Training Exercises: Reading the COB County Report

1. **Plenary Discussion: What are we looking for in a budget implementation report?**

- Open this session with a discussion question for the participants to respond to and then facilitate a short discussion with them about it.

- To conclude the discussion, explain that we are looking for actual spending against budget estimates. Where there are differences between spending and estimates, we need to look for why there were variances. Any difference of over 10% requires an explanation.

- Small variances are to be expected, given that budgeting is always uncertain and imperfect, but larger variances suggest that there may be more fundamental problems with budgeting and expenditure systems.

2. **Task: What information on actual spending against budget estimates is contained in the COB County Report?**

Part I:

- Provide participants with Annexes 1, 2, and 3 from the COB County Report.

- Review each Annex to ensure that participants understand what the table is showing and what the headings mean.
    - Annex 1: Funds Available To the Counties in the Period July 2013 to June, 2014
        - Funds Released from Consolidated Fund to County Revenue Fund
        - Local Revenue Collection
        - Funds Deducted by National Treasury: funds deducted for salary payments for county staff that remained on the national payroll
        - Opening Balance/Balance B/F: bank balance carried over from previous year or from consolidated accounts of former local authorities
        - Total Revenue for the Quarter
        - Funds Released from County Revenue Fund to County Operational Accounts: funds that have been transferred by national government to the county are released from the Revenue Fund to operational accounts by the COB upon request from counties against their budgets
    - Annex 2: Annual County Revenue FY 2013/2014 and Local Revenue for July 2013 to March 2014
        - Equitable Share
        - Conditional Grant
        - Annual Local Revenue Target
        - Total Budgeted Revenue

- Actual Local Revenue for FY 2013/14
- % of Local Revenue to Annual Local Revenue Target

- Annex 3: Analysis of County Budgets, Funds Released, Expenditure and Absorption Rates
  - Headings are fairly self-explanatory: Gross Estimates, Funds Released, Expenditure, % of Expenditure to Gross Estimates, % of Expenditure to Exchequer Releases

Part II:

- Once participants have an understanding of the table headings and content, have them look at the three Annexes as well the narrative section (about 4 pages) for one of the counties (Nyeri, Taita Taveta, or Uasin Gishu).

- Ask them: **Name <u>one or two examples</u> that you can find in the Annexes – and/or in the county narrative – that show the differences (or variances) between revenue estimates vs. actual revenue and expenditure estimates vs. actual expenditure.**

- Some of the variances participants might identify are listed below. **Note: Just have them name a couple of examples – they will have the opportunity to look for other examples in one of the exercises that follows.**
  - They'll see in Annex 1 that the national transfer received by Nyeri was less than the budgeted transfer.

  - They'll see in Annex 2 that Taita Taveta and Uasin Gishu collected a low amount of local revenue compared to budgeted local revenue.

  - They'll see in Annex 3 that Taita Taveta and Uasin Gishu significantly underspent their budgets. Taita Taveta spent 69% of Gross Estimates, and Uasin Gishu spent 59% of Gross Estimates.

  - Also in Annex 3: Taita Taveta and Uasin Gishu underspent in relation to the funds that were released to the counties – Taita Taveta spent 85% of released funds, and Uasin Gishu spent only 62% of released funds.

  - Also in Annex 3: Taita Taveta and Uasin Gishu underspent their recurrent budgets.

  - Lastly, they'll also see in Annex 3 that all three counties significantly underspent their development budgets.

3. **Task: Explanations about Variances Between Actuals and Budgeted Estimates**

Part I:

- This task will look at whether there are any explanations in the county sections about the differences between actual revenue/expenditure and budgeted revenue/expenditure.

- Provide participants with all three county sections, for Nyeri, Taita Taveta, and Uasin Gishu.

- Ask them to review the budget implementation challenges that are listed in each of the county sections and then create a table that summarizes all of the challenges and indicates which counties are facing which challenges.

- You may need to provide some guidance in setting up the table (or you can provide them with a template to complete: see **Task Sheet X.1** on the following pages). You can tell them to list all of the challenges as ROWS in the table, and the three counties as COLUMNS. Using this format, they would then check off which counties have which challenges by marking a "Y" (for "yes") in the relevant boxes.

Example:

Key Challenges	Nyeri	Taita Taveta	Uasin Gishu
Delayed Finance Bill	Y		
Inadequate Staff/Capacity	Y	Y	Y
Inconsistent use of IFMIS	Y		
Weak Internal Audit	Y		Y
Outstanding imprests (cash advances)	Y		Y
Creation of Funds without regulations	Y		
Inadequate office space			Y
Reallocation of funds without approval		Y	
Low absorption			Y

- Once participants create this table, ask them to review **one of the variances** that they identified in the previous exercise, with regard to budgeted revenue/expenditure vs. actual revenue/expenditure.

- Ask participants to compare that one variance with the challenges that each county faced. **That is, do they see any relationship between budget implementation performance (e.g., underspending) and the identified challenges?**

- Their findings should show that Nyeri had the best performance on budget implementation, but at the same time, it also had the most challenges listed in the narrative section, as shown in the table above (six challenges vs. two for Taita Taveta and five for Uasin Gishu).

- This indicates that the challenges listed for each of the counties cannot be used to understand a county's performance on budget implementation – **this is because these challenges do not, in most cases, offer any explanations**. For example, inadequate office space is not an explanation. Weak internal audit doesn't really explain low absorption of funds, etc.

Part II:

- Now that participants have discovered that there are no explanations for some of the variances between estimates and actuals in the report – ask them: **What variances/budget implementation issues would you have preferred explanations for in this report?**

- Have participants look again at Annexes 1, 2, and 3 to identify any additional variances or budget implementation issues that they would like explanations for.

- Once they develop a list of budget implementation issues, ask them to create a table listing those issues, and then identify which counties had those particular issues with budget implementation.

- You may need to provide guidance on how to create this table (or you can provide them with a template to complete: see **Task Sheet X.2** in the following pages). You can explain that the list of budget implementation issues can be ROW headings and the names of the three counties can be COLUMN headings. Using this format, they would then check off which counties had which issues by marking a "Y" (for "yes") in the relevant boxes.

- You may also need to **complete the first row of the table in plenary as an example**, in order to provide further guidance/clarification on how to complete the task.

- You can also suggest that they add a "Notes" column where they can record any important observations related to the budget implementation data for a particular county or counties.

Example:

Explanations For	Nyeri	Taita Taveta	Uasin Gishu	Notes
Low collection of local revenue compared to budget (Columns E, F)		Y	Y	All 3 counties perform better than average, but UG and TT were far below target
National transfer less than budgeted (Column P)	Y			Nyeri got less than 90% of budgeted transfer
Low absorption of overall budgets (Column V)		Y	Y	Uasin Gishu below national average of 65%; TT below 70%
Low use of funds released (Columns AB, AC and AD)		Y	Y	Uasin Gishu used less than 70% of funds released; TT used about 85%
Low absorption of recurrent (Column AI)		Y	Y	Taita below national average of 83%; UG near average
Low absorption of development (Column AP)	Y	Y	Y	UG below national average; all counties below 70%

* Columns refer to spreadsheet with analysis of estimates vs. actuals from the COB County Report.

Part III:

- Before concluding this task, ask participants if they noticed any discrepancies in the figures that they found in the COB County Report – for example, figures from the county narrative sections that don't match those in the Annexes.

- Once participants have had a chance to respond, you can draw their attention to any that they may have missed. Here are some of the discrepancies identified:

  o For Nyeri, you'll see in Annex 1 of the COB County Report that the amount of Funds Deducted by National Treasury (Staff Salary Reimbursements) is Ksh. 639 million. However, the same figure stated in the narrative of the report is Ksh. 939 million.

  o For Uasin Gishu, you'll see in Annex 1 that the amount of Funds Deducted by National Treasury (Staff Salary Reimbursements) is Ksh. 286 million. However, the same figure stated in the narrative of the report is Ksh. 151 million.

- For Taita Taveta, the percent of local revenue collected compared to budgeted local revenue is different in the narrative (66%) versus Annex 2 (52%).

- For Uasin Gishu, the actual national transfer to the county in the narrative is stated as Ksh. 4,000 million, whereas it is Ksh. 3,796 million in Annex 1.

4. **Task: Comparing County Budget Implementation Performance against National Average**

- Explain to participants that the COB Report has information that allows us to make comparisons between county and national budget implementation performance. For example, it's possible to compare Nyeri with all counties through the national average revenue and expenditure information (i.e., totals for all counties, which are found in Annexes 2 and 3).

- Have participants use **Task Sheet X.3** for this exercise, which will focus on **Nyeri County**.

- **Using Annex 2:** ask participants to look up how much **Local Revenue was raised** by Nyeri County – they should come up with **Ksh. 432 million**. Then ask them how much **Local Revenue was budgeted** – they should come up with **Ksh. 479 million**. Ask them to calculate what percentage of budgeted local revenue Nyeri was able to raise. You can remind them of the calculation:

  Actual local revenue/budgeted local revenue x 100 = percentage rate

  432 / 479 x 100 = 90%

- Now ask them to find the total amount of **Budgeted Local Revenue** for all counties (Annex 2) and the actual **Local Revenue Raised** by all counties. They should come up with **Ksh. 54,200 million** and **Ksh. 26,300 million**, respectively. Ask them to calculate what percentage of budgeted local revenue all counties were able to raise. The calculation is as follows:

  26,300 / 54,200 x 100 = 49%

- Now ask what conclusion they can draw from this information – that Nyeri performed very well in collecting local revenue compared to the national average among counties.

- **Using Annex 3:** ask participants to look up what **percentage of budgeted total expenditure Nyeri** spent. They should come up with **94%**.

- Now ask them to look up what **percentage of budgeted total expenditure** was spent on average across **all counties**. They should come up with **65%**.

- Lastly, ask participants to look up what **percentage of its development budget Nyeri** spent. Again, using **Annex 3**, they should come up with **64%**. Now ask them to look up what **percentage was spent on average across all counties**, which is **36%**.

- Overall, they'll be able to see that Nyeri performed quite well in implementing its budget, compared to the national average across all counties. This helps to keep Nyeri's performance in perspective – for example, while the county's rate of spending its development budget may look poor on its own, when compared to the national average, it is impressive.

5. **Task: Analyzing "Non-Core" Spending by Counties**

Part I: Travel Spending

- In the COB County Report, the Controller highlighted variances in what is called "non-core" spending. This includes expenditure on things such as allowances, travel, and vehicles.

- The relevance of such spending in an implementation report is mostly on whether the spending happened as it was budgeted – as opposed to whether such spending is a priority (which should be addressed in the budget formulation and approval stages).

- Even if non-core spending is spent as per the budget, it is useful to compare it to overall budget implementation. For example, if the overall budget is only implemented at 25%, but foreign travel is 100% implemented, that does indicate something about priorities. In this case, we might ask whether we should be traveling rather than implementing the rest of the budget (the executive), or overseeing its implementation (the assembly).

- Let's take a look at our three counties again – Nyeri, Taita Taveta, and Uasin Gishu – and focus on Travel spending.

- Have participants go to **Task Sheet X.4** and explain the instructions for the exercise. Have participants work in pairs or small groups to complete the task.

- Review the answers to each question in plenary:

Table 1

Item Absorption (Spending as a Percent of Budget):	National (All Counties)	Nyeri	Taita Taveta	Uasin Gishu
Travel	79%	87%	99%	93%
Total Recurrent	83%	108%	81%	85%
Travel as a Share of Recurrent Spending	6%	5%	16%	4%

Table 2 (in Ksh. millions) – this table's purpose is to allow participants to calculate Travel as % of Recurrent Spending, in order to complete the last line of the table above.

	Travel Spending	Total Recurrent Spending	Travel as % of Recurrent Spending
Nyeri	153	3,341	5%
Taita Taveta	233	1,492	16%
Uasin Gishu	92	2,529	4%
National (All Counties)	7,747	132,800	6%

Question 4: *Review the data in Table 1 above. What observations can you make about these data?*

- Both Taita Taveta and Uasin Gishu did better in implementing their travel budget than the rest of the recurrent budget.

- In Taita Taveta, the share of recurrent spending on travel is particularly high, compared to the other counties and the national average.

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Table 3 (in Ksh. millions)

Taita Taveta Budget Items	Budget	Expenditure
Total Recurrent	1,833	1,492
Travel	235	233
Travel as a Share of Recurrent	13%	16%

Question 6: *Review the data in Table 3 above. What observations can you make about these data?*

- It appears that in Taita Taveta the budget for Travel was already a large share of the Recurrent Budget, but this share increased with actual spending.

- The fact that Travel was 13% of the budget – compared to the 6% average across all counties – is an issue that should have been dealt with at budget formulation and approval.

- The fact that in reality the Travel budget is an even larger share (16%) of actual spending is an issue that can be raised at this point – the issue is not overspending, but the fact that the county seems to be able to spend on "non-core" activities like travel more effectively than core activities.

- Note that a similar analysis to what we just did with Travel can be done for other "non-core" areas like Allowances and Vehicles.

Part II: MCA Sitting Allowances

- Refer participants to **Task Sheet X.5** and explain the instructions. They'll need to refer to Table 3 in the COB County Report to complete this task.

- Have participants work in pairs or small groups to complete the task.

- Once they've completed the task, review the answers in plenary:

		Nyeri	Narok	Uasin Gishu	Kisumu	Makueni
1	No. of MCAs (incl. Speaker)	48	48	45	50	48
2	Annual Budget for Sitting Allowances (mlns)	34.5	50.3	127.3	118	32
3	Annual Budget per MCA	719,000	1,050,000	2,830,000	2,360,000	667,000
4	Actual Expenditure on Sitting Allowances (mlns)	69	28.8	127.3	46.5	32
5	Actual <u>Annual</u> Spending per MCA	1,438,000	600,000	2,830,000	930,000	667,000
6	Actual <u>Monthly</u> Spending per MCA	120,000	50,000	236,000	78,000	56,000

Question: *What does this information tell you about county budgets and expenditure for sitting allowances?*

Here are some observations about Nyeri County's budget and expenditure on sitting allowances.

(Participants should also note their findings about other counties based on the data in the table above).

- **Nyeri spent about 2 times what it budgeted for sitting allowances.** The report doesn't explain why this happened. One possibility is that Nyeri under-budgeted for sitting allowances. Without knowing much, we can get a sense of this by looking at how much other counties budgeted and how many MCAs they have. The biggest factor affecting how much a county needs for allowances is the number of MCAs – Nyeri has 48 (including the Speaker).

- Makueni also has 48 MCAs. Although Makueni had a slightly smaller budget, it does look like Nyeri's budget may have been somewhat small for the number of MCAs in the county – compared to Narok, Uasin Gishu, and Kisumu.

- When we look at expenditure, Nyeri ranks fairly high compared to counties with similar numbers of MCAs – and well above the national average on sitting allowances, which was about 88,000 Ksh. per month.

- Taking this into account, it would appear that Nyeri may have budgeted too little, but still spent too much.

6. **Task: Looking at Issues of Priority Setting and Budget Approval through an Implementation Report**

The Wage Bill

- When looking at the Wage Bill on the implementation side, we would not normally have an interest in whether or not a county had allocated more for wages than other items, since this issue is dealt with in the budget formulation stage.

- However, that information is not available in a systematic form for all counties – unless you conduct a tedious analysis county by county.

- The COB County Report does provide some useful information on overall expenditure on wages that gives us a sense of what different counties are doing to manage their wage bills. This information is found in *Table 1: Analysis of Expenditure by Economic Classification*.

- Have participants turn to **Task Sheet X.6** and explain the instructions. They can work in pairs or small groups on this task.

- Once they complete the task, review the answers in plenary:

	Spending on Wages (Personnel Emoluments)	Total Expenditure	Spending on Wages as % of Total Expenditure
Nyeri	2,567,611,430	4,274,564,744	60%
Taita Taveta	963,114,162	2,010,889,182	48%
Uasin Gishu	1,681,530,021	2,732,564,439	62%

National	77,375,775,238	169,352,359,923	46%

Question 1: *Now that you've completed the table, what are some observations you can make about counties' expenditure on wages?*

- On average, counties spent about 46% of their budgets on staff in 2013/14.

- The share of the budget going to wages in all three counties is above average, but not significantly so in Taita Taveta.

- Before concluding anything about Taita Taveta, we should ask ourselves why they spent less on wages than the other two counties.

- This takes us to the issue of spending on wages in counties with former provincial headquarters or large population areas.

Question 2: *What observation can you make about spending on wages in counties with former provincial headquarters and/or large population areas?*

- On average, formal provincial headquarters (and a few other large population areas) tended to inherit higher wage bills, which means they have, on average, a larger number of staff that need to be paid than other counties. This can be seen by looking at the table below:

Wages as a Percent of Total Expenditure in Counties with Former Provincial Headquarters or Large Population Areas

National	Nairobi	Mombasa	Kisumu	Kakamega	Embu	Garissa	Nakuru	Meru	Kiambu
46%	58%	60%	68%	50%	69%	48%	51%	64%	55%

- Although Nakuru and Garissa are on the lower side of the range, all former provincial headquarters have salary spending above the national average.

TASK X.1: KEY CHALLENGES FACED BY COUNTIES

Complete this table using the list of challenges in each of the county sections of the *COB County Governments Annual Budget Implementation and Review Report 2013/14*. Indicate which counties experience each of the challenges by writing a "Y" for "yes" in the appropriate boxes under each county.

Key Challenges	Nyeri	Taita Taveta	Uasin Gishu

TASK X.2: KEY ISSUES FROM BUDGET IMPLEMENTATION DATA THAT REQUIRE EXPLANATION

Complete this table using the list of budget implementation issues (namely, variances between estimates and actuals) that you identified for each of the three counties using data from the *COB County Governments Annual Budget Implementation and Review Report 2013/14*. Check off which counties have these issues by writing a "Y" for "yes" in the appropriate box under each county. Add any notes in the last column to highlight key data from the relevant counties.

Budget Implementation Issues that Require Explanations	Nyeri	Taita Taveta	Uasin Gishu	Notes

TASK X.3: COMPARING NYERI COUNTY'S BUDGET IMPLEMENTATION PERFORMANCE AGAINST NATIONAL AVERAGE

Answer the questions below using Annexes 2 and 3 from the *COB County Governments Annual Budget Implementation Review Report 2013/14*.

1. How much **Local Revenue** did Nyeri County <u>raise</u> in 2013/14? _____

2. How much **Local Revenue** was <u>budgeted</u> for Nyeri County in 2013/14? _____

3. What percentage of <u>budgeted</u> **Local Revenue** did Nyeri County <u>raise</u> in 2013/14? (This requires a calculation.)
   _____

4. How much **Local Revenue** was <u>raised</u> in total by all counties in 2013/14? _____

5. How much **Local Revenue** was <u>budgeted</u> for all counties in 2013/14? _____

6. What percentage of <u>budgeted</u> **Local Revenue** was <u>raised</u> across all counties in 2013/14? (This requires a calculation.)
   _____

7. How did Nyeri County perform in <u>raising</u> **Local Revenue** compared to the national average across all counties?
   _____

8. What percentage of <u>budgeted</u> **Total Expenditure** did Nyeri <u>spend</u> in 2013/14? _____

9. What percentage of <u>budgeted</u> **Total Expenditure** was <u>spent</u> on average across all counties in 2013/14?
   _____

10. How did Nyeri County perform in <u>spending</u> its **Total Budget** compared to the national average across all counties?
    _____

11. What percentage of its **Development Budget** did Nyeri County <u>spend</u> in 2013/14? _____

12. What percentage of the **Development Budget** was <u>spent</u> on average across all counties in 2013/14?
    _____

13. How did Nyeri County perform in <u>spending</u> its **Development Budget** compared to the national average across all counties?
    _____

TASK X.4: ANALYZING TRAVEL SPENDING BY COUNTIES

1. Look at "Table 2: Analysis of Domestic and Foreign Travel by the Two Arms of County Government" in the *COB County Governments Annual Budget Implementation Review Report 2013/14*.

   What percent of its Total Travel Budget did each of the three counties spend? And what percent was spent on average, across all counties? Write the figures in the appropriate boxes in the table below.

2. Look at Annex 3 in the COB County Report. What percent of its Total Recurrent Budget did each of the three counties spend? And what percent was spent on average, across all counties? Write the figures in the appropriate boxes in the table below. (Leave last row blank for now.)

Table 1:

Item Absorption (Spending as a Percent of Budget):	National (All Counties)	Nyeri	Taita Taveta	Uasin Gishu
Travel				
Total Recurrent				
Travel as a Share of Recurrent Spending				

3. Look at Table 2 in the COB County Report. How much did each of the counties spend on total Travel? And spending for all counties (national)? Write the figures in the table below.

   Look at Annex 3 in the COB County Report. What was Total Recurrent Spending for each county? And for all counties (national)? Write the figures in the table below.

   Now calculate travel spending as a percentage of Total Recurrent Spending for each county and nationally – and then write those percentages <u>in the last row in the table above</u>.

Table 2 (in Ksh. millions):

	Travel Spending	Total Recurrent Spending	Travel as % of Recurrent Spending
Nyeri			
Taita Taveta			
Uasin Gishu			
National (All Counties)			

4. Review the data in Table 1 above. What observations can you make about these data?

_____

_____

_____

5. Let's look at Taita Taveta in particular. Use data from Table 2 and Annex 3 of the COB County Report to complete the table below. (Note: Two of the figures can be found in Table 2 on the previous page.)

Table 3 (in Ksh. millions):

Taita Taveta Budget Items	Budget	Expenditure
Total Recurrent		
Travel		
Travel as a Share of Recurrent		

6. Review the data in Table 3 above. What observations can you make about these data?

_____

_____

_____

TASK X.5: ANALYZING SPENDING ON MCA SITTING ALLOWANCES BY COUNTIES

To fill in the table below:

1. Using data from Table 3 in the COB County Report, fill in the figures for Rows 1, 2, and 4 in the table below – that is, No. of MCAs, Annual Budget for Sitting Allowances, and Actual Expenditure on Sitting Allowances, respectively.

2. Now calculate the figures for Row 3 (Annual Budget per MCA) by dividing the Annual Budget for Sitting Allowances (Row 2) by the No. of MCAs. (You can round up the figures to the nearest 1,000.)

3. Now calculate the figures for Row 5 (Actual Annual Spending per MCA) by dividing the Actual Expenditure on Sitting Allowances (Row 4) by the No. of MCAs.

4. Lastly, calculate the figures for Row 6 (Actual Monthly Spending per MCA) by dividing the Actual Annual Spending per MCA (Row 5) by 12 months.

		Nyeri	Narok	Uasin Gishu	Kisumu	Makueni
1	No. of MCAs (incl. Speaker)					
2	Annual Budget for Sitting Allowances (mlns)					
3	Annual Budget per MCA					
4	Actual Expenditure on Sitting Allowances (mlns)					
5	Actual <u>Annual</u> Spending per MCA					
6	Actual <u>Monthly</u> Spending per MCA					

Now that you've completed the table, what does this information tell you about county budgets and expenditure for sitting allowances? Note some of your key observations about these data.

TASK X.6: ANALYZING EXPENDITURE ON WAGES BY COUNTIES

1. Using Table 1 in the COB County Report, fill in columns 1 and 2 of the table below – Spending on Wages and Total Expenditure, respectively. Then perform calculations to come up with the percentages for column 3.

	Spending on Wages (Personnel Emoluments)	Total Expenditure	Spending on Wages as % of Total Expenditure
Nyeri			
Taita Taveta			
Uasin Gishu			
National			

Now that you've completed the table, what are some observations you can make about counties' expenditure on wages?

2. Review the table below. What observation can you make about spending on wages in counties with former provincial headquarters and/or large population areas?

Wages as a Percent of Total Expenditure in Counties with Former Provincial Headquarters or Large Population Areas

National	Nairobi	Mombasa	Kisumu	Kakamega	Embu	Garissa	Nakuru	Meru	Kiambu
46%	58%	60%	68%	50%	69%	48%	51%	64%	55%