# cash management and related PROCESSES: some definitions

## Introduction

1. This note is provided as a background document for the 2021 TCOP Survey on TSA, Cash Management and Forecasting. It offers some definitions of the commonly used terms that could be helpful for the survey respondents.
2. The note distinguishes two separate processes or activities illustrated below.
   * + Executing the budget and its financing to achieve outcomes for the year as a whole in line with the originally planned intention – see Figure 1.
     + Managing cash during the year such that objectives for the balance in the TSA are met across the year – see Figure 2.

#### Figure 1: Executing the Budget and its Financing



#### Figure 2: Managing Cash During the Year



*Notes:*

* *Both figures are in general terms, and the interactions will be different in different countries.*
* *The dotted lines are intended to indicate those interactions that are perhaps less commonplace or relevant to fewer countries than the blocked lines.*

1. The TCOP survey this note accompanies focuses on the country’s TSA and cash management arrangements (Figure 2) and does not aim to collect the data on the processes for execution of the budget in line with originally planned estimates (Figure 1). The structure of the note follows the structure of the survey. The first section provides the definition and discusses the characteristics and coverage of the treasury single account (TSA). The second section provides other core definitions in the area of cash management and forecasting. The third section covers the core definitions related to the budget execution process and financing and is included for general reference purposes.

## Characteristics and Coverage of the TSA

### Definition and Main Characteristics

1. **Treasury Single Account:** a unified structure of government bank accounts to give a consolidated view of government cash resources.[[1]](#footnote-2) There may be one account (although usually with sub-accounts), a series of linked accounts that are zero-balanced which are transferred at least each day (usually electronically), or a network of accounts which are treated as one for purposes of calculating the overall cash balance. Ideally it includes all cash resources including both budgetary and extra-budgetary resources; some countries include the cash balances of lower levels of government, in others it is confined to central government. The TSA is usually held at the central bank and usually comprises domestic currency only. Where a government holds foreign currency balances they are not usually regarded as part of the TSA unless they can be seamlessly transferred into domestic currency in close to real time.
2. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments. The principle of unity follows from the fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding/depositing cash in transaction-specific bank accounts. This enables the treasury to separate the management of cash from control at a transaction level.
3. **Cash:** the usual definition (a means of payment that can be used in exchange of goods, debt or services) is too broad for this context. A government’s cash resources are overwhelmingly represented by the balances in the bank accounts that it controls. In only very few countries is the use of physical cash, i.e. notes and coin, materially important, or are securities, rather than claims on a bank account, used as a means of payment. Cash may sometimes be referred to as “liquidity” (although that word has a different meaning in securities markets).
4. A fully-fledged TSA shares three essential features:
5. The government banking arrangement should be unified, to enable ministry of finance (MoF) or Treasury oversight of government cash flows in and out of these bank accounts. A unified structure of government bank accounts allows complete fungibility of all cash resources, including on a real-time basis if electronic banking is in place. The TSA structure can contain ledger sub-accounts in a single banking institution (not necessarily a central bank), and can accommodate external zero-balance accounts (ZBAs) in a number of commercial banks;
6. No other government agency operates bank accounts outside the oversight of the MoF/Treasury. Options for accessing and operating the TSA are mainly dependent upon institutional structures and payment and settlement systems;
7. The consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and extra-budgetary. This means that all public monies irrespective of whether the corresponding cash flows are subject to budgetary control or not (i.e. reserve funds, earmarked funds and other off-budget/extrabudgetary funds) should be brought under the control of the TSA. The cash balance in the TSA main account is maintained at a level sufficient to meet the daily operational requirements of the government (sometimes together with an optional contingency, or buffer/reserve to meet unexpected fiscal volatility).
8. The TSA usually comprises domestic currency only. Where a government holds foreign currency balances they are not usually regarded as part of the TSA unless they can be seamlessly transferred into domestic currency in close to real time.

### Coverage

1. At a minimum, the TSA should cover all central government entities and their transactions. These include accounts managed by social security funds and other trust funds, extra-budgetary funds (EBFs), and autonomous government entities, and loans from the multilateral institutions and donor aid resources.[[2]](#footnote-3) A TSA could also be extended to include subnational levels of government (i.e. state, provincial or local government, including municipalities) and other public institutions, however, there are also examples where each separate government level has its own TSA (in China for example every single government at each of the four levels of government has its own TSA at the central bank, resulting in over 500,000 TSAs across the country).
2. The following chart (an extract from GFSM2014[[3]](#footnote-4)) shows the coverage of the general government sector. Note that in general, it is not usual for the TSA to extend to government corporations and commercial enterprises.[[4]](#footnote-5)



1. Examples of incomplete TSA coverage include:
2. Where ministries, departments or agencies (MDAs) operate bank accounts to retain “own source revenues.” Examples include, where the MDA sells certain goods or services, or through a government policy decision, collects and retains a proportion or full amount of certain taxes and fees. These funds remain government money and should not be held in separate bank accounts other than zero-balance or transitory accounts;
3. Extra-budgetary funds (e.g. social security, health or road transport funds). They will often claim the protection of legislation that gives them control over “their” resources. But their cash should nevertheless be in the TSA; because the TSA allows the separation of the control over resources, that arrangement does not deny the fund the use of the resources when required, but in the meantime the government has use of the cash;
4. Where ministries control deposit or trust funds outside the TSA, for example funds provided as security by importers against the future payment of duties, money deposited by government contractors pending completion of contractual obligations, money held and collected by government on behalf of a third party. Even though these funds are not technically government owned, they are government controlled and should be consolidated in the TSA;
5. Where revenue collecting MDAs maintain accounts for collections other than zero balance accounts including the retention of some funds for tax and other revenue refunds; and
6. Where Development Partners provide grants and loans and require separate bank accounts to be maintained other than sub-accounts in a TSA structure. While it is acknowledged that DPs will frequently require this “separation” these funds do represent public money and therefore should be incorporated into the TSA.
7. If one or more of the above examples operate outside of the TSA banking arrangements then, although there may be a TSA, it cannot strictly be described as comprehensive.

## Payment Systems

1. Governments increasingly process their payments electronically, although some still use cheques or physical cash. Electronic payments are typically processed by accessing one of two country-wide systems:[[5]](#footnote-6)
2. The **Real Time Gross Settlement (RTGS)** system settles payments between banks in real time on a gross one-to-one basis, without bundling or netting with any other transactions. The RTGS is suitable for low-volume high-value payments; the transfers, settled across banks’ accounts at the central bank, are immediate and irrevocable, and therefore carry no credit risk (although charges tend to be higher). For these reasons the RTGS is usually managed by the central bank and regarded as part of the country’s critical economic infrastructure.
3. The **Automated Clearing House (ACH)** system processes domestic low value payments between participating financial institutions. It may support both credit transfers and direct debits. The system is designed to process batches of payments containing numerous transactions and charges fees low enough to encourage its use for low value payments. Within the batch, transactions are netted between the participants, which reduces the number of final settlements but implies delay and some credit risk.
4. A government may access the RTGS or ACH system, or both; and may do so in a variety of ways. Where it has as an adequate system and security infrastructure, it may itself be a party to the system, interacting with it as would a commercial bank. Alternatively, it may instruct the central bank to make payments on its behalf (with the instructions distinguishing between payments made through the RTGS or ACH). Or it may instruct a commercial bank to make the payments: this model tends to be used in a dispersed environment when individual ministries make their own payments; although in some cases commercial banks may be instructed to make low-value payments even if the central bank is used for high-value payments. When using a commercial bank, the TSA is debited when a transfer is made to the bank, whether it is in advance or after settlement of the respective batch.

## Managing Cash During the Year – Core Definitions

1. **Cash Management**: the processes to ensure that the government has access to cash or liquidity to facilitate the smooth execution of the budget, consistently with other objectives. The other objectives may include economizing on cash, managing efficiently the timing mismatch between inflows and outflows, and supporting other policies (such as debt management, monetary policy and financial market development). In practice these additional objectives might be expressed in terms of as keeping the balance in the TSA within a defined range and/or, in any period where there is a net cash surplus, ensuring that it is used to best advantage.
2. A distinction can be made between **Passive Cash Management** – monitoring cash balances and maintaining a cash buffer to handle volatility and unanticipated outflows – and **Active Cash Management** – smoothing net cash flows over a period by more active borrowing and lending in the money market.
3. **Cash Flow Forecast**: an estimate of future government cash inflows and outflows, made with a view to taking the action necessary to ensure that a sufficient cash balance is always available to facilitate the smooth execution of the budget and also to support other cash management objectives. In this context, it is the cash balance over which the government has control – usually the balance in domestic currency in the TSA – that is the relevant focus for action
4. **Cash Coordination Committee or similar**: the committee or other mechanism that considers and responds to the most recent cash forecast. There are different labels; some countries have a “liquidity committee”. It typically reviews outturns, reviews forecasts, and decides on (or recommends) any necessary action in the short-term. Action may be limited to deciding the nature and size of the next Treasury bill issue or the issuance calendar for the forthcoming period; but it may also imply changing debt issuance plans, aggreging the parameters for investing a temporary cash surplus, buying or selling financial assets, withholding previously approved spending authority, or acting to delay the incurring of commitments or processing of payments with a view to reducing net cash outflows.
5. **TSA Target**: the objective for the balance in the TSA. It may be defined as a preferred balance or a minimum balance (which may be zero), and may be the same as the cash buffer (see below); or it may be defined as a range with a minimum and maximum; or occasionally as a maximum (e.g. above which balances will not be remunerated). It will usually be intended to apply continuously across the year, although there may be a different target identified for year-end, consistent with the annual borrowing plan for the year.
6. **Cash Buffer**: the minimum level of cash balances necessary to be sure of meeting day-to-day cash requirements, at all times, under all circumstances, taking into account the availability of other liquid resources. The required buffer, usually the minimum cash balance in the TSA, may be set in legislation or administratively. It will apply continuously across the year (although the quantum may sometimes be varied to reflect expected future cash needs), and will be designed to ensure a sufficient balance to meet obligations taking account of cash flow volatility and unanticipated cash flow fluctuations.

## Executing the Budget and its Financing – Core Definitions

1. **Budget Authority**: the approved limit on spending set by Parliament (or the equivalent) for each budget unit. These authorities are usually issued in a Budget or Appropriation Law and typically are high-level spending limits by ministry or similar level budget entity. In some cases, authority will be issued at a very detailed level by Parliament – frequently referred to as “line item” budgets. In other cases, authority will be issued by program or other budgetary mechanism. The budget authority is important: it both provides the legal basis for government spending to commence each year (or the budget cycle should it span more than a year); and it also reflects the assessment of the government’s fiscal position and capacity which is then broken down according to policy priorities into specific cash-based[[6]](#footnote-7) ceilings. The budget authority is usually further broken down by spending authority (see below).
2. **Budget Profile**: the agreed profile across the year, usually monthly, of the approved annual budget. There will usually be separate profiles for expenditure, which in total has to be no higher than the budget authority, and for revenue, and often for their constituents. (The profile for financing transactions will be incorporated in the annual borrowing plan – see below – but the budget profile will be an input to that.) The profile will be coordinated and agreed by either the Budget Department or the Treasury within the MoF; it will usually although not necessarily be based on submissions from the spending and revenue departments to the MoF. The agreed profile may be the basis for the release of spending authority (see below); but in any event will be used to monitor and control execution of the budget.
3. **Spending Authority**: the release, through “allotment”, “warrant” or “appropriation”, to a ministry or other spending unit of the authority to spend a whole or (more usually) part of the unit’s approved annual budget. The release[[7]](#footnote-8) may be an integral part of the Parliamentary Budget Authority but is more usually controlled (within the ceiling set by Parliament) by the Budget Department or Treasury in the MoF. It may be defined as an authority to commit to spend, an authority to incur obligations, or (most usually) an authority to spend, i.e. make a payment (although the payment itself may be processed by the Treasury).[[8]](#footnote-9) Releases may be monthly or quarterly (or sometimes annually); they will usually be consistent with the agreed budget profile (see above), and sometimes may be governed by the budget profile. In some cases, it is in practice the budget profile, rather than the spending authority, that is used as the effective control on expenditure in any one period.
4. **Budget Execution**: the processes directed at ensuring that the budget is implemented and controlled in line with its stated objectives (and Parliamentary or other authority). These processes are likely to include release of expenditure authority, monitoring of expenditure and receipts, and amendments to the budget (including spending authorities) in the light of changed circumstances. They may also be designed to support the principles of economy, effectiveness, efficiency and value for money in expenditure
5. As is clear, there is a close relationship between budget authority, budget profile and spending authority; and in some countries they will overlap in part. In practice they are often all recorded in the Integrated Financial Management Information System which will be the mechanism ensuring that the formal limits are not breached.
6. **Cash Plan:** the planned pattern (usually monthly) of all government cash flows across the year. It includes flows of receipts and expenditure (i.e. the budget profile noted above) and of financing (as expressed in the annual borrowing plan, see below), although depending on accounting practice the inputs may need to be adjusted, e.g. for non-cash expenditures or financing transactions, or the processing of arrears or other obligations arising from the previous year’s budget. The net change in cash in any period equates to the change in the balance of the TSA, although depending on the structure of the TSA adjustments may again need to be made for flows in foreign currency or to and from bank accounts other than the TSA. The adequacy of cash in the TSA during or at the end of the year provides a check on the consistency of the budget and its planned financing. The cash plan will normally be updated during the year, in the light of changed circumstances, but it will usually be constrained at any time to the currently-approved budget targets.
7. **Annual Borrowing Plan**: a plan that identifies the size and timing of the financing transactions across the year, consistently with financing the deficit generated by the approved budget. The plan has to take into account debt repayments and redemptions, the government’s objectives for the structure of the government’s debt portfolio (and potentially other financial assets and liabilities) as expressed in the medium-term debt management strategy, the net cash profile of receipts and expenditures across the year, the flow of loans and credits from external lenders and the market demand, domestically and externally, for government securities of different maturities or other characteristics. The plan might allow for a change over the year in the cash balance in the TSA. It, or a summary of it, would normally be published.
8. **Issuance Calendar**: a published plan for the issuance of government securities over the next period, typically quarterly. It will include issuance dates (usually by auction), an indication of the maturities or characteristics of the securities to be offered, sometimes identifying which security on which dates, and an indication of the amounts on offer. It may give more or firmer information in respect of Treasury bonds than Treasury bills.

1. For more discussion see the IMF Working Paper “*Treasury Single Account: Concept, Design, and Implementation Issues*”, Sailendra Pattanayak and Israel Fainboim, at www.imf.org/external/pubs/ft/wp/2010/wp10143.pdf [↑](#footnote-ref-2)
2. “Donors” are external to the government and may include governments and non-governmental organisations and they may make grants or loans, and these transfers may be linked to specific projects or outcomes, or be simply budgetary contributions [↑](#footnote-ref-3)
3. IMF “Government Finance Statistics Manual 2014” at https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf [↑](#footnote-ref-4)
4. The distinction between corporations and statutory general government bodies is not always clear. GFSM2014 does provide a useful guide on how to define each public body to the correct sector [↑](#footnote-ref-5)
5. The acronyms used here are generic; many countries have their own nomenclature. [↑](#footnote-ref-6)
6. Some countries have accrual budgets; however, even in these cases, cash limits are also usually defined in some manner. [↑](#footnote-ref-7)
7. “Release” does not imply movement of cash at this stage; cash moves only when final payments are made.  [↑](#footnote-ref-8)
8. In many Russian-speaking countries this stage is referred to as the ROSPICE. [↑](#footnote-ref-9)