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TOWARD BETTER COUNTY FISCAL STRATEGY PAPERS IN KENYA: A REVIEW

A Joint Brief by Institute of Economic Affairs, Hakijamii, I Choose Life Africa, TISA, Water and Livelihoods Reform Network, World Vision Kenya, and the International Budget Partnership

BACKGROUND

The Kenyan Public Finance Management Act 2012 requires all counties to table a County Fiscal Strategy Paper (CFSP) in their respective county assemblies by 28 February each year. In 2014, most counties tabled this paper for the first time, since counties only came into being from March of 2013, too late to prepare the papers for the 2013/14 budget cycle.

The CFSP may sound like a technical document but in many ways it is actually a simple requirement that specifies the strategic priorities and policy goals that guides the county government in preparing its budget. The Paper should have at least four core elements:

1. A description of budget implementation for the first half of the year (July to December), including revenue and expenditure performance.
2. A description of any changes to the budget during the year, such as the introduction of a supplementary budget.
3. An overview of the expected revenue and expenditure totals for the coming year, based on an assessment of the economy and any other factors, such as changes in national transfers, which will affect the county.
4. Ceilings (or limits) on the amount of money each sector (health, education, etc.) will get in the upcoming budget and narrative explaining these.

The fourth element is really the core purpose of the paper: The CFSP is the moment in the budget process when we trade-off between our priorities at sector level. Do we want to spend more on agriculture or roads? More on health or education? Once that has been agreed, the budget that is tabled by 30 April in the assembly is then debated at the level of the priorities within each sector: do we want to spend more on staff or hospitals? Do we want to spend more on pre-primary education or polytechnics?

As county assemblies begin to review their county budgets, this is the moment to ensure that there is a clear link between the CFSP and the county budget. This will present a challenge if the CFSP lacks key information. We hope that this tool will help assembly members and the public to better understand the flow of the budget process, and what information they should be demanding in order to be able to properly review the county budget proposal.

WHAT WE DID

As it was the first time that counties were producing CFSPs, many of them faced challenges. To assess how they did, and provide guidance for the future, we analyzed CFSPs from eight different counties: Nyeri, Homa Bay, Baringo, Kiambu, Nairobi, Vihiga, Kisumu, and Machakos. We first developed a small tool, with eight key questions, and then applied them to each of our CFSPs. Below, we go through the questions and answer them for each county. In the final section, we draw out some implications and recommendations.

ANALYZING THE CFSPS

1. DOES MY COUNTY'S CFSP DISCUSS THE IMPLEMENTATION OF THE CURRENT BUDGET FOR AT LEAST THE FIRST TWO QUARTERS OF 2013/14?

A CFSP should provide information on budget implementation for at least the first half of the year, including both spending and revenue performance. This is important to inform projections for the coming year. If the county overestimated revenue or spending capacity, it should be corrected in the next year's budget. By the time of submitting the CFSP to the assemblies, the counties should provide information on budget implementation at least up to the end of the 2nd Quarter of the financial year (December 2013).

Kiambu, Machakos and Nyeri counties all provided information on expenditure and revenue performance in 2013/14. In Nyeri, this information reflected the position as of December 2013. In Kiambu and Machakos, this information reflected their position as of end of January 2014. Vihiga provided revenue against target and some expenditure info, but not against target. Information on budget performance was not provided in Homa Bay, Baringo, Kisumu, or Nairobi.

In summary, most counties did not provide even general information on budget implementation.

2. HOW DETAILED IS THE INFORMATION ON BUDGET IMPLEMENTATION?

The county should provide spending information against targets at least down to the ministry level and preferably to the program level. On the revenue side, the information should be provided for individual sources of revenue, and not simply all revenues.

Only four counties provided general information on budget performance, so we only look at those four in assessing the level of detail.

- Machakos provides information on aggregate revenue performance over the last two quarters (not broken down by sources for local estimates) in addition to estimates versus targets for the equitable share, Level 5 hospitals, donor funding, and own revenue. Spending performance over the first half of the year is in the broad terms of recurrent and development expenditure.
- Nyeri provides general information on the expenditure side, broken down only to recurrent/development budget. Aggregate revenue information is provided against target. More detailed information is provided for all local sources of revenue in the Annex, but no targets are provided to gauge performance.
- Kiambu provides expenditure performance data to the level of the ministry, but revenue performance is only provided in the aggregate, as in the case of Machakos and Nyeri.
- Vihiga provides only aggregate revenue data. Expenditure is to ministry level but not against target.

In summary, even among counties providing some information on budget implementation, the information is not very detailed. Kiambu goes the furthest in providing ministry level information on expenditure performance against target.

3. DOES THE CFSP DISCUSS ANY CHANGES TO THE BUDGET DURING IMPLEMENTATION, SUCH AS THE INTRODUCTION OF A SUPPLEMENTARY BUDGET?

Most of the Counties developed and approved supplementary budgets, like the Budget Policy Statement (BPS) at national level. The CFSP should therefore discuss the reasons why the budget needed to be adjusted through a supplementary budget and what the expectations are for the rest of the current budget year.

- Kiambu, Vihiga, and Nyeri make general reference to the need for changes in the budget due to issues arising during the year, such as the strikes by county assembly members. But they do not provide revised figures or explanations specific to particular changes in the budget.
- Baringo, Kiambu, and Nairobi provide initial and revised estimates so the changes can be seen, but no explanation for these changes.
- Homa Bay, Kisumu, and Machakos provide no information at all on supplementary budgets or revisions to the original estimates.

Some counties have provided general information on revisions to the budget, or general reasons for revising the budget, and some, like Nairobi, Kiambu and Baringo, have provided revised figures. However, no county has provided extensive narrative explaining changes to the budget with specific information about major changes.

4. DOES THE CFSP PROVIDE PROJECTIONS FOR ECONOMIC GROWTH, INFLATION, OR OTHER FACTORS THAT MAY AFFECT THE UPCOMING BUDGET YEAR?

Most counties had challenges in projecting their own growth or inflation in 2013/14. For most, it is appropriate that they take this information from the national BPS. Where they propose different figures, these must be explained. Generally, counties should also be looking at county-specific factors that may affect their growth and not simply take the information from the national BPS, because not all issues that affect the county will affect the nation as a whole.

- Kiambu, Homa Bay, Baringo, Kisumu, Vihiga, Nairobi,and Machakos all took information from the BPS, but add almost no county specific information to their analysis.
- Nyeri is exceptional. It provides information on the agricultural economy, including production of major crops in 2011/12. However, there is no direct link to the rest of the paper.

Almost all counties took this information from the BPS, without comment on whether or how it might be different in the county. Nyeri county provided some information on local agricultural trends, one of the few to provide county-specific details. However, this background information is not linked to the projections in the budget in any way, which is generally the case for the counties as a whole. For example, no county uses economic projections to substantially revise their expectations for revenue collection.

5. DOES THE CFSP PROVIDE PROJECTED ESTIMATES OF OVERALL REVENUE, EXPENDITURE, AND DEBT?

Typically, the core of this type of paper is to give us an understanding of what the county expects to have in terms of resources in the coming year, and how it plans to spend it. The first question is often about the deficit, but counties are still not allowed to run deficits, so this is not a particularly important issue. However, in many cases, counties do have debts inherited from the previous local authorities, so debt management is a relevant issue.

Basically, all of our counties provided information on revenue and expenditure projections for the coming year. Vihiga provides expenditure data, but not revenue figures for the coming year. In several cases, the estimated revenues from the national transfer did not align with what was known from the draft County Allocation of Revenue Bill (CARB) 2014 at the time the CFSPs were prepared. Such was the case in Nairobi and Machakos. Machakos expects more than indicated in the CARB; Nairobi, on the other hand, has not projected for any conditional grant as proposed in the CARB, but only the equitable share.

No county provided substantial treatment of debt. While some counties mentioned debt, only Nairobi had quantitative information about the size of the debt, debt repayment, or how debt would be handled specifically in future budgets.

6. DOES THE CFSP PROVIDE CLEAR NARRATIVE INFORMATION ABOUT COUNTY PRIORITIES, PARTICULARLY HOW THESE PRIORITIES WILL DIFFER FROM LAST YEAR?

The main information we should come away with from the CFSP is an understanding of county priorities at the level of sectors/ministries. The CFSP is not meant to go into all the details within ministries, which is what we expect from the budget estimates. But it is the place where tradeoffs will be made among sectors like agriculture, health, or roads. There should be a clear link between the narrative and any figures provided.

All counties provided some narrative about sector priorities. In Kiambu, most sectors were mentioned, but not health. Baringo, Homa Bay, Vihiga, Kisumu, Nairobi, Nyeri and Machakos all provide narrative about their main sectors, but it is not always easy to link this narrative to any budget figures, and in most cases, no contrast is drawn with the priorities from last year. Much of the discussion of priorities is very general.

7. DOES THE CFSP ALSO PROVIDE CLEAR TABLES SHOWING COUNTY PRIORITIES, INCLUDING THE CHANGE IN THE RELATIVE SHARE OF THE PROPOSED BUDGET GOING TO EACH SECTOR FROM LAST YEAR'S FIGURES?

In addition to the narrative explanation, of course, the CFSP should contain the figures (known as ceilings) that constitute the maximum that each sector will get in the coming year. It is important that the presentation of this information match the sectors/ministries used in the development plans and in the budget estimates so that it is very clear which ministries are getting what.

Kiambu, Homa Bay, Baringo, Nairobi, Vihiga and Nyeri all show last year's figures against this year's proposed sector ceilings by ministry. Kiambu and Baringo provide this information for multiple years beyond the budget year. Although the figures are not always calculated, it is possible to determine how the shares for each sector are changing over time in these counties.

Kisumu and Machakos do not provide any sector ceilings.

As we stated above, this is perhaps the core of the CFSP, so the fact that there are any counties not providing this suggests that some counties have not understood the purpose of the paper. Nevertheless, on balance, most counties did provide this information, allowing the assembly and public to understand the prioritization of sectors and to prepare for the tabling of the budget.

8. DOES THE CFSP RECOGNIZE AND ADAPT ITSELF TO RELEVANT ISSUES RAISED IN THE BUDGET POLICY STATEMENT?

The CFSP should "align" with the BPS, but there is no particular guidance on what this means. Generally, we think alignment should refer to:

- Adoption of similar projections for key variables unless good reasons are provided for doing otherwise.
- Discussion of county priorities that reflects awareness of national priorities and where necessary takes them into account in allocations (for example, if the county is to receive conditional funds for specific sectors).
- Avoid duplication and pursue complementary funding for areas of mutual interest to both levels of government.

Counties providing this:

Kiambu, Kisumu, Vihiga, Baringo, Homa Bay, Nairobi, and Machakos all mention priorities from the BPS. But very few counties provide any serious explanation of how, in terms of specific policies, they will align their priorities with the BPS. Machakos gives a concrete example of reducing recurrent expenditure share at county level, which is also a national priority. Otherwise, the references to alignment are general.

Nyeri does not even mention the BPS, though some of the broad priorities it does mention do appear consistent with it. Nevertheless, there are no concrete examples of how Nyeri would align with national priorities.

In summary, while some counties mention the BPS and the key priorities therein, no county really provides substantive detail about how its own strategy or priorities will align with BPS-related national priorities. Generally, there is no clarity about how county plans align with national plans.

CONCLUSION AND RECOMMENDATIONS

Our review of CFSPs demonstrates two things very clearly:

1. While many counties have fallen short in meeting the criteria for these papers, some have clearly done better than others and have lessons to share.
2. We cannot uniformly speak of counties having succeeded or failed at development of their CFSPs.

Most counties did not understand that information on budget implementation was a key component of the CFSP. But several counties did and provided that information for the first six months.

We recommend:

- All counties could do more to provide this information broken down to the ministry, and ideally the program level.
- This information should also be provided for revenues, and that should be broken down by specific sources.

Most counties provided generic information about changes to the budget, and about the changing economic conditions that would inform the next budget.

We recommend:

- All counties should clarify if they had a supplementary/revised budget, what the revised figures are versus the original figures, and the reasons (at ministry level) for those changes.
- All counties should provide a link between any economic information and the budget figures (such as an explanation of how expectations about growth affect revenue forecasts).

Most counties provided information on overall revenue and expenditure projections for the budget year, and many for multiple years. No counties provided substantial narrative or quantitative information about county debts.

We recommend:

- All counties should provide information about their debt position in the CFSP, and narrative about how they plan to manage this, aligning the same with their Debt Management Strategy.

Most counties provided narrative information about priorities. However, much of this information was vague. A proper discussion of priorities explains what the main areas of spending are, and is easy to link to quantitative data in accompanying tables. Moreover, it should be clear what is different about this year's priorities from last year's, or, if there is no difference, that should also be clear.

We recommend:

- All counties could do more to link the narrative discussion in the CFSP to the actual figures in the tables on sector ceilings.
- All counties must produce tables with sector ceilings, as this is the most essential item in the CFSP to allow for proper budget debate in May.
- All county assemblies should ensure that they utilize the CFSP that they approved as one of the major reference documents as they discuss their county budget proposals.