Module 2 Session 2: How to Read and Understand Key Budget Documents

TASK 2.3 ■UNDERSTANDING COUNTY BUDGETS: TWENTY QUESTIONS ABOUT YOUR COUNTY BUDGET – BARINGO COUNTY **2 HOURS 15 MINUTES**

TASK OBJECTIVE

- ❖ **LEARNING HOW TO UNDERSTAND AND ANALYZE BUDGET PROPOSALS BY ASKING A LIMITED SET OF KEY QUESTIONS**

RESOURCES NEEDED

- ✓ **The Baringo County Programme Based Budget Proposal, 2015/16**
- ✓ **The Baringo County Budget Review and Outlook Paper, September 2015**
- ✓ **County Budget Implementation Review Report 2013/14 and 2014/15 from OCOB**
- ✓ **Baringo County Second Quarter2015/16Budget Implementation Status Report**
- ✓ **Baringo Annual Development Plan, 2015/16**
- ✓ **County Allocation of Revenue Bills and Acts 2013-2015**
- ✓ **Elgeyo Marakwet Approved Programme Based Budget 2015/16**
- ✓ **West Pokot Approved Programme Based Budget 2015/16**

TASK EXPLANATORY NOTES

- In this exercise, you will look at the Baringo County Budget Proposal for FY 2015/16 and start thinking about how to analyze it. We will do this through looking at 20 key questions.
- The following are the five steps in this task:
  - ❖ **Step one**: In plenary, guided by the facilitator answer the first five (Q1 to Q5)
  - ❖ **Step two**: In groups of two or three, go through Q16 to Q20 using the Baringo county budget proposal.
  - ❖ **Step three**: Return to plenary to discuss your answers.
  - ❖ **Step four:** Go through Q6 to 15 individually reading through the guidelines and see if you have any questions as to what these questions are asking.
  - ❖ **Step five:** Come back to plenary and ask any queries you have on Q6 to Q15.

TASK 2.3

Task Questions

Baringo County Budget Proposal Analysis for FY 2015/16

1. Are there reasons given for choices my leaders made in the budget?

This question asks whether the budget contains a narrative explanation that explains why the county made certain choices. Every budget must make choices about how to use limited resources. There is no one right way to distribute funds, but good practice is to provide some explanation of priorities and the reasons for making choices.

It is not good practice to simply provide tables with data without a good explanation. While the budget speech or statement that accompanies the budget may provide some information about county priorities, it is not a substitute for a detailed narrative within the budget documents that explains key tables and charts.

In addition, the PFM Act 2012 requires county governments to use a programme budget structure. Programme-based budgeting demands that each ministry or department have a clear mission, and that it be organized around a set of programmes with clear objectives and indicators. It is not possible to prepare a programme-based budget without a narrative explaining ministerial and programme-level policy objectives. The key question is whether there is a close link between the narrative and the tables.

2. Does the budget contain a summary table allowing easy comparison of total proposed spending for all ministries/departments?

Because a programme-based budget is often produced in a word processing programme rather than a spreadsheet to allow for more narrative, governments sometimes do not include a summary table at the beginning with basic information. Good practice would be to include a summary table with the total budget for all ministries for the current year, plus two years of projections. Additionally, separate tables would show the breakdown of total expenditure into recurrent and development, and show the ministries broken down to programme level. This is particularly useful because the Appropriations Bill that will be approved by the assembly must be at the programme level. Thus, a summary table showing all ministries and programmes by recurrent and capital spending would mirror what should be in the final Appropriations Bill approved by the county assembly.

3. What are the priority areas in my budget?

When we talk about priority areas, we generally mean the sectors that have received the highest allocations (most money). This is one way of understanding choices and relative priorities. However, not all areas are equally expensive. For example, if one considers international benchmarking for different sectors, education is usually more expensive than health, health more expensive than agriculture, and agriculture more expensive than water. It does not follow that spending more on health than water means health is more of a priority than water.

Priorities are also about changes over time in allocations. If a county receives an extra Ksh 100 between 2013/14 and 2014/15, how is that money used? Is that extra funding used for health or water? Is it used for other areas? This is also a measure of priority. A priority area can be identified by comparing the current budget to last year or to the budgets of similar counties.

A summary table at the beginning of a programme-based budget, as suggested in question 2 above, makes it easier to answer this question.

4. Does the budget have programmes, sub-programmes and further disaggregation of government spending below the sub-programme level?

As noted above, the PFM Act, 2012 requires counties to use programme-based budgeting as of 2014/15. In order for a budget to meet the standard of a programme-based budget, each programme must have clear objectives so that the reader knows what the programme does. A programme is a way of bringing together activities of government that all aim to achieve a common purpose, such as reducing crime or improving population health.

The number of programmes and sub-programmes in a programme-based budget really determines the level of detail that a reader has about how the government is using money and for what purpose. Because programmes are often themselves too broad to really identify the focus of spending, it is usually important to have further breakdown to the sub-programme level. Each sub-programme should have its own objectives as well. Below the sub-programmes, there should be an economic classification of spending with information on wages, capital projects, and different goods and services to be purchased.

While ministries need a number of programmes and sub-programmes to provide sufficient explanation of government spending, it is also possible to have too many programmes with overlapping objectives that can become confusing. Moreover, while programmes and sub-programmes should be clear and distinct, they should also be sufficiently broad to prevent the need to reorganize ministries every year to accommodate new government initiatives.

5. Are there indicators and targets for all the programmes and sub-programmes?

There should be clear indicators and targets for each ministry in a programme-based budget. These indicators and targets should be linked to specific programmes and sub-programmes within the ministry. The indicators should be logical, have a clear baseline and clear timeframes to achieve the targets. The targets should be measurable and should be easy to relate back to the programme and sub-programme objectives.

The choice of indicators and targets should be linked to the most important objectives of the ministry, but should also be designed keeping in mind what kind of information is available and can be regularly collected. Some indicators may be ideal for tracking objectives, but may require expensive surveys that can only be conducted every five years. These types of indicators cannot be realistically tracked during a single year, or even three years. Some administrative targets may be less important, but easier to track (were certain workshops or studies conducted?). Counties must find a balance between what is important and what can *actually be measured. There should be a clear link between the indicators and targets in the budget and those in the County Integrated Development Plan.*

6. **Does the budget contain detailed information about staff costs, including the salaries and benefits of workers by ministry, and ideally, by job class, group, or individual positions?**

A key concern when reviewing the budget is to understand what share of each ministry's spending goes to wages versus other costs. Moreover, it is useful to know what kind of workers each ministry is employing to understand how much of public spending is going to service delivery, how much to administration, and how much to other types of support services. Good practice is to present the total share of ministry spending going to compensation, and then to break this down further to provide information on the types of workers and their costs. This also applies to the county assembly budget, which should distinguish between wages and benefits of MCAs and other employees of the assembly. It is important to note that the cost of the county assembly wages is statutory (legally prescribed) and the counties have little room for discretion on the allocation to county assemblies.

7. **Does the budget have the same priorities as my county's development plans?**

Technically, counties should base their budgets on an Annual Development Plan tabled in September every year. In the FY 2013/14 most counties opted to produce a 5-year County Integrated Development Plan and few had Annual Plans publically available. In FY 2014/15 and 2015/16, counties prepared and approved ADPs and for some counties they made them publically available.

There have been challenges in producing these plans, and a weakness is that many County Integrated Development Plans and Annual Development Plans are not closely linked to county department plans as they should be. Nevertheless, the law requires that the budget be based on county plans, and the priorities in the CIDP (or whatever plans are currently available) and ADPs should be the same as the priorities in the budget. This means that if the plans focus on health, agriculture and water, the budget should do the same. This should be apparent at the level of programmes and projects.

8. **Is there enough money in my budget to maintain or improve the current level of basic services like health?**

In future years we can compare figures from previous years in order to check whether budgets maintain or improve levels of basic services. For example in the FY 2015/16, we can compare figures to the 2013/14, 2014/15 budgets and the 2012/13 budget to get a sense of whether enough money is being allocated to maintain services and probably improve these services.

For a proper comparison, we focus on the recurrent budgets for key sectors. The reason we do this is that development spending tends to be less consistent over time, due to the nature of capital projects. Recurrent funding is more closely linked to the minimum costs of maintaining services through wages and inputs.

9. **Does my budget tell me where (that is, in which ward or constituency) development projects will be located?**

In order to assess the degree to which the budget is allocating resources equitably, we want to know where buildings and infrastructure will be located. This requires that spending information be broken down below the county level (to sub-county or ward). Generally, this information should be included in the part of the budget that details development (capital) expenditure. This information should allow us to assess whether the distribution of these projects is related to the needs of the areas receiving them, and whether funds are fairly distributed across the county.

10. **Does the budget contain any funds for civic education, or to facilitate public participation in county decision-making?**

The Fourth Schedule of the Constitution assigns to counties the role of ensuring community participation in governance. The County Governments Act requires counties to facilitate public participation in a number of ways. These include, among others: meetings where plans, budgets and government performance can be discussed, opportunities to give inputs on bills and policies, to participate in selecting development projects, citizen commissions in various sectors, and a variety of information dissemination platforms (e.g., through notice boards). Since these activities are not free, the county should budget for them in some way and *this should be clearly indicated. Moreover, the budget should contain some narrative information explaining how comments or suggestions from the public were incorporated into the budget. If these inputs were not included in the budget, then this should also be explained. To improve on the quality of public participation the counties may loop in experts or train members of the executive to assist the public in deliberations during public participation forums.*

11. Does my budget have a deficit and how will it be paid for?

Counties may have deficits if they can pay for them. A deficit has to be financed somehow, and this almost always means taking a loan. But loans are not permitted without national sign-off, which is unlikely at this time (S.58 PFMA). Given this, it is also important to know what will be cut from the budget if the deficit cannot be financed.

In the first several years, national agencies have been clear that deficits are not allowed. In subsequent years, counties will need to seek permission to borrow. There should be evidence in the budget that borrowing has been allowed if a county is presenting a deficit.

12. How much money does my county say it will raise from its own taxes and fees and is that reasonable?

Counties mostly receive money from national transfers and from their own taxes and fees. Good practice is to clearly show local revenue estimates against previous year estimates and actuals. Revenue sources should be broken down by source, and it should be easy to connect this information to what is in the county's cash flow projections for revenues.

We have some data from the Controller of Budget that tells us how much counties have actually been able to raise during their first two years (2013/14 and 2014/15), and the beginning of 2015/16.

Counties are also required to prepare implementation reports every quarter to indicate the actual revenues collected. These actual figures may be used as a baseline to evaluate whether the revenue projections are realistic.

13. **Did my county table a cash flow projection with the budget showing how much it expects to take in by month, and how much it expects to spend by month?**

Counties have restricted access to borrowing, and they depend on national transfers that come at specific times. Local taxes/fees are also higher at certain times (e.g., business permits tend to be renewed in the third quarter). It is therefore important for the county to project its flow of cash by month (and it is also a requirement of the PFM Act that this be tabled by June 15 each year). A cash flow projection helps us to know whether the county will have enough money to execute all the projects in the budget, given that it may not be able to start these projects until it has money to cover them. Moreover, it gives us a sense at different points in the year, such as after the first and second quarter, whether the revenue and spending projections for the year were realistic. For example, a county may raise and spend much less in the first quarter than in the third quarter. If this is captured in the cash flow projection, we will be less concerned about low collections in the first quarter. If on the other hand, the county expected to collect a lot in the first quarter and did not, we will be more concerned that its revenue projections are unrealistic.

A good cash flow projection is not simply presented at the aggregate level, but is broken down by revenue source and expenditure type.

14. **How much money does my county expect to get from national government?**

In analyzing the budget proposal and subsequently the enacted budget for the FY 2015/16, the CARA, 2015 is taken into consideration. Available at www.kenyalaw.org/kl/index.php?id=5194

However, it is often the case that the CARA is not available when the county is preparing its budget, so it is forced to rely on the CAR Bill, which may change. Looking back, we should also compare the CARB and the budget to be fair to the information the county had when it prepared its budget.

15. **Does my budget spend money on things that counties are responsible for rather than things the national government is responsible for, and are there any areas that counties are responsible for that are missing from the budget?**

Citizens can consult the Fourth Schedule of the Constitution to determine which functions counties are responsible for, and which national government is responsible for, and then see if the county budget is aligned with county functions. Further details on the functions described in the Fourth Schedule are available in a Gazette Notice issued by the Transition Authority on 9 August 2013 (discussed earlier in the training).

In reviewing some budgets, we find that counties are taking up primary or secondary education, or security, while things like housing are completely missing. Primary and secondary educations, and security, are national functions, while housing is a *county function. When counties spend money on national functions, they reduce the funds available for county functions. While no county is obligated to spend money on specific functions, it is useful to raise questions about the rationale for ignoring core county functions in the budget.*

Answering this question should start with a look at the Fourth Schedule, but also within each sector to compare the activities in the budget to those that a sector specialist (in health, housing, etc.) would identify as key areas of spending. This can be supplemented by looking at key sectoral activities contained in (MTEF) sector reports and the 2012/13 budget at national level. In some cases, however, poor classification of the budget makes it difficult to tell what functions are being taken up under each county department/ministry.

16. Does my budget have an emergency fund in case of any disaster?

All counties can (and should) have a County Emergency Fund in their budget to provide for disasters. As per the Public Finance Management Act, this can spend up to 2 percent of the county revenues in a single year (based on previous year audited revenues). The PFM Act states clearly that the Emergency Fund should only cater for unforeseen circumstances that constitute a serious threat to human life or the environment. The fund should be accessed in accordance with operational guidelines made under regulations approved by Parliament

17. Does the budget properly distinguish between recurrent and development expenditure?

In some budgets, we find that these expenditures are misclassified, which also leads to an incorrect assessment of the share of the budget that is for development. The PFM Act 2012 requires at least 30 percent of the budget for development spending over the medium term (3-5 years). Some budgets classify medicines as development spending (when they should be recurrent) and assets like specialized equipment as recurrent spending (when they are capital/development). We also noticed variations of classification within a single budget, but across departments (e.g., equipment classified as recurrent in some departments, and development in other departments).

18. Does the budget contain unit costs for various purchases (such as vehicles, generators and other assets) and are these consistent across departments?

Not all of the budgets contain unit costs. Good practice is to give an indication of the number of units (say, vehicles) and the total cost, along with a unit cost to know how much each asset is estimated to cost. This allows comparison with market rates and with other parts of the budget. In our review of some budgets, unit costs are missing and there is some evidence that they differ across departments within a single budget.

19. Are the budget lines sufficiently clear to know what each of them refers to, and are they consistent across departments?

Proper budgeting requires a consistent set of codes and budget lines that are easy to interpret. This is usually referred to as the Chart of Accounts. Where budget lines are not easy to interpret, narrative explanation should be provided. One can look at this issue broadly but also within specific sectors. Ideally, the Chart of Accounts should follow the national structure and be consistent with what is required for the use of the Integrated Financial Management Information System.

20. Does the budget contain estimates for the coming three years or only for this year?

Some budgets seem to contain only a single year of estimates, whereas the PFM Act 2012 encourages budgeting in a medium term framework (the coming year, plus at least two additional years). The PFM Act requires three years of revenue estimates at least, but good practice is to provide three years of expenditure estimates as well, for both recurrent and development spending. Development spending is particularly important because it generally commits the budget for future years and reduces choices in those years. Multi-year projects should be discussed as multi-year projects, not single year budget items, if they will constrain budget choices in future years.

Extra Readings

i. IBP Kenya, Commission for the Implementation of the Constitution, et al, "20 Key Questions About Your County Budget," available at http://www.internationalbudget.org/wp-content/uploads/20-Questions-FINAL-HI-RES.pdf

ii. IBP Kenya, "County Heads of Budget Meeting – Rapporteur's Report: Appendix D on List of contentious items in the classification of recurrent or development," September 2015. http://www.internationalbudget.org/wp-content/uploads/County-Heads-of-Budget-Meeting-Report.pdf

Key Takeaways

- ✓ **AN EASY WAY TO ENGAGE WITH THE CFSP IS TO LOOK FOR THE 3'P'S AND 1 'C'. THESE ARE THE BUDGET *PERFORMANCE* OF THE CURRENT (HALF) FY, FINANCIAL *PROJECTIONS* FOR THE NEXT FY, *PRIORITIES* FOR THE NEXT YEAR AND THE SHARE OF THE BUDGET GOING TO DIFFERENT SECTORS (*CEILINGS)* FOR THE NEXT FY.**
- ✓ **THE BUDGET SHOULD HAVE THE FOLLOWING COMPONENTS:**
  - ❖ **INFORMATION ON RECURRENT AND DEVELOPMENT EXPENDITURE;**
  - ❖ **INFORMATION BY ECONOMIC CLASSIFICATION;**
  - ❖ **PROGRAMMES AND SUB-PROGRAMMES WITH CLEAR OBJECTIVES AND COSTS**
- ✓ **THE CBROP MUST CONTAIN A REVIEW OF BUDGET PERFORMANCE FOR THE PREVIOUS FY, AN UPDATE OF THE CURRENT YEAR AND THE PROVISIONAL SECTOR CEILINGS FOR THE NEXT FY**