Progress and Challenges in Transparency of Supplementary Budgets

Kenya’s County Budget Transparency Survey 2023

by Neema Lois and John Kinuthia
Introduction

The formulation of supplementary budgets has resulted in many accountability and transparency issues and a change in citizens’ priorities as supplementary budgets are formulated. Kenya’s public finance management laws do not require the county governments to seek public input when developing supplementary budgets, which has caused citizens’ priorities to change during the implementation stage from what was initially considered during the formulation and approval stages. At the national government level, there have been at least two supplementary budgets annually with the exception of 2019/20 where there were three due to the COVID-19 pandemic. According to County Governments Budgets Implementation Review Report 2022/23, produced by the Controller of Budget, all 47 counties produced supplementary budgets, with 30 having two each and four counties having three supplementary budgets in FY 2022/23.

However, even with the varied issues surrounding the formulation of supplementary budgets, it is also worth noting that they sometimes bring a positive and necessary impact in their formulation and implementation. A good example is the need that arose for reallocation of resources upon the occurrence of the Covid-19 pandemic that adversely affected the country. The Kenyan Constitution and PFM Act (2012) set standards for preparing and approving the supplementary budgets, limiting spending to 10% of the appropriated amount unless special circumstances arise. In addition, the legislations also present the details that government should provide in the supplementary budgets. It is also important to note that Supplementary Budgets are not only in Kenya but globally and countries like US, India and France have similar practices for supplementary budgets, created to respond to under unforeseen circumstances.

Summary Findings

1. The number of counties publishing their supplementary budgets has more than doubled between 2021/22 and 2022/23. The number of counties that published their budget revision in this period went up from 7 to 15.

2. However, the information published in supplementary budgets has declined between the two evaluation periods dropping 62 to 48 points out of a possible 100.

3. Counties are still providing limited information on the impact of budget revisions on fiscal discipline and adherence to the ten percent limit upon revision.

4. A majority, 12 out of 15, counties provided information on revenue that would fund the expenditure revisions to their budgets.
Why the Transparency of Supplementary Budgets Matters

In Kenya, many Supplementary Budgets fall short on the budget information they provide due to being prepared under very short timeframes. Additionally, the government may not fully involve the public to the extent that budget estimates are done. Even with these shortcomings, supplementary budgets should still contain information justifying adjustments, listing funding sources, including budget summaries, and incorporating fiscal projections. Adherence to the details of fiscal responsibility principles by county governments is also a critical part of the process of revising budgets.

It is good practice for supplementary budgets to provide justifications for their formulation to be deemed effective and complete. The document should also list some of the sources of funding that will be leveraged to pay for the proposed adjustments. It should also include a summary of its approved budget, actual budget, and supplementary budget in addition to fiscal projections for a maximum of three years. Additionally, supplementary budgets should provide information on how their creation will not lead to a deficit or affect service delivery to citizens. This information can be broken down into three:

- **Clearly indicating synchronized revenue and expenditure adjustments.** For example, if the supplementary budget shows an increase in expenditure there should be a corresponding increase in revenue otherwise a deficit will be created.
- **Provide adjustments, if any, at the program level.** This means that an increase in expenditure under one department or program should be supported by a cut in another sector as an additional measure to prevent deficit creation.
- **Outline the impact of adjustments on service delivery.** To uphold this, financial adjustments presented in the supplementary budgets should be accompanied by corresponding non-financial information. Clear explanations should be given on if and how the adjustments will affect service delivery and if so, the mitigation measures.

Supplementary Budgets should not affect the service delivery or should not outdo the original budget priorities, but rather should enhance by correcting challenges that may have arisen as a result of unforeseen and unavoidable circumstances. There have been challenges that have been known to come with supplementary budgets including introduction of new budget lines and introduction of new capital projects.

There is a growing concern around the consistency of supplementary budgets, the shifts they bring about in the priorities of citizens during the implementation of budgets, the deficits they create, and the lack of transparency. The number of supplementary budgets that should be developed and approved at the county level is still a debate, as this is only required under unforeseen circumstance. When counties approve their Supplementary Budgets, they must publish them as a step towards ensuring budgets are transparent and even enhancing accountability.

What we Did

This modular research is part of the County Budget Transparency Survey 2023 done by IBP Kenya and county-based researchers, and approach used in the main County Budget Transparency Survey. The analysis focused on counties that published their supplementary budgets for the FY 2022/23. According to the Controller of Budget’s quarterly and annual budget implementation reports for FY 2022/23, all 47 counties made adjustments to their budgets for FY 2022/23.
All the 47 county governments official websites were checked to access whether they made supplementary budgets publicly available. The County PFM Regulations 2015, require that all documents should be made publicly available within seven days after they are tabled in the County Assemblies. While there is no official date to publish supplementary budgets, all the supplementary budgets in that financial year were submitted to the County Assemblies for consideration and approval. Therefore, at a minimum they should have been made public at the latest within seven days after the end of the financial year in an extreme case of tabling on the last day of the budget calendar.

The questionnaire used for evaluation comprises eight indicators based on the requirements in law on the types of information that counties should include in their supplementary budgets.

**Box 1: The Information that Should be Provided in Supplementary Budgets**

The Public Finance Management Regulations section 38 (6) provides details on what information should be presented in a supplementary budget. The detailed budget information provided in these budgets must be presented in a format that allows for easy comparison with the original approved budget. It should be comprehensive and include all the necessary information for decision-makers to reach a clear and informed conclusion on the proposed revisions. This information includes:

- a) The vote, program, sub-programmed, broad expenditure category which it desires 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 the request is made.
- c) The amount of the supplement required, the reasons why the supplement is necessary, and why it has not been possible to keep within the voted provision.
- d) The basis for the calculation underpinning the supplementary.
- e) The proposed source of financing for the additional expenditure.
- f) An analysis of the fiscal impact of the additional expenditure or of the implications, if any, for the planned outputs and outcomes of the affected programmers.
- g) Any implied deviation from the Medium-Term Expenditure Framework (MTEF) and the financial objectives.
- h) The latest fiscal projections.

**Which counties were required to publish supplementary budgets in FY 2022/23?**

The availability findings indicate that all the 47 counties published at least one supplementary budget in FY 2022/23. This happened in different quarters. The results based on the quarterly budget implementation review reports demonstrates that most first supplementary budgets fall under the third quarter at 45 percent with only one county passing supplementary budget during the first quarter.

In FY 2022/23, only eighteen counties published their supplementary budgets on their county government’s official websites. The list of the counties shown in table 1 indicates the counties and the number of supplementary budgets that are required to be published online. However, of these counties, only fifteen published their supplementary budgets in the programmer-based format in line with their approved Programme-Based Budgets. These are the counties that fulfilled the criteria to be part of the evaluation of the supplementary modular and were evaluated in the survey.
Table 1: Distribution of supplementary budgets as published by counties in FY 2022/23

<table>
<thead>
<tr>
<th>Number of Supplementary Budgets</th>
<th>Number of counties</th>
<th>List of counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>13</td>
<td>Nakuru, Bomet, Elgeyo-Marakwet, Turkana, Wajir, West Pokot, Busia, Kiambu, Kisumu, Marsabit, Tana River, Laikipia, Meru</td>
</tr>
<tr>
<td>Two</td>
<td>30</td>
<td>Bungoma, Garissa, Isiolo, Kirinyaga, Kitui, Kwale, Lamu, Migori, Murang’a, Nandi, Nyeri, Samburu, Trans-Nzoia, Baringo, Embu, Kajiado, Kericho, Kilifi, Kisii, Machakos, Mandera, Nairobi, Narok, Nyamira, Nyandarua, Siaya, Tharaka Nithi, Uasin-Gishu, Vihiga and Mombasa</td>
</tr>
<tr>
<td>Three</td>
<td>4</td>
<td>Homa Bay, Kakamega, Makueni and Taita-Taveta</td>
</tr>
<tr>
<td>More than three</td>
<td>none</td>
<td>none</td>
</tr>
</tbody>
</table>

Source: IBP Kenya analysis, quarterly budget implementation review reports data

Key findings on transparency of Supplementary Budgets

1. The transparency of county supplementary budgets is improving.

The CBTS 2023 shows some improvement in the number of counties publishing their supplementary budgets. The number of counties that published supplementary budgets rose from 7 to 15 between FY 2021/22 and FY 2022/23. These were the documents that were in programme-based budget (PBB) structure. Therefore, the availability of supplementary budgets has more than doubled between the two years. While the progress is impressive the total number remains below the half point mark. In addition, this is lower than the availability rate of the other key budget documents that stands at 73 percent. In particular, counties published 35 PBBs in 2022/23 but only 15 counties published their supplementary budgets despite all passing the supplementary budgets. This trend is similar to what was found in the CBTS 2022. In addition, there are three counties that published supplementary budgets, but they were not in PBB format. Therefore, there were 18 counties which published documents but only 15 were evaluated for this analysis.

Figure 1: Published approved Programme Based-Budgets and Supplementary Budgets
2. More documents but less information.

The overall average score based on the information provided in the supplementary budgets was 48 out of a possible 100 points. This is lower than the performance in the previous survey where the average score was 62 points out of 100 points. At the level of individual counties, Kisumu had the most comprehensive supplementary budget with a score of 73 while Bungoma had the lowest score of just 13 points. Additionally, there is a notable difference between the level of comprehensives in PBBs and Supplementary budgets. Out of the comparable 12 counties that published their PBBs and supplementary budgets (see Figure 2), there is more information provided in PBBs than in supplementary budgets. This was concluded from a notable average of 53 of comprehensiveness in PBBs against an average of 43.1 in Supplementary budgets. This is an indication that counties are providing less information in their supplementary budgets. Another notable observation is that some counties such as Bomet did not publish their PBBs, so even with a high comprehensiveness score in the supplementary budgets, there is no base of comparison for the citizens decreasing information-based transparency.

Figure 2: Comprehensiveness of Supplementary Budgets vs. approved Programme Based Budgets

3. Reasons for the revision of budgets.

The PFM Act provides situations that should be addressed through supplementary budgets. This includes emergent issues that cannot be practically budgeted for, such as emergencies. Therefore, any supplementary budget should include information on the reason(s) that forced the county to revise its approved budget.

Some of the reasons given by county governments, according to OCOB implementation report (2023), necessitating changes in supplementary budgets included provisions for pending bills that were carried forward from the previous financial year, to allow the county governments to meet their debt obligations and changes in priorities during the implementation stage of the budget.

Table 2: Reasons for counties passing supplementary budgets

<table>
<thead>
<tr>
<th>Reason for need for budget changes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Appropriating for unspent balances and opening balances</td>
<td>Sometimes counties have funds carried forward from previous year/ unspent balances and should be budgeted for.</td>
</tr>
<tr>
<td></td>
<td>Revenue Discrepancies: For example variations in conditional grant allocations between County Allocation of Revenue Act and the budgeted amounts.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>3</td>
<td>Late disbursements of funds to counties</td>
</tr>
<tr>
<td>4</td>
<td>Challenges in programmes actual receipts and allocations during the implementation period</td>
</tr>
<tr>
<td>5</td>
<td>Discrepancies flagged out and need to be corrected such as defaulted votes or budget lines</td>
</tr>
</tbody>
</table>

Source: County quarterly budget implementatation review reports

This analysis shows that only eight of the 15 counties provided any reason to explain the adjustments captured in their supplementary budgets. In addition, the overall average score is only 53 points out of 100 based on the justification provided by the county governments. This drops to 20 points when reasons are evaluated at the departmental level. Therefore, counties are providing limited information on the overall reasons for revising their budgets, and even less on the justification of adjusting budget at the departmental level.

**4. Adherence to ceilings cap when making budget revisions.**

The PFM Act requires that any budget revisions remain within a ceiling of 10 percent. Specifically, Section 135 (7) states the requirement of this ceilings from a spending perspective:

“In any financial year, the county government may not spend under this section more than ten percent of the amount appropriated by the county assembly for that year unless that county assembly has, in special circumstances, approved a higher percentage.”

Therefore, counties should explain whether the proposed budget adjustments are within these limits. This can be done in two ways; first by providing a summary table for all departments and their approved and proposed budgets. Secondly, by including a narrative that states the status of adjustments against the ten percent ceilings that is set in law. Only two counties, Nairobi and Makueni, out of the 15 provided some information on this measurement. However, the two counties only mention their adherence to this ceiling but not on whether that is across all departments. However, according to the FY 2022/23 Auditor General’s report on the County Governments, counties continue to breach this ceiling requirements some exceeding the threshold to up to 100 percent.

**5. Details on financing of additional budget expenditure.**

Source: Auditor General’s Report on County Governments FY 2022/2023
Most counties continue to struggle in attaining their own source revenue targets. Therefore, counties should provide information on how any additional spending will be funded. In this survey, 12 of the 15 counties provided information on revenue that would fund the revised budget. The example below is from Makueni, and it shows the revenue adjustments that align with the expenditure assignment. This means that the county will not create any deficit or leave any revenue surplus in its revisions. A good practice from Makueni is the level of detail in the revenue estimates.

Figure 3: Good practices on expenditure vs. revenue revisions

6. Information on approved budget estimates and expenditure at the point of revision

Supplementary budgets are proposed and approved during the budget implementation phase of the budget cycle. This means that at the point they are tabled there is already an approved set of budget estimates and some level of spending. For example, most supplementary budgets will often be approved...
in the 3rd and 4th quarters of the financial year. Therefore, the proposed revised budget should include details of the approved budget, the spending so far and potential implications of the revisions on both items. On average, the fifteen counties had 58 points out of 100, with fourteen providing information. However, only Busia County provided all the details on approved and spent amounts across all departments/sectors. The score remained the same when the same information was evaluated at the programme level. However, no county provided the full set of information at this level.

### Fiscal Responsibility Principles

1. In managing the county government’s public finances, the County Treasury shall enforce the following fiscal responsibility principles.

2. The county government’s recurrent expenditure shall not exceed the county government’s total revenue.

3. Over the medium term a minimum of 30% of the county government’s budget shall be allocated to the development expenditure.

4. The country government’s expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government’s total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.

5. Over the medium term, the government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

Source: Public Finance Management Act 2012

### SUMMARY OF EXPENDITURE BY VOTE AND CATEGORY FOR THE FINANCIAL YEAR 2022/2023

<table>
<thead>
<tr>
<th>Vote Title</th>
<th>Approved Budget Estimate 2022/2023</th>
<th>1st Revised Budget Estimate 2022/2023</th>
<th>2nd Revised Recurrent Budget Estimates 2022/2023</th>
<th>2nd Revised Development Budget Estimate 2022/2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Agriculture, Livestock, Fisheries, Climate Change, Blue Economy and Agriculture</strong></td>
<td>639,545,205</td>
<td>1,376,680,410</td>
<td>188,121,036</td>
<td>86,814,809</td>
</tr>
<tr>
<td><strong>2 Trade, Investment, Industry and Co-operatives</strong></td>
<td>166,042,924</td>
<td>201,335,540</td>
<td>35,735,711</td>
<td>50,244,797</td>
</tr>
<tr>
<td><strong>3 Education and Vocational Training</strong></td>
<td>623,038,192</td>
<td>711,684,425</td>
<td>373,925,209</td>
<td>248,910,468</td>
</tr>
<tr>
<td><strong>4 Finance, ICT and Economic Planning</strong></td>
<td>836,270,639</td>
<td>969,716,542</td>
<td>433,673,627</td>
<td>461,284,095</td>
</tr>
</tbody>
</table>

Source: Busia County PBB FY 2022/23

#### 7. Impact of fiscal responsibility thresholds

The public finance management act sets thresholds that county budgets should operate within. The ceilings are meant to ensure there is fiscal responsibility in allocations and spending. The thresholds include:

Only five out of the 15 counties provided any updates on the impact of the proposed revisions on the fiscal responsibilities listed above. The average score across these counties was only 23 out of 100 points, an indication of the low level of information. Wajir and Kisumu provided good examples of how this information should be presented.
Conclusion

The analysis of Kenya's County Budget Transparency Survey 2023 emphasizes how important supplementary budgets are for handling unanticipated circumstances and maintaining fiscal responsibility. In addition to being used to modify revenue and expenses during the fiscal year, these budgets are essential for upholding accountability and transparency in the budget's execution.

The findings underscore how crucial it is to increase accountability and openness when formulating and implementing supplementary budgets. On the positive side, there has been a significant increase in the number of counties publishing their supplementary budgets, with the number rising from seven to 15 between FY 2021/22 and FY 2022/23. This indicates a more than twofold increase in the availability of these crucial documents.

On the same note, counties ought to strive to adhere to spending caps, give comprehensive justifications for budget changes, and make sure that changes to revenue and expenses are synchronized. The level of information in supplementary budget documents should be increased, monitoring and control systems should be strengthened, and more public involvement in the budgeting process should be encouraged. In light of these findings, it is clear that while progress has been made in improving budget transparency in Kenya, significant challenges remain. This should not only be on the increase of availability but also counties should enhance service delivery to citizens, encourage fiscal prudence, and fortify their budget transparency processes by tackling these issues and putting these concepts into actuality.
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