



# **BUDGETING IN THE PUBLIC SECTOR**

## **Medium Term Expenditure Framework**

**CPA Dr. Mumo Muinde**

# Session Objectives



- ☐ Introduction & rationale
- ☐ Elements of MTEF
- ☐ ABC –rationale & practical application

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# Presentation outline



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

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# 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

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# Sample MTEF



N is the financial year we are currently in. This budget is currently being executed.

We are currently preparing our budget for the year 'N+1'. The expenditure figures in this budget will be based on known revenue allocations.

An MTEF is prepared for 2020/21 through to 2023/24.

N	N+1	N+2	N+3
2020/21	2021/22	2022/23	2023/24

The years N+2 and N+3 are known as the 'outer years'. These will contain indicative figures (known as 'forward estimates'), based on estimated revenue.

# 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

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# 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

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# 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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