**A framework for Financial Planning**

This paper examines the practical stages involved in developing and executing a financial plan. This would be done by a Cash Management Unit (CMU) composed of representatives of the major departments of the Ministry of Finance (Treasury, Budget Controller’s Office etc.), as well as those from the Central Bank, the revenue collecting agencies, and any other concerned ministries or government agencies.

**Stage One: Preparation of the financial plan**

***Establish the information base***

The starting point is the annual projections of the budget, broken down by quarterly plans, with monthly projections for at least the first two quarters. CMU would obtain the necessary data from various entities:

* The latest cash position of receipts and outlays obtained from the GOLFIS accounting system or from other reports. These would be reconciled with the opening and closing stocks of all government bank accounts held in the Central Bank and any commercial banks.
* The forecast of all receipts into the government main account obtained from the revenue-collecting department and for foreign inflows, the Public Debt Office (of the MOF).
* The forecast of cash needs of spending ministries—broken down by salaries and major groups of non-salary current outlays, and capital spending.
* External financing and domestic borrowing—mainly new treasury bills, rollovers of existing treasury bills, and planned changes in the balances of government deposits—consistent with the annual budget, from the Debt Department (of MOF), in collaboration with the Central Bank and FAPU

***Consolidate cash flow forecasts***

On the basis of this information, the CMU would calculate total projected inflows into, and outflows, from the all government accounts (centralized in the proposed single treasury account). If a deficit is revealed, the Treasury would explore the financing options, in cooperation with the Central Bank, taking into account not only timing and cost considerations, but also their consistency with monetary policy objectives. On the basis of this analysis, the CMU would then prepare proposals for global spending limits on payments for the planning period.

Financial plans would be drawn up monthly and projected for the following two months on a rolling three-month basis. In countries with sophisticated computer systems, daily and weekly forecasts of inflows and outflows into the main government account are prepared. These forecasts help improve the programming of government borrowing operations. Financial planning should cover the whole budget period; for the last quarter of the year, the planning horizon should cover at least the first quarter of the following year, to provide a smooth transition between the two budgets.

**Stage Two: Execution and monitoring of the financial plan**

On the basis of consultations with the Central Bank and relevant divisions of the MOF, the CMU would prepare a plan for the allocation of the global limits among spending ministries, for approval by the MOF. The approved spending limits would be officially communicated to the spending ministries, and allocated by the latter among the cost centers under their respective control. The CMU would then monitor the execution of the plan through GOLFIS data. The Debt Department (of MOF) would be responsible for external and domestic debt monitoring.

**Stage Three: Reviewing and updating of the financial plan**

At the end of each month, the financial plan would be reviewed by the CMU, and future months updated. At this point it would be important to carefully analyze any deviation between actual and projected inflows and outflows, assessing the likelihood of their recurrence, and taking any necessary remedial measures. In addition, any relevant new information, including that on macroeconomic developments, would need to be incorporated in the revised plan.

If, for example, the estimated monthly receipts were far below that indicated in the financial plan, the rolling forecast for the future months would be adjusted downwards. As a consequence, expenditure warrants issued to ministries would also be correspondingly reduced. Spending ministries should be advised of the revised forecasts for the following months so they can adjust their future spending plans accordingly. The same process would be followed each month.

Table 1 provides a sample framework for constructing such a plan, based on projections of major inflows and outflows. It is useful to highlight some desirable features of the financial planning process, namely:

**The comprehensiveness of financial planning.** It is stressed that the programming of inflows must include not only budgetary receipts, but also all other inflows of cash resources. Apart from total taxes and nontax revenues, the proceeds of external and internal borrowing and grants should be included, and outflows arising from financing operations should similarly be included. In this context, there would need to ensure that debt and grant data are comprehensive and timely.

**The sensitivity of financial plans to macroeconomic parameters**. The cash flow projections should be capable of accommodating all significant changes observed in critical macroeconomic parameters, such as inflation, the exchange rate, and interest rates. It will be important for the CMU to liaise closely with those preparing the macroeconomic framework. In this way, the necessary adjustments can be made to local currency requirements in respect of foreign payments.

**The degree of disaggregation**. There is no need to show every item in the financial plan, which should aim at facilitating analysis and policy decisions on resource use. But there is a trade-off: for estimation purposes, the greater the degree of detail, the more accurate the estimates are likely to be.

**Close examination of government bank accounts**. In Lesotho, at present, there is a multiplicity of government bank accounts. It is essential to examine carefully the opening monthly balances, the movements into and out of, and the closing monthly balances, of *all* government bank accounts, whether held centrally at the Central Bank or in commercial banks.

**Coordination with other aspects of the budget process.** It is important that financial planning be used as a major tool of budget management. For this to be achieved there must be mechanisms for ensuring feedback from the spending ministries.

One approach would be for the MOF to hold quarterly reviews of budget execution with spending ministries. These reviews would aim to improve dialogue between the MOF and the spending ministries, and help encourage spending ministries to maintain up-to-date and accurate Vote books (commitment and expenditure ledgers).

Such meetings would:

* Review the spending ministries’ budget execution, paying special attention to quarterly commitments and warrants.
* Assess the revenue raised, note when it was deposited in the main treasury account at the Central Bank (or any transit accounts), and investigate why revenues may have been inadequate.
* Examine spending ministries’ ledgers and explain any differences between them and accounting data maintained by GOLFIS in the Treasury.
* Check the establishment register (UNIQUE) of the spending ministries with GOLFIS records in treasury.
* Brief the spending ministry staff on the budget outlook, particularly on the possible revisions (both adverse and positive) to monthly funding in following months.

**Table 1. A Framework for financial planning**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item:** | **Month 1** | **Month 2** | **Month 3** | **Quarter 1** | **Month 4** | **Month 5** | **Month 6** | **Quarter 2** |
|  | **Proj** | **Act.** | **Proj** | **Act.** | **Proj** | **Act** | **Proj** | **Act.** | **Proj** | **Act.** | **Proj** | **Act.** | **Proj** | **Act.** | **Proj** | **Act.** |
| **A. Inflows** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **1. Tax revenue** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.1. Customs and excises |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.2. Income taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.3. Sales tax |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.4. Oil levy |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1.5. Other taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **2. Nontax revenue** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.1 Interest and dividends  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.2 Fees and charges |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.3 Fines and forfeitures |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.4 ...... |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **3. Capital revenue** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **4. Extrabudgetary revenue** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **4. External financing** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4.1 Grants |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4.4 Loans |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **5. Domestic financing** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5.1 Treasury bill issues |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5.2 Other ..... |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**1/ Proj = Projection; Act = Actual**

Table 1. (continued). A Framework for financial planning

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item:** | **Month 1** | **Month 2** | **Month 3** | **Quarter 1** | **Month 4** | **Month 5** | **Month 6** | **Quarter 2** |
|  | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** | **Proj** | **Act** |
| **B. Outflows** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **6. Current expenditure****(excluding interest)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6.1. Salaries |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6.2 Goods and Services |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6.2.1. ..... |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6.3 Transfers etc.  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **7. Capital expenditures** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7.1 Domestically-financed |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7.2 Externally-financed |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **7. Extrabudgetary expenditures** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **8. Debt servicing** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8.1 External  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8.1.1. Amortization  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8.1.2. Interest |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8.2 Domestic |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **8.2.1 Amortization** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **8.2.2 Interest** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. Other outlays |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **10. Change in net domestic credit to government= changes in the net balances of government accounts in the banking system (= A – B)**  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |