



A case for Fiscal Prudence for County Development

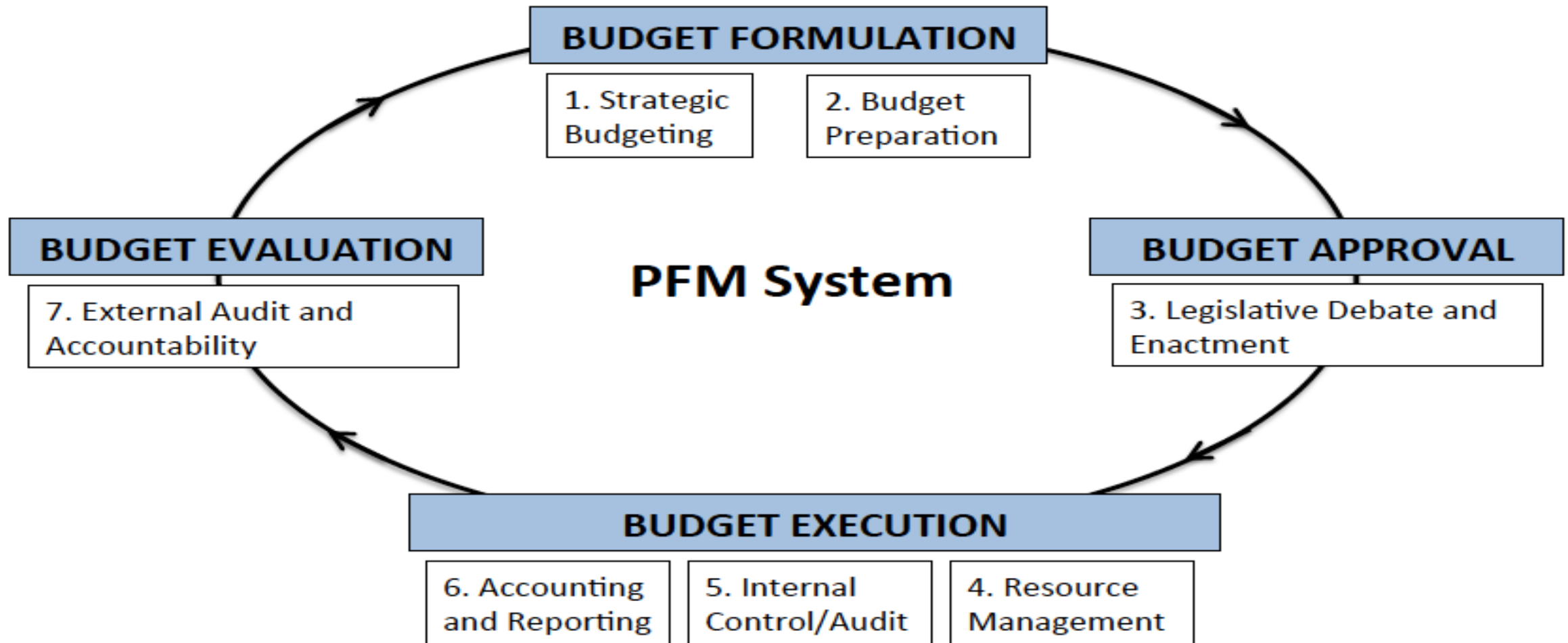


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OUTLINE







- ☐ PFM Overview
- ☐ Relooking at the leadership ecosystem;
- ☐ Policies to reinforce development/Imperatives for Development
- ☐ Refining of key sectors in the counties
- ☐ Managing public funds
- ☐ Service delivery

PFM SYSTEM



BUDGETING

Strategic Budgeting

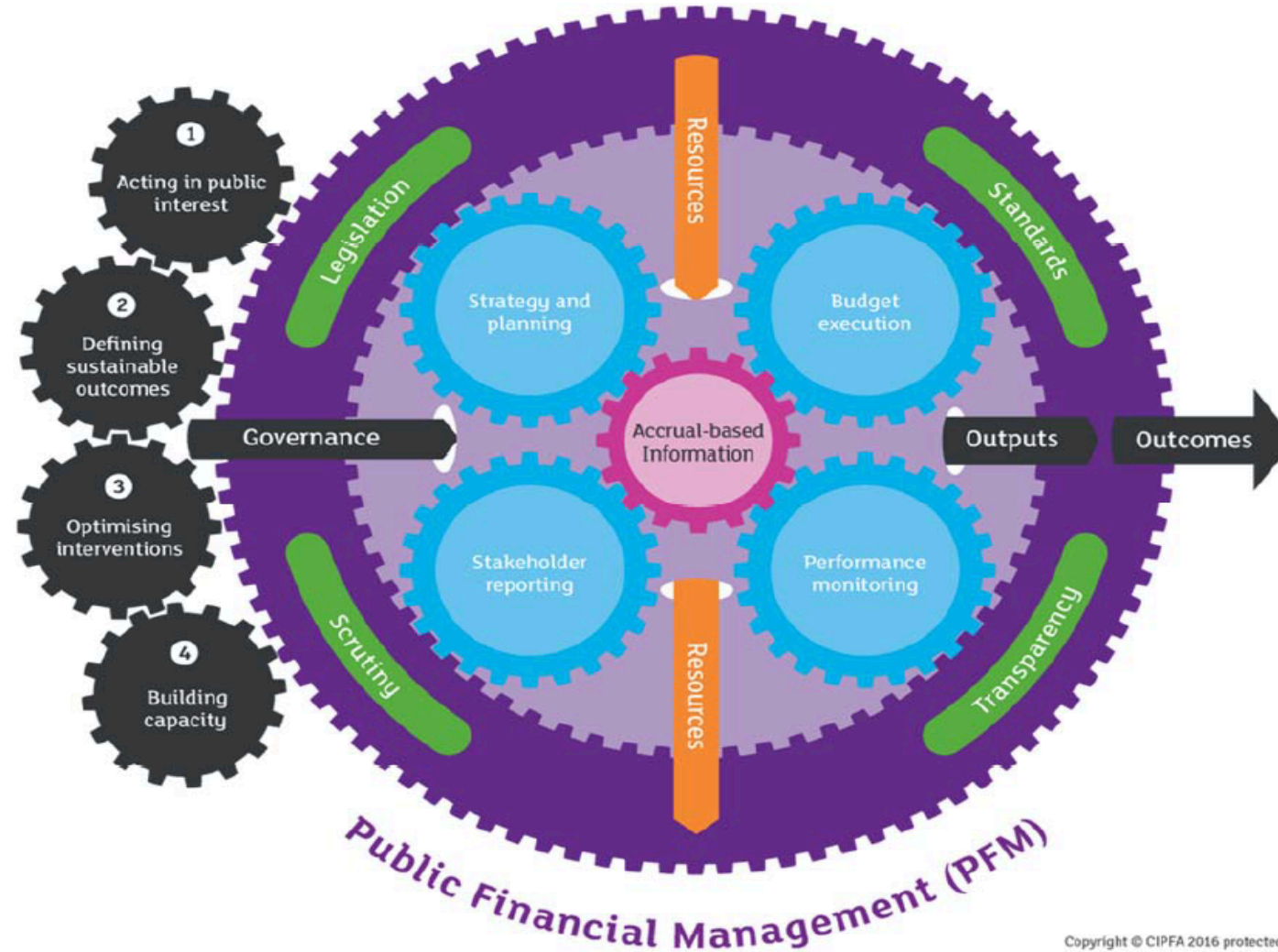
-  Ensure that high-level policy directives inform the county government's budget decision
-  Translating broad policy goals into financial targets, given expected conditions in the economy and society
-  Setting of the resource envelope
-  Strategic Sectors – Programs – productivity/outcomes
-  Priority spending sectors
-  Choices to be made

PFM SYSTEM - GOALS

- ❑ Functional PFM systems promote
- ❑ Prudent fiscal decisions
- ❑ Credible budgets
- ❑ Reliable and efficient resource flows and transactions
- ❑ Institutionalized accountability

PFM SYSTEM

Delivering Excellent Public Finance



PFM SYSTEM

- ❑ “Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective achievement of public service outcomes.” CIPFA
- ❑ The PFM Elements comprise three groups:
 - ❑ Governance (G);
 - ❑ External Elements (E); and
 - ❑ Internal Elements (I)
- ❑ Maximizing the impact of each element depends on the Resources available to the entity, and fundamentally on the availability of Accrual-based information

PFM SYSTEM - GOVERNANCE ELEMENTS

- Acting in the public interest – integrity and ethics, respect for law, and stakeholder engagement;
- Defining sustainable outcomes – economic, social and environmental;
- Optimizing interventions – taxes and transfers, services, and regulation; and
- Building capacity – developing an entity's capacity, its leadership, and the role of the CFO/professional finance skills, developing the capability of individuals, and recruitment retention and reward.

PFM SYSTEM – INTERNAL ELEMENTS

- ❑ Strategy and planning – strategic vision, medium-term financial strategy, annual planning, and risk management;
- ❑ Budget execution – targets and indicators, internal controls, and budget execution reports;
- ❑ Performance monitoring – managing for results, in-year/management reporting, and internal audit; and
- ❑ Stakeholder reporting

PFM SYSTEM – EXTERNAL ELEMENTS

- ❑ Legislation – primary and secondary (including rules, regulations and instructions);
- ❑ Standards – covering procurement, accounting and audit;
- ❑ Ensuring transparency – defining appropriate reporting units and ensuring consistency and comparability in budget coverage to deliver external accountability; and
- ❑ Scrutiny – by the legislature, constitutionally independent audit arrangements, through public challenge mechanisms, and by other forms of independent external scrutiny.

SYSTEM APPROACH IN PRACTICE

- ❑ Optimizing System Performance
- ❑ Determining priorities
- ❑ Service delivery
- ❑ Sustaining PFM improvement – policy and institutional reforms
- ❑ PFM evaluation and relationship to other tools

SUPPORTING SERVICE DELIVERY: KEY PROCESSES TO SUPPORT DECISION MAKERS AND SERVICE MANAGERS

- ❑ Integrating financial and policy/service planning, providing relevant information on accurate costing, identifying financial implications, and supporting risk management and efficient implementation
- ❑ Financial literacy for the leaders and service managers who are responsible for decision making, and who are very often not financial experts.
- ❑ Budget forecasting for budget managers (not just finance staff), enabling corrective action to be taken to reconcile available budget with achievable policy
- ❑ Techniques of public service demand management in circumstances of financial stress.
- ❑ Finance staff equipped with skills to interpret financial information, with sufficient standing to offer advice to decision makers and managers.



Relooking at the leadership ecosystem

RELOOKING AT THE LEADERSHIP ECOSYSTEM

- ❑ **Role of Financial Leadership in Sustainable Public Finances/Financial Prudence**
- ❑ **Drivers for Strong Financial Leadership**
- ❑ **Skills And Competences of a Strong Finance Leader**
- ❑ **Enabling Politicians Implementing Government Policy**
- ❑ **Ensuring Financial Discipline**
- ❑ **Promoting Efficiency and Effectiveness**
- ❑ **Getting The Right Skills into Government**

ROLE OF FINANCIAL LEADERSHIP IN SUSTAINABLE PUBLIC FINANCES.../1

- ❑ Sound financial leadership is about accountability in the management of public finances not limited to budget making processes
- ❑ BUT strict adherence to financial rules and regulations in the management of public resources
- ❑ Sustainable public finances entail the ability of governments in;
 - ❑ Sustaining optimal spending
 - ❑ Tax collection; and
 - ❑ Sound macro-economic policies
- ❑ Financial leadership and sustainable public finances two sides of the same coin
 - ❑ Good financial leadership - ensure a government does not become financially unsustainable
 - ❑ Institutional framework for Planning, Budgeting, Control, Internal Audit, Audit, and Parliamentary Oversight
 - ❑ Planning – Approval – Execution Compliance – Audit - Oversight

ROLE OF FINANCIAL LEADERSHIP IN SUSTAINABLE PUBLIC FINANCES.../2

- ❑ Leadership and decision-making
 - ❑ Accurate financial information - the mechanism to support decisions and ensure effective resource allocations
- ❑ leadership on public financial management - critical in improving the quality of public service **outcomes** - It affects
 - ❑ Funding and prioritization;
 - ❑ Availability of resources for investment; and
 - ❑ Cost-effectiveness of public services.
- ❑ How PFM system responding to the economic and social rights - through development and implementation of programmes such as health, clean and safe water, education, and adequate housing
- ❑ Article 10 (d) outlines the national values and principles of governance - good governance, integrity, transparency and accountability, and sustainable development is the leadership cognizant of this?

DRIVERS FOR STRONG FINANCIAL LEADERSHIP

- ❑ Strong leadership drives culture
- ❑ Culture drives performance
- ❑ Strong ethical values and standards also drive culture which then drives behaviors
- ❑ Stewardship
- ❑ Allocative efficiency
- ❑ Operational Efficiency
- ❑ Leadership Matters – Others are watching within and without!
- ❑ **What are the skills needed of a finance leader**
- ❑ **Employ** people who are better than themselves at crunching the numbers, but a strong finance leader will need;
 - ❑ A strong awareness of strategic financial management techniques, and
 - ❑ Knowledge of the standards that must be met.
 - ❑ Sufficient depth of technical knowledge; will know the depth of questions to ask.
 - ❑ The finance leader should be one of the most competent people in the department

SKILLS AND COMPETENCES OF A STRONG FINANCE LEADER

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- Forward looking
- Creative and innovative (think outside of box)
- Seek wider opportunities
- Influence/negotiate/mediate
- Lead by example
- Foster a culture of collaboration innovation
- (can-do attitude)

Leadership

Culture

1. Ethical values and behaviours
2. • Authenticity and humility • Emotional intelligence

Technical

Organizational

- Core accounting and financial reporting
 - Budgeting, planning, forecasting
- Analytical techniques
- Commercial
- Investment appraisal
- Economic information
- Risk management

- Translate corporate goals into strategic vision
- Project and change management
- Risk management
- Stakeholder management (both internal and external) • Performance management
- Business partnering

ENABLING POLITICIANS IMPLEMENTING GOVERNMENT POLICY

- ❑ Political influence in decision-making is unavoidable – in fact it is required.
- ❑ The role of politicians is to incorporate, in their policy-making, the needs of the people to serve public interest in the best possible way.
- ❑ Finance professionals will ensure that these policies are in favour of people's needs in a way that will not threaten public finances.
- ❑ Experience around the world has shown that this is the only way to ensure that public interest is best served.
- ❑ Finance professionals can find solutions to ensure that public money is used in a 'value for money' manner; that is, to address people's needs – and political will – up to the limits the government can undertake

ENSURING FINANCIAL DISCIPLINE

- ❑ How to provide more to the citizens with less resources - The role of finance professionals in this respect is vital:
 - ❑ To assess the added value from each and every existing or newly introduced policy, in relation to the value of an alternative one;
 - ❑ To reset the priorities and ensure better use of available resources; and
 - ❑ To suggest a restructuring plan that would deliver the same or similar output with less input.
- ❑ Finance professionals are trained to be focused on required outcomes and are able to measure the performance of the policies introduced, based on financial data that will indicate the prospects of the economy.

PROMOTING EFFICIENCY AND EFFECTIVENESS

- ❑ A rather generic problem of the public sector is that basic economic concepts like 'value for money', 'efficiency', 'effectiveness', 'maximizing economic wealth'
- ❑ Principles are known but are not appreciated – not practiced!
- ❑ Political pressure to deliver on time is the biggest priority for most public entities,
- ❑ Problem of ensuring that all possible alternatives have been thoroughly thought through, before deciding on enforcing a new policy.
- ❑ Financial leader is to ensure that, while politicians will be able to implement their policies, the government remains disciplined to the financial thresholds it can afford, both in the short term and in the long term.
- ❑ Existing policies do not have to be abandoned — on the contrary, the financial leader should be able to examine the possibility of implementing an existing policy in a more efficient way that will save resources and make it easier to introduce new policies political leaders inspire.



GETTING THE RIGHT SKILLS INTO GOVERNMENT

- ❑ If it is accepted that there is a benefit to having financial professionals working in government, then the next question is:
- ❑ What needs to be done to attract the people who either already have those skills into government, or to train and retain them?
- ❑ What can be done to change the attractiveness of a career in government finance to skilled professionals?
- ❑ A package of incentives:
 - ❑ The chance to participate in the policy-making process and influencing decisions that affect the county be very rewarding
 - ❑ A better work-life balance than is normally found in big companies or firms
 - ❑ Recognition in terms of public acknowledgement - make professionals feel involved and committed to an organisation and build a sense of being part of a shared undertaking. A partnership with ICPAK/COG/ OAG/IA- NT
- ❑ The demand for better financial management in government needs to come from policymakers.
- ❑ While the legislature can demand better accountability, it is the executive that will have to take the decision to prioritize improving financial management
- ❑ Case for change – the County Executive needs to see the benefits that improving and professionalizing government professionalizing government accounting and financial management can deliver

Policies to reinforce development/Imperatives for Development

FOUR DIMENSIONS OF PFM

Dimension 1. Fiscal Management

- Fiscal sustainability
- Fiscal risk management
- Resource mobilisation
- Resource allocation

Dimension 2. Operational management

- Value for money
- Minimising transaction costs
- Effective and efficient budget implementation

Dimension 3. Fiduciary risk management

- Attacking fraud, corruption & misuse of public resources
- Managing internal and external financial risks

Dimension 4. Governance

- Transparency
- Accountability
- Civil society participation in public financial management

ACCELERATING DEVELOPMENT: COUNTY PROFILING AND PRIORITIZING KEY SECTORS.../1

- ❑ Strong PFM is only one of the factors that make for success in public sector expenditure programmes.
- ❑ Other contextual aspects matter too:
 - ❑ Leadership
 - ❑ Transparency; and accountability
 - ❑ Levels of resources and
 - ❑ State capacity, and
 - ❑ Social, political and economic environment.
- ❑ Good financial management generates **vital information** for **better decision making**, **better services**, and **better value for money** - if resources are managed and controlled transparently and effectively
- ❑ Refocusing PFM system to the development context - politics, society, economy and demography

ACCELERATING DEVELOPMENT: COUNTY PROFILING AND PRIORITIZING KEY SECTORS.../1

**Rationale
- Evidence**

Projected Outcomes

Priority Setting

Constraints/Risks

Determinants

ACCELERATING DEVELOPMENT: COUNTY PROFILING AND PRIORITIZING KEY SECTORS.../2

- Rationale
- Projected effects - Outcomes & Impact
 - Structural dynamics
 - Demographic patterns
 - Resource endowment
 - Poverty levels
 - Increase in productivity
 - Imperatives for growth
 - Creation of employment

ACCELERATING DEVELOPMENT: COUNTY PROFILING AND PRIORITIZING KEY SECTORS.../3

- ☐ Sectoral prioritization
- ☐ Prioritizing expenditure
- ☐ Prioritizing projects
- ☐ Transforming priorities into plans

FISCAL PRUDENCE & COUNTY ECONOMIC BLUEPRINT

- ❑ Accelerating development
- ❑ Economic recovery strategy & action plans
- ❑ The thrust
 - ❑ Restoring economic growth
 - ❑ Generate employment opportunities to absorb the unemployed (particularly the youth)
 - ❑ Reduce poverty levels
- ❑ The philosophy
 - ❑ Application of economic recovery – to achieve improved provision of devolved services
 - ❑ Employment creation - most effective strategy for halting the increasing poverty levels

FISCAL PRUDENCE & COUNTY ECONOMIC BLUEPRINT – STRATEGY

- ☐ Policy action
- ☐ Pillars
- ☐ Priority Areas
 - ☐ Policy management
 - ☐ Strengthening of institutions of governance
 - ☐ Physical infrastructure
 - ☐ Productive sectors' interventions
 - ☐ Agriculture
 - ☐ Manufacturing – Industrial Policy
 - ☐ Tourism

IMPERATIVES FOR IMPROVED SERVICE DELIVERY – THE ACHILLES HEEL.../1

- ❑ State capability
- ❑ Policy and legal framework
- ❑ Sectoral governance
- ❑ Coordination
- ❑ Operational efficiency
- ❑ Delivery! Delivery! Delivery

IMPERATIVES FOR IMPROVED SERVICE DELIVERY – THE ACHILLES HEEL.../2

- ❑ Delivery! Delivery! Delivery
- ❑ Implementationology and Deliverology
- ❑ Moving from “what to deliver” to “how to deliver”
- ❑ Tweaking the implementation plan
- ❑ Data - frequent basis (monthly if not weekly)
- ❑ Analytics – team to analyze high-frequency data – hitting of targets
- ❑ Regular and routine reviews of progress involving top officials
- ❑ Honest “Stocktakes”

IMPERATIVES FOR IMPROVED SERVICE DELIVERY – THE ACHILLES HEEL.../3

- ❑ Innovation in provision of public services as key for successful development outcomes
- ❑ Improving universality of services as a powerful enabler of social equity and development - legitimacy
- ❑ Aligning public services with what citizens are demanding as paramount
- ❑ Insufficient use of technology in governance, institutions and processes for improving service delivery

FISCAL PRUDENCE AND COUNTY DEVELOPMENT: A PRIMER.../1

❑ Economic-Policy management and resource mobilisation

- ❑ To enhance collection, accounting and timely reporting of public revenues at national and county governments, in line with macro-economic and fiscal policies

❑ Strategic planning and resource allocation

- ❑ To ensure effective and equitable allocation of public funds in line with national and county government priorities

❑ Budget execution, accounting and reporting and review

- ❑ To ensure efficient and effective budget utilization, accurate and timely accounting, reporting and effective control, and scrutiny and review of expenditure of public resources at the national and county governments

❑ Independent audit and oversight

- ❑ To ensure accountability and oversight of public resources and enhance efficiency, effectiveness and lawfulness in the management of public resources

FISCAL PRUDENCE AND COUNTY DEVELOPMENT: A PRIMER.../2

- Further decentralization of services

- Legal and institutional framework

- To ensure a consistent and harmonized PFM Legal and Institutional Framework and enhance compliance

- IFMIS and other PFM Systems

- To establish secure, reliable, efficient, effective, and fully integrated public financial management systems
 - tax collection;