

KWARA STATE GOVERNMENT



CASH MANAGEMENT STRATEGY POLICY

2019

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CERTIFICATION

A major function of government is the provision of social infrastructure and creating an enabling environment to drive and promote growth and sustainable development. In doing this, available resources need to be efficiently harnessed and managed to ensure optimal output in investments. There is therefore a need to have in place a robust and functional cash management strategy.

A good cash management strategy will significantly influence the efficiency in government operations, which will also reduce overall costs. The goal of most cash management systems is to eliminate surprises related to cash by meeting the daily cash requirement at the lowest cost possible.

The cash management strategy concept initiated by the administration of Mallam AbdulRahman AbdulRazaq is targeted at achieving the socio-economic objectives of the state, while laying a solid foundation for future growth and development, and to expose public officers to the importance of good cash management in the conduct of government financial transactions.

It is in the light of this that I hereby certify the content of this Cash Management Strategy as a comprehensive document for usage by all Public Officers in Kwara State.


Olasumbo Florence Oyeyemi
Honourable Commissioner for Finance and Planning


FOREWORD

This initial edition of the Kwara State Cash Management Strategy, December 2019 contains a comprehensive review of procedures by which Ministries, Departments and Agencies (MDAs) of government conduct financial transactions. It provide mechanisms to improve not only on Cash Management practices, but also Financial Management Services. It equally help to provide an initial basis for the deepening and broadening of some ongoing reforms particularly with respect to budget profiling, revenue forecast and annual cash plans, as well as the pursuit of the Treasury Single Account (TSA). With reforms continuously ongoing, it is intended that soon, a comprehensive financial law would be developed to replace the Kwara State Government Financial Regulation Act of 2000.


The new law, when enacted, will subsequently 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 ways and manners by 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 Public Financial Management (PFM) reforms being pursued by the State Government.

This Cash Management Policy will involve cash forecasting, collecting, analyzing, reviewing of cash items and its allocation according to MDAs need, prompt remittance of Government revenue to the Treasury and making Transparency, Accountability and Probity our watchwords when it comes to disbursements and a host of other transactions.

This publication will in the interim bridge the gap in the State's Financial Regulations and further facilitates Transparency and Accountability in the management of Government funds to ensure state-continuous improvement in the socio-economic wellbeing of the people of Kwara State.


Benjamin S. Fatigun
Permanent Secretary
Ministry of Finance




Dr. Ismail K. Waheed
Accountant-General
Office of Accountant General

1.0 Background

A robust cash management strategy serves as a veritable tool and control for the monitoring of inflows and outflows of government resources while ensuring an efficient sustainable ways in providing public service delivery. This enhances efficient management of fund, eradicate leakages and reduce errors in the transaction process and reports.

Cash management refers to the collection, handling, control and investment of the organizational cash and cash equivalents to ensure optimal utilization of the State's liquid resources. Money is the lifeline of the business/state, and therefore it is essential to maintain a sound cash flow position in the state.

1.1 MANAGEMENT OF GOVERNMENT RECEIPTS AND PAYMENTS

A. RECEIPTS

Government receipts comprises Revenue from Federation Accounts Allocation Committee (FAAC), Internally Generated Revenue (IGR), Grants and Aids, Loans (Internal and External) and other sources. This is centrally managed through implementation of Treasury Single Account (TSA) in the State.

B. PAYMENTS

These include: Recurrent and Capital expenditures.

Recurrent expenditures are the expenses incurred on the day-to-day activities of government as they occur. This comprises salaries, overheads and Consolidated Revenue Fund (CRF) charges.

Capital expenditures are those incurred on items for future benefits and developmental purposes which are in tandem with government programmes and projects.

The Treasury Unit manages government's cash (and debt) positions to ensure that there is sufficient funds to meet its financial obligations. In the advent of idle cash, it shall be efficiently invested, while debt shall be optimally managed in accordance with the State's Debt Management Law. The disbursement shall be done through electronic/online payment platform to government vendors, personnel, pension, overheads and any other form of payments. Payment shall be made on the issuance of expenditure warrant. These payment procedures are managed by the Ministry of Finance and Planning through the Office of the Accountant-General.

Money that is not invested or earn no interest is Idle Cash Balance. This fund may be utilized by investing it between the time it is received and the time it is expended. Amount of idle fund shall be lessened through adequate fiscal planning. However, it is always essential to maintain adequate working capital for the government operations or activities.

1.2 CASH MANAGEMENT CYCLE

The main cash inflows or receipts shall be revenue from Federation Account, Internally Generated Revenue, Grants, Loans and Gains from sale of investment while the main cash outflows shall be on Personnel Cost, Overhead Cost and Capital Expenditure. If there is surplus cash, it shall be put to use on investments where it will earn interest. If deficit occurs, the State Government shall source for fund to cover the shortfall and the duration. Efficient cash flow management requires optimum information, professional training and objective management decision making.

Part of the ways to measure working capital management performance, is to calculate the time in days during which the cash is 'trapped' as inventory and account receivables together with the number of days credit is generated through deferring accounts payable.

A. REVENUE PROFILE

Revenue collectible by the State shall include; Statutory Allocation from FAAC, Grants and Aids, Loans (Internal and External) and Internally Generated Revenue in the form of:

- i. Personal Income tax (applies to residents of the State)
- ii. Withholding tax (individual and ventures/enterprises)
- iii. Capital gain tax (Individual only)
- iv. Stamp duties (applies to instruments executed by individuals and enterprises)
- v. Road taxes (e.g. Vehicle License)
- vi. Taxes on pool bets, lottery and casino wins
- vii. Business Premises and Registration fees
- viii. Development levy (applies to taxable individual only)
- ix. Fees for right of occupancy on urban land owned by the State Government. Market taxes and levies where State finance is involved
- x. Fines, Fees and Rates: School Fees, Water Rate etc.
- xi. Licenses: Issuance of licenses of various types
- xii. Earnings from Sales: Sale of Government Vehicles, Houses etc.
- xiii. Rent from Government Properties: Rent of Houses, Land etc.
- xiv. Re-imburements: These are refunds for services rendered to the Federal and Local Government, Public corporations and other Statutory Bodies owned by the State Government.
- xv. Miscellaneous: Sources other than those mentioned above e.g. Interest, Dividend from Investment.

B. EXPENDITURE PROFILE

The State government shall incur expenditure for the provision of public goods to satisfy the collective social wants of the people. The expenditure of the state shall be classified into two broad categories:

- i. **Recurrent Expenditure:** These are government spendings on administration in the form of Personnel and Overheads including interests on loans, transfer payments, travels and transport, utilities, materials & services general, training, consulting & professional services, fuelling and lubricants, etc. and Consolidated Revenue Fund (CRF) charges.

- a. **Personnel Cost:** Personnel Cost shall comprise salaries and allowances of Civil Servants in the Core Service and Teaching Service, Public Servants and Political Office holders in Government Agencies and Parastatals, members of the State House of Assembly, Judicial Officers, etc.
- b. **Overhead Cost:** Overhead expenditure shall comprise operational and maintenance cost for running Government activities.
- c. **CRF Charges:** Consolidated Revenue Fund (CRF) charges shall include Public Debt Charges, Pensions and Gratuities, other social contribution items. Salaries of Auditor General for State, Auditor General for Local Government and members of Statutory Commissions.

ii. Capital Expenditure: Capital Expenditure shall include the main investment of government through implementation of programmes and projects.

1.3 OBJECTIVES OF CASH MANAGEMENT

The objectives of cash management include:

- To reduce idle cash balances: minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.
- Timely deposit of collections: having funds in-hand is better than having accounts receivable. The cash is easier to convert immediately into value or goods. A receivable, an item to be converted in the future, often is subject to a transaction delay or a depreciation of value. Once funds are due to the Government, they shall be converted to cash-in-hand immediately and deposited in the Treasury's account as soon as possible.
- To ensure proper time disbursements: some payments must be made on a specified or legal date, such as social security payments; for such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible.
- To manage risks by investing temporary surpluses productively, against adequate collateral.

2. KWARA STATE CASH MANAGEMENT STRATEGY

2.0 BACKGROUND

Cash management is necessary because there are mismatches between the availability of cash and the timing of payments. The plan is to minimize idle cash balances, invest excess/idle cash, and make the best possible arrangements for meeting planned and unexpected demands on the government. Cash Management shall aim at reducing the required level of cash but minimizing the risk of being unable to discharge claims against the government as they arise. Challenges in fund management occurs when a decision is to be made between investing of surplus fund to earn reasonable profit or be retained to ensure appropriate liquidity to meet unplanned demands. When activities are risky and the levels of their cash flow are high, there is need to be cautious on the management of cash so as to prevent deficit/shortage.

Cash management involves decision making at every step. It is not an immediate solution but a strategic approach to financial problems. The following are various ways of cash management;

- i. Investing Idle Cash: The state will look at various short-term investment alternatives to utilize surplus funds
- ii. Managing Cash Flows: Restricting cash outflows and accelerating cash inflows through cost-cutting and profit generation from investments.
- iii. Planning of Cash: Making robust plans and decisions in term of maintaining sufficient cash at hand and making wise investments.
- iv. Optimizing Cash Level: The State will continuously maintain the required level of liquidity and cash business operations.

2.1 RATIONALE FOR CASH MANAGEMENT STRATEGY

The goal is to manage the cash balances of the State in such a way as to maximize the availability of cash not invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency.

- i. Fulfil Working Capital Requirement: The state will maintain ample liquid cash to meet its routine expenses which is possible only through effective cash management.
- ii. Planning Capital Expenditure: It helps in planning the capital expenditure and determining the ratio of debt and equity to acquire finance for this purpose.
- iii. Handling Unorganized Costs: There are times when the state encounters unexpected circumstances like unforeseen expenses to cope with, cash surplus is a lifesaver in such conditions.
- iv. Initiates Investment: The other aim of cash management is to invest the idle funds in the right opportunity and the correct proportion.
- v. Better Utilization of Funds: It ensures the optimum utilization of the available funds by creating a proper balance between the cash in hand and investment.
- vi. Avoiding Insolvency: If the state does not plan for efficient cash management, the situation of insolvency may arise. It is either due to lack of liquid cash or not making a profit out of the money available.

2.2 LEGISLATIVE FRAMEWORK FOR CASH MANAGEMENT IN KWARA STATE

The fundamental law governing cash management in Nigeria and in Kwara State in particular is the 1999 constitution as amended (Section 120 and 121 of the 1999 constitution). Apart from this, Kwara States has a set of laws and regulations that governs cash management;

- a) Guides to Administrative Procedures in the Kwara State Public Service (2006)
- b) Kwara State Fiscal Responsibility Law (2008),
- c) Kwara State Financial Regulation (2000), and
- d) Other Treasury Circulars issued occasionally by the office of Accountant General to guide financial transactions in all MDAs in the State.

2.3 INSTITUTIONAL FRAMEWORK FOR CASH MANAGEMENT IN THE STATE

The institutional framework for cash management is as follows;

1. The State Executive Council formulates the policy of the State government, considers and recommend the State budget to the State House of Assembly. On passage, the governor assents and signs the appropriation bill into law.
2. The Ministry of Finance and Planning is the main organ of the State Executive Council for the formulation and execution of financial policy. The function of Ministry of Finance includes financial policy, investment, loans and advances, banking and treasury, boards of survey, and board of enquiry. The Ministry of Finance and Planning consist of Policy, Budget and Planning, the Office of Accountant-General, Kwara State Internal Revenue Service (KWIRS), the Debt Management Office (DMO) and Public Procurement Agency.
3. The Office of the Accountant-General maintains accounting policies and procedures, supervise and inspect the accounting operations of all MDAs. The office of Accountant General shall be responsible for fund management, expenditure control of all MDAs, investment of surplus short-term funds, compilation of monthly and annual statement of accounts, maintenance of accounts, and deployment of account staff to all MDAs.
4. Kwara State Internal Revenue Service (KWIRS) is responsible for the generation of revenue.

2.4 INSTRUMENTS FOR CASH MANAGEMENT STRATEGY

2.4.1 TREASURY SINGLE ACCOUNT (TSA)

A Treasury Single Account (TSA) is a bank account, or a set of linked bank accounts, through which government transacts all its receipts and payments i.e. all revenues and expenditures of government shall be transacted through the account. It is an account that unifies all government bank accounts under a single structure so that the treasury can easily trace all cash flows in the account. Cash management shall focus on maintaining a functional TSA.

2.4.2 OBJECTIVES OF THE TREASURY SINGLE ACCOUNT (TSA)

The main objective of the TSA is to enable government to consolidate all its cash into one account instead of holding multiple disconnected bank balances across its various Ministries, Departments and Agencies (MDAs). This enables Treasury to operate efficient cash management and controls, by taking custody of all revenues as well as all approved expenditures as they occur. The e-collections scheme is a comprehensive electronic solution for the remittance, management and reporting of Government receipts (revenues, donations, transfers, refunds, aids, grants, fees, taxes, duties, tariffs etc.) into the TSA. Other objectives shall include:

- To ensure total compliance with the relevant provisions of the 1999 Constitution of the Federal Republic of Nigeria;
- To collect and remit all revenues due to the State Government Consolidated Revenue Fund.
- To block all leakages in government revenue generation, collection and remittance.
- To promote transparency and accountability in the management of government receipts.
- To make available funds for developmental programmes and projects.
- To prevent idle balances being maintained in multiple accounts.
- To align with the Central Bank of Nigeria's cashless policy.
- To minimize transaction costs during budget execution.
- To facilitate reconciliation between banking and accounting data.
- To enhance efficient control and monitoring of funds allocated to various government agencies and parastatals.

2.4.3 OPERATION OF TSA

The operation of the TSA initiative shall be monitored by all relevant agencies, including the Kwara State Internal Revenue Service (KWIRS), the Office of the Accountant-General (OAG), Ministry of Finance and Planning, and office of the Auditor-General for the State to ensure that MDAs comply with the relevant government financial management regulations, as well as the TSA implementation guidelines.

A main TSA/Consolidated Revenue Fund Account shall be held with an appointed lead bank to host all the accruable revenue (IGR) from all other collecting banks. The expenditure leg, be it recurrent or capital shall be funded from the TSA expenditure account on the basis of financial warrants released by the Ministry of Finance and Planning.

2.4.4 REVENUE SWEEPING POLICY

The State Government shall ensure that every commercial bank, holds a single revenue transit account in which all taxes and non-tax revenues are deposited. Tax payer shall deposit either through Paydirect, Point of sale (POS) and other terminals. These accounts are to be linked to the main TSA through CBN's approved Inter-Bank Payment System/Platforms such as, Nigeria Inter Bank Settlement System (NIBSS), NIBSS Automated Payment Systems (NAPS), National Electronic Fund Transfer (NEFT) and others, operate automated system that sweeps revenues collected into the Main TSA Account. The Office of the Accountant General shall retain all monies in the TSA until they are required to settle obligations as approved by the Governor.

2.4.5 RECEIPTS DEPOSITED INTO THE TSA

There are two types of receipts to be deposited directly into TSA:

- (a) Federal transfers i.e. statutory revenue
- (b) Internally Generated Revenue (IGR)

a) Federal Transfers

In line with Section 160(2) of the Constitution, all states are eligible to receive a monthly statutory allocation from the Federation Account. The monthly allocation is disbursed net of any deductions made by the Federal Government on behalf of the state. Each state also gets a share of VAT and other revenues as they accrue.

b) Internally Generated Revenue

The Kwara State Internal Revenue Service (KWIRS) collects both tax and non-tax revenues. Such revenue includes personal income tax, fines, fees, licenses etc. A tax payer has the option to discharge his or her civic duty by making payment into any of the revenue collection accounts in any commercial bank using the Taxpayer Identification Number (TIN).

2.4.6 PAYMENT FROM TSA

No disbursement shall be made from the TSA expenditure account without a financial warrant from the Ministry of Finance and Planning. Government's proposals for expenditure are embodied in Appropriation Law (Approved Annual Estimates).

The Accounting officers of MDAs shall be saddled with the responsibility of memo initiation on the specific item/activity under the budget for onward approval of the Governor. On approval, a request for release of fund shall be forwarded to the Ministry of Finance and Planning for the issuance of payment warrant, a copy of which will be forwarded to the Office of the Accountant-General (OAG) authorizing the Accountant-General to proceed with the payment. The OAG shall compile all the outstanding payment warrants to be presented at the Fund Allocation Committee (FAC) meeting which is to be presided over by the Executive Governor. The approved expenditure at the meeting shall be cash-backed by the office of the Accountant-General and disbursed to various beneficiaries. Following the foregoing, the OAG shall forward payment instruction/mandate authorizing the transfer of funds from the TSA expenditure account to the beneficiaries after proper documentation.

3. CONCLUSION

In line with global best practices, the following shall be deduced as a policy for Cash management strategy in the State:

- i. Government cash resources shall be pooled into the TSA.
- ii. All government spendings shall be met from the government expenditure account from the TSA.
- iii. Idle balances shall be minimized, thereby avoiding unnecessary government borrowing.
- iv. Unremunerated government deposits in the banking system shall be avoided.
- v. All non- TSA government bank accounts should have zero balances at the end of each working day.
- vi. Transactions shall be conducted through the banking system.
- vii. Payments shall be made on real time. Disbursement (payment) delays and penalties for late payment shall be avoided.
- viii. Temporary surplus in the TSA shall be invested in interest-bearing instruments, usually with full collateral so as to minimize risk.