

Design of the TSA

Q 4-08. Does the TSA concept admit variations in account design or operation?

TSA design may range from highly centralized **active** systems in which the treasury has sole control of the government's funds at all times to **passive** systems in which spending agencies have some management responsibilities for subsidiary accounts.

Q 4-08.01. What is the design of an active, or centralized, TSA?

In an active TSA, the treasury has total control over all bank accounts holding government funds. Since no spending agency has control over funds, requests for payment are sent to the treasury for disbursement.

This design is the most efficient both from a cash management and expenditure control perspective. It avoids the situation in which the government is borrowing and incurring additional interest charges to finance the expenditures of some agencies while idle balances remain in other government-owned bank accounts.

Q 4-08.02. What is the treasury's role in receipts under an active TSA?

As a corollary to the principle of centralized payment and receipts management, the treasury manages the services through which all collected funds are received by the TSA. This increases overall efficiency by eliminating delays in collection from the added steps of transferring funds between the funds collections system of the agency for which the collection is made to a system that will deposit the funds in the treasury's general account.

The treasury usually contracts and pays for deposit reporting and for funds transfer services from private financial institutions. The treasury can then offer other agencies the use of the services. The arrangement encourages agencies to use the best available services and gives the treasury accurate and timely information on funds availability.

Q 4-08.03. What is the treasury's role in disbursements under an active TSA?

When the treasury moves to a centralized disbursement system under an active TSA, few, if any, other agencies are granted the authority to disburse funds through payment instruments that they create. Most agencies will not have the authority to draw checks or initiate electronic funds transfers against the treasury's accounts, even to spend their own appropriation. When agencies are allowed to create payment instruments, they are drawn against the Treasury's account, **not** against a

pool of funds held apart by these agencies.

Q 4-08.04. Does an active TSA violate an agency's budget responsibilities?

Restricting disbursement authority should not be seen as an abrogation of the responsibility or the authority of any agency over its own budget. Each payment transaction that the treasury makes is done so on the requested instruction and certification by an appointed officer of the agency that the voucher for payment is legal, proper, and correct. The certifying officer may also be required to attest to the availability of funds (i.e., an unexpended balance rather than actual money) in the accounts to which the payment will be charged.¹ This approach balances control by the agency over its own budget with control by the treasury over the public moneys.

Q 4-08.05. What does an active TSA offer the treasury in balance management?

Under an active TSA, the treasury takes responsibility for maintaining adequate liquidity each day to cover the day's expected net cash flow and any extra balance held as a contingency against unforeseen outflows. The treasury can draw on direct information from its collection and disbursement systems and from seasonal tendencies in cash flows to forecast the day's liquidity needs.

Q 4-08.06. What is the design of a passive TSA?

Under a passive TSA, the structure of consolidated account reporting is maintained, but funds control duties are dispersed. The treasury sets cash limits, but does not control individual transactions. Payments made directly by spending agencies. Although multiple bank accounts in the central bank or in commercial banks are controlled by the treasury, they are managed by spending agencies.

Some benefits of an active TSA can be redeemed if accounts are cleared every day and the balances transferred to the central treasury account. Additionally, the treasury should avoid pre-funding of ministry accounts. Further, sub-accounts should be kept to a minimum.

Q 4-08.07. What incentives might encourage better management in a passive TSA?

Systems of penalties or rewards have been used in some developed economies to encourage better management of funds by spending agencies while operating under a passive TSA system. One common approach is to penalize severely spending agencies for drawing cash in advance of need.

¹ Alternatively, the treasury can exercise comptrollership over agency spending, but this requires additional resources at the treasury.

A more complicated arrangement calls for departments to negotiate their annual cash requirements with the treasury and either to pay penalties if they run out of cash or to earn interest on their surplus funds. The ministry of finance may sweep department bank accounts each evening and invest the surplus in the overnight money market.

Q 4-08.08. Is there a middle ground between the active and passive TSA structures?

A hybrid of the active and passive structures can be designed. In this approach, the locus of funds control depends upon the scale of total payments under any budget line. This means that spending will be centralized for programs with large payments or high volume repetitive small payments which constitute a large value in aggregate. Small, infrequent payments can be safely left decentralized.

Q 4-08.09. What are the challenges to establishing a TSA?

The most challenging impediments to establishing a TSA are those over which the treasury has little ability to amend. These are generally economy wide problems such as the absence of modern banking system or a lack of national infrastructure for both banking and accounting systems or telecommunications

Shorter-term impediments include an absence of reliable information because no list of bank accounts or information on bank balances is currently available or a lack of capacity owing to insufficient human resources and technical training. These impediments require some remedial action to develop information or skills before going forward.

One institutional situation that may impede development of a TSA is the view by other ministries that their ministry accounts are an entitlement or requisite of their autonomy. This may lead to a power contest within the government.

Q 4-08.10. What are key steps in establishing a TSA?

There are functional and administrative steps that must be undertaken to move forward in establishing a TSA.

The functional steps involve operations design. They are:

- Identify all bank accounts in government use and close all of those which are unnecessary.
- Structure the remaining accounts into pyramid style in which funds flow quickly into the main account.
- Reengineer both the disbursement and the receipts management processes to centralize and streamline operations by eliminating unneeded delay points or

approvals.

- Sequence the transfer of cash balances to move funds quickly through the system.
- Sequence transfer of responsibilities to match the movement of funds.

The administrative steps amend laws, regulations, policies, procedures, and reports to support the new structure. To address the most general policy issues, first amend laws and regulations to give the treasury the authority it needs. The next step is to revise reporting templates so that data generated by the new system will be usable. As the operations become better defined, draft new procedures manuals to be in place with the start of new operations. With the full process now defined, renegotiate all banking arrangements to reflect the needs of the new network.