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Learning By Doing: Toward Better County Budgets in 2014/15

A Joint Brief by Institute of Economic Affairs, TISA, International Budget Partnership, WALINET, World Vision Kenya, ARTICLE 19, and I Choose Life – Africa

INTRODUCTION

As Kenya's county governments complete their first budget process under the 2010 Constitution, and begin the 2014/15 process, it is time to take stock. To be sure, counties faced a number of challenges in budgeting this year due to a compressed time schedule, inadequate support from national government, and limited capacity. Our goal in this paper is not to point fingers or assign blame, but to encourage learning as we go into the next budget cycle. It is only through understanding what did not work in this most recent process that we can ensure a better process going forward.

Working together, IEA, TISA, IBP, WALINET, World Vision Kenya, ARTICLE 19, and I Choose Life – Africa analyzed a number of 2013/14 budgets, with a specific focus on the budgets of 5 counties where we work: Laikipia, Busia, Homa Bay, Uasin Gishu and Nairobi. However, the challenges and recommendations discussed are relevant for many counties. In this synthesis paper, we highlight twelve major challenges in these budgets, and offer twelve recommendations for resolving them. We have included a summary of the 12 recommendations at the beginning of the brief. We urge all counties to resolve these issues in the 2014/15 budget cycle, which has already begun. This analysis will be complemented by a longer report exploring the key issues in each county, as well as the publication of an easy to use tool for citizens to analyze their own county budgets.

We offer one important note on the specific budgets we analyzed. We based our analysis on budgets that were provided to us by county executive officers in each county before December of 2013. In many counties, there were multiple versions of budgets circulating, and these budgets may also have been revised since we completed our analysis. It is therefore possible that different versions of the budget have different information. Nevertheless, we take the versions we were provided to be the "publicly available" versions at the time we conducted our analysis.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION #1: County budgets, like all budgets, should include a narrative description of programmes to accompany any tables.

RECOMMENDATION #2: All counties should separate recurrent and development spending across the full budget, and ensure that these categories are consistently applied to spending by different departments or ministries.

RECOMMENDATION #3: Good budgeting requires that salaries be distributed across sectors. Wages form a very large part of the budget for many sectors, especially education and health.

RECOMMENDATION #4: All counties should follow the PFM Act requirements and the practice of national government and provide estimates of expenditure and revenue for at least two additional years beyond the budget year for both recurrent and development spending.

RECOMMENDATION #5: Every county should use the proper figures from the County Allocation of Revenue Act for their budget. Counties should also provide reasonable estimates of the revenues they plan to raise on their own, based on figures from prior years.

RECOMMENDATION #6: Every county must mention the fiscal responsibility principles and then provide figures that show how the budget is in compliance with these.

RECOMMENDATION #7: The PFM Act 2012 also requires that the budget estimates presented to the County Assembly include expenditure information at vote (ministry and department) and programme level.

RECOMMENDATION #8: Counties are free to choose their priorities, but should generally focus spending on their core functions and should ensure that all major functions receive funding, unless reasonable explanations for not funding a major function are provided.

RECOMMENDATION #9: All counties should set up a County Emergency Fund and fund it. The law is careful to restrict the uses of the Fund to "urgent and unforeseen" events that "threaten[s] damage" to human life, welfare or the environment.

RECOMMENDATION #10: Good budgeting requires that governments clearly explain not only the total amount they intend to spend on certain items, but also the per unit amounts.

RECOMMENDATION #11: The PFM Act states that

"The County Executive Committee member for finance shall take all reasonably practicable steps to ensure that the approved budget estimates are prepared and published in a form that is clear and easily understood by, and readily accessible to, members of the public."

Good budgets should either have budget lines that are easily understandable to anyone, or they should contain additional notes that explain budget lines that are not self-evident.

RECOMMENDATION #12: Going forward, county governments should clarify how they plan to undertake public consultations, explain this clearly, establish structures, and set aside sufficient funds for this that can be easily found in the budget.

CHALLENGE #1: Most county budgets do not contain any detailed explanation of the choices made in the budget, or the nature and relevance of different programmes.

COUNTY PRACTICE: Nairobi's budget did contain narrative information, at least in the draft budget, while no other counties we examined have this kind of narrative detail.

RECOMMENDATION #1: County budgets, like all budgets, should include a narrative description of programmes to accompany any tables. In addition to information that may be made available through a budget statement or speech, there is a need for a publicly available narrative that explains the assumptions used in the budget (assumptions about revenues and costs, etc.) as well as the reasons for spending more in some areas than others. For example, this is where information should be included about how citizen priorities were taken into account as a result of any consultations conducted. This is particularly important as counties begin to change their spending patterns from what national government used to do. This could lead to a reduction in services in some areas, and enhancements in others. The public should be able to understand these choices.

CHALLENGE #2: Both good practice in budgeting, and the PFM Act 2012, require that counties disaggregate the budget and divide spending into recurrent and development. Many counties failed to do this properly.

COUNTY PRACTICE: Most counties have differentiated between the two types of spending, but not all. For example, Laikipia has not separated recurrent and development spending in its budget. At the same time, even those counties that have highlighted the two types of spending have not always done so consistently or accurately. In some cases, budget lines are so difficult to interpret we cannot be certain whether the spending is recurrent or development. The Nairobi budget lists a number of asset purchases under its recurrent expenditure; the Busia budget lists a number of seemingly recurrent activities, such as branding and marketing, as development spending. Homa Bay also includes recurrent activities as capital spending, such as food aid, agriculture shows, and cash transfers. Some budgets seem to have similar items (e.g., equipment) in both the recurrent and development budget.

RECOMMENDATION #2: All counties should separate recurrent and development spending across the full budget, and ensure that these categories are consistently applied to spending by different departments or ministries. It should be easy to understand what is recurrent and what is development expenditure and why. Recurrent spending is that which occurs every year and includes items like salaries. Development spending refers to capital investment, spending that leads to the creation of assets. All budgets need both kinds of spending: recurrent to keep government running from year to year, and investment to plan for future growth. It is critical to understand the weight put on each, and the links between them. For example, assets must be maintained and therefore all development spending requires recurrent spending on maintenance.

In some cases, budget lines are so difficult to interpret we cannot be certain whether the spending is recurrent or development.

CHALLENGE #3: Many county budgets do not break down their salary costs by department or ministry, but lump all salaries together under a single budget head, like "Executive Services" or "Public Service." This makes it impossible to know the true allocations to different sectors.

COUNTY PRACTICE: In the budgets we examined, Busia, Laikipia and Homa Bay all did this, while Nairobi and Uasin Gishu separated salaries by department.

RECOMMENDATION #3: Good budgeting requires that salaries be distributed across sectors. Wages form a very large part of the budget for many sectors, especially education and health. For example, World Bank estimates from 2012 put wage costs at 89% of recurrent spending in health. The national budget in Kenya separates wages by ministry, and there are examples of good practice such as Nairobi at county level.

CHALLENGE #4: Many county budgets do not contain a multi-year framework (3-5 years), even though it is a requirement of the PFM Act 2012 that at least revenues be estimated for the medium term. The draft PFM regulations also require the same on the expenditure side.

COUNTY PRACTICE: Nairobi has development expenditure and revenues for three years, but not recurrent spending. Most counties only made projections for some of these elements. Busia has estimated recurrent expenditures for three years, but has only a single year of development estimates. Homa Bay estimated revenues for three years. Homa Bay also has some projections for expenditure, but they are not consistent with the final budget figures for the current year. Uasin Gishu and Laikipia have not estimated expenditures or revenues beyond the budget year.

RECOMMENDATION #4: All counties should follow the PFM Act requirements and the practice of national government and provide estimates of expenditure and revenue for at least two additional years beyond the budget year for both recurrent and development spending. Medium term expenditure estimates are important, especially for development projects, because these commit government to spending in future years, which in turn reduces the options for future spending. Any decision taken today that limits what a government can do next year should be clear in the budget.

CHALLENGE #5: It is not easy to tell from many county budgets on what basis they have estimated their revenues and whether these are realistic. Counties have two main sources of revenue: transfers from the national government, and own revenues, but the figures they have used in their budgets are often questionable.

COUNTY PRACTICE: The correct figure for national transfers is contained in the County Allocation of Revenue Act 2013, but a number of counties, such as Busia and Laikipia, seem not to have used the proper figures. Local own revenues are harder to estimate, but one should be able to see how these estimates compare to what local authorities in the county were able to raise in the past as one way of judging how reasonable they are. Most counties have not included such information, but both Homa Bay and Nairobi have.

RECOMMENDATION #5: Every county should use the proper figures from the County Allocation of Revenue Act for their budget. Counties should also report local authority revenues raised in previous years as an estimate of own revenues. Next year, these own revenue estimates should be based in part on what counties are actually able to collect this budget year (even if only through the first three quarters of the year). Local revenues should be broken down by all of the different sources that the county collects. Counties should also include any funding they are receiving in the form of conditional grants, and any funding from donors.

CHALLENGE #6: County governments have not explained how their budgets comply with the "fiscal responsibility principles" in the PFM Act, which include limits on the share of spending for recurrent expenditure in the medium term, the share of spending on wages, the size of the debt, and so on.

COUNTY PRACTICE: None of the counties we looked at provided this information.

RECOMMENDATION #6: Every county must mention the fiscal responsibility principles and then provide figures that show how the budget is in compliance with these. For example, the county should provide a global figure for the share of the budget that is going to recurrent and development costs over the next three years and demonstrate that it complies with the limit of 70% over 3-5 years for the recurrent share of the budget.

CHALLENGE #7: Many counties have failed to provide information on programmes below the ministry or department level. This reflects the fact that they used line-item budgeting rather than programme-based budgets in the first year.

COUNTY PRACTICE: None of the counties we looked at provided a consistent set of programmes below the ministry level in their budgets.

RECOMMENDATION #7: The PFM Act 2012 also requires that the budget estimates presented to the County Assembly include expenditure information at vote (ministry and department) and programme level. Counties should begin to shift toward a programme structure that provides information about all programmes and eventually sub-programmes under each vote (ministry or department). It is understandable that, in the first year, counties largely used line-item budgets similar to the traditional national budget format, but going forward, counties should provide greater detail on their programme structure.

CHALLENGE #8: Some county budgets seem to focus on functions that are national without explanation, while a number of county budgets also ignore areas that are county functions as per the constitution.

COUNTY PRACTICE: Laikipa has proposed considerable funding for primary and secondary education, both of which are national functions. Most counties in our sample did not budget substantial resources for housing, which is a county function. Nairobi did allocate some funding for housing, but it is not clear what the money is to be used for and most of it is recurrent. Uasin Gishu also budgeted some funds for housing, but it appears this was mostly for maintenance of estates.

RECOMMENDATION #8: Counties are free to choose their priorities, but should generally focus spending on their core functions and should ensure that all major functions receive funding, unless reasonable explanations for not funding a major function are provided. If a county is investing in national functions, there should be a clear explanation of why this is being done and how the county will ensure coordination with national government to avoid duplication, or situations where infrastructure is constructed without funding for recurrent expenditure (e.g., schools are built without funding for teachers).

CHALLENGE #9: Few counties have planned adequately for disasters. The PFM Act recommends that counties do this by opening a County Emergency Fund which can spend up to 2% of revenues each year on emergencies, but most counties have not done so.

COUNTY PRACTICE: In our sample, Laikipia and Busia clearly set aside monies in an Emergency Fund, while the other counties did not.

RECOMMENDATION #9: All counties should set up a County Emergency Fund and fund it. The law is careful to restrict the uses of the Fund to "urgent and unforeseen" events that "threaten[s] damage" to human life, welfare or the environment.[1] The amount that should be set aside is up to the discretion of counties, and should reflect an assessment of the risks of major disasters faced by each particular county. Nevertheless, it seems reasonable to set aside about 2% of revenues as implied by the Act.

CHALLENGE #10: In many cases, counties have not provided unit costs for major items, but simply block figures that make it impossible to know how many of particular items will be purchased, or at what cost.

COUNTY PRACTICE: None of the county budgets we examined for this analysis provided consistent unit costs. Laikipia did provide tables highlighting unit costs, but these are not clear or consistent and do not provide sufficient detail to be considered useful measures of unit costs. Homa Bay did provide some detailed unit costs for staff salaries, but these are only for staff from the previous local authorities.

RECOMMENDATION #10: Good budgeting requires that governments clearly explain not only the total amount they intend to spend on certain items, but also the per unit amounts. This is important to understand how realistic the budget is, and to ensure that government is paying rates that are in line with the private market for goods and services. For all asset purchases, county budgets should provide a unit cost used to estimate the total cost. If a county is promising to buy air conditioning units, the budget should specify a number of units and a price per unit used to estimate total costs. For staff costs, a number of employees should also be provided. It should be possible to calculate at least an average wage. Ideally, counties would also show, as the national government budget did in 2012/13, the actual class of worker and the salary for that class.

If a county is promising to buy air conditioning units, the budget should specify a number of units and a price per unit used to estimate total costs.

1 PFM Act 2012, 110.

CHALLENGE #11: Many counties have budget lines that are unclear. The lack of narrative and notes explaining these budget lines can lead to confusion about government priorities.

COUNTY PRACTICE: While many counties used a standard template provided by national government and borrowed codes from the national chart of accounts, there are still a number of budget lines that are unclear in most budgets. For example, what exactly will money be spent on under the following headings?

Busia: "Trees for Jobs" and "County youth friendly medical centres" (what are these programmes? will money be spent on salaries, refurbishment or investment?)

Laikipia: "Resource Mobilization" and "Resource Centre" (resources for what? is this money for salaries? matching grants? resource centre for what or whom?)

Uasin Gishu: "County Government Association Membership Fee" and "Inter-County Forum Contribution" (what bodies are these and how are they different?)

These are examples, but there are many more budget lines that are not clear across the budgets we examined.

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"The County Executive Committee member for finance shall take all reasonably practicable steps to ensure that the approved budget estimates are prepared and published in a form that is clear and easily understood by, and readily accessible to, members of the public."[2]

Good budgets should either have budget lines that are easily understandable to anyone, or they should contain additional notes that explain budget lines that are not self-evident. It is generally a matter of common sense to determine what is easily understandable and what is not in a budget, but county governments should also be able to determine this from public engagements during the budget process. Comprehensive narrative/notes, following the example of the national programme budget in South Africa, should become standard going forward.

CHALLENGE #12: Counties must set aside funds for public participation in planning and budgeting, but most do not seem to have done so, or at least we are unable to find it, given the budget lines used.

COUNTY PRACTICE: Neither Homa Bay nor Laikipia seem to have anything that can be interpreted as civic education or public participation budgets. In some other counties, like Nairobi, there is a budget for "awareness," but it is not clear what this refers to. Finally, in Busia, there is an allocation for public participation, but it is only in the County Assembly budget.

RECOMMENDATION #12: Going forward, county governments should clarify how they plan to undertake public consultations, explain this clearly, establish structures, and set aside sufficient funds for this that can be easily found in the budget. The PFM Act also requires that the county treasury issue a budget circular in August each year that will provide information on the procedures to be followed by members of the public who wish to participate in the budget process.

2 PFM Act 2012, 131(6).

CONCLUSION

The 2014/15 budget process is already underway. While counties faced numerous challenges in budgeting in the 2013/14 year, county officials can and must do better in the second year of budgeting. This paper is designed to provide some guidance on how they can achieve this, and some direction to citizens and legislators about what to look for as they exercise their oversight roles.

In addition to improvements in the presentation of the county budget estimates, we urge counties to think about how to present other budget documentation in a simple and transparent manner. For example, the public and the county assemblies should also access and review the County Budget Review and Outlook Paper, the County Fiscal Strategy Paper and quarterly budget implementation reports. These documents should also be produced in a manner that is consistent with the presentation of the budget estimates. Counties should also consider producing Citizens Budgets, as the national government has done for the last several years, to highlight key areas in the budget.

In addition to the issues we have raised, we encourage citizens and officials in every county to discuss together how they would like budget information to be presented so that it is of most use to county residents. Devolution demands an informed public, but it is not only for county officials to guess how to inform the public. Citizens should also be asked, and must offer, their views on how to make budgets easy to understand and use.