



Effective County Budgeting and Risk Management



Outline of the Presentation

- Introduction
- PFM Institutions at the County Level
- Budget Process in the Counties
 - I. Budget Formulation
 - II. Budget Legislation
 - III. Budget Implementation
 - IV. Accounting, Reporting and Auditing
- Transition Issues



REFLECTION

“Devolution and Management of resources for sustainable socio-economic development in the devolved units”



REFLECTION cont..

Link between County Economic Policy Goals and Public Expenditure Management

Overall County Economic Policy Goals

- **Economic Growth**
- **Equity**
- **Expenditure Control**

Objectives of County Public Expenditure Management

- **Resource allocation and mobilization (Strategic Allocation)**
- **Operational efficiency (deliver Public Services Efficiently)**
- **Maintain aggregate Fiscal discipline**



Introduction

Public finance is key to successful implementation of all government policies. If it does not work, nothing does. Public finance covers, policies, strategies and activities to,

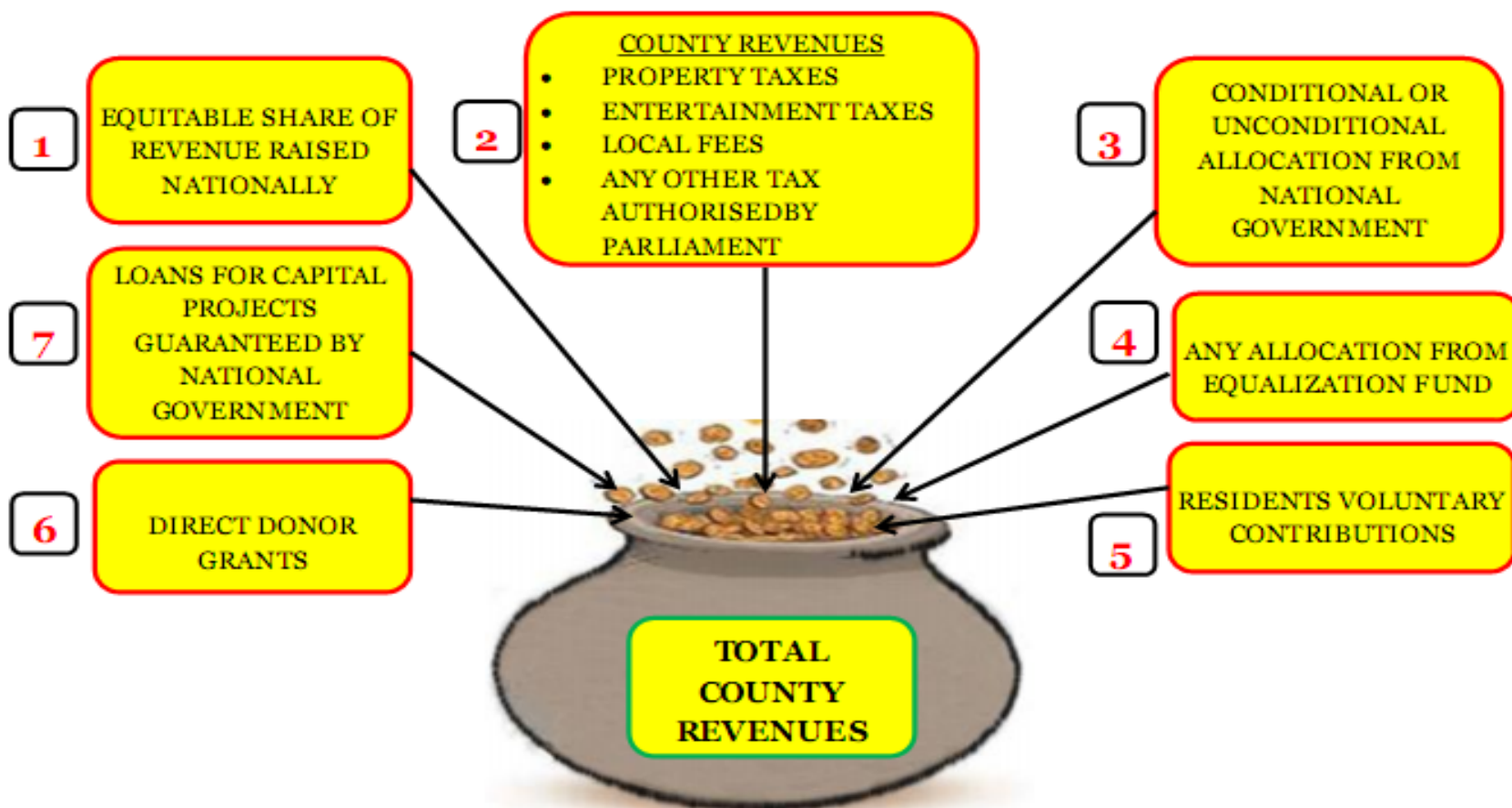
- i) resource mobilization, revenue and debt
- ii) allocation and utilization of resources for delivery of goods and services
- iii) reports and accounts for funds, outputs and results
- iv) external audit for oversight/ external accountability

These aspects are the focus of the Constitution (2010) and PFM Act 2012. The most important recognition in public administration is the fact that, irrespective of what a county documents, policy is **“what gets done, not what is pronounced in documents”**.



Introduction, (Cont'd)

SOURCES OF REVENUE FOR COUNTY GOVERNMENTS





PFM INSTITUTIONS AT THE COUNTY LEVEL



County PFM Institutions

- County Assembly
- County Executive Committee
- County Treasury
- County Executive Committee Member for Finance (CECM-F)
- Accounting Officers
- Receivers and collectors of County Government Revenue
- Boards of Urban Areas or Cities
- County Budget and Economic Forum



Other PFM Institutions

Intergovernmental PFM Institutions

- Intergovernmental Budget and Economic Council (IBEC)
- Joint Intergovernmental Technical Committee

National Institutions involved in County PFM

- Public Sector Accounting Standards Board
- Public Debt Management Office
- Controller of Budget
- Auditor General
- Commission on Revenue Allocation
- Cabinet Secretary for Finance
- Parliament



BUDGET PROCESS IN THE COUNTIES



Budgeting and Budgetary Process

- Budget process is a process of **deciding**:
 - What services are to be provided by the government
 - How these services are to be provided
 - How to pay for these services
- The central budgeting problem is:
 - On what basis shall it be decided to allocate Ksh X not Ksh Y to Project A instead of Project B?
- The process must recognize competing claims on resources and should focus directly on better alternatives and options, for improved services, faster growth, poverty reduction.



Budget Process in the Counties

The PFM Act 2012 prescribes the budget process for the county government covering the following stages:

I. Budget formulation:

- ☐ Planning – both long term and medium term
- ☐ Policy formulation - financial and economic policies
- ☐ Drafting of budget proposals and submission to CAs —
Budget as instrument for implementing policies

II. Budget Legislation

III. Budget Implementation

IV. Accounting, Reporting and Auditing



I. BUDGET FORMULATION



1. Budget Circular

- The **CECM-F** is responsible for managing the budget process of the county government.
- County budget process commences with the issuance by the **CECM-F** of initial **instructions (Budget Circular)** to guide the budget process by **30th August every year**
- Instructions to include:
 - key **timelines** for various activities;
 - Procedures for review and projection of revenues and expenditures;
 - Key **policy areas** to be taken into consideration;
 - Procedures for **public consultation**; and
 - **Format for budget documentation.**



2. Development Plans

- **No public funds can be appropriated** without a development plan (Section 104 –County Government Act 2012). Article 220 of the Constitution also requires a development plan.
- **County Executive Committee Member for planning** to prepare and submit a development plan to County Assembly for approval **before 1st September** every year.
- The **development plans** will include
 - Strategic priorities for the medium term;
 - Programmes to be delivered;
 - Significant capital expenditure; and
 - Grants, transfers and subsidies to be made on behalf of County Governments.



3. County Budget Review and Outlook Paper (C-BROP)



- The County Treasury shall prepare and submit to the county executive committee for approval a C-BROP by **30th September each year**
- C-BROP will outline:
 - **Actual fiscal performance** in the previous year;
 - **Updated economic and financial forecasts** from the recent Budget Policy Statement;
 - Identification of **broad policy priorities** to be implemented by the CG in the medium term;
 - Provide **indicative available resources (i.e. ceilings)** to fund CG priorities-in consultation with CRA and the National Treasury; and
 - Reasons for any **deviations from the financial objectives** in the County Fiscal Strategy Paper (C-FSP).



4. County Fiscal Framework

- ☐ County Treasury determines the County Fiscal Framework which sets out **estimates of available financial resources**
- ☐ Determined by forecasting:
 - Own revenue sources — Property and entertainment taxes etc.
 - County share of revenue from the National Government—the horizontal share.
 - Grants from the Equalization Fund
 - Conditional and unconditional grants from the NG
 - Domestic borrowing
 - Potential external support(grants and loans)
- ☐ Includes policies and reforms required to achieve the targets (especially own revenue)



5. County Fiscal Strategy Paper(C-FSP)

- The County Treasury shall prepare and submit to the county executive committee for adoption, a C-FSP
- Approved C-FSP shall be submitted to the county assembly by **28th February each year**
- The C-FSP shall contain:
 - broad strategic priorities and policy goals- medium term and long term.
 - Outlook on expenditures, revenues and borrowing for the medium term
- In preparing the C-FSP, the county treasury shall seek the views of:
 - The Commission on Revenue Allocation
 - The public
 - Any other interested persons and groups
 - Any other forum established by legislation (e.g. County Budget and Economic Forum)



6. Revenue Sharing Proposals

- Each year, the Commission on Revenue Allocation shall submit recommendations on the division of revenue between the national and county governments as well as among county governments before **31st December or at a later date agreed between CRA and the Cabinet Secretary for Finance.**
- Treasury prepares Division of Revenue Bill and the County Allocation of Revenue Bill and submits to Parliament by **15th February** each year.
- Recommendations of **CRA** and **IBEC** to be sought before finalizing the Revenue Bills.
- Parliament approves the Revenue Bills not later than **30 days from the date of submission.**



7. Fiscal responsibility principles

- County Assembly to ensure budgets adhere to the following **Fiscal Responsibility Principles** set in the PFM Act 2012:
 - **Development expenditure** – Shall not be less than **30%** of CG budget
 - **Wages and benefits**—Not to exceed a certain % of total county revenue to be set in regulations
 - **Borrowings** - only for development expenditure
 - **County Public debt** - maintained at a sustainable level
 - **Level of Debt**--Not to exceed the level specified annually by resolution of county assembly
 - **Fiscal risks** should be managed prudently
 - level of **tax rates and tax bases** to have reasonable degree of predictability



8. CG Debt Management Strategy

- County Treasury shall prepare and submit a Debt Management Strategy by **28th February** every year.
- The CG Debt Management Strategy shall include information on:
 - Total stock of debt;
 - Sources of loans;
 - Principal risks associated with those loans; and
 - Assumptions underlying the debt management strategy.



9. County Budget Estimates

- County Treasury is to ensure that County budget estimates are in accordance with:
 - the **resolutions adopted by the County Assembly** on the C-FSP, including ceilings provided in the C-FSP
 - other instructions in the **budget circular**
- County Treasury shall consolidate the budgets for ratification by the County Executive Committee before submission to the county assembly no later than **end-April** for approval.
- The relevant committee of the County Assembly dealing with budget matters is required to take into account the views of the CECM-F and the public in their recommendations to the CA.



II. BUDGET LEGISLATION



1. County Appropriations Bill

- County Assembly reviews the budget estimates and may make amendments but in line with the C-FSP:
 - Any increase in expenditure to be balanced by a reduction elsewhere; and
 - Reduction used to reduce deficit.
- Approved estimates are included in the County Appropriation Bill to be approved by CA by **end-June**.
- CGs may **submit supplementary budget** to CA in support of additional expenditure (upto 10% of appropriated amounts)
- The CoK 2010 and the PFM Act, 2012 give power to CA to authorise withdrawal of funds from the County Revenue Fund if County Appropriation Bill is not likely to be assented to by **July 1**.



2. County Finance Bill

- CECM-F to make a **public pronouncement** of revenue raising measures—i.e. County Finance Bill in **June**
- In proposing changes CA must ensure total revenues remain the same as in the C-FSP to avoid financing gaps.
- Recommendations of the CECM-F on changes proposed by the CA to be tabled in CA.
- Within **90 days** after approval of the Appropriations Bill, the CA is required to consider the County Finance Bill and approve with or without amendments.



III. BUDGET IMPLEMENTATION



1. Accounting Officers

- Accounting officers are **accountable to County Assembly** for money appropriated by County Assembly;
- Accounting Officers to be **designated by the CECM-F**.
- Accounting officers to ensure public resources are used in a way that is **lawful and authorised** and in an **effective and efficient manner**.
- Accounting Officers to ensure they have appropriate arrangements in place for **internal audit**.
- Accounting officers may **reallocate** funds subject to certain conditions.



2. Receivers and Collectors of Revenue

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- **Receivers of County Government revenue** are to be designated by the CECM-F responsible for Finance.
- Receivers of County Government revenue are to be **responsible for receiving and accounting** for County Government revenue.
- Receivers of County Government revenue may authorize any public officer of the County Government to be a **Collector of Revenue**.
- CECM-F has **powers to appoint Kenya Revenue Authority as collector** of County Government Revenue.



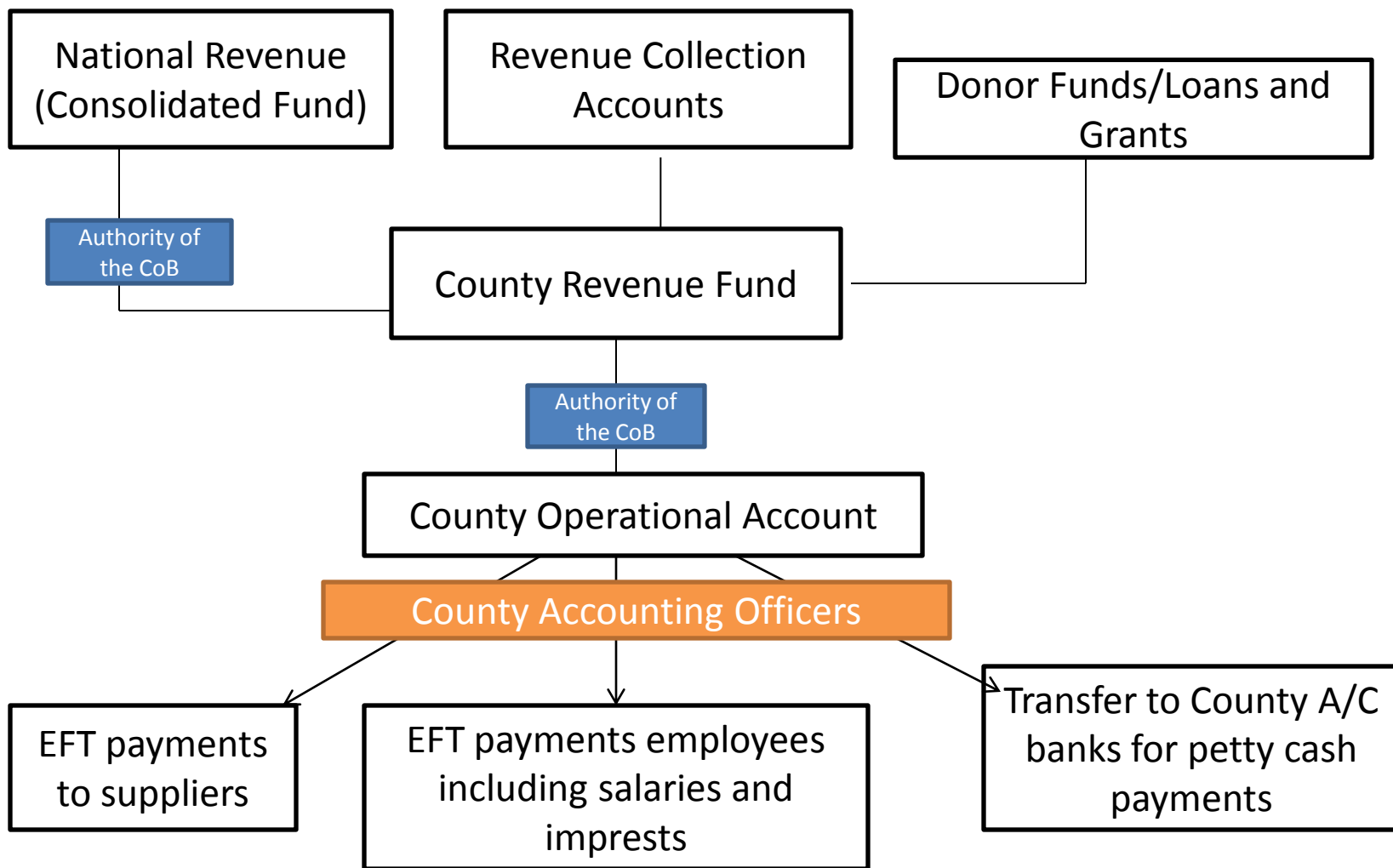
3. Controller of Budget

- The role of the Controller of Budget (CoB) is to oversee the implementation of budgets of the national and county governments by **authorizing withdrawals** from:
 - The Consolidated Fund;
 - The Equalization Fund; and
 - **The County Revenue Funds**
- The CoB shall then submit to each House of Parliament and CAs a report on the implementation of the budgets of the national and county governments.



3. Controller of Budget cont..

Flow chart showing control of budgetary resources by the Controller of Budget





4. Management of funds at county level

- County governments are required to open and operate accounts at the Central Bank of Kenya
- Imprest accounts are to be operated at commercial banks at the county level.
- These accounts are:
 1. County Revenue Fund (County Government Exchequer Account)
 2. County Government Operational Account
 3. County Government Operations Account-Standing Imprest Account (At commercial banks)
 4. County Government Revenue Collection Account (At commercial banks)



5. Stoppage of transfer of funds

- The Cabinet Secretary(Finance) may stop transfer of funds to a county government for **serious or persistent material breach** of measures established in law.
- Indicators of serious or persistent material breach:
 - Failure to make payment when due;
 - Default on financial obligations;
 - Has an operating deficit beyond a threshold set in regulation;
 - Is over 60 days late in submitting financial statements;
 - Controller of budget has raised material issues in the quarterly report of a Cg entity.
 - Auditor General has qualified Financial Statements or issued a statement which identifies a serious financial problem.



IV. ACCOUNTING, REPORTING AND AUDITING



Accounting, Reporting and Auditing

- PFM Act provides for **Annual /Quarterly Reporting** by:
 - Accounting Officers on financial statements for their respective entity.
 - Receiver of revenue on revenue received and collected.
 - Administrators of County public funds.
- Accounting Officers to submit CG financial statement to the Auditor General 3 months after the end of the FY
- County Treasury to **consolidate** annual/quarterly CG Financial Statements
- CG Consolidated financial statements to be submitted to the Auditor General 4 months after the end of the FY.
- Reports are to be published and publicised.



Enforcement:-County Government

- Any offence under the PFM Act, 2012 attracts a term of **imprisonment of upto 5 years or a fine of upto Ksh. 10 Million, or both**
- County Chief Officer responsible for finance **to report suspected offences** to relevant law enforcement authorities.
- **Public Officers are personally liable** for losses incurred by CG as a result of their fraudulent, corrupt or negligent acts.



TRANSITION ISSUES



Financial Year 2014/15

- County Budgets for 2014/15 should :
 - Cover functions which have been devolved
 - Be balanced budgets
 - Not to factor any borrowings



Budget Calendar – Key timelines



Activity	Timeframe
(Update) Strategic Plans, Service Charters	July – Aug.
Develop and issue Budget Guidelines – Treasury Circular	30 th August
County Development Plan submitted to CA	1 st Sep
Develop Budget Review and Outlook Paper (BROP) and submit to CEC for approval	30 th Sep.
Tabling of BROP at the CA	7 th Oct.



Budget Calendar – Key timelines



Activity	Timeframe
Finalization and Submission of reports to County Treasury	Nov- Dec
Hold Sector/Departmental Public Hearings	Mid Jan.
Prepare and submit County Fiscal Strategy Paper to CA	15 th Feb.
Submission of the Debt Management Strategy to CA	28 th Feb
Approval of CFSP by CA	14 th March
Issue Treasury Circular guidelines for finalization of Estimates	End March



Budget Calendar – Key timelines



Activity	Timeframe
Submission of Budget Estimates for County Government, and the County Assembly	30 th April
Review of estimates by Departmental Committees	Early May
Public Hearings by Parliament on the submitted estimates	Mid of May
Report of the Budget and Appropriation Committee on the estimates submitted to the House	Early June
Annual Cash Flows	15 th June
Resolutions of National Assembly on the Estimates and approval of the Appropriation Bill	End June
Not later than 90 days after passing the Appropriation Bill, the CA shall consider and approve the Finance Bill with or without amendments.	*1 st Sept



Risk Management

- **Risk management is the process through which an organization seeks to identify and minimize potential negative results that may occur due to exposure of the organization to environmental changes.**



Budgeting and Risk Management

- ◎ Budgeting is not only technical. That the budget is also a political weapon. Which means one had to know the way around bureaucracy- “ how things work around here”.
- ◎ One must know “how the system hangs together” That the legislature must perform their oversight role and the executive must perform their duty of governance.
- ◎ Experts support their technical know how together with the ability to sail the sea of public sector structures in the real world.



Where Risk Management Fits

- Risk management is a necessary part of policy and operational management: it happens or it is managed
- Risk management is only implemented when all elements of the organization are involved, not just corporate or audit
- Expectations of political leaders about risk vary considerably but general messages around:
 - Expectations that public service will identify risks, preferably in a systematic fashion
 - Distaste for surprises
 - General level of comfort goes up when systematic risk management is practiced
 - Will always expect solutions or recommended courses of action
 - Concern for language, context and publicity



Risk Management

- **Leadership** is key, but complex:
 - **Governance**
 - **Guidance**
 - **Accountability**
- **Whole Meal Deal:** risk identification alone is dangerous – must create a system that has risk identification, mitigation and communications as a single package and activity
- **Build for Transparency:** Assume and act as if all documentation will be **public**
- **Fitting It In:** Less about **cultural change** and more about adapting to existing cultures: “We all do risk management now. So what is so different?”



Risk Management: Implementation

- **Staff training** and support in using simple tools of risk analysis creates a common language
- **Takes time:** cannot be flavour of the month: “Just another management tool.”
- **Stakeholder engagement:** systematic and long term risk management means inevitably engaging stakeholders and being more transparent
- **Risk tolerances:** search for quantification and rigid limits is often fruitless and dangerous in public sector: dynamic and nuanced process:
 - **Role of internal leadership in vetting and guiding**
 - **Role of external engagement**
 - **Avoiding the mythologies of science and definitiveness**
 - **Role of demonstrable process**



Risk Management: Implications

- Systematic risk management is often about bring the full picture to decision makers
- Avoiding either “the elephant in the room” avoidance syndrome or listening only to the “danger establishment”
- Risk mitigation and communication: serves policy and political ends
- Engagement of stakeholders in risk determination: need to establish governance and rules of engagement
- Use of risk management tools in priority setting: address the red boxes first, stupid!
- Systematic or integrated risk management is a way of getting ahead of the curve



Challenges

The following are the challenges likely to be faced by the counties in managing county resources:

- ✓ Operationalization of the Management Information System: IFMIS
- ✓ Building human capacity among the county governments.
- ✓ Inadequate institutional arrangements
- ✓ Lack of adequate infrastructure
- ✓ Resistance to change
- ✓ Corruption and other economic crimes: devolved to the counties
- ✓ Managing the high expectations from the people as expressed through ownership and public participations
- ✓ Lack of M&E framework for project implementation



Thank You