather than risk, which increased the appetite to facilitate customers, increase lending, and take on greater risk," the report added.

FTSE giants slam door on women executives

Kate Walsh

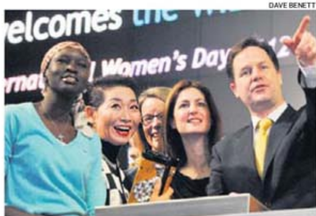
THE proportion of women holding senior executive management positions in FTSE 100 companies fell last year despite the government's efforts to address the gender imbalance.

Research from Korn Ferry Whitehead Mann, the headhunter, found that female representation on the management board — the level just below the main board — fell more than 2% last year to 15%.

This was not on the agenda at the London Stock Exchange's event to mark International Women's Day last Thursday and will make for uncomfortable reading for Lord Davies, the former banker and trade minister, who has been pushing companies to have more women at the top level.

Despite an increase at the most senior level — where female representation grew from 12.5% to 15% in the past year — the board below, which provides the pipeline of future talent, has seen a 2.2% decline.

DAVE BENETT



Nick Clegg at the Stock Exchange's Women's Day event

The research also identified 17 FTSE 100 companies with no female representation at management board level. These include Associated British Foods, owner of Primark; Wm Morrison, the supermarket chain; Schroders, the fund manager; Tate & Lyle, the food giant; and Shell.

"Female non-executives on main boards are only part of the story," Dick Olver, chairman of BAE Systems, said. "If we want to tackle discrimination in the workplace, we must have more women in key executive roles. That's the future supply of chief executives and chairmen."

For now, the government focus remains firmly on the top layer. Viviane Reding, the EU justice commissioner, began a three-month public consultation last week on quotas. Countries such as Norway have, for the past decade, forced listed companies to have boards that are 40% female.

Yet few support the quota system — even in Norway. Cecilie Ditlev-Simonsen, senior management executive at Gjensidige Forsikring, one of Norway's biggest financial companies, said it had not worked.

"The listed companies comply, but it has had no effect on the number of female chief executives and it hasn't had an effect on the number of executives below the top layer," she said.

Glass ceiling starts at 30, page 27

Suitors circle care homes

Ben Marlow

BUYOUT FIRMS are stalking Britain's biggest nursing home operator months after private equity was criticised over the demise of Southern Cross.

A raft of financial investors has made it through to a second round of bidding for Four Seasons Health Care. The company has 500 properties and cares for 25,000 elderly residents. It became Britain's No 1 operator last year after the collapse of Southern Cross — a demise some have partly attributed to past ownership by Blackstone, the private equity giant.

Among the shortlisted private equity suitors are Bain Capital, CVC, Formation Capital, and a consortium that includes Patron Capital. A firm belonging to the Hong Kong billionaire Li Ka-shing is also thought to have made it through.

Hugh Osmond, the pizza-to-pubs entrepreneur, submitted an offer but it is not clear whether he is still in the running. Bids are thought to value the company between £800m and £900m.

Four Seasons has just months to find a way to repay nearly £800m of bank loans due in September. The company thinks it can raise fresh loans, but not enough to replace existing debt. Its shareholders, led by Royal Bank of Scotland, are willing to make up the shortfall. A straight sale to a new investor now looks the most likely outcome.

Bid to ensure Pru stays put

Iain Dey

PRUDENTIAL has 10 days to persuade European regulators to ditch a set of regulations that could force it to move its headquarters out of Britain.

The Sunday Times revealed two weeks ago that Britain's biggest insurer is examining a plan to relocate its head office to Hong Kong.

The move is in response to new European capital rules that would penalise the firm's American business, forcing it to hold billions of pounds in additional capital. It would avoid the cost by moving its headquarters out of the European Union.

A key committee of the European parliament is due to vote on the relevant part of the new rules on March 21. If the vote goes the wrong way, a rule change could only be effected by persuading the European Commission, the European Council of Ministers and the European parliament to revisit it.

Government ministers are said to be lobbying furiously on the company's behalf to persuade Brussels to drop the contentious elements.

David Cameron said the government was "working extremely hard at a European level and with Prudential to try and deal with this".

Prudential will this week report full-year profits of £2 billion and is expected to raise its dividend by 5%.

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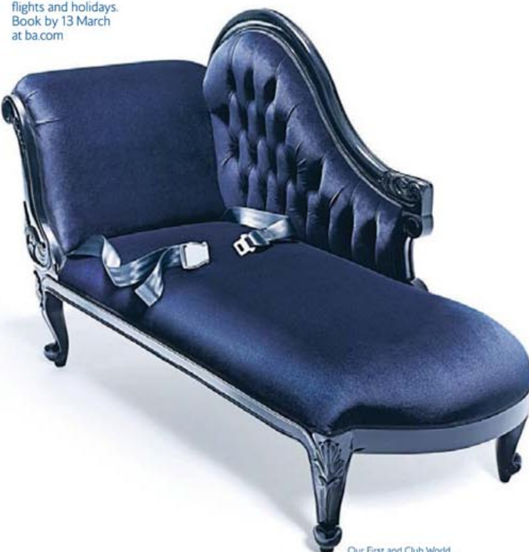

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