

Establishing a cash forecasting system for central administration in Portugal

Discussion of amendments to proposed concept note

Merle Wilkinson

Lisbon, 26-28 February 2019

Amendments to the Concept Note on Cash Forecasting

Main amendments

1. **Clarifications to the main objectives** and an inclusion of a brief summary on how to achieve these objectives
2. **New sub-sections:**
 - Tools for encouraging entities for providing reliable cash plans
 - Options for the organizational location for the new cash forecasting team
3. **Addition:**
 - Cash planning practices by entities during the preliminary phase (before the new IT systems)
4. **Detailed overview of roles and responsibilities** for main stakeholders
5. **Small amendments** to the implementation plan (Phase 1) and to the list of implementation risks

Additionally, there will be some minor edits and other clarifications in the note

The cash forecasting reform in a nutshell: clarifications to the objectives and how to achieve them

OBJECTIVES:

1. **To prepare comprehensive cash forecasts** covering both the on-budget and off-budget cash flows of the TSA for the DGO and the IGCP
2. **To improve the quality of cash plans by entities** by (i) introduction of new IT solutions to automate data collections; (ii) providing training and hands-on support to entities on cash planning and (iii) providing incentives to entities to encourage provision of reliable cash plans
3. **To prepare and update two type of in-year cash forecasts**
4. **To improve current cash management practices**

IMPLEMENTATION:

1. **The new cash forecasting system builds on the current processes for cash planning by entities managed by the DGO** and increases the scope of cash plans provided by large government entities (on-budget and off-budget cash flows)
2. **A dedicated cash forecasting team is required (a service provider for the DGO and the IGCP)** – with a clear mandate (i) to collect cash plans by entities and to prepare forecasts, and (ii) to be accountable for and to develop the cash forecasting system for CA entities and voluntary depositors
3. **Introduction of a new IT system for commitment control and cash forecasting functions developed by Unileo** – to facilitate automatic data submission from entities' accounting systems

New sub-section: Options for organizational location for the new cash forecasting team

	OPTION A	OPTION B	OPTION C
	IGCP	DGO	Accounting and Forecasting Department/Unit within MOF
Current core functions	Cash management Debt management 'Top-down' cash forecasting Provision of banking services Payment management	Budget preparation Release of appropriations and limits for commitments (available funds) Monitoring budget execution and payment arrears Treasury functions: <ul style="list-style-type: none"> • Monthly credit releases • Collection of 'bottom-up' cash plans-by entities • Preparation of budget outcome reports 	Preparation of budgetary and financial statements Setting accounting standards and policies <i>Task will be moved to the new unit becomes operational</i>
NEW SERVICE PROVIDER	Preparation and consolidation of 'bottom-up' cash forecasts by entities to serve (i) budget monitoring function and (ii) cash & debt management function, and (iii) to manage monthly credit releases		
Pros	<ul style="list-style-type: none"> • IGCP is the main user of cash forecasts - closest communication with cash and debt management; • IGCP is accountable for providing aggregated forecasts for external counterparties 	<ul style="list-style-type: none"> • DGO is the main user of cash forecasts – closest communication to identify budgetary risks; • DGO already is responsible for these functions (though the scope is currently smaller than planned); • DGO has connections and authority to implement the reform 	<ul style="list-style-type: none"> • Manager/owner of (i) the new central IT system for commitment controls and for collection of cash plans by entities and (ii) central accounting system • Close communication with entities' finance teams
Cons	IGCP may lack authority to tackle resistance	Cash forecasting is not normally a core task for a budget department	Need to setup new teams for both accounting and forecasting functions
Example	Finland	Austria	Sweden, UK (described in Annex)

New annex: Examples of the allocation of cash forecasting and cash management functions

SWEDEN

The Swedish National Financial Management Agency (ESV)

- **CASH FORECASTING:** makes forecasts and analyses of the central government budget and public finances based on its assessment of macroeconomic developments and on financial reporting from government agencies
- **ACCOUNTING:** compiles and publishes the outcome of the central government budget both monthly and annually; publishes a financial management rating for every entity based on how well entities perform their accounting and follow accounting rules

The Swedish National Debt Office (an agency)

- **CASH & DEBT MANAGEMENT; BANKING SERVICES** for the central government; **ON-LENDING and GUARANTEES**

FINLAND

The State Treasury (an agency)

- **CASH FORECASTING** ('bottom-up' forecasts from all entities)
- **CASH & DEBT MANAGEMENT**
- **CENTRAL ACCOUNTING, BOOK-KEEPING**
- **PAYMENT MANAGEMENT, BANKING SERVICES**

UK

Exchequer and Funds and Accounts team within HM Treasury

- **CASH FORECASTING:** monitors government-wide cash flows, prepares cash forecasts and provides training and feedback to government bodies; supplies DMO with long-term, day-by-day, and intra-day cash forecasts
- **ACCOUNTING:** manages and accounts for transactions in the UK government's main bank accounts at the Bank of England, which sit at the apex of the exchequer pyramid of over 2000 public sector accounts

The Debt Management Office (an agency)

- **CASH & DEBT MANAGEMENT,** receives 'bottom-up' cash forecasts from EFA on a daily basis

AUSTRIA

The Budget Department, MoF

- **BUDGET PREPARATION**
- **BUDGET EXECUTION CONTROLS** (commitments, contracts)
- **COLLECTION OF CASH PLANS** for a month ahead by budgetary entities

The Austrian Federal Treasury (an agency)

- **CASH & DEBT MANAGEMENT,** receives 'bottom-up' cash plans by entities from the budget execution management IT system

New sub-section: A toolbox for encouraging entities for providing reliable cash plans in Portugal

1. Regular training	2. Cash forecasting manual	3. Provision of templates and build-in formulas
4. Incentives/rewards (e.g., automatic release of Availability of Funds based on reliable cash plans)	5. Penalties/restrictions on credit releases	6. Monthly feedback and discussions
7. Monthly league tables like in UK Annual grading like in Turkey	8. User friendly IT systems for compiling and submitting cash plans (being developed by Unileo)	9. Automatic inputs to cash plans based on receivables, payables, contracts, commitments (being developed by Unileo)

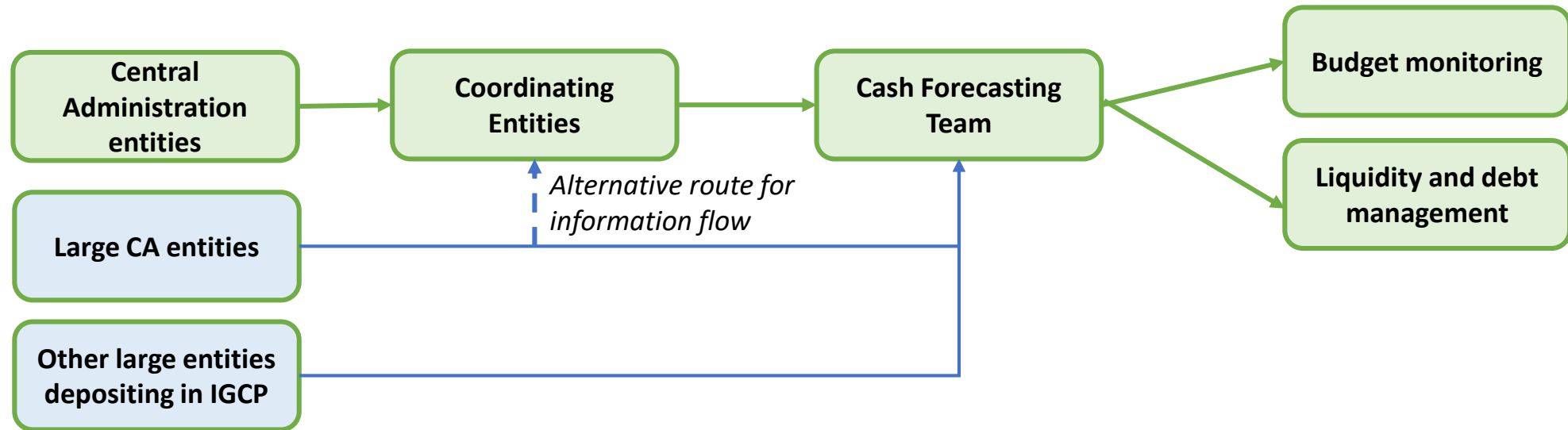
Remember:

- **Credibility of cash forecasting comes with experience and continuous learning from mistakes**
- **Close cooperation** between main cash flow information providers and the forecasting team is crucial

Suggested submission of cash plans by entities for the preliminary phase – building on current processes

[illegible]

Clarification: Suggested information flows



1. **The current processes for submission of annual cash plans, updated monthly cash plans and deviation analyses continue** where Coordinating Entities review and verify the information provided by entities
2. **New processes need to be agreed with large entities** for consolidation of their cash plans of on-budget and off-budget cash flows
3. **A dedicated cash forecasting team** will be responsible for providing cash forecasts based on entities' cash plans:
 - **To the DGO** – monthly cash forecasts for the financial year, general revenue forecasts for 3m ahead for defining a global limit for Availability of Funds, monthly deviation analysis
 - **To the IGCP** – rolling 3-month cash forecasts for large entities' on-budget and off-budget cash flows, monthly cash forecasts for the financial year, monthly deviation analysis
4. **The IGCP will include in its forecasts** debt, short-term investments, derivatives and other cash flows managed by the IGCP and the TSA balances

Suggested roles and responsibilities of stakeholders in the new cash forecasting system (1)

Cash forecasting team

- **Collects data and maintain a database** of CA entities' cash plans and actuals
- **Collects cash plans for on-and off-budget cash flows by large entities**
- **Prepares consolidated cash forecasts** in agreed format and with agreed frequency for the DGO and the IGCP
- **Provides general revenue forecasts for 3-months ahead to the DGO** as an input for defining the global limit for the allocation of Available Funds
- **Manages credit releases** from the General Revenue
- **Prepares deviation analyses** in cooperation with forecast users
- **Provides guidance, feedback and training** to CA entities and Coordinating Entities **to improve the quality of cash plans**
- **Is accountable for and develops** the cash forecasting system for CA entities and voluntary depositors

DGO

- **Cooperates with the cash forecasting team** in analysing deviations in monthly cash forecasts and outturns to identify budgetary risks
- **Provides feedback to the cash forecasting team**

IGCP

- **Cooperates with the cash forecasting team** in analysing deviations in monthly cash forecasts and outturns to identify funding requirements
- **Provides feedback to the cash forecasting team**
- **Prepares aggregated cash forecasts for the TSA balances** (based on 'bottom-up' cash plans and its own forecasts to support its activities)

Suggested roles and responsibilities of stakeholders in the new cash forecasting system (2)

Large central administration entities

- **Continue submitting** monthly cash plans for the following month to request credit releases, prepare deviation analyses and annual cash plans
- **In addition, start providing 3-month rolling cash plans**, initially broken down by months, then by weeks and by days as the capacity for forecasting increases; cash plans updated monthly/weekly as agreed
- **Start informing the IGCP of payments in excess of EUR 50 million** 5 days before the payment date (except for 'calendar payments')

Large general government entities depositing in the IGCP

- **Start providing 3-month rolling cash plans for their balance of deposits in the IGCP**, broken down initially by months, then by weeks and by days as the capacity for forecasting increases; cash plans updated monthly/weekly as agreed
- **Start informing the IGCP of payments in excess of EUR 50 million** 5 days before the payment date

Coordinating Entities

- **Review and validate cash plans and responses to monthly deviation analyses provided by entities** to the cash forecasting team
- **Provide guidance and support** to entities in preparing cash plans
- **Cooperate with the cash forecasting team** to improve the quality of cash plans provided by their entities

Medium-sized and small central administration entities

- **Continue submitting** monthly cash plans for the following month to request credit releases, deviation analyses and annual cash plans
- **(Start informing the IGCP of payments in excess of EUR 50 million** 5 days before the payment date (except for 'calendar payments'))

Amended list of main implementation risks at the initial stage

- 1. Resistance from large entities and entities' low capacity**
- 2. Lack of capacity from CA entities and the entities voluntarily depositing in the TSA**
- 3. Lack of resources for setting up a cash forecasting team:**
understaffing and/or insufficient training
- 4. Lack of resources for carrying out public financial management reforms** by Unileo and other main stakeholders