COUNTY GOVERNMENTS BUDGET IMPLEMENTATION

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Presentation Outline

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- Why OCOB was established
- Mandate and role of OCOB
- Overview of Budget Performance FY 2013/14 to FY 2016/17
- Overview of Budget Performance First Quarter FY 2017/18
- Challenges affecting Budget Implementation
- Recommendations
- Conclusion

Introduction

- The main departure between the Constitution promulgated in 2010 and the previous Constitution is the introduction of the devolved system of governance with decentralized fiscal management.

- The devolved system of governance ensured that power and resources are devolved to more centers of authority which are distinct, interdependent and operate on the basis of consultation and mutual respect.

- This was necessitated by public demand for more transparency and accountability in the management of public resources.

Introduction Cont'd

- The Constitution of Kenya, 2010 thus established among others, oversight institutions to protect the sovereignty of the people; secure the observance by all State organs of democratic values and principles; and promote constitutionalism (Article 249 of CoK, 2010).
- Among these oversight institutions is the Office of the Controller of Budget established under Article 228 of CoK, 2010.

Why OCOB was Established

- The Office was established to separate financial management functions i.e. monitoring, and reporting on budget implementation, controlling and auditing which were hitherto performed by the Treasury and Controller and Auditor General respectively (Monitoring and reporting was not regular and anchored in law)
- To have an independent institution that will monitor, evaluate and report to Parliament on matters relating to budget implementation by both national and county governments and advise on remedies to be taken as the budget is being implemented. (Strong checks and balances)
- To promote fiscal discipline and equitable allocation of available resources

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Role and Mandate of the Office of the Controller of Budget

Mandate of the Controller of Budget

- The Office of the Controller of Budget is established under Article 228 of the Constitution of Kenya, 2010 to oversee the implementation of the budgets of the national and county governments by authorizing withdrawals from public funds.

Other Roles of the Controller of Budget

1. Oversight Role

- It involves overseeing implementation of the budgets of both national and county governments *(Article 228 (4).*
  - *"To oversee connotes monitoring, evaluating, reviewing, controlling and advising".*
- COB monitors both recurrent and development budgets
  - The COB analyzes both recurrent and development expenditures from quarterly and annual reports and prepares a report to Parliament and the County Assemblies
- During monitoring of funds any sign of mismanagement of funds is brought to the attention of other investigating agencies for further investigation.

Oversight on County Budget Implementation

- The oversight mandate of OCOB is wide and supports county governments by ensuring that they operate within the principles of public finance (Article 201) such as:
  - ✓ Transparency and accountability, including public participation in financial matters;
  - ✓ Use of public money in a prudent and responsible way;
  - ✓ Responsible financial management with clear fiscal reporting

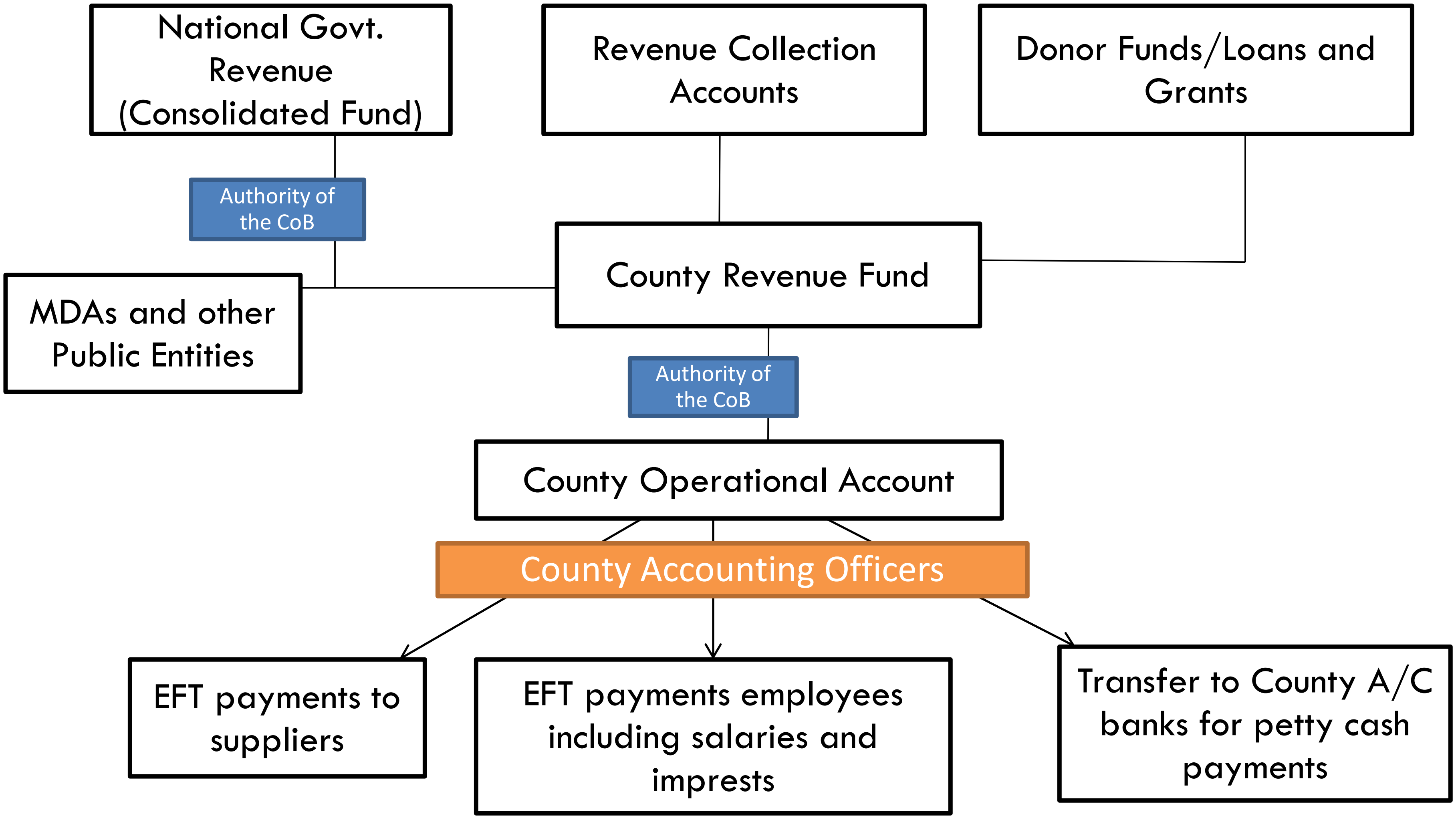
- In monitoring, OCOB ensures that:
  - ✓ Available resources are released according to approved budget.
  - ✓ Utilization of resources are in accordance with law
  - ✓ A report on budget execution is made to the respective County Assembly and the Senate every four months

Roles of the Controller of Budget cont'd

2. Controlling Role

- Authorize withdrawals from public funds: Equalization Fund (Article 204 (9)), Consolidated Fund (Article 206(4)), and Revenue Fund (Article 207 (3)), if satisfied that the same is in accordance with the law (Article 228 (5))
- This role ensures:
  - a) That funds are released only for budgeted activities
  - b) Unauthorized activities are not funded
  - c) Equity in the release of funds (ensures the release of funds to all entities)
- This promotes transparency and accountability.

Control of Budgetary Resources by OCOB



Roles of the Controller of Budget cont'd

3. Reporting Role

- Reports to the Legislature, every four months on implementation of budgets of national and county governments (Article 228 (6));
- Report after the end of every year (annual report) to the President and to Parliament (Article 254 (1));
- Report, at any time (special reports), as may be required by the President, Parliament (Article 254 (2)) or a member of the public through a petition;
- The reports are published and publicized for transparency Articles 254(3).
- The reports form the basis upon which both the Parliament and County Assemblies oversight usage of public funds by both national and county governments during the year.

Roles of the Controller of Budget Cont.

Reporting role Cont..

- In particular, the reports provide information on budget implementation issues such as;
  - ✓ Level of absorption of public funds (recurrent and development)
  - ✓ Utilization of funds according to the appropriation of sums voted by Parliament/county assemblies
  - ✓ Sectoral analysis on expenditure and the exchequer issues.
  - ✓ Performance of Revenue collection, exchequer issues and exchequer requests not funded.
  - ✓ Recommendations on improving budget implementation by the spending units e.g. revenue shortfall, Operationalization of Financial Management Systems, and streamlining the procurement procedures.

4. Advisory Role

- The OCOB advises Parliament on financial matters where the Cabinet Secretary responsible for Finance stops the transfer of funds to a state organ or public entity (Article 225(3).
- The suspension of funds may not be lifted or sustained before the COB gives a report to Parliament. Article 225(7a)
- Advise the national and county government entities on budget implementation matters

5. Mediation Role

- The OCOB may conduct alternative dispute resolution mechanisms to resolve disputes on financial matters between county government(s) and the national government or between Counties. (Article 252(b))
    - A number of Counties had issues between the County Executive and the Assembly
    - The OCOB intervened and reconciled the two arms of government at the county level to resolve their differences in order to enhance budget implementation.

6. Investigation Role

- The OCOB may conduct investigation on its own motion or on a complaint made by a member of the public with regard to budget implementation. (Article 252(a)).
  - In the last five years, the office received complaints from a number of counties on the budgeting process.
  - OCOB undertook investigations and reports submitted to the senate for appropriate action.

7. Public Participation

- The role requires the Controller of Budget to ensure that members of the public are given information on budget implementation both at the national and county government level in accordance with Article 228 of the Constitution. (Section 39(8) PFMA).

Public Participation cont..

- The Office has been engaging professional associations from different counties with a view to sensitize the public in their respective counties on budget implementation.
- The Office will continue to partner with the counties on civic education to sensitize the public on their roles.

Overview of Budget Performance - FY 2013/14 to FY 2016/17

Budget Performance

Transfers to Devolved Units

a) Total Equitable Share of Revenue

The Government transferred a total Ksh. 960.34 billion (84.1 Per cent) in the last five years in line with Article 202(1) of the Constitution of Kenya, 2010.

b) Conditional Grants

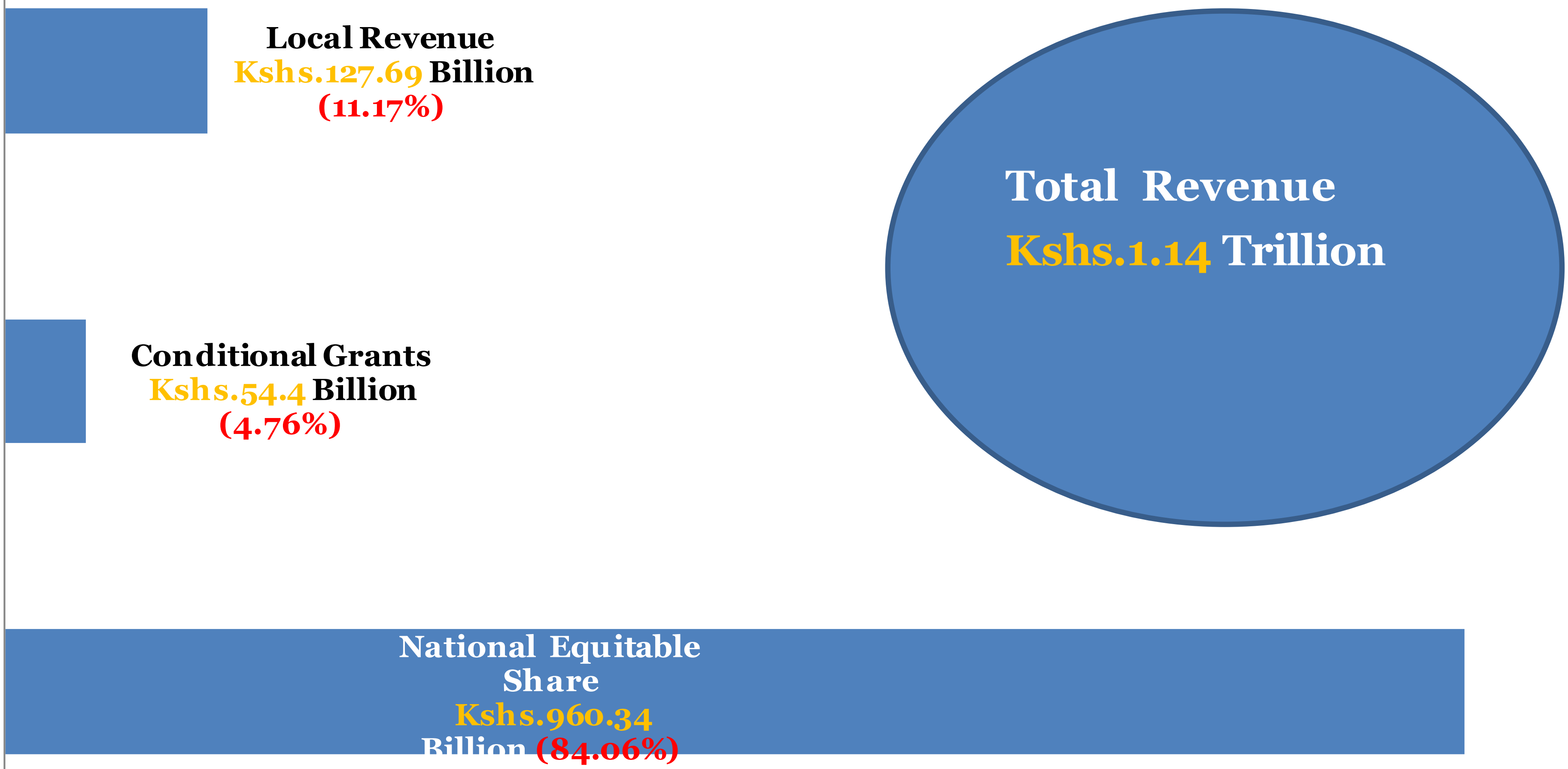
The Government transferred a total Ksh. 54.4 billion (4.8 Per cent) as conditional grants in the last five years in line with Article 202(2) of the Constitution of Kenya, 2010.

c) A total of **Ksh. 1.015 trillion** has therefore been transferred to the Counties in the last five years

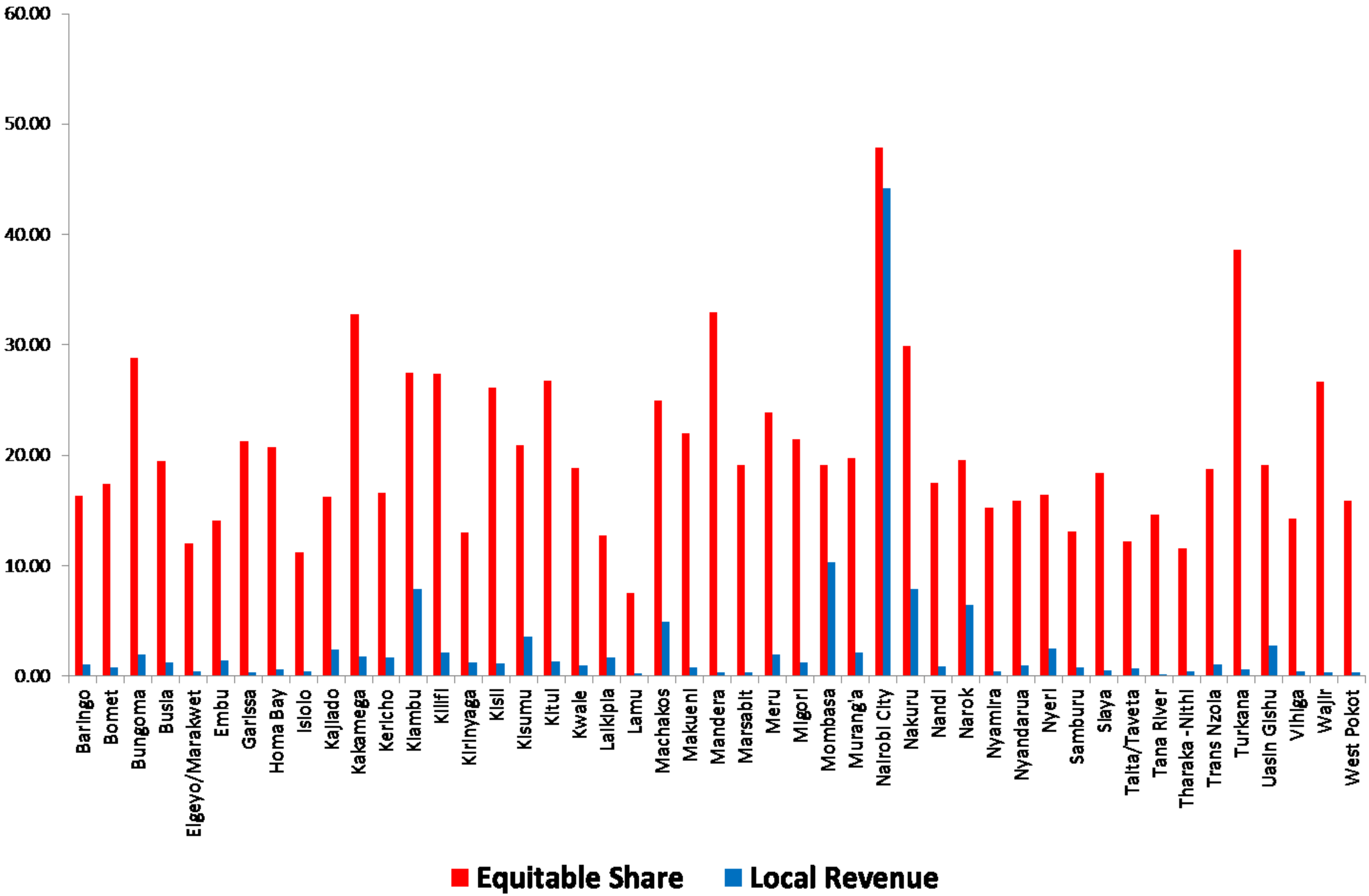
d) County Own Source Revenue

The County Governments collected a total Ksh. 127.69 billion (11.17 Per cent) in the last five years in line with Article 209 of the Constitution of Kenya, 2010.

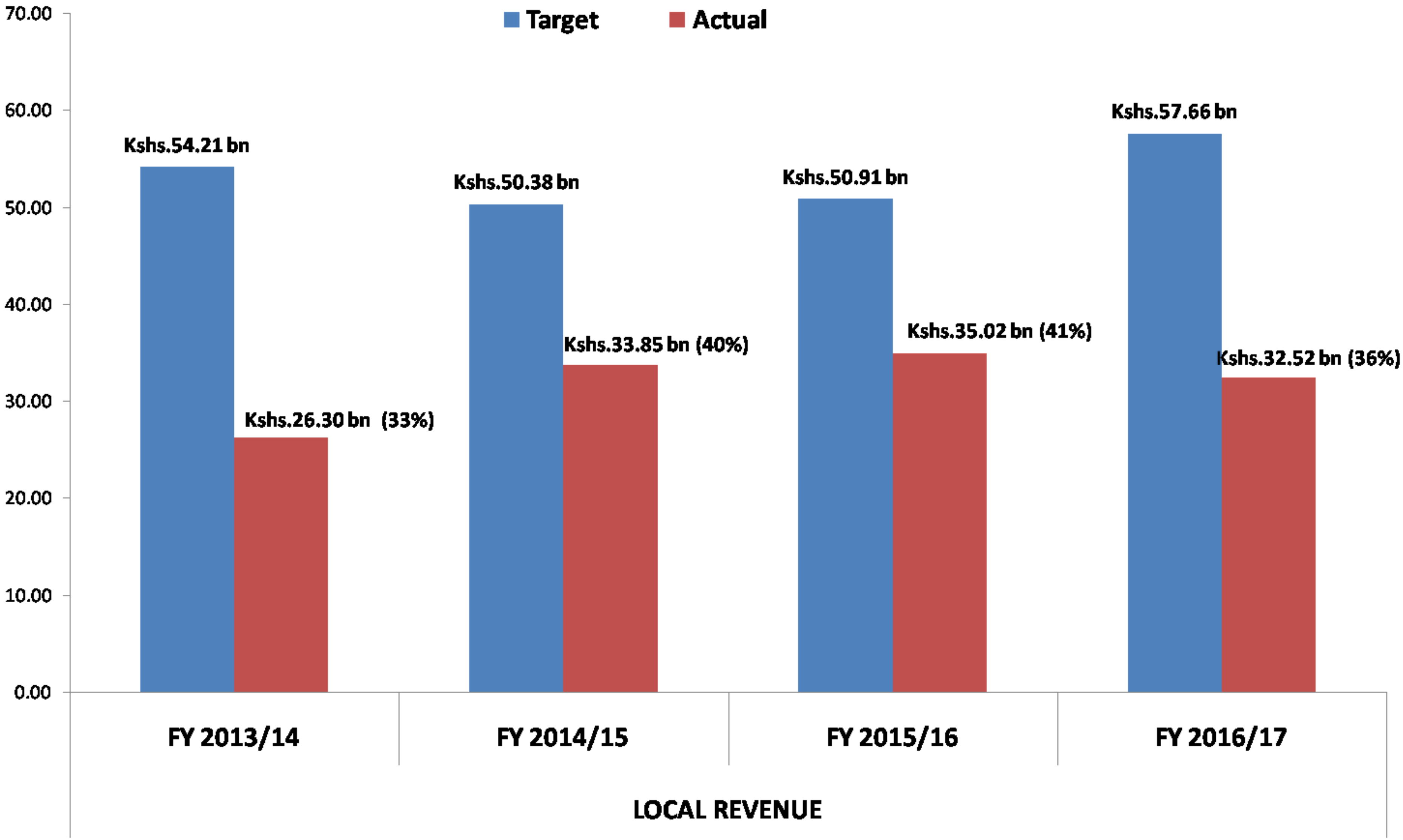
Aggregate County Government Revenue from FY 2013/14 to FY 2016/17



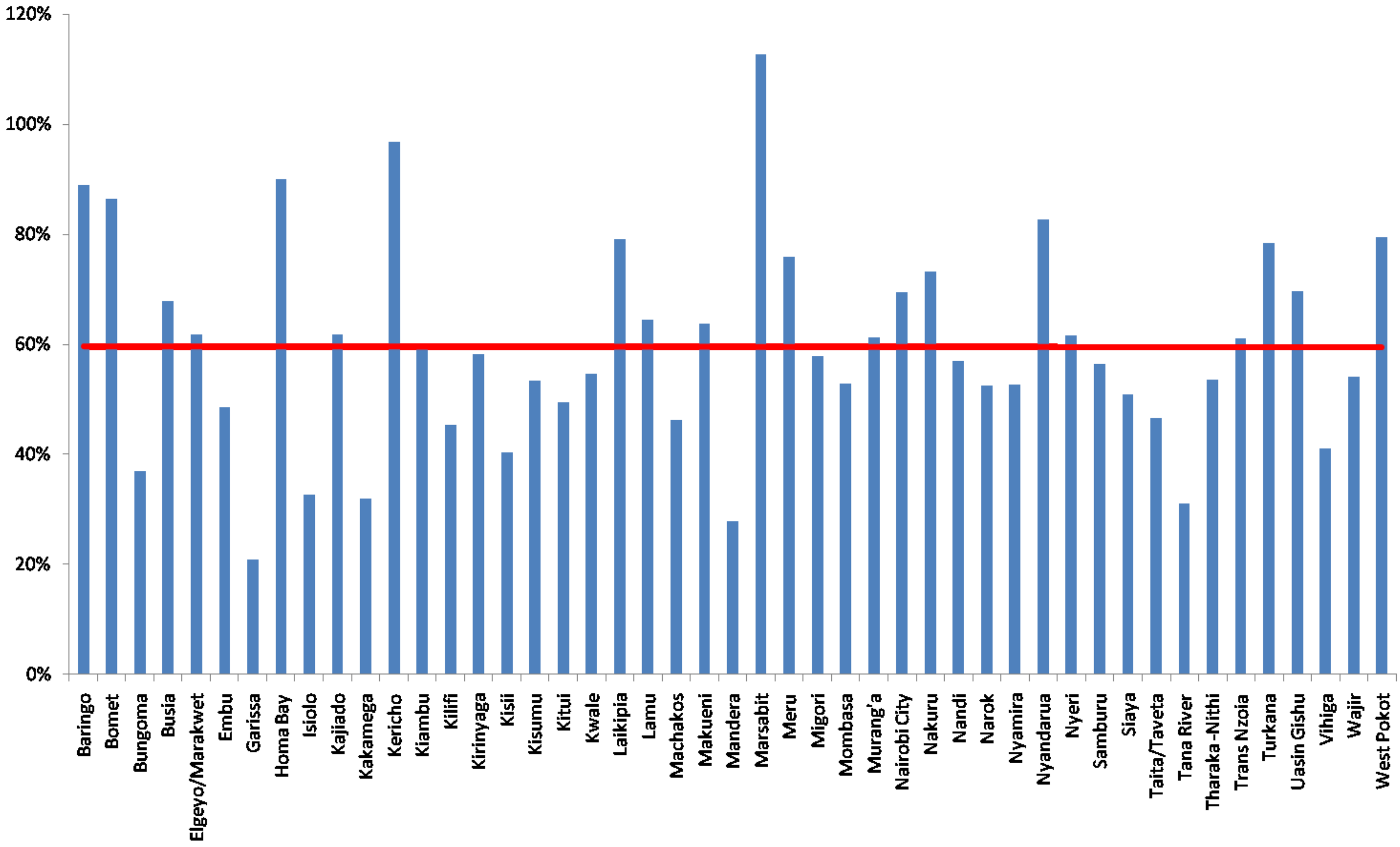
Individual County Governments Revenue from FY 2013/14 to FY 2016/17



Aggregate Actual Local Revenue vs Local Revenue Target from FY 2013/14 to FY 2016/17



Local Revenue Highlights by County from FY 2013/14 to FY 2016/17



22 counties achieved 60% of their 4 year cumulative local revenue targets

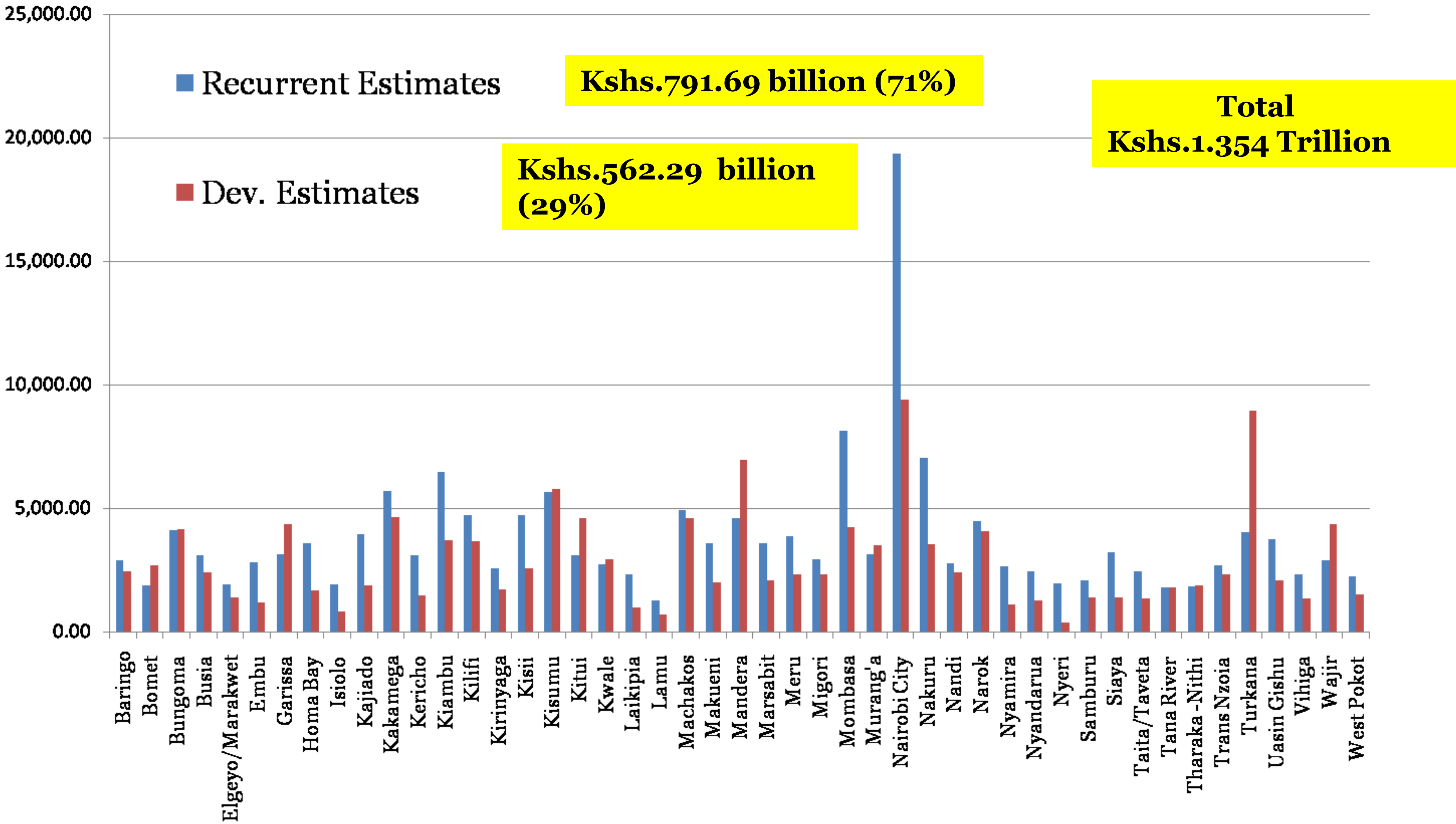
Budgets and Expenditure

Total Aggregate Budgets

- The County Governments budgeted to spent a total Ksh. 1.35 trillion in the last five years of which:-

  - ❖ Recurrent Estimates - Ksh. 791.69 billion (71.0 percent). This forms the bulk of the budget expenditure.
  - ❖ Developments Estimates - Ksh. 562.29 billion (29.0 percent)

Aggregate County Allocation to Recurrent and Development from FY 2013/14 to FY 2016/17



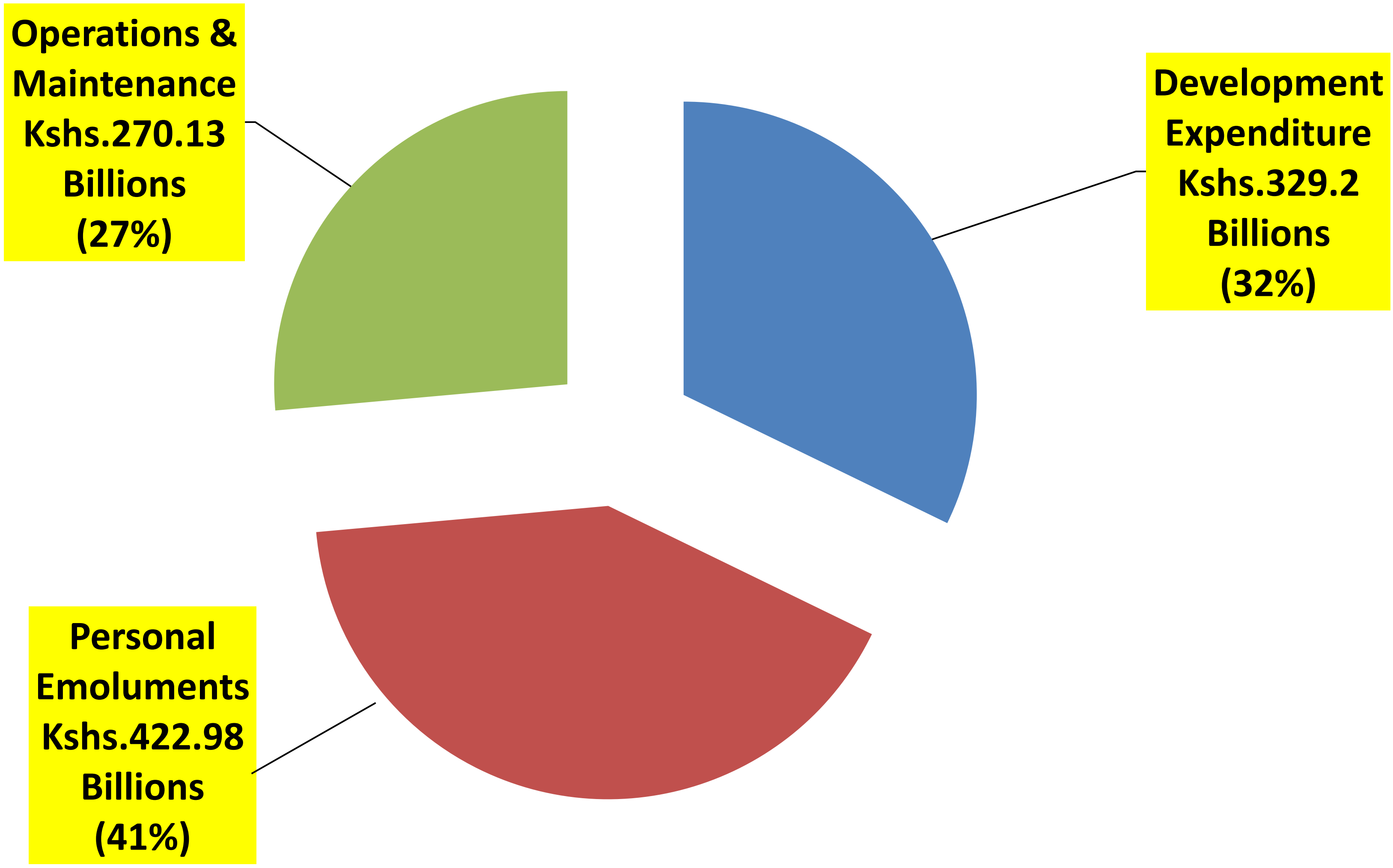
Budgets and Expenditure Cont..

Expenditures

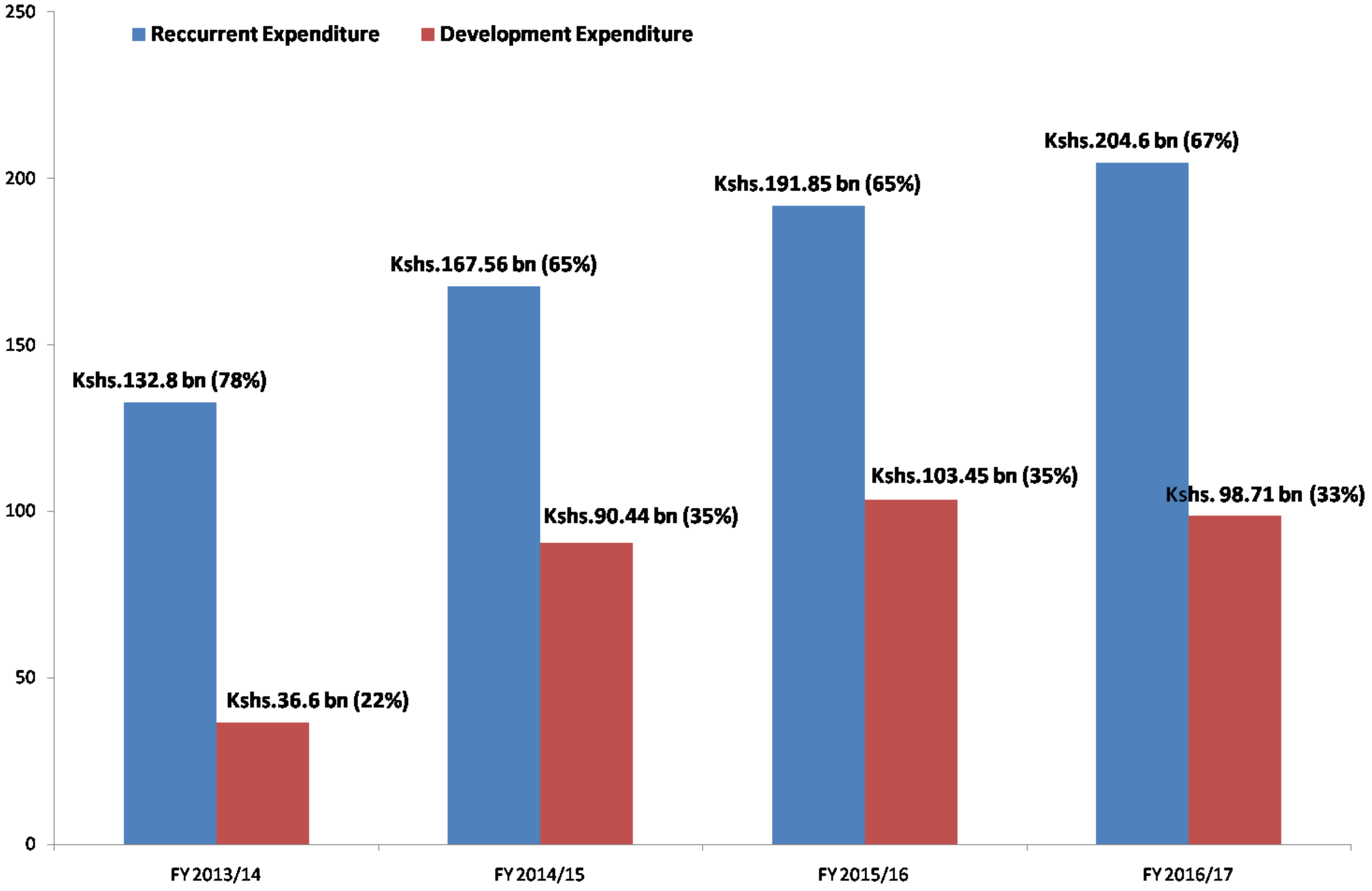
- The County Governments spent a total Ksh. 1.028 trillion on both recurrent and development activities in last five years

  - **Recurrent Expenditure** Ksh. 699.29 billion (68.0 percent)
  - **Development Expenditure** Ksh. 328.97 billion (32.0 percent)

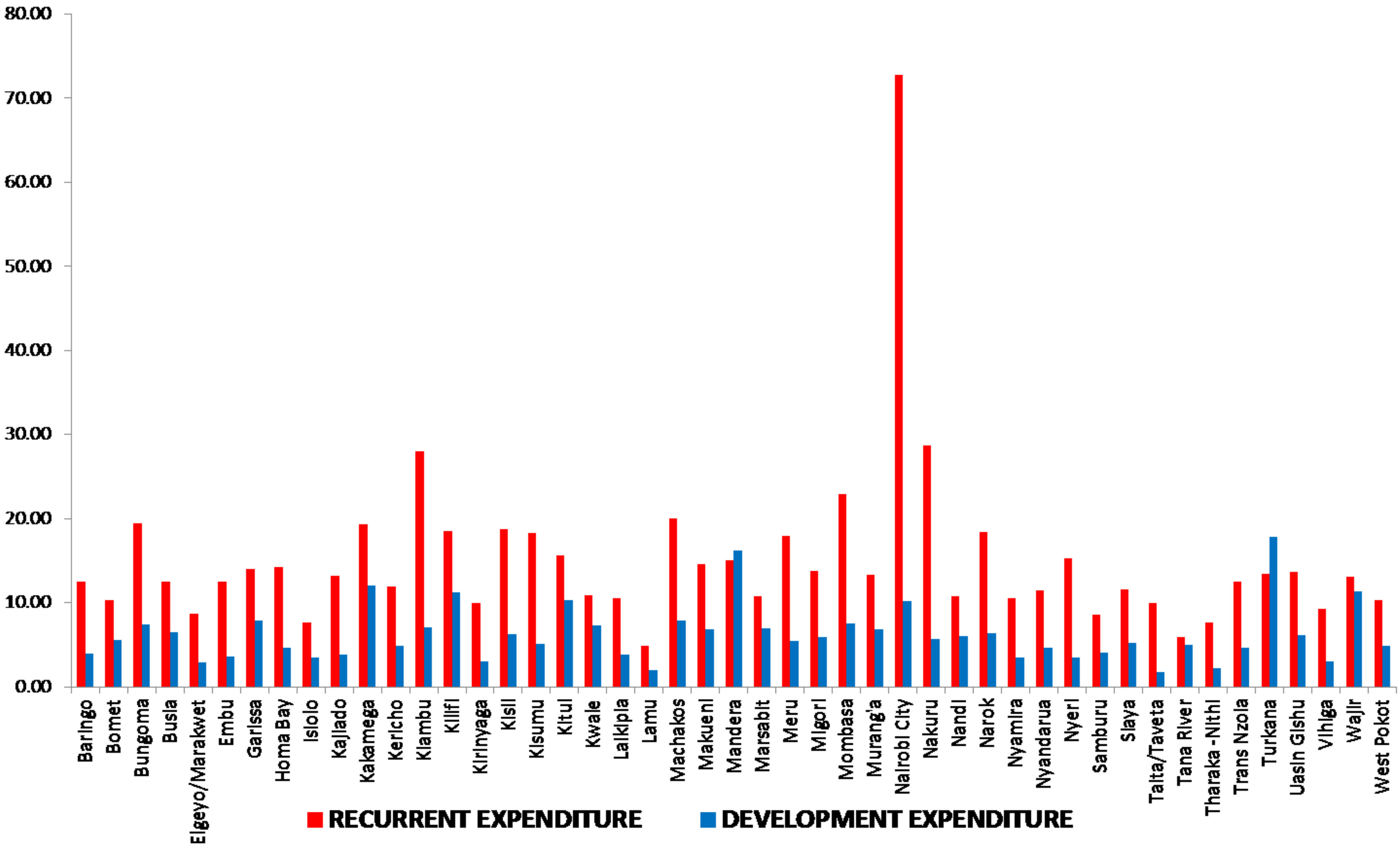
Expenditure Analysis from FY2013/14 to FY 2016/17



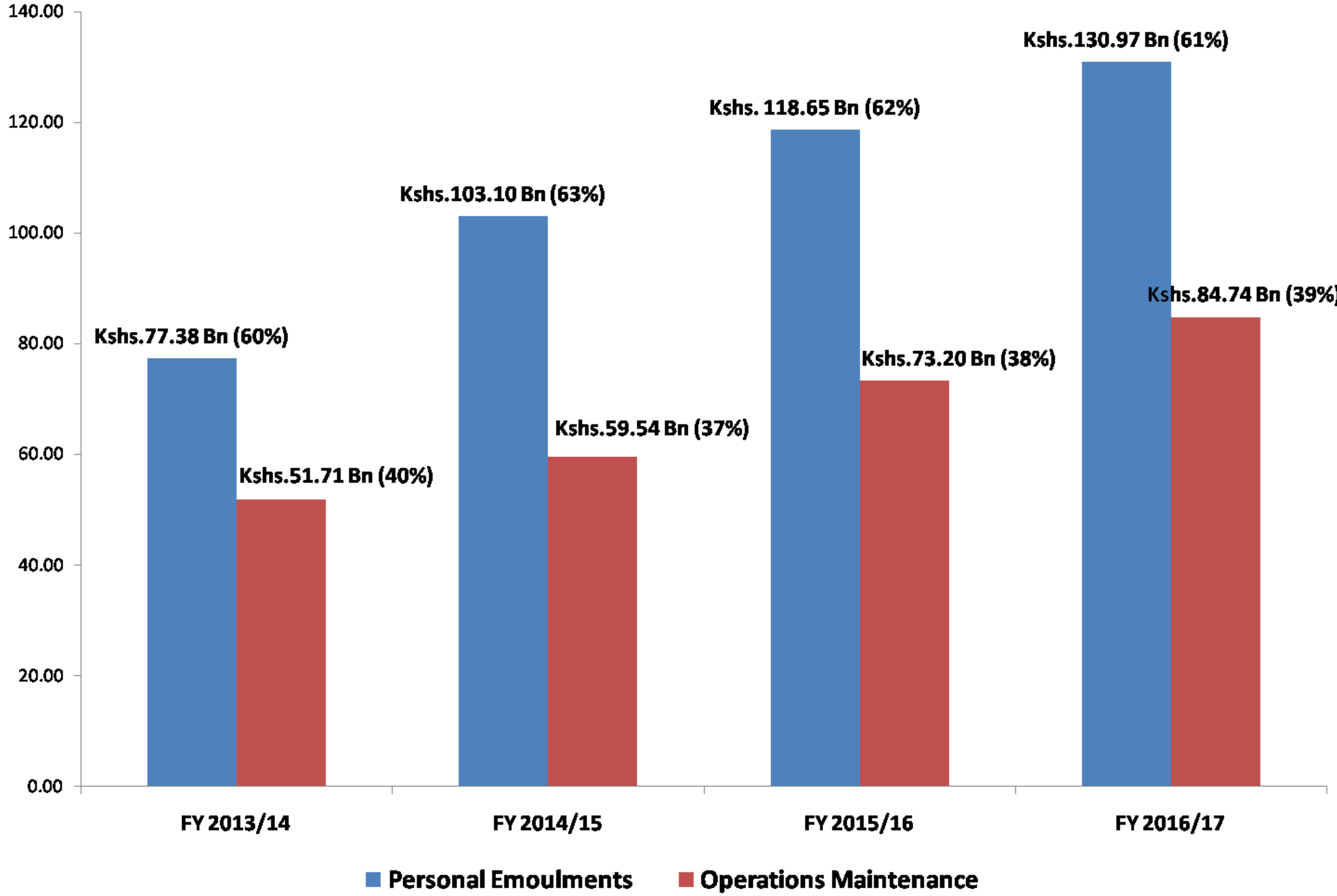
Aggregate Recurrent and Development Expenditure from FY 2013/14 to FY 2016/17



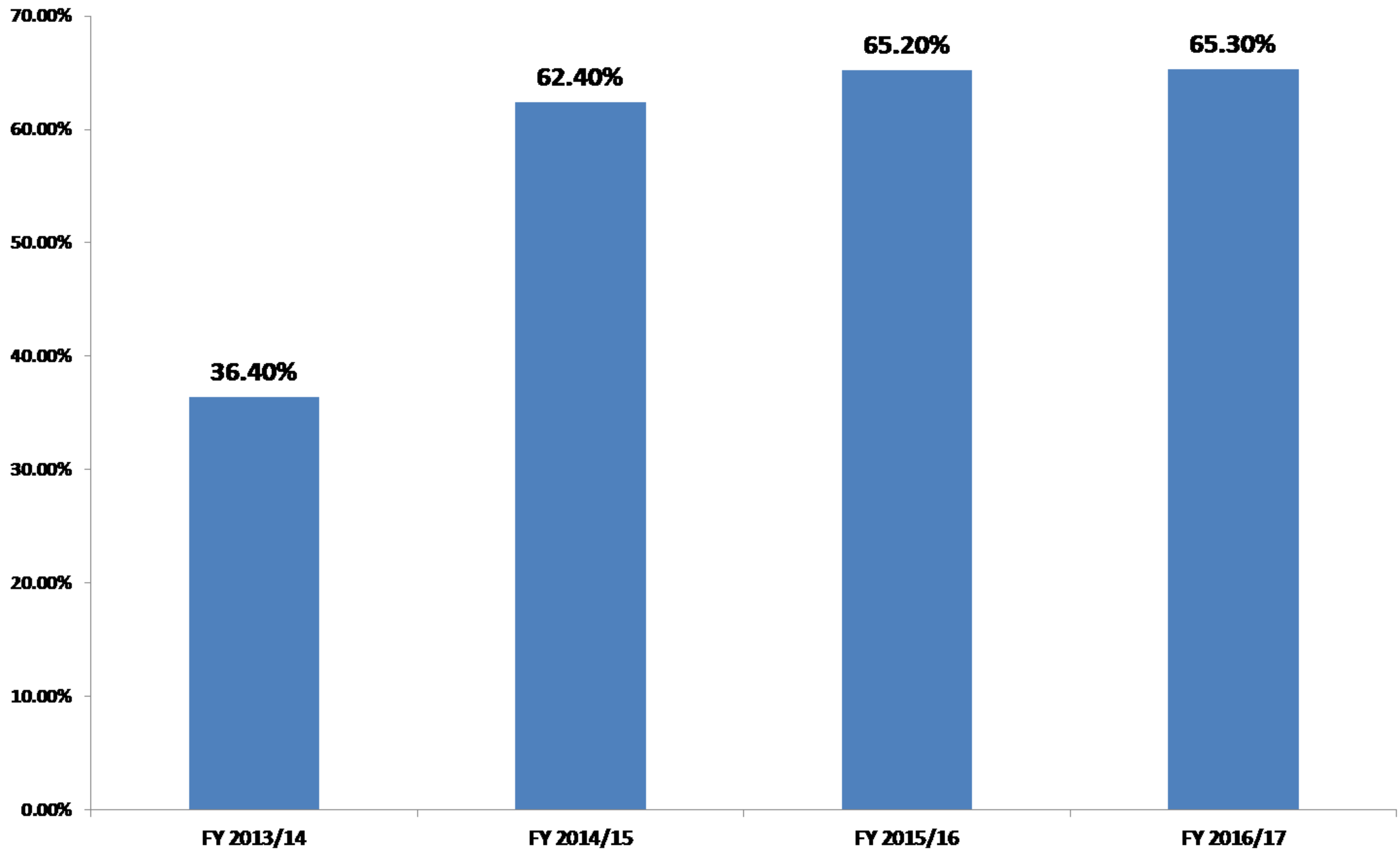
Recurrent and Development Expenditure by County from FY 2013/14 to FY 2016/17



Recurrent Expenditure from FY 2013/14 to FY 2016/17



Development Expenditure Absorption Level from FY 2013/14 to FY 2016/17

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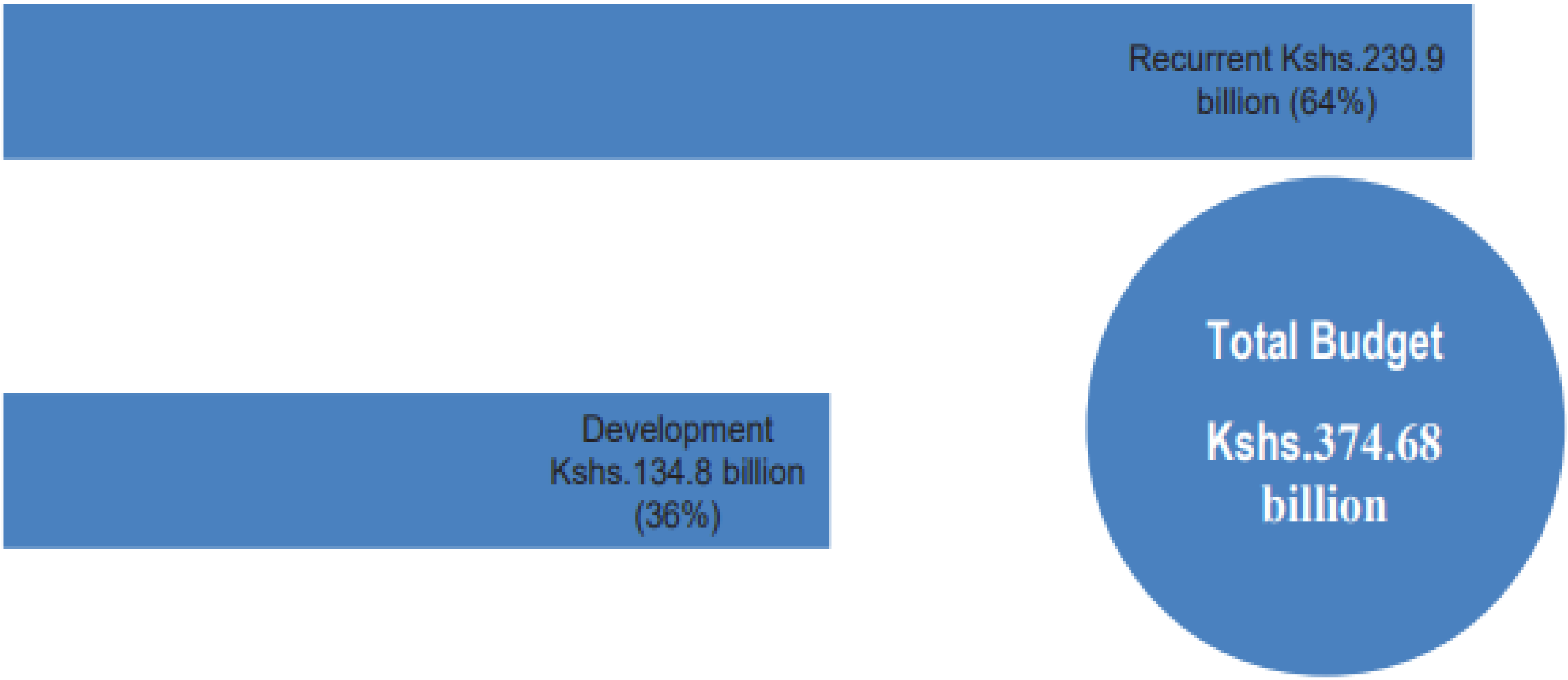
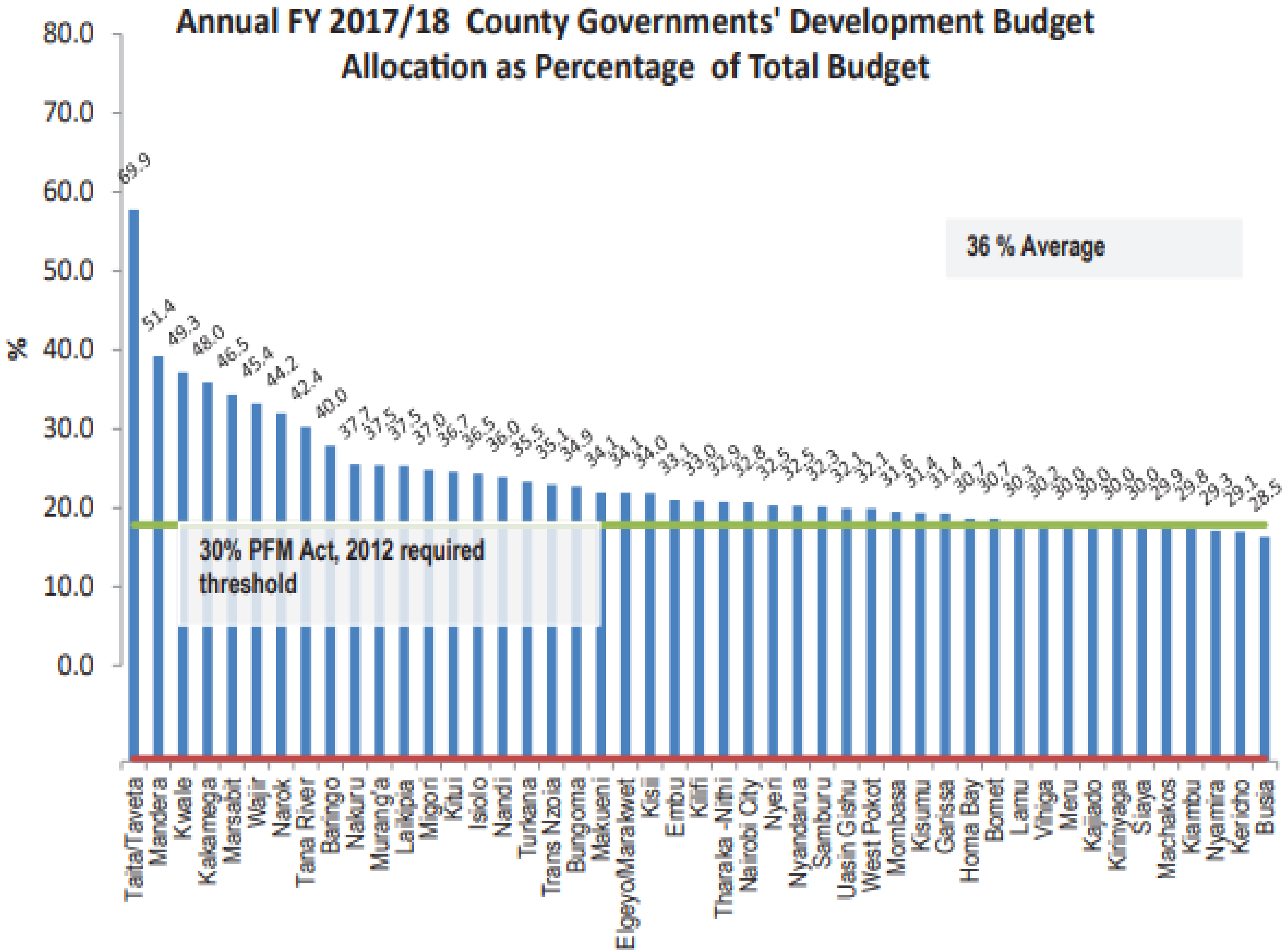
OVERVIEW OF BUDGET PERFORMANCE –FY 2017/18

KEY HIGHLIGHTS – FY 2017/18 County Budget

- The aggregate Approved Budget Estimates for the County governments in the FY 2017/18 amounts to Kshs.374.68 billion (Kshs.239.9 billion (64 per cent) for recurrent expenditure and Kshs.134.78 billion (36 per cent) for development activities.
- The allocation for development activities conforms to Section 107(2) (b) PFM Act, 2012 which requires at least 30 per cent of the budget to be allocated for development expenditure.
- To finance the FY 2017/18 Approved Budgets, County Governments expect
  - Kshs.302 billion as equitable share of revenue raised nationally,
  - Kshs.23.27 billion as total conditional grants from the National Government,
  - Kshs.16.41 billion as total conditional grants from the Development Partners,
  - Kshs.55.92 billion generated from local revenue sources,
  - Kshs.25.17 billion cash balance from FY 2016/17.

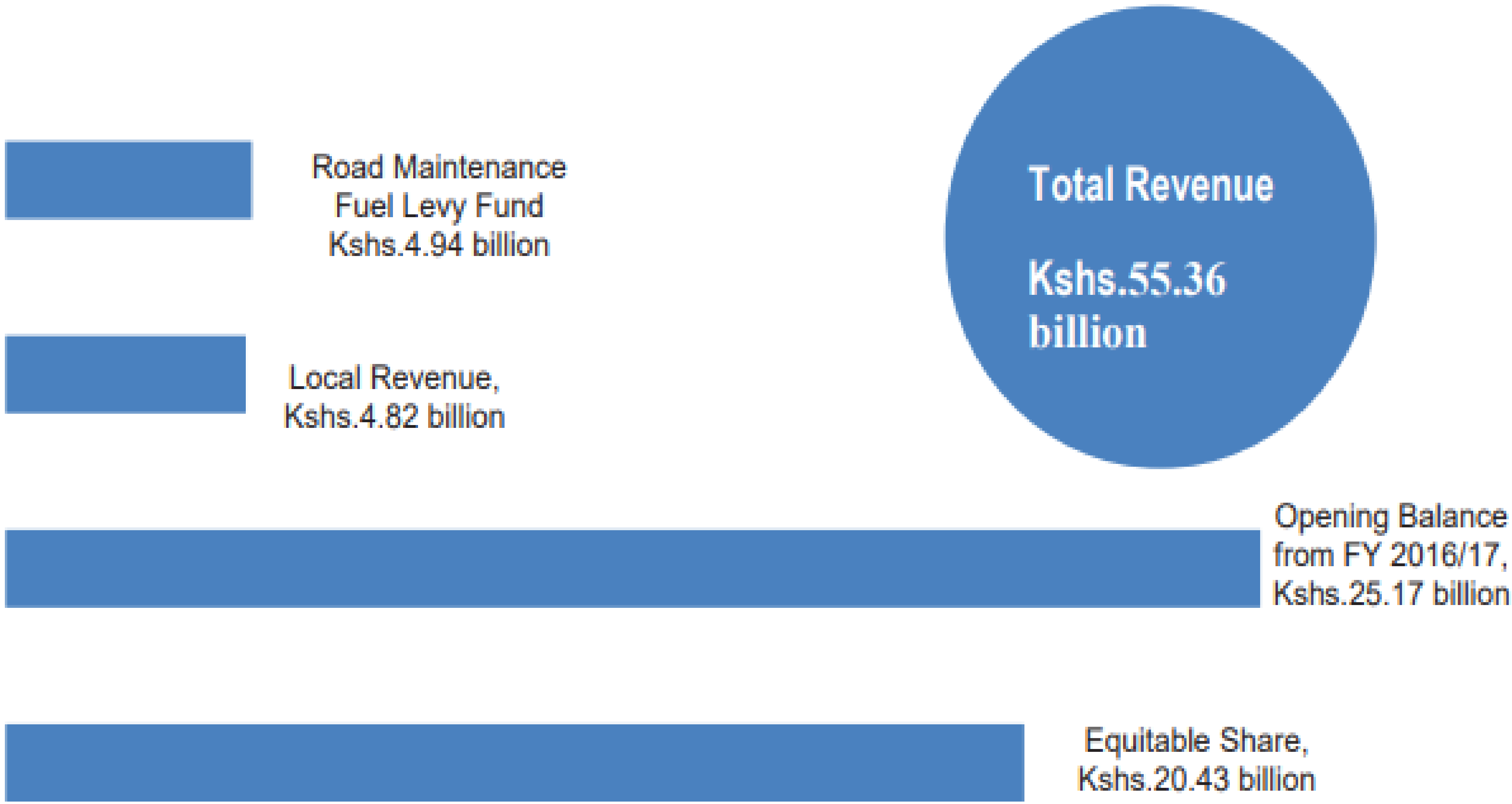
FY 2017/18 APPROVED BUDGET ESTIMATES





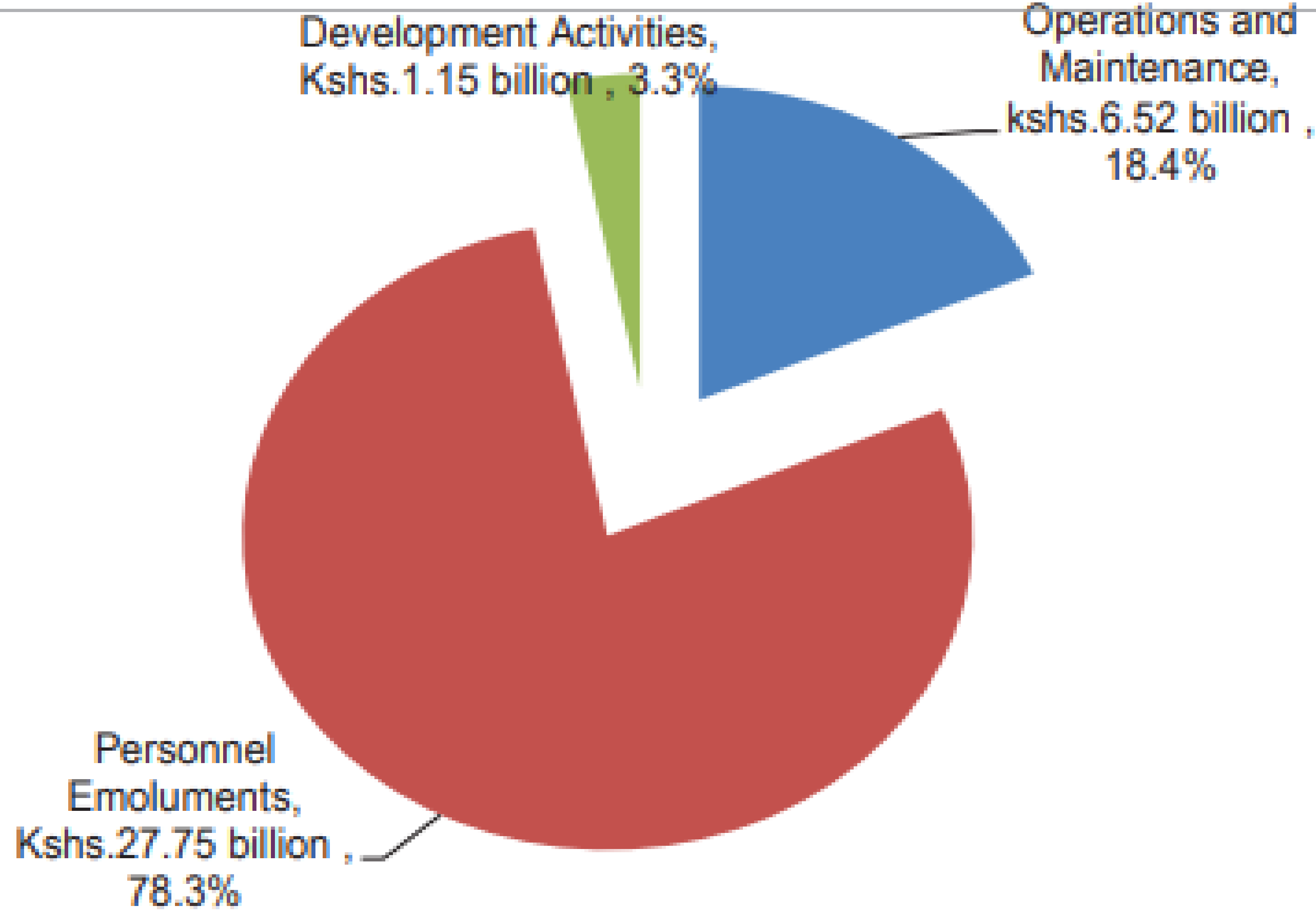
Annual FY 2017/18 County Governments' Development Budget Allocation as Percentage of Total Budget
%
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
36 % Average
30% PFM Act, 2012 required threshold
69.9
51.4
49.3
48.0
46.5
45.4
44.2
42.4
40.0
37.7
37.5
37.5
37.0
36.7
36.5
36.0
35.5
35.1
34.9
34.1
34.1
34.0
33.1
33.0
32.9
32.8
32.5
32.5
32.3
32.1
32.1
31.6
31.4
31.4
30.7
30.7
30.3
30.2
30.0
30.0
30.0
30.0
29.9
29.8
29.3
29.1
28.5
Taita/Taveta
Mandera
Kwale
Kakamega
Marsabit
Wajir
Narok
Tana River
Baringo
Nakuru
Murang'a
Laikipia
Migori
Kitui
Isiolo
Nandi
Turkana
Trans Nzoia
Bungoma
Makueni
ElgeyoMarakwet
Kisii
Embu
Kilifi
Tharaka -Nithi
Nairobi City
Nyeri
Nyandarua
Samburu
Uasin Gishu
West Pokot
Mombasa
Kisumu
Garissa
Homa Bay
Bomet
Lamu
Vihiga
Meru
Kajiado
Kirinyaga
Siaya
Machakos
Kiambu
Nyamira
Kericho
Busia

Total Revenue Available in the First Quarter of FY 2017/18

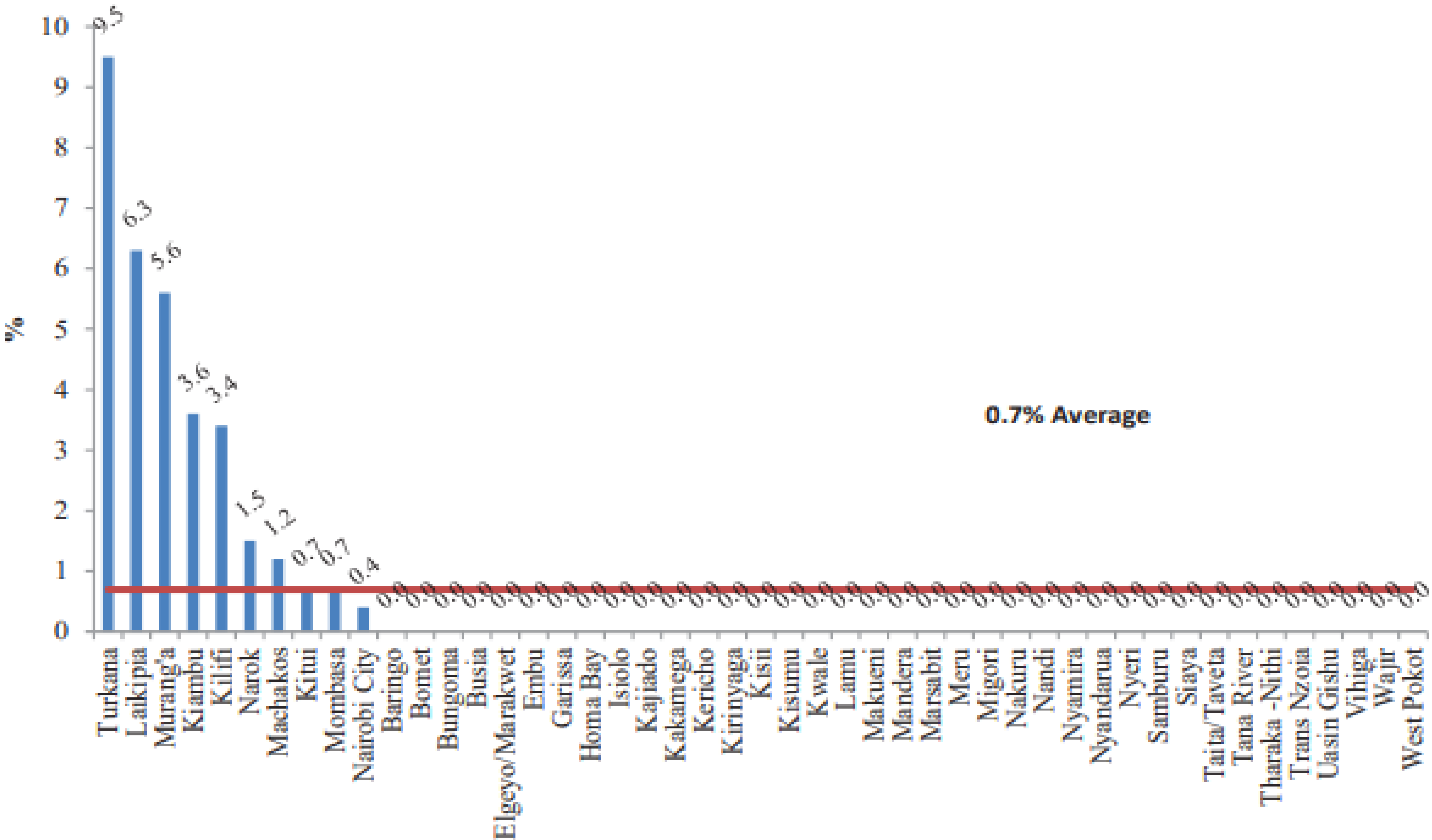


Annual Exchequer Issues in the First Quarter of FY 2017/18

First Quarter of FY 2017/18 Expenditure by Economic Classification



Summary on Development Expenditure as Percentage of Total Expenditure



Challenges Affecting County Budget Implementation

Challenges Affecting Budget Implementation

1. Planning and Budgeting

Weak linkages between planning and budgeting.

- Overestimation of local revenue targets resulting in hidden deficits in budgets; - leading to scaling down on planned activities and increase in pending bills
- Slow implementation of development projects and programmes – as a result of delays in procurement.
- Lack of Project Management Committees and Units,
- Corruption, Mismanagement and Conflict of interest

2. Institutional Conflicts

Persistent institutional conflicts between the County Assembly and County Executive undermine smooth implementation of devolution.

- The two arms of County Government have different responsibilities in the budget process.

Challenges Cont..

3. Under-performance in local revenue collection:

- Only 22 counties attained an average of 60% and above of their 4-year local revenue targets. 25 Counties achieved less than 60% of their target resulting to accumulation of pending bills.
- However, aggregate local revenue improved from Kshs.26.3 billion in FY 2013/14 to Ksh. 35.0 billion in FY 2015/16 before declining to Kshs.32.5 billion in FY 2016/17.
- In the first quarter, FY2017/18, Counties collected Kshs 4.82 billion, representing 8.6 per cent of the annual target of Kshs.55.92 billion, a decline of 47.1 per cent from Kshs 7.09 billion realized in a similar period of FY 2016/17.

Challenges

4. Delay in release of the equitable share by the National Treasury:

During first quarter, FY2017/18, the Disbursement Schedule approved by the Senate was in variance with the CARA, 2017 and therefore, the National Treasury was unable to disburse the equitable share of revenue as per the schedule and this affected the execution of planned activities in the Counties.

5. IFMIS Connectivity Challenges:

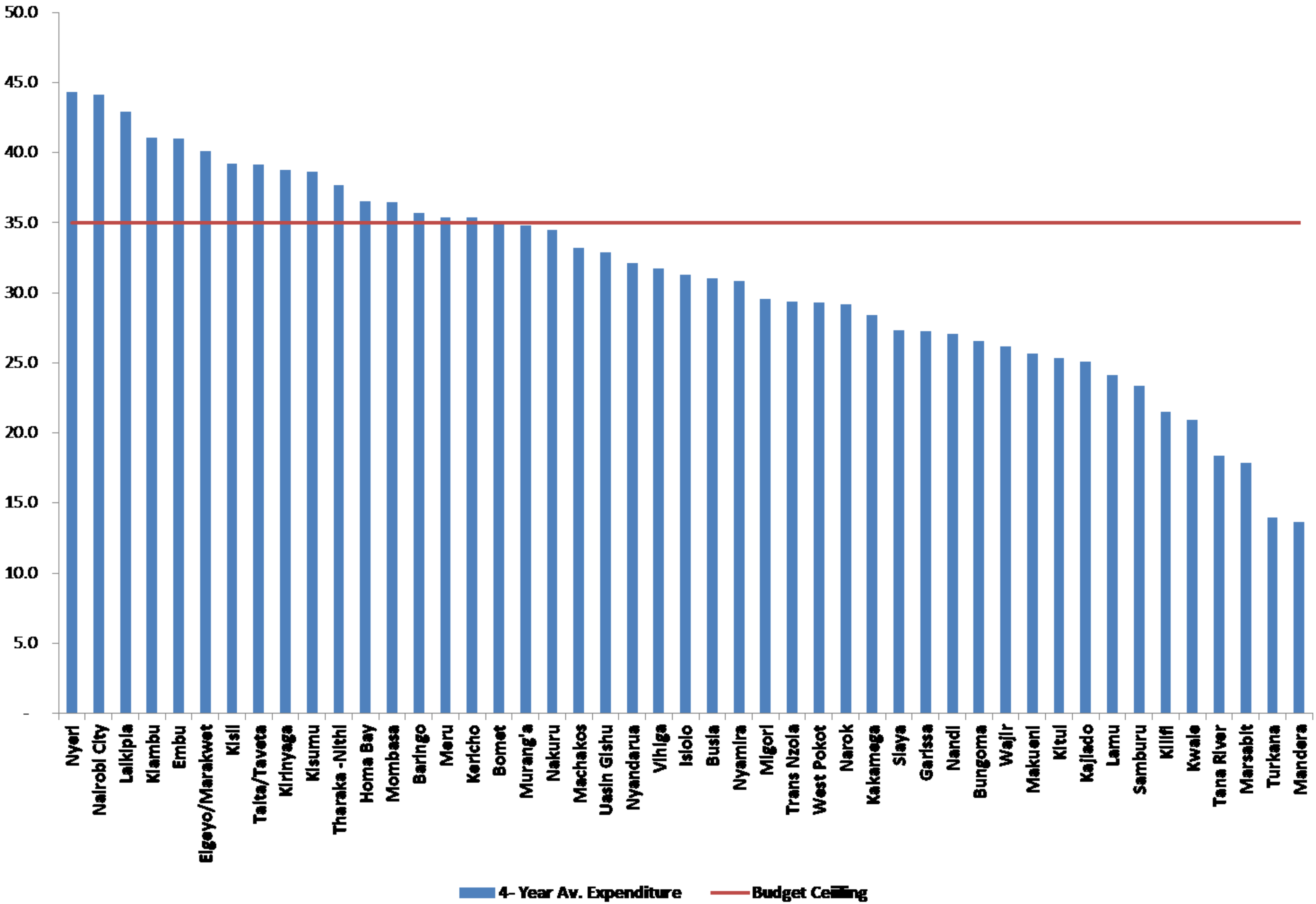
The Office observed that, most Counties experienced IFMIS connectivity challenges, which mainly affected approval of procurement requests and payments.

Challenges Cont..

6. High Wage Bill

- Expenditure on PE by counties in the last four years averaged 31.4 percent of the total revenue. However, 17 counties exceeded the recommended 35 percent ceiling on PE in the same period
- Regulation 25 (b) of the Public Finance Management (County Governments) Regulations, 2015 provides that the county government's expenditure on wages and benefits shall not exceed 35 percent of the county government's total revenue
- Kenya's wage bill as a percentage of ordinary revenue is 49.2 percent

4-year Average Ratio of PE expenditure to Total Revenue



Challenges Cont..

The County Governments incurred an aggregate of Kshs.27.75 billion on personnel emoluments (PE) in the first quarter of FY 2017/18, (78.3 per cent of the total expenditure) and 50 per cent of the total funds available to the Counties during the period.

7. Capacity challenges of some County staff

Counties have had inadequate capacity in preparation of budgets, financial reports, etc. leading to challenges in budget execution. Counties should continue to improve the capacity of their technical staff through continuous training.

8. Effective Internal Audit Departments and Committees:

A number of counties did not establish effective Internal Audit Departments and Committees to strengthen internal control mechanisms as envisioned under Section 155 of PFM Act, 2012.

9. Huge Pending Bills:

Counties have been accumulating huge pending bills. This affects businesses and disrupts the implementation of planned activities in the subsequent year.

10. Low Expenditure on the Development Budget:

In the first quarter FY2017/18, County Governments incurred an expenditure of Kshs.1.15 billion representing an absorption rate of 0.9 per cent of the County Governments' cumulative annual development budget of Kshs.134.78 billion.

- This performance was a decline from an absorption rate of 8.3 per cent, reported in a similar period of FY 2016/17 when development expenditure was Kshs.13.96 billion.
- This low level of development expenditure is attributed to delay in release of funds by National Treasury.

Challenges Cont..

10. Failure to budget for all revenue sources as per CARA, 2017:

County Governments failed to budget for all the conditional grants as contained in the CARA, 2017. These grants included;

- Road Maintenance Fuel Levy Fund,
- Compensation for User Fee Foregone in health,
- Supplement for Construction of County Headquarters (for some counties),
- DANIDA Grant for Universal Healthcare in Devolved System Program,
- Grant to the Level 5 Hospitals,
- Kenya Devolution Support Program by the World Bank,
- Allocation for the Development of Youth Polytechnics,
- World Bank Loan for Transforming Health System for Universal Care System,
- World Bank Loan for National Agricultural & Rural Inclusive Growth Project,
- World Bank Loan to supplement financing of County Health facilities, and,
- European Union Grant for Instrument for Devolution Advice and Support.

Recommendations

1. **High Expenditure on Personnel Emoluments:**

   The Office recommends that, County Governments should contain the escalating wage bill to a more sustainable level in line with Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015..

2. **Under-Performance in Local Revenue Collection:** Counties should develop and implement strategies aimed at enhancing local revenue collection and address the inherent challenges in revenue management.

3. **Delay in Disbursement of Equitable Share of Revenue:** There is need to ensure that the CARA, 2017 Cash Disbursement Schedule is accurate in order to facilitate disbursement of funds to the Counties for effective budget implementation.

Recommendations…Contd

4. IFMIS Connectivity Challenges: The Office recommends that the National Treasury (IFMIS Directorate) should support County Treasuries on IFMIS connectivity to ensure smooth financial operations.

5. Low Expenditure on the Development Budget: The Office recommends that Counties should prioritize implementation of development projects in order to improve the standard of living for its citizens.

6. Failure to budget for all revenue sources as per CARA, 2017: The Office recommends that counties factors all sources of revenue as provided for in the CARA, 2017.

Conclusion

- The OCOB will endeavor to monitor budget implementation while ensuring that revenue and expenditure are constantly kept in check so that appropriate action is taken should significant variances from projections occur.
- This will ensure the expectations from the public on prudent financial management is met.

THANK YOU