Treasury activities and IT systems

Bálint Szabolics & Tamás Török

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PEMPAL Executive Meeting
Headlines

• activities
• central government budget execution
  – accounting & transparency
  – data
  – information technology
  – future
• government securities
• local governments
• pensions & social transfers
• agriculture & rural development
ACTIVITIES
The Hungarian State Treasury

- Established the 1st of January 1996 on the basis of State Development Agency and some departments of the Ministry of Finance and Central Bank of Hungary
- The Hungarian State Treasury performs more than 200 public tasks, which form a list that is almost boundless. It is present in each county (19) in the form of directorates. In the frames of the directorates operate the following: Exchequer Offices, Payroll Calculation Offices, Financial and Coordinating Offices and State Budget Offices.

- The Hungarian State Treasury is responsible for the tasks below – among others:
  - Implementation of the central budget: appropriation management, accounting and reporting
  - Manage payments and earnings, bank account management
  - Liquidity management
  - Centralized payroll calculation
  - Social benefits (pension, family allowances)
  - Government securities distribution
  - Funding and auditing of local government
  - Handling of EU and domestic funds / grants / transfers (e.g. agrarian and rural development)
  - Funding and control of non-state education and social care providers
  - Budgetary Institutions Register
Historical background

1996: foundation

2001: separation
• budget execution
• financial services
• debt management

2001-2002:
• payroll
• social

2003: integration
(budget + finance)

2014: Modern Treasury Strategy

2016-2018: integration

2018: new service model

2019: ASP

2020: IT services renewal
## Tasks and personnel

### Central Government Budget
- 89
- 249

### Payments
- 120
- 362

### Local Government
- 67
- 1670

### Payroll
- 71
- 1167

### Pension & Social
- 1048

### Agriculture & EU Funds
- 573
- 688

### Back Office
- 593

### Information Technology
- 367
CENTRAL GOVERNMENT
BUDGET EXECUTION
basic activities

Back-office

Functional leadership
~700 institutions in central government

800+ programs’ appropriations

500+ centrally managed appropriations

EUR 61 bn

locally developed SW + Excel

Budget execution
Execution

- keeps records of appropriations,
- renders financial services to public bodies
- provides
  - net financing (deduction of taxes)
  - double control: checks availability of appropriation and funds
  - obligation test
  - records of government and municipality debt
  - supervisors of public finance
  - centralised payroll system
The role of the Treasury in the control of public expenditures

Public Institutions
- Treasury budget
- Elementary budget

Treasury
- Register of appropriations based on data supply of public institutions

Planning
- Commitment
- Financial countersign
- Completion certificate
- Validation
- Remittance
- Payment

Management
- Chief budget supervisor /budget supervisor:
  - Preliminary opinion in case of elevated cash commitments
  - Opinion on internal regulations and actions related to financial management
  - Proposing to restructure management processes, suspension measures
- Treasury accounting system:
  - Double cover checking in budgetary expenses’ execution

Bookkeeping, reporting
- General ledger accounting in local IT systems
- Preparing of annual and interim financial statements, reports, balance sheets
- Reporting towards the Treasury
- Control and summary of annual and interim financial statements, reports, balance sheets
- Reporting and data service towards national and international organizations
Appropriations

- Social and special fund: 140
- Centrally managed: 436
- Program: 858
- Institution: 663
Budget appropriations

• Registration of the original appropriations under budget law on the basis of
  – Detailed budgets

• Mid-year estimates modifications
  – Chapter governing body
  – Budgetary body/chapter (in its discretion)
Release of funds

• YTD/Year-to-date allotment
  – Operating budget of governmental bodies.
• Performance proportioned allotment
  – Cumulative budget of governmental bodies, chapter-managed estimates.
• Modification of schedule
  – Institutions with temporary liquidity problems, chapter-managed estimates.
    • with different time-frame replacement
    • with non-different time-frame replacement
• Appropriations increases without amendment
  – Exceeded appropriations
Payments

• Submission of transfer orders
  – Paper-based
  – Electronic
• Prior notification of big lump sum payments
  – Transfers in excess of HUF 1,000 million to be announced at least 3 days in advance
• Double cover test
  – Liquidity coverage test
  – Appropriation line item test
• Identification of performance
  – Single Column headings established under the order number (ERA) and government ID are used to identify the transfer lines.
Accounts management

1.85 mn transaction monthly

>12k accounts managed
Banking arrangements

Treasury Single Account (TSA) at Central Bank of Hungary

• provision of funds for operations (performance or monthly basis):
  
  \[
  \text{gross expenditure} - \text{own income} = \text{net expenditure (budgetary contribution)}
  \]

• liquidity management
  – via TSA (central government)
  – municipalities can hold bank accounts at commercial banks
  – rolling cash-flow plan (T+2 months)
  – data exchange to prepare overnight operations

• new Accounts Management System (from 2020)

• other related fields
Cash forecasting

• Daily forecasts for three months
• Sources:
  – a large amount announcements
  – Bottom-up information: institutional reports, commitments, financing plans
  – Top-down information: planning on basis of last years and main information
• Liquidity Board
Cash forecasting

• Others:
  – Continuous information exchange with Central Bank, MoF, Tax Authority and other large entities

• Problems:
  – Large fluctuation of cash balance within a month
  – Lot of disbursements at the beginning of month (wages, family allowance, pension, disbursement of VAT, etc.
  – Incomes: in the second half of month
  – Difficult to plan some types of incomes (e.g.: payments from European Commission

• Efficiency:
  – 91.7 % accuracy in 2017
  – 863 bn HUF TSA average balance in 2017
  – 61 billion HUF average deflection
TSA balance and daily forecast
Year 2017
ACCOUNTING & TRANSPARENCY
Accounting

# Principles

## Budgetary accounting vs. Financial accounting

<table>
<thead>
<tr>
<th>Budgetary accounting</th>
<th>Financial accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash basis</td>
<td>accrual basis</td>
</tr>
<tr>
<td>appropriations</td>
<td>performance</td>
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<tr>
<td>commitments</td>
<td>properties and</td>
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<tr>
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<td>performance indicators</td>
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<tr>
<td>budgeting and reporting</td>
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</tr>
</tbody>
</table>
Mandatory reporting

Through the information system of state-finance KGR-K11

• Detailed budgets (annually)
• Annual Finance Report (annually)
• Interim Balance Report (quarterly)
• Interim Financial Report (monthly)
Disclosure provided by the Treasury

- Information available on the Treasury website published every month
- With access rights – for SPU data reconciliation
- Public data as:
  - The budget execution data structure corresponding to the breakdown of the budget law
  - Data in relation to the liabilities belonging to budgetary bodies of the central subsystem of public finances
CHALLENGE
Central Budget Institutions’ Arrear

bn HUF

month

2017
2016
2015
2014
2013
2012
2011
2010
Arrear Portfolio Report

- <30 days: 55%
- 30-60 days: 20%
- >60 days: 24%
- rescheduled: 1%
carryover of chapters I-XXXV

∑ 2.743 bn HUF  
total expenditure: 10.330 bn HUF  
total deficit of central government: 1.974 bn HUF

Carryover in 2017 (referred to financial reports)
penalty on late reporting
HR of accountants

Accountants’ exam taken (2005-2018):
• male: 1,501
• female: 10,534

Accreditations:

<table>
<thead>
<tr>
<th>Accreditation</th>
<th>Count</th>
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<tbody>
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<td>budgetary, financial</td>
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<td>budgetary, financial, business</td>
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</tr>
<tr>
<td>Total</td>
<td>4531</td>
</tr>
</tbody>
</table>

Source: https://vny.nive.hu/statistika/index.php?ok=1; www.kormany.hu
INFORMATION TECHNOLOGY
Budget cycle

- Political decision-making
- Budgetary planning
- Budget execution [Treasury System]
- Audit & assessment
- Execution & budgetary control
- Reporting & review
- Commitment
- Transparency Portal
- Procurement
- Payroll & HR
- Public procurement
- Payment management
- Asset & wealth management
- Liquidity management
- State debt & subsidy

Hungarian State Treasury
Central budget: TSH
Reporting: K11
Payments management: T’20xx, DSZR
Securities: Clavis
Local governments: ASP
Payroll: KIRA
Pension: Nyugdmeg, Nyufur
Social: TÉBA
Agriculture: IIER

380+ employees

200+ systems

IT strategy for the next 5 years
Present system

TSH - appropriations management

<table>
<thead>
<tr>
<th>K11</th>
<th>eAdat</th>
<th>Paper based data</th>
</tr>
</thead>
</table>

Bank accounts management

<table>
<thead>
<tr>
<th>Individual payment order</th>
<th>Electra</th>
<th>GIRO</th>
</tr>
</thead>
</table>

Spending Unit (SPU)

Budget plan of SPU

Financing on completion basis

Changes of appropriations

Transactions without money transfer

Cashflow forecast

Individual payment order

Bank accounts

Aggregate data on group transfers

Feedback on group transfers

Individual payment order

Hungarian State Treasury
Systems’ transformation
FUTURE
Vision

- decrease back-office bureaucracy
- central accounting module
- standard workflows
- integrations
  - functional
  - SPU level
- information provision for decisionmakers
- change management
DWH + IFMIS

- Data driven decisions
- Decrease bureaucracy
- Fiscal control
- Standard workflow
- Automatization
- Online
- Integrated system

Hungarian State Treasury
Business Intelligence
GOVERNMENT SECURITIES
81 point of sale WEB & Mobile App

Babybond

150k customers

EUR 3 bn resident stock

Treasury bonds

Hungarian State Treasury
PAYROLL
KIR, KIR3, KIRA

959,391 pers.

1,300 employees

13,304 institutions

PAYROLL

EUR 0.8 bn monthly

Payroll management
Introduction of the Centralised Payroll System (‘KIR’) in 2002

Constantly changing legislative framework and professional demand

Need for the development and introduction of a new payroll system (2015)
‘KIRA’ application model

Treasury administrators

Institutional users

MDM

Master data of organisations

Data reporting

NAT
NHI
CSO

K11

KTORZS

Accounting of personal benefits

Accounting of remuneration

Accounting of variable pays

Accounting of leaves

Management and accounting of blockings, deductions

Management and accounting of Health Insurance benefits

Accounting of other benefits

Accounting of personal benefits in the reference period

Control duties

Transaction-based lists, queries

Transfers (remuneration, contributions...)

Bookkeeping

Payroll (electronic and hard copy)

Institutions

Connection of human modules on the standard interfaces

Maintenance of various organisations’ data (e.g. insurance funds, blocking organisations etc.)

Preparation and conduct of payroll accounting, correction and control activities

Human data necessary for payroll accounting (personal, legal relationship etc.)

Declarations, certificates, forms

Management of work schedules, leaves and variable pays

Management of other benefits (e.g. fringe benefits)

Code catalogues, parameter files

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Hungarian State Treasury
LOCAL GOVERNMENTS
3,000 municipalities

- Financial management
- Local taxation
- Property management
- Industries, commercial
- Docs management
- Inheritance inventory
- E-administration for citizens
- Website administration

+ DWH

Standard platform & workflow
ASP 2.0

Goal:
• to provide **modern, integrated and cost-effective** state of the art IT solutions
• in SaaS model
• for **local governments**
• based on the application service provider’s central hardware and software infrastructure
• fostering standardized internal operation
• common platform-based provision of local **e-government services** to citizens and businesses.

2,994 connected municipalities (more than 93% of Hungarian local governments)
• next step: (on 1 January 2019) cover the remaining approximately two hundred local governments as well.
ASP datawarehouse

Main goals

• Support of governmental and municipality decision making
• Monitoring of local government finance/management
• Support of local tax management
• Support of decision making for local government

Opportunities, expected results

• Possibility of providing economic forecasts that can prevent for example the excessive indebtedness of local governments
• Rationalisation of local government data supplying
• Support of planning and analysis tasks, providing big data analysis as well
PENSION AND SOCIAL TRANSFERS
Social transfers

<table>
<thead>
<tr>
<th>Pension, elderly</th>
<th>Rehabilitation</th>
<th>Families, disabled</th>
<th>Financial supply of health insurance</th>
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</thead>
<tbody>
<tr>
<td>2,6 mn pers</td>
<td>360 k pers</td>
<td>2.2 mn pers</td>
<td>• sick pay</td>
</tr>
<tr>
<td>3,000 bn HUF</td>
<td>300 bn HUF</td>
<td>400 bn HUF</td>
<td>• baby &amp; child care</td>
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<td></td>
<td></td>
<td></td>
<td>• travel reimbursement</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>200 k pers</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>340 bn HUF</td>
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</table>
Modernisation of workflows

• Centralized digitalization,
• Centralized receiving procedure,
• Centralized registration,
• Centralized printing,
• Electronic Communication
AGRICULTURE AND
RURAL DEVELOPMENT
200+ subsidy schemes

EUR 2 bn in payment

184k customers

Standard procedures
GIS Workflow E-sign

Agricultural funds
Integration to HST

Central administration:

Local offices:
Thank you for your attention!