

Treasurer's Instruction No	402
Title	Cash Management
Effective date	1 July 2005
Objective and Background	Provides instruction and guidance in respect of sound cash management
Last Reviewed Date	1 January 2004

This Instruction was previously known as Treasurer's Instruction No 208 – Cash Management.

Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

BACKGROUND

Treasury has overall responsibility for managing the cash resources of the Public Account and investing surplus funds to meet day-to-day requirements.

Agency accounts held with the Government's banker are "pooled" to produce a cumulative balance. The cumulative balance is monitored daily by Treasury with estimates of total agency receipts and payments being made to determine the net daily cash position. Surplus funds are invested by Treasury with the Tasmanian Public Finance Corporation (Tascorp) either in short-term investments or for longer periods depending on projected cash requirements. In the event there is a daily cash deficit, additional funds are borrowed through Tascorp.

Agencies contribute to the process by adopting effective cash management processes. Effective cash management minimizes the net cost of borrowing (net interest cost or interest expenditure less interest revenue) and ensures sufficient liquidity in order to meet obligations as they arise.

CASH PAYMENTS

- (1) The Head of Agency shall ensure that the Agency applies the following practices in the payment of accounts.**
 - (a) Where term or cash discounts are available from a supplier, and a net advantage exists, payment must be made within the required time so that the discount can be claimed.**
 - (b) Notwithstanding the fact that benefits may accrue by delaying the payment of outstanding accounts, payment is always to be made in accordance with agreed terms and by the due date. Where discounts are not available, payments must only be made when due. A standard "terms of trade" does not apply to Government purchases.**

Where no term has been specified, the account should generally be paid within 30 days.

- (c) **Where an agency disburses grant monies to an entity or to an individual, such disbursements are to be made in accordance with any terms which may be specified by formal agreement or grant documentation.**
- (d) **Where possible, an agency must negotiate favourable terms of purchase.**

Negotiation of more favourable terms may include the provision of discounts for the early payment of invoices or predetermined discounts on the purchase price. These terms could be arranged on the basis of dealing with preferred suppliers or reduced default risk on the provision of goods and services to Government. Often savings in purchasing are based on agencies developing closer relationships with their suppliers. Additional benefits can be realised in respect to streamlining the payment process when such alliances are fostered.

- (e) **Where possible, the purchase of supplies and/or services must not be initiated until required.**

Agency activities should be managed in such a manner that goods and services are not purchased until required. This of course must be consistent with Government objectives and without jeopardising the timely provision of agency outputs.

TASMANIAN GOVERNMENT CARD

- (2) **Agencies must adopt the most efficient means of making payment, including the Tasmanian Government Card (TGC) and payments by electronic means, including Electronic Funds Transfer (EFT) and Direct Entry (DE).**

The TGC achieves efficiencies through the rationalisation of ordering, authorisation, reconciliation and payment procedures to creditors. Cash management benefits can accrue through the interest free period included in the billing cycle.

Agencies should ensure that accounts are settled with the TGC service provider on the due date to avoid incurring any interest or late settlement fees. Direct debit facilities can be arranged to facilitate settlement.

Payment by electronic means ensures that payments are made on the due date and reduces the number of cheques, thus minimising the cost of banking services.

CASH COLLECTION

- (3) **The Head of Agency must ensure that the following practices are applied in the collection, processing and banking of Government revenue:**
 - (a) **The Head of Agency must ensure that all money collected is banked each day, except where other intervals are approved by the Treasurer.**
 - (b) **Every request to vary a banking interval must be forwarded to the Secretary for approval.**

- (c) **In making a request to vary the banking interval, Heads of Agency must establish that appropriate security measures are in place, and:**
- (i) **the money received is of such a small amount that it is not cost effective to bank the funds on the same day as received; or**
 - (ii) **the remoteness of the area makes it impractical to undertake daily banking.**

INVOICES

- (4) **Invoices must be issued promptly for all goods and services supplied and wherever possible, the collection terms must not exceed 30 days.**

As a general rule, invoices should be issued when the goods are delivered or, if a service is provided, at the time supplied. Invoices must include the due date. Agencies should adopt commercial billing practices and generally, the terms should not exceed 30 days.

One technique to improve the collection of outstanding amounts is to charge interest on outstanding balances. However, explicit notification should be given to the debtor at the time the invoice or debt is raised.

OUTSTANDING ACCOUNTS AND OTHER AMOUNTS DUE

- (5) **Outstanding accounts must be reviewed on a regular basis and a pro-active approach must be adopted in following-up outstanding accounts.**

Each agency should have a clearly documented debt collection strategy which is readily available and is understood by relevant staff. The strategy should ensure that outstanding debts are identified in a timely manner and that the period taken to collect amounts due is minimised.

Debt collection agencies should be used where it is cost effective and appropriate in the circumstances/

A detailed credit review should be conducted to quantify the potential default risk prior to any credit of goods or services being provided to an organization external to the Government. The following details should be obtained:

- name;
- physical business address (PO Box is not sufficient);
- credit references;
- Australian Business Number;
- report from credit agency' and
- in the case of individuals, employment details.

Bad debts should be written off as soon an agency realises that any outstanding amounts will not be collected. This should only occur once all cost-effective means of recovering the debt have been exhausted. A register should be maintained for all amounts and items written off.

(6) Debtors are to be encouraged to pay by electronic means.

This could include receipts through direct credit (BPAY, EFT or DE payment by debtor) or direct debit (the agency is given authority by the debtor to debit its account directly). Benefits would accrue as a result of removing the delay associated with receiving and banking cheques and the costs associated with processing cheques.

INVENTORY

(7) Agencies must ensure that inventories are maintained at an optimal inventory level, taking into consideration the level of usage, time taken to replenish stocks and the reliability of supplier.

In many instances, inventory management can be improved by developing a closer relationship with suppliers. The savings from reduced inventory may include improvements to the net cash position, and also reduced holding and administration costs to the agency.

USE OF INDICATORS IN MEASURING PERFORMANCE

Many jurisdictions have developed performance indicators to measure effective cash management within agencies. Agencies should be mindful of the need to foster better cash management practices and are encouraged to incorporate relevant measures into agency performance indicators.

Typical indicators include:

- percentage of payments by direct entry or EFT;
- percentage of payments made on the due date;
- cycle time to schedule a payment;
- percentage of late payments;
- invoices processed annually per accounts processing FTE; and
- total processing cost per invoice.