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How Transparent are County Supplementary Budgets?

By Kipkorir Biegon and John Kinuthia

International Budget Partnership Kenya

Summary Findings

- Accessing Supplementary Budgets is a challenge. From the analysis of 3rd and 4th quarter Controller of Budget Quarterly Budget Implementation reports, 40 out of 47 counties assented to their Supplementary Budgets in FY 2020/21, yet only five counties made them publicly available.

- The level of comprehensiveness of Supplementary Budgets that are publicly available is 53 out of 100 points, and they all provide an almost similar level of information to what is provided by the approved Programme Based Budges.

- The findings show that counties do not provide information on the reasons that justify the need for budget changes in supplementary budgets. Additionally, none of the five published supplementary budgets gives narrative information that explains whether the changes are within the PFM Act's set threshold.

- The survey found that the published supplementary budgets provided more information on expenditure. All the five counties presented the revised budget figures by their votes and at the programme levels with the approved budget comparisons.

- All the five counties presented at least two outer latest fiscal projections for the non-financial information. Only Busia County presented the departmental expenditure projections for at least two outer years.

[1] Limits set by the PFM Act to guide how resources are allocated and utilized across broad categories in the budget, such as wages, recurrent and capital spending.

Introduction

Supplementary budgets have become a common feature of Kenya's budgeting processes at the national and county levels. They make changes to approved budgets and either cut out or bring in new priorities into the approved budget. Therefore, county supplementary budgets present the adjustments (increase or decrease) from what was initially approved by the County Assembly, which goes through the same legislative process to approve the new budget features. These budget adjustments will often occur during the budget implementation stage, which means there is little time given for the interrogation of the proposed changes by citizens and the assemblies.

The main challenge during the revisions is incorporating new programmes and activities, which goes beyond unforeseen and unavoidable expenditures that could not be accommodated during the preparation of the budget in line with the Public Finance Management Act. However, some scenarios can force counties to revise their budgets Some of the factors that inform such adjustments include policy changes that require funding and adjustments in labour laws, such as collective bargaining agreements that need immediate funding. These changes are made within votes and can also be at the programmes level.

Even though supplementary budgets may not be avoidable, budget changes can be a source of confusion to citizens during the implementation of projects and programmes they have pushed for and were approved. When priorities are moved, the confusion can also extend to line ministries and departments at the county level. want to compare the original budgets and the actuals. Budget transparency demands that all data on the changes should be disclosed comprehensively.

A study by International Budget Partnership Kenya (IBP Kenya) on legislative amendments and supplementary budget changes in Kenya: A case study of Baringo and Busia counties has shown that counties carry out several supplementary budgets each year. In addition, they make some significant changes to the approved budgets in counties. Budget practitioners have always raised concerns about the procedures that counties follow in preparing and approving supplementary budgets. A significant issue is a threat to priorities that were originally pegged on rigorous public engagement and scrutiny in formulating the budget. Therefore, the level of transparency in the formulation and approval of supplementary budgets has become a critical piece to understand county government revenue collection and expenditure. This means the governments have to proactively publish their supplementary budgets and provide details of the changes they make and the reasons for the said adjustments. This is one of the reasons why the County Budget Transparency Survey 2021 has included a module to further look into the information that counties provide in supplementary budgets.[2]

Expenditure cuts devoid of impact analysis and justifications have been a common feature of the supplementary budget process in previous years. This tends to distort the policy direction of the budget. Therefore, it is critical to keep an eye on the supplementary budget process, which has become rather frequent; medium term monitoring the areas adversely affected by expenditure cuts and how these will impact the general policy direction of the 'budget'.[3]

[2] In some countries, supplementary budgets may provide ex post legislative approval of reallocations (virements97) within or between spending categories. Some countries adopt several supplementary budgets per year. Overuse of the instrument could reflect poor macro-fiscal forecasts, insufficient knowledge of the cost of public policies, ineffective budget preparation procedures, or the inability of the government to execute the enacted budget and undermine the credibility of the budget

[3] http://www.parliament.go.ke/sites/default/files/2021-09/Budget%20Watch%20Final%20-%2013.9.2021%20.pdf

What we did and Key Findings from the Study

The study assessed the level of information provided in the supplementary budgets using the following eight questions:

	Question	Explanation and Legal underpinning
1	Does the County Supplementary Budget present an overall reason why the budget changes were necessary?	The County PFM Regulations 2015 39 (3) (4) provide the two broad reasons why supplementary budgets are sought, which are unforeseen and unavoidable circumstances. This may be elaborated as unexpected macroeconomic developments and new emergency policy priorities as the main reasons to submit a supplementary budget to the county assembly, i.e., the epidemic outbreak and natural disasters.
2	Does the County Supplementary Budget present information on the reasons for the changes at the departmental level?	
3	Does the supplementary budget indicate its adherence to a maximum of ten percent ceiling on the overall budget changes and breakdown of each vote affected?	County Assembly approval shall not exceed ten (10%) percent of the approved budget estimates of a program of Sub-Vote unless it is for an unforeseen and unavoidable need as defined in section 112 of the Act. Further, the PFM Regulations 2015 39 (6)(d) and 56(5)
4	Does the Supplementary Budget give information on the proposed source of financing for the additional expenditure resources required?	The PFM Regulations 2015 39 (6) (e)- the proposed source of financing for the additional expenditure.
5	Does the supplementary budget provide expenditure information by expenditure votes/ departments/ sectors/ ministries with figures from the approved budget, actual expenditure when the supplementary request is made, and supplementary budget figures?	The PFM Regulations 2015 39 (6) (a) (b)- the vote, program, sub-programme, and broad expenditure category which it is desired to supplement, the original sum voted thereon, and any supplements which may have since been added. (b) the actual expenditure and the outstanding liabilities or commitments against the item on the date when the request is made.
6	Does the supplementary budget provide expenditure information at the programme level with figures from the approved budget, actual expenditure when the supplementary request is made, and revised budget figures?	
7	Does the Supplementary Budget present information that explains the fiscal impact of the expenditure changes in relation to the fiscal responsibility principles and financial objectives?	The PFM Regulations 2015 39(6)(f) an analysis of the fiscal impact of the additional expenditure, or the implications, if any, for the planned outputs and outcomes of the affected programmes.
8	Does the Supplementary Budget present information on the latest fiscal projections?	The PFM Regulations 2015 39 (6) (g)(h) the Supplementary Budget should give any implied deviation from the MTEF and the financial objectives; and the latest fiscal projections.

Even after Approval by the County Assemblies, Most Counties do not make Supplementary Budgets Publicly Available

Based on the Controller of Budget's third quarter and annual budget implementation reports for FY 2020/21, 40 counties approved supplementary budgets, and this means that all these should be publicly available on the ' 'county's official websites (executive and legislature).

While typical thinking on the supplementary budgets is to present major changes and implications at the programme levels, the PFM laws have given details and format that a supplementary budget should follow. It is required that the presentation of the information on the supplementary budgets follows a similar classification and format to the annual budgets, with any changes to the approved budget being clearly identified and described. The legislature authorizes any material changes to the approved budget. On checking the availability of the Supplementary Budgets for FY 2020/21 on the official websites, only five were publicly available as one could not follow the structure as required in the PFM Act.

Table 1: Availability of Supplementary Budgets in FY 2020/21 that were approved by County Assemblies, according to the Controller of Budget and whether they were Publicly Available on the County Websites

No	County	Supplementary Budget Assented?	Publicly Available?	No	County	Supplementary Budget Assented?	Publicly Available?
1	Busia	Yes	Yes	25	Migori	Yes	No
2	Kiambu	Yes	Yes	26	Mombasa	Yes	No
3	Nairobi	Yes	Yes	27	Makueni	Yes	No
4	Turkana	Yes	Yes	28	Nyamira	Yes	No
5	West Pokot	Yes	Yes	29	Nyandarua	Yes	No
6	Garissa	No	No	30	Nyeri	Yes	No
7	Marsabit	No	No	31	Samburu	Yes	No
8	Muranga	No	No	32	Siaya	Yes	No
9	Nakuru	No	No	33	Taita-Taveta	Yes	No
10	Nandi	No	No	34	Tana River	Yes	No
11	Narok	No	No	35	Tharaka Nithi	Yes	No
12	Wajir	No	No	36	Trans-Nzoia	Yes	No
13	Baringo	Yes	No	37	Mandera	Yes	No
14	Bomet	Yes	No	38	Uasin-Gishu	Yes	No
15	Bungoma	Yes	No	39	Vihiga	Yes	No
16	Lamu	Yes	No	40	Meru	Yes	No
17	Elgeyo-Marakwet	Yes	No	41	Kilifi	Yes	No
18	Embu	Yes	No	42	Kirinyaga	Yes	No
19	Homa Bay	Yes	No	43	Kisii	Yes	No
20	Isiolo	Yes	No	44	Kisumu	Yes	No
21	Kajiado	Yes	No	45	Kitui	Yes	No
22	Kakamega	Yes	No	46	Kwale	Yes	No
23	Kericho	Yes	No	47	Laikipia	Yes	No
24	Machakos	Yes	No				

Source: 3rd Quarter and Annual Budget Implementation Reports for FY 2020/21, Office of the Controller of Budget

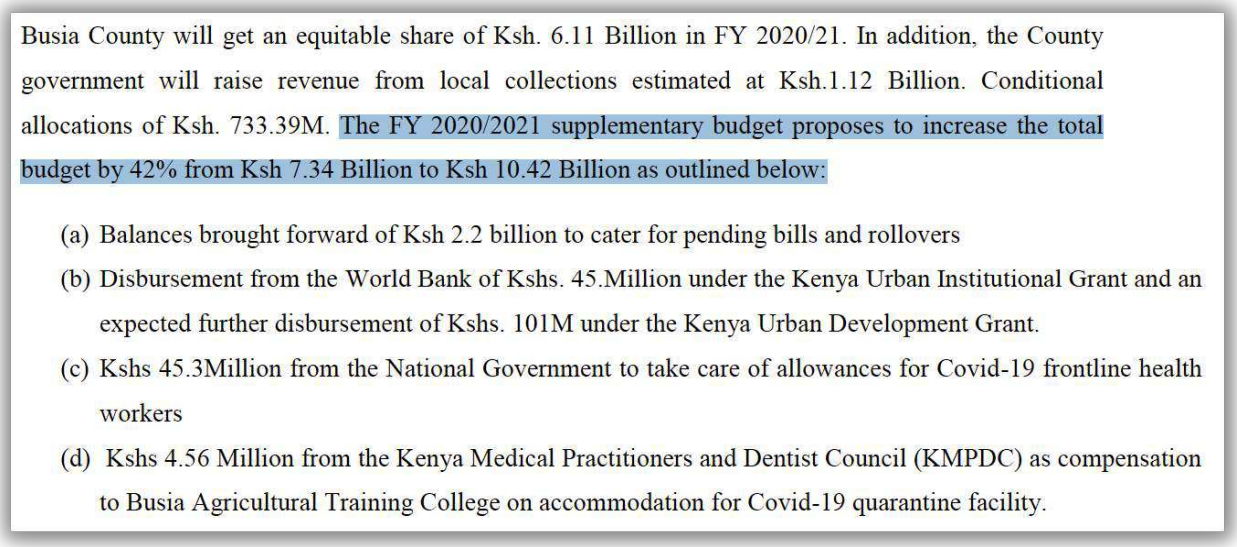
Detailed findings from the Five Published Supplementary Budgets

The data used in this modular research analysis is drawn from the five Supplementary Budgets published by the following counties: Busia, Kiambu, Nairobi, Turkana, and West Pokot. This is discussed in detail in the key findings section below:

1. The Supplementary Budgets do not Present to Citizens the Reasons why Budget Changes are necessary

According to the PFM laws, unforeseen and unavoidable circumstances are the central reasons why sub-national levels may come up with supplementary budgets. From the analysis of the information provided, only two of the five supplementary budgets published have the information without clear reasons on why supplementary budgets were necessary, i.e., "'arising expenditure needs for which no money had been appropriated for in the Appropriation Act'.

All the five selected counties do not go beyond providing information on why changes were necessary at the departmental level even though there are clear deviations in the budgets, and counties provided departmental sections without further details on changes at programme levels. The supplementary budgets were more likely to provide information on the additional funding required but failed to provide reasons why supplementary budgets are necessary. An example is Busia County as seen in the snippet below:



Busia County will get an equitable share of Ksh. 6.11 Billion in FY 2020/21. In addition, the County government will raise revenue from local collections estimated at Ksh.1.12 Billion. Conditional allocations of Ksh. 733.39M. The FY 2020/2021 supplementary budget proposes to increase the total budget by 42% from Ksh 7.34 Billion to Ksh 10.42 Billion as outlined below:

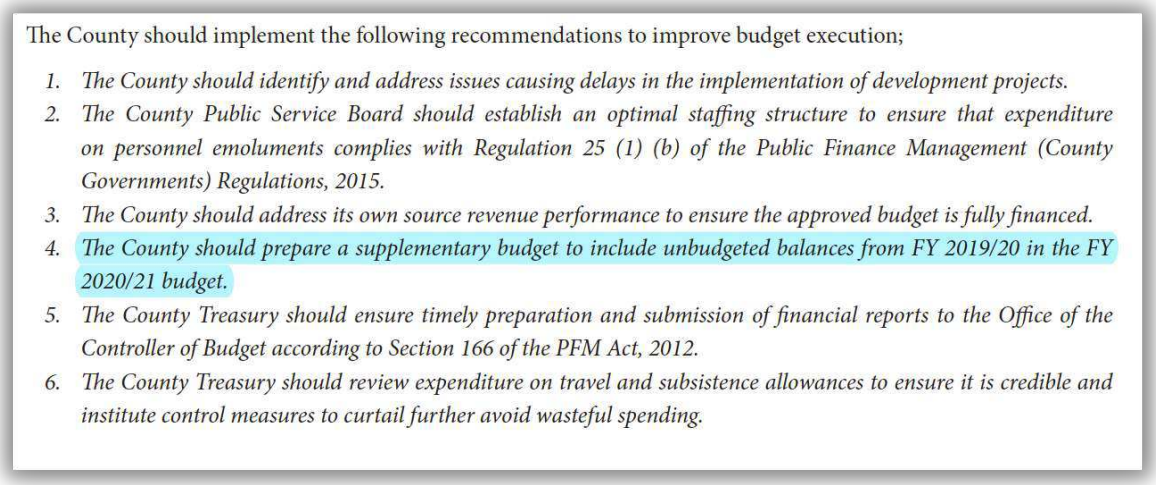
(a) Balances brought forward of Ksh 2.2 billion to cater for pending bills and rollovers
(b) Disbursement from the World Bank of Kshs. 45.Million under the Kenya Urban Institutional Grant and an expected further disbursement of Kshs. 101M under the Kenya Urban Development Grant.
(c) Kshs 45.3Million from the National Government to take care of allowances for Covid-19 frontline health workers
(d) Kshs 4.56 Million from the Kenya Medical Practitioners and Dentist Council (KMPDC) as compensation to Busia Agricultural Training College on accommodation for Covid-19 quarantine facility.

Source: Busia County Supplementary Budget FY 2020/2021

Detailed findings from the Five Published Supplementary Budgets

Some of the reasons why counties passed the supplementary budgets include:
In addition, a review of the Office of Controller of Budget shows that the office has also advised counties to prepare supplementary budgets across a variety of issues.

- Unspent Balances: While Supplementary Budgets are not bad and can be the only way to solve identified weak budgetary systems, the counties should be keen to budget all their revenues to avoid unnecessary budget changes. The Office of the Controller of Budget encourages counties that have not factored in the unspent balances carried forward from the previous financial year to prepare supplementary budgets as in the case of Kitui County, seen in the snippet below.

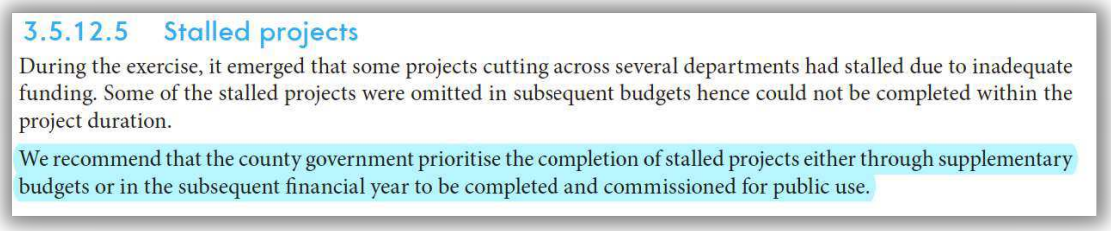


The County should implement the following recommendations to improve budget execution;

1. *The County should identify and address issues causing delays in the implementation of development projects.*
2. *The County Public Service Board should establish an optimal staffing structure to ensure that expenditure on personnel emoluments complies with Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015.*
3. *The County should address its own source revenue performance to ensure the approved budget is fully financed.*
4. *The County should prepare a supplementary budget to include unbudgeted balances from FY 2019/20 in the FY 2020/21 budget.*
5. *The County Treasury should ensure timely preparation and submission of financial reports to the Office of the Controller of Budget according to Section 166 of the PFM Act, 2012.*
6. *The County Treasury should review expenditure on travel and subsistence allowances to ensure it is credible and institute control measures to curtail further avoid wasteful spending.*

Source: County Governments Budget Implementation Review Report for the First Nine Months of FY 2020/21, May 2021

- Stalled Projects: While Supplementary Budgets are not bad and can be the only way to solve identified weak budgetary systems, the counties should be keen to budget all their revenues to avoid unnecessary budget changes. The Office of the Controller of Budget encourages counties that have not factored in the unspent balances carried forward from the previous financial year to prepare supplementary budgets as in the case of Kitui County, seen in the snippet below.



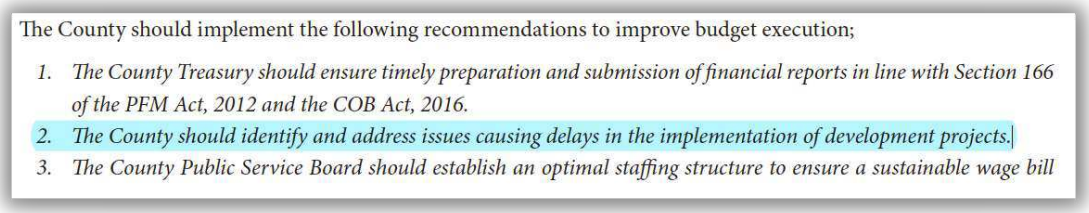
3.5.12.5 Stalled projects

During the exercise, it emerged that some projects cutting across several departments had stalled due to inadequate funding. Some of the stalled projects were omitted in subsequent budgets hence could not be completed within the project duration.

We recommend that the county government prioritise the completion of stalled projects either through supplementary budgets or in the subsequent financial year to be completed and commissioned for public use.

Source: County Governments Budget Implementation Review Report for the First Nine Months of FY 2020/21, September 2021

- Conditional Grants: It is also important to note that other counties 'do not factor in the conditional grants early enough and another driver of supplementary budgets.



The County should implement the following recommendations to improve budget execution;

1. *The County Treasury should ensure timely preparation and submission of financial reports in line with Section 166 of the PFM Act, 2012 and the COB Act, 2016.*
2. *The County should identify and address issues causing delays in the implementation of development projects.*
3. *The County Public Service Board should establish an optimal staffing structure to ensure a sustainable wage bill*

Source: County Governments Budget Implementation Review Report for the First Nine Months of FY 2020/21, September 2021

- The Report by the Budget and Appropriations Committee of the National Assembly at one time pointed out policies that are not followed leading to revisions of budgets.

> 15) Given all these factors **Mr. Speaker**, the committee is concerned that the National Treasury growth projections may not be achieved. This will lead to the usual in-year revision of the economic growth targets that has been experienced in the past, which often results to disconnect between the planned and approved policies at the BPS level and the Budget Estimates that are approved and implemented. More often than not, the policies are not followed through leading to revised revenue targets and delays in completion of projects due to revisions in expenditure.
>
> Budget and Appropriations Committee Report on the BPS and MTDS for 2017/2018 and the Medium Term Page 8

2. The Public Finance Management Act gives counties power to increase the total level of expenditure or modify the appropriations approved by the legislature

The amount of resources that can be moved within or across approved appropriations without recourse to a supplementary budget. The PFM Act sets a maximum of ten percent on the overall budget, at votes and programmes. This information is crucial as it may directly affect the major priorities that should be provided to citizens to understand the shift in priorities. From the analysis of information that was provided by the supplementary budgets from five counties, none presented narrative details on the whether the changes in the budget exceeded ten percent, but four of them give a means by which citizens may calculate the changes either through expenditure tables with comparisons from the approved budget to the supplementary budget with even some capturing changes.

3. All the five Supplementary Budgets published presented the information on expenditure

The five counties that published supplementary budgets presented supplementary budget figures by their votes and at the programme levels with the approved budget comparisons. Even so, Turkana County presented a basis on which citizens can calculate the information on the actual expenditure as when the supplementary budget was passed.

Turkana County Supplementary I Budget Estimates FY 2020/2021

Expenditure Classification	Printed Estimate	Vote-Balance	Reallocation/Transfer	Supplementary I Budget Estimates
F. SUMMARY OF EXPENDITURE BY PROGRAMMES (Kshs.)				
P1 GENERAL ADMINISTRATION AND SUPPORT SERVICES	396,956,773.00	209,515,847.00	(25,663,351.00)	371,293,422.00
SP 1.1 General Administration, Planning and Support Services- Office of the Governor	349,622,773.00	185,341,715.00	(38,975,726.00)	310,647,047.00
SP 1.2 General Administration, Planning and Support Services- Liaison Office	20,340,000.00	8,715,680.00	17,690,000.00	38,030,000.00
SP 1.3 General Administration, Planning and Support Services-Office of County Secretary	26,994,000.00	15,458,452.00	(4,377,625.00)	22,616,375.00
P2 GOVERNMENT COORDINATION	36,336,526.00	21,402,186.00	810,400.00	37,146,926.00
SP 2.1 Cabinet Affairs	5,600,000.00	3,450,660.00	905,400.00	6,505,400.00
SP 2.2 Perfomance and Efficiency	10,655,443.00	5,784,203.00	-	10,655,443.00
SP 2.3 Interdepartmental Relations	3,024,000.00	2,483,950.00	(2,224,950.00)	799,050.00
SP 2.4 Intergovernmental Relation	14,870,366.00	8,586,006.00	-	14,870,366.00
SP 2.5 Strategy Development, Review, Support and Operationalization	2,186,717.00	1,097,367.00	2,129,950.00	4,316,667.00

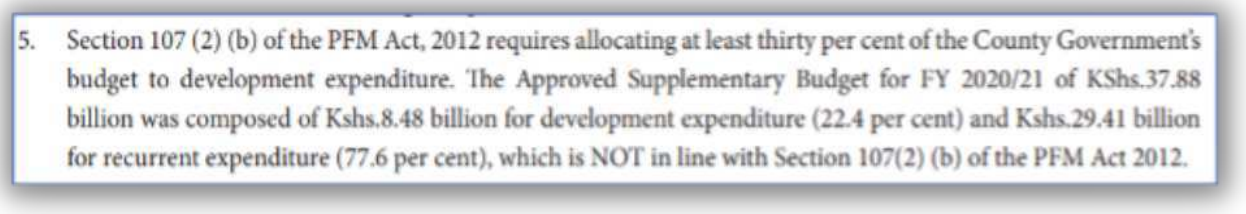
Source: Turkana County Supplementary Budget I Estimates FY 2020/2021

This further means that four counties have no details on actual expenditure on the budget already executed by the county. Counties provided more information on expenditure compared to other indicators used for the assessment

In addition, a supplementary budget should have information on the latest fiscal projections. The analysis found that all the five counties presented projections for at least two outer years latest for the non-financial information. However, this information was not disaggregated across the counties. Only, Busia County presented the departmental expenditure projections for at least two outer years.

In this module, we also assessed whether the Supplementary Budgets presented the information that explains the fiscal responsibility principles and their financial objectives as a result of changes in expenditures. This turned out to be among the least provided information. However, three out of five counties assessed provided some information that explains the impact of fiscal responsibilities on the changes. However, the analysis of the impact to the budget should cover all the fiscal responsibilities.

For example, in the Supplementary Budget for the Nairobi City County, there is no information on it despite the Controller of Budget capturing the Approved Budget for Nairobi City County was not in line with the requirements as shown in the snippet below:



5. Section 107 (2) (b) of the PFM Act, 2012 requires allocating at least thirty per cent of the County Government's budget to development expenditure. The Approved Supplementary Budget for FY 2020/21 of KShs.37.88 billion was composed of Kshs.8.48 billion for development expenditure (22.4 per cent) and Kshs.29.41 billion for recurrent expenditure (77.6 per cent), which is NOT in line with Section 107(2) (b) of the PFM Act 2012.

Source: County Governments Budget Implementation Review Report for the First Nine Months of FY 2020/21, September 2021

Conclusion and Recommendations

In conclusion, whenever counties approve budget amendments, they should make them publicly available on time, just like other budget documents. Also, the counties should follow what the law requires when formulating Supplementary Budgets and present full details. Even though not all time, Supplementary Budgets can be a source of confusion, especially in monitoring implementation if they are not published and publicized. The supplementary budgets should comprehensively communicate any shift in priorities and implications on fiscal responsibilities to the public.

- Counties should publish supplementary budgets and ensure they are publicly available through platforms that are easily accessible to the public.

- Counties implications of supplementary budgets should be clearly explained during the preparation if the document to help the public and County Assemblies play their oversight role effectively from a point of information.

- The counties should ensure that all sources of funds are factored into the budget during the stage of the Approved Programme Based Budget to avoid unnecessary revisions. But whenever they passed Supplementary Budgets, it is recommended they are made publicly available to the citizens.

- Also, Supplementary Budgets should follow a similar structure of Programme Based Budgets providing all the details as required by the law.

International Budget Partnership Kenya (IBP Kenya)
Kilimani Business Centre,
Office 9, Kirichwa Road
P.O. Box 21868-00505
Nairobi- Kenya
+254-791-183-600

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