



# **BUDGETING IN THE PUBLIC SECTOR**

## **Medium Term Expenditure Framework**

# Session Objectives



- Introduction & rationale
- Elements of MTEF
- MTEF and Performance Measures

# Presentation outline



- ❑ Introduction
- ❑ Rationale
- ❑ Legal Instruments
- ❑ Elements/steps in MTEF
- ❑ MTEF and Performance measures

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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

# 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 2021/22 through to 2024/25.**

<b>N</b> 2021/22	<b>N+1</b> 2022/23	<b>N+2</b> 2023/24	<b>N+3</b> 2024/25
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**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 Legal Instruments



- ❑ While MTEF was introduced in Kenya in around 1999/2000, it lacked legal instruments to enforce its requirements
- ❑ However, it was the culmination of efforts to align planning & budgeting process first attempted under sessional paper No. 1 of 1986
- ❑ It was entrenched in law in 2010 by the Constitution – it is the primary budgeting framework under PFM Act 2012 & PFM regulations 2015

# 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 identify 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 servicing 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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