

**IAN STORKEY**  
INTERNATIONAL CONSULTANT

## Modern Practice of Cash Management

Presentation by:  
Ian Storkey

April 15, 2010

Latin American Seminar on Treasury Management  
Lima, April 15-16, 2010

Logos: Republic of Peru, Ministry of Economy and Finance, THE WORLD BANK, Inter-American Development Bank (IDB), and International Monetary Fund (IMF).

## 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

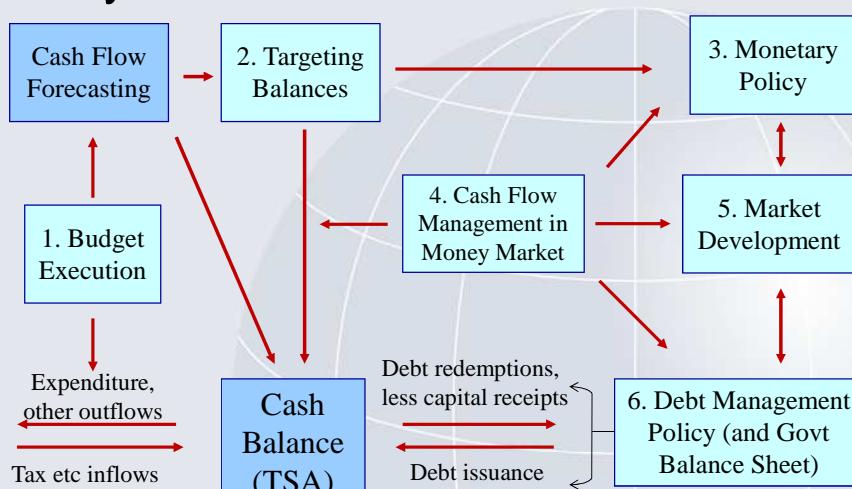
“Having the **right** money in the **right** place at the **right** time to meet government’s obligations in the most cost-effective way”

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 as way as to also benefit
  - debt management
  - monetary policy
  - financial markets (market liquidity and infrastructure)

## Budget Control v Cash Management

### Budget & Financial Control

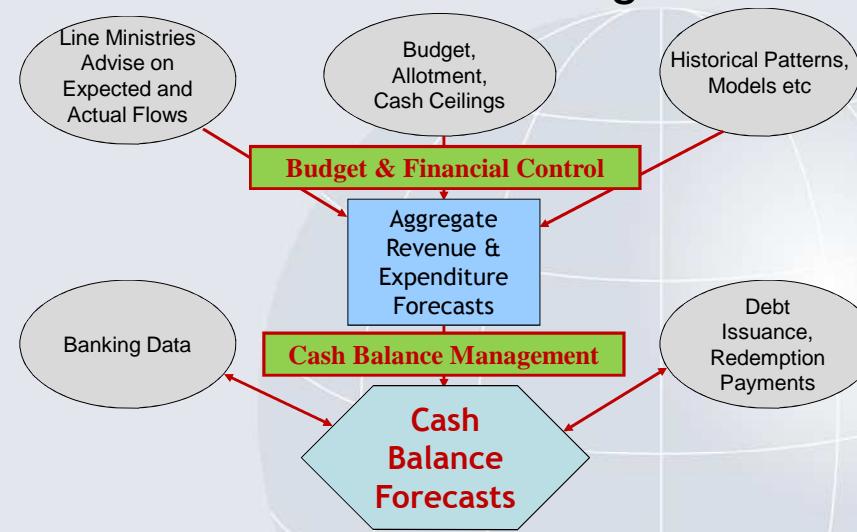
- Revenue and expenditure budgeting
- Control against budget appropriation and warrants
- Comptrollership or financial control over payments and receipts
- Government accounting
- Financial reporting

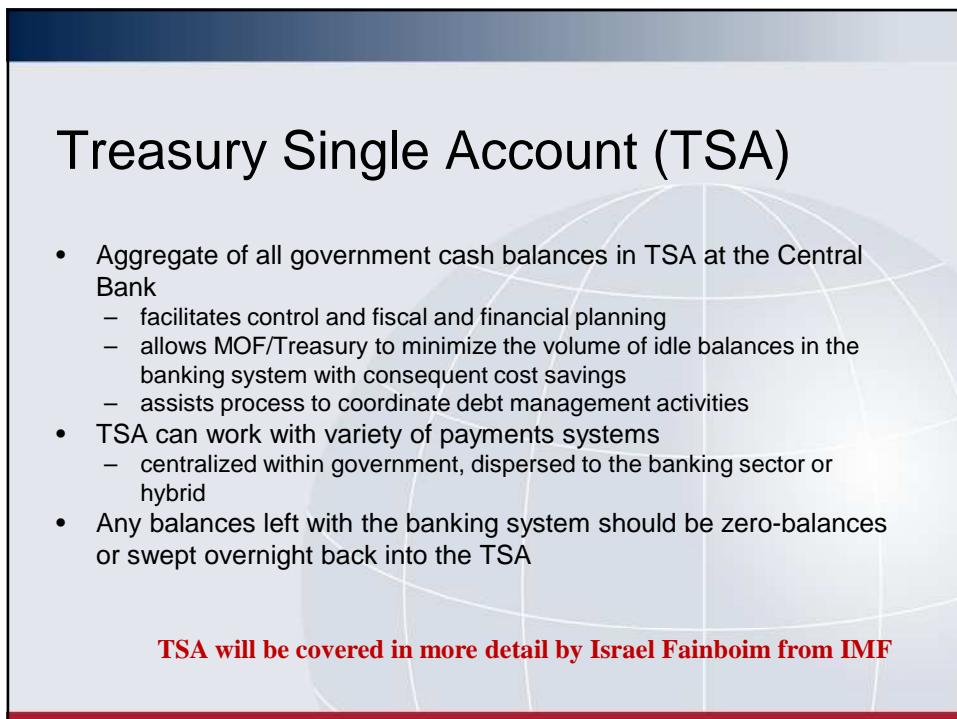
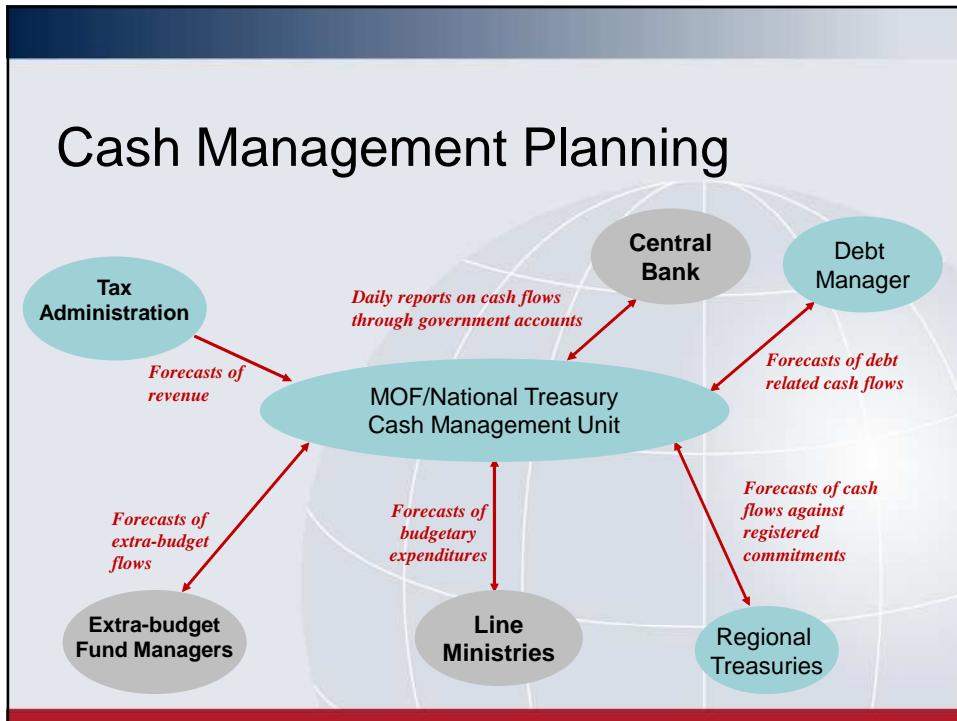
--IFMIS--

### 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





## 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

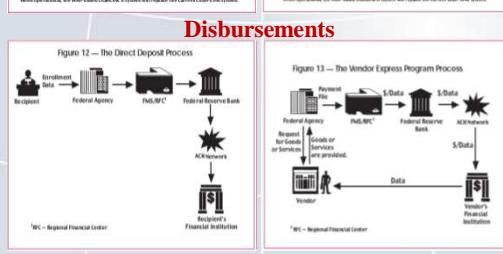
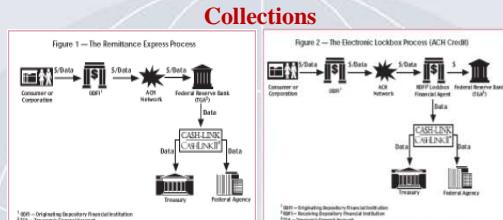
- Revenue collection remunerated through days at which resources are maintained deposited in the banks
  - e.g. 14 days in Colombia
- Temporary cash needs financed through a limited overdraft facility at the Central Bank and not through issuance of government securities
- Non-transparent or inadequately 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 ( $\pm$ 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 CA\$H-LINK system



Details are available in *Cash Management Made Easy*

