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H M Treasury

# Public Expenditure System

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Secretariat: 020 7270 5525

## LIVE CASH MANAGEMENT SCHEME 2001-2002

Departments will be aware from [PES \(2000\) 11](#) issued on 2 June 2000 that the Cash Management scheme was due to go live from the start of 2001-02, following its earlier pilot phase.

2. The objectives of the scheme are to obtain reliable forecasts of departmental cashflow to inform the Debt Management Office's operational work of managing the government's daily cash needs. On days when government's cash revenue is less than its cash expenditure the Debt Management Office must balance the shortfall from its market operations. Conversely, when there is a cash surplus the Debt Management Office needs to lend this out (or repay prior borrowing). To do this cost effectively requires good intelligence on the government's cashflow, in aggregate, which in turn needs a strong departmental input. The impact of poor intelligence is higher costs for government and potential reputational damage.

3. A subsidiary objective is to fund departments through the Supply system in response to *departments'* forecasts of their monthly Supply need.

4. Treasury Ministers have agreed a range of conclusions about how the scheme should operate, based on our review of the pilot. This took account of helpful comments from departments participating in the pilot, in correspondence and through the workshops we ran earlier in the year. This PES paper explains the main changes to the scheme and sets out the procedures which departments should follow.

### Main Conclusions of the Cash Management Scheme Review

5. The principles and objectives of the scheme remain unchanged. They are:

- a) for departments to requisition monthly issues of Supply, in the light of their forecast monthly net cash requirements;
- b) to obtain (and encourage) reliable forecasts of daily cashflow for the months ahead to inform the DMO's daily cash management operation on behalf of the government as a whole.

6. The underlying theme is that errors in aggregate cashflow forecasts add to the Debt Management Office's costs. The full scheme seeks to minimise these costs by ensuring that departments are aware of the costs of *their* cashflow forecast errors.

7. In procedural and operational terms, the principal conclusions are:

a) Supply will be issued in monthly instalments to finance *all* Estimates on the basis of departments' forecasts of their Supply requirements for the month ahead. We have already been following this procedure since April this year.

b) Departments with large gross cash flows (ie over £3 billion per annum) will need to provide detailed cash flow forecasts. This gives over 95% coverage of cashflows whilst excluding two-thirds of departments whose cashflow is relatively small from the full requirements of the scheme. All the departments concerned have been providing forecasts since March, for the current financial year.

c) A "management" letter will be sent out at senior level each year detailing the performance of all these departments (probably in late April/early May).

d) For the large departments who are fully in the scheme, charges will be calculated on the basis of errors in monthly net cashflow and daily CHAPS forecasts, as set out in [PES \(2000\) 11](#). These will be aggregated and *fully* recycled to departments, pro-rata to estimated gross annual cashflows. Compared to the pilot shadow charging regime, this will reduce the maximum charge that any department would face, but will increase the prospect of net rebate gains as a result of consistent good forecasting.

e) As set out in [PES \(2000\) 11](#), the financial effect of net charges and rebates will be achieved through adjustments to EYF. The adjustments will be to administration costs EYF for English, GB or UK departments. Adjustments will be taken into account in EYF entitlements annually each summer. The first year of such adjustments will be in determining the EYF entitlement for 2002-03. (Detailed discussions are being held on the EYF adjustments for the devolved countries, since the aggregates forecast and monitored cover also the Secretary of State's own expenditure). Staff who provide the routine forecast data will be advised of their absolute and relative position each month.

8. It is important to note that departments who are not required to provide monthly forecasts nonetheless are required, as set out in Government Accounting, to report any CHAPS payments in excess of £10 million. Since non reporting of these flows adds to DMO costs, it is important that departments let us know, otherwise it may be necessary to pass on costs to the relevant departments.

## **Application**

9. A list of the 19 large departments Estimates which will participate fully in the scheme is attached at [Annex A](#), together with a description of reporting requirements. A list of the Estimates in the scheme for Supply requisition purposes only is attached at [Annex B](#), along with a note of the relevant reporting requirements for requisitioning Supply each month.

10. Although Supply will be issued to all departments on the first day of each month, in line with departments' forecasts, where this proves insufficient to meet net spending needs it can be topped-up on request. This of course is subject to the provision ceiling authorised by Parliament.

11. Top up of Supply is *not* subject to charges, though of course for the large departments, spending forecast errors which necessitated it would be.

12. Should any departments with gross spending flows less than the £3 billion threshold wish to join the larger departments in the cashflow forecasting scheme, we will be happy to discuss the details with them. However, on joining, they would be come subject to the charging/rebating regime.

13. The 19 Estimates includes 4 pensions Estimates which are outside DEL. Application of rebates and charges would be to the EYF of the parent managing department. In practice, in two cases the pensions element is already merged with the departmental Estimate for forecasting purposes.

### **EC Receipts**

14. A volatile flow can arise in respect of EC receipts. In a number of cases these are more like financing flows, than operational receipts. We do not expect to levy charges in respect of errors in forecast EC receipts paid to departments which are issued from the EC account at the Paymaster General's Office.

15. Similarly, where these receipts are passed on to other departments we propose treating them as financing flows rather than spending/receipt flows which are subject to charging/rebating on forecast errors.

16. Payments financed by EC receipts which leave accounts at OPG will be treated as normal spending transactions, and subject to the full scheme.

17. Departments who believe they have EC receipt transactions which should be excluded from the scheme are invited to discuss the details with the Cash Management Team in EFA (contact details at the end).

### **Review**

18. The structure of the scheme will be kept under review. Changes in fund transfer facilities may have an important impact. For example, if a BACS same day service were to be introduced we would probably have to treat that in the same way as CHAPS flows.

### **Contacts for further information**

19. Points on the detailed application of the scheme, on the detailing reporting and formats, and on EC receipts should be raised with [Janet Guest](#) on 020 7270 1613, or [Lorraine Harwood-Stamper](#) on 020 7270 1599.

20. Questions on the general workings of the EYF scheme should be referred to your regular Spending Team contact or [George Martin](#), GEP, 020 7270 5528.

### **General**

21. Electronic versions of PES Papers issued this year, including this one, may be found at: [www.hm-treasury.gsi.gov.uk/psd/pespaper/pespaper.htm](http://www.hm-treasury.gsi.gov.uk/psd/pespaper/pespaper.htm). Information on PES Papers can be obtained by telephoning the PES Secretariat on 020 7270 5525.

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