



Ministry of Finance and Development Planning

Handbook:

Guidelines for Implementing a 'Bottom-Up' MTEF Budget



The Guidelines for Implementing a 'Bottom-Up' MTEF Budget has been produced with the financial support of the Sustainable Development Goals Fund and the technical support of UNICEF.



Table of Contents

| | |
|--|----|
| What is an METF?..... | 4 |
| How is the MTEF budget different from previous year’s budgets?..... | 4 |
| MDA Budget and the Finance Committees | 6 |
| Setting up and managing an MBFC..... | 6 |
| The role of the Accounting Officer in the MBFC..... | 7 |
| Schedule of meetings..... | 7 |
| The role of the MBFC in managing the MTEF and other budget reform..... | 8 |
| Preparing your MDA’s MTEF and BFP..... | 8 |
| Guidelines for preparing your baseline..... | 9 |
| Baseline projections for economic line items..... | 10 |
| BFP Hearings..... | 11 |
| Preparing for BFP hearings..... | 12 |
| Sector Working Group (SWGs)..... | 12 |
| A continual budget cycle..... | 13 |
| Planning, monitoring and evaluating..... | 13 |
| Requirements for implementing an M&E System..... | 14 |

1. What is an MTEF?

1. A medium-term expenditure framework (MTEF) is a three-year budget based on credible revenue and expenditure projections.

2. An MTEF aims to achieve fiscal stability through accurate and realistic medium-term revenue projections and multi-year fiscal targeting to ensure aggregate fiscal discipline, allocative efficiency, and technical efficiency.

3. The Budget Framework Paper (BFP) is the core of the MTEF budget process. The BFP allows you to control and manage your ministry, department, and agency (MDA) budget. Ministry of Finance and Development Planning (MOFDP) Budget Officers will actively support you, building capacity at your MDA, explaining how ceilings are determined and why ceilings change, and helping you budget within your ceiling.

2. How is the MTEF budget different from previous year's budgets?

4. If you have been in the Government of Lesotho for a number of years, you will know that the MOFDP has been trying to implement an MTEF since 2005. It has largely not been successful due to weaknesses in macro-economic projections and a lack of holistic changes in budget procedures.

5. This has led to many MDAs disregarding the MTEF. In addition, unexplained changes in MDA ceilings during budget preparations, allocations to other MDAs that seem unfair, and insufficient support from MOFDP in preparing a budget have eroded confidence in the MTEF budget process in Lesotho.

6. Many MDAs have given the responsibility of budget preparation to their Finance Officer. This has led to budget preparation becoming nothing more than a number crunching exercise. The focus at MDA level has been to reduce expenditure to fit within the ceiling, resulting in arbitrarily cutting budget lines and reallocating funds without considering how this might affect delivery priorities.

7. In the past, MDAs would submit a budget within their ceiling and then use supplementary budgets as a mechanism to gain additional funds. Tighter controls and scrutiny by MOFDP will ensure this practice is no longer allowed and that supplementary budgets can only be used to cover genuine unforeseen expenditure, changes in delivery priorities, and unintended errors in forecasting and/or budget calculations.

Box 1: Key MTEF terminology

| | |
|--|--|
| Top-Down Budgeting | The Cabinet sets spending priorities and expenditure limits, providing the framework for the budget. This is done through the Medium-Term Fiscal Framework and Budget Strategy Paper. MOFDP then translates these Cabinet directives into ceilings, to which spending agencies are required to adhere. |
| Bottom-Up Budgeting | The MTEF allows MDA managers to take full responsibility for their budget. Bottom-up budgeting is based on the devolution of decision-making to MDA managers, provided they adhere to their budget ceilings and their plans are compatible with national priorities and the legal framework. |
| Static plan (e.g. National Strategic Development Plan (NSDP); sector plans) | A static plan is set for a time period and the outcomes are not changed during that period. |
| Rolling Budget | A rolling budget is a budget based on an initial baseline and outer-year projections. Every year the baseline is revised, based on the outturns of the previous year. As the baseline is revised, the outer years are also revised. |
| T-1 | The previous fiscal year, which has concluded. |
| T0 | The current fiscal year. |
| T 1 | The 'next' budget year. |
| T 2 & 3 | The outer years |

3. MDA Budget and the Finance Committees

8. Your Budget and Finance Committee (MBFC) is responsible for all aspects of budgeting and finance for your MDA. This includes preparing plans, preparing budgets, managing revenue and expenditure, and complying with reporting and audit requirements.

9. An effective MBFC will manage their budget strategically, with a focus on meeting current government priorities and ensuring their budget is effective and efficient.

10. MBFCs are based on the principle of ‘let managers manage’. MDA managers are free to allocate and manage their budget, provided it:



Stays within their ceiling;



Complies with all laws and regulations;



Promotes national development priorities; and



Is well managed and effectively implemented and reported on.

4. Setting up and managing an MBFC

11. The MBFC is comprised of:



Accounting Officer;



MOFDP Budget Officer;



Finance unit;



Economic unit;



Planning unit; and



Departmental and programme managers.

5. The role of the Accounting Officer in the MBFC

12. The Accounting Officer is responsible for leading and managing the MBFC. If, at certain times during the year other demands on the Accounting Officer lead to their being unavailable, the Deputy-Accounting Officer can chair the MBFC.

13. In addition to the leadership provided by the Accounting Officer, the MBFC needs a secretariat which will be the responsibility of the Planning Unit. The secretariat is responsible for:



Gaining agreement on a meeting schedule for the year;



Sending out notices calling meetings and coordinating changes in dates if required;



ensuring all members can attend meetings;



Keeping and distributing minutes of meetings and ensuring key decisions are highlighted; and



Ensuring that relevant staff members communicate with MOFDP as and when required.

6. Schedule of meetings

14. The MBFC will meet annually:

- To conduct the MTEF internal review, including a review of expenditure and service delivery achievements (April/ May);
- To prepare the BFP and annual costed workplans (June/July);
- To revise and finalise the MTEF budget submission (November/December); and
- To review the annual financial reports (March/April).

15. This schedule defines the periods in the budget calendar during which the MBFC will meet. Each phase requires more than a single meeting. The responsibilities of the committee are to ensure that all aspects of the budget cycle are managed from a compliance perspective, as well as to ensure that MDA resources are effectively and efficiently managed.

7. The role of the MBFC in managing the MTEF and other budget reform

16. Full implementation of the MTEF will take many years and requires constant evaluation, improvement, and adaption. Additional budget reform initiatives will be introduced in the future. The MBFC will be responsible for managing ongoing budget reform, as well as for the impact of budget shocks at the MDA level.

8. Preparing your MDA's MTEF and BFP

Please refer to the MTEF budget user manual for a comprehensive guide to preparing your BFP.

17. Your BFP is your MTEF document that allows you to make strategic trade-offs within your T1 ceilings and to plan for future years within projected ceilings. Through your BFP, you can explain how you will use available resources to achieve your MDA objectives over the medium term, taking the ongoing cost of policy decisions into account.

18. Your BFP is based on the NSDP, a static five-year plan setting out Lesotho's development agenda. Based on the NSDP, the Cabinet sets annual spending priorities for the upcoming fiscal year that are presented in the Budget Strategy Paper (BSP). The BSP is contextualised by the Medium-term Fiscal Framework, (MTFF) which updates the macro-economic projections to guide MOFDP in setting revenue and expenditure ceilings.

19. MOFDP issues initial ceilings in August. These ceilings will change marginally based on the BFP hearings and the finalisation of macro-economic projections and Cabinet priorities.

20. The final MDA ceilings will be issued in the Budget Estimates and Appropriation Act.

21. Government as a whole and MDAs cannot exceed the T1 ceilings, as they are **'hard ceilings'**. T1 ceilings can only be revised in exceptional circumstances and will require a **Supplementary Appropriation Act** to be passed.

22. T 2 & 3 (outer-year ceilings) are also hard ceilings as they set the uppermost limit of expenditure for those years, based on current economic projections. Due to improved budget systems and procedures at MOFDP, revenue and expenditure projections are now considerably more accurate and reliable. Outer-year ceilings limit the demands placed on available revenue. When revenue outturns are lower than projections, expenditure ceilings are adjusted downwards.

Box 2: Steps in the preparation of an BFP

| | |
|---|--|
| MOFDP provide indicative ceilings in July/ August | This is when MDAs consider their expenditure strategies within the overall ceilings. |
| BFP Hearings | MDA management and MOFDP discuss all aspects of the MDAs MTEF. This may lead to the MDA adjusting their plans and budgets. |
| MDA available resources and indicative resource envelopes | These are the BFP ceiling + own revenue + other funds at its disposal (including donor funds). |
| Efficiency gains and reprioritisation | Efficiency gains can be achieved by: Cutting non-priority activities; Reducing the level of activities or outputs; and Improving efficiency through better use of technology. |

9. Guidelines for preparing your baseline

23. The baseline is a realistic and accurate costing of delivering services within your indicative ceilings and based on current policies.

24. The baseline will only need to be prepared in the first year of your MTEF.

25. The following year, the T2 budget becomes your baseline (i.e. the ‘rolling budget’). Your baseline is adjusted if there are changes in macro-economic projections, new spending proposals, and efficiency gains.

Box 3: Does and don'ts when preparing a baseline

| ✓ | × |
|--|---|
| A baseline is the calculation of the forward cost of services/activities with no changes from the previous year's budget. | A baseline is not your budget submission as it does not include any future policy changes or changes in service volume, activities, or inputs that have not yet been approved or confirmed. |
| A baseline takes into account: Changes in the external environment the MDA does not control, such as price increases on the goods it buys; and Policy commitments already made, but not included in the latest available outturns. | |
| Projections are based on the best available outturn information, usually estimated expenditure for the previous year. | |

10. Baseline projections for economic line items

26. The baseline projections follow different methods for personnel, goods and services, Public Sector Investment Programme (PSIP) and minor capital costs.



Salaries and wages are projected using the current payroll + already approved new posts + all approved changes to basic pay and allowances. Approved gratuities are projected by year and post.



Operational costs/ goods and services use the latest available outturn data, factoring in an inflationary index.



Minor capital outlays are the expected actual forward cost of existing approved and funded projects and expenditure.



Public Sector Investment Programme projects are an accurate calculation of the actual forward cost of existing approved and funded projects and expenditure.

11. BFP Hearings

27. BFP hearings are an opportunity to discuss your plans and budget with MOFDP. If you are well prepared, this is an opportunity to influence your final ceilings.

28. Before attending the BFP hearing, you need to make sure you are aware of the economic factors that will impact on the overall resource envelope and on your ceiling. If the economy is shrinking or stagnant, it is unrealistic to expect an increase in your ceiling.

29. Government services funded by borrowing need to be avoided as this leads to current service delivery being paid for in the future. Continual borrowing for recurrent costs creates a debt trap, as budgets for future years need to accommodate debt servicing and repayment of loans before determining the resource envelope. The difference between borrowing for recurrent costs as opposed to capital costs is that future debt service emanating from borrowing for capital costs can be offset by future economic returns of the capital spending

30. MDAs need a holistic view of the cost of government services and consider the budget requirements of all MDAs. Once Sector Working Groups are fully operational, with sectors planning and budgeting cooperatively, the sharing of resources will be done on a sectoral basis.

31. MOFDP is a technical agency and does not determine the size of the resource envelope and funding priorities. These are determined by the Cabinet, and MOFDP translates Cabinet decisions into workable allocations within the economic constraints of Lesotho.

12. Preparing for BFP hearings

32. A BFP hearing is a platform for cooperation between an MDA and MOFDP. You need to ensure that the officers representing your MDA:

- Are aware of the financial and service delivery records of previous years and can objectively explain their achievements and challenges;
- Can account for areas of underspending and delays in project implementation, and have an accurate understanding of payments that are outstanding (potential roll-overs);
- Are aware of the cost of existing and new policies and their impact on the budget;
- Can provide facts and figures on how savings can be made without reducing the level of service delivery; and
- Have a flexible and realistic approach to new spending proposals.

13. Sector Working Group (SWGs)

33. Each sector will set up an SWG as suits its structure, provided that the SWG includes key decision-makers. SWGs should be chaired on a rotational basis.

34. A SWG's role is to build a broad stakeholder forum to manage all aspects of MTEF budgeting and to provide a forum for dialogue and coordination.

35. SWGs will develop the National Strategic Development Plans for their sector and ensure that sector budgets and actual expenditure over the medium term reflect agreed, shared sector objectives, as well as the agreed sector expenditure priorities needed to achieve these objectives.

36. An SWG is particularly active during the strategic phase of the MTEF budget preparation process but will also review the sector budgets in the detailed budgeting phase and during budget execution.

37. The role of the SWG during the strategic phase of compiling BFPs is to agree on how the sector's total available resources will be divided among ministries before they prepare their BFPs;

38. In the medium term, the SWG will aim to prioritise sector spending, ensuring funds are directed to priority services.

14. A continual budget cycle

39. This handbook focuses on budget preparation and does not go into detail about your legal reporting obligations as defined by the Public Financial Management and Accountability (PFMA Act) and other finance legislation. In addition to your obligations to account for public money, your financial and performance reports will influence the determination of your ceilings.

40. The rolling MTEF budget provides stability and predictability, as you can plan and budget for the medium term with a clear guideline of what your future ceilings will be.

41. The budget cycle does not have an end point. During the implementation of the current year's budget, you are planning and budgeting for outer years as well as developing new strategies and policies to improve future service delivery.

15. Planning, Monitoring and Evaluation

42. The aim of an Monitoring and Evaluation (M&E) System is to ensure that there is increased efficiency and effectiveness across all government agencies leading to improved levels of service delivery and creating economic growth and a better quality of life for the citizens of Lesotho.

43. The PFMA Act II. 5g. mandates the Accounting Officer to ensure that a sound system of internal controls is in place at their MDA to provide assurance that objectives are being met and that the necessary accounting controls are in place.

44. PFMA Act V.1a, b require an MDA to prepare quarterly and annual reports which include details of the results achieved, including the impact of new policies implemented in that year and in previous years, and set out the performance indicators used to assess performance.

45. PFMA Act V.6 states that the Chief Accounting Officer of each spending unit will take the responsibility for producing an annual report which materially represents the financial and delivery performance of the MDA in all respects and complies with any directives given by the responsible Minister.

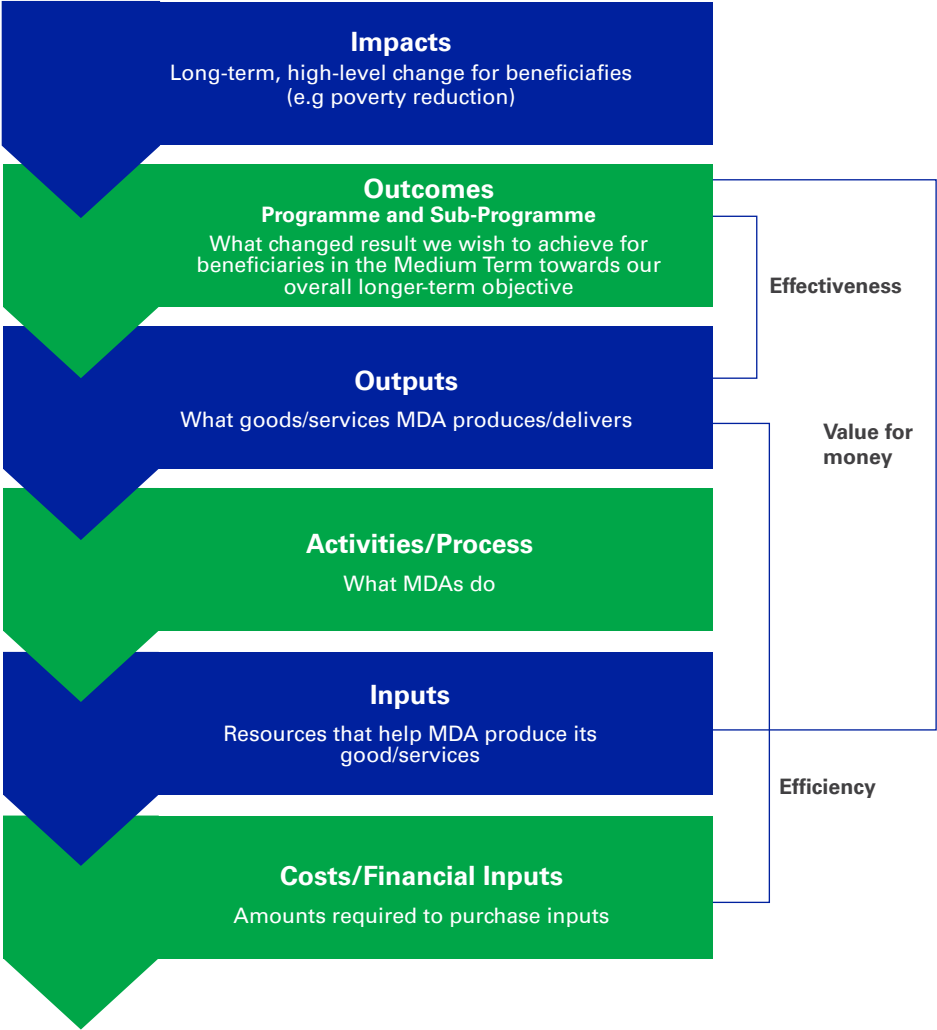
46. To fulfil their legal mandate the Accounting Officer is responsible for establishing and managing a comprehensive M&E system as an integral component of the MTEF planning and budget cycle. An M&E system is the foundation of the MTEF as it provides the data to allow the Cabinet, Parliament, and the Ministry of Finance and Development Planning to monitor and evaluate an MDAs performance.

16. Requirements for implementing an M&E System

47. A situational analysis, which sets out a baseline of existing conditions, is the first component of an M&E system. The baseline is then used to formulate an operational plan which is realistic and achievable. All plans include performance information (PI) to allow for the measurement of service levels. The responsible Minister, Cabinet, Parliament and the MOFDP should be provided with appropriate monitoring reports which measure delivery outputs as well as the impact these have on citizens. PI should, therefore, measure both efficiency (value for money) and effectiveness (changes in the community).

48. The Monitoring of performance requires the collection and compilation of performance data. Evaluation is the analysis of performance data, the recognition of achievements and the planning to overcome challenges. All (MDAs) are required to develop and manage a comprehensive M&E system with appropriate, timely and reliable performance information.

Diagram 1: The link between social and economic development and the budget



49. Diagram 1 provides a visual depiction of how a budget is the foundation of achieving a better livelihood for citizens of Lesotho through impacting on socio-economic conditions by successfully achieving the medium-term outcomes (results) which are embedded in the National Strategic Development Plan.

50. The MDA is mandated to provide goods and services through conducting activities. Inputs (including human resources) need to be purchased to carry out these activities and the cost of these become a medium-term budget.

Box 4: Definitions of M&E terminology

The terms impact, outcomes, outputs, activities/process, inputs and costs provide the guiding framework for describing what government does, what changes it wants to effect and important relationships or ratios between these categories. For the purposes of the MTEF in the Lesotho, these terms are defined as follows:

Costs: Costs are the amounts required to purchase inputs.

Inputs: Inputs are all the resources that contribute to the production and delivery of outputs/services. Inputs are “what government institutions use to do the work”. They include personnel, equipment and buildings. The Government Finance Statistics Economic Classification of expenditure adopted by the Government of Lesotho provides a standard international way to classifying allocations and actual use of financial resources according to different types of inputs.

Activities: Activities are the processes or actions that use a range of inputs to produce the desired outputs/services and ultimately outcomes. In essence, activities describe “what we do”. An example of an activity in education would be site-based numeracy support.

Outputs: Outputs are the final products, or goods and services produced for delivery. Outputs may be defined as “what we produce or deliver”. Examples are the teaching hours in public schools; school meals delivered; immunizations given, hospital beds occupied, agricultural extension visits, and roads rehabilitated.

Outcomes: the medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve" in the environment that the MDA tries to affect. Examples are improved literacy rates; the reduction of the incidence of dengue fever or fewer fatal road accidents per 1000 population.

Impacts: the long-term results of achieving specific outcomes, such as reducing poverty and creating jobs.

MDA Performance information is included in their MTEF and directly linked to economic budget lines which show the cost of achieving results. Performance information needs to be based on a set of criteria for it to play a meaningful role in improving service delivery. All MTEF performance indicators should meet the criteria for a good quality indicator. Each indicator should be checked against the following criteria for indicator quality:

- Is the indicator specific and measurable? (Relating to a clear goal or objective, and able to be measured)
- Is the indicator appropriate? (Measuring something that is important and useful to the MDA and to the users of the information. Not trivial and which does not lead to data manipulation)
- Is the indicator relevant? (There is a direct relationship between the indicator and what outcome, or output is being monitored)
- Is the indicator a reliable measure of Programme/Department performance? (Does it demonstrate an increase in actual performance in the outcome, output or activity?)
- Is the indicator time-bound? (The time period or deadline for delivery is explicitly set out)

Criteria for data availability

- Can the data for the indicator currently be collected in a timely fashion? (The data are available soon after the end of the period to which they relate)
- Are the data for the indicator reliable? (The data are accurate and aren't revised significantly later)

Box 5: Example of performance information for a Ministry of Land Use and Housing

| Programme/ Department | Sub-programme | Specific Item Measured (Outcome/ Goods/Services) | Indicator | Type of Indicator |
|--|---|---|---|-------------------|
| 2. Land Management and Administration | Outcome: Efficient use of land | | % of commercial, agricultural and residential land used for its designed purpose. | Outcome |
| | 2.1. Land Policy and Legislation | Service: Complete revision of legislation related to the Programme/Department | Legislation reviewed and aligned with policy | Output |
| | | Service: Policies and regulations | Specific policies and regulations reviewed | Output |
| | 2.2. State Land Management | Service: Allocate residential plots of lands | Number of plots allocated | Output |
| | | Service: Lease of state lands | % of area allocated for leases | Output |
| | | Service: Administration of leases | % of backlog in lease administration | Efficiency |
| | 2.3. Spatial Data Infrastructure and Surveys | Service: Maintenance of digital cadastre | % of overlapping boundary | Quality output |
| | | Service: Geodetic control network | Number of control points fixed | Output |
| | | Service: Provision of survey services | Average processing time for approval of surveys | Efficiency |
| | | | % completed surveys | Outcome |
| | 2.4. Geographic Information Services | Service: Effective database management | Average monthly % down time | Efficiency |
| | | Services: Accessibility to geospatial data | Average time taken in hours to respond to requests | Efficiency |



Ministry of Finance and Development Planning
Finance House
Government Complex
Kingsway Road