BAUCHI STATE

BAUCHI STATE GOVERNMENT's CASH MANAGEMENT STRATEGY

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ABBREVIATIONS AND ACRONYMS

Acronym	Description
ARC	Accountability, Responsiveness and Capability
BEPD	Budget and Economic Planning Directorate
BIR	Board of Internal Revenue
DTO	Department of Treasury Operations
CDF	Comprehensive Development Framework
ExCo	Executive Council (of Bauchi State Government)
FAAC	Federation Accounts Allocation Committee
FRL	Fiscal Responsibility Law
IGR	Internally Generated Revenue
IPSAS	International Public Sector Accounting Standards
BSG	Bauchi State Government
MDAs	Ministries, Departments and Agencies
PFM	Public Financial Management
TSA	Treasury Single Account
SHoA	State House of Assembly
SIFMIS	State Integrated Financial Management Information System
SPARC	State Program for Accountability, Responsiveness and Capability
TSA	Treasury Single Account

Executive Summary

Bauchi State Government (BSG) is involved in various public expenditure and Financial Management (PFM) reforms. This is due to the support of the DFID-Funded State Program for Accountability, Responsiveness and Capability (SPARC)

Cash management is one of the major components of the Bauchi PFM Agenda

Implementation of the Bauchi PFM Agenda has resulted in significant improvement in the state PFM system.

The main achievements included strong budget performance which is currently within the range of 80%, significant reduction in the number of bank accounts and centralization of IGR, salary and pensions payroll system improvements, and capital expenditure programming & payments. These have helped all the PFM Agencies, particularly the Treasury which has continued to exercise greater control over the financial resources of the State.

However, the success of these agenda is not perfected yet therefore it is necessary to improve the PFM system and performance including the need for more effective and efficient cash management strategy.

Generally, these imperfections constitute hindrances to effective budget execution which could potentially lead to failure in service delivery.

A notable sign of imperfection of the cash management system is that the flow of budget resources to MDAs is not predictable. This occur due to a less strong cash planning process involving robust cash forecasting and its alignment with MDAs spending plans in form of annual cash plan.

Before the implementation of the TSA, the Treasury department did not have real-time view of financial resources either across its own centrally controlled bank accounts or across bank accounts under the direct control of all other Government agencies. div

This strategy is developed by Office of the Accountant General,Treasury Division, Ministry of Finance and Economic Planning (MFEP), Bauchi State in collaboration with Budget and Economic Planning Directorate (BEPD) in order to address the identified ineffectiveness and move towards best practice in cash management. The overall goal of the strategy is to reposition the entire PFM system as well as to enable the Treasury play a leading role in safeguarding government financial resources, efficient disbursement of funds to help execute the budget as planned and deliver government priorities.

Foreword

The creation of Cash Management Strategy is another step forward in the ongoing Public Expenditure and Financial Management Reforms by the Bauchi State Government.

The ultimate purpose of the reforms – including the development of this document – is to facilitate the achievement of the socioeconomic development of the State Government

PFM Reforms ensure the effective functioning of the system across all stages of the budget cycles. In particular, these reforms promote strategic resources allocation in line with government development priorities and engender aggregate fiscal discipline with effective & efficient management of financial resources in the execution of the budget.

Bauchi State Cash Management Strategy will provide basis for the deepening and broadening some of the ongoing reforms particularly with respect to approved budget profiling, preparation of revenue forecast and annual cash plans, as well as pursuit of the Treasury Single Account policy.

With reforms continuously ongoing, it is intended that soon, an Organic Finance Law would be developed by the State Government to replace the Public Finance (Control and Management) Law of 1998 assessed to be out of tune with decades of developments in the public expenditure and financial management processes and procedures.

Subsequently, the new law, when enacted, will provide impetus for the review and enrichment of other financial rules and regulations including this Cash Management Strategy Policy. In the same vein, this resolve is further reinforced by the ongoing development of the State Integrated Financial Management Information System (SIFMIS) which will come with far-reaching positive implications on the way and manner in which funds are mobilized, expended and accounted for. It is our believe that, this newly developed document will go a long way in facilitating the attainment of the PFM reforms being pursued by the State Government.

Section One: Introduction

1.1 Background

Bauchi State Government (BSG) has embraced reforms in public financial management (PFM). The reforms are encapsulated in the Bauchi PFM agenda .

The implementation of which has led to significant gains for the state. The PFM reform plan was implemented across the various PFM Agencies including Ministry of Finance and Economic Planning, Directorate of Budget and Economic Planning, Due Process and Monitoring Bureau, Board of Internal Revenue, Office of the State and Local Government Auditors-General and the Directorate of Salary and Pensions Administration. Each of the five reform platforms has a main theme and several dimensions to be accomplished over time.

Platform 1 is "Comprehensive PFM management control and information systems, and competent PFM staff, enabling Bauchi State Government to mobilize and control the financial resources needed to execute its plans, and provide a strong base for implementing its future development plans". The first dimension on this platform is "***Comprehensive Cash Management***".

A strong cash management system helps in effective budget execution and contributes to the achievement of all three budgetary outcomes of a good:

i. PFM system comprising of aggregate fiscal discipline,
ii. Strategic allocation of resources, and
iii. Efficient service delivery.

These were the Fiscal Responsibility process for effective budget preparation and execution including cash management; and the State Public Procurement Law meant to promote accountability, transparency and value for money in public procurement and public service delivery..

Among the targets set for cash management includes:

1. Fitting cash availability to within 100% of the cash demand of MDAs by 2020;
2. Centralization of all capital expenditure payments at the Treasury by end of 2020 (including for direct labour projects); and
3. Central payment for major recurrent expenditure involving payment to service providers and vendors items within the range of ₦5 million and above by 2020.

Major gains made from the implementation of the PFM reforms include improved budget performance which is currently within the range of 80%. Notable achievements within the cash management area are significant reduction in the number of bank accounts from nearly 900 to about 100 the centralization of capital expenditure payments in the Treasury and the adoption of single revenue account.

Other achievements include the use of single platform to view all government bank accounts, improvement of information management through the installation and upgrade of IT system (i.e. State Integrated Financial Management Information System, SIFMIS) and adoption of International Public Sector Accounting Standards (IPSAS) based National Chart of Accounts.

Despite these gains, the Cash Management system still faces a number of challenges which necessitates the need for further strengthening to make the system sufficiently strong to support predictable, orderly and effective budget execution and enhance service delivery. It is for this reason that strengthening the cash management system is a major priority in the public financial management reform agenda being pursued by the State.

1.2 Objective Of cash management strategy

The State Cash Management Strategy is generally conceived within the context of the State PFM reform as it affects general improvements in treasury management. The overall aim is to reposition the State Treasury to perform its functions more effectively and play a leading role in the execution of the budget to deliver government policies and program. This also includes the desire to strengthen the existing Cash Management System in order to improve efficiency in the management of the financial resources of the state.

1.3 Cash Management practice

The credibility of the budget depends to a large extent, on the ability of the government to put in place an effective cash management system that can make accurate forecast to determine monthly cash availability and to also prepare an annual cash plan which provides the basis for the disbursement of funds to execute the budget as planned in line with the MDAs spending plans. Cash management is therefore a pillar in budget execution and it is a central function of the Treasury.
In public financial management, cash management, among others, is about:

i. Identifying when cash will be received/available over a period of time;
ii. Identifying what payments will arise over the same period and;
iii. The synchronization of the two to ensure that cash is made available to MDAs at the time of need;
iv. Cash pooling in form of the centralization of receipts and payments commonly referred as TSA.

MDAs have direct responsibility for and will be in a better position to plan the execution of their approved budgets more effectively if they have reliable information on when funds will be available throughout the fiscal year. As stated above, good practice in cash management requires the Treasury to determine the availability of funds by making monthly cash forecasts for the financial year and preparing an Annual Cash Plan (which basically aligns revenue/cash inflow and MDAs spending plan/cash outflow).

Providing MDAs with reliable information on cash availability in advance will enhance cash flow predictability and enable them plan the execution of the budget in a more effective way. Monitoring cash flows can help manage fluctuations by identifying when cash shortfall or surplus will occur and taking appropriate remedial action.

It is important to emphasize the significance of budget realism without which it will be difficult to execute the budget. The government cannot implement as planned an unrealistic budget no matter how strong the cash management system is.

Section Two: Review of Previous Cash Management Arrangement

2.1 Cash Management Arrangement before TSA

The Financial Instructions, Fiscal Responsibility Law, FRL (2010), Public Finance and Management Control Law and other extant circulars provide the framework for cash management in the State. It is within this context and under the previous practice that the Office of the Accountant General prepares monthly cash flow statements/schedule consisting of the major revenue receipts (FAAC allocations, IGR and other revenues) and payments (salary and pension, standing orders, overhead releases and residual for capital expenditure payments).

The standing orders are also part of other recurrent expenditures including among others payment for utilities (maintenance of street lights, operations and maintenance of water facilities and power bills), institutional feeding, etc). Before the implementation of the TSA, and contrary to best practice, the Treasury does not prepare an elaborate annual cash flow forecast that reflects the monthly cash inflows for the fiscal year.

The practice before now is that the Treasury prepares schedule of payments every month and pass to the Governor for approval. Once Governor's approval is obtained, the Treasury goes ahead with releases based on the schedule of payment. Despite the regularity of the monthly standing orders including remittances for routine overhead expenditure to MDAs, other cash releases are less predictable due to weak and inadequate cash planning that aligns cash forecast with MDAs spending plans.

This is especially so considering that the regular overhead releases are normally below the expected monthly allocations based on the approved estimates and MDAs have to periodically submit requests for additional releases. Monthly salary and pensions are the most predictable items of payments.

As for capital expenditure, payments are centrally made by the Treasury based on payment vouchers (PVs) prepared by MDAs backed by Due Process Bureau payment certifications. Direct releases to MDAs for some category of capital expenditure is not uncommon which is also viewed as an aberration to the best or desired practice in financial management.

Payments for salary and pensions are centrally made at the Treasury and direct to beneficiaries through the end-to-end payment platform. Capital expenditure payments are also made directly to contractors centrally. Overhead remittances are released to MDAs through their respective bank accounts. MDAs are therefore in position to make payments in respect of expenditure commitments for their overheads which could be either direct bank payments to beneficiaries and service providers or cash payment.

The accumulation of huge payment arrears in respect of certified work on capital projects inherited by successive governments over the years reflects the weakness with regards to commitments control.

However, with implementation of TSA, the payment arrears have been significantly reduced with commitments now considerably under control.

All these scenarios underscore the need for a more robust, comprehensive and effective approach to cash management in the State while safeguarding public funds and ensuring accountability and value for money, an effective cash management strategy is necessary to deliver the overall state socioeconomic development objectives as reflected in its strategy document, the Comprehensive Development Framework (CDF).

Section Three: Cash Management Strategy

3.1 The Role of Treasury and Treasury Management

- The Bauchi State Government will see to it that its harnesses fully the option of **Internally Generated Revenue (IGR)** as a medium of generating revenue and increasing its revenue base. The state Government will achieve this only with the existence of an efficient Treasury Department being put in place. The Treasury Department will be guided by the Legal framework that will be put in place to perform its role as the live wire of the Government.
- The Treasury department is responsible for the generation and collection of external and internal revenue due to the state government, the judicious utilization/disbursement of revenue collected and the preparation of annual budget for consideration of the finance committee and subsequent approval by the approving authority.
- The Treasury is responsible for managing the financial resources of the government and as such plays a key role in budget management and delivery. Exercising financial control is one of the primary functions of the Treasury. This entails putting in place processes, systems and procures that ensure mobilization of financial resources economically and their effective and efficient utilization in budgetary execution. Simply put, collecting and disbursing funds in a manner that safeguards government financial resources while ensuring efficient utilization.
- The Accountant General, as Head of the Treasury drives power from the General Release Warrant signed by the Governor to disburse funds from the consolidated revenue fund of the State in a manner that ensures effective execution of the budget. Therefore, repositioning the State Treasury is a key functional undertaking of the ongoing PFM reforms.
- The objective is to strengthen the overall treasury management to enable the Treasury perform its functions and deliver its mandate.

The strategy aims at improving the cash management system to meet the requirement of modern treasury management. Key aspects of the strategy include.

- Integration of TSA with a single account and other subsidiary accounts including the central revenue accounts that are swept on a timely basis. This arrangement will also allow the consolidation of bank account balances and enable the Treasury to determine the overall government financial position on real time basis. This would requires instituting a sort of an electronic control panel that gives authorized person a central view (either on individual basis or consolidated basis) of all Government Accounts across all MDAs;

- Application of cash forecasting and preparation of annual cash plan including budget profiling to facilitate efficient disbursement of funds to MDAs in accordance with their spending plans;

- Engaging IT support through the upgrade of the existing IFMIS to facilitate the automation of processes and improve efficiency. The system will be interfaced with the banks through reliable platforms to facilitate timely electronic clearance and payment arrangements

- Changes in organizational structure to suit the new cash management system and arrangements;

- Updating the legal and other institutional frameworks;
- Review of procedures and processes in line with the changes introduced;
- Human resource development in form of staff deployment and training

The main purpose of the TSA is to have a system whereby a single account with a number of linked sub-accounts will be maintained starting with Treasury Central Accounts and gradually extended to cover all Government Agencies.

The Accountant General (AG) will maintain a bank account database through which all balances in government bank accounts can be viewed. A single account will be maintained for IGR collection and payment.

Each MDA will be allowed to have one expenditure account for overhead transactions. Other than overhead remittances to MDAs all payments will be centralized.

Balances in MDA bank accounts that sit for a specified period of time will automatically be swept.

MDAs will not be allowed to have more than one expenditure account such as Special Project Accounts managed with external development grants. In the same vein, payments would be centrally controlled by the Treasury above certain threshold as may be determined from the time to time by the State Government.

The repositioned Treasury will be staffed and adequately equipped to carry out its functions including:

Functions of Treasury Department in Enhancing Revenue in Bauchi state's Management of government Bank accounts:

The Treasury department has the responsibility of supervising Government bank accounts (including all extra-budgetary funds). All banking arrangement must be negotiated by the Treasury department; this would enable government select the banks with better opportunities and services such as:

- ✓ Lower interest on borrowings,
- ✓ Higher interest on savings,
- ✓ Lower commission on turnover and faster services etc.

The treasurer is expected to receive regularly (by month end) a statement from the state Government's Banks. **This statement must be critically analyzed for the purpose of preparing a reconciliation to ensure there is no form of fraud or error that has taken place.**

Debt management: In order to avoid a situation of uncontrolled indebtedness, the treasurer will be the only one as the finance director, permitted to borrow money on behalf of the state Government. The money borrowed should either be channeled into projects (project loans) or for financing budget deficit. The state Government in fulfillment of its accountability function is expected to disclose to the relevant legislation its level of indebtedness, and publish statistics of the government debt.

Cash management: Cash Management can be defined as having the right amount of money to fund government expenditure in a timely manner as well as meeting its obligation as they fall due

Cash Management involves basically the control of cash inflows (that is, revenue collected either by the treasury department or commercial banks which must be swiftly processed and made available for use), control of cash outflows (this is to ensure the sufficiency of cash until the due date of payment) and control of disbursements (to ensure that all payment made are within the budget and there is no form of miss-management of funds).

- **Management of foreign grants and aid:** All forms of grant (in cash or in kind) must be duly budgeted and expenditures financed using grant must be subjected thoroughly to scrutiny by the treasury officer. This is to ensure there is no form of miss-appropriation of fund or misplacement of priority.

- **Management of government financial asset:** The treasury department is expected to manage the government shares in companies and to manage loans granted by the government. The treasury department is expected to do this by ensuring the authorization of disbursements and tracking payments.

The treasury department gets vivid information of those companies where the state Government holds shares on capital appreciation, share dividend, bonus shares etc.

- **Financial planning and forecasting:** Financial planning involves the preparation of budget implementation plan, annual and monthly cash plan and monthly forecast. These various plans must be prepared by the Treasury department to ensure that cash outflows are compatible with cash inflows, and just in case borrowings are needed, to ensure that borrowing plans are in place.

- **Financial control:** Financial control can be defined as the process which assures that financial resources are obtained economically and used effectively and efficiently for the purpose of actualizing set goals

- **Preparation, expenditure and control of budget:** Here, the Treasury department passes a form across to several heads of department within the confines of the state Government. This form enables them disclose the information relating to their financial needs and the various persons and things required to aid the fulfillment of those needs. Once these forms are filled, they are passed back to the Treasury department and this department makes this financial need known to the legislation for approval (and of course this is also subject to prior scrutiny by the Treasurer before he presents it to the legislation). The Treasury is therefore expected to presents the budget which would now be a compilation of the various financial needs received from the various departments.

- **Risk management:** One of the most important functions of the Treasury department is management and control of risk associated with treasury activities. Some of this risks are: Liquidity risk (risk that the state Government would run out of cash needed to carry out its activities), Interest rate risk (Risk that the state Government fails to get good value for its cash dealings), Inflation risk (Risk that growth in the authority's investment income does not keep pace with the effect of inflation on its outgoings).
- **Books of account:** The purpose of accounting is to provide relevant and reliable accounting information to users to aid decision making. To unable the provision of this information, the treasury department is therefore expected to keep proper books of accounts, records and forms to enable the documentation of government transactions on a daily basis. The books of account to be kept include: cashbook, ledgers, journals, records of assets and liabilities, stores receipt etc.
- **Stores administration:** For every item needed in the state Government due approval must be gotten from the Treasurer and his approval is subject to consideration of factors such as: availability of the item within the budget, availability of adequate money to cover such item, necessity/urgency of such item and his level of authority to approve such expenditure.

- **Maintenance of bank relationship**. This will involve holding regular meetings with government bankers to discuss and review issues relating to bank charges/fees, forex, overdraft facility, wire transfers and TSA. This will also include periodic evaluation of the performance of government bankers. A unit under the Department of Treasury Operations (DTO) will be created to perform this function/task;

- **Fund raising.** The Treasury would be strengthened to be in a position to provide advice on:

    a. Short-term financing
    b. Access to capital market for medium to long-term financing.

The Debt Management Department will be responsible for this function.

- **Ensuring treasury control which involves:**

    a. **Fund Control** in terms of management of legislative appropriations to ensure that commitments and expenditure do not exceed appropriations. Notwithstanding, Budget and Economic Planning Directorate, Due Process & Project Monitoring Bureau and indeed, the MDAs, all have critical roles to play in ensuring effective Fund Control in the State's Financial Management processes;

    b. **Budget Expenditure Control** relating to Vote Control i.e. in terms of monitoring of budgeted versus actual flows for receipts and payments

    c. **Regular bank reconciliation**

    d. **Bank Accounts Oversight** and consolidation of balances to identify idle cash and debit balances

    e. **Internal Auditing** to ensure compliance and fidelity of expenditure

    f. **Commitments Control** in order to have an overview and keep commitments within tolerable limits.

  The Treasury, through its various Departments and Units, would ensure that these key treasury functions are effectively discharge on a continuous basis.

- **Payments.** The efficiency in making payments to beneficiaries will be significantly improved by deploying effective payment methods (pay direct, end-to-end and other recognized e-payment methods). In addition, the period of processing payment will be reviewed and significantly reduced taking maximum advantage offered by existing technologies.

3.2 Overview of Cash Management Strategy

As part of the PFM reform agenda, BSG is putting in place a Cash Management Strategy with a view to reposition the Treasury to take full control of the overall State's Financial Management process as to instill economy, efficiency and effectiveness in the process and to play a leading role in the budget execution process

The Benefits of Efficient Cash Management

Efficient cash handling and control systems **increases certainty** that payments are made properly by the due date; and those receipts are passed

- Without delay to the responsible bodies. They also **reduce operational risk** and the scope for mismanagement or fraud.

- By minimizing the volumes of idle cash held by government bodies, most of which is unlikely to be fully remunerated and reducing payment authorities (and cheques) in transit or awaiting clearance, there is a **direct saving** to government in the form of the borrowing that is no longer needed to finance that cash.

The linkage of government accounts (so that balances are netted through a single account at the central bank), not only reduces gross balances, it **improves visibility** of flows – opening up the opportunities for active management – and **reduces risk**, whether in terms of exposure to the banking system or to financial market movements

Accordingly, the cash management system will be strengthened in a way that will enable the Treasury to deliver its mandate. A key target of the strategy is to align cash availability with the spending plan of MDAs so as to guarantee predictable flow of financial resources in order to facilitate the delivery of services to the citizens of the state. Another target is to improve the receipts and payments system by introducing the TSA.

The overall aim of the Strategy is putting in place a pro-active cash management that supports efficient budget release system to ensure predictable flow of funds to MDAs in line with their spending plans. This will facilitate the execution of the budget as planned and attain the highest degree of budget delivery. This is in addition to improving the efficiency of receipt and payment systems.

A key objective of the Strategy is therefore to enhance the credibility of the budget as the medium through which government implements its policies and plans to achieve its socioeconomic development objectives its policy priorities.

For this purpose, one plank of the strategy is to strengthen the cash planning process in line with the provision of the Fiscal Responsibility Law (FRL), this will involve the profiling of revenue and expenditure as per the approved budget to determine cash availability and underpin spending accordingly.

At the beginning of the financial year, the Treasury will forecast monthly cash availability based on the approved revenue estimates. A robust tool will be used in order to enhance the accuracy of forecasting result. Under the guidance and coordination of the Budget and Economic Planning Directorate (BEPD), the MDAs will prepare expenditure profiles (work or spending plans) indicating their cash requirement for meeting their needs to execute the budget. The revenue and expenditure profiles will thereafter be integrated to produce the annual cash plan which aligns the cash inflow with the cash outflow. Once approved by the Governor/EXCO, the annual cash plan forms the basis for budget releases.

Predictability of availability of funds is a very important aspect of effective budget execution. Under the new system, this will be enhanced by sharing timely and reliable information with MDAs with MDAs regarding when and how much will be released during the financial year. The new system entails a more comprehensive and inclusive cash planning arrangement as against the monthly cash flow schedule solely prepared by the Treasury irrespective of the situation at the MDAs level.

Being a sort of bottom-up approach with inputs derived from the MDAs, this ~~allows alignment with t~~imings of cash requirements in budge execution in accordance with budget priorities. Even as the Treasury makes its cash-flow forecasts, it takes into consideration the MDA budget implementation profiles. Predictability of cash flow thus becomes more assured than it used to be with greater improvements in
budget execution in accordance with its priorities.

Moreover, the new system will enable the Treasury to monitor cash flow fluctuations, identify periods of surplus and shortfall and be in a better position to manage them. Another important aspect of the Strategy is the creation of efficient receipt and payment environment through a system of centralization of IGR collection and expenditure payment leveraging of technology and emerging financial management practices.

Another advantage of the Strategy is that the Treasury will be in a better position to establish and maintain a sustainable liquidity position by ensuring availability of cash sufficient enough to meet government obligations and maintain optimum service level. The minimum is for the government to be in a position to pay salaries and pensions, interests and debt and meet minimum level of essential services including honouring its certified financial obligations.

One of the outcomes of the Cash Management Strategy is to raise the level of confidence in the budget system of the state among all stakeholders (civil servants, contractors and taxpayers) that do business with the government as well as meet the expectations of the general public.

The second main plank of the strategy will be the pursuit of the **Treasury Single Account (TSA)** policy in order to control bank related transactions and safeguard government funds. The plan is for all receipts and payments to pass through the TSA system. Implementation of the TSA will provide the means for the Treasury to have a total overview of Government financial position and enable it have full control of the financial resources of the state. Other aspects of the strategy include lowering financial transaction costs, use of modern IT platforms to improve the efficiency of receipts and payments.

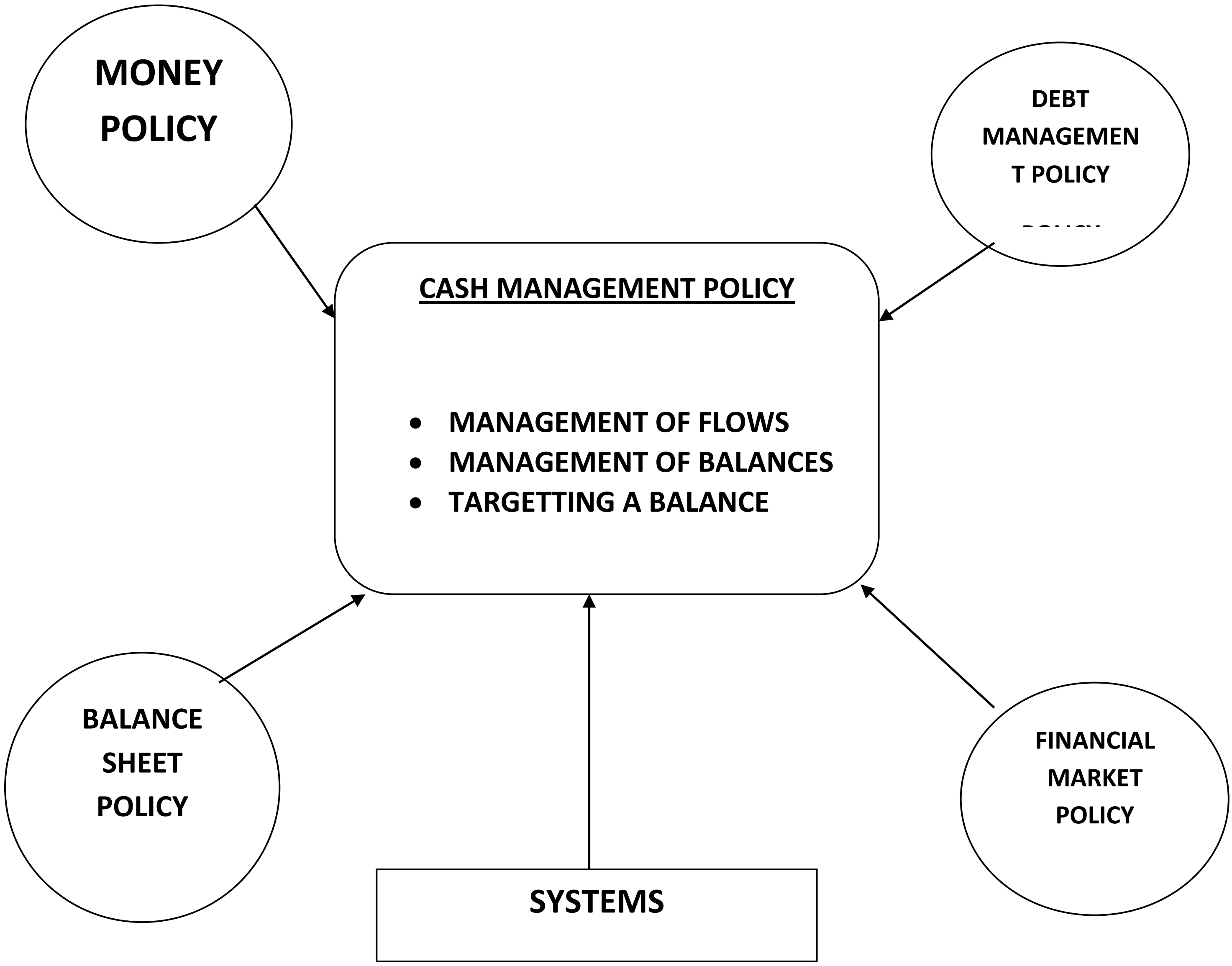
All these will entail the review of existing procedures and processes in order to adapt them to suit the needs of the changes to be introduced. It will also entail the acquisition of appropriate equipment together with commensurate skills through staff training and redeployments. A key component of this will also include leveraging on technology for the Treasury to instituting a system that allows it to have real-time information on cash balances across its central accounts and across MDAs (including special project accounts by whosoever maintained).

The strategy aims at improving the cash management system to meet the requirement of modern treasury management. Key aspects of the strategy include.

1. Adopting full TSA with a single account and other subsidiary accounts including the central revenue account that are swept on a timely basis

2. Introduction of cash forecasting and preparation of annual cash plan including budget profiling

3. IT enhancement support through the upgrade of the existing IFMIS
4. Changes in organizational structure to suit the new cash management system
5. Updating the legal set-up and making amendments where appropriate
6. Review of procedures and processes
7. Human resource development in form of staff deployment and training


MONEY POLICY
DEBT MANAGEMENT POLICY
CASH MANAGEMENT POLICY
MANAGEMENT OF FLOWS
MANAGEMENT OF BALANCES
TARGETTING A BALANCE
BALANCE SHEET POLICY
FINANCIAL MARKET POLICY
SYSTEMS

CASH MANAGEMENT POLICY

3.2 Cash Planning/Forecasting

As earlier hinted, comprehensive forecast cash with an elaborate annual cash plan that provides strong basis for cash releases to execute the budget by the Treasury was not part of the norm of the Treasury management practices. The custom was largely limited to the preparation of monthly schedule of cash release for Governor's approval which is done immediately after the receipts of funds from the Federation Account (FAAC) being the main source of revenue. With the new Cash Management Strategy, there will be a departure from this tradition to a more pro-active and comprehensive cash forecasting system. This involves the profiling of budgeted revenues and expenditures by preparing forecasts of monthly cash inflows and outflows for the fiscal year.

3.2.1 - Revenue Profile

This entails cash forecasting to prepare revenue profile that shows the monthly inflow of revenues (mainly recurrent revenues) based on budgeted revenue figures and statistical/historical trends. As for capital receipts, the forecast will depend on the terms or conditions of loans or grants. The Treasury will perform this function through the application of a forecasting tool capable of producing robust and accurate forecasts.

As part of the process the Treasury will also be tracking performance by comparing forecasts against actual revenue inflows. This will provide the basis for in-year review and re-forecast.

3.2.2 - Expenditure Profile

The expenditure profile shows the outflow of cash for recurrent and capital expenditure on a monthly basis for the budgeted expenditure, based on prior trend of expenditure for recurrent, and based on capital project work-plans for capital expenditure. The expenditure profile is a decentralized function performed by the MDAs but consolidated centrally by the Budget and Economic Planning Directorate (BEPD).

3.2.3 - Cash Plan

The two profiles for revenue and expenditure will be integrated to form the annual cash plan. This process will enable the Treasury to identify in advance periods of cash shortfall and surplus. Armed with this the Treasury will be in a better position to manage the fluctuations by way of putting appropriate remedial measures (such as borrowing, investing or saving, shifting of expenditure as the case may be).

3.2.4 - In-Year Performance Assessment and Re-Forecast

The forecasting model/tool to be used by the Treasury will have capability to assess in-year performance and adjust the cash-flow forecast at the appropriate time. The model is also capable of making "re-forecast" based on the current cumulative performance level. *Committee*, chaired by PS Budget and Planning, is responsible for working with MDA's to prepare the expenditure profiles for both recurrent and capital expenditure;

1. ***Revenue Profiling Committee***, chaired by Account General collaborating with the Board of Internal Revenue responsible for preparing the Revenue Profile; and

2. ***Cash Planning Committee***, chaired by the Honourable Commissioner of Finance and Economic Planning. The responsibility of this committee is to bring the expenditure and revenue profiles together to create the annual Cash Plan. The Expenditure Profiling and Revenue Profiling Committees will thus report to the Cash Planning Committee which ultimately reports to the Governor and the State Executive Council (ExCo).

Each of the above committees has terms of reference including membership, chairmanship, activities and outputs attached in the annex.

3.3 Cash Disbursement

Cash disbursement depends on the receipt of statutory allocations and VAT from the FAAC as well as IGR collection. Considered as the first charge, the State prioritizes the payment of monthly salaries and pensions which are released before anything else after the receipt of the FAAC allocations. These are followed by special releases or standing orders for overhead costs remitted to Government Agencies and for non-routine expenditures such as institutional feeding and payment for utilities.

Payments for certified capital expenditure would largely depend recurrent revenue surplus after meeting monthly recurrent expenditure. These are based on Payment Vouchers from the implementing agencies prepared on the basis of Due Process Payment Certificates. Outstanding Capital Expenditure payments are normally included in the monthly cash statements approved by the Governor prior to execution of payments. With effective cash management strategy, payments and or disbursement would largely be based on the plan, with less subjectivity and generally directed towards achieving the strategic development objectives of Government as contained in the approved budget.

All disbursement of funds will be generally guided by the annual cash plan approved by the State Executive Council. Having provided inputs into the budget profiles developed by the Directorate of Budget and Economic Planning, MDAs will also be guided by it in making periodic requests for non-routine expenditures such as payment for examination fees already factored into the Cash Plan based on the timing of the budget profiles. This requires circulation of the annual cash plan to all MDAs so that they are guided by it in budget implementation.

3.4 Revenue Management

There are two major sources of recurrent revenues – the monthly allocations received from FAAC and the IGR. There are also financing items such as LGAs contributions for joint-funded expenditures and other earmarked funds for the execution of projects and program i.e. loans and grants. In line with the constitutional provision there exists a consolidated revenue fund account into which all FAAC receipts and IGR collections are deposited.

In order to minimize leakages and have effective control over IGR, revenue payments are made directly into the State revenue accounts. While payments could be made in any bank branch, this directly goes into the single State Revenue Bank Account. While responsible MDAs could also collect revenues under their jurisdictions, all collections have to be deposited into that same central revenue account.

Cash payments for IGR are no longer permitted. While there would be mechanisms for return of revenues to self-financing MDAs (parastatals), this would be subject to periodic guidelines as approved by the Treasury and based on the approved budgetary provisions.

3.5 Commitment Control

While the ongoing SIFMIS project will ultimately replace the existing manual commitment controls whereby the system will record all matured payments and provide required information on contractor liability and other outstanding obligations as and when due, the Cash Management Strategy will still try strengthen the existing system. The DTO will be preparing periodic report (monthly) on the status of outstanding commitments particularly contractor liability. The current stock of commitments will be reviewed and continuously updated to support both the monthly annual cash plans and monthly ash flows.

3.6 Review of Previous Treasury Management

As earlier stated, the State has long ago moved towards TSA by significantly reducing the number of bank accounts and the centralization of IGR. On the expense side, presently, over 7O% of total expenditure payments are made centrally through the Treasury. Specifically, all capital expenditure payments and staff salaries and pensions are centrally paid. However, about 7O% of overheads are remitted to the MDAs by the treasury through releases made into their respective bank accounts.

The Accountant General maintains a bank account database which gives him an overview of all government bank accounts. The account into which all IGR collections are deposited is reconciled monthly as a minimum and swept to central expenditure account routinely.

The scenario is that the treasury represents the government pay office while the MDAs manage their own expenditures.

3.7: Treasury Single Account

Under this strategy, the plan is to improve the system with the long-term objective of having a comprehensive TSA which involves a unified structure of Government Bank Accounts in a single account for all receipts and payments. The medium-term aim of the strategy is having a TSA system with a set of linked accounts for all Government payments and receipts. The new system will have the ability to consolidate bank account balances and provide real time government cash position at all times.

A dashboard will be created to provide at a glance view of the cash balances for authorized government officials. This will provide information on a continuous basis to enable the Treasury takes full control of the financial with the ability to identify and sweep all idle balances. The primary objective of the TSA is to bring all Government funds in bank accounts within the effective control and operational purview of the State Treasury. The purpose is to:

i. Have centralized, transparent and accountable revenue management;
ii. Facilitate effective cash management to ensure cash availability;
iii. Centralize and improve efficiency in payment;
iv. Allow optimal investment of idle cash and improve liquidity management; and
v. Eliminate operational inefficiencies and costs associated with maintaining multiple accounts across multiple financial institutions.

Major features of the new arrangement would include the following among others:

- No bank account under any guise shall be opened without Treasury approval and all accounts must be within the purview and oversight of the Treasury.
- All revenues must be paid through the central revenue account;
- All MDA bank accounts will be linked to the TSA;
- The consolidation of government cash resources will take place on daily at close of the close of business;

- All cash balances in excess of ₦5 million that sit for maximum of four weeks in any MDA bank account will be swept back to the TSA. This amount will be appropriately reviewed periodically and communicated through Treasury circulars;

- All capital expenditure, salary and pension and payments of major overhead cost items like institutional feeding, and payment of examinations fees and others in excess of ₦10 million will be centrally made;

- Payments to be as much as possible via end-to-end and other modern e-based payment methods.

The long-term vision is to operate the treasury reference model in which there is a single banker for the government. The target for achieving is 2025 which time implementation of the State Integrated Financial Management Information System will be fully functional and operational.

Annex 1: Terms of Reference for Revenue Profiling Committee

Terms of Reference for Revenue Profiling Committee

1. Chair	Accountant General
2. Committee Members	Chairman BIR
	Director Debt Management, Ministry of Finance
	Director Final Accounts, Ministry of Finance
	Director Revenue Mobilization, Ministry of Finance
	Director Treasury Operations, Ministry of
	Finance
	Director Budget (BEPD)
3. Reports To	**Cash Planning Committee**

4. Overview

Improved cash management in BSG is a critical step in assuring effective and efficient use of resources. Improved Cash Management can be achieved through the employment of expenditure profiling and revenue profiling.

Expenditure Profiling refers to scientific analysis by MDAs of their annual approved budget allocation and strategically apportion it on monthly demands. While on the other hand, Revenue Profiling refers to the analysis of revenue forecast for a given period (monthly).

Bringing the Expenditure Profile and the Revenue Profile together, analyzing issues (cash short-falls or surpluses) and proposing remedies constitutes Cash Planning and should result in a Budget Disbursement Schedule.

The desired result is to ensure optimum utilization of public funds among the equally important demands for public expenditure.

The structure of Cash Planning in BSG is as follows:

- Expenditure Profiling Committee, chaired by PS Budget and Planning, responsible for working with MDA's to prepare the expenditure profiles;
- Revenue Profiling Committee, chaired by Accountant General, responsible for preparing the Revenue Profile;
- Expenditure Profiling and Revenue Profiling Committees report to the Cash Planning Committee, chaired by the Honourable Commissioner, Ministry of Finance, who bring the expenditure and revenue profiles together to create a Cash Plan; and
- Cash Planning Committee reports to Executive Council (ExCo).

5.Specific Responsibilities and Deadlines

The Cash Planning process should commence at the point where the draft budget is presented to the State House of Assembly (SHoA). The long-term target should be for all profiling and cash planning to be completed prior to the start of the budget implementation (i.e. prior to 1 January). It is important that any changes to budget post SHoA approval must be retrospectively adjusted in the profiling templates/model.

All Revenue Profiling Committee Members should ensure they are familiar with the Revenue Profiling Template.

In accordance with the above structure, an indicative time-table of activities is presented below for the Revenue Profiling Committee:

R1. Revenue Profiling Model Populated with current Budget Data and historic data for 2013 to 2019 – by end of week 1 of budget approval

R2. Revenue Profile Finalised – By end of week 2 of budget approval

R3. It is also envisaged that the Revenue Profiling Committee should prepare a brief report at the end of the process to highlight any issues/challenges that they have encountered and recommendations for future improvements to any aspects of the process, so as to improve and streamline the process for subsequent profiling exercises. This should be presented to the Cash Planning Committee by the end of week 3 of budget approval.

If at any point during the Revenue Profiling Process, significant issues or risks are identified that jeopardize the ability of the committee to complete its tasks on time, an Exception Report should be prepared and submitted to the Cash Planning Committee immediately.

Annex 2: Terms of Reference for Expenditure Profiling Committee

Terms of Reference for Expenditure Profiling Committee

2. Chair	Accountant General
3. Committee Members	Chairman BIR
	Director Debt Management, Ministry of Finance
	Director Final Accounts, Ministry of Finance
	Director Revenue Mobilization, Ministry of Finance
	Director Treasury Operations, Ministry of
	Finance
	Director Budget (BEPD)
3. Reports To	**Cash Planning Committee**

4. Overview

Improved cash management in BSG is a critical step in assuring effective and efficient use of resources. Improved Cash Management can be achieved through the employment of expenditure profiling and revenue profiling.

Expenditure Profiling refers to scientific analysis by MDAs of their annual approved budget allocation and strategically apportion it on monthly demands. While on the other hand, Revenue Profiling refers to the analysis of revenue forecast for a given period (monthly).

Bringing the Expenditure Profile and the Revenue Profile together, analyzing issues (cash short-falls or surpluses) and proposing remedies constitutes Cash Planning and should result in a Budget Disbursement Schedule.

The desired result is to ensure optimum utilization of public funds among the equally important demands for public expenditure.

The structure of Cash Planning in BSG will be as follows:

- Expenditure Profiling Committee, chaired by PS Budget and Planning, responsible for working with MDA's to prepare the expenditure profiles;
- Revenue Profiling Committee, chaired by Accountant General, responsible for preparing the Revenue Profile;
- Expenditure Profiling and Revenue Profiling Committees report to the Cash Planning Committee, chaired by the Honourable Commissioner, Ministry of Finance, who bring the expenditure and revenue profiles together to create a Cash Plan; and
- Cash Planning Committee reports to Executive Council (ExCo).

5. Specific Responsibilities and Deadlines

The Cash Planning process should commence at the point where the draft budget is presented to the State House of Assembly (SHoA). The long-term target should be for all profiling and cash planning to be completed prior to the start of the budget implementation (i.e. prior to 1st of January). It is important that any changes to budget post SHoA approval must be retrospectively adjusted in the profiling templates/model.

All Expenditure Profiling Committee Members should ensure they are familiar with the Expenditure Profiling Template.

In accordance with the above structure, an indicative time-table of activities is presented below for the Expenditure Profiling Committee:

E1. Prepare a set of instructions to be issued to MDAs prior to the expenditure profiling process – By end of Week 2 after budget presentation

E2. Timetable for MDAs to visit Expenditure Profiling Committee agreed –

By the end of week three after budget presentation:

E3. Prepare and Deliver Sensitisation workshops to all MDAs on Expenditure profiling – By end of week 4 after budget presentation

E4. Expenditure Profiling Committee to work with all MDAs to complete profiling in the provided template – weeks 4-5 after budget presentation

E5. Consolidated Expenditure Profile Prepared and Submitted to Cash Planning Committee - By end of week 5 after budget presentation

E6. It is also envisaged that the Expenditure Profiling Committee should prepare a brief report at the end of the process to highlight any issues/challenges that they have encountered and recommendations for future improvements to any aspects of the process, so as to improve and streamline the process for subsequent profiling exercises. This should be presented to the Cash Planning Committee by the end of week 6 after budget presentation.

If at any point during the Expenditure Profiling Process, significant issues or risks are identified that jeopardize the ability of the committee to complete its tasks on time, an Exception Report should be prepared and submitted to the Cash Planning Committee immediately.