Managing the County Resources: Budgetary Approach

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"County Governments: Addressing the Transition Challenges"

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1. INTRODUCTION

1.1 Establishment of the Controller of Budget

- The Controller of Budget was established by the Constitution of Kenya under Article 228 to oversee the implementation of budgets of both national and county governments by authorizing withdrawals from public funds.
- The Controller of Budget is one of the two independent offices established by the Constitution under Article 248(3). The other is the Auditor General.
- OCoB is one of the shared public institutions in the public finance management.

1.2 Mandate of the Controller of Budget

1. Oversight Role

- Oversee the implementation of the budgets of national and county governments. Article 228(4)
- Monitor use of funds in-year and raise concerns on any signs of mismanagement to the Auditor General and both houses of Parliament.

Mandate Cont'd

2. Controlling Role
   - Authorizes withdrawals from public funds, that is:
   - ✓ Consolidated Fund (Article 206(4))
   - ✓ Equalization Fund (Article 204(9))
   - ✓ County Revenue Fund (Article 207(3))

   If satisfied that the same is in accordance with the law (Article 228(5))
   - This role promotes transparency and accountability by:
     a) Ensuring that funds are released only for budgeted activities
     b) Any unauthorized activity cannot therefore be funded

Mandate Cont’d

3. Reporting Role

- Submits statutory reports to each house of Parliament on implementation of the budgets of national and county governments (Article 228 (6)
- The COB also prepares quarterly, annual and special reports on budget implementation. Articles 254(1), (2) and 252(1)(a)
- Through these reports, the COB ensure continuous monitoring of usage of public funds.
- The reports are published and publicized for transparency.

Mandate Cont'd

4. Advisory Role

- Advises Parliament on financial matters where the Cabinet Secretary responsible for finance has stopped transfer of funds to a state organ or public entity. Article 225(3)
- The suspension of funds cannot be lifted or sustained before the CoB gives a report to Parliament. Article 225(7)(a)

Mandate Cont'd

5. Investigation Role
   - OCoB can conduct investigations on its own initiative or on a complaint made by a member of the public (Article 252(1)(a)) or on request from Parliament or Executive
6. Arbitration/ Mediation Role
   - OCoB has powers for conciliation, mediation and negotiation in case of a dispute or complaint. Article 252(1)(b)

2. SOURCES OF REVENUE FOR COUNTY GOVERNMENTS

1. Revenue from national government: Article 202(2)
2. County Revenue Fund: Article 207. This is revenue generated from property rates, entertainment taxes, levies, fees and charges (Article 209(3)).
3. Conditional and/or unconditional grants from national government. Article 202 (2).
4. Equalization Fund. Article 204
5. Donor funds
6. Loans and grants. Article 212
7. Individuals Voluntary contributions

2.1 FINANCIAL RESOURCES FOR COUNTY GOVERNMENTS

1. **Shareable Revenue**:

- Revenue raised by the national government that is equitably shared between the national and county governments (Article 203 (2))

- In the FY2012/13, 15% of the total government revenue was allocated to counties.
- Allocation to counties for 4 months (March – June 2013) – 9.8 Billion

2.2 Formula for sharing of national revenue among county governments

- Commission on Revenue Allocation recommended that total shareable revenue be shared among county governments based on the following formula which has been approved by parliament:

✓ Population	45%
✓ Basic Equal Share	25%
✓ Poverty	20%
✓ Area	8%
✓ Fiscal Responsibility	2%

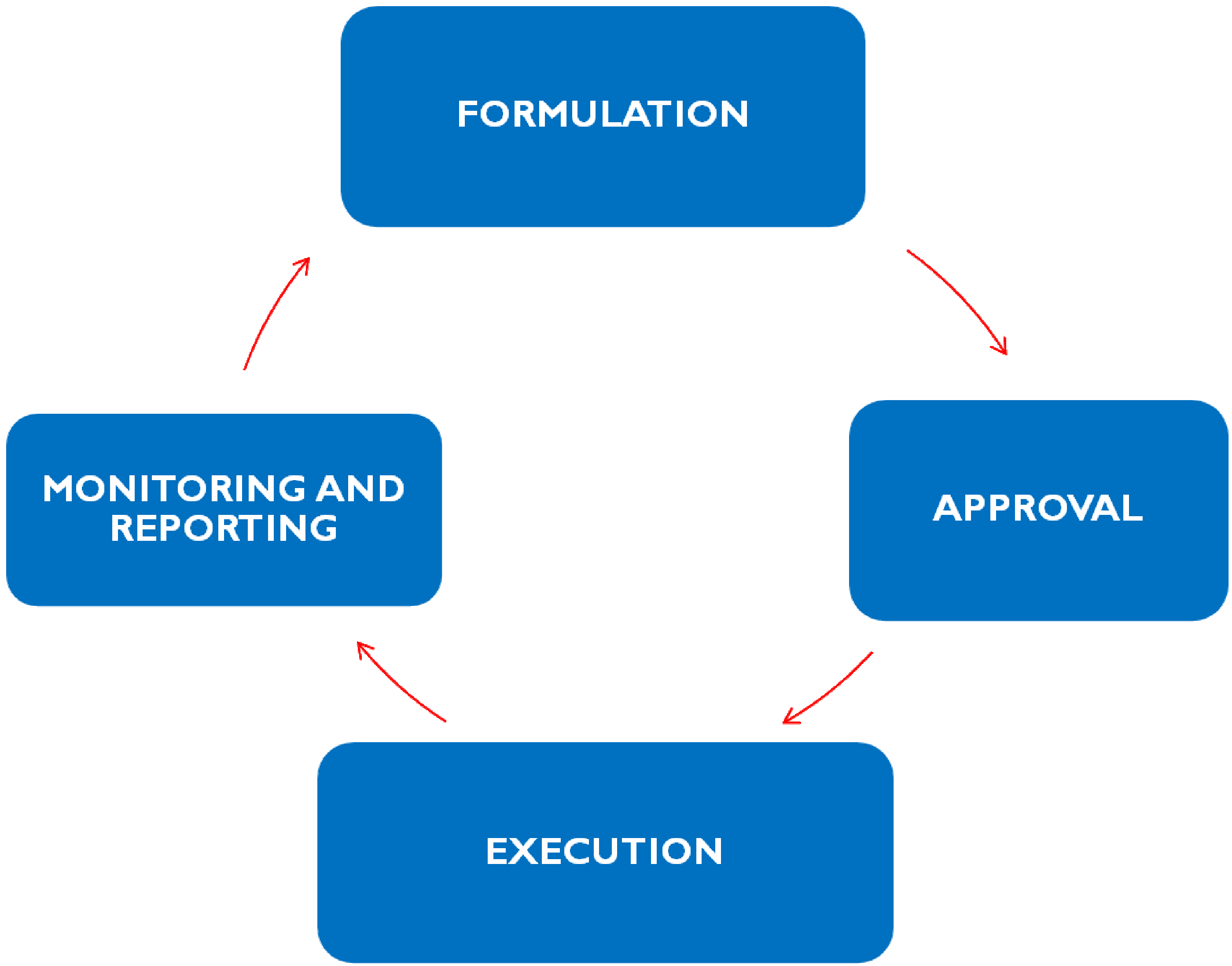
2.3 Criteria for identifying marginalized counties for the purposes of Equalization Fund

- Equalization Fund is the 0.5 % of all revenue raised by the national government each year that will be used by the national government to provide basic services including water, roads, health facilities and electricity to the marginalized areas.
- The purpose is to bring the quality of those services in those areas to the same level as generally enjoyed by the rest of the nation.

Equalization Fund Cont'd

- CRA identified marginalized counties for the purposes of allocating equalization funds based on the following factors;
  - ✓ Widespread poverty and insecurity
  - ✓ Food insecurity
  - ✓ Water scarcity for human and livestock use
  - ✓ Impassible roads and hostile terrain
  - ✓ Makeshift medical facilities
  - ✓ Lack of access to the national electricity grid
- Marginalized counties identified from July 2011-June 2014 are: Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo and Lamu.

3. STAGES IN BUDGETING PROCESS



3.1 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 Approval

III. Budget Execution

IV. Accounting, Reporting and Auditing

3.2 Budget Formulation at County Level

- Budget Circular - 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**

- 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.

- 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**

Budget Formulation Cont..

- County Fiscal Framework - County Treasury determines the County Fiscal Framework which sets out **estimates of available financial resources**

- County Fiscal Strategy Paper(C-FSP) - 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 public and any other interested persons and groups

- County Budget Estimates - 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.

3.3 County Budget Approval

- 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.**
  - Appropriation bill is assented by the governor
- County Finance Bill
  - CECM-F to make a **public pronouncement** of revenue raising measures—i.e. County Finance Bill **in June**
  - 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.

3.4 Budget Execution by Accounting Officers

- Accounting Officers to be **designated by the CECM-F**.
- Accounting officers are **accountable to County Assembly** for money appropriated by County Assembly;
- 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. This enhances control of resources.

3.5 Oversight Institutions at County Level

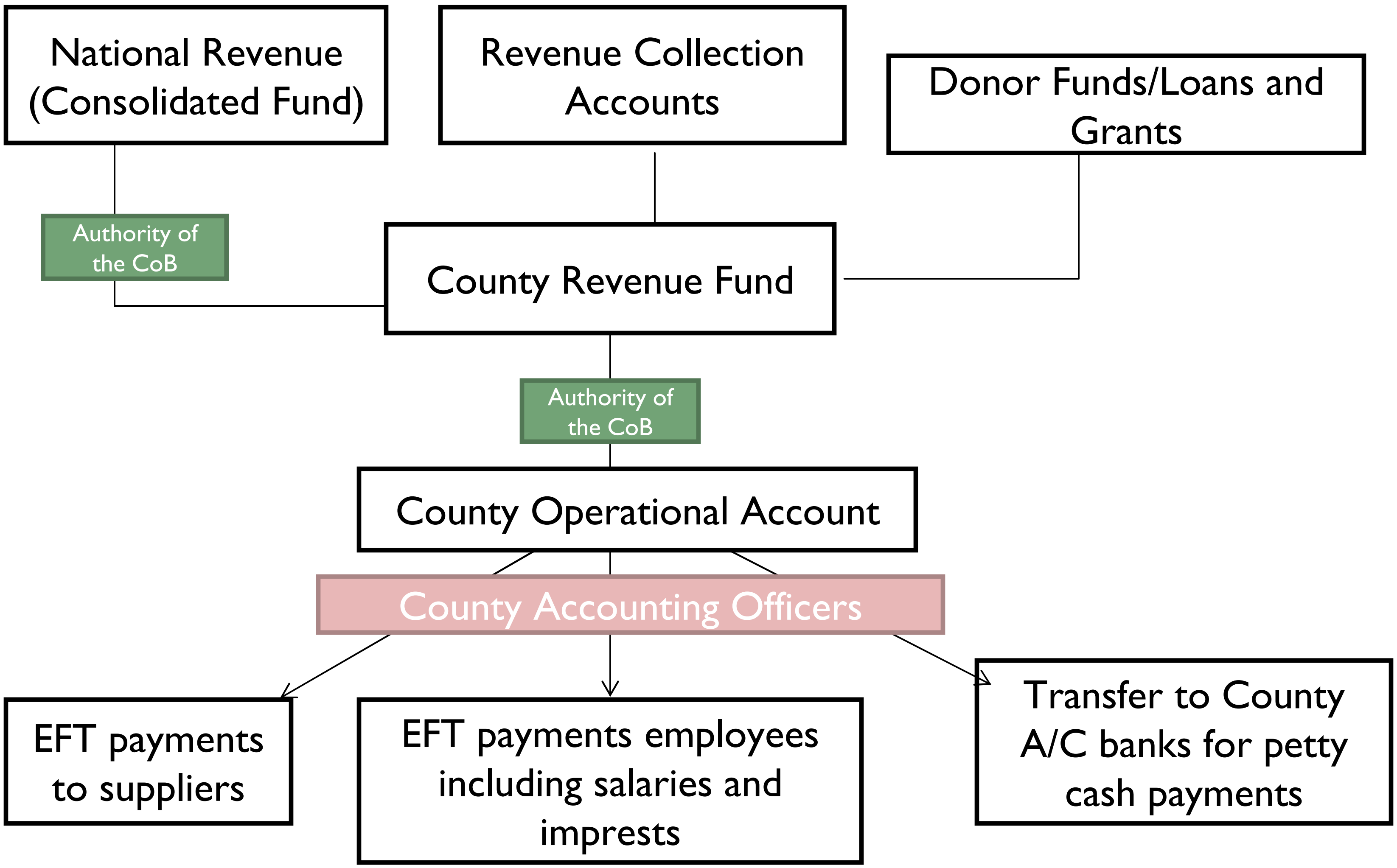
- Oversight institutions for the county budget execution process:
  - ✓ County Assembly
  - ✓ County Executive Committee
  - ✓ County Budget and Economic Council
  - ✓ CRA: recommendations on Division of Revenue and Allocation of Revenue
  - ✓ Controller of Budget
  - ✓ Auditor General

3.6 Control of Budget Execution

- OCoB **oversees the implementation of budgets** of the county governments by authorizing withdrawal from county revenue fund if satisfied that the withdrawal is in accordance to law.

- To oversee specifically refers to control, monitor, advise, and report on the implementation of the budgets by county governments entities

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



3.8 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)

4. MONITORING BUDGET EXECUTION AT COUNTY LEVEL

- OCOB expects county government entities to institute mechanisms to monitor the implementation of budgets within the fiscal year
- OCOB is mandated to monitor budget implementation to ensure that set budget objectives are being achieved and recommend remedial measures that are necessary for improving budget implementation within the fiscal period.

4.1 Reporting on Budget Execution at County Level.

- The OCOB monitors budget implementation by analyzing and compiling statutory reports from:
  - ✓ The monthly returns filed by the county government entities.
  - ✓ Regular monitoring exercise on selected projects/programmes by county governments

Reporting Cont'd

- These reports will highlight:
  - ✓ Level of absorption of public funds (recurrent and development)
  - ✓ Utilization of funds according to the budgets and work plans
  - ✓ Mismanagement /misappropriation of public funds
  - ✓ Any signs of mismanagement will be picked and forwarded to Auditor General and other investigating entities for further investigation.

Reporting Cont'd

- The reports include:

1. Reports to the Senate

✓ OCOB reports to the Senate on the implementation of budgets of the county government entities every four months.

2. Reports to the County Assembly

✓ OCOB prepares and submits reports on budget implementation of county government entities to each of the respective 47 County Assembly.

3. Reports to the County Executive Committee
4. Reports to Governors

✓ These reports escalate issues on budget implementation by county government entities to the County Assemblies and Senate as early as possible without waiting for the end of the year.

Reporting Cont'd

5. Advisory Reports to Parliament
   - ✓OCOB prepares special reports when a Cabinet Secretary responsible for finance stops the transfer of funds to a county government entity and there is need to uphold or review the decision.

4.2 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.

5. 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

6. Conclusion

- PFMA provides the legal framework within which all aspects related to financial resources in the county governments must be managed.
- Budget monitoring ensures that revenue and expenditure is constantly kept in check so that appropriate action is taken should significant variances from projections occur.
- It is therefore imperative to uphold best practices in the management of public resources in order to ensure high standards of living for all Kenyans.