



BUDGET PERFORMANCE BY THE NATIONAL AND COUNTY GOVERNMENTS: *Realities and way forward*

**PRESENTATION TO THE ICPAK PUBLIC SECTOR TAX
SEMINAR**

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Deputy Controller of Budget**

June 3, 2015

OUTLINE

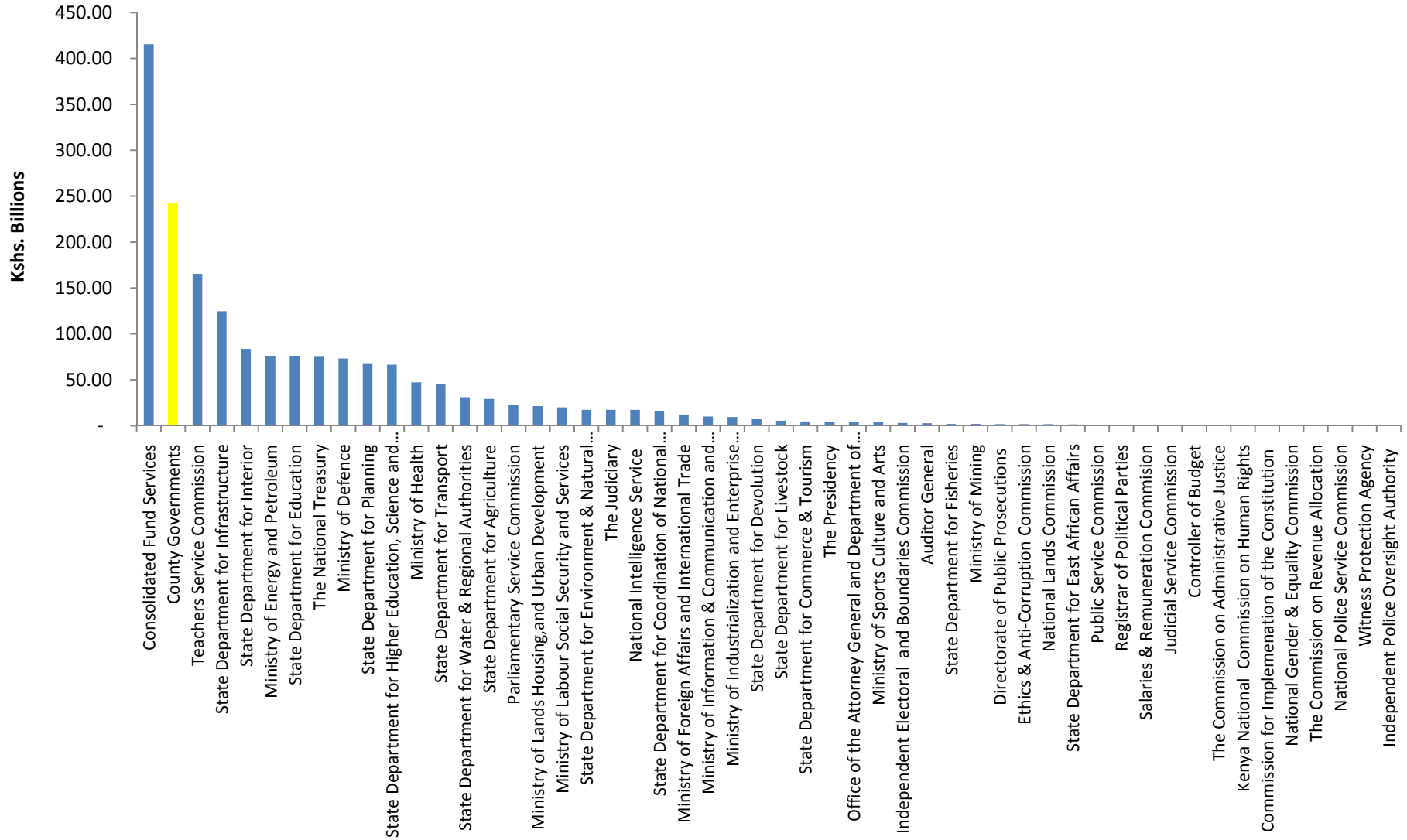
- 1. Overall Government Budget**
- 2. National Government Budget
Performance**
- 3. County Governments Budget
Performance**

TOTAL 2014/15 GOVERNMENT BUDGET

Total Budget	1.840 trillion
– MDAs	1.182 trillion
– CFS	415.6 billion
– County Governments	242.4 billion

National Government Budget Performance

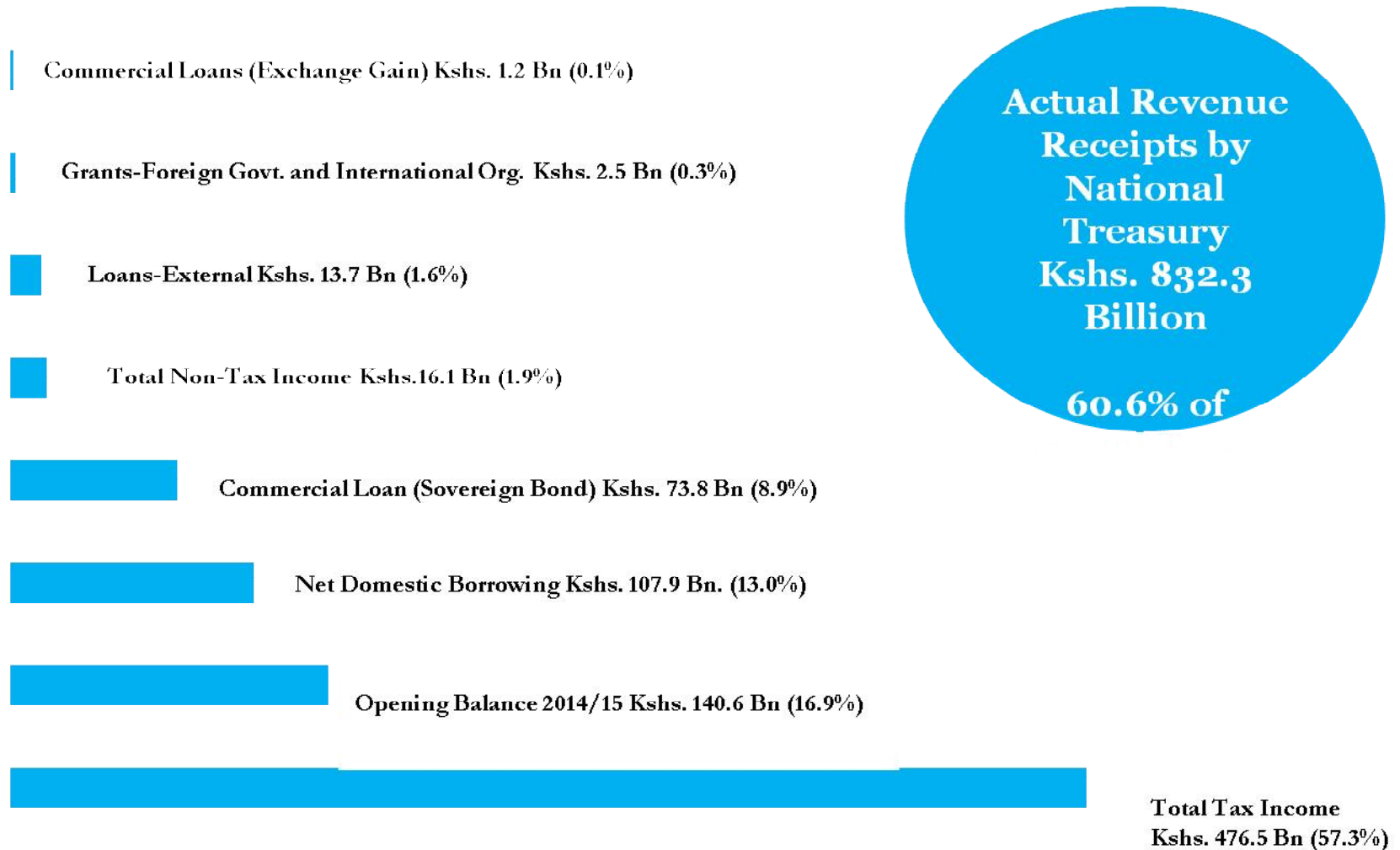
NATIONAL BUDGET FY2014/15 (Kshs.1,840.4 b)



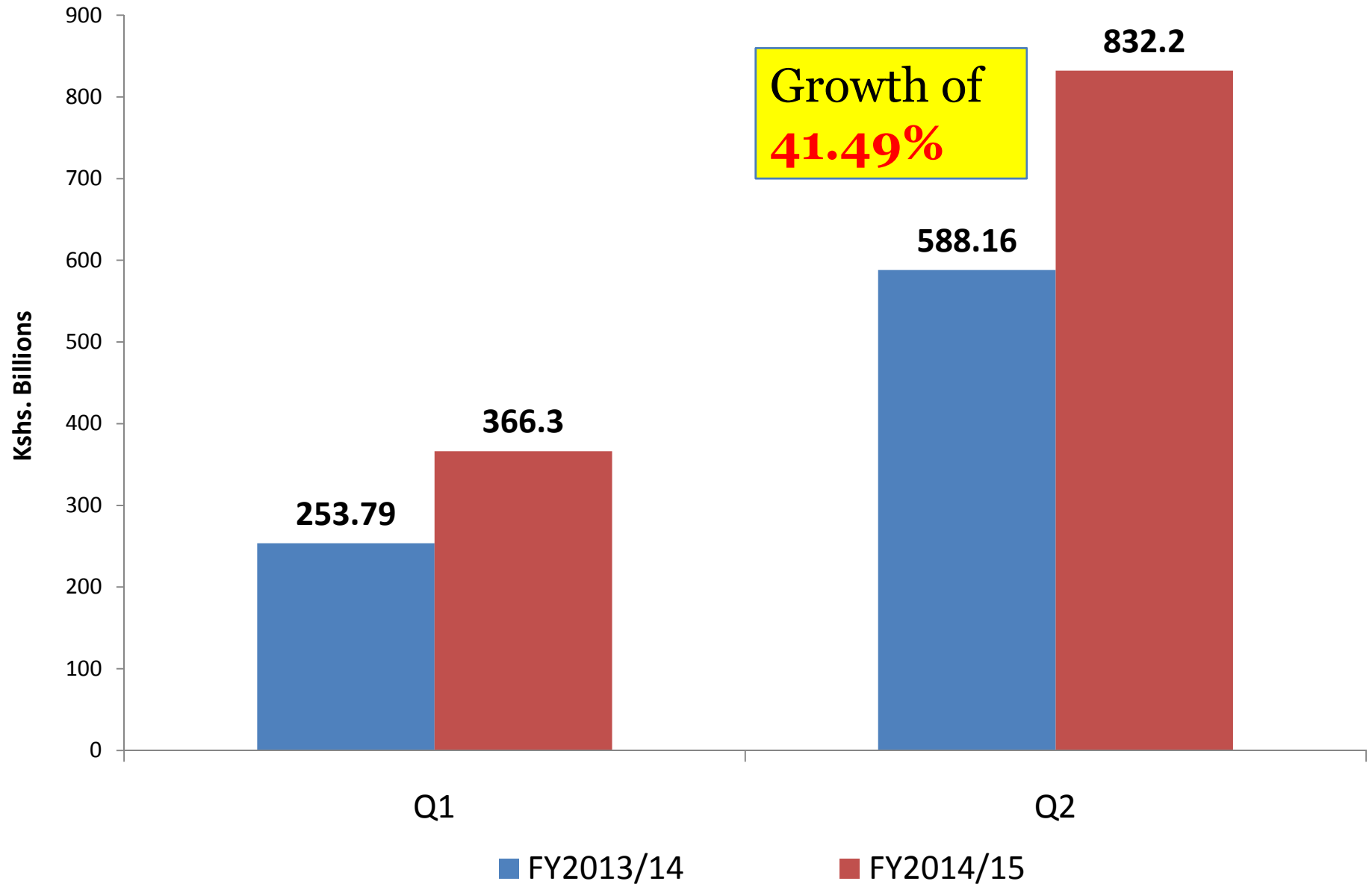
FINANCING THE KSHS.1.84 TRILLION BUDGET

Receipts by Category	Printed Estimates.
Opening Balance 2014/15	
Total Tax Income	1,050.9
Total Non-Tax Income	36.2
Net Domestic Borrowing	190.8
Loans – External	36.2
Commercial Loan(Sovereign Bond)	36.4
Commercial Loan(Exchange Gain)	
Loan-Budget Support(Social Safety Net)	5.4
Domestic Lending and On-Lending	2.0
Grants-Foreign Govt. and International Org	10.0
Grants from AMISOM	6.1
TOTAL	1,374.1

FY2014/15 HALF YEAR REVENUE CONTRIBUTION BY CATEGORY



FY 2013/14 & FY 2014/15 REVENUE TREND



FY2014/15 HALF YEAR EXPENDITURE

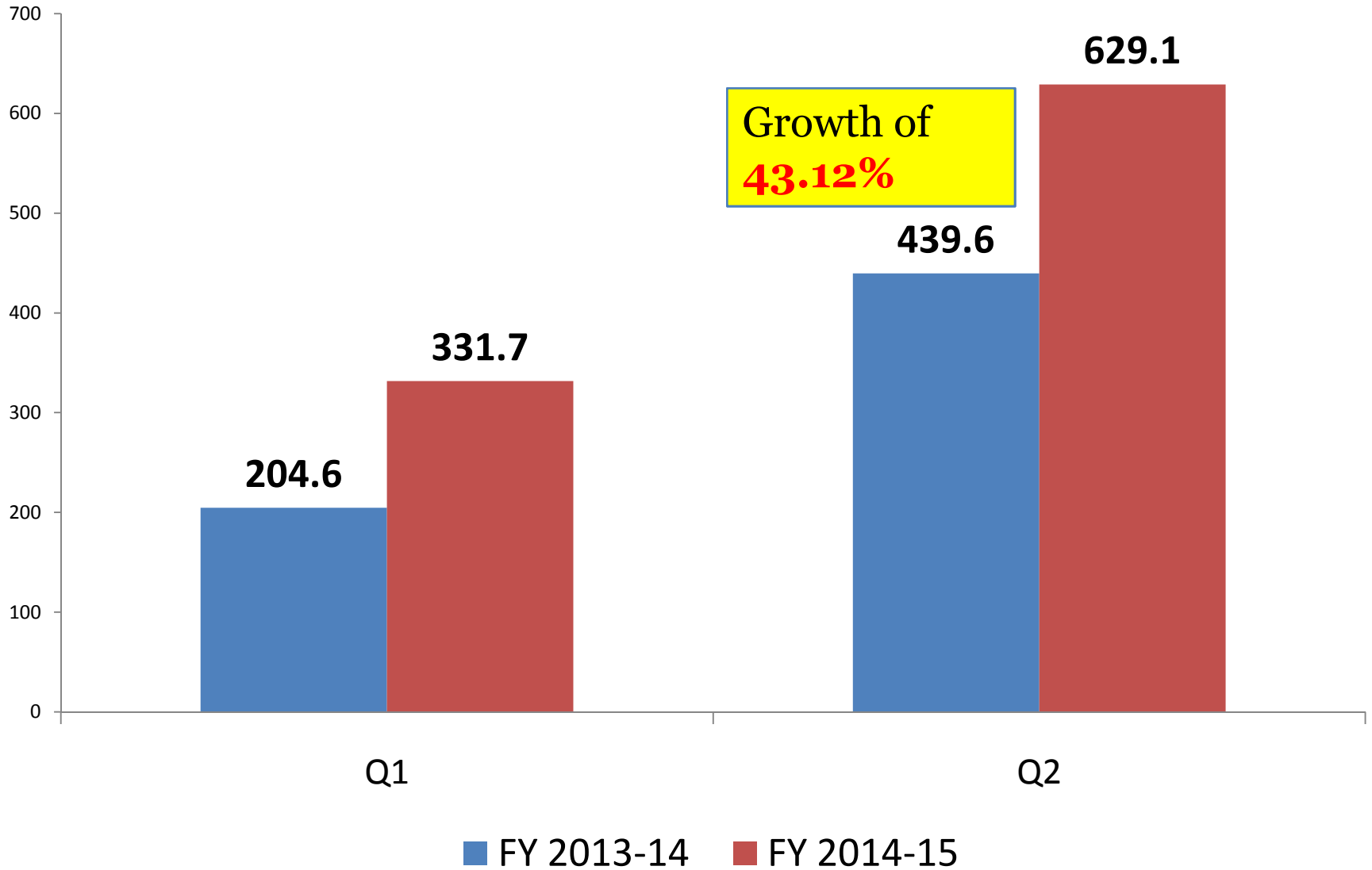
Development
Exp.
Kshs.129.2 Bn
(21%)

CFS Exp.
Kshs.225.9 Bn
(36%)

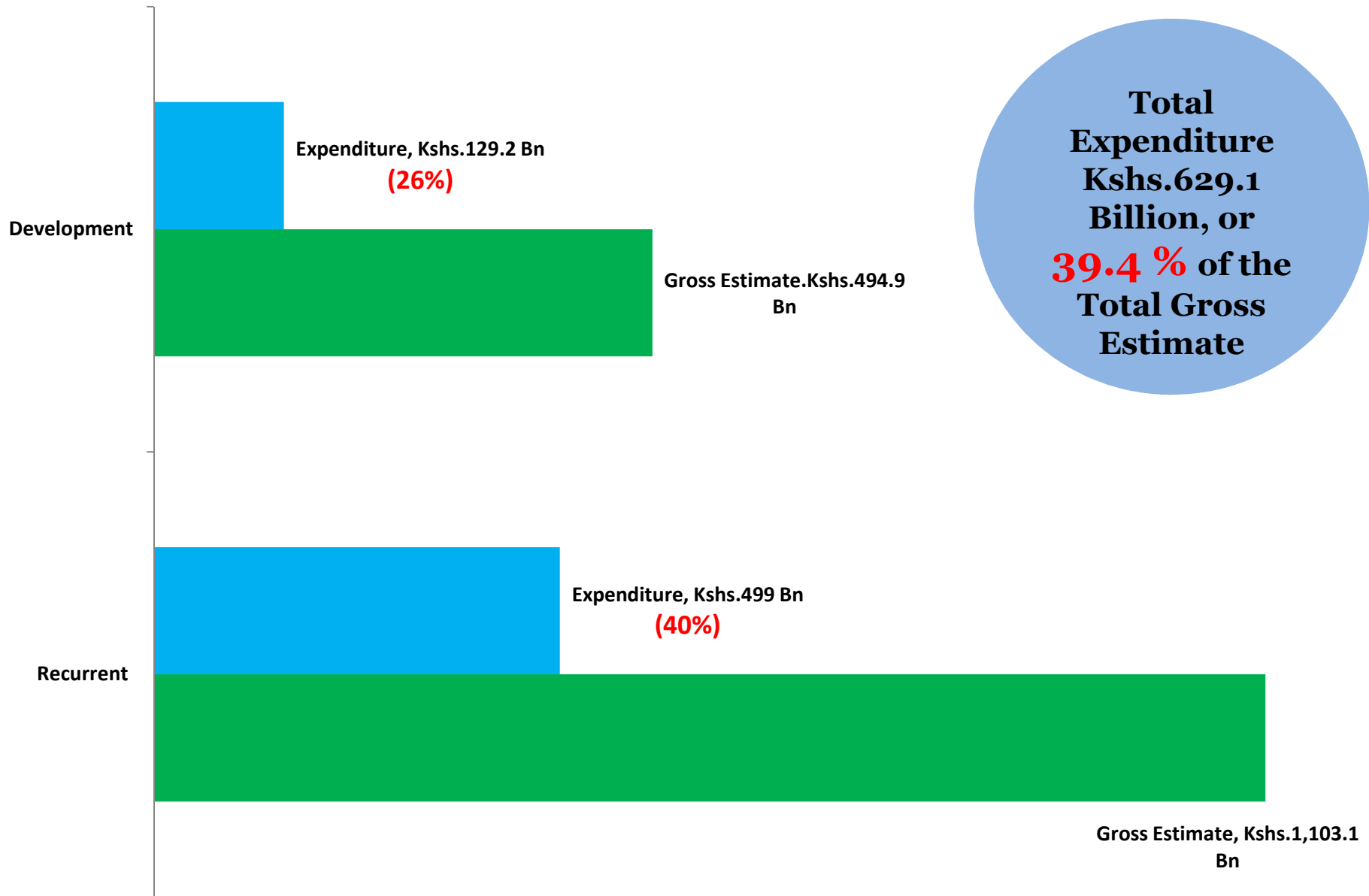
Recurrent Exp.
Kshs.273.8 Bn
(44%)

Total
Expenditure
Kshs. 629.1
Billion, or
39.4% of the
Gross
Estimates

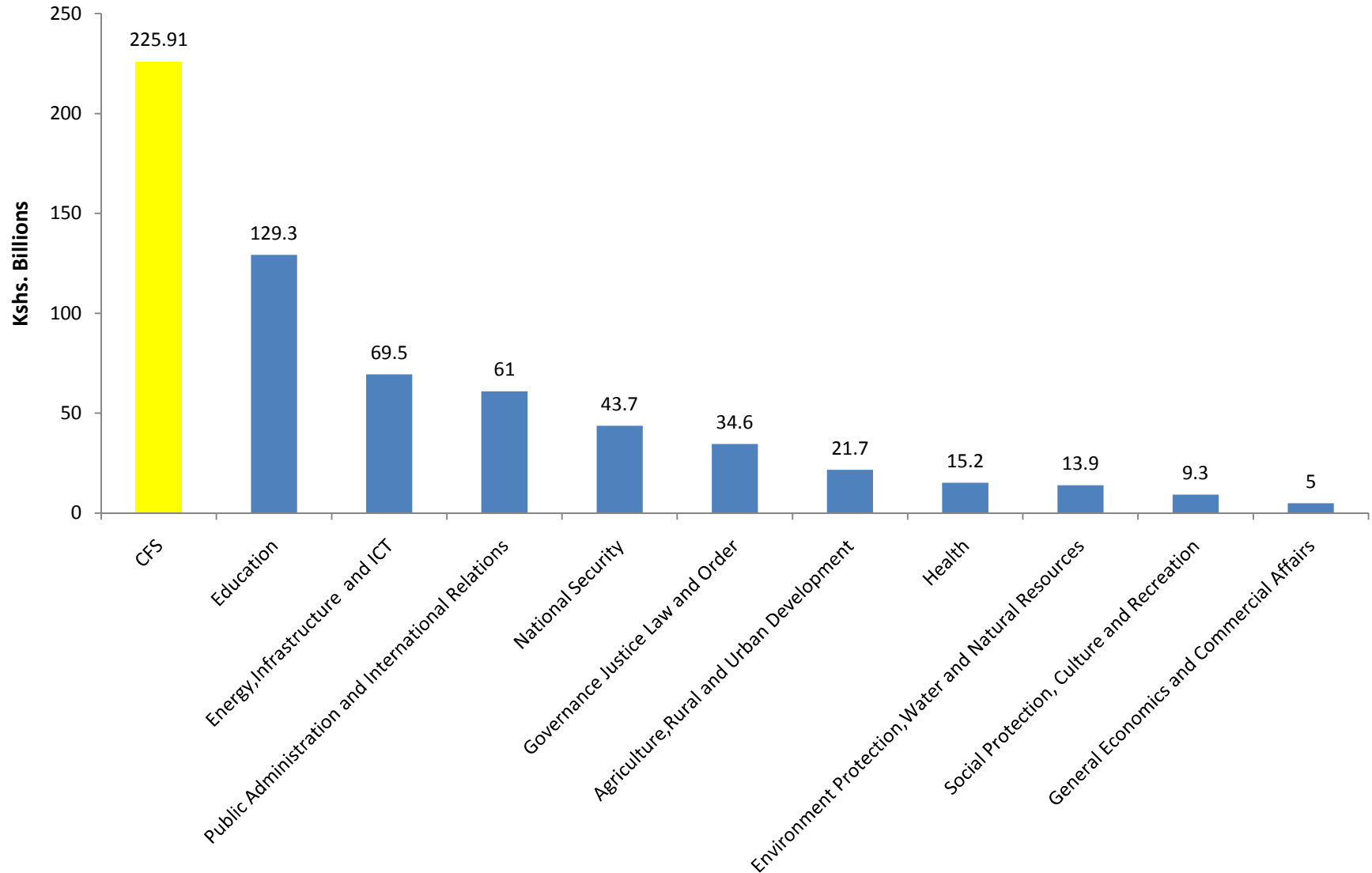
FY 2013/14 & FY 2014/15 EXPENDITURE TRENDS



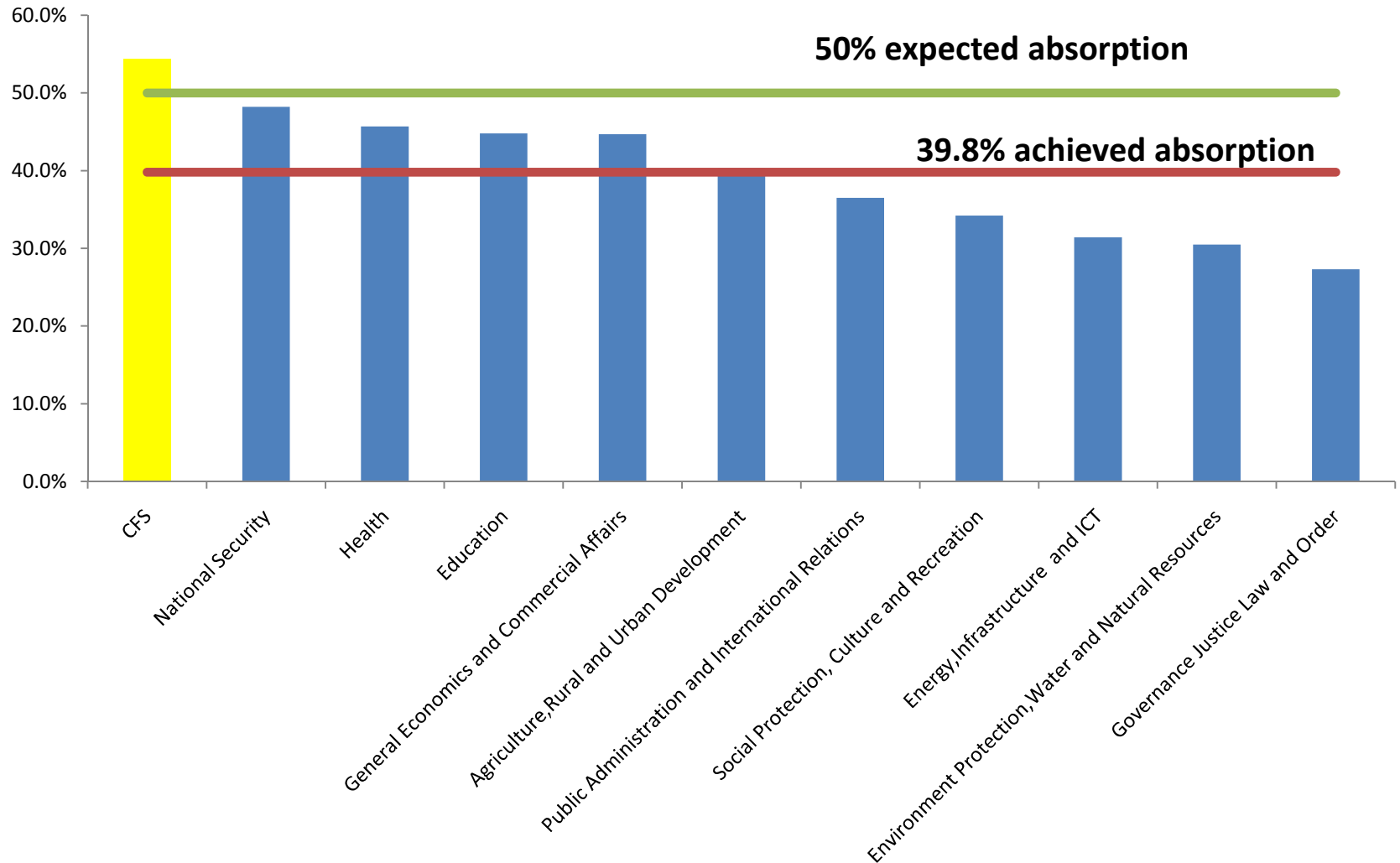
FY 2014/15 HALF YEAR ABSORPTION RATES



FY2014/15 HALF YEAR EXPENDITURE BY SECTOR

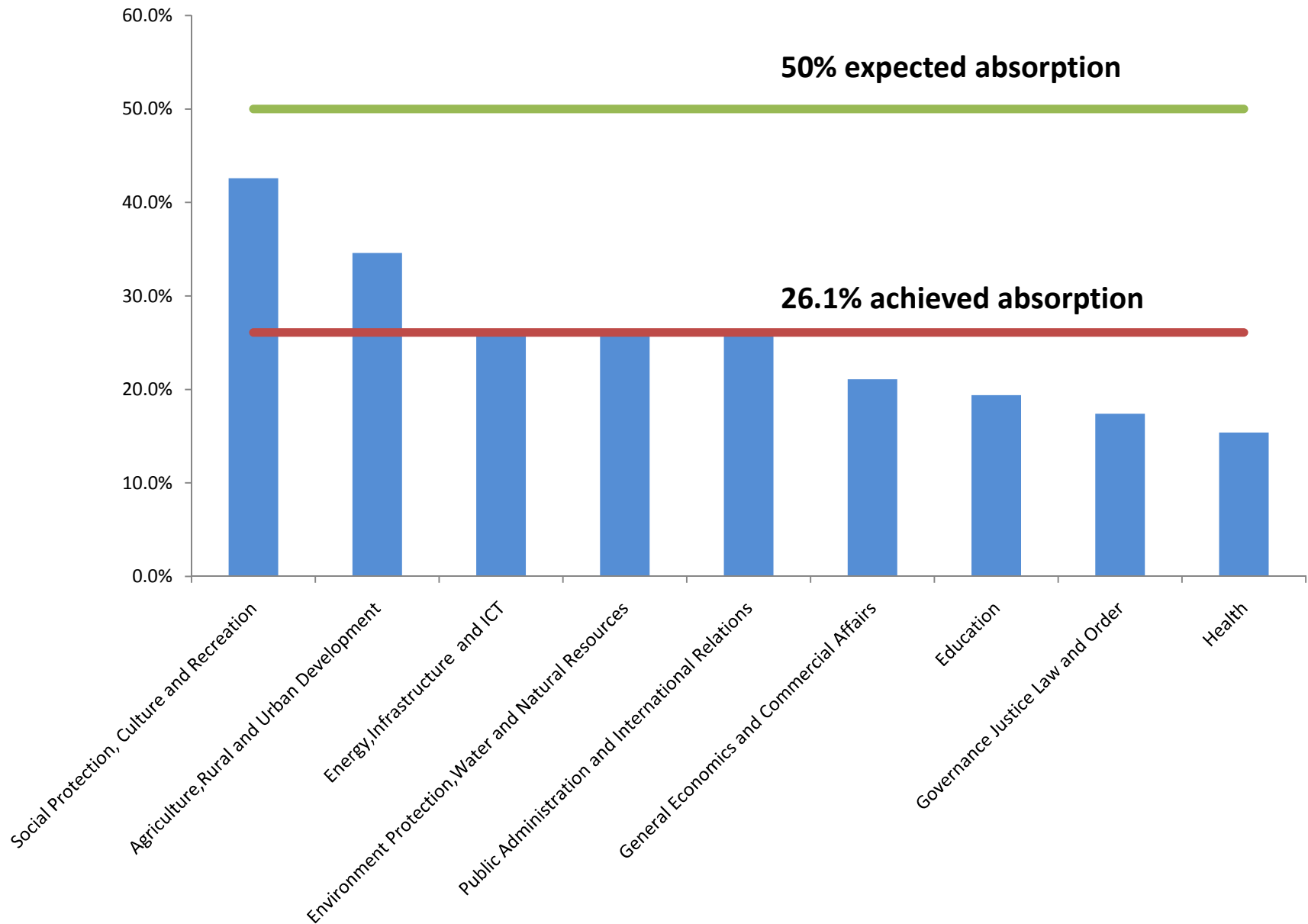


FY2014/15 HALF YEAR RECURRENT ABSORPTION (39.8%)



Only CFS registered an absorption above 50%. This was due to the rising public debt stock that grew by 5.1% from Kshs.2.36 trillion in June to Kshs.2.48 trillion in December 2014 . Public debt stands at 52.1% of GDP.

FY2014/15 HALF YEAR DEVELOPMENT EXPENDITURE ABSORPTION (26.1%)



CHALLENGES

1. Low Absorption of Recurrent and Development Budget
 - Absorption rate of recurrent and development expenditure was **39.8 per cent** and **26.1 per cent** respectively, against an expected rate of **50 per cent**.
2. Nondisclosure of A-I-A by the MDAs
 - Total expenditure by 5 MDAs exceeded Exchequer Issues. This is partly due to A-I-A underreporting by the MDAs.
3. High Public Debt Position
 - The total public debt stock grew by 5.1 per cent from Kshs.2.36 trillion in June 2014 to Kshs.2.478 trillion in December 2014, which was 52.1 per cent of the GDP. Increasing public borrowing may result in undesirable fiscal consequences such as high interest rates, inflation, and in the long run overburdening of future generations.
4. Special Audit of the Consolidated Fund Services Account
 - During the first nine months of the FY 2014/15, expenditure on Consolidated Fund Services account exceeded exchequer issues by Kshs.16.3 billion.

RECOMMENDATION

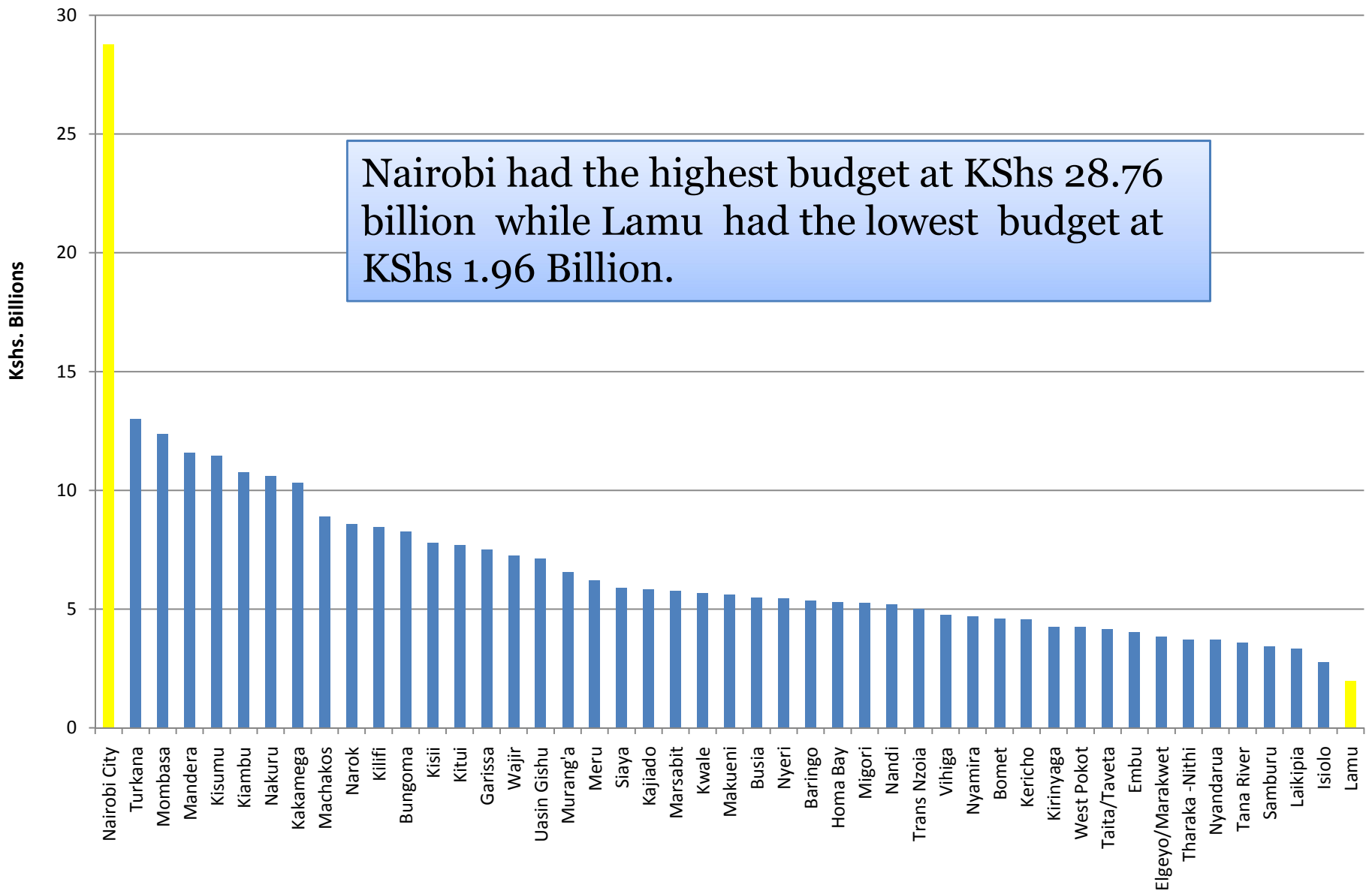
1. The low absorption of expenditure has been attributed in part, to **slow release of funds** by the National Treasury, particularly in the first quarter of the year. There is need for timely release of both recurrent and development funds and re-alignment of releases to work plans.
2. The National Treasury should institute appropriate measures to ensure that MDAs **report generated A-I-A**. This will enhance accountability, transparency and completeness in financial reporting.
3. The National Treasury should take appropriate measures to ensure that **public debt does not reach unsustainable levels** in view of the constitutional provision allowing county governments to borrow.
4. It is recommended that **a special audit** be undertaken by the Auditor General to establish the cause of the differences in the CFS.

County Governments Budget Performance

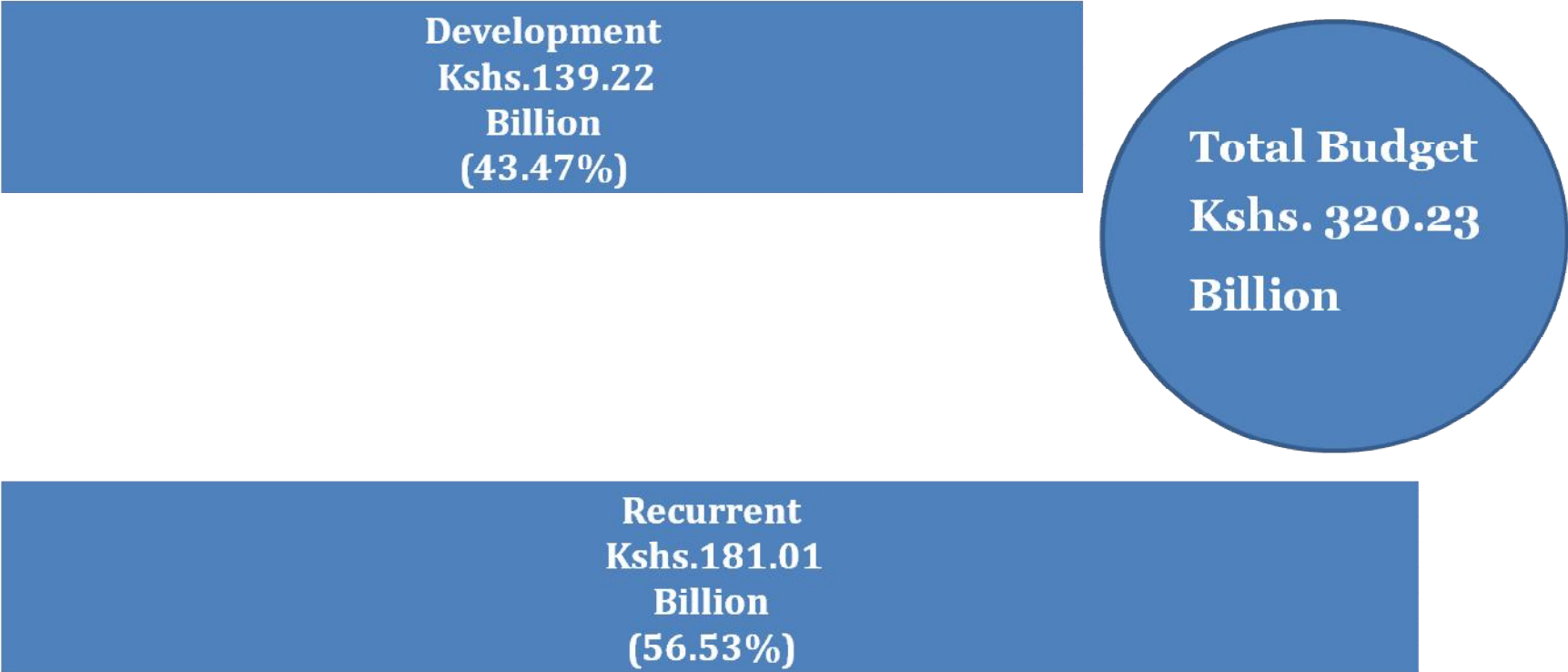
FY 2014/15 COUNTY BUDGETS

- The Budget Estimates for the FY 2014/15 amounted to **Kshs.320.23 billion**
- This is to be financed by:
 - a) Transfers from the National Government amounting to **Kshs.242.43 billion:**
 - I. Kshs.226.66 billion** as the National Equitable Share of Revenue
 - II. Kshs.1.870 billion** as Conditional Allocations to Level 5 hospitals
 - III. Kshs.13.899 billion** as Conditional Allocation for ongoing projects.
 - b) Revenue from local sources **Kshs.62.46 billion**
 - c) Balance brought forward from FY 2013/14 was projected at **Kshs.32.55 billion**
 - d) Conditional grant of **Kshs.733.65 million** from DANIDA.

FY2014/15 COUNTY BUDGETS (320.23b)



FY2014/15 COUNTY BUDGETS BREAKDOWN



Development
Kshs.139.22
Billion
(43.47%)

Total Budget
Kshs. 320.23
Billion

Recurrent
Kshs.181.01
Billion
(56.53%)

FY2014/15 Q2 COUNTIES TOTAL REVENUE RECEIPTS



**Local
Revenues, Kshs.13.10
Billion
(9.6%)**



**Opening
Balance, Kshs.83.62
Billion
(61%)**

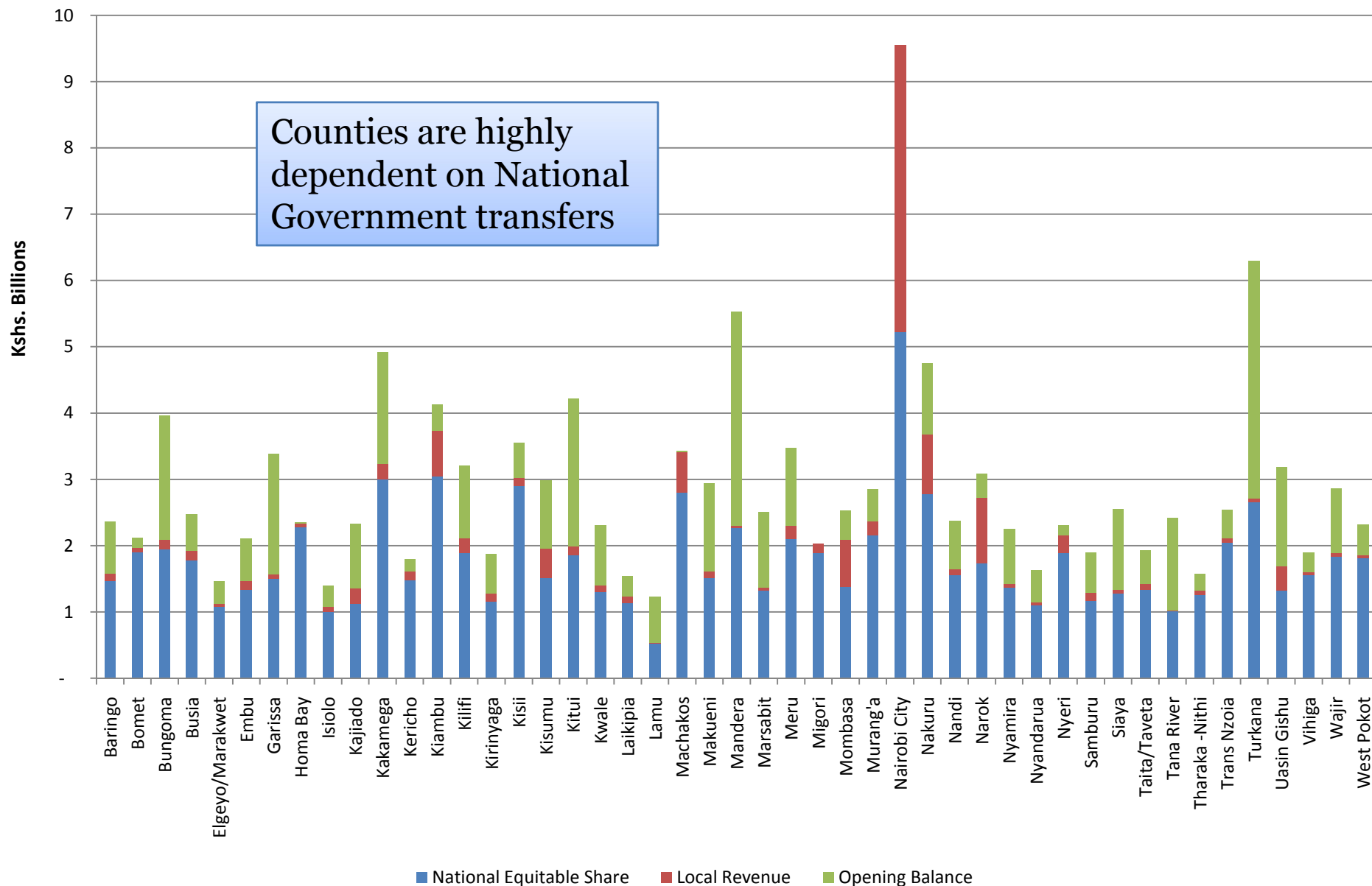


**Total Revenue
Kshs. 136.96
Billion**



**National Equitable
Share, Kshs.40.24
Billion (29.4%)**

FY2014/15 HALF YEAR REVENUES AVAILABLE TO THE COUNTIES (136.96b)



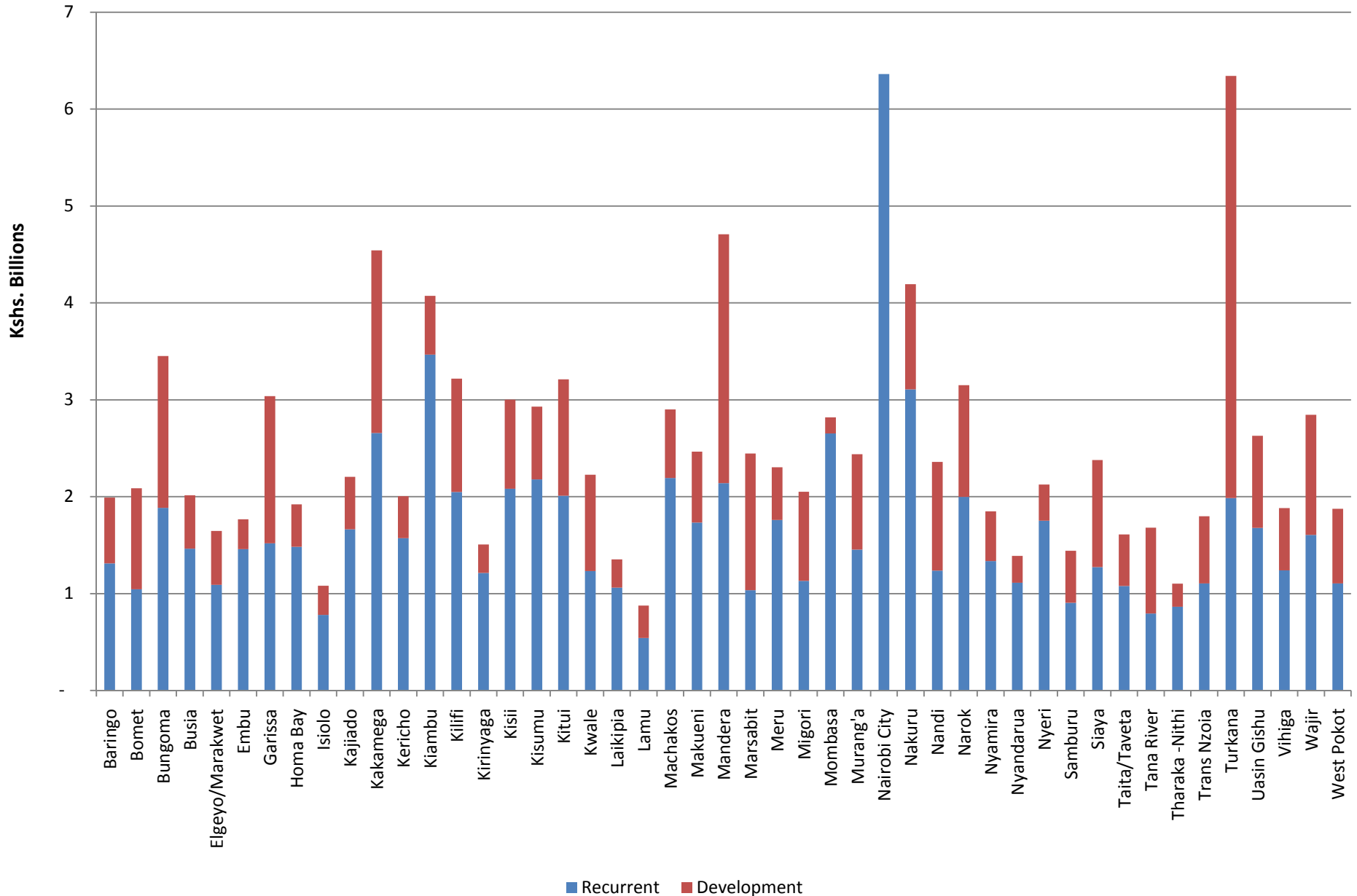
FY2014/15 HALF YEAR EXCHEQUER ISSUES (**119.29b**)

Development, Kshs
.40.89 billion
(34.3%)

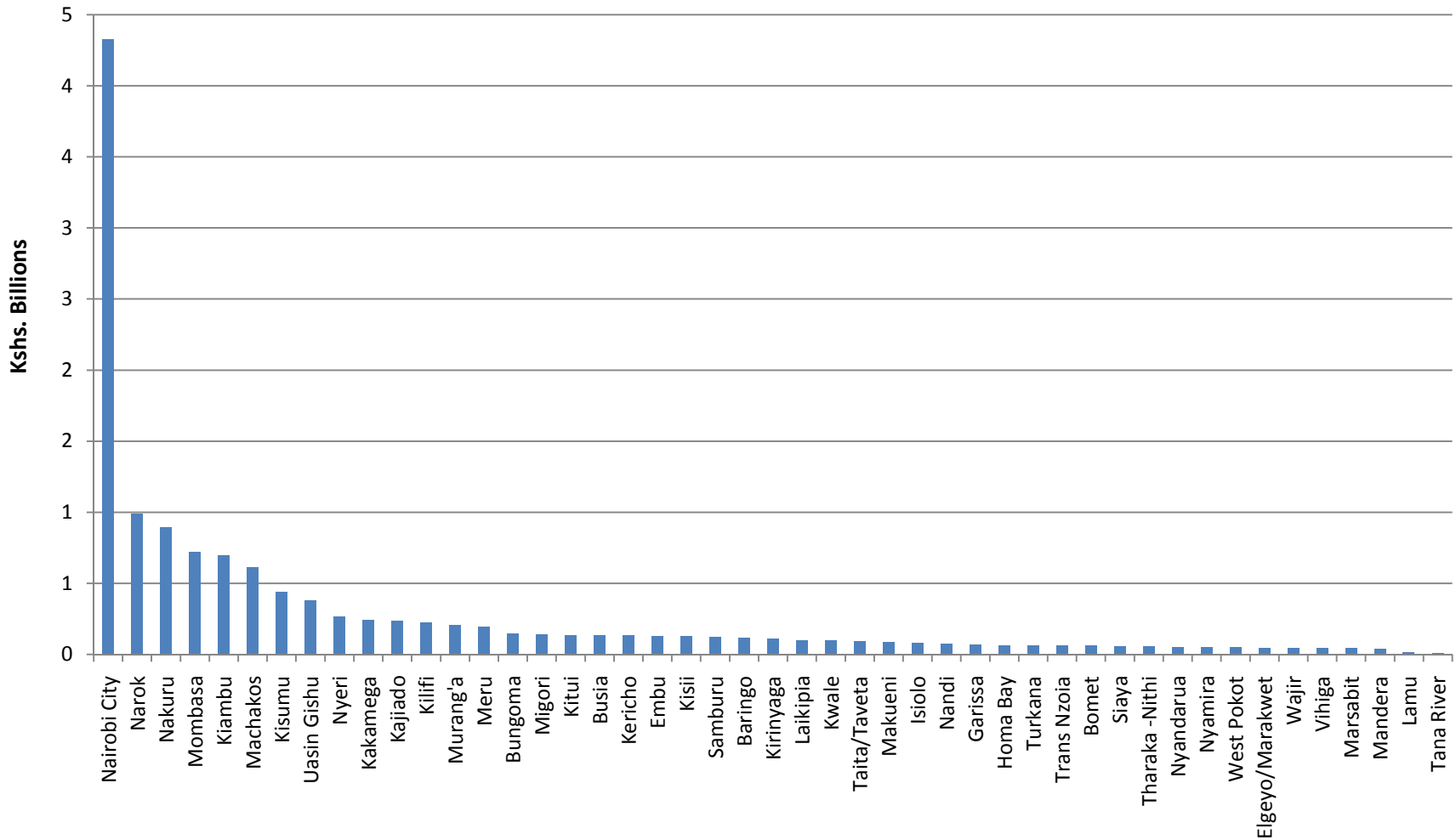
Total Exchequer
Issues Kshs.119.29
Billion

Recurrent, Kshs.78
.40 billion
(65.7%)

FY2014/15 HALF YEAR EXCHEQUER ISSUES (119.29b)

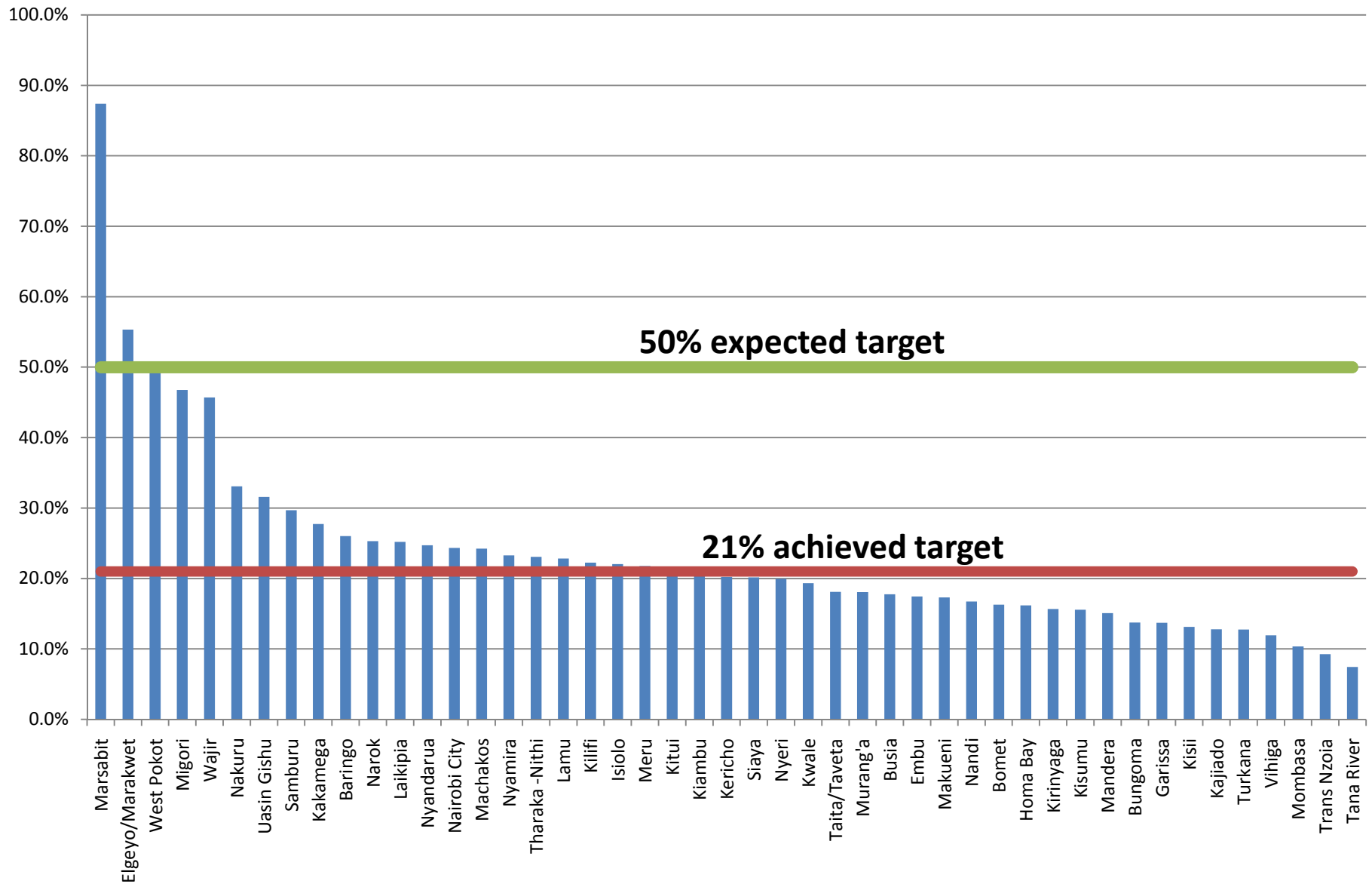


FY2014/15 HALF YEAR LOCAL REVENUE RAISED BY COUNTIES (13.10b)

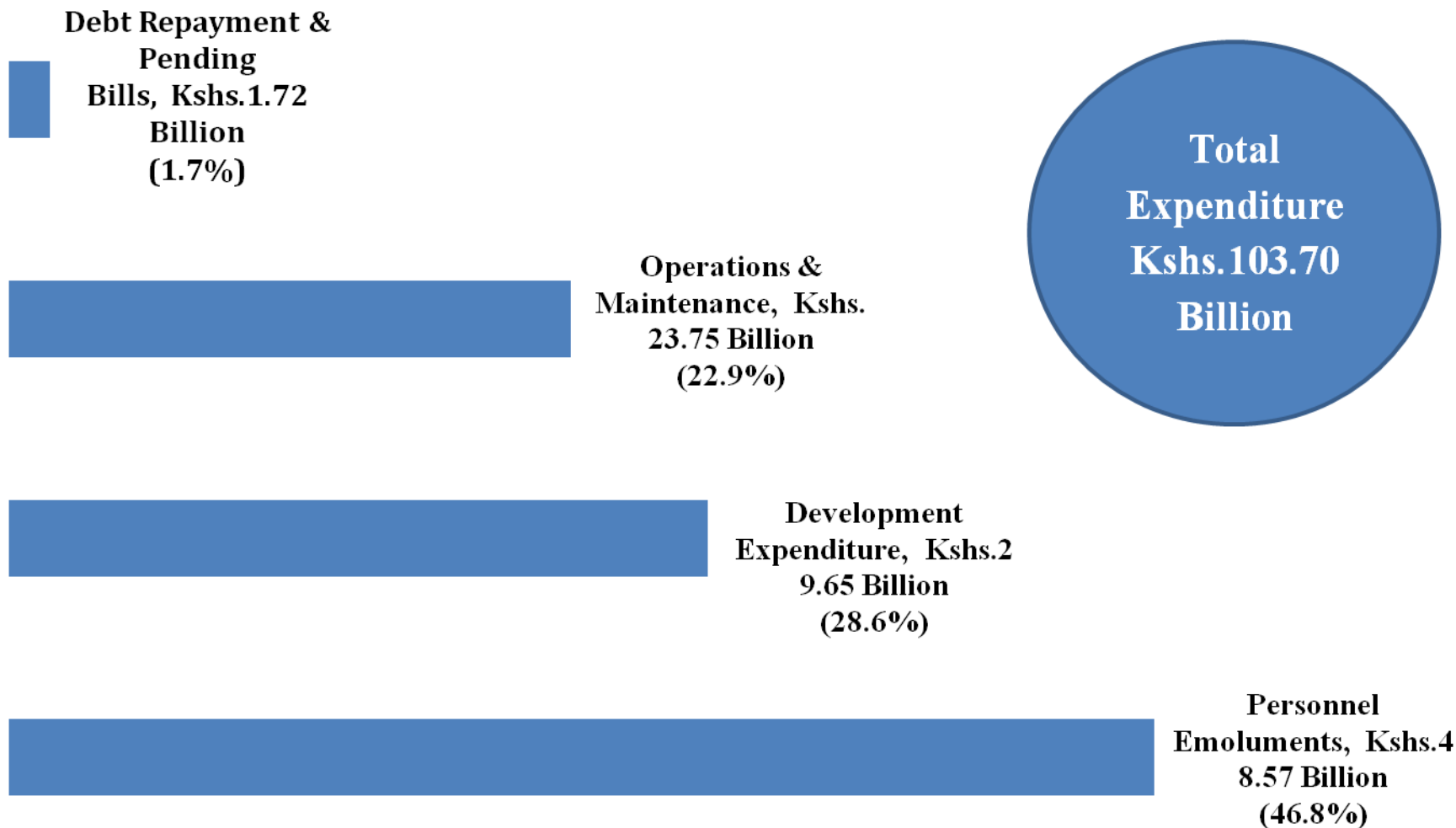


- County Governments generated Kshs. 13.10 billion in Local Revenue
- Only 3/47 Counties achieved their third quarter revenue targets

FY2014/15 HALF YEAR LOCAL REVENUE TARGETS ACHIEVED

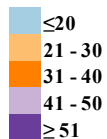


FY2014/15 HALF YEAR EXPENDITURE BY ECONOMIC CLASSIFICATION (**103.7b**)



FY2014/15 COUNTIES OVERALL ABSORPTION RATES

KEY ABSORPTION RATES

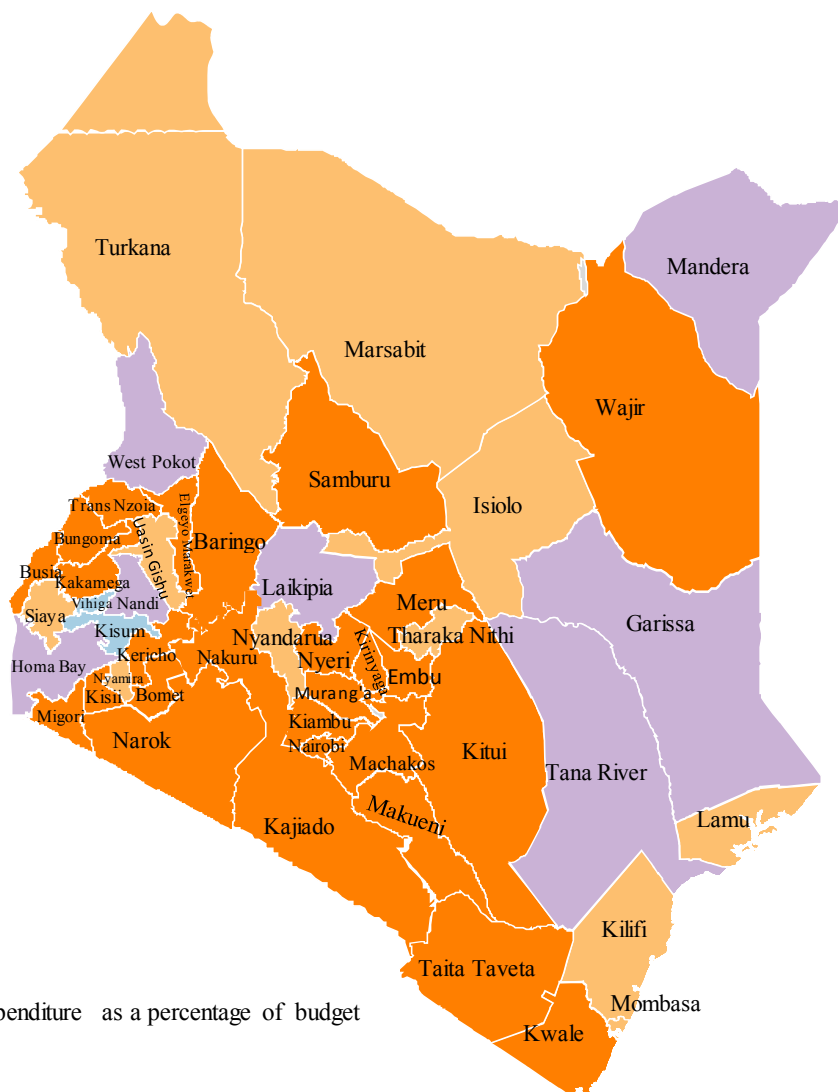


**32.4% overall
absorption rate**

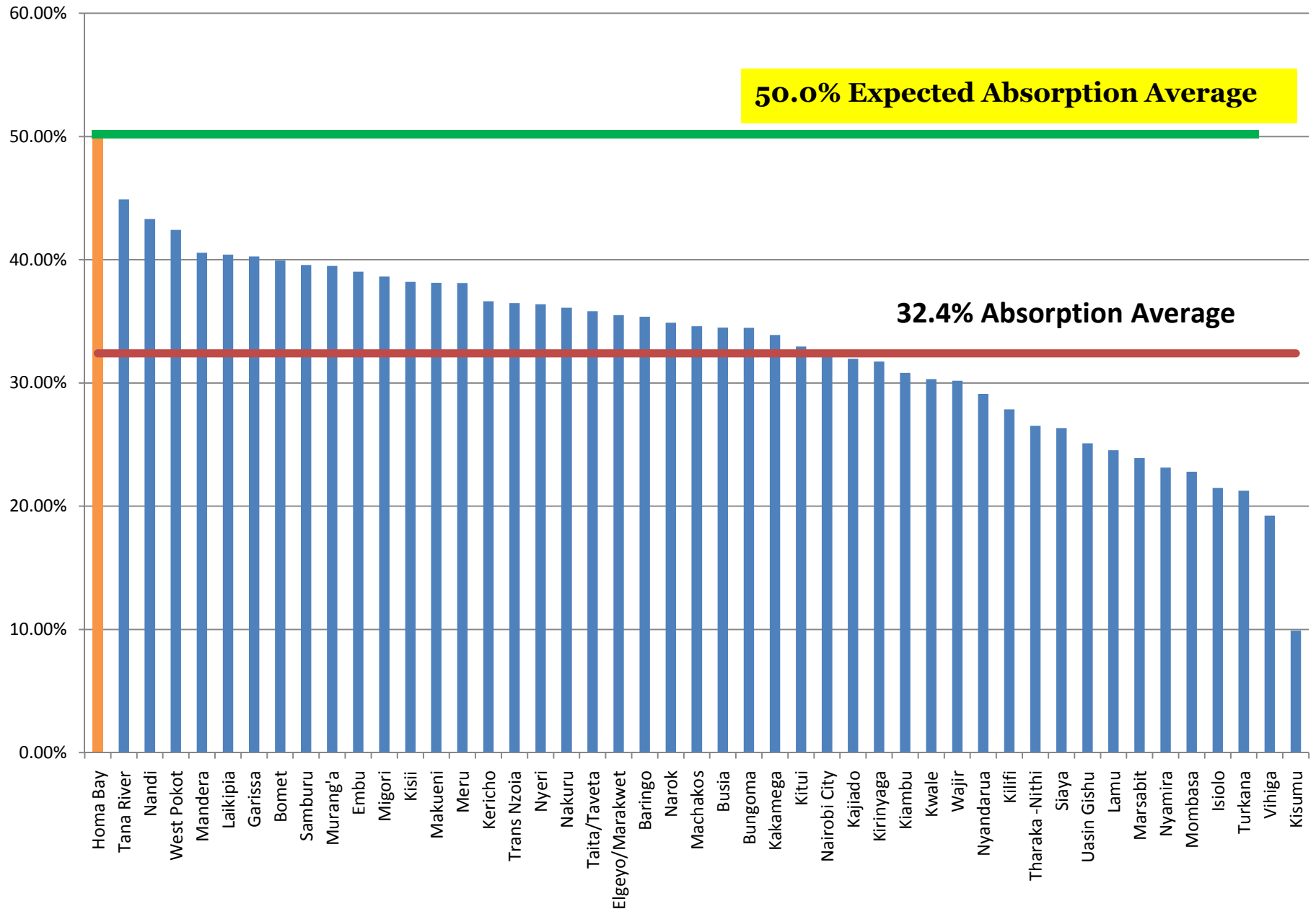
NOTE:

Absorption rate is actual expenditure as a percentage of budget estimates.

Source: [Office of the Controller of Budget]

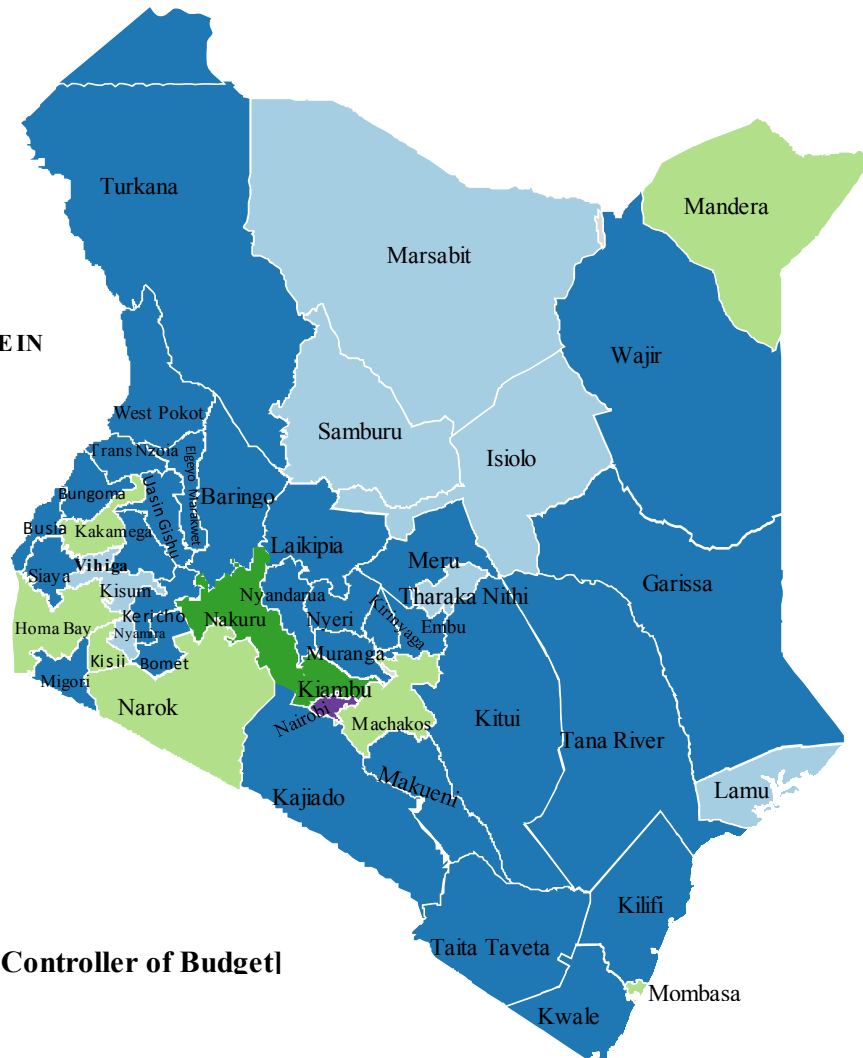
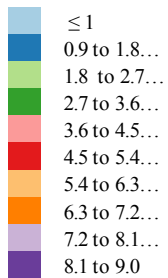


FY2014/15 COUNTIES OVERALL ABSORTION RATES



FY2014/15 COUNTIES RECURRENT ABSORTION RATES

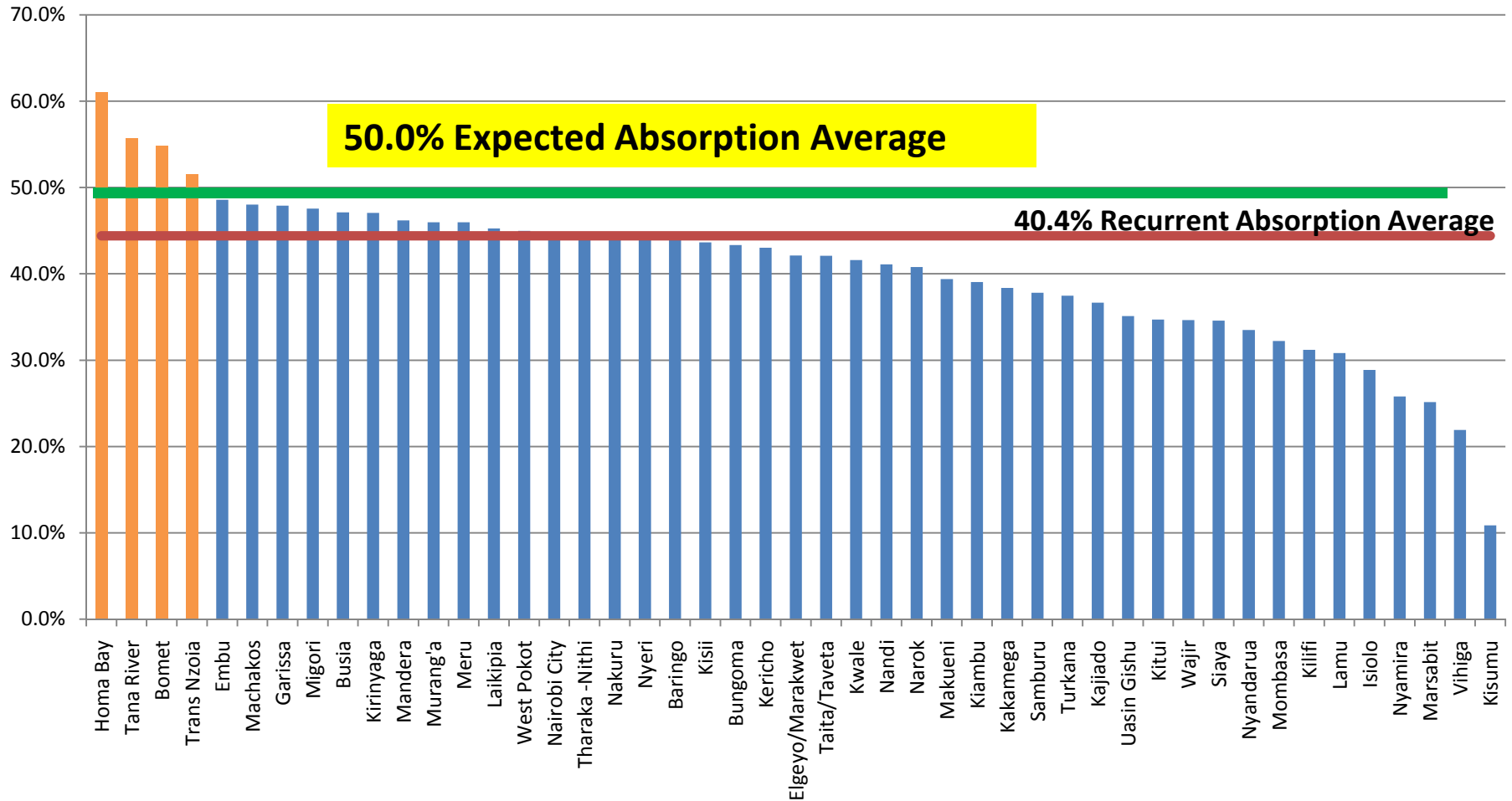
KEY RECURRENT EXPENDITURE IN KSHS BILLIONS



**40.4% recurrent
absorption rate**

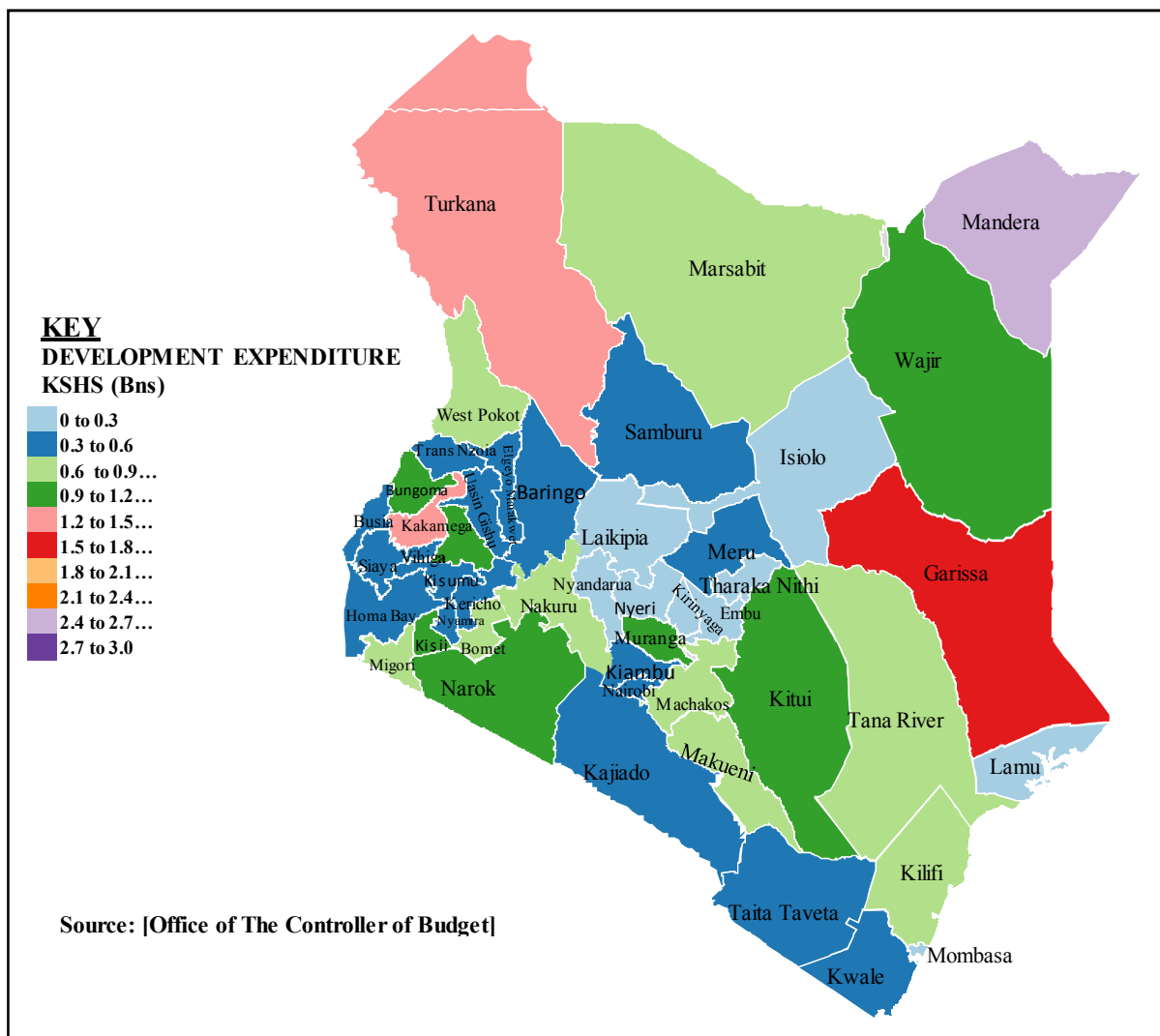
Source: [Office of The Controller of Budget]

FY2014/15 COUNTIES RECURRENT ABSORPTION RATES



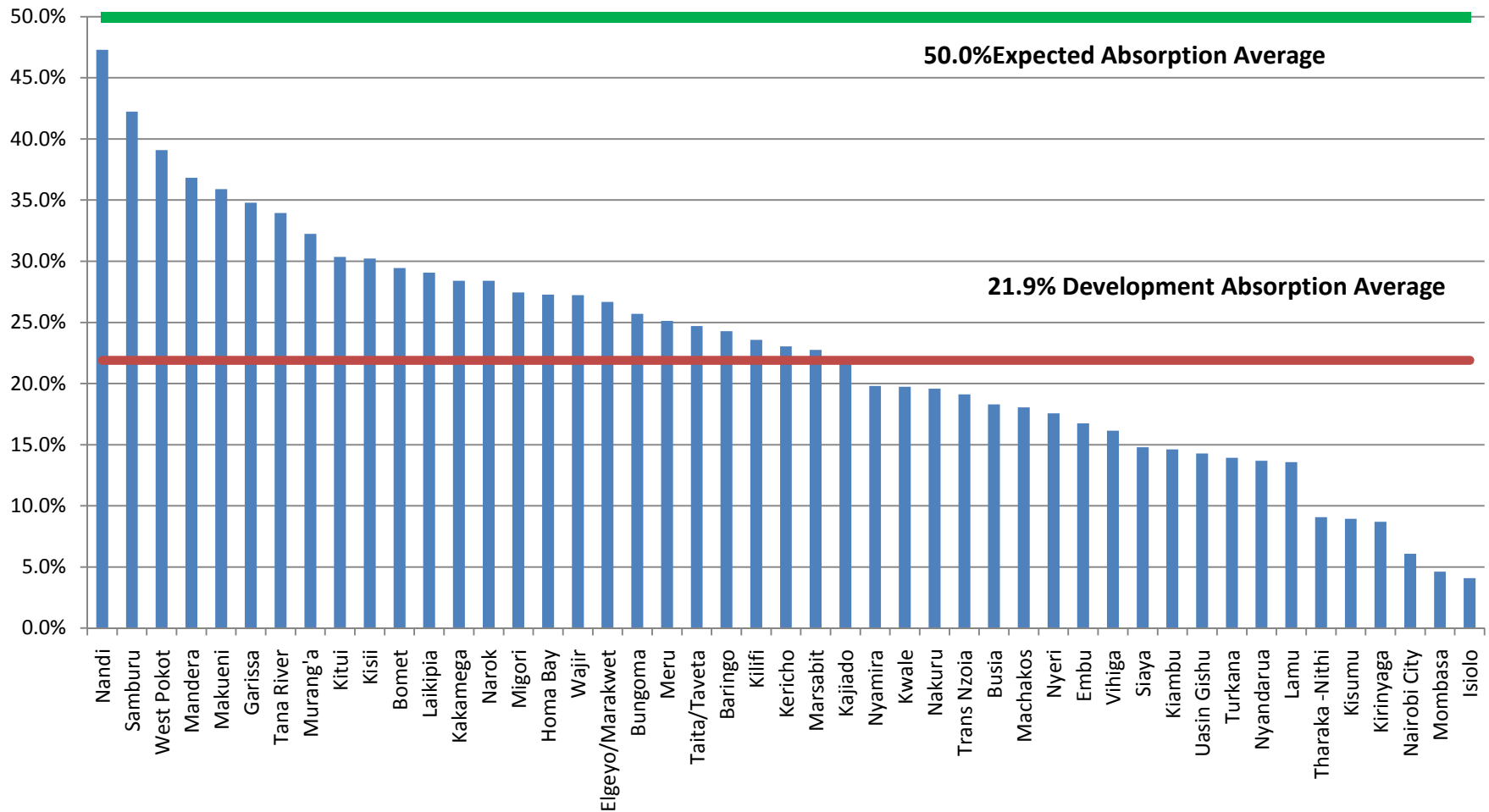
- Homa bay, Tana River, Bomet had the highest recurrent absorption rates at 61.0%, 55.7% and 54.8% respectively.
- Vihiga and Kisumu had the lowest recurrent absorption rate at 21.9% and 10.9% respectively

FY2014/15 COUNTIES DEVELOPMENT ABSORTION RATES



21.9% development
absorption rate

FY2014/15 COUNTIES DEVELOPMENT ABSORPTION RATES



- Nandi, Samburu and West Pokot had the highest development absorption rates at 47.3%, 42.2% and 39.1% respectively
- Mombasa and Isiolo had the lowest development absorption rate at 4.6% and 4.1% respectively

CHALLENGES

- 1. Quarterly Reporting by Administrators of County Public Funds**
 - **Section 168** of the PFM Act, 2012 requires administrators of county public funds to submit quarterly reports. Despite this requirement, most Counties are yet to submit quarterly reports by administrators of the established county public funds.
- 2. Use of Local Revenues at Source**
 - 6 Counties (Nairobi, Homabay, Machakos, Murang'a, Meru and Trans Nzoia) reported higher expenditure than the amounts approved by the COB.
- 3. Unauthorised Diversion of Exchequer Releases**
 - Counties diverted approved releases to expenditure items that were not requisitioned.
- 4. Non-Compliance to SRC Circulars on Remuneration and Benefits of Public Officers**
 - Some officers are paid monthly commuter allowances despite having been assigned official vehicles. This is in contravention to the SRC Circulars.
- 5. Non-adoption of IFMIS by some County Assemblies**

RECOMMENDATIONS

1. Counties must submit quarterly reports by administrators of county public funds as required by *Section 168 (3) of the PFMA Act, 2012*.
2. All Counties should ensure that all locally generated revenue is deposited intact into the CRF.
3. County Treasuries should ensure strict budgetary control to address diversion of exchequer issues to other purposes rather the approved work plans.
4. All Counties must adhere to SRC Circulars on staff remuneration and benefits and should also recover all payments made in contravention of Circulars.
5. All Counties should adopt IFMIS.