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HOW TO READ AND USE A BUDGET REVIEW AND OUTLOOK PAPER

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This guide is part of a series on how to read and use key national and county budget documents in Kenya. Here we examine the Budget Review and Outlook Paper, a document that must be produced by both national and county governments every year, using the 2015 national Budget Review and Outlook Paper as an example. The information in this guide should be useful for reading any county Budget Review and Outlook Paper.

WHEN IS THE BUDGET REVIEW AND OUTLOOK PAPER PRODUCED?

The Budget Review and Outlook Paper (BROP) is reviewed by the cabinet no later than 30 September each year. It is then tabled in the national assembly or relevant county assembly and should be available to the public by early November at the latest.

WHY IS THE BUDGET REVIEW AND OUTLOOK PAPER IMPORTANT?

BROPs at both national and county level have three important functions:

1. BROPs function as a year-end report, providing an assessment of budget performance from the previous financial year. As they are produced almost three months after the end of the financial year, the government should have a good sense of the successes and challenges in implementing the previous year's budget.
2. They also provide an update on the government's fiscal position for the first quarter of the current financial year. In February, prior to the start of the fiscal year, the government provided a projection for the current year in the national Budget Policy Statement (or County Fiscal Strategy Paper). Six months later, the BROP indicates whether the government's projections have turned out to be correct or not.
3. Finally, they play a key role in setting the share of the budget that will be distributed to different sectors (health versus education versus other areas) for the next financial year. BROPs propose "provisional ceilings" (maximum shares) for each sector, and the government organizes sector hearings between November and January to revise this proposal. The revised ceilings are published in February in the Budget Policy Statement (or County Fiscal Strategy Paper).

An understanding of each of these functions is important for learning how to read and use BROPs.

READING A BUDGET REVIEW AND OUTLOOK PAPER

To learn how to read a BROP it is useful to look at an example. This Guide uses the 2015 national Budget Review and Outlook Paper, available on the Treasury website and a google drive set up to story Kenyan budget documents.[1] The 2015 BROP should be read alongside this guide.

1. REVIEWING PERFORMANCE OF LAST FINANCIAL YEAR

The 2015 BROP was released in November of 2015. It reviews the performance of the 2014/15 financial year, which ended on 30 June 2015.

[1] See http://treasury.go.ke/downloads/category/27-budget-outlook-paper.html and http://bit.ly/kebrop2015

How can we assess budget performance? At the most basic level, we want to know how well the government did in collecting revenue and spending it and what impact this has had on the deficit. The best way to start is to look at the tables in the BROP and then identify any supporting narrative that helps explain them.

REVENUE

Table 1 on page 3 of the 2015 BROP provides information about revenue performance. It covers three broad revenue sources:

1. Ordinary revenue – funds that are mainly generated from taxes.
2. Appropriations in Aid (AiA) – funds collected directly by ministries or agencies either from user fees or from donors.
3. Grants – donor funds channeled through the National Treasury.

Table 1 specifies the target for each revenue source (the budgeted amount) and the actual amount collected. From this table, we can see the following:

- Total revenue (including grants) in 2014/15 fell short of budget by approximately Ksh 103 billion, or 8 percent of target. The shortfall was due to weak collection of all three types of revenue: taxes and fees fell short by nearly Ksh 40 billion, AiA by nearly Ksh 25 billion, and external grants by nearly Ksh 40 billion.
- Nevertheless, 10 percent more revenue was collected in 2014/15 as compared to 2013/14. This can be calculated by comparing total revenue and grants in column 1 and column 2. The targeted increase in revenue was 20 percent, which we calculate by comparing the target in 2014/15 to the actual in 2013/14.

Why was less revenue collected than the amount targeted? Pages 2 and 3 of the 2015 BROP contain some narrative related to revenue performance, but there is only one sentence that might be considered an explanation of what we observe in the table. Paragraph 10 of the narrative states: "Cumulative ministerial AiA recorded an underperformance in the year due to the persistent problem of underreporting especially by spending units."

This implies that the difference between the targeted and actual amounts of AiA collected was due to ministries failing to report all of the AiA they received, rather than that they did not receive it. Ministries sometimes receive in-kind support from donors, such as through the hiring of consultants. Even though ministries are required to report such support, they often fail to do so because no funding is received. However, this is speculative: the 2015 BROP provides no further explanation of what happened and fails to estimate the size of the problem relative to the total budget or reported revenues.

EXPENDITURE

Table 2 on page 4 of the 2015 BROP provides us with information about expenditure. Specifically "expenditure and net lending." Net lending refers to loans within government between the Treasury and state corporations. If the Treasury will be lending state corporations more than it is receiving back from them in payments on existing loans, there will be positive net lending for the coming year (and therefore increased expenditure). It is generally a very small part of overall expenditure.

Table 2 divides expenditure into five categories: 1) recurrent, 2) development, 3) county transfer, 4) equalization fund, and 5) contingencies fund. The first two are clear; the third refers to the total amount transferred to counties each year through the unconditional equitable share and any other conditional grants. The fourth refers to the constitutional fund for marginalized areas to improve services, and the fifth is the national government's emergency fund. We can determine the following from Table 2:

- Total expenditure was 88 percent of target expenditure (Ksh 1.64 trillion in actual spending versus a target of 1.86 trillion).
- Most of the underspending happened in the development budget (Ksh 509 billion in actual spending versus a target of 684 billion). This Ksh 176 billion gap accounted for roughly 80 percent of all underspending.
- Recurrent spending was also below target. The main culprit here seems to have been "other spending," including operations and maintenance expenditure, which was below target by Ksh 45 billion.

- Total spending nevertheless grew by nearly 24 percent from 2013/14. The targeted increase in spending was 40 percent (comparing target in 2014/15 to actual in 2013/14).

Are these findings explained in the narrative? The phrase "attributed to" is used several times on pages 3 and 4 of the BROP but further description is not provided. For example, paragraph 13 states that the expenditure shortfall was "attributed to lower absorption in recurrent and development expenditures." But the reasons behind low absorption are not explained. There is one potential explanation, mentioned twice, as in paragraph 14: "The lag between spending at the sub-county level and reporting to the headquarters continues to contribute to the apparent expenditure underperformance."

As with AiA, this seems to suggest that spending is actually higher than it appears in the tables because the lower level spending units have not yet reported their actual spending. There is no further explanation of the problem or its magnitude.

DEFICIT

What are the implications of expenditure and revenue performance for the deficit? Table 4 on page 7 contains this information. There are different ways of calculating the deficit (e.g., including grants or excluding them) but, no matter which method is used, Table 4 shows that the underspending has helped to reduce the actual deficit below the target deficit. In other words, to the extent that figures reported reflect actual underspending the upside has been a smaller deficit.

BRINGING IT ALL TOGETHER

Looking at revenue and expenditure together, both are growing rapidly but falling short of the targets. This might indicate that the targets are simply too ambitious. Overall, spending is growing faster (24 percent) than revenue (10 percent), which is leading to a rising deficit. Including grants (cash basis), the deficit was 308 billion in 2013/14 and 470 billion in 2014/15. This evidence could be used to question how realistic the targets in next year's proposed budget are, and to examine whether the growing deficit may lead to heavy indebtedness over time.

BREAKING IT DOWN

Of course, most of us are not only interested in the overall picture, but in specific ministries and programs. Does the BROP contain more detail about spending across ministries?

Table 3 on page 6 contains detailed information on budgets for ministries and departments (but not programs). How should we read this table? One option is to look at the ministry of interest and compare its actual spending against its target spending. Another is to look at the ministries with the greatest gaps between actual and target spending.

Since this is a general guide, let's take the latter approach and look at those ministries that fell short of their targets by the largest amounts. We can do this by comparing the columns labeled "Jun 15 Total" with the "variance" column. The largest variance by far is for the State Department of Transport. Table 1 of this guide shows the five ministries/agencies with the largest variances.

Table 1. Ministries and Agencies with Large Variances

MDA	Variance (Billions)
State Department for Transport	-148
Ministry of Energy	-38
State Department of Infrastructure	-27
State Department for Interior	-25
The National Treasury	-15

What are the reasons for these large variances? The explanation in the narrative is limited. We are told again that "district" funding and some donor funded projects are unreported. No explanation is provided, as we might expect, of why certain ministries performed worse than others.

The massive underspending in Transport raises questions. When we look at the original budget, we can see that this underspending is the result of a massive increase in the budget for Transport in the middle of the year. Transport actually spent roughly 40 billion and the original budget for 2014/15 was 46 billion, a fairly good performance. However, the government must have expected to receive and spend additional funds on the railway, the main item under this department. One reason that the budget was revised upward but implementation was poor may be because these funds were never received. However, this is not detailed anywhere in the BROP and is only possible to uncover from looking at additional documents, such as the initial budget and the Controller of Budget annual report for 2014/15.[2]

The BROP does not contain program level information. This is inconsistent with global good practice for year-end budget reviews. The Open Budget Survey 2015, for example, considers the best practice (i.e., awards the highest score) to be inclusion of expenditure data against programs for all spending, and the inclusion of information on achievement of nonfinancial targets as well (such as those included in Kenya's program-based budget).[3]

2. UPDATING THE FISCAL POSITION

The BROP's second function is to provide an update of economic expectations for the current financial year. The 2015 BROP, which was released in November 2015, provides this for the 2015/16 financial year. As projections for the 2015/16 financial year were made in the Budget Policy Statement released in February 2015, we can check this to see how accurate they have turned out to be.

The 2015 BROP does not have one single section where the economic update is discussed, but a good place to start is with Table 7 on page 13. This table compares projections from the Budget Policy Statement 2015 with key indicators from the BROP 2015. Table 7 shows fairly minor changes between projections for total revenue, total spending, and total deficit. There is an increase in revenue of Ksh 5.7 billion, an increase in spending of Ksh 16.3 billion, and a consequent increase in the deficit of nearly Ksh 11 billion.

The 2015 BROP also suggests that both revenue and spending are broadly in line with targets for the 2015/16 budget. This is described on page 22 (paragraphs 68 and 69). Interestingly, this differs from previous public claims by Treasury that Kenya Revenue Authority was under-collecting and needed to be audited.[4]

Projections for revenue and expenditure for the year depend heavily on the state of the economy in that year. One of the things we should ask is whether the projections for economic growth have changed and whether these are factored into the new projections for revenue and expenditure. Table 9 on page 25 seems to suggest that projected growth in 2015/16 was originally 7 percent, but the projection has dropped to 6.2 percent. This is a fairly large drop in growth. How will it impact revenue or expenditure? A layperson may not be able to say with confidence what the relationship between growth and revenue should be, but it is certainly worth asking how a substantial projected decline in economic growth can lead to a small projected increase in revenue.

3. THE SECTOR DISTRIBUTION

The last major section of the BROP we consider here is the proposed distribution of spending across major sectors for the coming budget year. The most important question we want to ask in this section is whether priorities are changing at sector level from the current year to the next budget year. The share of the budget going to key sectors in each year is useful to assess this.

Looking at the 2015 BROP, the proposed sector distribution is contained in Table 10 on page 31. In general, the way to read this table is to focus on the "% shares of total budget" columns to the right. Because the total budget tends to increase over time, looking at absolute allocations is not informative about relative changes in priority. However, this can vary from year to year. We consider both the absolute figures and the percentage figures in Table 2 of this guide.

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[2] See http://cob.go.ke/national-government

[3] See Open Budget Survey 2015 questions 86 and 92 http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/

[4] See http://www.businessdailyafrica.com/Uhuru-orders-lifestyle-audit-for-KRA-staff/-/539546/2924502/-/15crnw3z/-/index.html

The total size of the 2016/17 budget for ministries, departments, and agencies (MDAs) is actually not much larger than the 2015/16 budget: an increase from 1.505 trillion to 1.526 trillion. As the table shows, some sectors are increasing and some are decreasing in absolute size.

Table 2. Sector Increases and Decreases in Absolute Values

Sectors	**Increase Amount (Ksh billions)**	**Sectors Decreasing**	**Decrease Amount (KSh billions)**
Health	2.3	Agriculture	10.3
Education	23.1	Energy/infrastructure	46.3
Governance, Justice	21.7	Economic Affairs	1.9
Public Administration	12.8		
National Security	4.7		
Social Protection	0.5		
Environment	14		

Given a rising budget, it is generally fair to conclude that sectors with funding decreases are not priority areas. However, to understand relative priorities we must still look at relative shares of the budget for both ministries with funding that is increasing and decreasing. Table 3 shows sector increases and decreases as a share of the budget.

Table 3. Sector Increases and Decreases as a Share of the Total MDA Budget

Sectors Increasing	**Increase as a percentage of total budget**	**Sectors Decreasing**	**Decrease as a percentage of total budget**
Health	0.1	Agriculture	0.8
Governance, Justice	1.3	Energy/infrastructure	3.4
Public Administration	0.6	Economic Affairs	0.1
National Security	0.2		
Environment	0.8		
Education	1.2		
No Change			
Social Protection	0		

In this particular year, differences between the two tables are minimal.

It is worth noting that the increases for health and security are so small that their share of the budget is rising by less than one percent. The main changes in this budget are an increase in the priority given to the education and governance sector, and a decrease for energy/infrastructure.

Does the narrative support or justify these changes? There are a number of conclusions that can be drawn from the main discussion on page 30.

Education and health are highlighted as key sectors and the government states that they will "continue to be allocated additional resources." This is correct in terms of actual funding amounts, but no mention is made of the fact that education and health are set to drop as a share the following year (2017/18) before rebounding in 2018/19.

The energy/infrastructure sector is highlighted as a "driver of the economy" and the narrative states that "the sector allocation will continue to be maintained or increased over the medium term." This statement is incorrect. The sector allocation is decreasing in absolute terms and in percentage terms in 2016/17. Table 10 shows it will continue to fall over the medium term as well. The narrative mischaracterizes this sector's importance and provides no explanation for what is actually happening. Page 26 provides some narrative suggesting that development spending will fall over the medium term with completion of the Standard Gauge Railway, but this is not consistent with the narrative on page 30.

Governance, Justice, Law and Order is singled out as an important sector, though it is not mentioned whether funding will be increasing for the sector. The narrative is consistent with the increase in absolute and percentage terms we have seen; its share of the total budget has increased by 1.3 percentage points. Nevertheless, the narrative could be clearer about the increase. It does mention some specific areas of spending, such as "retooling…of the policing services" and "implementation of the constitution," but remains ambiguous about whether the sector budget is increasing and for what.

The final discussion relates to "other priority programmes" whose resources will be "ring fenced over the medium term." It is not entirely clear what is covered here. Social welfare is mentioned, but this is not a sector. The 2015 BROP reports on a sector known as social protection, but it does not explicitly link it with "social welfare." A "transformative education system" is also mentioned, but as explained above the education sector was already mentioned and we saw that its share of the budget will decline in 2017/18, not entirely consistent with 'ring-fencing" "ring-fencing"). The repetition of various items, including health, education, and the inclusion of new items, such as food security and social welfare, that do not correspond to sectors, makes this section difficult to interpret.

In summary, the narrative provides only limited explanation or justification of the choices made in terms of the sector distribution. This can be seen as an opportunity to push for greater clarity about the reasons for prioritizing particular areas in the budget in 2016/17.

CONCLUSION

What are the key points that an analyst of the 2015 BROP, or a parliamentarian exercising oversight over the executive during the budget process, would take away from a review of the document?

1. **The growth targets provided by Treasury may be too ambitious.**
   We can compare the total revenue and expenditure in the 2015 BROP for the 2015/16 revised budget with the totals for 2016/17 (Annex Table 2). These tables show that revenue is projected to grow by about 14 percent and expenditure by about 4 percent. These figures seem far more reasonable than what we saw above for the previous year, when revenue was expected to grow by 20 percent and expenditure by 40 percent.

2. **Further explanation of the potential impact of declining economic growth projections on revenue and spending is needed**.
   More information is needed to understand why a declining projection of economic growth is not expected to impact revenues in the current budget year. Moreover, we might ask why more attention has not been given to the liquidity challenges the government appears to have faced in the first quarter and its expected impact on the budget for the year. Data available from the *Kenya Gazette* suggest that the government spent about Ksh 47 billion less by the end of October in 2015 than it had in the same period in 2014.[5] Will this require an adjustment in the 2015/16 budget? The BROP 2015 does not tell us.

3. **The government has reduced the priority given to infrastructure in favor of education, governance and the environment but has failed to justify the decision**.
   The 2015 BROP fails to justify why the share of the budget devoted to infrastructure is decreasing. The narrative suggests this is apriority area that is receiving an increasing amount of funding. There is no mention of the environment and only vague mention of governance. There also remain questions as to why other sectors are not getting more or less: why is agriculture spending falling? Why isn't health spending rising faster? The BROP 2015 provides no answers to such important questions.

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[5] See *The Kenya Gazette*, 21 November 2014 and 27 November 2015.