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Glass Half Full? Kenya's County Budget Implementation in 2015/16 | May 2017

KEY POINTS

- Overall, county budget implementation in Kenya is improving, both in terms of revenue collected and expenditure realized against budgets.

- Looking at the budget implementation challenges facing counties, several of the issues appear to be systemic in nature, suggesting that we should spend less time blaming particular counties for their shortcomings and invest more in national solutions. For example:

    - Local revenue collection by counties remains erratic, but this continues a historical pattern witnessed under the local authorities, suggesting that county revenue challenges are in part systemic, related to the types of revenue collected or the systems used to collect them. Overall, this trend is leading to greater dependence on national transfers over time and calls for parliament to interrogate the issue further.

    - Counties are accumulating pending bills at the same time that they are underspending and seem to be holding cash in their County Revenue Funds. The Controller of Budget reports do not explain why this is happening, but the problem affects nearly all of the counties. Given the widespread nature of the problem, parliament needs to further investigate the structural factors behind it, rather than blaming particular counties.

    - County wage bills are high and growing, but most of the county wage bill (94-97 percent) is due to inherited wage costs from the national government and local authorities, and the mandatory costs of new county structures. Given this, the wage bill problem at the county level is a national problem requiring national solutions.

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BACKGROUND

2015/16 was the third full year of county budget implementation since devolution began in Kenya. As counties finalize their 2017/18 budgets, it is a good time to reflect on how counties have been spending their money and whether there are ways of improving county budget formulation and implementation going forward.

This analysis looks at county performance information from the County Budget Implementation Review Report (CBIRR) by the Office of the Controller of Budget, as well as the Budget Review and Outlook Paper (BROP) from the National Treasury.

FINDINGS

While local revenue collection growth has remained erratic, counties are setting more realistic targets over time. In 2013/14 counties were able to collect only 49 percent of their local revenue targets. The collection rate improved to 67 percent in 2014/15 and 69 percent in 2015/16. Increasing performance against target is in part linked to the fact that counties are setting less ambitious targets over time. Counties were criticized for setting very ambitious revenue targets in 2013/14, which contributed to low collections against the targets. Consequently, counties revised their targets downwards in 2014/15. But, even with a lower target in 2014/15, counties were still able to collect only about two-thirds of the target. In 2015/16 the collective county revenue target was fairly similar to 2014/15, suggesting an effort to ensure targets are more realistic.

TABLE 1. COUNTY OWN REVENUE COLLECTED VERSUS TARGET

	2013/14	2014/15	2015/16
Own Revenue Targets (Ksh millions)	54,207.80	50,376.86	50,539.75
Actual Local Revenue Collection (Ksh millions)	26,296.09	33,848.54	35,021.57
Actual Own Revenue as a Proportion of the Target	49%	67%	69%

Source: County Governments Budget Implementation Review Report 2013/14-2015/16

The proportion of county budgets funded through local revenues is reducing. In 2015/16 the total own revenue (i.e., that generated by the counties themselves, as opposed to funds from national revenue sharing) collected by counties was 12 percent of the actual total expenditure in all the 47 counties. This was one percentage point lower than the proportion in 2014/15 and four percentage points lower than in 2013/14. As shown in Table 2 the picture at the individual county level is generally the same; the

proportion of county spending funded by locally collected revenue is dropping. For example, Nairobi county funded 56 percent of its spending with its own revenue in 2013/14, but this share fell below 50 percent in 2015/16. The trend is similar even in counties that fund a very small portion of their budgets through own revenue. It appears that when own revenue estimates are realistic, this translates into a decreasing share of county budgets that are funded by own revenue, which necessarily will increase the counties' dependence on national government over time. This suggests parliament may wish to deliberate on county revenue sources and whether they need to be augmented with more reliable sources of revenue.

TABLE 2. COUNTY OWN REVENUES AS A PROPORTION OF TOTAL COUNTY EXPENDITURE, 2013-2016: COUNTIES MOST AND LEAST DEPENDENT ON NATIONAL TRANSFERS

County	Own Revenue (Ksh millions)			Total Expenditure (Ksh millions)			Own Revenue as a Proportion of Total Expenditure		
	2013/14	*2014/15*	*2015/16*	*2013/14*	*2014/15*	*2015/16*	*2013/14*	*2014/15*	*2015/16*
Nairobi	10,026	11,500	11,710	17,775	21,023	23,951	56%	55%	49%
Mombasa	1,716	2,493	2,944	5,210	7,717	8,545	33%	32%	34%
Narok	1,539	1,639	1,753	4,233	6,659	7,239	36%	25%	24%
Kiambu	1,247	2,111	2,461	6,683	8,766	10,427	19%	24%	24%
Nakuru	1,817	2,200	2,295	5,864	8,204	10,386	31%	27%	22%
Marsabit	46	99	112	2,508	4,388	5,279	2%	2%	2%
Garissa	36	131	106	2,169	6,596	6,546	2%	2%	2%
Turkana	133	127	134	3,409	9,015	10,160	4%	1%	1%
Wajir	61	108	82	4,429	6,573	7,767	1%	2%	1%
Mandera	90	88	88	3,464	9,020	9,552	3%	1%	1%
Tana River	32	33	28	1,325	2,351	3,865	2%	1%	1%
Total	***26,296***	***33,849***	***35,022***	***169,352***	***257,998***	***295,298***	***16%***	***13%***	***12%***

Source: County Governments Budget Implementation Review Report, 2013/14-2015/16

Almost half of the counties saw a decline in their own revenue collection in 2015/16 as compared to 2014/15. While county own revenue collection grew by 3 percent between 2014/15 and 2015/16, 21 counties collected less from their own sources in 2015/16 than they did in 2014/15. Unfortunately, the Office of Controller of Budget (OCOB) report does not explain what drove the revenue collection down in counties like Wajir or Nandi by over 20 percent in one year. Nor is there any reflection on why counties like Kitui, Bungoma, or Trans Nzoia all increased revenues by more than 20 percent.

Data on revenue collected by the former local authorities prior to devolution also show very erratic growth trends. For example, between 2007/08 and 2008/09, local authorities in eight counties had declining revenues. In the following year, only two had decreases, and in the third year, these same

two had revenue growth of over 70 percent each. Local authorities in 31 counties had declining revenue between 2010/11 and 2011/12.

After devolution, the same spikes and drops seem to occur. Five counties had revenue declines between 2013/14 and 2014/15, and between 2014/15 and 2015/16, 21 counties had declines. It is important to note that 20 of these 21 counties had positive revenue growth numbers in the previous period. Their cumulative collections in 2014/15 were 41 percent higher than in 2013/14, but their collections in 2015/16 were 11 percent lower than in 2014/15.

No explanations have been provided for disappointing revenue performance. The National Treasury in the BROP 2016 offers general explanations for weak collections, such as poor forecasting and lack of in-year monitoring of county revenue collection. Both explanations relate more to performance against target than to actual revenue growth. Neither OCOB nor Treasury offers an adequate explanation for the pattern of revenue growth shown in Table 3. For example, Garissa had substantial local revenue growth between 2013/14 and 2014/15 (178 percent), but then collections dropped by 19 percent between 2014/15 and 2015/16. This kind of erratic performance needs a more nuanced explanation that recognizes the historical nature of the problem, and the fact that it affects a large numbers of counties.

Despite the lack of consistent revenue performance, overall revenue collection in all the years under devolution is higher than what was collected by local authorities in 2012/13. Table 3 shows that the total revenue collected by counties in 2013/14 was 7 percent higher than what was collected by local authorities across the counties in 2012/13, which was the last year the authorities were in existence. The revenue collected by counties has grown up to 2015/16. The assertion in some public discussions, including in the Senate, that counties are collecting less than local authorities used to collect is not correct.[1]

[1] http://www.nation.co.ke/counties/Counties-collect-less-revenue-than-defunct-local-authorities/1107872-2665008-159qi1l/index.html

TABLE 3. HIGHEST AND LOWEST PERFORMERS IN REVENUE GROWTH BETWEEN 2013-16

County	Projected Revenue Collected (Ksh millions)	Actual Revenue Collected (Ksh millions)			Actual Revenue Growth (Percent Change)		
	By Local Authorities (WB) 2012/13	*2013/14*	*2014/15*	*2015/16*	*2012/13 and 2013/14*	*2013/14 and 2014/15*	*2014/15 and 2015/16*
Wajir	24	61	108	82	153%	77%	-24%
Nandi	109	131	298	237	20%	128%	-21%
Taita/Taveta	173	127	217	173	-27%	71%	-20%
Bomet	78	201	206	167	159%	3%	-19%
Garissa	72	36	131	106	-50%	264%	-19%
Tharaka Nithi	47	85	116	139	80%	36%	20%
Trans Nzoia	365	202	301	365	-45%	49%	21%
Bungoma	373	183	505	631	-51%	176%	25%
Kirinyaga	275	200	312	390	-27%	56%	25%
Kitui	240	255	321	416	6%	26%	30%
Total	***24,500***	***26,296***	***33,849***	***35,022***	***7%***	***29%***	***3%***

Source: World Bank (WB), County Governments Budget Implementation Review Report 2013/14 and 2014/15

Counties spent almost all the money (97 percent) released to them by the Controller of Budget in 2015/16. The funds released in 2015/16 were 83 percent of the approved budget for the year. The funds released against the approved budget are increasing over time, and overall county spending against the approved budget is also improving over time.

TABLE 4. ABSORPTION OF TOTAL BUDGET AND FUNDS RELEASED FOR SPENDING IN 2014/15 AND 2015/16

	2013/14			2014/15			2015/16		
	Released Funds /Total Budget	*Absorption / Released Funds*	*Absorption / Approved Budget*	*Released Funds /Total Budget*	*Absorption /Released Funds*	*Absorption /Approved Budget*	*Released Funds /Total Budget*	*Absorption /Released Funds*	*Absorption /Approved Budget*
Recurrent	85%	97%	83%	92%	101%	92%	94%	98%	92%
Development	51%	71%	36%	66%	95%	62%	68%	96%	65%
Total	***72%***	***90%***	***65%***	***80%***	***98%***	***79%***	***83%***	***97%***	***80%***

Source: County Governments Budget Implementation Review Report, 2013/14 - 2015/16

Absorption of development budgets has been low but improving. Counties have struggled to implement their development budgets, but performance has improved from counties spending just 36

percent of their development budget in 2013/14 to spending 62 percent in 2014/15, and rose again to 65 percent in 2015/16.

It is not clear to what extent low development spending is caused by low disbursements from the National Treasury to County Revenue Funds. Limited releases can be driven either by the supply or demand side, meaning either by the national government or by the failure of counties to request disbursements. The OCOB 2015/16 full year report highlights the fact that the National Treasury does not follow the disbursement schedule for funding counties that is approved along with the County Allocation of Revenue Act (CARA).[2] However, the slow release of money to the county operational accounts could be caused in part by the late approval and submission of documents to the OCOB required for the release of funds, which is also highlighted in the report as a major challenge.

The wage bill at the county level is still above the limit set by the County Public Finance Management (PFM) Act regulations of 35 percent of county revenue. In 2015/16 the wage-to-revenue proportion (excluding conditional grants and opening balances) was 40 percent, which was higher than the threshold set by the 2015 County PFM Regulations.

Most of the high wage bill at the county level is either inherited (from national government and the local authorities) or related to mandatory costs of new county structures. In 2015/16 the total spending on wages was Ksh 118.65 billion. From our estimates (Table 5), between Ksh 100.46 billion and Ksh 108.52 billion of this was related to wages for inherited staff performing devolved functions (such as health workers), former local authority staff inherited by counties, and wages for mandatory staff in new county structures (such as the County Assembly). New wage costs beyond those inherited and those required by law amount to between 3 to 6 percent of total county revenue. This would include both new staff hired by counties and wage increases provided to existing staff. Given the available information, it is not clear the degree to which new wage costs are mainly related to staff or wage increases. What we do know is that between 2013 and 2016 county staff numbers grew by 26 percent, while the average wage grew by 34 percent.[3] This suggests that increases in both number of staff and pay levels have contributed to the rising wage bill, but that pay was a somewhat greater contributor.

[2] County Governments Budget Implementation Review Report 2015/16, Page 321

[3] Economic Survey 2017, Kenya Bureau of Statistics

TABLE 5. SPENDING ON WAGES BETWEEN 2013/14 AND 2015/16

	Absolute Values of Wages and Revenue (Ksh billions)			% Proportion of Wages to the Total Revenue		
	2013/14	*2014/15*	*2015/16*	*2013/14*	*2014/15*	*2015/16*
County Salary Costs Inherited or Required by Law:						
Salary Costs of Inherited Staff Performing Devolved Functions	47.06	50.83	54.90	23%	19%	19%
Salary Costs for New State and Public Officers Related to New County Structures	24.63	25.83	27.20	12%	10%	9%
Salary Costs of Inherited Local Authority Staff	12.14	12.99	13.89	6%	5%	5%
Additional Salary Costs for New County Structures Due to SRC Adjustments (Treasury Estimates from DORB 2015)	-	-	4.50	-	-	2%
Additional Salary Costs for New County Structures Due to SRC Adjustments (CRA Estimates from CRA Recommendations 2015/16)	-	-	12.53	-	-	4%
Estimated Total Wages (Inherited Staff+New Structures Staff+Local Authority Staff) using Treasury DORB Adjustments	83.83	89.64	100.49	41%	34%	34%
Estimated Total Wages (Inherited Staff+New Structures Staff+Local Authority Staff) using CRA Adjustments	83.83	89.64	108.52	41%	34%	37%
Actual Salary and Revenue:						
Actual Salary Expenditure (Inherited Staff+New Structures Staff+Local Authority Staff) OCOB Reports	77.40	103.10	118.65	38%	39%	40%
Actual County Revenue (Equitable Share+Local Revenue)	205.20	262.35	294.79	1.00	1.00	100%
Salary Costs Beyond Those Inherited or Required by Law:						
Additional Salary Costs (Row 12-Row 10) Attributable to County Governments (using DORB Adjustments)	6.43	13.46	18.16	-3%	5%	6%
Additional Salary Costs (Row 11-Row 10) Attributable to County Governments (using CRA Adjustments)	6.43	13.46	10.13	-3%	5%	3%

Sources: CRA Recommendation on Equitable Sharing, CRA 2014; author's calculation of new structures staff wages based on SRC Circulars and CRA Ceilings for County Executive and Assembly 2015; Local Authority Transfer Fund Reports, Kenya Local Government Reform Program (2007/08-2009/10); Division of Revenue Bill 2015 and CRA Final Vertical Recommendation on Equitable Revenue Sharing, CRA 2015; County Budget Implementation Review Report, 2013-2016.

Notes: The notes here correspond to the first five rows:

1) The inherited staff wages were given by CRA in its Recommendation on Equitable Revenue Sharing report in 2014 and then adjusted by 8 percent, which was the average growth in national government sector wages between 2008 and 2015 given in the Economic Survey (2013-2016) by Kenya National Bureau of Statistics;

2) IBP Kenya estimated that local authority staff wages have grown at an average rate of 7 percent per year based on their average annual growth rate between 2008 and2011. That growth rate was applied to 2010/11 as the base figure, the last for which we have data. This does

not take into account any additional growth in wages based on Collective Bargaining Agreements that might have been implemented after devolution;

3) In 2015/16 the Commission on Revenue Allocation (CRA) indicated that counties would have to pay more in salaries due to new guidance from SRC and TA. They proposed KSH 15.5 billion to cover this. Treasury agreed to give counties only an additional KSH 4.6 billion. However, if the requirements were as CRA indicated, counties would still have to pay them from their own resources. We could not confirm these figures and do not know if counties reduced other wage spending to compensate for these wage increases. For this reason, we calculate figures in two ways above: The first assumes counties increased wages only by the amount given by Treasury in the Division of Revenue Act, and the second, by the full amount projected by CRA;

4) We calculated the salary costs for state and public officers related to new county structures based on positions that were filled by 2015/16. It is possible that some of these positions were not filled in the first year of devolution, or were not filled for the full year, and that is why our estimates are higher than the total actual wages paid in 2013/14. The salaries for state officers were calculated based on SRC circular figures, while the salaries for county assembly staff were deflated for previous years using the 2015/16 ceilings given by CRA.

Only 77 percent of the free maternity allocations were disbursed to counties in 2015/16. In the 2015/16 report, the OCOB indicates that only Ksh 3.32 billion out of the approved Ksh 4.3 billion allocated for free maternity by the County Allocation of Revenue Act 2015 had reached counties. This is similar to the information in the BROP. Only seven counties had received the full amounts. Makueni, Tharaka-Nithi, Kirinyaga, and Trans-Nzoia received more than the approved amount, but the implementation report from the OCOB does not explain why this is the case. On the other hand, Uasin Gishu, Bungoma, and Narok had not received even half of their allocations under the program. Counties have indicated that the national government is slow to reimburse them for money they spend on deliveries in county health facilities. Neither the OCOB nor the Treasury address this matter, nor do they explain why these amounts are lower than the Ksh 4.12 billion approved in the CARA. In addition, when the disbursed amounts under each county section in the OCOB report are added together, the total comes to Ksh 3.25 billion, different from the Ksh 3.32 billion in the summary section of the report. There is no clear explanation for this difference.

Pending bills at over Ksh 37 billion in 2015/16 remain nearly as high as in 2014/15. Pending bills in all 47 counties were Ksh 37.4 billion in 2015/16, just below the total of Ksh 37.8 billion in 2014/15. The problem appears to affect all counties, although Kitui and Turkana did not have pending bills in 2015/16 (Machakos and Wajir had not reported). At the individual county level, some counties had significant increases in their pending bills in 2015/16, with the top five posting increases of more than 200 percent in one year (Table 6). On the other hand, some counties also cleared their pending bills entirely, including Turkana and Kitui. Turkana, which had pending bills of Ksh 2.4 billion in 2014/15, did not have any pending bills in 2015/16.

Because pending bills might be caused in part either by delayed disbursements to counties from national government or by inadequate county controls on spending, the OCOB should comment on this matter; however, it does not offer any insight into the causes. The OCOB does not actually provide data on the national government's monthly disbursements to counties to allow for an assessment of the relationship between disbursements and pending bills. The National Treasury's own BROP does

not even mention the issue of pending bills in its county expenditure review. However, as shown in Table 6, counties had Ksh 27.87 billion in their revenue accounts on 1July 2016, equivalent to 75 percent of the pending bills. This is similar to 2014/15 when they had Ksh 31.51 billion in their revenue accounts on 1 July 2015, but huge pending bills as well.

Why would counties have pending bills when they have cash on hand to pay them? One possibility is that these bills were incurred at the very end of the year and could not be processed and paid in that year. Another is that the cash in the bank as of July 1 only arrived very late in June and counties did not have enough time to use it to pay these bills. It is also possible that counties may not have been able to provide adequate or timely documentation to the OCOB to allow for these funds to be released from the County Revenue Fund to the operational accounts. Whatever the case, the OCOB reports do not shed any light on the source of the problem.

TABLE 6. HIGHEST CHANGES IN PENDING BILLS BETWEEN 2014/15 AND 2015/16

County	Total Pending Bills 2014/15 (As of 1 July 2015, Ksh)	Total Pending Bills 2015/16 (Ksh)	Absolute Changes Between 2014/15 and 2015/16 (Ksh)	% Change between 2014/15 and 2015/16
Kilifi	269,258,367	1,546,368,883	1,277,110,516	474%
Nairobi City	1,228,390,523	5,040,087,300	3,811,696,777	310%
Elgeyo/Marakwet	201,417,132	814,347,181	612,930,049	304%
Homa Bay	441,610,000	1,710,712,986	1,269,102,986	287%
Lamu	49,292,637	188,392,782	139,100,145	282%
Uasin Gishu	1,121,910,000	125,756,570	-996,153,430	-89%
Mandera	1,570,408,674	140,000,000	-1,430,408,674	-91%
Bungoma	2,537,140,803	46,658,266	-2,490,482,537	-98%
Kitui	405,937,750	0	-405,937,750	-100%
Turkana	2,400,000,000	0	-2,400,000,000	-100%
Total	***37,822,739,378***	***37,363,350,577***	***-459,388,801***	***-1%***
Cash in County Revenue Fund (CRF) (As of 1 July 2015 and 2016)	*31,508,230,286*	*27,866,406,527*		
Share of Pending Bills that could be settled by Cash in CRF	*83%*	*75%*		

Source: County Governments Budget Implementation Review Report, 2014/15 and 2015/16