



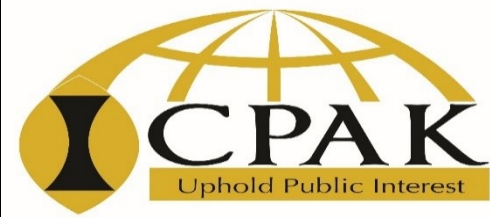
# **The 2<sup>nd</sup> Financial Reporting & Management Conference for County Governments**

## **Liquidity Management for County Governments**

**By CPA Andrew Rori**

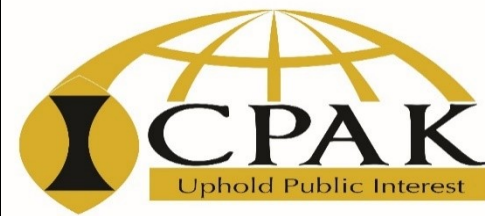
**Travellers Beach Hotel & Club, Mombasa, 11<sup>th</sup> – 13<sup>th</sup> April 2018**

# Session Outline



- Introduction
- Key Issues in County liquidity management
- Liquidity Management – objectives and tools
- Conclusion

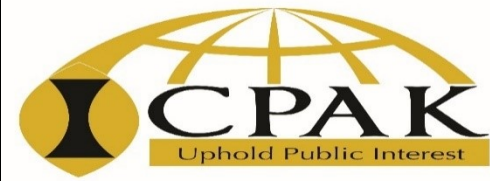
# Valid Concerns???



## Cash Flow in Kenya and the Implications for County Spending

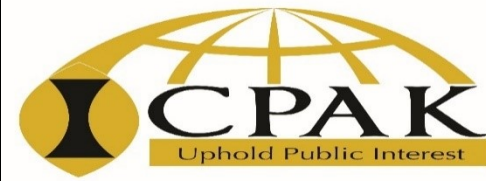
**Are the taps dry?**

# Introduction



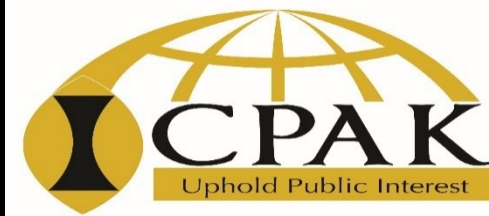
- Government liquidity management has been given less attention than government debt management
- Potential costs of “wrong” debt decisions accrue over many years and can leave an economy heavily exposed at a time of economic stress
- Losses associated with poor liquidity management are shorter term and can be corrected.
- Bad practice not only wastes money, it can inhibit the development and undermine the effectiveness of policies.

# Introduction Cont...



- Liquidity management and Cash-flow forecasting are often used interchangeably, they are not synonymous. Instead, they go hand in hand.
- Proper liquidity management requires a good understanding of the organization's cash-flow needs and requirements
- Cash-flow forecasting is the art of successfully estimating the magnitude and timing of the organization's cash inflows and outflows — the foundation for managing liquidity.

# Kenya's Story so far



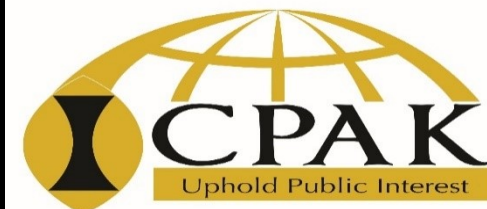
## PERCENT REVENUE PERFORMANCE AGAINST ANNUAL TARGETS IN FIRST TWO QUARTERS OF THE YEAR, 2011-2017

|                                  | Quarter 1   |               |                  | Quarter 2      |                 |                 |
|----------------------------------|-------------|---------------|------------------|----------------|-----------------|-----------------|
| <i>Year</i>                      | <i>July</i> | <i>August</i> | <i>September</i> | <i>October</i> | <i>November</i> | <i>December</i> |
| 2011/12                          | 4%          | 8%            | 14%              | 0%             | 0%              | 40%             |
| 2012/13                          | 4%          | 14%           | 22%              | 30%            | 38%             | 47%             |
| 2013/14                          | 5%          | 14%           | 24%              | 31%            | 40%             | 49%             |
| 2014/15                          | 4%          | 11%           | 18%              | 25%            | 32%             | 41%             |
| 2015/16                          | 4%          | 8%            | 13%              | 22%            | 31%             | 40%             |
| 2016/17                          | 3%          | 9%            | 17%              | 24%            | 32%             | 40%             |
| <b>Average</b>                   | <b>4%</b>   | <b>11%</b>    | <b>18%</b>       | <b>22%</b>     | <b>29%</b>      | <b>43%</b>      |
| <b>Average excluding 2014/15</b> | <b>4%</b>   | <b>11%</b>    | <b>18%</b>       | <b>22%</b>     | <b>28%</b>      | <b>43%</b>      |

Source: Statement of actual revenue and net exchequer issues 2011-2017, National Treasury and IBPK<sup>4</sup>

**Implication - the national government should not plan to spend 50 percent of its budget in the first half of the year, as revenues are consistently below that level.**

# Kenya's Story so far.....



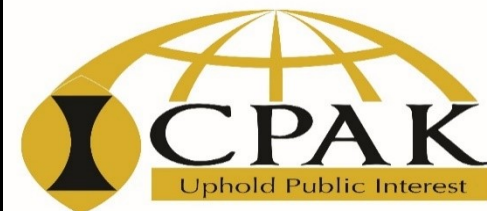
## AVERAGE MONTHLY DISBURSEMENT AS A SHARE OF ANNUAL ALLOCATION TO PARTS OF GOVERNMENT INCLUDING COUNTIES 2011-2017

|  | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June |
|--|------|------|-------|------|------|------|------|------|------|------|-----|------|
| Revenue Inflows                                      | 5%   | 12%  | 20%   | 28%  | 35%  | 47%  | 54%  | 60%  | 70%  | 79%  | 88% | 103% |
| Disbursement to CFS                                  | 4%   | 12%  | 21%   | 27%  | 31%  | 42%  | 48%  | 55%  | 63%  | 68%  | 70% | 90%  |
| Disbursement to MDAs                                 | 5%   | 13%  | 19%   | 26%  | 35%  | 43%  | 50%  | 58%  | 65%  | 74%  | 65% | 92%  |
| Average Disbursement to Counties 2013/14-Q3 2016/17  | 0%   | 7%   | 16%   | 21%  | 30%  | 37%  | 46%  | 52%  | 62%  | 72%  | 84% | 100% |
| Average disbursement across government incl Counties | 3%   | 11%  | 18%   | 25%  | 32%  | 41%  | 48%  | 55%  | 63%  | 71%  | 73% | 94%  |

Source: Statement of actual revenue and net exchequer issues 2011-2017, National Treasury and Budget Implementation Review Report 2011-2013, Controller of Budget

The counties do not receive disbursements according to the Senate schedule, which is likely due to the unrealistic assumptions about how much money can flow to counties each quarter made in the schedule.

# Kenya's Story so far.....



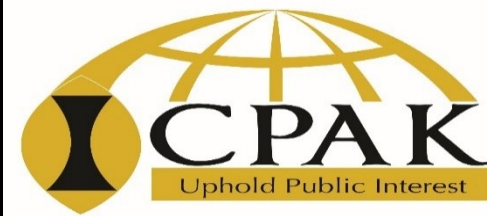
## CUMULATIVE COUNTY DISBURSEMENTS AGAINST SENATE-APPROVED DISBURSEMENT SCHEDULE

|  | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June |
|--|------|------|-------|------|------|------|------|------|------|------|-----|------|
| Average cumulative disbursement to counties 2013/14-Q3 2016/17 | 0%   | 7%   | 16%   | 21%  | 30%  | 37%  | 46%  | 52%  | 62%  | 72%  | 84% | 100% |
| Projected disbursement per Month (CoG), 2016/17                | 8%   | 9%   | 8%    | 9%   | 9%   | 8%   | 8%   | 9%   | 8%   | 9%   | 8%  | 8%   |
| Projected cumulative disbursement per month (CoG), 2016/17     | 8%   | 17%  | 26%   | 34%  | 43%  | 51%  | 59%  | 68%  | 76%  | 84%  | 93% | 100% |
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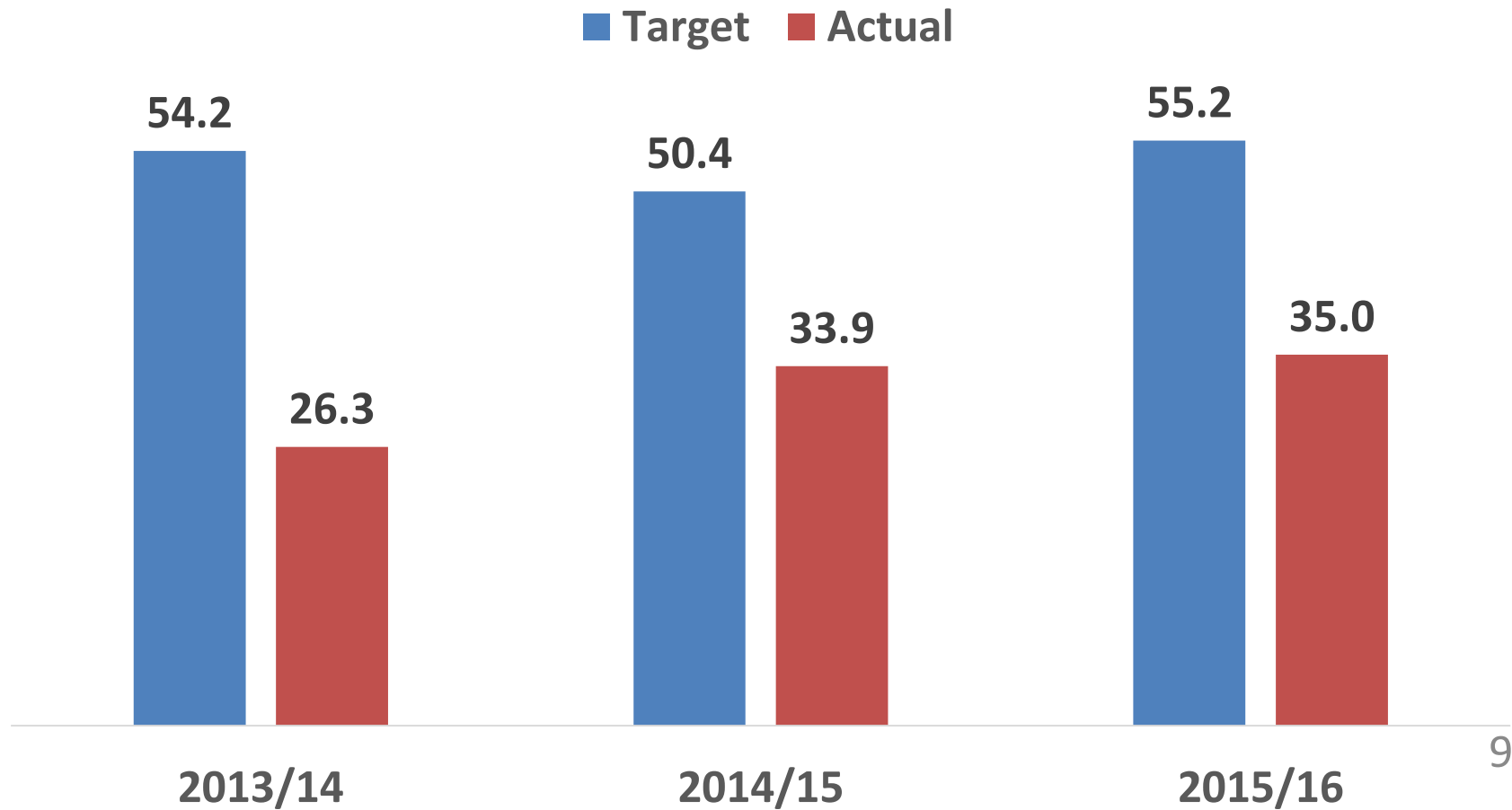
Source: Statement of actual revenue and net exchequer issues 2013-2017

**While these figures suggest a small skew against counties in distributions during the first half of the year, these patterns could be partially explained by late approval of county budgets. Not all county budgets are approved and submitted to the OCOB by the end of June as required by the PFMA 2012.**

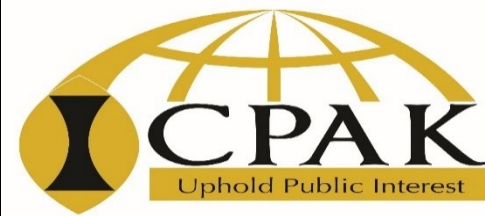
# Kenya's Story so far.....



The growth in counties' own-source revenue has slowed significantly

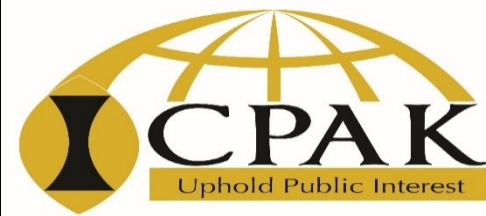


# The Constitution



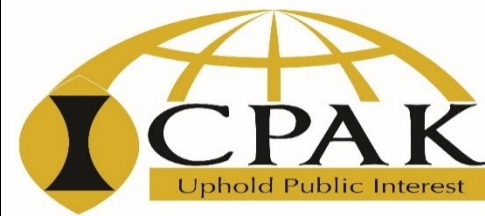
- Under **Article 96(3)** Senate is responsible for:
  1. determining the allocation of national revenue among counties;
  2. exercising oversight over national revenue allocated to the county governments
- **Article 209 (3) & (4)** gives authority to counties to raise revenue
- **Article 218(1)(b)** requires a County Allocation of Revenue Bill be introduced in Parliament to divide among counties the revenue allocated to the county level of government.

# Challenges in the management of public resources at the county level



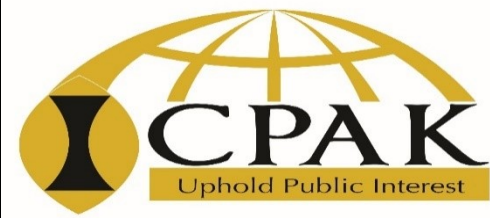
- **A number of challenges have emerged in the management of public funds** at the county level over the last five FYs which reduce the capacity to counties to maximize benefits from the funds.
- Some of those related to liquidity management include:
  - 1. Escalation of unbudgeted commitments/pending bills** relating to service providers and statutory deductions
  - 2. Spending at source and Low mobilization of own-source revenue** with significant leakages in revenue collection processes
  - 3. Continued accumulation of idle cash balances** - substantial bank balances at the end of each year, which also could be a factor contributing to lower disbursements to counties in the first quarter

# Key Concerns in Liquidity Management for Counties



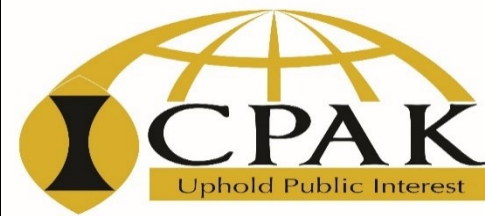
- Cash management (flow and stock)
- Revenue collection, forecasting
- Debt Management - Debts and liabilities need to be recognized and inventoried with proper servicing plans;
- Account management (payment, collection, reconciliation)
- Intergovernmental fiscal relations

# Cash-flow Forecasting for Counties



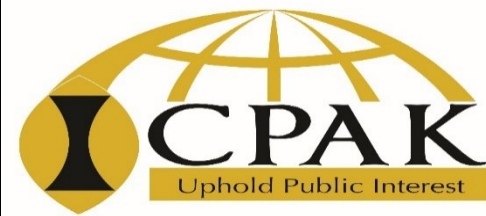
- Cash-flow forecasting forms the basis for successful liquidity management. Requires also portfolio break down.
- Projection of periodic (e.g., daily, weekly, monthly, quarterly) anticipated receipts (i.e., cash inflows) and anticipated disbursements (i.e., cash outflows). Records and Control??
- Creating a cash-flow forecasting model requires answers to:
  - How much cash is available?
  - When will it become available?
  - How long will it be available?

# Liquidity Management



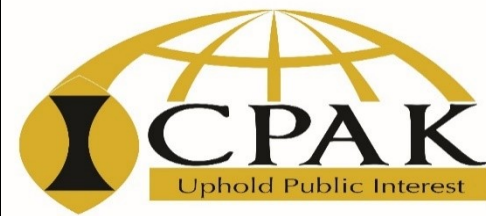
- Objectives:
  - Assure fund availability for meeting government obligations (liquidity)
  - Cash conservation
  - Minimize borrowing, borrowing cost
  - Maximize returns from idle cash
  - Risk management
- Tools:
  - Treasury consolidated fund (single account)
  - Financial plans
  - Invoice payment/cash rationing
  - Debt issuance
  - Supplemental budgets

# Treasury Single Account (Treasury Consolidated Fund )



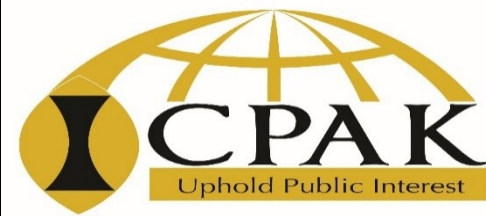
- Single account or accounts under treasury management – consolidation of cash
  - The more accounts, the more difficult to manage, report
- Payment arrangements will vary:
  - Centralized: direct transaction from TSA
  - Deconcentrated: payment by spending agency from TSA
  - Decentralized: payment by spending agency from imprest account

# Financial plans



- Important link between budget, County programs and activity, cash flow
  - Links commitments and cash
- Used for cash flow forecasting when combined with revenue forecast
  - Allows planned, orderly debt issuance
- Usually monthly
- Periodic variance analysis to plan, budget

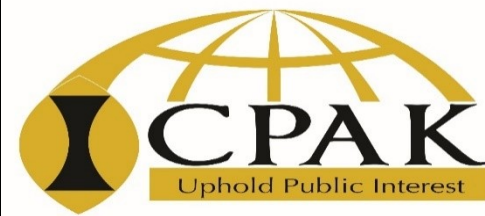
# Cash rationing (misnomer cash budgeting)



Senate-approved county disbursement schedules are unrealistic given actual cash flows should be revised to avoid creating planning and service delivery problems when anticipated funding does not come on time.

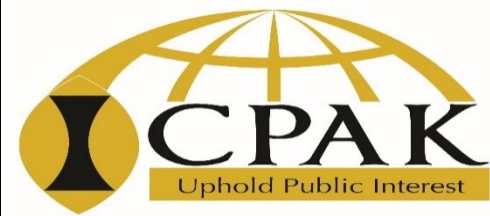
- Last resort liquidity management
- Disruptive to programs, vendors
- High corruption potential
  - Need transparent ex ante rules
  - Public procedure
- Likely to undermine budget priorities

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- Last resort liquidity management
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- High corruption potential
  - Need transparent ex ante rules
  - Public procedure
- Likely to undermine budget priorities

# Conclusion



- A County government must be able to fund its expenditures in a timely manner and meet its obligations as they fall due. But cost-effectiveness, risk reduction and efficiency are additional objectives.
- Managing an appropriate level of liquidity is relatively simple when certain steps are followed in strict compliance with Governance instruments

# The End

