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Modern Practice of Cash Management

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Key Questions

1. What are the key elements of effective cash management?
2. Why is it important to set up a Treasury Single Account?
3. What are sound international practices, particularly for forecasting cash flows and balances in government bank accounts?

Cash Management Definition

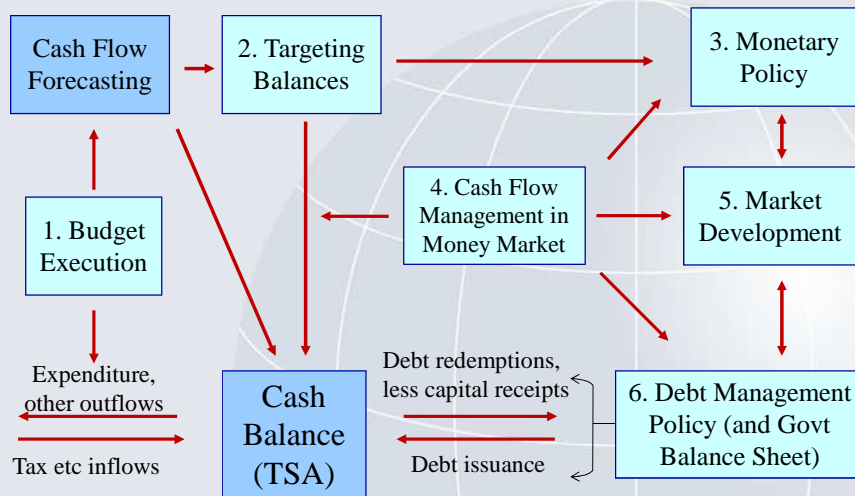
“Having the **right** money in the **right** place at the **right** time to meet government’s obligations in the most cost-effective way”

Ian Storkey (2003)

“The strategy and associated processes for managing cost-effectively the government’s short-term cash flows and cash balances, both within government, and between government and other sectors”

Mike Williams (2004)

Policy Interaction



Mike Williams (2009)

Two Key Public Policy Objectives

Fiscal

To ensure that line ministries or departments and government agencies manage their cash balances effectively so that the government does not have “surplus” cash on hand

Monetary

To neutralize the impact on the domestic banking sector of the government’s cash flows, ensuring that:

- there are no large and unpredictable changes in liquidity in the banking system
- monetary policy is not undermined

Objectives of Cash Management

Overriding Objective: Ensuring Cash is Available to Meet Commitments

Other Objectives: *must be subject to overriding objective*

- Economising on cash within government
 - saving costs and reducing risk
 - to borrow only when needed
- Managing efficiently the government’s aggregate short-term cash flows
 - both cash deficits and cash surpluses
 - maximize returns on idle cash
- In such a way as to also benefit
 - debt management
 - monetary policy
 - financial markets (market liquidity and infrastructure)

Budget Control v Cash Management

Budget & Financial Control

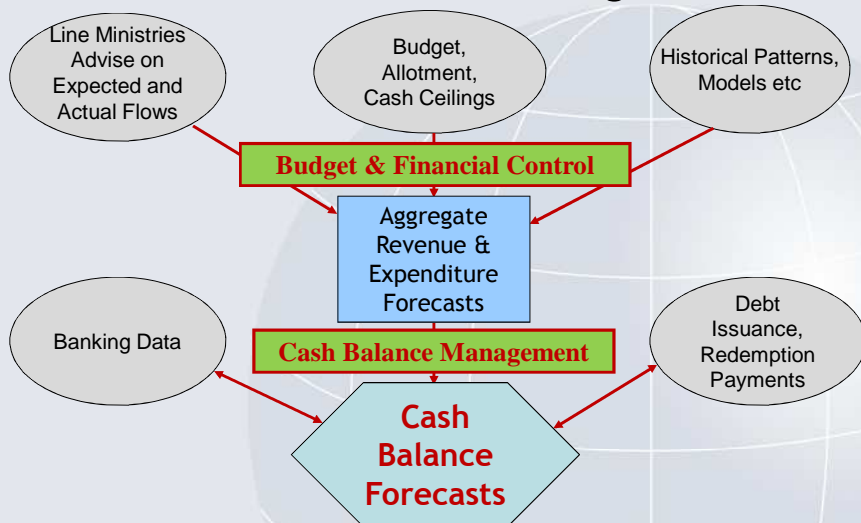
- Revenue and expenditure budgeting
- Control against budget appropriation and warrants
- Comptrollership or financial control over payments and receipts
- Government accounting
- Financial reporting

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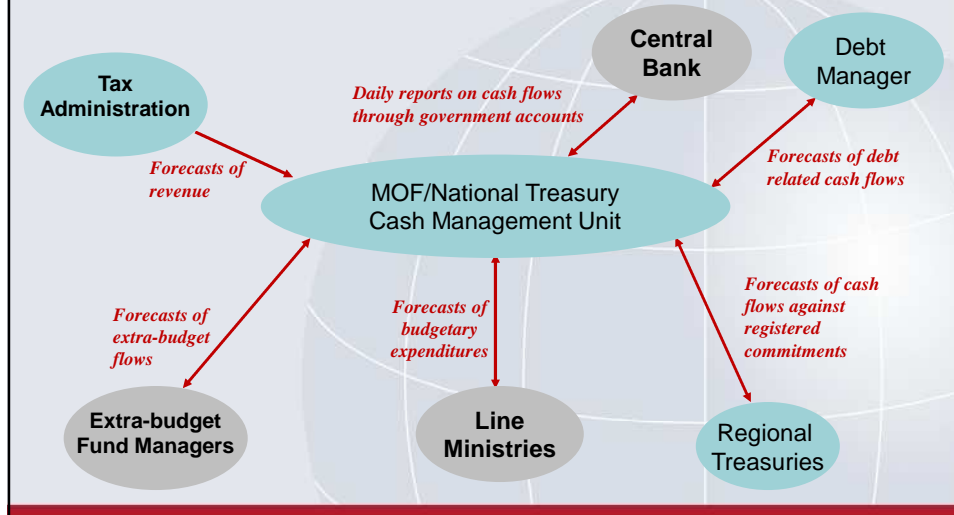
Cash Balance Management

- Cash flow forecasting
- Maintenance of bank accounts and relationships
- Efficient and timely processing of payments and receipts
- Management of government float and working capital
- Minimization of transaction and interest costs

Cash Balance Forecasting



Cash Management Planning



Treasury Single Account (TSA)

- Aggregate of all government cash balances in TSA at the Central Bank
 - facilitates control and fiscal and financial planning
 - allows MOF/Treasury to minimize the volume of idle balances in the banking system with consequent cost savings
 - assists process to coordinate debt management activities
- TSA can work with variety of payments systems
 - centralized within government, dispersed to the banking sector or hybrid
- Any balances left with the banking system should be zero-balances or swept overnight back into the TSA

TSA will be covered in more detail by Israel Fainboim from IMF

Differences in International Practices

- Institutional arrangements
 - way in which cash and debt management are coordinated
 - Central Bank independence from MOF
- Extent to which Government cash or bank account balances are set a “target” or minimum/maximum
- Central bank monetary policy operations
 - management of fluctuations in TSA balances
 - determinants of Treasury bill issuance (and potential use of central bank bills and/or repurchase agreements)

Features of Cash Management: Advanced Countries

- Fundamental features
 - centralisation of government cash balances and establishment of a TSA structure
 - clear understandings on the coverage of the cash planning framework
 - ability to make accurate projections of short-term cash inflows and outflows
 - an adequate transaction processing and accounting framework
 - timely information sharing between the central Treasury, revenue-collecting agencies, spending ministries and/or Treasury branch offices
 - appropriate institutional arrangements and responsibilities
- Desirable features
 - utilization of modern banking, payment and settlement systems
 - use of short-term financial market instruments for cash management
 - integration of debt and cash management

Ian Lienert, IMF (2009)

Features of Cash Management: Developing Countries

- The banking system is underdeveloped or underutilized
- Payments are made in banknotes
- Multiple government bank accounts exist
- Daily balances in all government accounts are unknown
- Unnecessary borrowing occurs
- Cash flow forecasts are not prepared
- “Cash management” is mainly about expenditure control
- Expenditure arrears have arisen
- IT systems are underdeveloped
- Lack of personnel with skills for modern cash management and understanding of importance of cash planning

Ian Lienert, IMF (2009)

Features of Cash Management: Latin America

- Revenue collection remunerated through days at which resources are maintained deposited in the banks
 - e.g. 14 days in Colombia
- Temporary cash needs financed through a limited overdraft facility at the Central Bank and not through issuance of government securities
- Non-transparent or inadequately remunerated services provided by the Central Bank
- Central Bank manages government liquidity (invests, etc.) and not the Treasury
- Deposits at the Central Bank are not remunerated

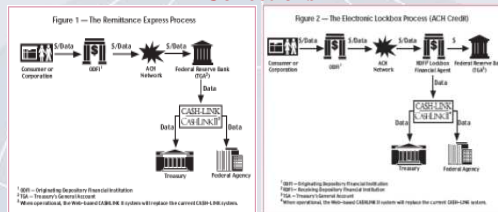
International Example: Australia

- Primary cash management objective:
 - “ensure the Australian Government has sufficient funds to pay its payment obligations as and when they fall due”
- Reserve Bank of Australia (RBA) manages net position in OPA (TSA)
- Transaction processing through RBA and commercial banks where necessary
- AOFM aims for float of A\$750mn (±A\$250mn)
- Bank accounts:
 - administered receipts
 - administered payments
 - departmental receipts and payments (funded 1/26th of budget every two-weeks)
- Sweeping of commercial bank accounts to the OPA each night
- Australian Office of Financial Management (AOFM) responsible for cash balance forecasting & management
- AOFM's cash management operations:
 - forecasting the OPA cash balance at the Reserve Bank of Australia on a daily basis
 - when the OPA cash balance is forecast to be negative issuing short-term debt securities (Treasury notes) to fund the expected shortfall
 - investing excess OPA cash balances
- RBA provides Federal Government:
 - banking services—the aggregate OPA balance or daily cash position
 - short-term investment facilities (overnight deposits and term deposits)
 - overdraft facility
- Department of Finance & Deregulation manages transfers to departmental and agency bank accounts using the Cash and Appropriation Management System (CAMS)
 - AOFM receives information for forecasting end-of-day balances

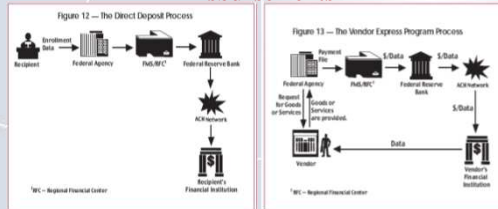
International Example: USA

- Purpose of cash management
 - to eliminate idle cash balances
 - to deposit collections timely
 - to properly time disbursements
- Federal Reserve Bank (FRB) of NY manages net position in TSA
- Transaction processing through FRB of NY, other FRBs, and commercial banks where necessary
- Interest incentives and penalties
- Treasury aims for float of US\$5bn (US\$7bn during volatile tax flows)
- An automated system called CASH TRACK is used to help monitor cash movements
- Information is also captured daily from the CASH-LINK system

Collections



Disbursements



Details are available in *Cash Management Made Easy*



