What is the County Fiscal Strategy Paper?

Module 1, Exercise 1

In this exercise, we look at snippets of the national Budget Policy Statement 2013 and think about what they tell us, and how they are relevant for the County Fiscal Strategy Paper. Then we will look and see if this captures everything that is required by law in a short Powerpoint presentation. For each snippet, we provide guidance on the relevance of this section of the BPS for the production of a County Fiscal Strategy Paper.

Snippet 1: Page viii

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 15) states that:

1) Over the medium term, a minimum of 30 percent of the national budget shall be allocated to development expenditure
2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
3) Over the medium term, the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
4) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
5) Fiscal risks shall be managed prudently
6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

What is this snippet? Why is it important? Is it relevant for the county?

Both levels of government must comply with fiscal responsibility principles which are laid out in the PFM Act 2012. It is also a requirement that both levels show how their fiscal plans align with these principles. For this reason, the principles are shown, and then the BPS text makes reference to them. The same should be true of the CFSP.

Snippet 2: Page 6

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

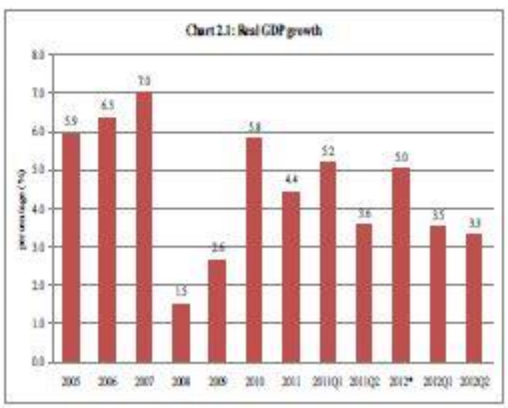
Overview of recent economic performance

23. Whereas economic growth slowed somewhat in the first half of 2012, it is expected to pick up in the remainder of the year with the favourable weather conditions and improved macroeconomic environment. Inflation has declined steadily from double digits in late 2011 to within target level in recent months. Short term interest rates have also eased in line with the drop in inflation, while the shilling exchange rate has stabilized against major currencies.

Growth is still resilient but has weakened in the first half of 2012

24. The average real GDP growth was 3.4 percent in the first half of 2012, compared to 4.3 percent in the same period in 2011 (Chart2.1).The weakening in growth is attributed to suppressed activities across key sectors of the economy such as agriculture, building and construction, hotels and restaurants and wholesale and retail as well as weak demand of some of Kenya's exports to the European market.

25. Electricity and water, transport and communication and financial intermediation posted strong growth while performance in other sectors was subdued.



26. Overall, we expect economic growth to accelerate in the remainder of the year with recovery in agricultural production following favourable weather conditions (adequate rain), increased domestic demand in the run-up to the general elections and improved credit access with easing of interest rates. In addition, inflationary expectations are also subdued. Real GDP growth for 2012 is now estimated to reach about5 percent, up from 4.4 percent in 2011.

What is this section about? Why is it important? Would you have a similar section in the county paper?

This section reviews economic growth performance. It is important for three reasons:

1. Economic growth tells us something about the strength of the economy and therefore how much we can expect to collect in revenue and how big the budget will be. This is critical at national level, and important at county level. It is somewhat less important at county level because in most counties, most revenue comes from the equitable share transfer from national government rather than local revenue sources.

2. It is giving context for implementation of the current budget. If growth has been less or more than expected, that might have made it easier or harder to implement the current year budget.

3. It provides information about what to expect in the future. Current and future growth are related.

Snippet 3: Page 7

Inflation has dropped consistently over the last one year

28. Overall inflation has fallen from the high of 19.7 percent in November 2011 to 4.3 percent in October 2012 (Chart 2.2). By November 2012, inflation had eased further to 3.3 percent. The average inflation for the eleven months of 2012 was 10.2 percent compared to 13.5 percent in a similar period in 2011.

29. The fall in inflation largely reflects a drop in food inflation. Favourable weather condition with adequate rain has resulted in increased food supplies and use of hydro generated electricity. A stable exchange rate witnessed in the past months has also supported low inflation in the recent months.

30. Going forward, we expect inflation to remain within the 5 percent target in months ahead with appropriate monetary policy, barring any effects from the external shocks such as a surge in commodity prices. The risk to this outlook is the international oil market that still remains volatile due to escalating tension in the Middle East that could lead to oil supply disruptions.

What is this about? Why is it important? Would you have it in the county paper?

Similar to growth, this information provides context about implementation of current budget and what we can expect in the future. Inflation is important because if prices are rising, the budget must also rise in order to maintain current service levels.

Snippet 4: Page 11

Table 2.1 Cummulative Budget Outturn, July - November, 2012 (Ksh billion)			
	Nov-12		
	Target	Prel	Deviation
TOTAL REVENUE	**353.2**	**298.6**	**(54.6)**
Ordinary revenue	324.7	281.0	(43.7)
Taxes on Intl. Trade & Transactions (Import Duty)	27.5	23.5	(4.0)
Excise Taxes	36.0	33.2	(2.8)
Taxes on Income, Profits & Capital gains (Income Tax)	135.9	126.6	(9.3)
Taxes on goods and services (VAT)	92.7	72.6	(20.2)
Other Revenue	32.6	25.1	(7.4)
Ministerial Appropriation in Aid	28.6	17.6	(10.9)
			-
TOTAL EXPENDITURE AND NET LENDING	**473.2**	**403.1**	**(70.1)**
Recurrent Expenditure	321.5	303.1	(18.4)
Interest Payments	46.1	50.3	4.2
Pensions etc	19.4	11.7	(7.7)
Ministerial Recurrent	256.0	241.1	(14.9)
			-
Total Additional Expenses	-	-	-
			-
Development	150.4	99.9	(50.5)
Domestically Financed (Gross)	92.3	79.1	(13.2)
Foreign Financed	58.2	20.8	(37.3)
CCF	1.3	-	(1.3)
BALANCE INCLUSIVE OF GRANTS (CASH BASIS)	**(105.0)**	**(100.1)**	**4.9**
TOTAL FINANCING	**105.0**	**108.8**	**3.8**
NET FOREIGN FINANCING	33.7	5.6	(28.1)
NET DOMESTIC FINANCING	71.3	103.2	31.8
Discrepancy	-	8.7	8.7
FINANCING GAP	-	-	-

Source: Ministry of Finance

What are we looking at here? Why is it relevant? Would you include it in the county paper?

This table, and accompanying narrative, give a snapshot of budget implementation for the current year. Remember, this is coming out in February, so we only have actual spending up to the previous quarter. But it is important to know how realistic last year's budget was before we approve this year's budget.

The targets here are not for the full year, but for the first five months of the financial year. In other words, the figures can be interpreted as falling substantially short of target revenue and expenditure, though revenue is particularly lagging.

Snippet 5: Page 11

45. Additional spending pressures with respect to salary awards to teachers, lecturers, health workers, and police amounted to over KSh 30 billion. This combined with additional request for security operations in the country and Somalia, implementation of the Constitution, and other expenditure pressures has put additional funding request amounting to over KSh.160 billion.

46. To confront the challenges of revenue shortfall and expenditure pressures, the Government will step up efforts on tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2012/13, as well as rationalize and even cut some expenditures so as to minimize increase in domestic borrowing beyond the sustainable level.

Why is this section important? Would you include it in county paper?

This section is providing an update on unexpected challenges in budget implementation in the current year and plans to manage them. It is important because if we only look at last year's budget in formulating this year's budget, we miss the fact that some of our plans did not work out, and the assumptions we had last year need to be updated.

Snippet 6:

Specifically, the 2013 Budget Policy Statement emphasizes:

- fiscal consolidation that started in 2010/11 budget, while at the same time ensuring that the level of expenditure is adequate to sustain growth through continued public investment in infrastructure; the overall budget deficit is expected to ease to 4.3 percent in 2013/14, and further to 3.6 per cent by 2015/16;
- efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and implementation of the Constitution and devolved system of governance; and
- bringing down the ratio public debt to GDP to around 42 percent, well below the benchmark of 45 percent, through a moderation and efficiency in spending as well as improved tax performance following reforms in expenditure management and tax legislations. The sustained easing of debt to GDP ratio will provide the Government with room to conduct countercyclical fiscal policy should the economic situation worsen in the future.

Why is this section important? How would it be similar or different at county level? What issues might it address in your county?

This section addresses the fiscal priorities for government. In other words, it is what Treasury hopes to achieve, rather than what, say, the Ministry of Health hopes to achieve. Here it is about reducing deficit, debt and wasteful spending, and ensuring adequate resources are still available for infrastructure. At county level, deficit is not a major concern. Inherited debt may be an issue. What other fiscal issues might arise? Wage bill issues, share of recurrent versus capital expenditure, reductions in wasteful or non-priority spending, etc.

Snippet 7: Page 19

Table 3.1: Central Government Fiscal Projections, 2011/12-2015/16

	2011/12	2012/13			2013/14		2014/15		2015/16
	Prov.	*BPS'12*	*Budget*	*BPS'13*	*BPS'12*	*BPS'13*	*BPS'12*	*BPS'13*	*BPS'13*
Revenue and Grants	763.5	984.7	1,011.2	1,010.6	1,119.5	1,085.0	1,265.6	1,236.8	1,416.3
% of GDP	*23.3%*	*25.5%*	*26.2%*	*26.8%*	*25.5%*	*25.4%*	*25.7%*	*25.6%*	*25.7%*
Revenue	748.2	936.5	939.3	934.5	1,071.2	1,036.7	1,209.2	1,180.5	1,350.4
% of GDP	*22.8%*	*24.2%*	*24.3%*	*24.8%*	*24.4%*	*24.3%*	*24.6%*	*24.4%*	*24.5%*
Tax Revenue	642.9	780.8	794.5	789.7	895.9	877.5	1,013.3	999.8	1,145.1
Non-Tax Revenue	105.3	155.6	144.9	144.9	175.3	159.1	195.9	180.7	205.3
Grants	15.3	48.3	71.9	76.1	48.4	48.4	56.4	56.3	65.9
Expenditure	947.8	1,148.5	1,263.3	1,205.7	1,286.2	1,269.9	1,437.3	1,418.0	1,615.0
% of GDP	*28.9%*	*29.7%*	*32.7%*	*31.9%*	*29.3%*	*29.8%*	*29.2%*	*29.3%*	*29.4%*
Recurrent	647.1	778.3	816.3	864.5	858.9	880.8	943.8	988.8	1,123.2
Development	300.7	370.2	447.0	341.3	427.3	389.2	493.5	429.2	491.8
Budget Balance (-Deficit, +surplus)	(184.3)	(163.8)	(252.1)	(195.1)	(166.6)	(184.9)	(171.7)	(181.2)	(198.7)
% of GDP	*-5.6%*	*-4.2%*	*-6.5%*	*-5.2%*	*-3.8%*	*-4.3%*	*-3.5%*	*-3.7%*	*-3.6%*
Net External Financing	98.5	60.7	144.1	51.0	52.6	88.0	96.9	85.8	107.4
Disbursements/loans	123.9	88.9	170.3	77.2	138.8	174.0	133.2	122.2	154.6
Repayment due	(25.4)	(28.2)	(26.2)	(26.2)	(86.2)	(86.0)	(36.3)	(36.3)	(47.1)
Domestic borrowing	63.4	106.7	106.7	137.2	114.1	96.9	74.8	95.4	91.3
% of GDP	*1.9%*	*2.8%*	*2.8%*	*3.6%*	*2.6%*	*2.3%*	*1.5%*	*2.0%*	*1.7%*
Public Debt to GDP (net of deposits)	*44.3%*	*47.2%*	*45.2%*	*46.2%*	*47.2%*	*44.4%*	*47.9%*	*43.3%*	*41.7%*
Nominal GDP (Ksh billion)	3,281.2	3,866.5	3,866.5	3,775.4	4,382.5	4,268.5	4,916.4	4,836.5	5,502.4

Source: Ministry of Finance

What is this? What are we looking for here?

This is one of the most important tables in the BPS, and will be in the CFSP as well. It provides the overall picture of what we expect to take in and spend. It is what is known as the "envelope," our projections of the resources we have to work with in the coming years.

Snippet 8: Page 25

Targeted expenditures for scrutiny to create savings
Recurrent
Telephone, Telex, Facsimile and Mobile Phone Services
Courier and Postal Services
Domestic Travel and Subsistence, and Other Transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing , Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General Equipment
Refurbishment of Buildings
Purchase of Motor Vehicles
Pre-feasibility, Feasibility and Appraisal Studies
Development
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Refurbishment of Buildings
Pre-feasibility, Feasibility and Appraisal Studies

What is this? Why is it important?

This is essentially guidance on areas where the budget should be cut or restrained from increases in order to create space for priority spending. It is a public statement of the intentions that may have already been given directly to line ministries in the August circular.

Snippet 9: Pages 25-26

92. Overall, given limited resources, the MTEF budgeting will focus on the following:

- The priority social sectors of education and health will continue to receive adequate resources. It should be noted that both sectors (education and health) are already receiving a significant share of resources in the budget. These sectors, however, will be required to utilize the allocated resources more

efficiently to generate fiscal space to accommodate strategic interventions in their sectors including funding HIV/AIDS interventions, healthcare infrastructure, affordable drugs, as well as recruitment and training of staff as identified during the budget consultations. In particular, it is expected that the health sector will strengthen its infrastructure and administrative control, while the education sub-sector will revisit its staffing norms in order to create fiscal space for key interventions which include provision for learning infrastructure, teaching and learning materials, and recruitment of teaching staff.

- The economic sectors including agriculture and livestock will receive increased share of resources to boost agricultural productivity with a view to dealing with the recurrent food security problems in the country.
- With the Government committed to improving infrastructure countrywide, the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation projects countrywide.

What is the significance of this section of the paper?

This is critical narrative that explains the overall direction of the budget over the medium term at the level of sector priorities, rather than fiscal priorities. In other words, it gives a sense of the services government wants to expand or reduce in order to achieve its broader objectives, rather than just issues around fiscal sustainability.

Snippet 10: Page 27

Table 4.0: Medium-Term Sector Ceilings, 2013/14 - 2015/16												
		TOTAL EXPENDITURE (KSh. Million)						% SHARE OF TOTAL EXPENDITURE				
		2011/12		2012/13	Ceiling			2011/12	2012/13	Projection		
		Printed	Revised	Budget	2013/14	2014/15	2015/16	Revised	Budget	2013/14	2014/15	2015/16
EXPENDITURE BY SECTOR												
AGRICULTURE AND RURAL DEVELOPMENT	Gross	47,849	52,955	51,098	54,415	57,345	58,231	5.5%	4.6%	4.8%	4.8%	4.8%
ENERGY, INFRASTRUCTURE & ICT	Gross	226,595	219,002	268,705	280,425	290,179	299,103	22.8%	24.2%	24.7%	24.5%	24.5%
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	Gross	20,949	19,469	20,986	22,969	23,085	23,532	2.0%	1.9%	2.0%	1.9%	1.9%
HEALTH	Gross	64,314	72,751	86,968	93,147	97,216	99,270	7.6%	7.8%	8.2%	8.2%	8.1%
EDUCATION	Gross	202,338	213,877	235,974	272,638	288,242	298,499	22.3%	21.3%	24.0%	24.3%	24.4%
GOVERNANCE, JUSTICE, LAW & ORDER	Gross	110,646	106,133	132,615	122,967	127,210	131,116	11.1%	12.0%	10.8%	10.7%	10.7%
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	124,075	110,531	136,120	121,292	125,100	131,724	11.5%	12.3%	10.7%	10.6%	10.8%
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	35,625	38,091	37,793	39,106	40,176	41,131	4.0%	3.4%	3.4%	3.4%	3.4%
ENVIRONMENTAL PROTECTION, WATER AND HOUSING	Gross	54,453	47,707	55,045	57,900	60,596	61,887	5.0%	5.0%	5.1%	5.1%	5.1%
NATIONAL SECURITY	Gross	65,163	78,560	83,704	72,500	75,057	78,794	8.2%	7.9%	6.4%	6.3%	6.4%
TOTAL		952,008	959,074	1,109,009	1,137,359	1,184,206	1,223,287	100.0%	100.0%	100.0%	100.0%	100.0%

What is this? What role does this play in the budget process?

This is the centerpiece of the BPS and of the CFSP. These are the sector ceilings: the so-called "top-down" resource envelope that is given to sectors so that they can then make allocations within it to their top priorities. At county level, counties may choose to work at the ministry level, rather than the "sector" level, given that there are only 10 or fewer ministries in most cases. But some ministries could be combined for purposes of sector ceilings. In any case, the heart of the matter is that the ceilings are proposed in the BPS/CFSP and approved, along with the total resource envelope, by the legislature. The final budget estimates tabled in April should then be detailed spending within those approved ceilings.

Snippet 11: Page 30

105. Over the 2013 MTEF, the sector aims to address the above challenges by raising agricultural productivity, exploiting irrigation potential, increasing commercialization of agriculture, improving the legal and policy framework for agriculture, improving governance of agricultural institutions, and land development and promotion of sustainable management of fisheries, forestry and wildlife resources.

106. The 2013 MTEF estimates for the sector are estimated to be KSh.170 billion (Table 4.1). For FY 2013/14, KSh 54.4 billion has been set aside for the sector, representing an increase of 6.4% from KSh. 51.1 billion allocated in the FY 2012/13. This is projected to increase to KSh. 57.3 billion and KSh. 58.2 billion, respectively, for FY 2014/15 and FY 2015/16.

Table 4.1: Agriculture and Rural Development 1/

	2012/13	2013/14	2014/15	2015/16	2013 MTEF
Ksh billion	**Budget**	***Medium-Term estimates***			**Total**
National	41.3	39.5	41.6	41.8	122.9
of which: Transfer to Public Entities	*10.5*	*11.4*	*12.1*	*12.1*	*35.6*
Counties	9.8	14.9	15.7	16.5	47.1
Total	**51.1**	**54.4**	**57.3**	**58.2**	**170.0**
of which: salaries	*10.4*	*10.8*	*11.1*	*11.4*	*33.2*

1/ The sector comprise of Agriculture, Livestock Development, Fisheries Development, Land, Cooperative Development and Marketing, Forestry and Wildlife, National Land commission

What is this section of the paper? Why is it important?

The last major section of the paper simply highlights the sector ceilings and within sector priorities that should guide medium-term allocations within the sector. There are similar sections for each sector.

Snippet 12:

Table 5.6: PROJECTED EQUITABLE SHARES FOR COUNTIES

	County (in aphabetical order)	Equitable share based on current expenditure pattern				Equitable share based on new formula				FY 2013/14		
		Share	2013/14	2014/15	2015/16	*Share*	2013/14	2014/15	2015/16	Current expenditure pattern	New formula	Deviation
1	Baringo	1.79%	3,549	3,733	3,911	1.71%	3,388	3,563	3,733	3,549	3,388	(161)
2	Bomet	1.43%	2,829	2,975	3,117	1.81%	3,591	3,776	3,956	2,829	3,591	762
3	Bungoma	2.59%	5,142	5,408	5,665	3.25%	6,448	6,781	7,104	5,142	6,448	1,306
4	Busia	1.87%	3,712	3,904	4,090	1.80%	3,560	3,744	3,922	3,712	3,560	(153)
5	Elgeyo	1.39%	2,754	2,897	3,035	1.26%	2,495	2,623	2,749	2,754	2,495	(260)
6	Embu	2.03%	4,023	4,231	4,432	1.48%	2,928	3,079	3,226	4,023	2,928	(1,095)
7	Garissa	2.08%	4,120	4,333	4,539	2.22%	4,404	4,631	4,852	4,120	4,404	284
8	Homa Bay	2.89%	5,726	6,022	6,309	2.17%	4,299	4,521	4,736	5,726	4,299	(1,428)
9	Isiolo	1.17%	2,325	2,445	2,561	1.18%	2,333	2,453	2,570	2,325	2,333	8
10	Kajiado	1.40%	2,770	2,913	3,051	1.70%	3,366	3,539	3,708	2,770	3,366	596
11	Kakamega	3.30%	6,543	6,881	7,209	3.43%	6,796	7,147	7,488	6,543	6,796	253
12	Kericho	1.80%	3,574	3,759	3,938	1.73%	3,437	3,614	3,787	3,574	3,437	(138)
13	Kiambu	4.02%	7,966	8,377	8,777	2.87%	5,694	5,988	6,273	7,966	5,694	(2,272)
14	Kilifi	2.17%	4,293	4,515	4,730	2.86%	5,677	5,971	6,255	4,293	5,677	1,384
15	Kirinyanga	1.78%	3,530	3,712	3,889	1.36%	2,699	2,838	2,973	3,530	2,699	(831)
16	Kisii	2.68%	5,306	5,580	5,846	2.73%	5,412	5,691	5,963	5,306	5,412	106
17	Kisumu	2.95%	5,844	6,146	6,439	2.19%	4,334	4,558	4,775	5,844	4,334	(1,510)
18	Kitui	2.29%	4,544	4,779	5,007	2.80%	5,545	5,831	6,109	4,544	5,545	1,000
19	Kwale	1.36%	2,689	2,828	2,963	1.97%	3,911	4,113	4,309	2,689	3,911	1,222

Why is this table important?

This section of the BPS is unique to the BPS and will not appear in the CFSP. It is the section that deals with the transfer of national resources to counties. It is critical for the CFSP, however, because it is the county's best estimate of the resources it will receive through the equitable share in the upcoming financial year.

In addition to this, the county must "align" its CFSP with the BPS as per the law, and this means that the sector priorities identified in the previous section are also an important input into the CFSP at county level.