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TREASURY SINGLE ACCOUNT AND NIGERIA PUBLIC FINANCIAL MANAGEMENT

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ABSTRACT

Nigerian Government in the past years used to operate a Consolidated Revenue Account where all money raised or received are paid. This could not capture idle funds and has led to an increase in corruption, thus leaving Nigeria to borrow funds to finance her budget deficit even when some of the funds are held by banks. By the introduction of the Treasury Single Account all Government Revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments are done through this account as well. Leaving the government with the responsibility of disbursing these funds to contractors when projects are to be *implemented. The paper aims at examining the nature, origin and challenges of the TSA. The paper is theoretical in nature and various literatures are reviewed. The paper notes that with introduction of the TSA, government expects to block all loopholes and leakages of financial resources and also ensure a robust financial management system. TSA will also help to ensure proper cash management by eliminating idle funds usually left with different deposit money banks and in a way enhance reconciliation of revenue collection and payment. The paper recommends that government should ensure that TSA does not create unnecessary bottleneck and clog in the wheel of progress of the concerned Ministries and the nation at large.*

Keywords: *Idle Funds, Consolidated Revenue Account, Cash Management, Government Revenue.*

INTRODUCTION

Most countries today are experiencing what can be regarded as Public Financial Management Reform, of which Nigeria is not left behind. A good example is the adoption of TSA policy which CBN issued in 2015. This brought about the exposure of idle funds in the financial system. In Section 80 (1) 1999 of Nigeria constitution as amended, that all revenues, or other moneys raised or received by the Federation (not being revenues or other moneys payable under this Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation (CBN, 2015).

However, successive governments have continued to operate multiple accounts for the collection and spending of government revenue in flagrant disregard to the provision of the constitution which requires that all government revenues be remitted into a single account. This has led to the need for a general banking management. Government banking arrangements are an important factor for efficient management and control of government's cash resources. Such banking arrangement is designed to minimize the cost of government borrowing and maximize the opportunity cost of cash resources. This requires that all cash received is available for carrying out government's expenditure programs and making payments in a timely fashion.

Many emerging market and low-income countries have fragmented systems for handling government receipts and payments. In most countries, the ministry of finance/treasury lacks a unified view and centralized control over government's cash resources. As a result, this cash lies idle for extended periods in numerous bank accounts held by spending agencies while the government continues to borrow to execute its budget (Sailendra & Israel, 2010).
Treasury Single Account is however a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments done through this account as well. The purpose is primarily to ensure accountability of government revenue, enhance transparency and avoid misapplication of public funds. The maintenance of a Treasury Single Account will help to ensure proper cash management by eliminating idle funds usually left with different commercial banks and in a way enhance reconciliation of revenue collection and payment (Adeolu, 2015).

The understanding that a government lacking effective control over its cash resources can pay for its institutional deficiencies in multiple ways. First, idle cash balances in bank accounts often fail to earn market-related remuneration. Second, the government being unaware of these resources, incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage. Third, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit. Draining this extra liquidity through open market operations also imposes costs on the central bank. The establishment of TSA will improve cash management, debt management and control, facilitate better fiscal and monetary policy coordination and significantly reduce the debt servicing cost (Pattanayak & Fainboim, 2010).

Among the key functions of cash management are the monitoring of cash inflows and outflows, access to cash, development of cash flow forecasting, and entry into the financial market. Government cash management is also related to the coordination between treasuries and central banks in terms of analyses and the management of financial risk (liquidity, credit, and operational). Furthermore, the core function of debt management is to ensure that the financing needs and payment obligations of government are met at the lowest cost in the short, medium, and long terms, consistent with prudent risk levels. Many countries associate a secondary objective to the development of the domestic financial market (Uwonda, Okello & Okello, 2013).

The main objectives of a disbursement system are to pay the government's obligations in a timely and cost-effective manner, and to reduce opportunities for fraud and theft. The adoption of TSA without a computerized treasury system (such as an IFMIS) Integrated Financial Management Information System and an advanced communication infrastructure to allow electronic fund transfers from the TSA to the recipient's account, could lead to delay in payment, create idle balances and increase operational risks. Thus, rendering the Treasury Single Account (TSA) policy useless.
The objectives of this paper are:

1. To examine the impact of TSA policy on Public Financial Management
2. To examine the benefits of Treasury Single accounts
3. To highlight countries that has adopted TSA

REVIEW OF RELATED LITERATURE

A Treasury Single Account is 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 Treasury Single Account is a bank account or a set of linked accounts through which the government transacts all its receipts and payments. The principle of unity follows from the fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding /depositing cash in transaction specific bank accounts. This enables the treasury to delink management of cash from control at a transaction level (Sailendra & Israel, 2010).

Many emerging markets and low-income countries have fragmented systems for handling government receipts and payments. In these countries, the ministry of finance/treasury lacks a unified view and centralized control over government's cash resources. As a result, this cash lies idle for extended periods in numerous bank accounts held by spending agencies while the government continues to borrow to execute its budget. It is based on these reasons that the current global revolution in government accounting became paramount following which Nigeria has initiated and implemented the

Treasury Single Account (TSA) and other series of economic policies to assist in the better management of her economy.

It is expected that the implementation of TSA will help tame the tide of corruption. Parts of other reforms that were aimed at improving the quality of the nation's Public Financial Management (PFM) systems are Government Integrated Financial Management Information System (GIFMIS); Automated Accounting Transaction Recording and Reporting System (ATRRS); Integrated Payroll and Personnel Information System (IPPIS); International Public Sector Accounting Standard (IPSAS) and many others. An IFMIS is an information system that is used in the public sector to computerize and automate key aspects of financial management, such as budgeting, treasury functions, accounting, and debt management. In general, an IFMIS promotes a single registry of revenues and expenditures from a significant number of units in the public sector in a more integrated and efficient way in relation to PFM processes. It also generates relevant in-year fiscal reports and annual financial statements (Jack & Pokar, 2006).

Public Financial Management (PFM) is concerned with aspects of resource mobilization and expenditure management in the public sector. Sound public financial management is critical to the achievement of the aims of the public sector through its role in improving the quality of public service outcomes; operational and strategic decision making; long term sustainability of public services; building public trust in the performance of the sector; and ensuring the efficient and effective use of public funds (Parry, 2010).

Optimal public financial management would additionally display flexibility that allows the targeted sectors to adjust easily and in the desired manner with the public sector induced changes. Four key objectives that effective public financial management should cover by (Parry, 2010).

(i. **Aggregate financial management:** A state normally mobilizes its revenue from natural resources under its control, collection of taxes from the public, borrowings, establishment or sale and privatization of state owned corporations. These resources are then allocated to various public departments in the annual budget according to the priorities that have been identified and agreed upon by the different stakeholders. Public financial management is not only crucial in meeting fiscal aims, monitoring progress against targets and effective utilization of resources, but a sound system can aid the government in setting future priorities and ensuring fiscal sustainability.

(ii. **Operational Management:** Sound financial management has a direct impact on short and long term decision making, performance measurement, strategic planning and management of public services. Some operational aspects that are directly affected through financial management are described as follows:

(a.) Treasury Management: Managing financial resources with the objective of maximizing its value involves sufficient risks. In public finance, sound treasury management balances the value maximization objective of the government with the need to maintain liquidity for the discharge of institutional liabilities. As public funds are at stake, preferred investment opportunities are typically those which are medium to low risk in nature.

(b.) Review and Performance and Evaluation: Performance evaluation is a critical process for identifying and understanding the mistakes of the past, so as to formulate and implement insightful strategies in the future. For productive performance evaluation, performance targets and appraisal methods should be decided inclusively and by consensus within stakeholders to facilitate understanding, monitoring and evaluation of targets and to encourage ownership of shared goals and outcomes.

(c.) Reporting to Stakeholders: An important aspect of financial management, stewardship and the mechanism by which entities meet their financial accountability obligations, is the preparation and publication of annual audited financial statements in entities' annual reports. The purpose of financial statements is to present a true and fair view of an entity's financial performance, position and cash flows. As such, they are an important means of demonstrating how the public sector, both at individual entity and at government level, discharges its financial management responsibilities. Although, both cash and accruals basis accounting is being employed by different countries around the world, in the long term the accruals basis of accounting is

preferable to account for public funds as it increases transparency and accountability.

(iii. **Governance**: The Audit Commission UK (2009) defined good governance in public services as "ensuring the organization is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner". Good governance assigns the decision making structure to people that can be relied upon for the effective discharge of their responsibility, and this would only be possible when persons with the right set of technical skills and proven capabilities for managing their role have been employed. Decision making provides an opportunity for choosing between available alternatives, hence if an efficient governance structure is established then one can expect that the chosen alternatives would maximize the desired outcomes. Knowledge of the constitutional environment within which a country operates is crucial to understanding the accountability structures within the public sector.

(iv. **Fiduciary Risk Management:** Flexible and intuitive fiduciary risk management is required to mitigate anticipated and unanticipated risks that public entities face while pursuing their objectives. Ongoing monitoring of progress versus goals aids the timely correction of errors and identification of problem areas and future risks.

Benefits of TSA

TSA help to ensure effective **aggregate control over government cash balances.** The consolidation of cash resources through a TSA arrangement facilitates government cash management by minimizing borrowing costs. In the absence of a TSA, idle balances are maintained in several bank accounts. Effective aggregate control of cash is also a key element in monetary and budget management.

Allows complete and timely information on government cash resources. In countries with advanced payment and settlement systems and an Integrated Financial Management Information System (IFMIS) with adequate interfaces with the banking system, this information will be available in real time. As a minimum, complete updated balances should be available daily.

Improves appropriation control. The TSA ensures that the Ministry of Finance has full control over budget allocations, and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where funds provided for budgetary appropriations are augmented by additional cash resources that become available through various creative, often extra budgetary measures.
Improves operational control during budget execution. When the treasury has full information about cash resources, it can plan and implement budget execution in an efficient, transparent, and reliable manner. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behaviour by budget entities, such as exaggerating their estimates for cash needs or channeling expenditures through off-budget arrangements.

Reduces bank fees and transaction costs. Reducing the number of bank accounts results in lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation, and reduced banking fees.

Facilitates efficient payment mechanisms. TSA ensures that there is no ambiguity regarding the volume or the location of the government funds, and makes it possible to monitor payment mechanisms precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments. The establishment of a TSA is usually combined with elimination of the "float" in the banking and the payment systems, and the introduction of transparent fee and penalty structures for payment services. Many governments have achieved substantial reductions in their real cost of banking services by introducing a Treasury Single Account.

Structure of Treasury Single Account
A purely centralized arrangement is one in which all revenue and expenditure transactions of the government pass through a single account generally maintained with the central bank. At the other extreme, a Treasury Single Account could be virtually operational even though line agencies, down to the lowest level in the organizational hierarchy are allowed to retain separate transaction accounts in the banking system. However, in the latter case, balances in all transaction accounts should be swept into the TSA main account at the end of each day.

Types of Account under a Treasury Single Account System

(1. **Treasury Single Account main account.** This is the treasury's account with the central bank which consolidates the government's cash position. It is the main TSA account when the TSA arrangement in a particular country consists of a set of linked accounts. Cash balances in all other linked accounts are swept into this account. In other words, all government receipts finally flow into, and all disbursements are met from, the central TSA account.

(2. **Treasury Single Account subsidiary accounts or sub-accounts.** These are not separate bank accounts per se (in the sense of holding individual cash balances), but are special sub-accounts within the main TSA account. This is basically an accounting arrangement to group together a set of transactions and allows the government to maintain the *distinct accounting identity or ledger* of its budget organizations (line ministries/agencies) effectively. A cash disbursement ceiling for each entity can be enforced against these ledgers. Balances in these accounts are netted off with the TSA main account for cash management purposes.

(3. **Transaction accounts.** Sometimes government bank accounts that are justified for retail transaction banking operations are opened separately and are structured as transaction accounts. These separate transaction accounts could be opened for government entities that need transaction banking services, but do not have a direct access to the TSA main account or a subsidiary account, and/or specific category of operations (e.g., special funds). A transaction account could take the form of a *zero-balance account* or an *impress account*. It is possible to impose a cash disbursement limit (for the concerned agency) on a particular transaction account, which could be monitored by the concerned bank.

(4. **Zero-balance Accounts (ZBAs).** Where transactional accounts are necessary, these are generally opened on a zero-balance basis, i.e., end-of-the-day cash balances in these accounts are swept back into the TSA main account periodically (preferably daily). Such accounts opened in commercial banks are used for disbursements or for collection of government revenues (particularly non-tax revenues). At the end of the day, all revenues collected would be deposited in the TSA. The commercial bank would honor payments of the respective agency, and would be reimbursed by the TSA overnight. ZBAs have many

similarities with special credit line arrangements, where budget agencies are provided spending credits towards the amount of payments they can make within a specified period, to be reimbursed by the TSA in the central bank. A ZBA also has the benefit that it bypasses the normal interbank settlement process for each individual transaction, which is often time consuming in developing countries, and ensures same-day settlement on a net basis for all receipts and payments passing through the accounts.

(5. **Impress Accounts.** These transaction accounts can hold cash up to a maximum authorized amount and are recouped from time to time. Such accounts might be necessary in some cases, particularly when there is only limited availability of interbank settlement facilities. However, the number of impress accounts should be kept to a minimum and the strategy should be to progressively transform these accounts into zero-balance accounts.

(6. **Transit Accounts.** These accounts are not meant for day-to-day transaction banking operations of government units. A transit account simply serves as a transit for eventual flow of cash into the TSA main account. Transit accounts might be necessary: (i) for major revenue streams to monitor their collection and remittance by the banking system; and (ii) to facilitate revenue sharing (formula-based sharing from a common pool of resources) between tiers of government in a federal system in line with constitutional and/or legal requirements.

(7. **Correspondent Accounts.** A separate ledger account is opened for each correspondent. The correspondent entity has real time information on the balances it maintains in the TSA. There should be safeguards to ensure that each correspondent government is provided with the funds needed to implement its own budget in a timely manner. The central bank (which maintains the accounts in the TSA) has the obligation to make payments to the extent of the balances available in a correspondent's account.

Theoretical Framework

The adoption of TSA policy in Nigeria could best be explained by the "prospect Theory" develop by Amos Tversky and Daniel Khnaneman in 1979. This model was developed as the psychologically realistic alternative approach to the expected utility theory. The prospect theory of economics describe how the investors can choose the right alternatives involving risks.

The theory helps people to opt for the right financial decision. The Prospect theory describes decisions in two stages – editing and evaluation. In the first process the possible outcomes of the decision are ordered following some probability. In the evaluation phase of the model, people seem to compute a value on the basis of the potential outcomes and their respective probabilities.

Examples of countries that operate Treasury Single Account System

French adopted TSA in 2010, 6,948 subaccounts and are managed by a TSA held at the Bank of France. France has a well developed TSA at the central bank (Banque de France). The TSA includes the balances of local authorities, municipalities, and quasi-governmental bodies as well as of central government revenue and spending departments (including overseas authorities). Social security funds are managed by public accountants (under the Direction Generale des Finances Publiques, (DGFIP), but not by the treasury. They are not held in the TSA, but in a state-owned savings bank. Cash (and debt) management is the responsibility of Agence France Trésor (AFT), which is an agency of the French Treasury, which in turn is part of the Ministry of Economy, Finance and Industry. AFT actively manages the TSA, and has developed a cash flow forecasting capability accordingly. It invests (and if necessary borrows) surplus funds in the money markets, with a view to maintaining a low and stable end of day balance in the TSA and ensuring the best return on the investment of surplus cash. AFT operates a centralized payment system. The spending agencies make expenditure commitments and forward payment requests to one of the nearly 4500 regional treasuries. Payments are made from the regional sub-accounts of the TSA. Closing balances in the sub-accounts are swept into the TSA in real time. The government does not use accounts with commercial banks.

In United States; The U.S. Treasury maintains a consolidated funds pool, in a single account, for all funds of the federal government. The Federal Reserve Banks (FRBs) act as the main government banks. As such, the FRBs, and specifically the Federal Reserve Bank of New York (FRBNY), maintain the treasury's general account (TGA), accept deposits of federal taxes and other federal agency receipts, and process checks and electronic payments drawn on the TGA. The treasury holds all funds, with very few exceptions, under the management of its fiscal agent, the FRBNY.

Actual disbursements are administered through the intermediation of the FRBs and are reflected in the TGA in real time. While all treasury disbursements are made from the TGA, a network of several thousand financial institutions collects the major part of all tax revenues. Under the single account system, each agency and bureau is given accounting control and responsibility for the timing and use of its funds. However, the agency/bureau does not actually hold those funds in separate bank accounts outside the treasury. The treasury operations cover a complete range of public funds at the federal level, including budget funds, trust funds, revolving funds, and other funds. State local governments have full independence in managing their own funds and they make use of depository institutions outside the central bank system

In United Kingdom, all central government cash balances are aggregated into a TSA maintained at the central bank. There are no extra-budgetary funds that are outside the system. Local authorities and SOEs are outside the central system and hold their cash balances in the commercial banking system. The two main central government funds are the Consolidated Fund (CF) and the National Loans Fund (NLF). If the CF has a surplus, this is automatically transferred to the NLF to reduce its need to borrow, and vice versa. The NLF formally borrows money for the government and funds lending to local authorities. The Debt Management Account (DMA), which is managed by the U.K. Debt Management Office (DMO), is used to balance any daily surplus or deficit in the NLF. The CF receives the proceeds of general taxation and other receipts. It pays out to spending departments and agencies the sums needed to meet commitments.

In the case of Australia, The Department of Finance and Administration (DFA) is responsible for banking and payment arrangements within government. The DFA holds the main government bank accounts at the central bank, the Reserve Bank of Australia (RBA). The main account at the RBA is the Official Public Account (OPA). This account provides funding for all spending accounts of departments. Funding is provided to the departments one day in advance based on the cash flow projections of expenditure received from the departments. Balances of departmental and agency expenditure accounts are swept overnight into the OPA, but are returned the next day. There is also an Official Consolidated Receipts account where all government receipts from departmental receipt accounts are consolidated overnight. Departmental payments are to some extent executed through the commercial banking system. Under the devolved banking arrangements all departments are required to contract banking services, and they can choose to do this with commercial banks or rely on the RBA. Its degree of centralization is a mixed architecture (with elements of both centralized and decentralized models of TSA). The central Bank is the manager of the TSA, but departmental payments are executed through the commercial banking system.

In Russia, The TSA is located at the central bank (CBRF). There are “collection accounts” maintained by the regional treasury offices (RTOs) with the CBRF for the collection of taxes, duties, etc.; an “operational account” is maintained by the RTOs for spending federal budget funds; and separate accounts exist for recording expenditures financed from specialized sources, and for foreign currency, among others. All federal budget revenues and expenditures pass through the TSA. The federal budget is executed via the bank accounts maintained by the relevant RTOs. All federal budget revenues and expenditures are posted to the treasury general ledger (TGL) on a daily basis. The CBRF transfers funds from the TSA to the RTOs operational accounts (within the available balances at the TSA) as per the RTO’s request. The RTOs make payments to beneficiaries through the operational accounts on behalf of the spending units (SUs). The local treasury offices record and submit information on executed expenditures to the SUs concerned. If so required, the RTOs transfer funds from the operational account to the “cash disbursement” accounts opened for the federal treasury offices and the SUs withdraw cash from these accounts.

CONCLUSION AND RECOMMENDATIONS

Most countries today are practicing what can be termed as Public Financial Management Reform some of which include the adoption of Treasury Single Account, Cash Management, Debt Management, etc. We must understand that a government lacking effective control over its cash resources can pay for its institutional deficiencies in multiple ways. First, idle cash balances in bank accounts often fail to earn market-related remuneration. Second, the government, being unaware of these resources, incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage. Third, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit. Draining this extra liquidity through open market operations also imposes costs on the central bank. The establishment of TSA will improve cash management and control, facilitate better fiscal and monetary policy coordination and significantly reduce the debt servicing cost.

Sound public financial management is critical to the achievement of the aims of the public sector through its role in improving the quality of public service outcomes; operational and strategic decision making; long term sustainability of public services; building public trust in the performance of the sector; and ensuring the efficient and effective use of public funds. Some of the benefits TSA provides for any government or country include; effective control over government balances, complete and timely information on government resources, reduce banking fees and transaction cost, Improves operational control during budget execution and facilitate efficient payment system. TSA operation could take any form depending on the country where it's been operated. A unified account could be maintained by the Central Bank, or some specified deposit banks are charged with this responsibility. The most important point is that government financial resources is consolidated and effectively utilized.

Even though this advances are considered remarkable, is recommended that the Nigeria government should still implement the following; quantitative indicators to measure and monitor the efficiency of cash management, and effective public service cost systems should also be introduced. Such indicators include; avoidance of accumulation of arrears payment or large idle balances, performance indicators, etc. Also, upgrade ICT systems and capacitate government accountants since the essence of adoption of TSA is to meet the demands of citizens for better public services and more solid and transparent fiscal institutions. Governments must allocate and use public resources more efficiently if they wish to succeed in tackling the increasingly complex and uncertain global environment.

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