Cash Management – Banking C1.1: Overview

Statement of Intent

Cash management is an important element in the efficient and effective management of public money. This section provides agencies with strategies to manage and control the availability of cash.

Main Features

Section 38 of the Financial Management Act *1995* requires every Accountable Officer and every employee of an agency to comply with the Treasurer’s Directions.

Cash Management

* Cash management comprises the operational and banking processes associated with the collection, aggregation, holding and disbursement of cash.

Elements of Cash Management

* The elements of effective cash management include:
  + - accurate and timely cash flow analysis and forecasting
    - maximising returns from cash balances
    - minimising financing and borrowing costs
    - efficient banking arrangements
    - efficient accounts processing arrangements
    - efficient debtor management and collection of receivables and
    - effective control of payments and disbursements.

For authoritative instruction and guidance reference should be made to related Treasurer's Directions and associated commentary.

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Authorities

Financial Management Act 1995

Financial Management Principles

References

Related Treasurer’s Directions:

References

Related Treasurer’s Directions:

F3.3 Framework – Legislative Structure: Delegations

C2.1 Central Banking Arrangements

C2.2 Cash Management – Bank Accounts

C3.1 Cash Management – Transaction Management: Receipting

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What is Cash Management?

C1.1.1

Cash management comprises the operational and banking processes associated with the collection, aggregation, holding and disbursement of cash.

1. The Financial Management Act 1995 provides that Accountable Officers have specific accountabilities for the efficient, effective and ethical use of resources. The management of cash resources is an important element of this requirement.
2. Efficient and effective cash management requires the business processes associated with the collection, aggregation, holding and disbursement of cash to be integrated within the organisational structure and business operations of an agency.
3. The approach to cash management and the degree of sophistication in business processes will vary from agency to agency and will be influenced by an agency’s size, geographical distribution and the nature of its operations. For example, cash management processes for a small agency with limited cash resources will be significantly different to those for a large agency with diverse functions and a large number of regional offices.
4. The adoption of sound cash management practices will assist an agency to make informed strategic decisions in relation to projected cash requirements, forward planning and asset replacement.
5. At a whole of government level, effective cash management practices will also contribute towards the generation of income from investing activities and the reduction of debt-servicing costs. Such practices can achieve real benefits and savings for the Territory Government.
6. Requirements relating to the collection, aggregation and disbursement of cash are covered in Treasurer’s Directions Sections C2.2, C3.1 and C3.2.

Elements of Effective Cash Management

C1.1.2

The elements of effective cash management include:

* accurate and timely cash flow analysis and forecasting
* maximising returns from cash balances
* minimising financing and borrowing costs
* efficient banking arrangements
* efficient accounts processing arrangements
* efficient debtor management and collection of receivables and
* effective control of payments and disbursements.

1. Effective cash management recognises the time value of money by minimising the amount of cash on hand while ensuring that sufficient funds are available to meet commitments as and when they fall due. Appendix A depicts the elements for effective cash management.
2. Cash flow analysis involves:
   * gaining an understanding of the agency’s receipt and payment patterns and
   * developing accurate and timely cash flow forecasts with short, medium and long term horizons.

Cash forecasting involves an analysis of whole of agency cash holdings, cash inflows and cash outflows, with the aim of identifying when excess cash, or cash shortfalls are likely to occur. Accurate and timely cash flow forecasts promote the efficient use of cash and ensure funds are available to meet agency financial obligations when they fall due, as well as assisting in strategic long-term planning (for example, determination of total Territory borrowing requirements).

1. The government is exposed to prevailing market interest rates for both investment income and borrowing costs. Both are impacted by agency cash operating requirements and agency cash balances.
2. Banking services for agencies are managed by way of a central banking contract that has a competitive fee structure and provides access to a wide range of electronic banking products and services. Further information on the central banking arrangements can be found in Treasurer’s Directions Section C2.1.
3. Efficient banking arrangements will facilitate effective cash management. For example, centralisation and rationalisation of bank accounts enables economies of scale and a reduction in bank fees and administration costs, while access to electronic payment and collection methods increases efficiency. The central banking contract provides a ‘set off’ facility whereby all agency cash balances are aggregated daily to derive the net cash position for the government. The aggregation of cash balances allows surplus cash to be invested at the most favourable interest rates and therefore assists in reducing borrowing costs.
4. Efficient accounts processing arrangements for receipts and payments reduce transaction costs. For example, centralised infrastructure for accounts processing enables economies of scale benefits to be achieved, while the use of a central financial system minimises risks associated with accessing and using information from disparate systems. In general, the processing of agency transactions and the management of the Government Accounting System is administered centrally.

C1.1.3

An agency is to adopt debtor management and receivables collection strategies that are appropriate to the number, size, nature and risk profile of the agency’s debtors.

1. The speed at which receivables are collected and the incidence of bad debts impacts on the cash available to agencies and the Territory. Efficient collection of receivables supports agency operational activities, assists in reducing Territory borrowing costs, and minimises the need to write off debts.
2. The implementation of strategies that control, accelerate or automate the collection of receivables will contribute to effective cash management. In this regard, receivables include agency receivables as well as Territory receivables that are collected by the agency on behalf of the government.
3. Strategies to control the collection of receivables include:
   * appropriate credit management at time of sale, (for example, ensure appropriate terms and conditions of credit for each purchaser)
   * use of information systems to assist management decision making, for example, routine and ad hoc reports that assist in the early identification of potential doubtful debts
   * regular monitoring of accounts receivable aged balances to identify overdue accounts for recovery action
   * prompt recovery action on overdue accounts and
   * timely reconciliation of agency and bank records to identify receivables directly credited.
4. Strategies to accelerate and automate the collection of receivables include:
   * issuing invoices with identifiable due dates as early as practicable and
   * providing convenient and cost effective customer payment options such as:
     + Electronic Funds Transfer at Point Of Sale (EFTPOS) and credit card merchant facilities
     + BPay by telephone and over the internet
     + direct debit
     + agency bill payment facilities, such as Australia Post and
     + payment by instalment (where appropriate).
5. Treasurer’s Directions Sections A2.7 and C3.1 provide additional instruction and guidance in relation to receivables and receipting.

C1.1.4

An agency is to adopt appropriate creditor management and payment strategies.

1. Policies and procedures that control expenses and disbursements have a positive effect on agency and Territory cash flows. Efficient payment strategies reduce transaction costs and allow maximum benefit from available cash resources. In accordance with government policy, the adoption of appropriate creditor management and payment strategies will also facilitate the payment of undisputed invoices within 20 days of receipt for invoices under $ 1 million and 30 days for invoices over $1 million.
2. The control and timing of payments and disbursements requires regular monitoring and the application of appropriate payment strategies. Examples of payment strategies to assist the cash management function include:
   * maximising the use of electronic data interchange (EDI), electronic funds transfer (EFT) and credit card transactions to reduce transaction costs
   * ensuring purchase agreements and contract negotiations provide the most efficient payment schedules to obtain maximum benefit from available cash
   * reviewing and streamlining the timing of payments and disbursements to achieve improvements in timing of purchases and obtain better value and cost effectiveness. For example, consider the costs and benefits for the agency in obtaining bulk stationery as opposed to just-in-time purchasing and
   * negotiating early payment discounts.
3. Additional instruction and guidance in relation to accounts payable and payments are provided in Treasurer’s Directions Sections A3.2 and C3.2.

Appendix A

Effective cash management

|  | Cash Forecasts |  |
| --- | --- | --- |
| Cash inflows | Efficient banking arrangements  Accounts processing arrangements | Cash outflows |
| Accelerate receipts | Control payments |
| Maximise interest earned | Minimise financing and borrowing costs |
|  | Strategies and Processes |  |

Elements

* Accurate and timely cash flow analysis and forecasting
* Maximising returns from cash balances
* Minimising financing and borrowing costs
* Efficient banking arrangements
* Efficient accounts processing arrangements
* Efficient debtor management and collection of receivables
* Effective control of payments and disbursements