

## IPSAS & PFM WORKSHOP

Introduction to PFM-Effective planning and budgeting for public sector.

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Date: Thursday,10th March 2021.

# Presentation agenda



1. What is PFM?
  2. Overview of PFM cycle
  3. Government and the economy
  4. Funding public services
  5. Budgeting
  6. Revenue management
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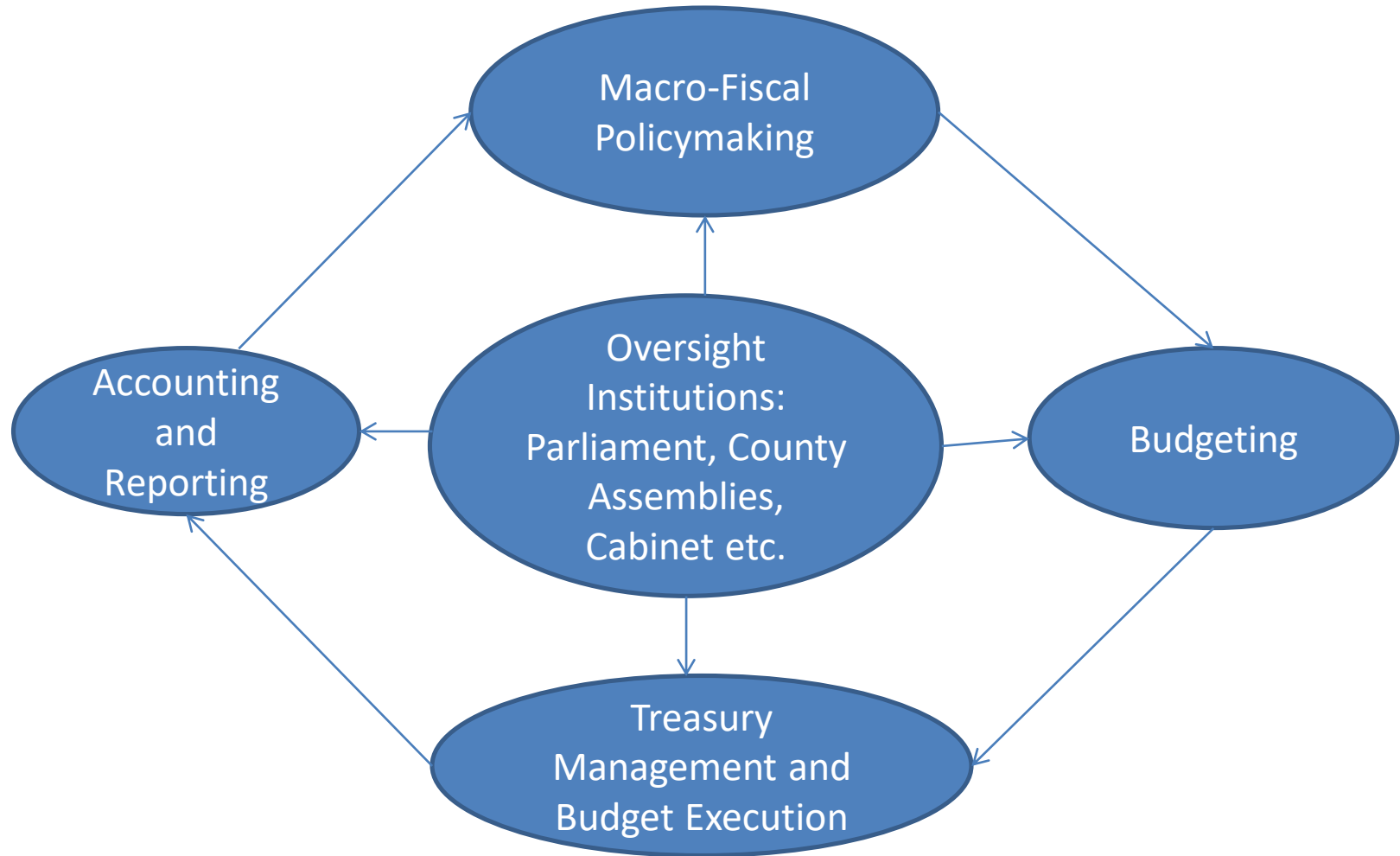
# 1.What is PFM?

- ❑ PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilise revenue, allocate **public** funds, undertake **public** spending, account for funds and audit results.

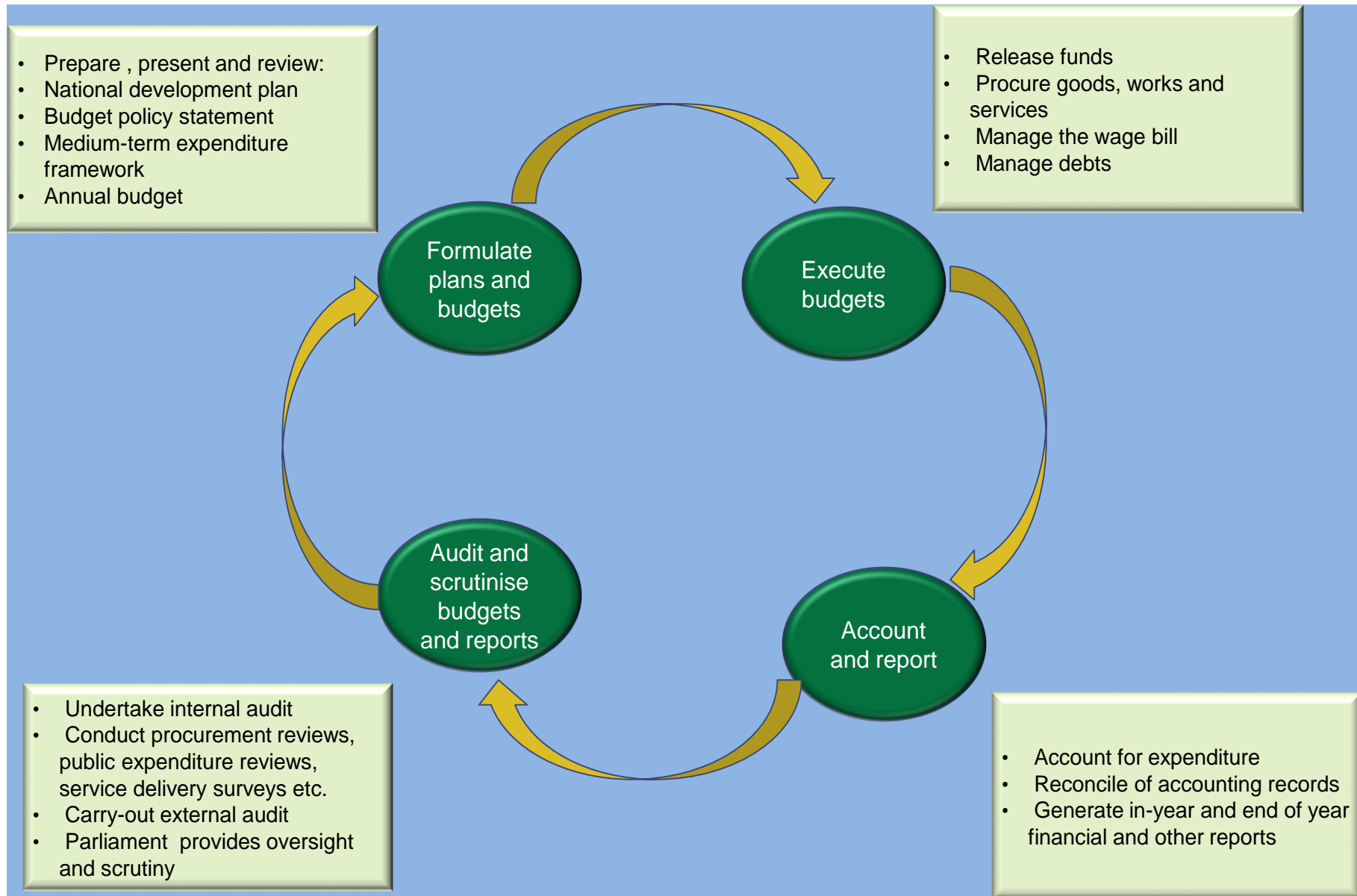
# What is PFM?

- ❑ In kenya-PFM is governed by the PFM Act 2012 and the related regulations.

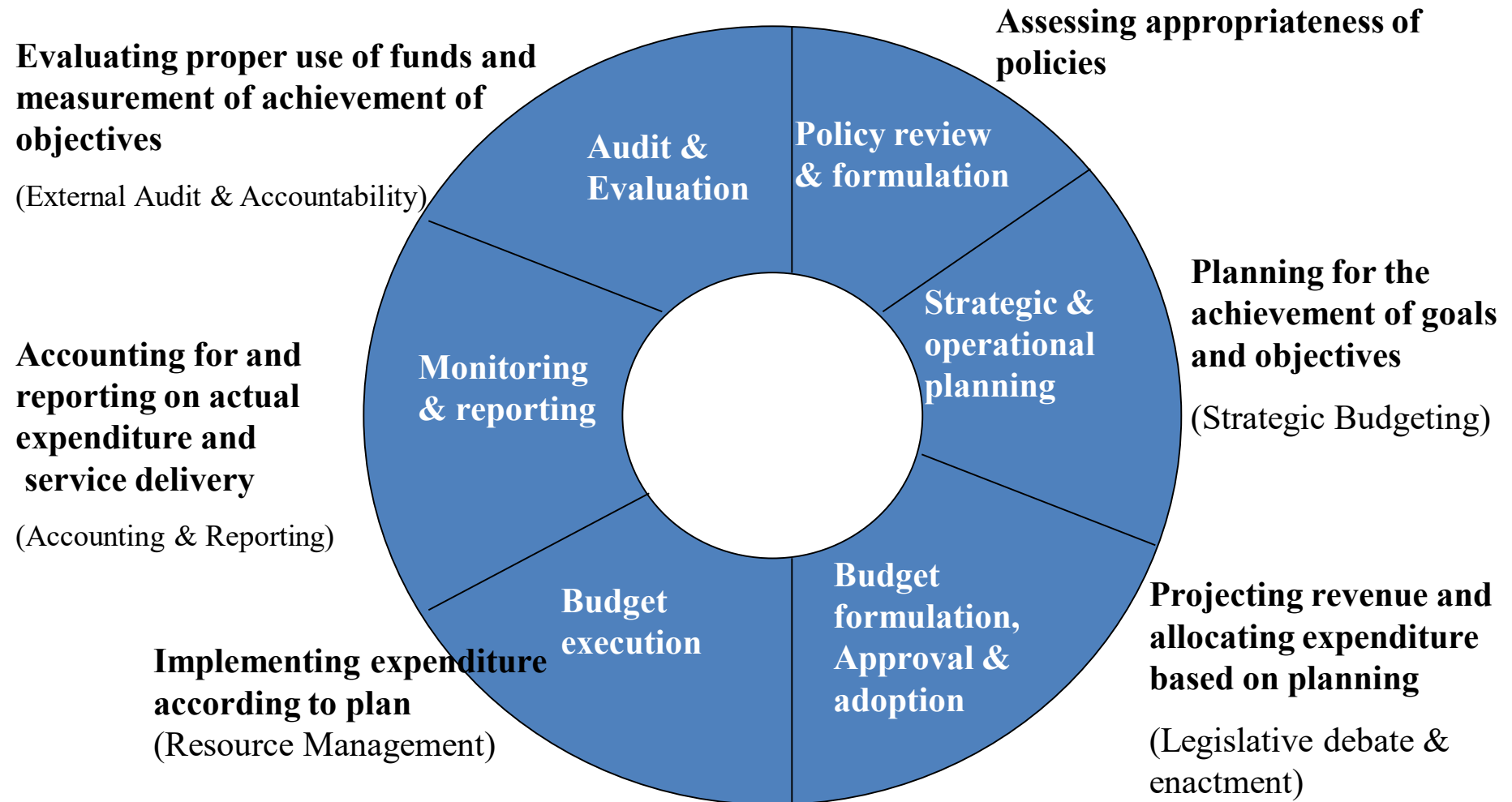
# CORE AREAS COVERED BY THE PFM ACT, 2012



# 2. Overview of PFM cycle



# Conceptual Overview of PFM Processes



# 3. Government and the economy

## **Role of government in managing the economy**

- ☐ Provides the legal and social framework within which the economy operates.
- ☐ Maintains competition in the marketplace.
- ☐ Provides public goods and services.
- ☐ Redistributes income.
- ☐ Corrects externalities, and
- ☐ Takes certain actions to stabilize the economy.



# 4.Funding public services-Discussion

- ❑ The pandemic has led to a significant fiscal financing gap as revenue collections drops and expenditure pressures increase. Revenue collection is declining partly due to a slump in economic activity but also due to fiscal measures taken to provide tax relief for the most vulnerable households and to support liquidity among businesses.
- ❑ At the same time, the government has stepped up spending to strengthen the capacity of its healthcare system to cope with COVID-19 infections and to contain the spread of the epidemic.
- ❑ Overall, this has resulted in a large financing gap, estimated at about 1.5 percent of GDP in FY2019/20, and public debt has increased to about 63.2 percent of GDP (from about 62.1 percent of GDP in FY2018/19).
- ❑ As the crisis abates and over the medium-term, the government will need to resume its fiscal consolidation effort to maintain sustainability, crowd-in private sector-led growth, and rebuild fiscal buffers.
- ❑ These efforts can be supported by further expenditure efficiency measures identified by this PER, complemented by additional revenue mobilization and strengthened debt management.

*Ref: world bank public expenditure review 2020.*

## 4.Funding public services-Discussion

- ❑ Section 220 of the constitution of Kenya 2010- requires that budgets of National and County governments should differentiate between recurrent and development expenditure.
- ❑ The PFM Act 2012-defines recurrent expenditure-Expenditure that is incurred in operating the services provided by the governments at National and County level.
- ❑ The PFM Act 2012-defines development expenditure-Expenditure incurred for the creation or renewal of assets.

# 4.Funding public services-

## Discussion

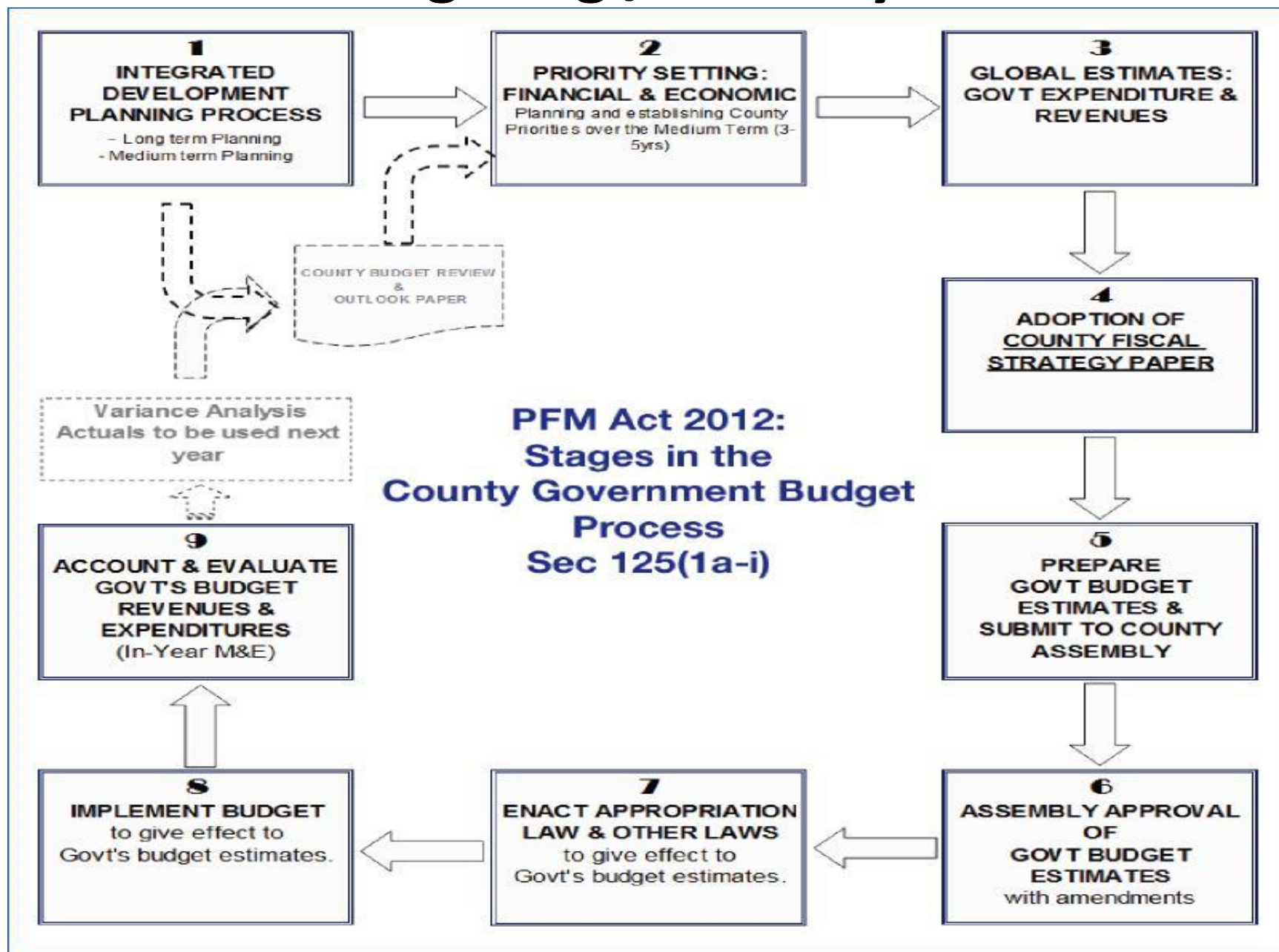
- ❑ Further section 15 (2) of the PFM Act 2012 requires that the national treasury enforce fiscal discipline at both levels.
- ✓ Thirty percent of the national and county government's budget shall be allocated to the development expenditure.
- ✓ Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- ✓ Grants be used only to finance programmes within the integrated development plan in other words only for development purposes.

# 4.Funding public services-

## Discussion

- ✓ Budgets to be presented by vote, programme, clearly identifying both recurrent and development expenditures
- ❑ Financial regulations further clarifies-No reallocation from development to recurrent e.g. reallocation from non wage to wage.
- ❑ where the Constitution or an Act of Parliament provides for some specific categories of expenditure to be a direct charge on the Consolidated Fund, such expenditures shall be included in the recurrent budget estimates of the national government as part of the Consolidated Fund Services.

# 5. Budgeting /MTEF cycle



## 6.Revenue management

County Governments have four main sources of Revenue.

- Exchequer releases
- Funds from development partners
- Own generated revenues and
- Borrowings.

# 6.Revenue management

## **Own generated revenues**

Counties' own revenues are generated from rates and other charges

For all these fees and non-tax revenues, there is need to institutionalise four elements to enable efficient and effective administration.

1. Identification/registration
2. Billing/filing
3. Declaration and
4. Payment/performance

## 6.Revenue management

The above elements are underpinned by the following good practices.

1. Processes and procedures are fair and transparent, and widely disseminated.
2. Billing and collection procedures are robust.
3. County Government encourages compliance
4. County Government has a strong enforcement function.



THANK YOU.

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