WORLD BANK GROUP

European Commission

Structural Reform Support Service – European Commission

Third Mission to Portugal

Treasury Management

Main Challenges

Public Financial Management Reform Unit

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Agenda

1. Context and Scope of the PFM Reform
2. Diagnostic and Objectives of the Treasury Reform
3. Related Implementation Projects
4. Expanded Treasury Single Account Concept
5. Results
6. Challenges Ahead
7. Conclusions

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Context and Scope of the PFM Reform

- Historical experience suggests that PFM reform actions should focus on three main management deliverables in the following order (Diamond, 2013):

Putting in place controls to ensure some minimal level of financial compliance (fiscal control)

↓

Establishing mechanisms to improve fiscal stability and sustainability

↓

Introducing systems to promote the efficiency and effectiveness in service delivery

PFM Instruments

- Budgeting, Accounting System and Internal Control
- Treasury Single Account
- Cash Management
- Medium Term Budget Framework
- Manage Fiscal Risks
- Management Accounting
- Performance Budgeting and Reporting

Context and Scope of the PFM Reform

Portuguese PFM Reform Approach

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- Non-tax revenue is not timely recorded at the central level and may also explain part of the discrepancies between forecasts and actual cash flows
- Our current revenue (receivables) accounting and colleting systems has some internal control deficiencies that must be addressed:
  - There is no automatic integration with the accounting system by recognizing a financial asset (receivables) before cash is collected
  - The absence of accounting for receivables (in most of the cases the accounting only occurs when cash is collected) hinders the management of this assets
  - The Ministry of Finance has no timely recognition of the non-tax revenue the public entities issue and collect
- There is no use of the dates for paying payables and collect receivables to forecast cash inflows and outflows and adjust the financing accordingly, diminishing the cost of debt

Objectives of the Treasury Reform

- Assure the reliability and timeliness of accounts receivables and payables records
- Promote an active management of payables and receivables through the accounting system (view of accounting as a primary information system for management purposes)
- Disseminate a tool for planning and financial control
- Manage cash risks
- Have a consolidated view of the cash flows (ministry, program, central government)
- Ensuring sufficient cash funds when the payments has to be done
- Minimizing the cost of debt
- Maximizing the profitability of cash surpluses
- Reduce administrative costs

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Related Implementation Projects

Requirements of the European Directive on electronic invoicing in public procurement (2014/55/EU)

Advantages

- Cost reduction (transaction costs) and more transparency of public purchases of goods and services
- Automated accounting integration with different accounting systems (ERP's)
- Processes automation and error reduction
- Better management of the relations with suppliers
- Cash outflows forecasting

- It is intended from the Accounting and Collection Document (DCC) to optimize revenue management, by improving the collecting processes, automating accounting recognition and measurement and treasury control.

- The introduction of the DCC, evolution of the current DUC, contributes to an efficient treasury management, a fundamental element for the control of the budget execution.

Providing to the State revenue forecasting and risk management capacity

DCC - Features

- The inflow of funds into the State must be supported by the DCC, which implies that all revenue must be properly accounted for, both at the issuing and at the collection stage, at the time those events occur and on an automated way

- The Government has information suitable for short and medium term cash inflows (the State accounts receivables)

- Simplification and automation of the revenue process

DCC - Features

- Integration of information in the State treasury with the accounting of entities

- Better integration between the budget execution and cash management functions.

Have an anticipate view of the budget revenue execution (receipts) and adjust the general revenues transfers to entities (allotments), integrating with the treasury management model (management of a treasury budget)

- Introducing cash management techniques to avoid arrears

- No commitment can be issued without the availability of cash for the **expected date, or dates, of payment** (article 52.º, n.º 4, of the BFL)

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Expanded Treasury Single Account Concept

Expanded Treasury Single Account Concept

Treasury Unit +

- Electronic Invoice (outbound)
- Accounting and Collection Document (inbound)
- Automated Accounting Integration
- Cash Forecasting
- Automated Bank Reconciliation
- State Accounting Entity

= Expanded Treasury Single Account

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Work stream	Activities	Status
Work stream 1 – Conceptual Model and Requirements	1. SAE Conceptual Model	1. Finished
	2. Accounting and Reporting Manual	2. Finished
	3. Requirements for the IT System	3. Finished
Work stream 2 – Training and IT implementation	4. IT Implementation	4. Interfaces development
	5. Strategy for populating the balance sheet (based on IPSAS 33)	5. Finished
	6. Governance regulations	6. Finished
	7. Training	7. Finished
Work stream 3 – Implementation	8. Transitional open balance sheet (IPSAS 33 concept)	8. Finished as of January 2018
	9. Recording transactions and implementation of the SAE scope (transitional financial statements - 3 years)	9. Under implementation – until December 2020

Requirements

Treasury chart of accounts	Cash inflows by economic classification at an aggregate level Cash outflows by economic classification at an aggregate level
Cash inflows register	Cash inflows by source of financing. The general revenues are exogenous determined (SAE). Actuals and the next 12 months
Cash outflows register	Cash outflows by economic classification and source of financing. Actuals and the next 12 months
Cash tables	Actuals and 12 months rolling forecast for receipts and payments
Expenditure process	No commitment can be issued without the availability of cash for the expected date, or dates, of payment

- DCC requirements

  Identification of the issuing agency or service (name and tax number-NIF)
  Date
  Number assigned to the document
  Identification of the debtor entity
  Nature of revenue (according to the catalog of the type of revenues and inclusion of budgetary economic classifications)
  Revenue amount
  Payment Due Date (for revenue collection)
  Distribution of revenue

- New non-tax revenue processes and revenue catalogue elements (Simplex + Measure 57)

- Overall system architecture

- Pilot implementation

Electronic invoicing – payables and receivales

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Challenges ahead

- Integration of Ministry of Finance operational systems (taxes, treasury, debt, state buildings, other) with SAE system
- Detailed specifications for local cash management system and Public Financial Management Information System
- Detailed specifications for accounting and collection document (e-invoicing/outbound)
- Pilot implementation
- Draft legal acts and regulations
- Building capacity on cash management and forecasting

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A modern treasury requires

- Funds centralization in a way that all the government resources remains available under the Treasury order, for cash management purposes
- Temporary use of the available funds by the Treasury, regardless of the holding entities or spending purposes (earmarked resources)
- Use of short-term financial instruments to smooth the cash flow
- The establishment of liquidity reserves
- Intensive cash flow forecasting and monitoring
- A complete and reliable accounting information system

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