



Budget Brief No. 22

How Do We Make County Budgets Useful to the Public? What Common Sense and Good Practice Tell Us

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Introduction and Overview

One of the main goals of devolution in Kenya is to bring decision making closer to the people through the creation of county governments. The county budget is one of the main avenues for decision making at the county level. By the end of June 2013, many County Assemblies had approved their first full budgets and the details of their contents began to emerge. While a lot has been said about the misplaced priorities in some county budgets, very little has been said about how easy it is to read and understand what counties are trying to do through their budgets. In other words, have counties followed good practices in presenting information to the public and oversight bodies like the County Assembly Members?

In a previous brief, undertaken jointly with other civil society organizations, we assessed five county budgets and raised a number of challenges that we identified in the way counties presented their budgets.¹ Together with these organizations, we also made a set of recommendations for how counties could improve budget presentation in 2014/15. Our analysis was not restricted to presentation; we also looked at county priorities and whether counties were spending enough to maintain current services. Nevertheless, the focus was on whether someone reading a county budget could answer a set of key questions. We also made the 16 key questions we used available as a separate tool for those who wish to read a county budget.²

In this brief, we continue to look at county budget presentation, but now focus on counties that got it right. In particular, we highlight good practices in budget presentation, drawing on counties that did especially well. Our goal continues to be the same: promoting learning among counties about how to do more transparent and participatory budgeting. Our hope is that this set of three briefs provides helpful inputs for counties as they proceed to table their 2014/15 budget proposals.

One note about the budgets we used: in the previous briefs mentioned above, we restricted our analysis to the publicly available versions of budget documents. In this brief, we draw more widely on versions that are circulating, but may or may not have been made universally available. The reason we do this is that we are now looking for the best possible approaches that are available in Kenya; we are not assessing particular budgets, but promoting particular practices. Of course, we believe that these practices should be used in budgets that are made available to the public going forward.

¹ <http://internationalbudget.org/wp-content/uploads/Joint-Synthesis-Paper-on-County-Budgets.pdf>

² <http://internationalbudget.org/wp-content/uploads/Joint-16-Key-Questions-on-County-Budget.pdf>

This brief looks at a number of issues, drawing on the Public Financial Management (PFM) Act 2012 and other internationally accepted good practices. These issues include:

- presentation of a budget narrative;
- budget estimates for multiple years;
- use of a coherent chart of accounts;
- transparency in reporting on sources of revenue (grants and own revenue);
- clarity of economic assumptions for the year;
- disaggregated budget information to the program level; and
- geographical information about development projects.

Good Practices: What and Why?

What do we mean when we talk about “good practices”? There are three sources of good practice in the case of county budgets. One is common sense. Basically, we are asking whether a particular way of presenting information is easy to use, sensible to an ordinary person or oversight body, and likely to illuminate issues rather than cause confusion. While this is subjective, we also think that reasonable people can agree on many of the principles of good practice. Our view is that most of what is required for good budgeting is actually common sense.

Common sense is aided in two ways. First, there are legal requirements, mostly contained in Kenya’s PFM Act 2012, that indicate how budget information should be presented to the public. This is a second source of good practice in the Kenyan context. Finally, there are now internationally accepted good practices, codified in a variety of codes and surveys, that provide guidance on how governments at all levels can best present budget information.³

To see why common sense is the first and most critical input into good practice, consider the following example. There is widespread agreement that providing only a table of figures without any narrative explanation of these figures is less “good” (meaning more difficult to use and understand) than if there is an accompanying narrative. This mostly follows from the fact that numbers alone cannot tell a story; they must be interpreted. That is common sense.

Nevertheless, there are various attempts to encourage narratives in Kenya’s PFM Act and in international guidelines. Kenya’s budget law requires a number of things of the annual budget proposal. The format for the proposal is described as including:

- 1) a summary of budget policies, including revenue, expenditure, debt, and deficit financing;
- 2) an explanation of how the budget relates to the fiscal responsibility principles and the financial objectives; and

³ See for example the IMF *Fiscal Code and Government Finance Statistics Manual*, OECD *Best Practices for Budget Transparency*, IBP’s Open Budget Survey, the Public Expenditure and Financial Accountability Survey, etc.

- 3) a memorandum by the County Executive Committee member for finance explaining how the resolutions adopted by the County Assembly on the budget estimates have been taken into account.⁴

From this, we can see that there must be some kind of narrative, because it is not possible to summarize policy or explain the relationship between the budget and broader financial objectives without text. It is also clear from the requirements that there is intended to be a dialogue between the County Executive and the County Assembly and that this should be documented. However, the PFM Act does not provide further details about what is expected in a budget narrative.

One source for international best practice is the IBP's [Open Budget Survey](#) (OBS). The Survey is based on standards and guidelines from the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), and other international sources that encourage good practice in budget presentation and fiscal transparency. One of the questions in the Survey (Q15) asks whether the budget proposal shows the impact of different economic assumptions on the figures in the budget. In other words, does the budget tell us what will happen if the estimates for inflation or economic growth in the budget are wrong? In assessing counties against this question, best practice is summarized by an "A" answer, which says:

- a. Yes, extensive information on the impact of macroeconomic assumptions on the budget is presented, including both a narrative discussion and quantitative estimates.

It is clear from this that a narrative explanation is good practice. Generally, that is the case for many questions in the Survey related to revenues, transfers, debt, and so on. Nevertheless, no further guidance is provided on the content of the narrative.

Therefore, the PFM Act and international guidelines provide important support for common sense, but often we mostly need to rely on common sense to tell us whether budget presentation makes sense. It is useful to think about what a reader wants to know when looking at a budget and then ask whether the budget presentation actually answers the reader's questions.⁵ As we go through the rest of this brief, we will draw mostly on common sense, but also on the PFM Act and international good practice in highlighting what works in budget presentation.

Budget Narrative

A budget narrative is a detailed explanation of the numbers in the budget. As we have already explained, it is not good practice to simply provide tables with data without a proper explanation. The importance of a budget narrative is that it explains what the numbers in the budgets tables mean and how the government arrived at these numbers. A budget proposal is meant to be debated in the legislature (County Assembly). In order for this debate to be meaningful, members must understand the data they are looking at and how those figures were derived. Every budget must make choices about how to use the limited revenue that counties will receive every year. There is no one right way to distribute these funds, but good practice is to provide some explanation of priorities and the reasons for making choices.

⁴ Kenya's PFM Act 2012, 130.

⁵ For more on this point, please see Jason Lakin, "What Does an Open Budget Look Like and Why?" *Policy Magazine*, Forthcoming 2014.

Examples of good practice

Kisii County

Example 1 below is a budget narrative from Kisii County, which was submitted to the county assembly together with the budget estimates.

4.0 County Assembly Budget	
The amount set aside for county assembly budget is as summarized hereunder	
Operations and Maintenance	334,200,000
Vehicle Purchase Fund	110,000,000
Development Budget	130,000,000
Estimated Personnel Budget	370,000,000
Total	944,200,000

The budget for ward offices has been included in the main budget since they will be done together with sub county offices.

The additional personnel budget has been included in the main budget awaiting staff rationalization and functional analysis to determine staffing needs.

5.0 Financing the Deficit

The budget has a deficit of **Ksh. 23,068,053, which** is to be financed through external funding and debt arrangements subject to guarantee by National Government. This deficit is pegged on projects specifically identified for donor funding as listed in page 26, **Kshs 22,500,000,000** and another deficit of **Kshs 568,053,436** for the main budget to be financed through additional local revenue arising from property registration and property rates enforcement exercise, debt enforcement exercise and additional funding as proposed by The Senate.

Kajiado County

Example 2 is a narrative explaining the changes made by the County Assembly to the executive budget before amendment in Kajiado County. It attempts to explain the reasons for allocations made during the amendment and approval of the budget.

NOTES ON THE AMENDED BUDGET
1. Outdoor equipment of Ksh 20,000,000 be replaced by the specialized materials in pre-primary already budgeted Ksh. 5,000,000. Thus additional allocation of ksh 5,000,000 per sub county and its in the recurrent budget. This will save us ksh 15,000,000 and raise specialized materials to ksh 10,000,000.
2. Training expenses under development for pre-primary education be replaced in the entity and be pulled to the training in the recurrent thus saving Ksh, 10,000,000.
3. Operators item of Ksh 3,214,000 be removed as it's a personnel issue and already catered for thus a saving of kshs 3,214,000
4. Procurement of certified seeds of ksh 10,000,000 be removed in the entity and be replaced with specialized items in agriculture totaling to Ksh, 23,000,000 thus saving ksh 10,000,000
5. Purchase of specialized plants/equipment in public health in development expenditure be removed in the entity since the same was allocated in recurrent expenditure of health amounting to ksh 20,000,000, thus saving ksh 20,000,000
6. All items of refurbishment of buildings in health for ksh 7,000,000 be removed since the same was budgeted in development budget for ksh 40,000,000 saving of ksh 7,000,000.

Further improvements

While both of these counties provided more information than many of their peers, there is still room for further improvement. For example, the Kisii sample does not provide an explanation of all the key figures. There is no explanation of the Vehicle Purchase Fund, or how it will work. In the Kajiado sample, there are many things that remain unclear. For example, why are seeds being replaced by “specialized materials,” and how can this actually save the county money? This is where common sense is a useful indicator of budget presentation quality: while each of these budgets includes narrative, not everything that is in the narrative is easy to understand for an ordinary reader.

At the same time, it is clear that these budgets lack information that is required by the PFM Act and international practice. For example, neither contains information that relates budget policies to financial objectives or fiscal responsibility principles, as required by the PFM Act. Neither provides information about the assumptions used to develop the budget or the impact if those assumptions turn out to be incorrect, as required by international good practice. There is continued room for improvement in this area.

Estimates for the Budget over Multiple Years

The budget should include more than a single year of spending and revenue projections. Why is this important? It is easy to see on the capital (or development) side of the budget. Often big development projects will be implemented over a period of several years. Expenditure figures for all these years will then tell us the total amount of county revenues that are being committed to complete the implementation of the particular project(s). Even on the recurrent side, spending is often hard to change from year to year. Much of recurrent spending is for wages. Public sector workers usually cannot simply be hired and fired at will, and their terms and conditions usually imply future costs (such as pensions). Therefore, it is sensible to provide estimates of these salary costs for future years, as well. Spending commitments made this year tend to reduce the choices for next year, and this should be acknowledged in the budget.

Finally, it is also important that the budget shows the expenditure for the previous year(s) as a benchmark for the current year so that one can tell if the current estimates are realistic. Counties did not exist before, but most of the functions they are taking over were provided by national government in the previous year. The Treasury has made spending information available by sector and county for 2012/13 for these devolved functions, and this could be included as an estimate of prior year spending.⁶

In addition to these common sense reasons for including several years of revenue and spending information, the PFM Act requires medium term (three to five years) estimates of revenue. International practice encourages at least three years (including the budget year) for both revenues and expenditures.⁷

Example of good practice

Machakos County

Machakos County has expenditure estimates for the coming two years for all spending categories on recurrent and development expenditures.

⁶ This data is imperfect, but in most cases, it is the best data we have. After the first couple years of operations, counties will be able to provide actual data that may be more reliable. This data is discussed in the other papers in this series.

⁷ Open Budget Survey 2012; See Q5-6 & Q9-10.

GOVERNMENT OF MACHAKOS				
RECURRENT EXPENDITURE BUDGET FOR THE FINANCIAL YEAR 2013/2014				
ITEM	ITEM DESCRIPTION	ESTIMATES FY 2013/14	PROJECTED ESTIMATES FY 2014/15	PROJECTED ESTIMATES FY 20115/16
	COUNTY ASSEMBLY SERVICES		KSHS	KSHS
	290 County Assembly			
	Office of the Clerk			
2110100	Basic Salaries - Permanent Employees	82,010,000.00	86,110,500.00	90,416,025.00
2110112	<i>Basic Salaries - County Assembly</i>	82,010,000.00	86,110,500.00	90,416,025.00
2110300	Personal Allowance Paid as Part of Salary	39,485,240.00	41,459,502.00	43,532,477.10
2110301	<i>House Allowance</i>	22,544,000.00	23,671,200.00	24,854,760.00
2110302	<i>County Assembly Board and Honoraria</i>	800,000.00	840,000.00	882,000.00
2110303	<i>Acting Allowance</i>	1,500,000.00	1,575,000.00	1,653,750.00
2110304	<i>Overtime - County Assembly Service</i>	1,000,000.00	1,050,000.00	1,102,500.00
2110310	<i>Top up Allowance</i>	500,000.00	525,000.00	551,250.00
2110312	<i>Responsibility Allowance</i>	1,360,000.00	1,428,000.00	1,499,400.00
2110313	<i>Entertainment Allowance</i>	500,000.00	525,000.00	551,250.00
2110314	<i>Transport Allowance</i>	2,784,000.00	2,923,200.00	3,069,360.00
2110315	<i>Extraneous Allowance</i>	1,368,000.00	1,436,400.00	1,508,220.00
2110316	<i>Security Allowance</i>	3,000,000.00	3,150,000.00	3,307,500.00
2110317	<i>Domestic Servant Allowance</i>		-	-
2110320	<i>Leave Allowance</i>	1,933,240.00	2,029,902.00	2,131,397.10
2110323	<i>Late Duty Allowance</i>	2,196,000.00	2,305,800.00	2,421,090.00

Taita Taveta

Taita also provides multiyear information for capital expenditures as shown below:

TAITA TAVETA COUNTY				
DEVELOPMENT EXPENDITURE				
		ESTIMATES(KSHS.)		
DEPARTMENT	DESCRIPTION	2013/2014	2014/2015	2015/2016
10 HEALTH-MEDICAL SERVICES		26,459,100.00	28,575,828.00	30,861,894.24
3110200	Construction of Building	26,459,100.00	28,575,828.00	30,861,894.24
3110202	Non-Residential Buildings (offices, schools, hospitals, etc..)	-	-	-
3110202	Construction of wards - male, female & peads- Mwatate SDH	6,500,000.00	7,020,000.00	7,581,600.00
3110202	Upgrading of infrastructure development- Wesu SDH	8,602,500.00	9,290,700.00	10,033,956.00
3110202	Construction of a modern incinerator- Wesu SDH	904,100.00	976,428.00	1,054,542.24
3110202	Contruccion of medern incinerator- Wundanyi SDH	828,700.00	894,996.00	966,595.68
3110202	REKEKE HEALTH CENTRE	542,460.00	585,856.80	632,725.34
3110202	2 MATERNITY BLOCKS KIWALWA & MAHANDAKINI DISPENSARIES	2,712,300.00	2,929,284.00	3,163,626.72
3110202	CONTRUCTION OF INCINERATOR-KIWALWA	379,722.00	410,099.76	442,907.74
3110202	2 MATERNITY BLOCKS MODAMBOGHO DISPENSRY	2,712,300.00	2,929,284.00	3,163,626.72
3110202	CONSTRUCTION OF 5 PLACENTA PITTS(mata,chala,mahandakini&kimorigo)	433,968.00	468,685.44	506,180.28
3110202	RENOVATIONS OF INCINARATORS(mata,chala mahandakini ,kitobo,kimorigo&eldord	302,050.00	326,214.00	352,311.12
3110202	Non-Residential Buildings (offices, schools, hospitals, etc..)-Dist& sub dist hosp	2,541,000.00	2,744,280.00	2,963,822.40

Further improvements

While both Machakos and Taita provide more information than many of their counterparts, it is important that multiyear (at least three years) spending data be provided for both recurrent and development estimates. The counties should also include spending estimates for the previous year to provide for comparison with what is allocated for the current year.

Charts of Accounts

A good budget has a consistent set of codes that correspond to the same set of items. Why is this important? For example, there could be a single code for "Purchase of motor vehicles." This code should then be used consistently across all departments in the budget so that one is able to compare departments and know the total amount spent on vehicles across the budget.

This set of codes is commonly referred to as the Chart of Accounts (COA) and is used for classification in a budget. The national government uses a standard Chart of Accounts that is linked to a manual providing guidance on classification.

While the national COA was made available through a template to counties, many have not used it consistently. As a result, different departments use different codes and titles for similar items, making it difficult to compare them.

The PFM Act does not specifically mention the Chart of Accounts. However, it does require uniformity in accounting practices under the Accounting Standards Board. The Accounting Standards Board is responsible for setting formats for financial reporting, and both national and county governments must follow its rules. While a Chart of Accounts is not referenced, it is clear that in order to be able to comply with the regulations produced by the Board, a clear and consistent COA is necessary. Moreover, in order to meet some of the other requirements of the Act, including the fiscal responsibility principles, we must have clear classification of recurrent and development expenditure, as well as wages. For example, it is not possible to know if counties are meeting the requirement of allocating no more than 70 percent of the budget to recurrent expenses if they are not properly classifying recurrent spending.⁸

International good practice recommends a standard Chart of Accounts. The IMF Manual provides substantial guidance on the different economic classifications that can be used, drawing on the United Nations Classification of Functions of Government (COFOG) for functional classification.⁹ The Open Budget Survey makes no specific reference to the Chart of Accounts. However, it does ask whether governments follow internationally recognized classification systems, like the Government Finance Statistics of the IMF, as described in the IMF *Manual*.¹⁰

Examples of Good Practice

Several counties, such as Busia and Nairobi, have made use of some form of COA in their 2013/14 budgets. Busia has used codes that are similar to economic items in the national government budget (and therefore the national Chart of Accounts) in the recurrent expenditure part of the budget.

Busia

		FINANCIAL YEAR 2013/2014			
		2013/2014	2014/2015	2015/2016	
12	County Assembly	655,810,310	721,391,341	654,011,327	
	2110100	Basic salary- Permanent Employees	137,953,287	151,748,616	166,923,477
	2110101	Basic Salary civil services	137,953,287	151,748,616	166,923,477
	2110300	Personal Allowance -Paid as Part of Salary	13,386,942	14,725,636	16,198,200
	2110301	House Allowance		0	0
	2110308	Medical Allowance		0	0
	2110309	Special Duty Allowance		0	0
	2110310	Top Up Allowance		0	0
	2110311	Transfer Allowance		0	0
	2110312	Responsibility Allowance			0
	2110313	Entertainment Allowance		0	0
	2110314	Transport Allowance		0	0
	2110315	Extraneous Allowance		0	0
	2110317	Domestic Servant Allowance		0	0
	2110318	Medical cover	13,386,942	14,725,636	16,198,200
	2110320	Leave Allowance		0	0
	2110321	Administrative Allowance		0	0
	2110327	Ministerial Allowance		0	0
	2110400	Personal Allowance Paid as Reimbursements	8,500,000	9,350,000	10,285,000

Kisii County

Kisii county has also used a Chart of Accounts for part of its recurrent budget, as shown below.

⁸ Kenya's PFM Act 2012, 107.

⁹ International Monetary Fund, *Fiscal Guidelines and Government Financing Statistics Manual*. Available at: <http://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm>.

¹⁰ OBS 2012 Q2 and Q3 ask whether functional and economic classifications of the budget are "compatible with international standards."

OPERATIONS & MAINTENANCE COUNTY ADMINISTRATION		
CODE	CHART OF ACCOUNTS -RECURRENT	AMOUNT
Utilities Supplies and Services		
2210101	Electricity	1,200,000
2210102	Water and sewerage charges	500,000
2210103	Gas expenses	200,000
	Sub Total:	1,900,000.00
Communication, Supplies and Services		
2210201	Telephone, Telex, Facsimile and Mobile Phone Services	3,000,000
2210202	Internet Connections	2,000,000
2210203	Courier and Postal Services	300,000
2210204	Leased Communication Lines	600,000
2210206	Licencing fees for Communication	500,000
	Sub Total:	6,400,000.00
Domestic Travel and Subsistence, and Other Transportation Costs		
2210301	Travel Costs (airlines, bus, railway, mileage allowances, etc.)	10,000,000
2210302	Accommodation - Domestic Travel	10,000,000
2210303	Daily Subsistence Allowance	25,000,000
2210304	Sundry Items (e.g. airport tax, taxis, etc...)	2,000,000
	Sub Total:	47,000,000.00

Further improvements

While Kisii county uses a recognizable COA in part of the budget, it actually mixes the old Local Authority COA and the national government codes if we look at the whole budget, as can be seen in the section below (these are different from the codes used in segment above):

KISII COUNTY GOVERNMENT		
REVENUE RAISING (CENTRAL GOVERNMENT & LOCAL SOURCES)		
RECEIPTS FROM CENTRAL GOVERNMENT		
National Revenue		5,188,346,265
LATF (Service & Performance Components)		440,437,896
Local Sources		972,875,933
Conditional share - ongoing projects		424,798,650
Conditional share - Kisii Level 5		211,000,000
Total Receipts from Central Government		7,237,458,744
	KISII TOWN	KISII COUNTY
LOCAL SOURCES	257,290,482	688,359,718
1-1201 CILOR Current Year	27,000,000	15,000,000
LOCAL LEVIES: 1-2000		-
1-2101 Property rates	20,821,939	34,488,606
Property rates arrears	21,044,184	15,384,272
1-2104 Other Property Charges		12,000,000
1-2201 Business Permits Current Year	40,918,315	40,573,850
1-2202 Business Permits Penalties	2,000,000	3,200,000
1-2301 Tea Cess		9,795,578
1-2302 Coffee Cess		3,000,000
1-2311 Fruits & Vegetables / Produce Cess	6,580,712	8,000,000
1-2314 Log Cess		4,500,000
1-2501 Ground Rent - Current Year		7,134,700
1-3103 Plot Transfer Fee		3,313,305
1-3105 Miscellenous income		2,720,633

Counties should make use of one set of agreed upon national Chart of Accounts, which should be adopted across all counties and explained in each budget so that anyone analyzing the budget can clearly tell what they are looking at.

Revenue Sources

Just as with expenditures, it is important to provide multiyear information on revenues. Logically, if we are providing estimates of expenditure for several years, we should also be interested in the revenues to support that spending. Detailed information about revenues is important for several reasons. First, we want to know who will pay and what implications this might have. For example, in the recent debate over the value added tax (VAT) in Kenya, the implications of increasing revenues from the sale of products upon which the poor depend was an important facet of the discussion. Second, we want to be able to form an idea of how realistic revenue projections are. To do this, we can look at the total revenues, but we may also want to look at the specific sources to see where government thinks it can increase revenues in the short term. Lastly, we want to have some predictability of available resources in the counties over the medium term.

Some counties have made very ambitious revenue projections. This is a concern because such counties may end up with a deficit if those revenue projections are not realized. Unless the budget is also very clear about what will be cut when revenues fall short, the budget process can be undermined by giving the executive the discretion to make cuts during the year in a way that was not discussed and approved by the County Assembly.

The PFM Act requires that all counties give multiyear projections for all revenues, including conditional and unconditional grants from the national government as well as any money from the Equalization Fund. The Open Budget Survey considers three years of revenue estimates to be good practice, as well. And, the Survey also emphasizes disaggregation of revenues into individual sources for multiple years.¹¹

While forward estimates are essential, common sense also dictates that we have previous year estimates to know how reasonable the current year projections are. The PFM Act does not require this, but the Open Budget Survey considers at least two prior years of data on actual and estimated revenues to be good practice.¹²

Although counties were new entities during the formulation of this year's budget, there are available revenue estimates from recent years that estimate what was collected previously. Local authorities generated funds from a number of revenue streams that are similar to those that counties will be utilizing. The Parliamentary Budget Office aggregated the revenues under the local authorities in each county, which gives an estimate of what counties collected before. This is a good starting point for interrogating revenue estimates. In addition, the Controller of Budget has now released reports on budget implementation at the county level, which also includes the revenue counties collected between March and June, and between July and December 2013. These figures also give a picture of how much counties might collect for the year, which we can then match up against the projections.

Examples of good practice

Nairobi

The Nairobi county budget has the most detailed revenue estimates with projections for the next two years. Most counties only have revenue projections for the current financial year as captured in the Joint Synthesis Paper on County Budgets.¹³ The Nairobi budget also includes the revenue projections for the previous year,

¹¹ See Open Budget Survey 2012, Q9-10.

¹² See Open Budget Survey 2012, Q27-32.

¹³ <http://internationalbudget.org/wp-content/uploads/Joint-Synthesis-Paper-on-County-Budgets.pdf>.

which is an advantage for monitoring the fiscal capacity of a county and assessing whether the current year figures are reasonable.

NAIROBI CITY COUNTY					
SECTORAL REVENUE PROJECTIONS FOR FY 2013/2014					
REVENUE BY SECTOR	BUDGET 2012/2013 (Ceiling)	REVISED BUDGET 2012/2013	PROJECTED REVENUES FY 2013/2014	PROJECTED REVENUES FY 2014/2015	PROJECTED REVENUES FY 2015/2016
GOVERNOR'S OFFICE					
Legal Department					
COURT FINES	9,439,770	11,327,724	15,000,000	16,500,000	16,500,000
CONSENT FEES	1,500,000	1,800,000	4,000,000	4,400,000	4,400,000
COURT AWARDS	2,260,230	2,712,276	5,000,000	5,500,000	5,500,000
CONVEYANCE FEES	1,500,000	1,800,000	3,000,000	3,300,000	3,300,000
SALES OF MINUTES/BY -LAW	300,000	360,000	500,000	550,000	550,000
Inspectorate					
ANIMAL POUNDS	1,200,000	1,440,000	3,000,000	3,300,000	3,300,000
DOG LICENCES	2,000,000	2,400,000	5,000,000	5,500,000	5,500,000
IMPOUNDING-DAGORETTI	10,000,000	12,000,000	10,000,000	11,000,000	11,000,000
IMPOUNDING (ENFORCEMENT)	10,000,000	12,000,000	10,000,000	11,000,000	11,000,000
COURT FINES	42,000,000	16,000,000	10,000,000	11,000,000	11,000,000
ZEBRA CROSSING	3,000,000	3,600,000	3,000,000	3,300,000	3,300,000
DAGORETTI TRAINING FEES	1,800,000	2,160,000	7,000,000	7,700,000	7,700,000
SUB-TOTAL	85,000,000	67,600,000	75,500,000	83,050,000	83,050,000

Kericho County

One interesting aspect of the Kericho County Budget is that local revenue projections are broken down to the subcounty level. This provides a geographical spread of the revenue expected from each subcounty and, therefore, a picture of the tax burden for people living in these areas. Busia County also has a similar regional breakdown in its revenue estimates.

KERICHO COUNTY GOVERNMENT								
PROJECTED LOCAL REVENUES								
FOR THE FINANCIAL YEAR 2013-2014								
ITEM	SUB ITEM	REVENUE STREAMS	KERICHO HQ SUB-COUNTY	AINAMOI SUB-COUNTY	BURETI SUB-COUNTY	KIPKELION WEST SUB-COUNTY	KIPKELION EAST SUB-COUNTY	TOTALS
			Kes	Kes	Kes	Kes	Kes	Kes
1110100	1110104	Cess Receipts - Local Authority Tax	3,000,000	18,008,970	6,692,767	1,350,000	1,494,100	30,545,837
1130100	1130102	Plot Rates - Local Authority Taxes	1,600,000	1,700,000	778,703	250,000	750,000	5,078,703
	1130103	CILOR - Local Authority Revenue	10,000,000	8,034,560	-	-	-	18,034,560
	1130104	Property Rates - Local Authority Revenue	26,000,000	26,478,856	1,500,000	1,600,000	3,635,477	59,214,333
1140600	1140601	Timber Royalties						-
1330100	1330301	Funds Received by Local Authorities Transfer Fund						-
1414400	1410401	Rent of Land	7,500,000	-	-		1,450,000	8,950,000
	1410404	House Rents - Local Authority Revenue		-	-	300,000	547,890	847,890
1420300	1420327	Game Park Fees - Local Authority Revenue		-	-			-
	1420328	Single Business Licences - Local Authority Revenue	11,000,000	9,000,000	10,407,822	3,100,000	1,337,750	34,845,572
1420500	1420401	Forest Receipts	-	-		-		-
	1420403	Water and Sewerage Rates - Local Authority Revenue	3,000,000	-		-		3,000,000

Economic Assumptions Used Preparing the Budget

Budgets are developed within economic environments that can change quickly; county budgets are also vulnerable to these changes so counties should factor this in when formulating their budgets. One vital detail in a budget is the set of economic assumptions that a county uses as it prepares its budget. Budgets make assumptions about what the economic growth or inflation rate will be over the budget year. If these assumptions are wrong, revenue projections and expenditure estimates could also be wrong. The budget

should also present the measures the county will take if reality differs drastically from the assumptions during the year.

Providing information about assumptions is important because it allows oversight bodies and citizens to check the assumptions against those of others. For example, county budget assumptions can be compared to the national budget, which generally includes assumptions on national growth and inflation.¹⁴ It is also useful to look at independent estimates, such as those produced by the IMF.

In addition to these common sense reasons for including information about assumptions, the PFM Act requires some discussion of economic assumptions. Although the Act does not specifically require this information in the budget estimates, the section relating to the County Budget Review and Outlook Paper (required in every county) states that the paper must contain information related to:

- (b) the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
- (c) information on—
- (i) any changes in the forecasts compared with the County Fiscal Strategy Paper;¹⁵

The implication is that information about assumptions and forecasts is a key element of the budget process.

The OBS considers this information to be essential for the budget proposal. Question 14 refers to the forecasts that form the basis for the budget proposal, and an “A” answer requires that:

“A. Yes, an extensive discussion of the macroeconomic forecast is presented, and key assumptions (for such factors as inflation, real GDP growth, unemployment rate, and interest rates) are stated explicitly.”

Examples of good practice

Nairobi County (April Proposal)

Nairobi County had an economic assumption segment in the budget proposal presented at the end of April (see below), though it is not clear if it was included in the final budget. No county has included an economic assumption section in the approved budgets we have seen.

<u>Assumptions</u>	
i.	Real GDP growth of 5.9% in 2013 and an average of 6.3% over the medium-term;
ii.	Inflation averaging 6% in 2013 and stabilizing at 5% in the medium-term;
iii.	Maintaining revenue collection at 24.3% of the GDP;
iv.	Containing the growth of expenditure at 29.8% of the GDP; and
v.	Pegging the net domestic borrowing at 2.3% of the GDP.

Further improvements

Nairobi was the only county that presented a budget indicating the economic assumptions in the preparation of the budget. However, the county should explain how these assumptions were arrived at, and how and why they differ from assumptions in the preparation of the national budget. This should reflect what is captured in

¹⁴ A county may estimate different growth rates or inflation rates than national government, but if so, it should explain why the local economy is likely to differ from the national economy. Alternatively, it may be that the county believes the national estimates to be incorrect for some reason, which should then also be explained.

¹⁵ Kenya's PFM Act 2012, 118:2.

the County Fiscal Strategy Papers, which are prepared before the budget estimates are tabled in the County Assemblies.

Provide Disaggregated Budget Information to at Least the Program Level

Good budgets show allocations broken down below the ministry (or “vote”) level to the level of programs, and subprograms whenever possible. For example, the budget should include a spending line for the Ministry of Agriculture, but must then go further to describe different programs within the ministry and, where appropriate, subprograms within each program. It is fairly obvious why this is important; there is no other way to really understand government priorities or to track spending on different priorities. Even in the absence of a program structure, good budgets should provide information broken down below the ministry (or vote) level in order to facilitate understanding of what government is spending money on.

In addition to program or department-level information, a good budget should show the number of units to be purchased with a given amount of funds, and unit costs where applicable, to help make an assessment of reasonableness. For example, if a budget line says “purchase of vehicles” and then Ksh 50,000,000, the interpretation is very different if that is for one vehicle or 10 vehicles, and if it is for one vehicle of 40 million and 9 for 10 million, or for 10 at five million each. This level of detail could also be provided for personnel costs within the ministry. For anyone monitoring the budget, it is common sense that this kind of a breakdown is essential.

In addition to this common sense logic, the PFM Act requires providing expenditure information to at least the program level.¹⁶ International good practice also demands that spending data be disaggregated below the ministry level to at least one level of program allocation.¹⁷

Good Practice

Bomet

The Bomet budget indicates a number of programs below the ministry level in the budget, such as the “Promotion of Horticulture” program listed below.

LEGISLATURE			
Purchase of a County Assembly Van	15	15.9	16.854
AGRICULTURE			
Purchase of Motorvehicles/Cycles	15.0	15.90	16.85
Development of Food and Cash Crops	124	131.4	139.3
Promotion of Horticulture	87	92.2	97.8
Food Security Fund	100	106.0	112.4
Agricultural Engineering Services	142.5	151.1	160.1
Agribusiness Development	43.5	46.1	48.9
Provision of Modern Agricultural Extension Services	12.4	13.1	13.9
Irrigation, Infrastructure Development and Fruits Nursery Establishment	11	11.7	12.4
Promotion of Fish Farming	74	78.4	83.1
Provision of Veterinary Services	30.1	31.9	33.8

¹⁶ PFM Act, 130.

¹⁷ See Open Budget Survey 2012, Q4.

In addition, the Bomet budget provides information about the number of staff members, their job category, and their salaries, which is something that does not appear in the budgets of many counties. Most budgets have only aggregate salaries, and one cannot tell how many staff members are allocated a salary figure.

PERSONNEL EMOLUMENTS								APPENDIX I	
No.	Employees Name	No.	*Basic Salary	O/Allowances	Other Allowances	NSSF	LAPTRUST/ LAPPROFUND	Total P M	P.A.
1	GOVERNOR	1	640,681	90,000	256,272	200	-	987,153	13,030,425
2	DEPUTY GOVERNOR	1	461,250	86,500	184,500	200	-	732,450	9,668,340
3	SPEAKER		250,000	15,000	100,000	200	-	365,200	
4	COUNTY EXECUTIVES	10	3,490,000	-	1,396,000	2,000	-	4,888,000	64,521,600
5			-	-	-	-	-	-	-
6	COUNTY COUNCIL - BOMET	85	3,515,000	1,290,000	195,000	17,000	-	5,017,000	66,224,400
7	MUNICIPAL COUNCIL - BOMET	42	797,200	701,000	91,800	8,400	-	1,598,400	21,098,880
8	TOWN COUNCIL - SOTIK	28	534,000	345,000	87,000	5,600	-	971,600	12,825,120
9	COUNTY COUNCIL - BURETI	58	1,980,000	845,000	130,000	11,600	-	2,966,600	39,159,120
10	DIRECTORS		-	-	-	-	-	-	-
11	DRIVERS	8	30,400	-	12,160	1,600	-	44,160	582,912
12	COUNTY SECRETARY	1	300,000	-	120,000	200	-	420,200	5,546,640
13	PUBLIC SERVICE BOARD	7	1,227,160	368,148	490,864	1,400	-	2,087,572	27,555,950
14	chief of staff/private secretary		232,960	-	93,184	-	-	326,144	
15	Contract Staff		-	-	-	-	-	-	-
16	Economic Advisor		-	-	-	200	-	200	2,640
17	Political advisor		-	-	-	200	-	200	2,640
18	Legal Advisor		-	-	-	200	-	200	2,640
19	Personal assistant		-	-	-	200	-	-	-
20	Personal secretary		-	-	-	200	-	-	-
21	Messenger/tea person		-	-	-	200	-	-	-
22	Cook		-	-	-	200	-	-	-

Kilifi

The Kilifi County recurrent budget gives some breakdown in terms of the number of units to be purchased, for example, with respect to the number of vehicles (see below).

COUNTY GOVERNMENT OF KILIFI						
ESTIMATE SUMMARY OF DEVELOPMENT EXPENDITURE.						
EXPENDITURE ESTIMATES F/Y 2013-2014						
COUNTY OF KILIFI						
Committee of water services, Forestry, environment & Natural Resources						
No	project name	No	subcounty	ward	code	amount
Irrigation						
1	Uhai mariakano irrigation project		magarini	Langobaya	3110502	1,140,000
2	Zia la Wari irrigation project		Magarini	Marafa	3110502	4,100,000
3	kwandezi irrigation project		Magarini	Marafa	3110502	6,000,000
4	Balagha irrigation project		magarini	Adu	3110502	300,000
5	barikiwani irrigation Project		Ganze	vitengeni	3110502	3,000,000
6	Kwamrengi irrigation project		Kilifi-ganze	bahari	3110502	5,000,000
7	Kombeni chang'ombe irrigation project		Rabai	Rabai	3110502	3,500,000
8	Manuari community water pan drip irrigation project		Kilifi-ganze	Bahari	3110502	6,500,000
	Subtotal					29,540,000
Committee Head office						
10	Refurbishment of buildings		head quarter		3110302	6,500,000
	Purchase of Motor Vehicles for executive	1	head quarter		3110701	3,500,000
	Purchase of Motor Vehicles for principal	1	head quarter		3110701	2,500,000
	Purchase of Motor Vehicles for director	3	head quarter		3110701	7,500,000
12	Purchase of Office Furniture and Fittings		head quarter		3111001	7,000,000
13	Purchase of Computers, Printers and other IT Equipment		head quarter		3111002	4,000,000
20	Purchase of ICT networking and Communications Equipment		head quarter		3111111	1,000,000
	Development of county environment action plan		head quarter		3110502	10,000,000
	Conservation and protection of the created land		head quarter		3110502	5,000,000
	Research, Feasibility and EIA study		head quarter		3111499	5,000,000
	Conservation awareness and education		head quarter		3110502	5,000,000
	Acquisition of land for dumpsite & sewerage system	1	Malindi		3130101	25,000,000
	Subtotal					82,000,000

Further improvement

We found very few budgets with any reference to programs below ministry level. Bomet was an exception, but it is not easy to understand how these programs relate to the overall spending for each ministry (e.g., what is the link between programs mentioned here and salaries mentioned at ministry level elsewhere?).

Moreover, programs should have clear objectives, and without a narrative it is hard to know what some of these programs are intended to achieve. The inclusion of “purchase of a County Assembly Van” also raises issues about what exactly constitutes a program, as opposed to an activity. In terms of disaggregation, the Kilifi budget provides some unit costs, but these are not extensive nor are they consistently provided.

Location of Development (Capital) Projects

While there is a lot of discussion on inequalities between counties, available data points to huge intra-county inequalities, as well.¹⁸ There is a great expectation that devolution will help reduce these inequalities with time. The distribution of development projects across a county’s subcounties and wards is an important element in understanding how well counties are tackling inequality within their borders. Information about the location of projects allows analysts to assess equity in spending at county level. Moreover, for people who are keen to monitor the implementation of the budget, generalized allocations without details on the specific projects and their location make it hard to do so.

Common sense also dictates that a budget should indicate which of the projects that are being financed are new projects, and which are ongoing projects, as well as where they are in the construction process. Like multiyear estimates, this kind of information helps readers understand how much funding is going to finish projects, whether projects are actually being completed, and what the overall vision for development over several years looks like.

The PFM Act does not clearly require this level of detail. International good practice is also not very clear on this matter, though the use of regional codes for spending is encouraged. The Kenyan Chart of Accounts has also introduced codes down to the ward level in recent years.

Examples of good practice

Kwale and Busia counties made good efforts to show the location of capital expenditures. Busia also included a status column, which is not very detailed but gives an idea of whether projects are new or ongoing.

County Name		Kwale County Government					
Year		2013/2014					
Program		WATER					
							
WARD No	WARDS	ACTIVITY	ACTIVITY DESCRIPTIONS	Expenditure A/C Code	Unit of measure	Units	Unit cost
		Rehab Samburu Silaloni Pipeline	0.3km pipelinelines of 100mm dia 100mm dia GLClass'9' installation of pumping unit 17kw inside existing pump house at mwangaphesa. Construction of 100m3 masonry tank at Silaloni		KM	1	5,000,000.00
		New pipeline extensions from the main	Survey and design, 40km, 50mm dia Class D, UPVC pipeline extensions. Training on O&M Hygiene and Sanitation		KM	1	40,000,000.00
		Kinagoni dam	Survey and design. Procure labour to construct Embankment & Reservoir of 20,000m3 capacity. Construct intake & draw-off structure. Construct 2No. Cattle troughs. Construct 2NO. toilets and bathrooms. Fencing of dam periphery. Training on O&M Hygiene and Sanitation		MM	1	10,000,000.00
		Chimwemweni dam	Survey and Design. Procure labour to construct Embankment & Reservoir of 20,000m3 capacity. Construct intake & draw-off structure. Construct 2NO cattle troughs. Construct 2NO. toilets and bathrooms. Fencing of dam periphery. Training on O&M Hygiene and Sanitation		MM	1	10,000,000.00
		Bomani dam	Survey and Design. Procure labour to construct Embankment & Reservoir of 20,000m3 capacity. Construct intake & draw-off structure. Construct 2NO cattle troughs. Construct 2NO. toilets and bathrooms. Fencing of dam periphery. Training on O&M Hygiene and Sanitation		MM	1	10,000,000.00
		Goda dam	Survey and Design. Procure labour to construct Embankment & Reservoir of 20,000m3 capacity. Construct intake & draw-off structure. Construct 2NO cattle troughs. Construct 2NO. toilets and bathrooms. Fencing of dam periphery. Training on O&M Hygiene and Sanitation		MM		10,000,000.00
1	CHENGONI	Chengoni boreholes projects	Hydro geological survey and design. Sinking of 20No. boreholes		NO	20	2,500,000.00
		TOTAL					87,500,000.00
		Extension of water supply services	Overhead and service of the pumping unit of Mima water works			1	4,000,000.00
			Clearing the bush and pipe trenching along the 7.2 km pipeline. Procure and install 1200No UPVC class D of size dia 100mm fittings and any other accessories.		KM	7	1,000,000.00
			Provide the required pipes and fittings to repair Mwabandari Kikwepambani transmission pipeline.		KM	6	1,000,000.00
			Repair all the air valves, gate valves and wash out valves and connect 2 UPVC Pipeline from Kikwani to Mima.		KM	2	1,900,000.00
2	BODOMO						
		TOTAL					

¹⁸ See for example, Society for International Development, “Exploring Kenya’s Inequality: Pulling Apart or Pooling Together?” 2013, Available at <http://inequalities.sidint.net/kenya/>.

PROPOSED BUDGET DRAFT FOR BUSIA COUNTY						
EXECUTIVE						
S/N	COUNTY DEPARTMENT	PROJECT NAME	PROJECT LOCATION	STATUS	ESTIMATED COST	DEPARTMENT TOTAL
1.	FINANCE, STRATEGY & ECONOMIC PLANNING	County Emergency fund			50,000,000.00	400,000,000.00
		Ward development fund			350,000,000.00	
2	AGRICULTURE AND ANIMAL RESOURCES	Construction of matayo's Livestock office	Matayos	Ongoing	950,000.00	205,141,804.00
		Input access, soil testing and sampling	County	Ongoing	66,826,800.00	
		Mechanization of Agriculture	All sub-counties	New	69,785,376.00	
		Fish feed Formulation Plant	Butula , Teso South	New	8,000,000.00	
		Fish bulking or multiplication Centre's (hotelaria)	All sub-counties	New	10,000,000.00	
		Upgrading of the county fisheries and training centers	Samia-odiado	Ongoing	7,929,628.00	
		Establish farmed fish auction centres	All subcounties	Ongoing	10,500,000.00	
		Completion of Mulukoba and Bumbe Modern fish landing and tilapia filleting facility	Bunyala and Bumbe	Ongoing	13,650,000.00	
		Upgrade border point export and import fish handling centres	Busia & Malaba	Ongoing	10,000,000.00	
		Revival of gineries	Malakisi, Amukura, Nambale	Ongoing	6,000,000.00	
		Fish farm development revolving fund in partnership with a financial institution	All sub-counties	Replacing agents	1,000,000.00	
		Sport fishing camp in sumba island	Sumba Island	new	500,000.00	
3	EDUCATION AND VOCATIONAL TRAINING	Construction of 420 ECD Classrooms	County Wide	New	210,000,000	319,200,000.00
		Tools & equipment for Youth Polytechnics			9,200,000.00	
		Support for Education Programmes	County		100,000,000.00	

Further improvement

Counties should give not only an aggregate number of projects in a county but also show where these projects will be implemented, the period of implementation, the cost for each year (if it is a multiyear project), and unit costs for the inputs into projects. For example, Busia County could provide further details about where in the project lifecycle an “ongoing project” is, and how many years a “new” project is expected to take to complete.

Discussion and Conclusion

This paper has reviewed a number of budgets and a number of budget practices. We identified seven issues that we thought were supported by common sense, the PFM Act, and/or international practice:

1. a detailed budget narrative;
2. multiyear budget estimates;
3. use of a coherent chart of accounts;
4. transparency in reporting on sources of revenue (grants and own revenue);
5. clarity of economic assumptions for the year;
6. disaggregated budget information to the program level and below; and
7. geographical information about development projects.

We then looked to see whether we could find counties that did a particularly good job of meeting our principles.

Generally, we did find some examples of good practice. For example, we identified the following:

- a helpful budget narrative in the Kisii County budget;
- expenditure projections over the medium term in Machakos and Taita Taveta counties;
- revenue estimates over a period of three years in Nairobi and revenue estimates from the previous budget year (2012/13), and the subcounty revenue breakdown in Kericho County;
- breakdown of figures in Kilifi and Bomet providing more details below ministry level; and
- the geographical distribution of development projects in the Kwale budget and the inclusion of project status in Busia.

At the same time, we found that even in these examples, more could be done to make budgets more intuitive and easier to use. We pointed out ways in which budget narrative could be improved, e.g., further information about types of revenue could be included, better geographical disaggregation of figures could be provided, more information on the status of multiyear spending and projects availed, clearer links between ministries and programs indicated, and more systematic use of a standard Chart of Accounts could be undertaken.

As counties move to prepare their 2014/15 estimates, we hope that they will learn from their neighbors that have done well, but also build on these practices to improve their overall budget presentation and compliance with both the PFM Act and international good practice.