CASH MANAGEMENT &

TREASURY SINGLE ACCOUNT

POLICY 2019-2029

Government of Pakistan
Finance Division
Islamabad

www.finance.gov.pk

FOREWORD

Cash Management & Treasury Single Account Policy 2019-29 was approved by the Federal Cabinet on 03-06-2019 and was consequently made part of the Public Finance Management Act, 2019. The Policy is a vital instrument devised by Finance Division for improved Public Finance Management with the objective of timely availability of cash to meet obligations, economizing on cash within Government so as to save interest costs and management of government's cash flows efficiently in a way that benefits debt management, and monitory policy. Finance Division aims to implement the policy with the cooperation and support of all Ministries /Divisions, Departments and Entities.

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Finance Division,
Islamabad, 29th August, 2019

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CASH MANAGEMENT & TREASURY SINGLE ACCOUNT POLICY 2019-2029

The efficient treasury is a vital instrument for better Public Finance Management (PFM). This function has evolved over time and has completely transformed, if, it is compared with what it used to be, a few decades back. The automated accounting systems have largely made many of the traditional treasury activities redundant. Now, the core treasury functions primarily revolve around cash forecasting and cash management, debt management strategy, monitoring of budget execution, processing of payments, accounting for government transactions, preparation of consolidated fiscal reporting, oversight of financial management, application of internal control regulations both on transactions and commitments, oversight of Treasury Single Account (TSA) and management of government's e-treasury system. The treasury needs now to focus more on active and effective cash management in a decentralized control system.

The key objectives of this modern cash management are timely availability of cash to meet obligations, economizing on cash within the government to save costs and reduce risk, management of government's short-term cash flows efficiently (both cash deficits and cash surpluses) in such a way as to benefit debt management and monetary policy. The cash management practices have also transformed like other aspects of treasury functions. Instead of merely passive management by monitoring cash balances, maintaining huge cash buffers to handle volatility and un-anticipated outflows and cash rationing by slowing expenditure and delaying bill payments; the modern cash management focuses on active cash management by trying to smooth weekly or daily cash flow through active borrowing and lending in money market, allowing lower cash buffer and providing tools to protect expenditure plans from cash flow volatility.

Government of Pakistan has so far no clearly stipulated and integrated cash management policy. Different aspects of cash management have been managed independently for decades. There is no institutional framework under which these different aspects may converge into one single platform of cash management. As a result, traditional tools such as cash rationing, control on cash flows through controlled clearance of cash demand files and cash flow interruptions through an irregular instrument of Ways and Means clearance are being applied. Furthermore, an agreement with State Bank of Pakistan for cash cover and unbridled power of money printing are also applied frequently for smooth flow of cash. It is pertinent to mention that a huge amount of government cash is taken out from the government accounts by different organizations in the name of statutory, strategic, operational and commercial requirement and placed in the private accounts maintained in the scheduled banks whereas Government of Pakistan has to raise debt from the scheduled banks to ensure its cash flows. Furthermore, governments tend to raise and keep higher amounts as a cash buffer which remains un-utilized, sometimes for months due to cash flows from other sources of income. Government's trading in short term securities and return of SBP loans for short terms can make our cash management operations more efficient. Lastly, the SBPs' cash injection into the Scheduled banks and discount rate protection makes the treasury market unfair for Government of Pakistan, which needs to be corrected.

Above said in view, Government of Pakistan has decided to frame a comprehensive Cash Management Policy, 2019-2029.

The key policy objectives of this cash management policy are:

S.No.	Objective
1.	To ensure availability of cash when it is required
2.	To manage cash balance in the government bank accounts effectively by: a. Borrowing to cover expected cash short falls, and avoid "idle" balances b. Investing during periods of surplus c. Minimizing borrowing costs
3.	To neutralize impact of the government's cash flows on the domestic banking sector ensuring that: a. Therearenolargeandun-expectedchangesinliquidityinthebankingsystem, b. Overall monetary policy (incl. monetary growth and inflation targets etc.) is not under-mined

This cash management policy will focus on efficient cash management with ability to forecast daily cash flows across the TSA. It shall result into smooth cash flows with lower average cash balances, reduced borrowing costs, lower interest on cash balances than interest on marginal borrowing and less pressure on monetary policy operations.

This Cash Management Policy shall enlist actions, plans and implementation regimes for which shall be prepared by the respective authorities and submitted to the Finance Division within one month after approval of this policy by the Federal Government. These actions shall largely be covered under the headings of Aims of Cash Plan, Cash Forecasting Framework, Steps for Effective Cash Management and Treasury Single Account.

Aims of the Cash Management Policy

S. No.	Aim and Actions	Taken By
1.	Anticipation of cash needs of government through;	
	a. Expansion of budgetary and accounting coverage to the public entities receiving single line budget	FG/FD/CGA/PAOs
	b. Monthly/quarterly/annual expenditure plans by the Principal Accounting Officers	PAOs/FD
	c. Monthly/quarterly/annual procurement plans by the PAOs.	PAOS/FD
2.	Forecasts of total net cash flow:	
	a. Receipts and payments (above the line) through:	
	I. Monthly/quarterly/annual revenue plans	FBR/FD/CGA/PAOs
	II. Monthly/quarterly/annual cash plans	FD
	III. Extension of budgetary and accounting structure to the public entities receiving single line budget	FD/PAOs/CGA
	IV. Detail revenue budgeting on the pattern of expenditure budgeting	FBR/ Revenue and FDs
	b. Financing transactions (below the line) through	
	V. Monthly/quarterly/annual/five years debt redemption plans	FD
	VI. Monthly/quarterly/annual borrowing plans	FD
	VII. Monthly/quarterly/annual/five years assets sales plans by Privatization Commission	Privatization Commission
	c. Focus on domestic currency	SBP/FD
	d. Scheduled Forecast information with identification of future peaks and troughs	FD
	e. Rolled forward regularly	FD

Cash Forecasting Framework

A Cash Forecasting Framework shall be prepared under the Cash Management Policy, 2019, by the Finance Division, which shall, essentially, contain:

I. Total cash management forecasts consistent with annual budget

II. Revenue forecasts from the FBR and Ministries/Divisions/PAOS

- Monthly totals of tax receipts, by tax for XX months ahead
- Daily [weekly] tax receipts for next month, 1-3 months if possible

III. Expenditure forecasts from spending agencies (PAOs) or units

- Expected expenditure by day/week for xx months ahead
- Focus on largest spending units
- Require pre-notification of major expenditures

IV. Identification of seasonality and major individual flows

V. Reward and punishment regime for good forecasting and poor forecasting

VI. Disincentive to hoard cash

VII. Daily monitoring mechanism to:

- Monitor actual transactions across TSA
- Outturn for the day must be known no later than following morning

VIII. Institutional and legal framework for single central database independent of the IFMIS

IX. Establishment of Treasure Office in the Ministry of Finance for:

- Aggregation ‘above the line’ forecasts and projections for cash management
- Addition of below the line transactions through debt managers
- Decision making for investment of surpluses or issuance of T-Bills

X. Treasurer, one cash manager, supported by a committee to regularly overview cash management and advises the treasurer.

XI. More active cash management with a wider range of instruments, to smooth the treasury’s balance comprehensively

XII. Better integration between debt and cash management

XIII. Separate Management of day to day cash and structural surplus

XIV. Safety nets such as emergency credit facilities or cash reserves, end of day borrowing from commercial banks or [Short-term borrowing from the SBP]

XV. Develop mechanisms to cooperate with the SBP

XVI. Financing continuity plan

Steps for Effectiveness Cash Management

Following steps for effectiveness of Treasury and Cash Management shall be taken:

S. No.	Action	Taken By
1.	Improving design of Chart of Accounts	FD/CGA
2.	Reduction in number of bank accounts	FD/SBP/PAOS
3.	Consolidating budget execution processes	FD
4.	Reduction in cash advances, prepayments	FD
5.	Introduction of commitment control over capital and recurrent spending	FD/CGA/AG

S. No.	Action	Taken By
6.	Bringing revenues into account each day	FD/FBR/CGA/PAOs
7.	Covering 95 % spending decisions in the original budget	FG/FD/PAOs
8.	Centralization of information from many sources	FG/FD
9.	Identification of key responsibilities in cash management	FD
10.	Focus on money market development	SBP/FD

Treasury Single Account (TSA)

Definitions and Justification:

A Treasury Single Account (TSA) is a "Unified structure of government bank accounts" that ….. Involves a top (or "parent") account, usually at the central bank, through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at the end of each day (Source: Pattanayak and Fainboim, 2011, IMF Technical Notes and Manuals)''. Legal regime of cash management in Pakistan has already been formulated around the concept of Treasury Single Account. Article 79 of the Constitution of the Islamic Republic of Pakistan, 1973, conceives custody of all revenues, loans, moneys, and repayments as per a new enactment and till its approval, under the existing rules. The new law is yet to be enacted; therefore, the custody is being dealt with as per provisions of the Treasury Rules of the Federal Government. The constitution and Treasury Rules cover all the money into two categories, Federal Consolidated Fund and Public Account. The Treasury Rule No.2 (i) defines this money as 'Public Money':

> "Public Moneys" means the moneys forming part of Federal Consolidated Fund and the Public Account of the Federation."
>
> The Rule 3 then stipulates method of the custody of this money as:
>
> "Subject to the provisions of sub-rules (2) and (3) of rule 7 and sub-rule (1) of rule 33, public moneys of the Federal Government must either be held in a Federal treasury or in the Bank. Moneys deposited in the Bank shall be considered as one general fund held in the books of the Bank on behalf of the Government.

> The deposit of such moneys in the Bank shall be governed by the provisions of section 21 of the State Bank of Pakistan Act, 1956 (Act XXXIII of 1956)."

Section 21 (2) of the SBP Act says:

> "(a) The Federal Government and Provincial Governments shall entrust the Bank, on such conditions as may be agreed upon between the Government concerned and the Bank, with all their money, remittance, and banking transactions in Pakistan, and, in particular, shall deposit free of interest all their cash balances with the Bank.
>
> (b) Nothing in this sub-section shall be deemed to prevent the Federal Government and any Provincial Government from carrying on money transactions, at places where the Bank has no office, branch or agency or from holding at such places such balances as they may require."

It is evident that there shall be a Treasury Single Account whereas exceptions to the TSA shall only be ones provided in sub-rule (1) of rule 33 which largely cover accounts of Railways, Post Office, PWD, Foreign Missions and cash needed in the extra-ordinary circumstances enlisted in these rules.

In spite of this clearly stipulated legal regime, a huge amount of cash is held outside the TSA structure on the arguments including:

I. **Statutory Requirement:** Different statutes conceive independent funds for the entities created under them consisting of a portion of money from public fund and the rest from other sources;

II. **Strategic Requirement:** Most of the defence organization and strategic entities transfer the public money into private commercial accounts on the argument of strategic secrecy;

III. **Functional Independence:** Some public entities take out public money into their private accounts on the argument of functional independence;

IV. **Operational Requirement:** some public money is transferred into private accounts on the basis of geo-graphical reasons and in-accessibility or remoteness of the treasury and banking facility; and

V. **Commercial Operation:** Public money invested in to the commercial operations is taken out of the TSA most of the times and treated under a different cash and accounts management regimes governed under special laws/rules.

Common issues:

Cash held outside TSA is kept in multiple bank accounts with no cash consolidation as the public money. As a result, the cash position in the public money is affected negatively and most of the times, the cash manager/s of the government is/are forced to raise money, to meet the cash requirements, from the same scheduled banks which are holding its money, most of the times larger the debt raised, into the accounts opened on the above mentioned arguments. Government suffers, thus, on two counts, it is unable to utilize its cash and pays interest on the cash which is actually its own lay idle and re-munerated. Moreover, it becomes difficult to establish exact and full cash position of the government, hence it becomes impossible to prioritize and control expenditure disbursements. In addition, there are serious issues of accounting, reconciliation, performance monitoring and evaluation.

On the other hands, an effective TSA gives a complete, real time information on government cash resources, enables efficient cash management, helps in preparation of accurate and reliable cash flow forecasts, optimizes the cost of government operations (includes minimizing the volume and cost of government borrowing and lowering liquidity reserve needs) increases the return on excess cash, facilitates efficient collection and payment mechanisms, improves operational and appropriation control during budget execution, enhances efficiency and timeliness of bank reconciliation, facilitates timely and more complete accounting statements/reports, including sources and uses of cash.

Principles:

I. Government shall put in place a framework and timeline to ensure unified structure of the TSA as per law and expand it into the major areas of legal exceptions through amendments in the relevant law/rules. It shall ensure maximum fungibility of cash resources in real time;

II. Government shall put in place a legal and institution regime to give exceptions from the TSA;

III. Government shall bring all the public entities into the budgetary, accounting and cash management framework;

IV. Government shall empower the cash manager/s to oversee the cash management operations across the spectrum of budget and its operations;

V. Cash balance in the TSA shall be maintained at a level sufficient to meet daily operational requirements and a linkage between cash management and debt management shall be institutionalized; and

VI. Government shall ensure full consolidation of cash balances of all government entities (budgetary and extra-budgetary) and devise a mechanism daily zero balancing of the TSA and monthly reporting of complete cash balance of the government within and outside the TSA.

TSA Strategy: Focus on Cash Consolidation

Scope and Structure of TSA:

Every penny of the public money shall be reverted to the TSA, within the framework of different authorized accounts of Government in the State Bank of Pakistan or its nominated agency and cash therein shall be zero balanced. Besides, all the money collected by the public entities as their own revenue and kept in the accounts opened and maintained in the scheduled banks, after specific authorization by the Federal Government, shall be reconciled and reported to the Finance Division by the SBP through its RTGS on daily basis. The SBP shall devise a regime for availability of this cash for use by the Federal Government and need based disbursement to the relevant public entities. If any account is opened in a scheduled bank without a specific authorization by the Federal Government, disciplinary proceedings shall be initiated against head of the organization and Principal Accounting Officer concerned under the relevant laws/rules.

Federal Government shall, however, be empowered to give exception to any organization from the TSA after recommendation by a Committee, which shall be constituted and notified in light of this policy. This committee shall also propose legal amendments for removal of already granted exceptions and inclusion of new exceptions from the TSA, after due deliberation, for approval of the Federal Government.

Within this scope following steps shall be taken by the entities and authorities made responsible for them.

S. No.	Action	By
1.	Complete survey of the existing accounts by the public entities and cash available in them.	SBP
2.	Review of all accounts by heads of public entities/PAOs and decisions as to closure of un-authorized accounts or case submission for their authorization	Heads of PEs and PAOs
3.	Expansion of budgetary, accounting and cash management systems of Government to the accounts closed, public entities being given single line budget etc.	Heads of PEs/PAOs/FD/CGA
4.	Authorization to the FD/Cash Manager (s) to pool cash from the accounts held by the PEs in Scheduled Banks in case of need.	FG/Law Division
5.	Authorization of accounts by the FG in the Scheduled Bank for the PEs only in the name of the PE.	FD/SBP
6.	Develop superior cash forecasting and management capabilities to meet cash needs of all entities	FD
7.	Real time gross settlement system (RTGS) based payment and reconciliation regime	SBP/FD
8.	No private account shall be opened for any PE in Scheduled Bank without prior authorization	SBP
9.	Electronic transaction processing and payment system	FD/CGA/AG/SBP
10.	TSA reporting framework for extra-budgetary funds of Government and public entities	SBP/FD/CGA
11.	Decision as to which public corporation shall be excluded from the TSA completely or Partially	FG
12.	Institutional framework for the TSA	FG/FD
13.	Operational Framework for the TSA	FD/CGA
14.	Transition planning and capacity development	FD/CGA
15.	Constitution of a Committee to propose to the FGlegal amendments for expansion of the TSA and suggest removals (exceptions) from or inclusion into the TSA	FG/FD