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TCOP Treasury Community of Practice

Optimal Coverage of the Treasury Single Account

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Contents

Acronyms

CB	Central Bank
COP	Community of Practice
EBF	Extra-budgetary funds
ECA	Europe and Central Asia
FMIS	Financial Management Information System
FX	Foreign exchange
GFSM14	IMF Government Financial Statistics Manual 2014
GG	General government
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
PEMPAL	Public Expenditure Management Peer Assisted Learning
PFM	Public financial management
RTGS	Real-time Gross Settlement System
SNG	Sub-national government
SoE	State-owned enterprises
TCOP	Treasury Community of Practice
TSA	Treasury single account

Abstract

This note is a product of the Treasury Community of Practice (TCOP) operating under the Public Expenditure Management Peer Assisted Learning (PEMPAL) network. It was prepared following the discussions of the TCOP Thematic Group on Cash Management in Vienna in November 2023 and presents a rationale for including or excluding certain types of public funds in the boundaries of the Treasury Single Account (TSA). The main author of both the presentation and the note is Mark Silins, lead thematic expert and a long-standing member of the World Bank resource team working with the TCOP. The work was supervised by Elena Nikulina, the leader of the World Bank resource team working with the TCOP. The note is not an official World Bank document and does not represent the official views of the World Bank, rather it is designed to be a practical tool including examples and tips for public financial management officials to consider.

Introduction

This note was produced at the request of the PEMPAL Treasury Community of Practice (TCOP) Thematic group on cash management and forecasting. It summarizes the presentation delivered at the group's meeting in November 2023 and incorporates the findings from the group discussions held during the same meeting. The main author of the presentation and the note is Mark Silins, lead thematic expert and a long-standing World Bank resource team member working with the TCOP. The work was supervised by Elena Nikulina, the leader of the World Bank resource team working with the TCOP.

The Public Expenditure Management Peer Assisted Learning (PEMPAL)[1] network supports knowledge exchange among public finance professionals across the countries of the Europe and Central Asia (ECA) region. PEMPAL is organized around three thematic communities of practice (COPs) focusing on budget, treasury, and internal audit issues. PEMPAL Treasury COP[2] includes officials from the central government agencies responsible for government budget execution and monitoring, predominantly national Treasuries and Ministries of Finance. Through its activities, Treasury COP aims to support and promote priority public finance management (PFM) reforms in the member countries, focusing on reforms of the national treasuries' activities.

The TCOP has been encouraging members to form smaller working groups to share experiences and work on common agendas. The Thematic Group on Cash Management was formed in 2015 and had five face-to-face meetings and multiple virtual events since then. Various aspects of treasury single account (TSA) design were periodically revisited at the group meetings, and the COP also conducted two thematic surveys on TSA and cash management in 2016 and 2021 respectively.

The Vienna meeting held in late 2023 drilled down into the more advanced aspects of TSA design that are less frequently discussed in the literature and are more difficult to implement in practice. These are the focus of this note. The paper briefly revisits the definition of TSA (which is extensively covered in the 2021 survey report)[3] and then addresses why consolidation across the general government sector is important, including for the coverage of the TSA. It systematically reviews the sources of finance that should be included in a TSA with a particular focus on the funds beyond central government taxes and non-tax receipts. It also identifies the types of funds that would typically be excluded from the TSA and provides reasons why. Finally, it provides a strategy for expanding coverage of the TSA.

[1] www.PEMPAL.org

[2] https://www.pempal.org/event/treasury

[3] Government Treasury Single Account and Cash Management in PEMPAL Countries. December 2021.
Available at: https://www.pempal.org/knowledge-product/government-treasury-single-account-and-cash-management-pempal-countries.

What is a TSA?

The IMF defines a TSA "as a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts."[4]
In the past, a narrow view or definition was in place with a TSA only considered to be a single consolidated bank account. Today, however, the concept is broader where the focus is on the consolidation of the cash position, rather than a single account, allowing for sub-accounts or linked zero balance accounts to be in place, to allow separation of cash by source while still supporting overall consolidation. Ideally, consolidation is more than just for the management of cash with resources fungible, allowing allocation of the cash across all expenditure categories to address priorities as they occur.

[4] Fainboim Yaker, I., & Pattanayak, S. (2010). Treasury Single Account: Concept, Design and Implementation Issues. *IMF Working Papers*, 2010(143), A001. Retrieved May 28, 2024, from https://doi.org/10.5089/9781455201266.001.A001

Consolidation

TSA is an arrangement to achieve consolidation of a government's cash and is key to an effective public financial management (PFM) system. However, consolidation in managing public finance is not just about cash and the TSA, it is also about:

- Coverage of allocation decisions through the budget,
- Coverage of the Financial Management Information System,
- Coverage of payments and revenue collection,
- Coverage of the balance sheet beyond just cash, and
- Moving beyond cash and other fiscal information to include coverage of performance.

The goal is to ensure, to the extent possible, coverage of all general government (see **Figure 1** below for a description of general government) in all these areas. Covering all of them creates a more comprehensive view of government operations, the fiscal position, and the results the government achieves. It also reduces inefficiency within government operations by allowing internal settlements between entities, enabling more timely reporting, and ensuring decisions are supported by more comprehensive information. Thus, while consolidation of cash in the TSA is important, ultimately consolidation should focus on the entire PFM framework.

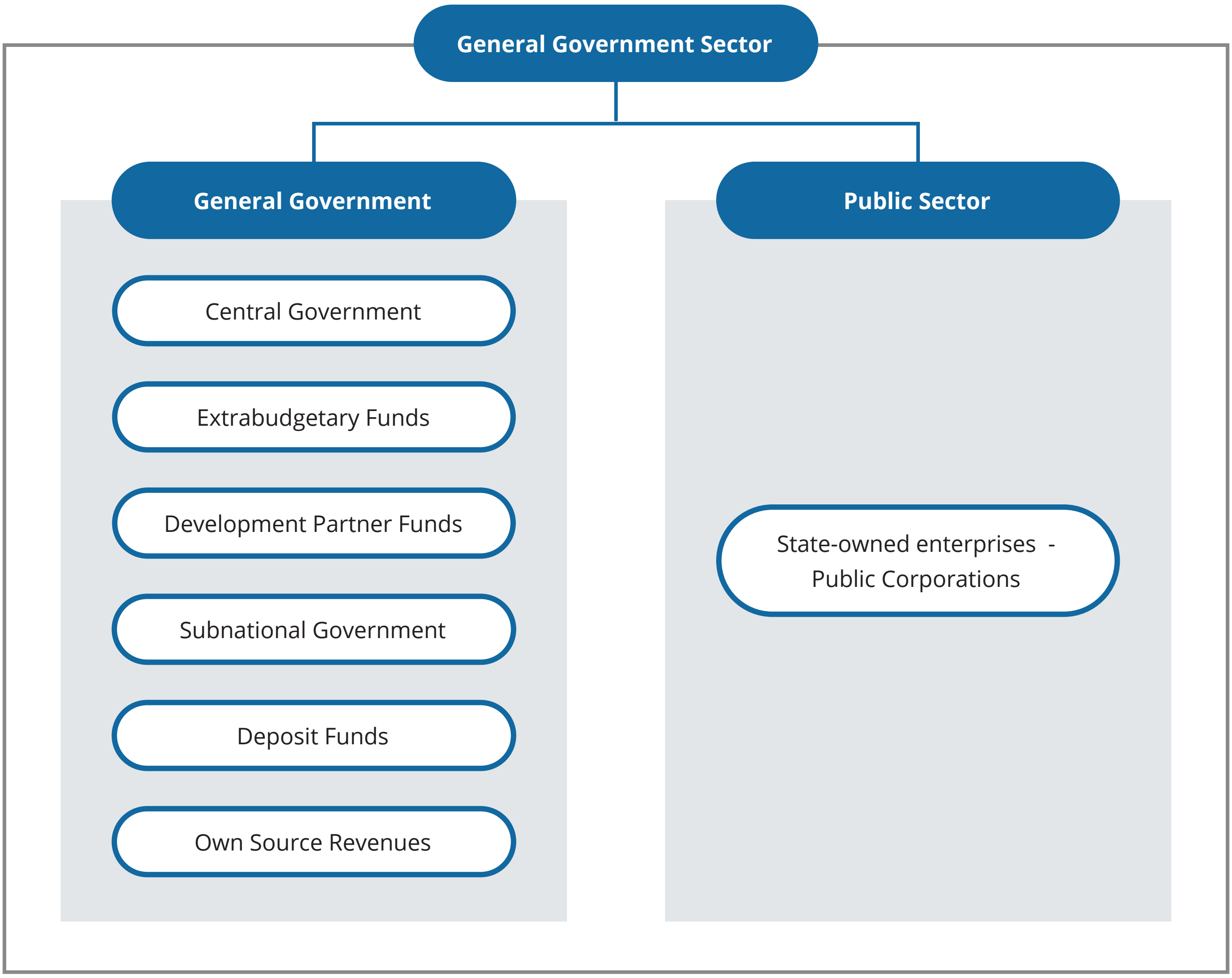
Cash consolidation and consolidation more broadly is supported by a number of modern systems and processes in government:

- **The use of zero-balanced accounts** – these accounts allow transactions to be recorded and separately managed during the day with cash balances settled/transferred at the end of the operational day. Zero balance accounts can be either debit accounts where the transactions are deducted from the cash balances of the account each day, or credit accounts, where the accounts are reimbursed back to zero at day-end,
- **FMIS (Financial Management Information System)** – this facilitates online processing of workflows for payment and revenue collection – it collects transactions to report financial information in a timely and reliable manner. It can also ensure control over spending against budget allocations and against different sources of funds and receipts,
- **Electronic interface capacity** - this eliminates or minimizes cheque and cash payments along with manual receipting processes, thereby reducing timing differences between transactions and when they are recorded in the bank and ledger, and
- **Modern Interbank Payment and Settlement System** – this allows a seamless movement of transactions between FMIS and the counterparties of government usually via bank accounts[5] for both payments and receipts. Interbank payment facilities were traditionally provided indirectly through a bank partner, usually the Central Bank, or, in some cases, commercial banks. More and more countries are now becoming direct parties to the banking system, for example, Moldova.[6]

[5] It is important to note that non-bank transactions are now becoming more common, including government-to-person transactions using e-wallets.

[6] Moldova was one of the first countries to do this in 2007-2008 when it became a party to the RTGS allowing real time updating of its cash position.

Figure 1. General Government Sector



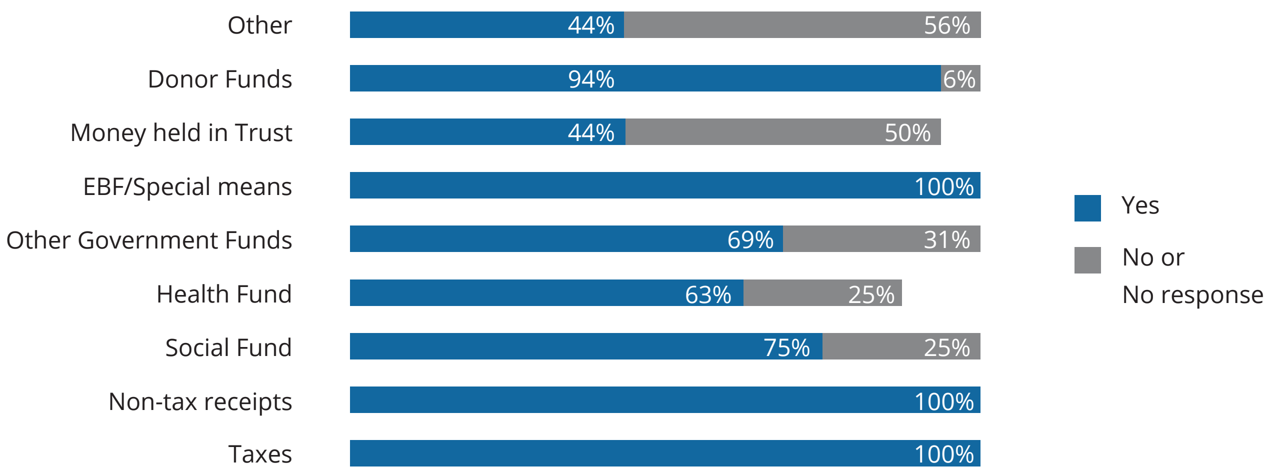
TSA and the Framework for General Government and the Public Sector

It is important for each country to consider how to maximize the consolidation of all cash resources across the general government (GG). The IMF Government Financial Statistics Manual 2014 (GFSM14) definition of GG is reflected in **Figure 1**. GG includes all central government including statutory bodies and subnational government. In general, it also includes extrabudgetary funds, own revenues, money held in trust, and development partner financing. Thus, while a country may not reflect this level of consolidation of GG domestically, at the international level, all these monies are considered part of GG. State Owned Enterprises (SoEs) are generally considered part of the broader public sector and outside of GG.

In many countries the terms Statutory Body and State-Owned Enterprise (SoEs) are not always clearly differentiated, and therefore the boundaries between these types of entities may be unclear. Generally, Statutory Bodies have their own organic laws but are still largely extensions of GG with specific roles and responsibilities of government. They are also usually fully dependent on budgetary resources for their operations. In contrast, SoEs are commercial enterprises formed to operate on a market/ commercial basis and while SoEs may receive some government subsidies, they usually generate their own revenues. There will be some challenges in a small number of cases in determining whether entities are SoEs or statutory bodies, but in most cases, this should be identifiable by the core business and role of the entity.

In 2021 TCOP conducted its second survey on cash management and forecasting that included a section on TSA coverage.[7] The **Figure 2** below shows the results from that survey which demonstrate that for many countries, coverage of the TSA extends across

Figure 2. Coverage of the TSA in PEMPAL Countries: 2021



Note: Percentage of total PEMPAL countries that responded to the survey is shown.

[7] Government Treasury Single Account and Cash Management in PEMPAL Countries. December 2021.
Available at: https://www.pempal.org/knowledge-product/government-treasury-single-account-and-cash-management-pempal-countries.

the GG sector, and therefore is consistent with a GFSM14 General Government Definition. In PEMPAL countries there is comprehensive coverage of TSA for general tax and non-tax revenues for central government, however, coverage of other fund sources is less universal.   Ten of sixteen PEMPAL countries include the three major funds, extra-budgetary sources, subnational resources, and donor-specific grants and loans in the TSA. The management of trust/deposit money remains mixed with less than half (seven of sixteen) of the respondent countries confirming funds are held in the TSA. Seven countries also indicated that other funds are held in the TSA in addition to the eight categories identified in the survey.

Even with this relatively broad coverage, a major issue exists in some countries as the funds held in TSA are not fully fungible and therefore not available for true consolidation. During the group discussion at the Vienna meeting, representatives of several countries indicated that their treasuries have no authority to access cash balances held in some TSA sub-accounts, in particular, the balances of subnational government, extra-budgetary funds, and for line ministry special means revenues. While consolidation of the balances ensures that the government receives returns on these balances should interest be paid for overnight investment, limiting fungibility reduces the effectiveness of the consolidation process as the funds are not available for temporary use for other internal government cash payment requirements. This will result in higher borrowing costs for the government as it must source any internal shortfalls in funds from external sources. Thus, for consolidation to be effective it should not just be about investing surplus cash balances, but also to provide for temporary internal reallocation to reduce external borrowing costs.

Why Consolidate Cash in the TSA?

Consolidation is about maximizing the utility of the government's cash holdings by increasing returns on surplus balances and reducing the cost of borrowing. Two key questions to be answered when considering whether entities should manage their own cash balances or not are: is the entity largely reliant on the government for funding, and is it a controlled[8] entity to be reported as part of the GG Sector? If the answer is 'yes' to both questions this means that the entities are very much within the government's remit for cash management and forecasting purposes and therefore there is a strong argument for consolidation. A further consideration is whether the entity has the skills to manage cash effectively. A central cash manager can access a greater range of investment and borrowing tools. This is "the expert role" similar to a Debt Manager. In government, there is no debate about whether borrowing should be consolidated (most countries ensure a single debt office manages all debt) but often governments devolve cash management by allowing entities to manage their own cash and bank accounts. A central cash management function is in a stronger position to negotiate the best options for investing surplus balances – ad-hoc arrangements resulting from devolved cash management frequently see the banks being the experts and using the arrangements to maximize their own financial position. Similar to borrowing money, investing money is a challenging activity requiring expertise and a strong position for negotiation. It is therefore highly beneficial to centralize this activity. In addition, consolidation reduces transactional costs[9] including through simplified reconciliation arrangements and more timely reporting.

Entities often argue that consolidation will result in a loss of autonomy and/or independence of control as they often equate control over a bank account as fundamental to control over resources. There are also concerns that cash not controlled directly could result in delays in payment and a loss of investment returns on cash balances. Thus, most of the objections to consolidation relate to the way the consolidation occurs rather than the consolidation itself. The challenge for a modern treasury is to focus on cash consolidation for forecasting and management of GG cash requirements, while also ensuring the operational requirements of GG entities it supports are not impeded by Treasury's actions. These issues can be addressed using "zero--balance accounts", where entities control spending decisions, and Treasury manages the cash. Thus, many of the objections to consolidation can be mitigated if the Treasury sees entities as clients whose cash needs are to be met by good forecasting of entities' future outflows.[10]

[8] For definitions of control see GFSM2014 and IPSAS.

[9] Intra-entity transactions within GG no longer result in external cashflows and are executed within the FMIS.

[10] Entities must also play their part by providing quality information on future cash outflow requirements.

Consolidation of General Government Funds

The following section examines the types of funds, beyond central government taxes and non-tax receipts, which ideally should be consolidated in the TSA and fungible. As indicated in Figure 2 and earlier discussion, coverage of some key sources of funds in the surveyed countries is mixed. Experience also shows that integrating them into TSA might pose significant challenges.

Extra Budgetary Funds (EBFs)

Historically, many EBFs were created to protect the integrity of the original budget allocations and other resources as the central government often "raided" these funds for other purposes. While many funds may have some statutory autonomy, often they are still very similar to a ministry in that they are largely reliant on the government for funding. They frequently also perform specific government functions and have been separated to ensure the activities these functions support can be delivered. Core questions to pose when considering consolidation of EBFs:

a. Is the fund a controlled entity to be reported in the GG Sector? – almost all funds will meet the definition of controlled entities and therefore be part of GG. Most PEMPAL countries include health, social, and other funds in the TSA (over 62%), although in some cases, the cash may be in the TSA, but this may still be quarantined for cash management purposes.

b. Does the fund have the skills to manage cash effectively? – Most funds do not have specialists in investment and cash management. Thus, the central government should undertake this role on the fund's behalf, sharing investment returns to incentivize consolidation.

c. Is the cash of the fund fungible and available for alternate use by the government –maximum consolidation benefits will only be realized if all TSA money is fungible.

In modern treasury systems, fund autonomy is still possible both when included in FMIS and when consolidated in the TSA. It may be prudent for the government to have a Memorandum of Understanding or agreement in place where the Treasury guarantees certain levels of service, and the sharing of investment returns to provide EBFs assurance of autonomy and the certainty that funds will be available when required by the EBF. It is important to also recognize that some funds such as pension/social funds, may be fully autonomous and responsible for investing employees' and other citizens' private money. In these cases, the fund would have a team of specialist investors, including regarding cash management. In such situations, there is a strong argument for separation as the fund will be looking at long-term returns to ensure future pension benefit payments are financed. This is clearly a very different objective to ensuring cash is available in the short term for entity budget execution.

Special Means / Ministry own Revenues

Special means refers to the revenue ministries and agencies collect and retain for their own purposes. This is government money - the budget entity uses government resources to collect these revenues. These revenues are therefore GG revenues and are retained by the entity because the government permits it. The desire for separation of these funds is very similar to EBFs, as historically, they were separately managed to ensure the money was not captured for other purposes by the Treasury. 100% of PEMPAL countries reported that this money is included in the TSA, however, this is not always the case internationally. It was also clear from the Vienna discussions that the fungibility of special means resources in the TSA varies between the countries.

In several countries special means spending is manipulated to ensure it is separated and utilized for discretionary spending requirements. Despite having these extra resources, budget entities may continue to seek additional funding from the budget where shortages exist for core spending priorities. This can create very distortive management and budgetary decisions. These funds should therefore be part of an overall budget planning and spending process for entities, and be consolidated and fungible in the TSA, to allow a single balance and forecast – this also reduces the likelihood of any manipulation of spending priorities. This ensures government can look at all fund sources for the entities it controls when forecasting and planning. Budget entities should not be allowed to earmark special means for discretionary spending but must consider all their resources when determining spending priorities. It also reduces reconciliation/settlement across government. It is critical to get the balance right in this area, i.e., to ensure that special means do not become more important than core business for budget entities. At the same time, the government should not dilute the incentives and benefits that special means create, for example, by not allowing their retention.

Sub-National Government (SNG)

In most PEMPAL countries sub-national governments are subordinate to the central government – 81% or thirteen of sixteen countries in PEMPAL include SNGs' revenues in the TSA, although many reported that these balances are not fungible for the purposes of cash management. In many other countries, where SNGs are fully autonomous[11] the respective balances are often not part of the central government TSA. The core determining factor will be the relationship between the central government and SNG - whether the SNGs are controlled entities to be reported in the GG sector by the central government. SNGs that are controlled should be consolidated. There may be other good reasons to consolidate SNGs' cash too. Do SNGs have the skills to manage cash effectively? A central cash manager can access a greater range of investment and borrowing tools.

The expert role needed for cash management should also be considered. Size will also matter in this instance: in countries where small SNG governments exist, capacity is likely to be weak, and the risks of poor cash management decisions are high. For example, are there investment options beyond deposits at local commercial banks for SNG? In smaller governments, commercial banks may have greater negotiation capacity and not always operate in the SNG's interest. This is less likely to happen when a high-capacity central cash management and forecasting unit is negotiating for all the GG. Noteworthy, SNGs' autonomy for control over resources, is still possible both when included in FMIS and when consolidated in the TSA.

[11] GFSM and IPSAS provide guidance on control – however, if SNG entities receive budget funding like a ministry, and this represents a significant part of overall resources, it is likely that the SNGs are controlled entities.

What should be outside the Boundary of the TSA?

Foreign Exchange (FX)

In general, the TSA should be for domestic currency only with FX the responsibility of the Central Bank (CB) which converts government FX receipts to the domestic currency for consolidation in the TSA. Thus, CB manages FX reserves. Government, however, does need to work closely with the CB to separately identify future FX spending requirements so that the CB can adequately plan for these needs. International pressures have increased recently, often creating a challenging FX environment with volatility in exchange rates. These issues will place increased pressure on cash forecasting and management, so the Treasury needs to work closely with the CB to ensure reliable and timely information about future FX requirements.

State-Owned Enterprises (SoEs)

SoEs are generally created to operate as independent government-owned businesses on a market or commercial basis. Therefore, SoEs are considered to be outside of the general government and included in the broader public sector. Most SoEs will operate as a business and have their own asset and liability management expertise and strategies. Given this business orientation, it is generally considered best that they remain at arm's length from the government, making decisions based on their commercial requirements, which are distinct and apart from the objectives of the general government. Genuine SoEs will not be reliant on regular funding from the government budget and therefore government may not need to consider the cash flow requirements of these entities. Fully commercial SoEs may still be controlled entities, but they are not included as part of the GG and should therefore be excluded from the TSA.

However, there will be some countries that define certain entities as SoEs which are actually statutory bodies. In such cases, these entities are likely to be part of the GG and should be consolidated in the TSA. In other circumstances, certain SoEs may be highly dependent on budget resources for their cashflows to continue operating. Thus, the Treasury must consider these entities' future cashflow requirements when forecasting for the government. Such context provides a good argument for consolidation, given that future cashflows for these entities will be sourced from the budget and the TSA.

Boundary of the TSA - Future Funds

Not every country has a future fund, but they are particularly useful where significant government revenues are financed from finite resources (for example, coal, oil, and gas). Countries set some of the revenues aside for investment to offset the fact that in the future the revenue streams will not be available. As these are long-term investments, and separate from the general operations of government, it is sensible that they are quarantined outside the TSA.

Private Money

There is a distinction between deposit funds and other private money. Deposit funds generally reflect private money which is held and controlled temporarily by the government, usually for a related government objective. Examples include money held in escrow relating to the importation of goods (ensures funds are available to pay importation duties and taxes), as a security relating to the execution of building projects (protects against default by the builder), and where the government is acting as trustee (the government is providing social support for an individual who may not be of legal age or competent to manage the funds because the fund owner is unable to manage their cash effectively).[12] These monies while not owned, are controlled by the government and should be included in the TSA. This type of private money is distinct from other private money.

Where a government decides to hold and invest private money it is acting as a state-owned bank.[13] This should be treated the same as an SoE, outside of GG and part of the public sector and these operations should not be consolidated in the TSA. It is important that the TSA should not be managed like a bank and accept private deposits. The government's objectives with the TSA are to consolidate cash to better manage its cash holdings and forecast future cash requirements. Holding private money for investment is not consistent with that role. Thus, a broader investment role would detract from the core focus of TSA. In addition, this would put the TSA in direct competition with commercial banks. If the government chooses to do this, it should be done in a transparent way where the government sets up a separate public sector financial SoE to ensure transparency and a clear separation of the two different objectives.

[12] There are many other variations of deposit funds including money received by government but unidentifiable as to its source. In all these cases the money is controlled but not owned by government.

[13] Many countries do have their own state-owned banks. In most cases the reason is because the private banking sector is not adequately developed, or because the bank has a mix of commercial and social interests. In all cases these should operate outside of the TSA

Implementation Tactics for the Move to TSA: How to Convince Stakeholders to Move to TSA Along with Some Incentives

Not all stakeholders appreciate the benefits of a TSA. It is therefore important to first ensure clarity around these benefits which should be marketed to stakeholders. A discussion paper highlighting the benefits could therefore be very useful which would include the following selling points for a TSA:

a. Developing and concentrating expertise to maximize the benefits of cash management and forecasting for the government,

b. Economies of scale for the government in negotiating on borrowing and investment,

c. Increased returns and/or decreased costs across the government, and

d. Access to a broader range of investment instruments (for example, reverse repos).

These benefits could be quantified, for example, the savings or income from increased investment returns may fund an increase of X new nurses and doctors.

It is also important to understand why each stakeholder is not supportive of the TSA concept and resists the move to consolidation of their cash balances in the TSA. These concerns/issues should be addressed directly. Is it because the Treasury traditionally withheld funds or because payments were not processed on a timely basis? Is it a perceived loss of control, or because legislation is in place that defines their authority to manage their own bank accounts?

Zero balance accounts are a very powerful tool in addressing many of the issues stakeholders have with consolidation as they allow consolidation for cash management each day while not taking the authority over spending decisions away from stakeholders. Zero balance accounts also allow cash to be centralized for investment purposes. It may also be prudent to gradually change arrangements by first making provision for including entities in the general ledger of FMIS, with the move to consolidation in TSA occurring once the entity sees that the FMIS centralizes payment processing, but this does not result in additional control over spending decisions. This may also require a different approach from the Treasury for the future – service orientation and assurance that payments will be paid on time. It may be useful for the Treasury to develop a Memorandum of Understanding to define its performance requirements and the roles of each party, including any sharing of investment returns, to provide greater assurance to entities that consolidation of the cash will not amount to less control for the entities over their funds. Ultimately it will also be important to ensure a high level political support to push through consolidation where parties refuse to agree to the changes.

Summary: Questions to Guide Inclusion or Exclusion from TSA

Which sector are the funds from? The initial position is that all the GG should be included in the TSA, but the broader public sector and private sector should be outside the scope of TSA. Where funds are within GG:

- The primary position recommended is that all GG should be included unless exclusion is overall, in the best interest of governance and government,
- Are the entities/funds largely dependent on the government for resources? If so, it is likely they should be included in the TSA,
- Is the fund/entity a controlled GG entity or fully autonomous? All controlled entities should be consolidated whereas there may be arguments for autonomous entities to manage their own cash but in many cases, inclusion will still be preferred,
- Does the entity/fund have significant inter-entity transactions with other parts of the GG? If so, consider the TSA, and even if not in the TSA, consider consolidation in FMIS,
- Is the GG entity competent to manage cash? If not, then the TSA could be the answer, with shared returns from investment.

The TSA is not just for consolidation of the balances but should imply fungibility of all cash too. Thus, the government not only invests surplus balances but also uses the balances across the GG for internal borrowing to reduce its dependency on external borrowing or borrowing costs, as these resources are available elsewhere in the GG.