

## **THE IMPORTANCE OF CASH MANAGEMENT IN LOCAL GOVERNMENT**

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### **Abstract**

*Cash management includes all activities that a local government operates for maximum availability of money and the optimal rate in investment in securities, within the framework of laws and procedures. Financial planning is an important part of program management. Each local government receives money for services and functions exactly here starts the concept of management of money. It ends when the money distributed to creditors. The objective of cash management is to ensure the availability of sufficient funds to meet the needs of government with a minimum cost, including the potential costs of not investing free government money. The aim of this study is to understand that financial planning should be an integral part of the overall process of the state budget. Without a plan the state treasury a manager cannot create a long-term vision for the timely realization of receipts and payments in this way cannot effectively provide money or investment requirements for their optimum.*

*Keywords: Cash Management, Financial Planning, Budget Transfers, Money, Local Government, Albania, Plan*

## **INTRODUCTION**

### **Financial Planning**

In many states a financial plan presented to Parliament as part of the budget document or the monetary program. In addition during the year by the Treasury prepares a financial plan 4 - month (monthly) which is constantly updated and serves as the basis for execution in front of the approved budget (Ishrat Husain 1990). Financial planning is a forecast of cash inflows and use for a certain period of time. Typically, the forecast includes a year and is divided into miniparashikime for a month or week. It carries a cash balance what is specifically (Hans J. Blommestein and Eva C.Thunhoml 1997):

It answers the question of how much money is available to buy securities, when available money and for how long. It identifies moments of lack of money seeking short-term financing. It provides liquidity through a preliminary assessment of money Available for use It improves cash management practices and reduce short-term borrowing costs

Financial planning budgeting = Cash = Cash Plan A cash budget should be based on the financial information provided statements of income and expenditure and capital investment and procurement function. Budget revenue and expenditure contains estimates on revenues and expenses on an annual basis (Montserrat in V. Sundararajan Peter Dattels and Hans J. Blommstein 1997). Capital investment budget represents a list of projects to be undertaken in the near future including major capital expenditure for construction, purchase of land and equipment (Ishrat Husain 1990). If these capital investments are financed with debt, then you should consider a charge for debt service. Regarding the procurement function, it is easier to plan if this function is organized in a special department and not part of the activity of some departments.

### **Prepare Cash Budget**

The general principle is to be assessed in order conservative and liberal entrances uses. It is better to end up with extra money to invest than to be forced to sell securities in order to avoid lack of liquidity.

### **Creating Cash Flow Plan**

Forecasts for inputs and distributions are summarized in a format condition caktuar. Për monthly calculated by subtracting net cash provided by inflows exits. This value is added to the initial situation thus creating the cash forecast's status for the month. The initial condition is important because it shows the starting point of the process. The process continues for each month in the same way (Hans J. Blommestein and Eva C.Thunhoml 1997). To create a sense of liquidity and

the money's availability, the forecast should be considered and maturities of existing securities worth. This provides a basis for the evaluation of the available amount to cover various payments and to purchase other valuable papers (Montserrat in V. Sundararajan Peter Dattels and Hans J. Blommstein 1997).

### **Application of Budget Money**

The final condition of the money's for each month shown in a graphic. A quick glance to the graph provides a range of information: how much can be invested in different months of the year, how long they can stand this very block and when to maturing securities or sold to obtain money for various expenses operational. Also illustrates how money's forecast may help to plan purchases of securities during the year so that surplus funds be invested with maturity longer possible (Ishrat Husain 1990). This forecast serves as a warning for lack of money in moments. If accumulated condition reaches a negative value is a signal for the need of short-term borrowings (Montserrat in V. Sundararajan Peter Dattels and Hans J. Blommstein 1997). The manager's job is such that to borrow money at the minimum and at minimal cost.

### **The Functioning of Financial Planning in Albania**

Albania does not implement a systematic and analytical financial planning, as conceived in general in market economies, nor the Treasury nor any other director in the Ministry of Finance. Some elements are offline dealing with financial planning, such as Disbursements two months of funds during the year and the determination of the amount of domestic debt in the form of treasury bills, currently implemented in a way not standardized by the Department of Debt and Directory budget. The shortcomings that exist in this area related to the government deposit account (single treasury account) appear often with negative surplus.

In other cases it is that the Department of the Ministry of Finance Debt represents payment orders to the Bank of Albania for external debt service as the situation in the Treasury account is insufficient to buy the currency needed to cope with the respective obligations. In these conditions, the Bank of Albania not want to create problems for the service of this debt is obliged to cover this lack of means with "direct loan" imposed. This practice clearly shows that the Ministry of Finance has no complete control and continuous cash flows in the government account. In terms of Albania, where there is no financial planning system, its creation requires the following procedures and steps below.

Table 1: Financial planning steps in Albania

Assignments	Responsible institutions
Step 1. Setting up the system Determination of the model and frequency of financial planning Determination of information channels	Treasury Treasury
Step 2 Preparation of financial plan Agencies releasing information according to the specifications Calculation of total revenues and expenditures Discussion of possibilities for adjustments in the different voices that make up the financial Preparation of financial plan Define limiteve4 month for commitments and payments	Treasury, budget, debt, taxes and customs, and ministries BQ Treasury Treasury, Budget, Taxation and Customs, BQ Treasury Treasury
Step 3. Implementation and monitoring of the financial plan Informing the ministries for the respective limits of commitments and payments Tracking receipts and payments Management, in cooperation with the Bank of Albania, the funding deficit by adopting the financial plan	Treasury Treasury Treasury, Debt, BQ
Step 4. Updating of financial plan Analysis and causes of deviations from the plan Recommendation of the necessary corrective steps	Treasury Treasury, budget, tax and customs, BQ

### Techniques of Collecting Money

Local governments receive income from several sources, various local taxes, selling or renting property to municipalities, etc. Profits from contributing organizations. In some cases if este set a short-term lending program, the local government can take money from a local bank in order to meet short-term needs. Despite the first objective source of cash management during the collection of money income is taken to the bank as soon as possible, accelerate the collection of taxes. It can be used the following techniques (Montserrat in V. Sundararajan Peter Dattels and Hans J. Blommstein 1997).

### Billing for Services

Cities provide services directly to the public as the management services or nursing home. Billing practices must be the same as for a private or business requiring immediate payment for services rendered. To encourage immediate payment for services rendered on an ongoing basis should establish a procedure was sending invoices immediately, we determined Interval.

### **Blocks Coupon Payments**

One of the ways they use American cities to improve billing in the case of recurring payments is the use of vouchers. Each client is given a book of vouchers for one year (eg a coupon for each month) So for every month has a ticket with the customer's name and account number, the date of payment and the amount to be paid. Each month the client timed coupon from the book for the respective month and sends it to the municipality for the amount paid. The costs reduced and only once delivery of these vouchers instead of printing the bills sent to each months. In cases other taxpayers were sent to contracts in which payments are made each month. This method also results in multiple savings while monthly bills were not sent to taxpayers.

### **Billing Cyclic**

US local governments also use this method quite under which local government service sends invoices part of the community in the first week of the month and other parts of the third week. This is an effective way with the terms of use personnel.

### **Private Contractors**

Use of a private contractor could improve the process of centralized billing revenue by reducing the responsibility for keeping various documents accompanying cost of purchase equipment. Furthermore if using a standard format, citizens recognize and react to it. Several studies show that if invoices are constant frequency and customers is more likely to respond.

In sum, immediate and frequent billing is an important part of the process of revenue collection. The client must be informed immediately (within 7 days) after it was performed a service and payment must a certain date (eg fourteen days after the invoice date). Fast bill, over time reduces the likelihood that citizens. Billing continuous change ensures that citizens not forget obligation etc. If the government paid interrupts service when bill do not encourages immediate payments.

### **Collection and Disposal Techniques Cash**

While the money is collected, the finance manager has two important responsibilities: First, responsibility for cash-in that he could jet available and controllable. Secondly file it soon in city bank accounts in order to be available for investment in securities. The aim is to increase the amount of cash in investment by accelerating deposition in local government bank accounts.

They should be identified and analyzed the collection and disposal procedures for accelerated storage of invoices. Several major local governments that have significant billing and collection activities income mean pay by check using specialized services as services "lock

box" to accelerate the process of revenue collection of the government's bank account. Local governments smaller that do not have large revenues can still benefit by using other deposition techniques.

### **Lock Services Box- Postal Services**

For local governments in countries with a system of stable control can be used as a "lock box service" A service "lock box" is a service meeting the banking income, which uses a mailbox special and long hours of operation to improve movement of checks. Local government sends bills to its customers using a statement standardized and coded, where inside there is an empty envelope ready to address local government account where the customer can make payment in return.

Clients send their payments to a particular mailbox. Box checked several times a day and envelopes sent to a second link that analyzes and documents. Cheques and audited statements in a computerized marking the magnetic stripe information and submits the relevant checks bank account. Magnetic tape of daily transactions and original statements sent to the local government to update the records of payments.

Other techniques of collecting revenue. below are some techniques used by many local government to accelerate Meetings.

Reducing payments from different caches assigning responsibility for balancing the amount of cash that a person who uses coffers delivered. The transfer of advances from foreign agencies that collect revenue on the date of expiry of the deadlines.

Review the terms of payments in respect of other taxes and fees in order to be implemented earlier during the budget year. Modification of terms and billing procedures to collect revenues faster and more frequently, and giving priority to very large payments to accelerate deposition.

### **Deposition Techniques**

After being checked and accelerate billing and collection should also accelerate the creation of the bank deposits. Cash should be deposited in the bank before the investment and to create interest (Kamath, R. 1989).

It can be used the following techniques to accelerate the availability of cash:

- ✓ Bills every day must be deposited each day complete and regularly
- ✓ Deposit of cash should be made in as little bank account that possible

Most of the deposit must be modified so that cash be available to make possible the purchase of securities every day. Immediate sending bank bills with great value. Transfer of funds

between accounts electronically. Organization in such a way that the deposits be credited on the day of deposit. With the application of these techniques finance manager can achieve one of the primary objectives of the management of cash, to pour cash in the bank account as soon as possible (Ferre Montserrat Carradeco and Peter Dattels 1997).

### **Techniques Disbursement**

The aim of the cash disbursement techniques is that payment be left pending until the last, to be paid on a timely basis and to maximize the return on money invested. Leaving the payment for the last possible moment increases the amount of money available for the purchase of securities and consequently the interests of these investments. To achieve this purpose should be used several techniques (Kirkby, D. 1993).

In many local governments as outflows of money in cash and committed bank transfer. The effect is immediate reduction of bank account surplus and the elimination of lost time of up distribution (Ferre Montserrat Carradeco and Peter Dattels 1997). It is about the time it takes a check to the local government, as was granted to carry out the extraction of money from the bank account relevant. For municipalities in the US that means one or two days more for the money stay in the account earning interest.

To achieve the purpose of distribution to be understood general distribution structures currently in place.

### **Delivery Methods**

Usually there are four ways of payment: Payment in cash, wire transfers, bank transfers and checks within commercial banks. These techniques have several common techniques: allow the local government to dispose of the money until the last moment, reducing the surplus of local government bank account (Kirkby, D. 1993) immediately and eliminate any blockage that can cause system skim.

### **Payment in Cash**

Under this method provided funds to pay employees or suppliers without bank accounts. Local government prepares a "payment order" bank authorizing him to carry out payment in cash to the person designated. The person to receive the payment shall submit the order for payment at the bank. Bank usually performs ultimate control by controlling the current account surplus government (Montserrat Ferre Carradeco and Peter Dattels 1997). "Order for payment" may not be as immediate and as the holder must personally present it to the bank. This can happen on the same day or the day after.

## **Wire Transfers**

According to this technique moved funds between banks electronically. Funds move almost immediately, so that payments can take place and the very last minute. Local governments use bank transfers to transfer a payment for debt repayment in the lending banks, the relevant dates (Adedeji, A., & Staplaton, RC 1996). Movement of money at the last moment gives the opportunity to stay for more money as deposit and consequently earn more interest.

## **Transfers within the Bank**

Moved funds through the accounts of local government or for the account of other banks based on "Order for payment" A local government use bank transfer to move funds between bank accounts to pay employees, suppliers or other government agencies (Carszlaw, CA ,& Mills, JR 1991).

## **CONCLUSIONS AND RECOMMENDATIONS**

Establish a program management; the money can be very-profit for a local government. A local government must adopt cash management policies to improve sustainability, to follow up on laws and setting goals through whose performance can be assessed.

The primary objective of cash management is to collect the money as soon as possible; manager of finance needs to use different techniques, billing, collecting, and storage.

Annual targets should be set so that the program can be estimated. Objectives should be realistic, measurable, and understandable by those participating in the program and those who would control. Should set targets in relation to the availability of money, the rate of return, total interest and efficiency program

Albania currently does not apply a systematic financial planning and analytical, as conceived in general market economies, nor the Treasury nor any other director in the Ministry of Finance. Some elements disconnected dealing with financial planning, such as Disbursements two months of funds during the year and the determination of the amount of domestic debt in the form of treasury bills, currently applied in a non standardized by the Department of Debt and Directory budget.

Gaps that do exist in this area that the government's deposit account (single treasury account) emerge often with negative surplus. Suggested implementation of a comprehensive financial planning as a means of optimum investment of excess funds.

Finance manager must submit periodic reports to the higher supervisory bodies. In cash management program and investment in securities should be included evaluation of



performance that shows how successful has been the program and to help finance manager to set goals in the future and for modified program.

Further studies that may be conducted in the same research area are in public finance in order to the government to implement the right policies.

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