A GUIDE TO READING THE OFFICE OF THE CONTROLLER OF BUDGET'S COUNTY REPORTS

INTRODUCTION

In 2010, Kenya established the Office of the Controller of Budget (OCOB) to monitor budget execution and implementation. OCOB is tasked with producing a set of quarterly reports on budget implementation at both the national and county levels. These reports are a useful source of information for assessing how effective the government has been in managing public finance in Kenya.

While each of Kenya's 47 counties are required to produce and publish their own quarterly budget implementation reports, in practice most have failed to do so. This makes the OCOB reports all the more useful as a source of implementation data. Understanding and using these implementation reports can be challenging. This guide offers a set of questions and answers to assist in unlocking the information they contain.

To make the guide more concrete, it focuses on an actual report: the Annual County Budget Implementation Review Report 2013/14. There are some elements of an annual report that are distinct from the other quarterly reports. For example, an annual report gives us a final picture of how well the government did in spending the budget, which is important as we think about allocations for the next budget. Quarterly in-year reports, which are released while the budget is still being implemented, are intended to help us fix problems during the current budget year. Despite these differences, much of what is in this guide is useful for both types of reports.

This guide focusses on three counties: Nyeri, Taita Taveta and Uasin Gishu. To assist with learning and analysis, we have published a spreadsheet containing data on each of these counties alongside this guide.[1] This information is drawn from the narrative section of the OCOB report; the tables in the Annex; and elsewhere. When reading an OCOB report, it is important to look at both the narrative summaries for individual counties, as well as the summary tables in the main report and in the annex.

QUESTIONS AND ANSWERS

1. WHAT SHOULD WE LOOK FOR IN A BUDGET IMPLEMENTATION REPORT?

One of the most important functions of the OCOB reports is that they allow us to compare actual spending with budgeted (or planned) spending. As budgeting is always uncertain and imperfect, small variances between actual and budgeted spending should be expected. However, larger variances may be indicative of more fundamental problems with budgeting

[1] See http://internationalbudget.org/wp-content/uploads/OCOB-Report-Data.xlsx

and expenditure systems. Generally, if actual and budgeted spending varies by more than 10 percent then an explanation for the difference should be provided.

Both citizens and legislators should interrogate these potential problems further by asking questions of the executive. The role of the County Assembly is to call on executive officers to explain any major variances and the underlying problems that are causing them. This is a core part of legislative oversight.

2. WHAT INFORMATION IS CONTAINED IN THE REPORT?

Looking at our accompanying spreadsheet, we can see information on revenue and expenditure, including separate information on recurrent and development expenditure. The report contains information on budgeted local revenue and budgeted national transfer for all three counties. It also contains information on actual local and actual national transfers for each of the counties.

Looking at local revenue (see columns E, F, G), we can see some discrepancies in the case of Taita Taveta. Nyeri performed best, raising 90 percent of its revenue targets, followed by Uasin Gishu and Taita Taveta with much lower rates.

Annex 3 of the report provides information comparing actual spending with budgeted spending across counties (see column V of spreadsheet). We can see that Nyeri performed the best of our three counties, executing 94 percent of its budget, followed by Taita at 69 percent, and Uasin Gishu at only 59 percent.

3. DOES THE REPORT PROVIDE EXPLANATIONS OF VARIANCES BETWEEN ACTUALS AND BUDGET?

When assessing how well a budget has been implemented, one of the main things we should be interested in is explanations for variances between actual spending and budgeted spending. While the numbers are useful, it is difficult to interpret them without further information. Good explanations aid oversight; poor explanations require the public and the County Assembly to request further information.

There are no explanations of variances for any of the various indicators in the OCOB report. It provides little narrative that can be used to understand why the budget was not fully implemented. Each county section does have a section called challenges, but it is not easy to link this information to implementation data. Table 1 captures the issues raised for each county in the report.

Table 1: Budget Implementation Challenges by County

Key Challenges	Nyeri	Taita Taveta	Uasin Gishu
Delayed Finance Bill	Y		
Inadequate Staff/Capacity	Y	Y	Y
Inconsistent use of IFMIS	Y		
Weak Internal Audit	Y		Y
Outstanding imprests (cash advances)	Y		Y
Creation of Funds without regulations	Y		
Inadequate office space			Y
Reallocation of funds without approval		Y	
Low absorption			Y

Table 1 shows that the county with the best performance on budget implementation (Nyeri, as per previous section) appears to have the most challenges. In other words, the county that requires the least explanation of its spending against budget has the largest number of “explanations.” This suggests that the challenges listed cannot be used in a systematic way to understand budget implementation. It is also not clear how the items in the table above relate to low absorption. For example, reallocation without approval might lead to higher absorption; weak internal audit is not directly related to absorption.

From looking at the data in our attached spreadsheet on budget implementation, we would have preferred explanations for the challenges identified in Table 2 below. While these are issues that emerge from this specific report, they provide a good indication of the kind of issues that generally emerge from budget implementation reports.

One way of thinking about whether something is actually a problem in a county is to compare its performance to other counties and the national average. For example, if a county spent 50 percent of its budget, it might seem very low. But it could be that all other counties only spent 30 percent of their budgets, in which case the county spending 50 percent would actually appear to have done well. In such a case, there may be larger, systemic problems that prevent counties from spending more of their budgets.

Table 2: Key Issues Emerging From 2013/14 Budget Implementation Data Requiring Explanations

Explanations For	Nyeri	Taita Taveta	Uasin Gishu	Notes
Low collection of local revenue compared to budget (Columns E, F)		Y	Y	All 3 counties perform better than average, but Uasin Gishu and Taita Taveta were far below target
National transfer less than budgeted (Column P)	Y			Nyeri got less than 90% of budgeted transfer
Low absorption of overall budgets (Column V)		Y	Y	Uasin Gishu below national average of 65%; Taita Taveta below 70%
Low use of funds released (Columns AB, AC and AD)		Y	Y	Uasin Gishu used less than 70% of funds released; Taita Taveta used about 85% below national average of 90%
Low absorption of recurrent (Column AI)		Y	Y	Taita Taveta below national average of 83%; Uasin Gishu near average
Low absorption of development (Column AP)	Y	Y	Y	Uasin Gishu below national average; all counties below 70%

The only issue raised by the OCOB that relates to the issues in Table 2 is low absorption of development budget in Uasin Gishu. However, that is not an explanation, but rather a fact which is in need of further explanation.

4. HOW DO WE ASSESS THE ACCURACY OF THE DATA?

It is important to assess the accuracy of the data in the reports. To do so, we can look at reports produced by different actors that also compile such data and, where possible, confirm the figures.

In this case, we could check the OCOB figures against those in the County Budget Review and Outlook Paper (CBROP). (We do this with the available data in the spreadsheet.) Nyeri is the only county for which we have a final CBROP and there are differences between the data in the two sources.

While OCOB reports total actual expenditure of 4.28 billion, Nyeri County reports total expenditure of only 3.4 billion (Column T). That difference may be explained by the inclusion of the reimbursement to national government for staff salaries in the OCOB figure, and its exclusion from the Nyeri figure. However, the OCOB report contains two different figures for the staff reimbursement (Columns AS and AT). When we use the larger figure of 939 million, which also matches the CBROP figure, a number of the inconsistencies in the data are resolved. Even with this factored in, however, there are still some differences in budgeted and actual figures for total (Columns T and U), recurrent (Columns AF, AG, AH), and development (Columns AM, AN, AO).

The OCOB data seems fairly reliable, but there are some important internal contradictions. For example, figures reported in the narrative text and the tables often do not match. We have seen that there are two different figures for Nyeri's staff reimbursement costs. That is also true for Uasin Gishu (Columns AS and AT). The percentage of local revenue collected against budget for Taita Taveta in the text and in the Annex also do not match (Columns F and G). The actual transfer to Uasin Gishu in the text and the Annex do not match (Columns J and K). Our own calculations using the report's numbers also do not always align with the report. For example, using OCOB's own data, we are unable to replicate the figure for Nyeri's expenditure against funds released (Columns AB, AC, AD). Other minor differences between our figures and OCOB's may be due to rounding.

5. BEYOND THE COUNTY SPECIFIC SECTION OF THE REPORT, WHAT OTHER INFORMATION IN THE REPORT IS USEFUL AND WHY?

Comparing Counties Against National Averages

The report allows us to make comparisons between county and national averages. For example, let's compare Nyeri against all counties through the national average expenditure information:

- Nyeri raised 90 percent of targeted revenue collection compared to a national average of 49 percent (Column E).
- Nyeri spent 94 percent of budget compared to a national average of 65 percent (Column U).
- Nyeri spent 64 percent of its development budget compared to a national average of 36 percent (Column AO).

These comparisons help us to understand Nyeri's performance. For example, while Nyeri's development expenditure on its own may look poor, it is quite impressive when compared to the national average.

There are some interesting findings in the comparative section of the report but most lack serious explanations. For example, the top three counties in terms of development budget absorption are Bomet, Wajir, and Trans Nzoia. Bomet and Wajir both had high levels of recurrent budget absorption as well, but Trans Nzoia did not perform as well. There is no explanation in the report to account for these details.

Establishing Patterns of Performance

In addition to information on revenue and expenditure performance overall, the report also contains information broken down into quarterly and monthly performance. This is useful for establishing patterns.

For example, information on monthly county revenue collection can be found on page 4 of the report. Counties collect most in the third quarter (particularly March), and more in the fourth quarter than in the first or second quarters. According to the report, the peak in third quarter is the result of an increase in Single Business License renewals. However, the report does not explain the comparatively high collections in the fourth quarter.

If this pattern holds, we learn something about county liquidity (cash flow is low in the first half of the year); and also something about how to read quarterly implementation reports (we should worry less about the first half of the year for revenue collection because counties will catch up in the second half of the year).

On the spending side, there was more spending in the last month of the year than in the entire first half of the year and there was a steady upward trend month by month. This suggests that the issues affecting implementation were as much about settling in during the first year as they were about liquidity. Late approval of budgets, lack of systems, payroll remaining at national level until the beginning of 2014: each of these may have contributed as much or more than liquidity to the spending pattern in the first year. Given that counties now have a lot of money in the bank, we will be able to observe if this spending pattern shifts in the second full year of devolution, since the liquidity issue and the settling in effect should both be reduced. However, counties have been in court over their budgets this year for other reasons that may affect their ability to implement in the second year.

Non-core Spending

The report also highlights variations in what is referred to as "non-core" spending. This includes expenditure on items such as allowances, travel, and vehicles. This is mostly relevant for understanding whether spending happened as it was budgeted, because the issue of whether such spending is a priority should be addressed during budget formulation and approval.

However, we can also compare non-core spending to overall spending to get a sense of a county's priorities. For example, if a county spends 100 percent of the foreign travel budget but only 25 percent of the overall budget, what does that tell us about the government's priorities? One might ask whether we should be traveling rather than implementing the rest of the budget (executive) or overseeing its implementation (assembly).

Let's look at our three counties first. Did they spend as per budget on non-core items? Table 3 looks at travel.

Table 3: Travel Budget and Total Recurrent Budget Absorption in Three Counties

Item	County Average	Nyeri	Taita Taveta	Uasin Gishu
Travel Absorption	79%	87%	99%	93%
Total Recurrent Absorption (Annex 3)	83%	108%	81%	85%
Travel as a share of recurrent expenditure (see spreadsheet Column AL)	6%	5%	16%	4%

What should we note from this data? First, both Taita Taveta and Uasin Gishu spent a higher percentage of their travel budget than their overall recurrent budget. Second, spending on travel in Taita Taveta as a share of actual recurrent spending is particularly high as compared to the other counties and the national average. Table 4 shows that this was already the case in the original budget, but has been exacerbated during budget execution.

Table 4: Travel Budget and Total Recurrent Budget in Taita Taveta (Ksh Millions)

Taita Taveta Budget Items	Budget	Actual Expenditure
Total Recurrent (Annex 3)	1,833	1,492
Travel	235	233
Travel as a share of recurrent budget	13%	16%

We can see in Table 4 that travel was 13 percent in the original budget (compared to a national average of 6 percent). This is an issue that should have been dealt with during the formulation of the budget. The fact that actual spending on travel is an even larger share of recurrent spending is an issue to be raised at this point. The issue is not overspending (in this sense the county performed well), but that the county seems to be able to spend on non-core activities more effectively than core activities.

We can conduct similar analysis for other non-core areas. One major area that stands out from our three counties is Nyeri's expenditure on sitting allowances for Members of the County Assembly (MCAs). The data shows that Nyeri spent roughly two times what it budgeted for sitting allowances. The report does not explain why this happened. One possibility is that Nyeri under-budgeted for sitting allowances. We can get a sense of this by looking at how much other counties budgeted and how many members they have. The biggest factor affecting how much a county needs for allowances is the number of members of the county assembly. Nyeri has 47 MCAs, plus the speaker. In the table below, we include the speaker in the number of MCAs, following the OCOB.

Table 5: 2013/14 Budget and Expenditure for MCA Sitting Allowances by County (Ksh Rounded to nearest 1000)

	Nyeri	Narok	Uasin Gishu	Kisumu	Makueni
No. of MCAs (inc. Speaker)	48	48	45	50	48
Annual Budget for Sitting Allowances (mlns)	34.5	50.3	127.3	118	32
Annual Budget per MCA- Annual	719,000	1,048,000	2,829,000	2,360,000	667,000
Annual Budget per MCA- Monthly	60,000	87,000	236,000	197,000	56,000
Actual Annual Expenditure on Sitting Allowances (mlns)	69	28.8	127.3	46.5	32
Actual Spending per MCA - Annual	1,438,000	600,000	2,829,000	930,000	667,000
Actual Spending per MCA - Monthly	120,000	50,000	236,000	78,000	56,000

It does look like Nyeri's budget may have been somewhat small for the number of MCAs in the county: while Makueni had a smaller budget for sitting allowances, Narok, Uasin Gishu and Kisumu each budgeted more. Looking at expenditure, Nyeri ranks fairly high compared to counties with similar numbers of MCAs and above the national average, which was about per Ksh 108,000 MCA per month.[2] Taking this together, it would appear that Nyeri may have budgeted too little but also spent too much.

[2] The OCOB report states in Table 3 that average absorption was Ksh 88,000 per MCA per month. However, the table contains an error, stating that the number of MCAs (including Speakers) is 2526, when in fact the number is 2274 (which can also be derived from adding the numbers in Table 3). In addition, it appears that Turkana did not report on its actual spending on sitting allowances. Therefore, we deducted Turkana's 48 MCAs (including Speaker) from the total, and arrived at 2226 MCAs, spending Ksh 2,402.5 million, for an average of Ksh 108,000.

Other Issues to Look for in the OCOB Reports

OCOB implementation reports are not normally the place to look at issues related to budget formulation and approval. However, there is one reason to use them for that purpose: there is no comparable information source on all county budgets at the formulation stage. The OCOB has so far opted not to collate and make available data on budget formulation or approval, even though such information is needed to assess budget implementation.

As a result, there is no single place where one can find all of the information about the enacted budget for all counties. Given this, there are some issues that relate to priority setting and budget approval that can be looked at through the implementation reports. We discuss one example, the wage bill, below.

The Wage Bill

When looking at the wage bill on the implementation side, we would not normally have a primary interest in whether a county has allocated more for wages than other areas, since this issue should be dealt with at the formulation stage. However, the information is not available in a systematic form across counties without tedious, county-by-county analysis. The OCOB report does provide some useful information on overall expenditure on wages that gives us a sense of what different counties are doing to manage their wage bills.

Table 6: Wages as a Percentage of Total Budget in 2013/14

National	Nyeri	Taita Taveta	Uasin Gishu
46%	60%	48%	62%

In 2013/14, counties spent an on average about 46 percent of their budgets on staff. The share of the budget going to wages in all three counties is above average, but less so in Taita Taveta. Before concluding anything from this, however, we should examine why this might be the case. On average, former provincial headquarters and counties with large populations tended to inherit higher wage bills – they usually have a larger number of staff that need to be paid than other counties. Table 7 shows this.

Table 7: Wages as Share of Budget in Provincial Headquarters and Large Counties

National	Nairobi	Mombasa	Kisumu	Kakamega	Embu	Garissa	Nakuru	Meru	Kiambu
46%	58%	60%	68%	50%	69%	48%	51%	64%	55%

Although Nakuru and Garissa are on the lower side of the range, all former provincial headquarters have salary spending above the national average.

CONCLUSION

This guide has walked readers through the process of analyzing an OCOB implementation report, using the 2013/14 Annual Report on County Budget Implementation as an example. We observed some challenges in these reports in terms of presentation, data consistency, and explanations of poor budget execution. Nonetheless, we found that these reports could be used in a number of ways:

- To compare a single county's budget execution performance to other counties and the national average to put it in perspective. For example, a county may appear to have performed poorly on execution, but may have actually excelled when compared to other counties.
- To understand overall county performance in terms of revenue and spending and how to put quarterly results in perspective. For example, we could see patterns in quarterly revenue collections that suggest that these

collections will tend to be lower in the first half of the year than the second, and this should inform how we respond in the future to information about these collections from the first two quarters of the year.

- To look at overall budget execution against "non-core" budget execution (on items like sitting allowances and travel) as a measure of the seriousness with which county governments are taking core budget implementation.
- To assess budget priorities across counties, because no other comprehensive source exists providing information on priorities in the enacted budget for this purpose.

At the same time, we have seen some gaps in OCOB reports that should be filled:

- The reports lack adequate explanations for low budget execution and tend to focus on other public finance challenges that do not relate directly to execution.
- Some obvious issues in implementation are not described or explained in any detail, as we saw in Table 2. For example, poor revenue performance is an issue in many counties, but possible explanations for this are not discussed.
- There are inconsistencies between tables and text that require readers to carefully assess which figures are more likely to be accurate.