

BUDGETING IN THE PUBLIC SECTOR

Medium Term Expenditure Framework

CPA Dr. Mumo Muinde

Session Objectives



- □Introduction & rationale
- □Elements of MTEF

□ABC –rationale & practical application

Presentation outline



- □ Introduction
- □ Rationale
- □Elements/steps in MTEF
- □ Activity Based Costing

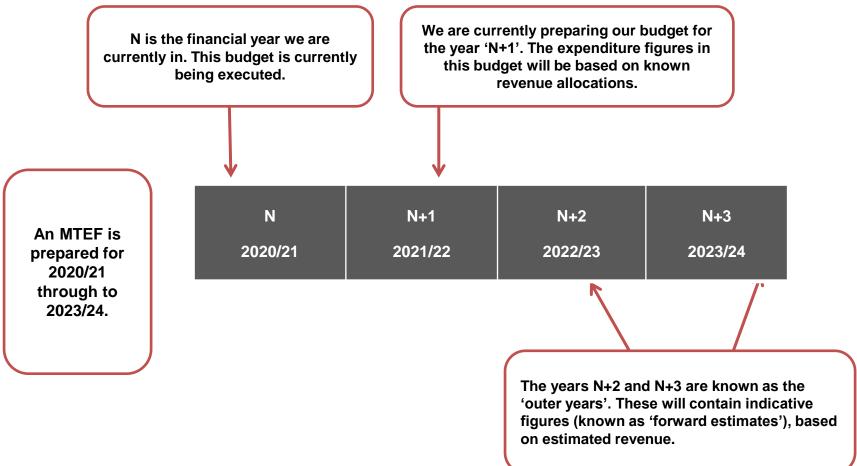
Introduction



- □MTEF budget is a 3 year rolling revenue and expenditure budget plans
- ☐ The concept of the "three year rolling " timeline consists of:
 - The current budget year (N) current year budget under implementation;
 - The next budget year (N+1) the target period of the current budget process; and
 - The following two outer years (N + 2) and (N+3) these are estimates of the likely expenditures beyond the next budget year

Sample MTEF





Future Estimates



- ☐ The N+2 and N+3 are forward estimate of likely expenditure
- ☐ The expenditures are based on the programmes arising from intended policy outcomes
- □Includes multi-year programmes that are spread from previous years and the next budget
- ☐ They are adjusted for inflation because of time horizon
- □ Due to uncertainty the estimates are likely to change

Rationale for MTEF



- □Link the annual budget to the long term development policies, objectives and plans
- ☐ Improve macro-economic growth targets by developing consistent and realistic resource envelopes
- ☐ Improve the allocation of resources to agreed strategic priorities between and within sectors
- ☐Generate commitment of MDAs to increase predictability in resource allocations
- ☐ Incentive for more effective and efficient utilization of resources

Key principles: MTEF



- **□** Achieve Fiscal discipline
 - availability of resources drives the expenditure decisions
 - Resource allocation is efficient, effective and equitable
- □ Achieve allocative efficiency -resources allocated to agreed priorities
- □Achieve predictability -through development of consistent and realistic resource estimation, projection, collection and disbursement

MTEF Institutions



□ Macro working Groups

- Membership from macro policy makers & think-tanks
- estimates the resource envelop & provide preliminary ceilings
- •prepares draft Budget Policy Statement (BPS)/ County Fiscal Strategy Paper (C-FSP)

☐ Sector working groups

- Clusters agencies based on classifications of Functions of Government (COFOG)
- Co-conveners is planning & treasury
- Provides a forum for dialogue & negotiation for resource allocation
- Reviews sector priorities, cost analysis & reports

MTEF vs Budget performance



- ☐ The MTEF provides the framework to integrate medium term plan targets & expenditure projections into the budget
- □Interfacing with the PBB, planned activities are prorated for the 3 year period on a rolling basis until the program/project activities are completed
- ☐ The performance targets (outcomes & outputs) for each program constitute the preliminary information in the MTEF budgets
- ☐ The budgetary requests and allocation are justified by the proposed results & are the subject of negotiations at the sector forums

MTEF vs Activity Costing



□MTEF budgets break programs into sub-programs/projects and their activities for budgeting and implementation ☐ The cost allocation under MTEF is done at the activity levels ☐ Finance/budget officers indentify the resource requirements for each activity and provide their costs ☐ The sum total for the inputs for each activity becomes the activity cost ☐Since activities produce outputs, the activity cost becomes also the output cost

MTEF vs Activity Costing



- □Under program design, activities service the same objective are grouped together and thus their outputs combined give the desired outcome
 □Therefore, the output costs contributing to the same outcome provide the outcome cost
 □The program goal is achieved through the achievement of the sub-program/project outcomes. Thus sum total of the program outcomes provide the program costs
 □The sum total for the program costs provides the program budget
- □In the activity costing process, risk factors and external effects like inflation are factored within the MTEF expenditure projections

Conclusion



- ☐ Kenya transitioned fully into MTEF Program Based Budgets in the fiscal year 2015/16
- ☐ The MTEF program budgets integrates planned activities and targets into the budget process to justify resource requests
- ☐ The MTEF institutions provides the platform for priority setting and performance reviews
- ☐ Activity Based Costing (ABC) becomes the primary method of allocating costs under MTEF based budgets

Finally.....







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