REPUBLIC OF KENYA

THE NATIONAL TREASURY

COUNTY BUDGET OPERATIONAL MANUAL

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County Budget Operational Manual

This County Budget Operations Manual was compiled by:

The National Treasury

Through the: **Public Finance Management Reform Secretariat**

Funded by: **The African Development Bank**

REPUBLIC OF KENYA

1964 2014

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Public Financial Management Reforms

Matumizi Bora ya Fedha, Wajibu wetu

Foreword

Kenya's devolution paradigm has been variously described as the most ambitious fiscal decentralization exercise a country has undertaken in peacetime.

One of the pillars of successful devolution is fiscal decentralization. For Kenya, fiscal decentralization has been operationalized through the enactment of enabling legislation and primarily the Public Finance Management Act 2012, the County Government Act 2012 and the Public Finance Management Regulations following the promulgation of the Kenya Constitution 2010.

This county budget manual represents a key pillar in the National Government's facilitative role of supporting County Governments to ensure the success of the devolved system of government as intended in the Kenya Constitution and the various enabling legislations.

It gives practical effect to the fiscal decentralization process by consolidating the budget preparation process in one place. It provides a common template and methodology for budget making and so creates a 'level playing field' in budget making for all counties by eliminating ambiguity in budget preparation structure, process and procedure.

This budget manual is also a living document; one that is expected to adapt to the unfolding dynamic of devolution and fiscal decentralization in particular.

For this reason, suggestions on ways to improve it will continue to be as welcome in the future as they have been during the compilation process where more than 239 individuals from over 31 organizations including all County governments were continually consulted and their critique and feedback adopted and incorporated in the manual's content, structure and user friendliness. To all these individuals, I am grateful and heartened by their enthusiastic participation and generous support.

Henry K. Rotich

Cabinet Secretary, National Treasury.

Acknowledgement

I wish to acknowledge the work and effort that has gone into compiling this budget manual. As noted by the Cabinet Secretary for the National Treasury, this budget manual has benefited from the feedback of more than 239 individuals from 31 organizations including all 47 county governments.

While space does not allow me to identify all the individuals involved, I do tender my sincere thanks for their contributions in bringing to fruition this important work in fiscal decentralization. I wish to make special mention of the following:

Counties

I have been heartened by the suggestions and critique provided by the county treasuries of Kirinyaga, Isiolo, Mombasa, Machakos, Kisumu, Kakamega, Turkana, Garissa and Nairobi during field visits that were undertaken at the beginning of this manual's compilation. These counties were selected as a stratified sample of all counties and visited over a period of four weeks between February and March 2014.

In addition to these field visits, Counties provided additional feedback at a two-day validation workshop held at the Kenyatta University on 28th and 29th April 2014; and, in classroom focus group discussion sessions at the Kenya School of Government over a three week period of training workshops. This feedback has ensured that this budget manual addresses county challenges and meets their needs.

Kenya School of Government

The Kenya School of Government has also been a key stakeholder and facilitator in the compilation of this manual. Its contribution has been invaluable by providing feedback on the manual's content, hosting and facilitating budget training workshops that were conducted over three weeks in May and June 2014 to some 230 staff from County Treasuries and the Office of the Controller of Budget.

The National Treasury

I am pleased to note the central role played by the National Treasury through its Budgetary Supplies Department and the Public Finance Management Reform Secretariat in content development, logistical support and providing overall strategic direction.

African Development Bank

Finally, I am particularly grateful for the continued support of the African Development Bank whose funding has facilitated the compilation of this budget manual - a critical tool in ensuring compliant budget making by counties and a key milestone in the National Government's Strategy for Public Finance Management Reforms 2013-2018 under the fiscal decentralization theme.

The support of the Bank in this important work is both appreciated and greatly valued.

Dr. Kamau Thugge, EBS

Principal Secretary, National Treasury.

Target Audience

This manual is aimed at assisting:

- All County Government officers who play any technical or advisory role in budget preparation in all county line departments and agencies including the County Treasury;
- County Government Executives that is, all County Executive Committee members;
- All chief officers as the designated accounting officers of their departments;
- All accounting officers;
- All budget and finance analysts supporting the County Assembly;
- All national institutions that have a regulatory, oversight, review or facilitative role vis-à-vis in devolved government including:

    - The National Treasury
    - The Transition Authority
    - Ministry of Devolution and Planning
    - Office of the Controller of Budget
    - Office of the Auditor General

Ease of use

This manual has striven to ensure that its language and structure is as user friendly as possible particularly for non-technical staff. However, feedback is always welcome.

Compliant Budgets

This manual is to be used as the reference document to assist county officers to compile compliant county budgets per the requirements of the *Kenya Constitution 2010, the County Governments Act 2012*, the *Public Finance Management Act 2012* and the *Public Finance Management Regulations 2014*.

Manual's Structure

The manual is divided into ten chapters and six appendices. It expands on the Government of Kenya Programme Based Budgeting Manual (November 2011 edition) which it has also used along with numerous other documents in its compilation.

Table of Contents

Acronyms

ACFP	Annual Cash Flow Projections
AiA	Appropriations-in-Aid
BPS	Budget Policy Statement
BSC	Budget Steering Committee
BSP	Budget Strategy Paper
BSO	Budget Supply Officer
C-BROP	County Budget Review & Outlook Paper
C-FSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
FEWG	Estimate Working Group (Budget)
FDLFA	Final Draft Loan Financing Agreement
GDP	Gross Domestic Product
IDLA	Initial Draft Loan Agreement
IFMIS	Integrated Financial Management Information System
KSh	Kenya Shilling
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MDGs	Millennium Development Goals
MPER	Ministerial Public Expenditure Review
MDA's	Ministries, Departments and Agencies
PBB	Programme Based Budgeting
PFM	Public Finance Management
SWGs	Sector Working Groups

SCOA	Standard Chart of Accounts
SWOT	Strength Weakness Opportunity Threats
CoFoG	Classifications of Functions of Government

Glossary

Activity Based Costing: A methodology that costs activities by pricing the inputs it uses to deliver a service. It is a preferred methodology for programme based budgeting (PBB). It is also based on activities as the basic building blocks for delivering outputs that achieve a desired outcome.

Activity: Under PBB, this is the smallest building block within a programme that has a definable purpose and specific allocated costs. An activity is an action or set of actions that are done to produce output(s) that effect a desired outcome within a programme or sub programme.

Appropriation in Aid: A revenue stream a government entity retains for its own use from the sale of goods or rendering of services to the public in the normal course of its business.

Baseline Budget: The expenditure estimate based on the costs of the current level of activity of ongoing programmes adjusted for inflation including the full year impact of decisions made in the current year. It presumes that the compilation of the estimates is empirically based on a structured costing methodology.

Budget Calendar: A sequence of important dates and deadlines of the budget cycle showing the events and activities that must take place during the budget preparation period to deliver the government's budget. Under the Programme Based Budgeting, it covers the planning stage to the final approval of the government's budget by the County Assembly and its publication.

Budget Review and Outlook Paper (BROP): A forward and backward looking document that contains preliminary reviews of past performance and assessment of prevailing economic conditions and those anticipated in the immediate future before the budget process is finalized later in the year. It provides grounds for sound budget planning for the county, is mandatory and a key document in linking policy, planning and budgeting for the County Government.

Budget: A statement of the government's estimate of what it will cost to provide goods and services to the citizenry in the following year. It is made up of expenditures,

revenues, borrowings and other financial transactions and spans a period of three years inclusive of the budget year. The budget is submitted to the County Assembly, which authorises expenditure by approving an appropriation Act.

Budgetary Unit: A government department or agency for whom the requirements to prepare an annual budget under the budget circular applies.

Costing: A management tool used to estimate and attach a price to all resources needed to carry out an activity or activities within a project, sub-programme or programme in the normal course of operations.

County Budget Estimates: Cost approximations of recurrent and development expenditure needed to provide government goods and services to county residents for the following year and two forward years thereafter. It is guided by the objectives of the County Integrated Development Plan (CIDP) and prioritized by the County Fiscal Strategy Paper (CFSP).

County Chief Officers: These are the chief operating officers of county departments charged with the responsibility of overall administration of the department. They are also the Accounting Officers of County Departments.

County Fiscal Strategy Paper: A final statement of the agreed steps and priorities of the County Government for the next budget year and two forward years hence. It spells out how the County Government plans to raise and spend money on its service delivery priorities and development agenda.

County Integrated Development Plan (CIDP): The County Government's five year master plan for the county's economic, social, environmental, legal and spatial development to meet the service and infrastructural needs and its own targets for the benefit of all local communities.

County Treasury Annual Budget Circular: Set of budget-related instructions issued by the County Treasury that trigger the formal start of the county budget cycle and process. It contains budget guidelines, the budget calendar of mandatory dates and deadlines of required activities, required formats and templates for reporting or submitting the required information. It carries the weight of law and compliance is mandatory.

External Budget: A statement of recurrent and/or development expenditure that is funded directly by a development partner and does not go through government accounts.

Financial Management: The management and control of public expenditure; financial accounting and reporting; cash management; and in some cases, asset management. It also includes the estimation and raising of revenue to fund the expenditure.

Fiscal Framework: The financial context within which the government plans to spend funds on providing goods and services to citizens through a structured budget process after determining the resource envelope it has to work with. It takes into account past budget and economic performance, the impact of prevailing and anticipated economic fundamentals to arrive at a reasoned basis for planning the future.

Gender (Responsive) Budgeting: The application of gender mainstreaming in the budgetary process by incorporating gender equity and perspectives at all levels and stages of the budgetary process including resource allocation decisions.

Medium Term Expenditure Framework: A transparent planning and budget formulation process meant to improve budget decision making by linking Government policies, priorities and requirements with and within its limited resources and over a rolling timeframe of up to three years.

Macroeconomic Framework: The economic context at the national level within which the County Government calibrates its economic planning by taking into account the behavior of such whole-of-country economic variables as the inflation rate, interest rates, GDP growth rates, balance of payments and other such indicators.

Microeconomic Framework: The economic context within which the County Government puts in place policies to encourage the growth in target sectors of the county's economy. It can take the form of targeting specific segments of its private sector with industry-friendly policy initiatives in order to encourage growth and so widen its tax revenue base thus sustainably increasing its capacity to finance its budget over time.

Monitoring, Evaluation and Reporting Framework: The policy and operational context and process of ensuring policy priorities and intentions are delivered and/or are being delivered as intended, as measured against clearly defined performance indicators.

Programme-Based Budgeting: A form of budgeting that links the government budget and its use of resources directly to defined public policy objectives through a structured template of programmes, sub-programmes and projects. This is conducted within a rolling timeframe of three years under the medium term expenditure framework (MTEF) and is performance based so that spending is assessed against defined performance indicators to ensure its effectiveness, efficiency and value-for-money.

Sector Ceilings: Mandatory limits imposed by the County Treasury to ensure the County Government, its departments and agencies live within their means - the county's resource envelope.

Standard Chart of Accounts: A structured coded list used to classify, record and report all financial transactions of a government or budgetary unit so they can be tracked for managerial purposes and mandatory reporting through statutory financial statements.

Public Participation/Consultation: is a democratic process of engaging people in thinking, deciding, planning, and playing an active part in the development and operation of services that affect their lives.

Public: are the people of the nation, state, county, district or municipality, which the government serves.

CHAPTER 1

Budget Process Overview

01 Overview

This chapter seeks to provide a broad picture of the budget process and its various components, players, concepts and processes. It gives detailed treatment of aspects of the budget process that do not fit naturally into other sections of the manual such as various budget players and the budget calendar.

02 Chapter Objectives:

(a) Review the legal framework undergirding the budget process;

(b) Provide a bird's eye view of the budget process through a roadmap;

(c) Introduce the various players involved in the budget process;

(d) Provide a summary list of all the key outputs of the budget process.

03 Budget papers and other key outputs of the county budget process

The county budget process

According to the Constitution of Kenya and the Public Finance Management Act 2012 the county budget process is the process by which County Governments compile and submit for approval by the County Assembly, expenditure estimates of their assessment of the total cost of delivering government goods and services to county citizens.

04 In any one year, budgeting consists of the three simultaneous activities of review, implementation and planning

Thus as planning for the next budget year is underway, the previous year's budget is being implemented while a continuous review of budget performance to date educates current budget preparation to establish next year's aggregates.

05 The budget process is also part of a larger prioritized planning framework laid down under the County Integrated Development Plan (CIDP).

The county budget process must be based on this detailed planning framework that identifies and prioritizes the county's development and service priorities and objectives as set out in government policies. It must also incorporate the National Government's policy priorities and programmes such as projects under Vision 2030.

06 The budget process is time-bound to a rolling three year expenditure planning cycle.

The County Budget Calendar or Roadmap in any year works to a medium term expenditure framework. That is, works to a rolling three year expenditure planning horizon of the next budget year and two outer years thereafter. (See Figure 1)

07 County Budget calendar and its links to the national budget cycle

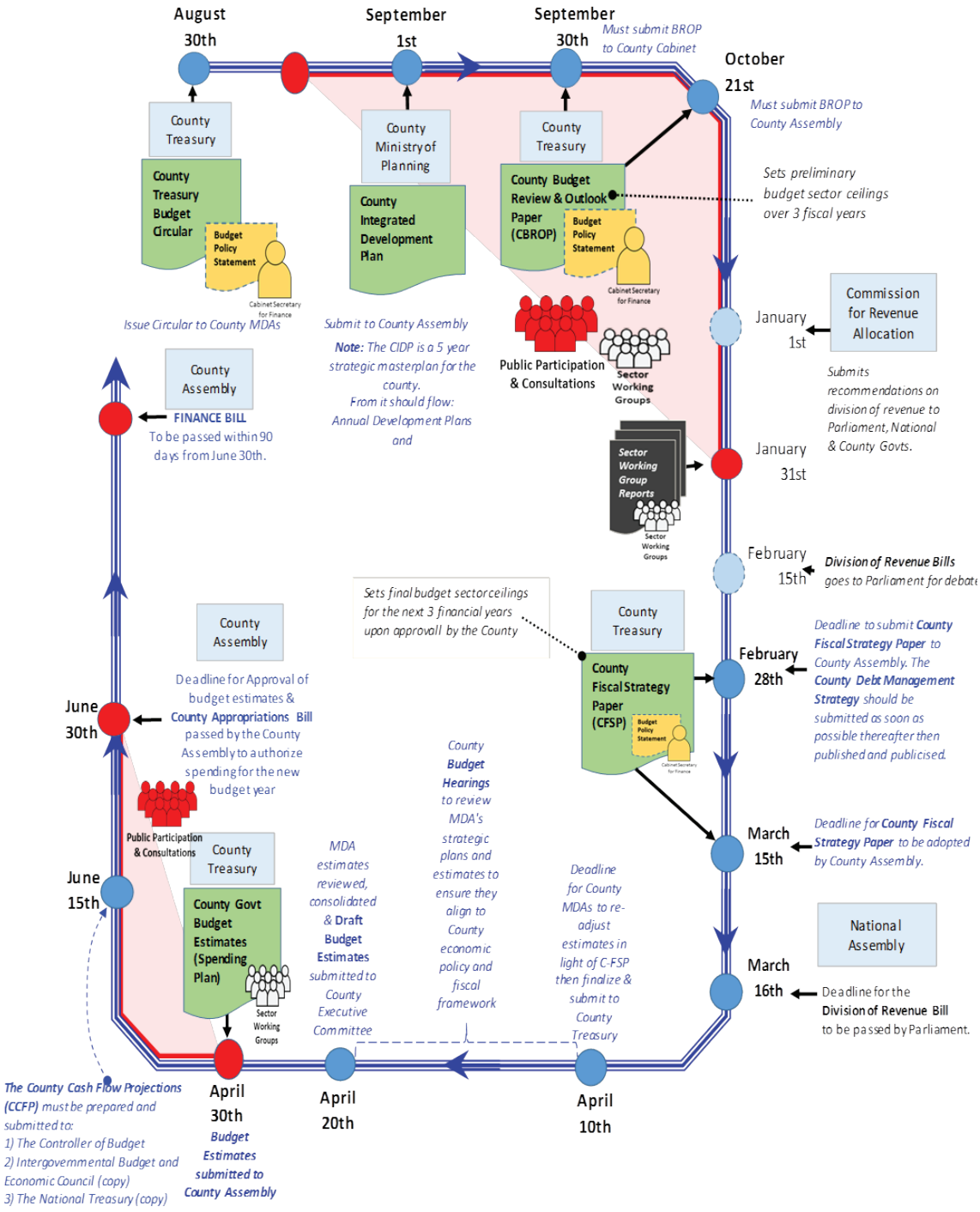
The budget calendar as illustrated above is a sequence of important dates of events and activities that must take place during the budget preparation period. It is itself also linked and dependent on the national budget process – particularly to the timing and release of the Budget Policy Statement (BPS) by the National Treasury. The BPS statement sets out the National Government's priorities under a Medium Term Expenditure Framework that project expenditures over a three year period. As these have a national impact, they form a key plank in the county budget process and must be incorporated into it.

08 The County Treasury Budget Circular

This is the document initially issued by the County Treasury that triggers and signals the formal start of the county budget cycle and process. In it, the County Treasury instructs county departments to provide their top service priorities for the coming year and two years beyond that and how these are also linked to national priorities.

Most important however is the submission of the departments' own expenditure estimates of the cost of providing government goods and services in order of priority.

Figure 1: The County Budget Process and Roadmap



The County Treasury's request for these budget estimates is set within a medium term expenditure framework that takes a broad view of expenditure planning over a period of three years. The information supplied must conform to standard budget classification systems as prescribed by public finance regulations.

09 Contents of the Budget Circular

The Annual Budget Circular as issued by the County Treasury must include and set out the following items:

(a) A schedule for preparation of the budget, specifying the key dates by which the various processes are to be completed;

(b) The methodology for the review and projection of revenues and expenditures;

(c) Key policy areas and issues to be taken into consideration when preparing the budget;

(d) The procedures to be followed by members of the public who wish to participate in the budget process;

(e) The format in which information and documents relating to the budget are to be submitted; and

(f) Any other information relevant to the budget process.

010 The County Integrated Development Planning process (CIDP): (The county's Five Year Master Plan)

This is the process through which economic, social, environmental, legal and spatial aspects of the county's development are brought together to produce a five-year plan to meet the service and infrastructural needs and targets for the benefit of local communities by both the national and county levels of government. It provides a:

(a) Framework for the county's development to county planners with a long-term perspective;

(b) Single reference point for the coordination of all arms and entities of government to achieve immediate, medium and long term community benefits;

c) Five year rolling roadmap and implementation work plan of the county's service delivery, and development priorities the government effort will be directed towards achieving;

d) Clearly defined process for monitoring, evaluation, and reporting mechanisms; and

e) Mechanism for linking county planning processes with the medium term expenditure framework and budgetary process system as required by the County Government Act.

011 The County Budget Review and Outlook Paper (C-BROP)

This is a backward and forward looking document that provides a strong platform for sound budget planning for the county. It is mandatory and a key document in linking policy, planning and budgeting.

Its objective is to provide a review of the previous year's fiscal performance of the budget and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (C-FSP). It also provides an updated macroeconomic outlook of the county and a basis for revision of the current budget in the context of any supplementary estimates and the broad assumptions behind the next budget and the next three years.

012 The County Fiscal Strategy Paper (C-FSP)

This paper provides a comprehensive overview of how the county intends to raise and spend funds over the next financial year within the medium term expenditure framework.

It is mandatory and must be tabled in the County Assembly by February 28.

As it is tabled after the release of the National Government's Budget Policy Statement (BPS) on February 15, the County Government is required to incorporate relevant contents of the BPS in the fiscal strategy paper and the county's consideration of any relevant impacts arising from the BPS.

The paper must be adopted by the County Assembly legislature within 14 days of tabling with or without amendments and be accompanied by a report on the county's debt management strategy.

013 County Budget Estimates

These are the cost approximations of providing government goods and services to county residents as planned and determined by the County Integrated Development Plan (CIDP) and prioritized in the County Fiscal Strategy Paper (CFSP).

Preparation of budget estimates is mandatory under the Constitution and the Public Finance Management Act 2012 as they are the final financial plan of the County Government's service delivery and infrastructure development priorities and obligations.

They must be as realistic as possible and provide the likely expenditure scenario of the government for the three years beyond the current budget year.

They are divided into recurrent and development expenditure estimates of the following budget year and are prepared primarily for execution of County Integrated Development Plans.

014 **Budget estimates** must be prepared by County Government departments and entities, then checked and verified by the County Treasury which then consolidates and submits them through the County Executive Committee Member for Finance to the County Assembly for review and approval. Upon approval, the CEC Member for Finance prepares and submits a County Appropriation Bill to the County Assembly of the approved estimates.

015 **Public participation:** While Chapter Four of this manual deals at length with public participation, it should be noted that the public is a key constituency in the budget making process. It is also the County Government's constitutional duty to embed the principle of public participation in the budget process by ensuring there are sufficient ways and means for the public to participate effectively. Some include:

(a) The County Budget and Economic Forum which the Governor is required to convene under Section 137 of the Public Finance Management Act 2012. In this forum, through Sector Working Groups comprised of equal numbers of government officials and representatives from private sector and community groups, such as professional associations, industry groups, workers' groups, non-governmental groups, village groups, and individual citizens, the public can make written submissions and attend public hearings to present their views and feedback on government policy priorities and resource allocation;

(b) Public Consultation Forums (barazas);

(c) Submission of written memoranda directly to the government;

(d) Direct lobbying either as individuals or through a collective group like a union or an industry association.

016 Budget Legislation: The Foundation of the County Budget Process

017 Constitutional Principles[1]

All aspects of public finance must be guided by the following principles:

(a) Openness and accountability, including public participation in financial matters;

(b) A public finance system that promotes an equitable society. In particular:

1) the burden of taxation shall be shared fairly;

2) revenue raised nationally shall be shared equitably among National and County Governments; and

3) Expenditure shall promote the equitable development of the country, including by making special provision for marginalised groups and areas.

(c) Intergenerational equity in sharing the burdens and benefits of the use of resources and public borrowing;

(d) Prudent and responsible use of public money;

(e) Responsible financial management;

(f) Clear fiscal reporting;

(g) Equitable revenue sharing between National and County Governments;

(h) Additional allocations allowed for counties from the National Government's revenue share either as conditional or unconditional grants;

(i) Equitable shares in all national legislation concerning County Government to be enacted in terms of:

1) the national interest;

2) providing for the public debt and other national obligations;

3) the needs of the National Government, determined by objective criteria;

4) ensuring County Governments are able to perform allocated functions

[1] Constitutional Principles: Article 201, 202 & 203 of The Constitution of Kenya 2010

5) fiscal capacity and efficiency of County Governments;
6) developmental and other needs of counties;
7) economic disparities within and among counties and the need to remedy them;
8) need for affirmative action for disadvantaged areas and groups;
9) need for economic optimisation of each county and to provide incentives for each county to optimise its capacity to raise revenue;
10) desirability of stable and predictable allocations of revenue; and
11) need for flexibility in responding to emergencies and other temporary needs, based on similar objective criteria.

(j) Every financial year, the equitable share of national revenue for counties shall be no less than fifteen percent of all revenue collected by the National Government;

(k) Annual revenue must be calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly.

018 Fiscal Responsibility Principles[2]

Section 107 (1) and (2) of the Public Finance Management (PFM) Act requires the County Treasury to oversee prudent public financial management by enforcing the following fiscal responsibility principles:

(a) **Balanced budgets are mandatory**

The County Government's expenditure shall not exceed the total revenue;

(b) **Thirty percent of all expenditure is dedicated to development expenditure**

Over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure;

(c) **Limit county wage bill to thirty five percent of total government revenue**

The County Executive Member for Finance can set the percentage of the County Government's expenditure on wages and benefits for its public officers provided it does not exceed thirty five per cent of the County Government's total revenue excluding revenues from extractive natural resources such as coal, oil etc. as prescribed in the regulations and approved by the County Assembly;

[2] Fiscal responsibility principles: Public Finance Management Act 2012 Section 107 (1) (2)

(d) **County debt financing to be used only for development**

Over the medium term, the County Government's borrowings shall be used only for the purposes of financing development expenditure and not recurrent expenditure;

(e) **Sustainable debt**

The county's debt shall be maintained at a sustainable level and not exceed fifteen percent of the County Government's total revenues approved by the County Assembly; short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited County Government revenue;

(f) **Prudent risk management**

Fiscal risks shall be managed prudently. That is the CEC Member for Finance should outline key areas of uncertainty that may have a material effect on the county's fiscal outlook and the potential policy decisions they may portend;

(g) **Predictable taxes**

A reasonable degree of predictability 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.

019 Division of Revenue

The County Budget Process also operates within the larger constitutional context of the equitable distribution of national revenues between the two levels of government that is the National and County Governments.

020 The Division of Revenue Process is mandated under Part 4 and Article 217 of the Constitution whereby the Commission on Revenue Allocation is charged under Articles 215, 216, 218 and 219 with the responsibility of assessing and then applying a formula for the equitable distribution of the total revenue collected by the National Government into the Consolidated Fund based on the previous year's audited accounts of revenue collections. These funds are held at the Central Bank of Kenya where the Accounts of both levels of government are also held.

021 Sections 42 and also 191 of the PFM Act on the Intergovernmental Budget and Economic Council lay out the mechanics for how Parliament is to consider the Commission on Revenue Allocation's revenue share recommendations then proceed to allocate the revenues. The Senate also considers the revenue allocations decisions of Parliament and can endorse, amend or decline to endorse them. Below is an illustration of the process hierarchy of this revenue sharing process.

022 Budget Players – All Who Make It Possible

023 The County Treasury[3]

The function of the County Treasury as assigned by Section 104 of the PFM Act 2012 is to monitor, evaluate and oversee the management of public finances and economic affairs of the County Government. It is also to take any other actions necessary to ensure the implementation of and the enforcement of the PFM Act within the County Government.

024 Roles of the County Treasury are to:

(a) Develop and implement financial and economic policies in the county;

(b) Prepare the annual budget for the county and coordinate the preparation of estimates of revenue and expenditure of the County Government;

(c) Coordinate the implementation of the budget of the County Government;

(d) Mobilise resources for funding the budgetary requirements of the County Government and put in place mechanisms to raise revenue and resources;

(e) Manage the County Government's public debt and other obligations and develop a framework of debt control for the county;

(f) Consolidate the annual appropriation accounts and other financial statements of the County Government in a format determined by the Public Accounting Standards Board;

(g) Act as custodian of the County Government's Assets Register except where provided otherwise by other legislation or the Constitution;

(h) Ensure compliance with accounting standards prescribed and published by the Public Accounting Standards Board from time to time;

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[3] General responsibilities of the County Treasury: PFM Act 2012 Section 104

(i) Ensure proper management and control of, and accounting for, the finances of the County Government and its entities in order to promote efficient and effective use of the county's budgetary resources;

(j) Maintain proper accounts and other records in respect of the County Revenue Fund, the County Emergencies Fund and other public funds administered by the County Government;

(k) Monitor the County Government's entities to ensure compliance with the PFM Act 2012 and effective management of their funds, efficiency and transparency and, in particular, proper accountability for the expenditure of those funds;

(l) Assist County Government entities in developing their capacity for efficient, effective and transparent financial management, upon request;

(m) Provide the National Treasury with information which it may require to carry out its responsibilities under the Constitution and the PFM Act 2012;

(n) Issue circulars with respect to financial matters relating to County Government entities;

(o) Advise County Government entities, the County Executive Committee and the County Assembly on financial matters;

(p) Strengthen financial and fiscal relations between the National Government and County Governments in performing their functions;

(q) Report regularly to the County Assembly on the implementation of the annual county budget; and

(r) Take any other action to further the implementation of the PFM Act in the county.

025 Structure of the County Treasury

The organizational structure of the County Treasury must serve to operationalise its mandate and optimise its capacity and capabilities to effectively execute the roles assigned to it by the PFM Act 2012. The proposed organizational structure should therefore reflect the following suggested generic divisional structure.

026 The Economic and Financial Policy Division. Its role is to:

(a) Develop and implement financial and economic policies in the county;

(b) Provide economic and financial planning and modeling capabilities for the County Treasury to be able to support evidence-based decision making of the County Executive Committee;

(c) Provide effective professional support to the County Government in its dealings with the National or other County Governments and other external entities such as donors, private sector associations and other interest groups on economic and financial policy matters;

(d) Provide advisory expertise on all fiscal-related national and county legislation matters;

(e) Strengthen financial and fiscal relations between the National Government and County Governments in performing their functions;

(f) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

027 The Budget Division. Its role is to:

(a) Manage the budget process and oversee the budget calendar of the county;

(b) Prepare the county budget circular that triggers the start of the budget cycle;

(c) Prepare all the necessary templates to facilitate budget preparation;

(d) Operate and oversee the 'Plan-to-Budget' module of the Integrated Financial Management Information System (IFMIS) during the budget preparation process;

(e) Provide and oversee the training and capacity building function in programme-based budgeting both in-house and to all County Government ministries;

(f) Prepare the annual budget for the county and coordinate the preparation of revenue and expenditure estimates by all county ministries, departments and agencies of the County Government;

(g) Coordinate the implementation of the county budget for the County Government;

(h) Support the County Executive Committee Member for Finance to prepare the Budget Review and Outlook Paper in partnership with the Economic & Policy Division;

(i) Prepare regular reports for the CEC-Finance to submit to the County Assembly on the implementation of the annual county budget.

(j) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

028 The Resource Mobilization & Revenue Division. Its role is to:

(a) Mobilise county resources for funding the budgetary requirements of the County Government;

(b) Develop and implement mechanisms to raise county revenue and resources in kind;

(c) Prepare annual revenue estimates in consultation with the Economic and Financial Policy Division;

(d) Provide advisory support to the county cabinet on all revenue-related matters;

(e) Provide advisory expertise on all matters of resource exploitation and conversion into revenue streams such as in extractive industries;

(f) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

029 **The County Debt Management Division.** Its role is to manage the County Government's public debt and other debt obligations, that is:

(a) County Debt Management Strategy Development, Implementation, Monitoring & Evaluation;

(b) Develop a policy framework for controlling the county's debt exposure;

(c) Monitor and regularly report on the county's debt levels;

(d) Provide advisory support to the County Government on all debt matters in all interactions with the National and other County Governments, county-owned corporations and other external parties.

(e) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

030 **The Accounting, Financial Standards & Reporting Division.** Its role is to:

(a) Ensure compliance with accounting standards and use of the Standard Chart of Accounts as prescribed and published by the Public Accounting Standards Board from time to time;

(b) Ensure proper management and control of, and accounting for, the finances of the County Government and its entities in order to promote efficient and effective use of the county's budgetary resources;

(c) Oversee Government Financial Records Administration including maintaining proper secure data warehousing of government financial data with respect to all government departments and entities including all public funds such as the County Revenue Fund, the County Emergencies Fund and all other public funds administered by the County Government;

(d) Provide Accounting Systems technical and capacity building support and training including IFMIS et al;

(e) Apply, enforce and maintain financial reporting standards per legislation and standards set by the Public Accounting Standards Board in all government departments and entities;

(f) Ensure prompt follow up and resolution of all adverse mentions of audit queries by the Kenya National Audit Office;

(g) Consolidate the annual appropriation accounts and other financial statements of the County Government in a format determined by the National Accounting Standards Board;

(h) Provide the National Treasury with information it may require to carry out its responsibilities under the Constitution and the PFM Act.

(i) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

031 The County Corporations and Asset Management Division. Its role is to:

(a) Act as custodian of the inventory of the County Government's assets except where provided otherwise by other legislation or the Constitution;

(b) Monitor the County Government's entities to ensure compliance with the PFM Act and effective management of their funds, efficiency and transparency and, in particular, proper accountability for the expenditure of those funds;

(c) Assist County Government entities in developing their capacity for efficient, effective and transparent financial management, upon request;

(d) Issue circulars with respect to financial matters relating to County Government entities;

(e) Advise the County Government entities, the County Executive Committee and the County Assembly on financial matters;

(f) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

032 Procurement and Supply Chain Oversight Division. Its role is to:

(a) Ensure compliance of procurement laws and legislation of County Government entities;

(b) Provide support to county entities in matters of complex procurement procedures;

(c) Provide advisory support on procurement modalities for development expenditure projects of value of Ksh 5 million or more;

(d) Provide procurement advisory to County Executive Committee in liaison with the Public Procurement Oversight Authority;

(e) Be the primary contact and liaison entity on all procurement matters related to national projects occurring or being implemented in the county in collaboration with the National Treasury;

(f) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

033 Internal Audit Division. Its role is to:

(a) Ensure the resourcing of all internal audit work plans in line departments by ensuring all Accounting Officers have made adequate provisions for supporting their internal audit functions;

(b) Resource the set up and maintenance of all audit committees established under the relevant national and county legislation;

(c) Facilitate and support the reporting responsibilities and functions of all internal auditors and audit committees;

(d) Monitor and enforce compliance to all internal audit legislation of all county entities;

(e) Act as liaison and coordinating unit in the County Government for all matters on internal audit with the National Treasury;

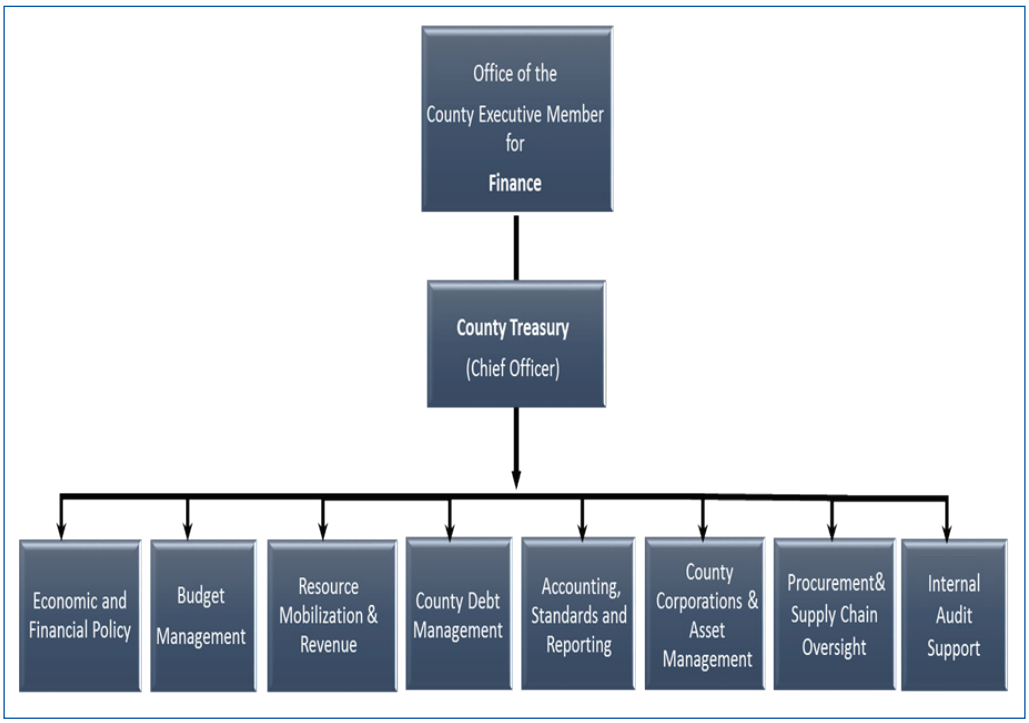
(f) Relevant and appropriate tasks as assigned by the CEC Member for Finance and/or the County Executive Committee.

(See Figure 2).

034 County Treasury officers and other financial management professionals and analysts

County Treasury officers and finance professionals in all county departments are the professional cadres of staff that ensure the budget and public financial management is delivered in accordance with the Constitution and the PFM Act.

Figure 2: Recommended Organogram of the County Treasury Divisions



035 Public Service Values and Principles for all Public Officers:[4]

The Constitution of Kenya requires all public officers in Kenya including county officials to observe the following public service values and principles:

(a) High standards of professional ethics;

(b) Efficient, effective and economic use of resources;

(c) Responsive, prompt, effective, impartial and equitable provision of services;

(d) Involvement of the Kenyan people in the process of policy making;

(e) Accountability for administrative acts;

(f) Transparency and provision to the public of timely, accurate information;

(g) Fair competition and merit as the basis of appointments and promotions subject to the principle of representation of Kenya's diverse communities and affording adequate and equal opportunities for appointment, training and advancement;

[4] Values and principles of public service: The Constitution of Kenya 2010 Article 232

(h) Representation of Kenya's diverse communities; and

(i) Affording adequate and equal opportunities for appointment, training and advancement, at all levels of the public service, of men and women, members of all ethnic groups and persons with disabilities.

036 The Governor

The functions of the Governor include to:

(a) Provide due diligence in the execution of the functions and authority provided for in the Constitution and other legislations;

(b) Set up the County Budget and Economic Forum performing state functions within the county;

(c) Issue the Governor's Warrant to authorize the withdrawal of funds from the County Treasury Single Account;

(d) Submit county plans and policies to the County Assembly for approval;

(e) Represent the county in national and international forums and events;

(f) Consider, approve and assent to the bills passed by the County Assembly;

(g) Chair meetings of the County Executive Committee; and,

(h) Hold the CEC Member for Finance accountable for the due performance of his/her duties.

037 The County Executive Committee

As the County Government's cabinet or executive organ, the County Executive Committee's roles are spelt out under the Constitution of Kenya 2010 Article 183:

The committee is tasked with implementing both County and National legislations following the setting of policy priorities in which case the public has also been consulted. They are responsible for the government's financial performance, exercising executive control, management and coordination of the various county departments. In addition, as part of their task, they furnish the County Assembly with regular reports on matters relating to the status of the County.

038 County Executive Committee Member for Finance

This is the senior most finance position in the County Government and their

role is to be the Chief Executive Officer of the County Treasury and oversee the financial administration and use of the county's financial resources in the delivery of goods and services of all government entities in the county. They are also expected to perform any other functions conferred on them by the Constitution and national or county legislation.

Where the CEC Finance is also responsible for Planning, then he/she is also tasked by the Public Finance Management Act 2012 with the development of the County Integrated Development Plan.

However, it is preferable for the planning function to operate as an independent unit albeit one that works closely with the County Treasury. This close collaboration is essential as a large number of the plans require Treasury costing expertise including the assessment of the resource envelope within which the government's spending plan must be implemented

039 County Chief Officers

These are the chief operating officers and the accounting officers of county ministries. Their responsibility is vested in overseeing the daily operations but most specifically, the financial aspects underlying their departments.

As part of their accounting role, they are expected to implement financial policies, audit requirements, financial reforms and to enforce internal systems, controls and procedures.

040 The County Assembly

As the body with the legislative authority in the county, the County Assembly approves the budget estimates of the County Government; makes laws for the effective performance of the County Government including oversight of the County Executive Committee (Cabinet). Its other important functions include overseeing plans and polices for the exploitation of the county's resources and the development and management of infrastructure, the county's institutions and the approving the borrowing of the County Government in accordance with Article 212 of the Constitution.

041 The County Assembly Budget and Finance Committee

According to Section 131(2) of the PFM Act 2012, this committee of members of the County Assembly with a chairperson review the county budget estimates submitted by the County Executive Member for Finance then makes recommendations to the County Assembly for improving the management of the county's public finances.

It monitors all budgetary matters falling within the competence of the County Assembly and reports on those matters to the County Assembly. It ensures adherence by the County Government and all its entities to the principles of public finance and others as set out in the Constitution. This includes the fiscal responsibility principles of the PFM Act 2012.

042 The National Treasury[5]

Is the chief custodian of Kenya's financial resources and how they are utilized. Its responsibilities with regard to the county budget process are laid out under the Public Finance Management (PFM) Act section 12.

It is tasked with the responsibility for mobilizing the resources needed to finance the budgetary requirements of both levels of government. Along with this, it also has the responsibility for ensuring the operation of an efficient financial management system. Its other responsibilities include strengthening fiscal relations between both levels of government, overseeing budget preparation of the National Government, responding to economic and finance-related queries by Parliament, to name a few.

043 Office of the Controller of Budget[6]

The roles and functions of the Office of the Controller of Budget are stipulated in Article 228 of the Constitution. They include approving all withdrawals from any public fund and providing oversight of the implementation of both National and County government budgets by monitoring the in-year use of public funds and submitting statutory reports to Parliament on how these funds have been utilized.

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[5] General responsibilities of the National Treasury: PFM Act 2012 section 12

[6] Controller of budget: The Constitution of Kenya 2010 Article 228 (4) (5) (6)

044 Office of the Auditor General[7]

This office is tasked under Article 229 of the Constitution of Kenya 2010 with the responsibility of reviewing the financial and operational performance of both National and County Government entities. It does this through scrutinizing financial records, statements and reports through independent audits of the accounts of both levels of government and their related entities.

045 The Public Finance Management Standing Committee[8]

Every County Government entity is required under Regulation 18 of the Public Finance Management Regulations 2014 to form this committee. It is:

(a) to be chaired by the entity's Accounting Officer (assumed to also be the Chief Officer) and should comprise of all heads of department or administrative units with a secretary to be appointed by the Accounting Officer;

(b) responsible for ensuring the prioritization of the resources that are allocated to the entity for the smooth implementation of its mission, strategy, goals, risk policy plans and objectives; review and monitoring of budget implementation; providing advice on the entity's accounts and major capital expenditures. This includes reviewing performance and strategies on at least a quarterly basis;

(c) required to identify risks and ensure the implementation of appropriate risk mitigation measures, regularly review the adequacy and integrity of the entity's internal control and oversee the acquisition, divestiture and management of information systems while ensuring they comply with applicable laws, regulations, rules and guidelines;

(d) required to establish and implement an information and management system for managing stakeholders including a stakeholder communication policy for the entity in line with Article 35 of the Constitution;

(e) required to monitor the effectiveness of the corporate governance practices under which the entity operates and propose revisions as may be required from time to time;

(f) required, under corporate governance, to monitor the timely resolution of audit issues, attend to any other matter referred to it from time to time by the responsible County Executive Committee Member or in the case of County Assembly, the Speaker; and to submit a quarterly report of its work, including

[7] Auditor-General: The Constitution of Kenya 2010 Article 229

[8] Roles and responsibilities of the PFM standing committee: PFM (COUNTY) Regulations 19 (1) and (2) of 2014

any recommendations, to the responsible County Executive Committee Member or in the case of County Assembly, to the Speaker.

046 The Public

The public is the most important constituency in the budget making process. It is a constitutional obligation of all levels of government to uphold the principle of public participation by ensuring there are sufficient ways and means for the public to participate effectively in the budget process. Some include:

(a) The County Budget and Economic Forum which the Governor is required to convene under Section 137 of the Public Finance Management Act 2012. In this forum, sector working groups comprised of equal numbers of government officials and representatives from private sector and community groups such as professional associations, industry groups, workers' groups, non-governmental groups village groups and individual citizens, provide a permanent and ongoing means of close engagement with government through making written submissions, presentations and attending public sector hearings at which they can present their feedback on government policy priorities and resource allocations;

(b) Public Consultation Forums (barazas);

(c) Submission of memoranda directly to the government;

(d) Direct lobbying and petitioning of the government by individuals or groups.

047 Public Participation Obligations of the County Government[9]

The County Government should fulfill the following to ensure effective public participation:

(a) Timely access to information, data and documents related to policy formulation and documentation;

(b) Reasonable access to the process of formulating and implementing policies, laws and regulations including the approval of development proposal, projects and budgets;

(c) Protection and promotion of the interest and rights of minorities, marginalized groups and communities and their access to relevant information;

[9] County Governments Act 2012: Section 87, Principles of citizen participation in counties.

(d) Legal standing to interested or affected persons, organizations and, where pertinent, communities, to appeal from, or review decisions, or redress grievances, especially for persons and traditionally marginalized communities, including women, the youth, and disadvantaged communities such as disabled groups;

(e) Reasonable balance in the roles and obligations of County Governments and non-state actors in decision-making processes to promote shared responsibility and partnership, and to provide complementary authority and oversight;

(f) Promotion of public-private partnerships, such as joint committees, technical teams, and citizen commissions, to encourage direct dialogue and concerted action on sustainable development.

048 A Budget Process Summary per the Public Finance Management Act 2012

The Public Finance Management Act 2012 in Section 125 (1a to i) outlines the broad steps to be taken to compile and deliver an approved budget. This outline is the skeleton framework within which the budget making process can be understood from a whole-of-government perspective as illustrated in Figure 3.

049 Between the nodes of the cycle illustrated are intermediate activities and processes that create an integrated and continuous flow of procedures in compiling compliant budgets. The document that kicks off the above cycle is the budget circular issued by the County Treasury.

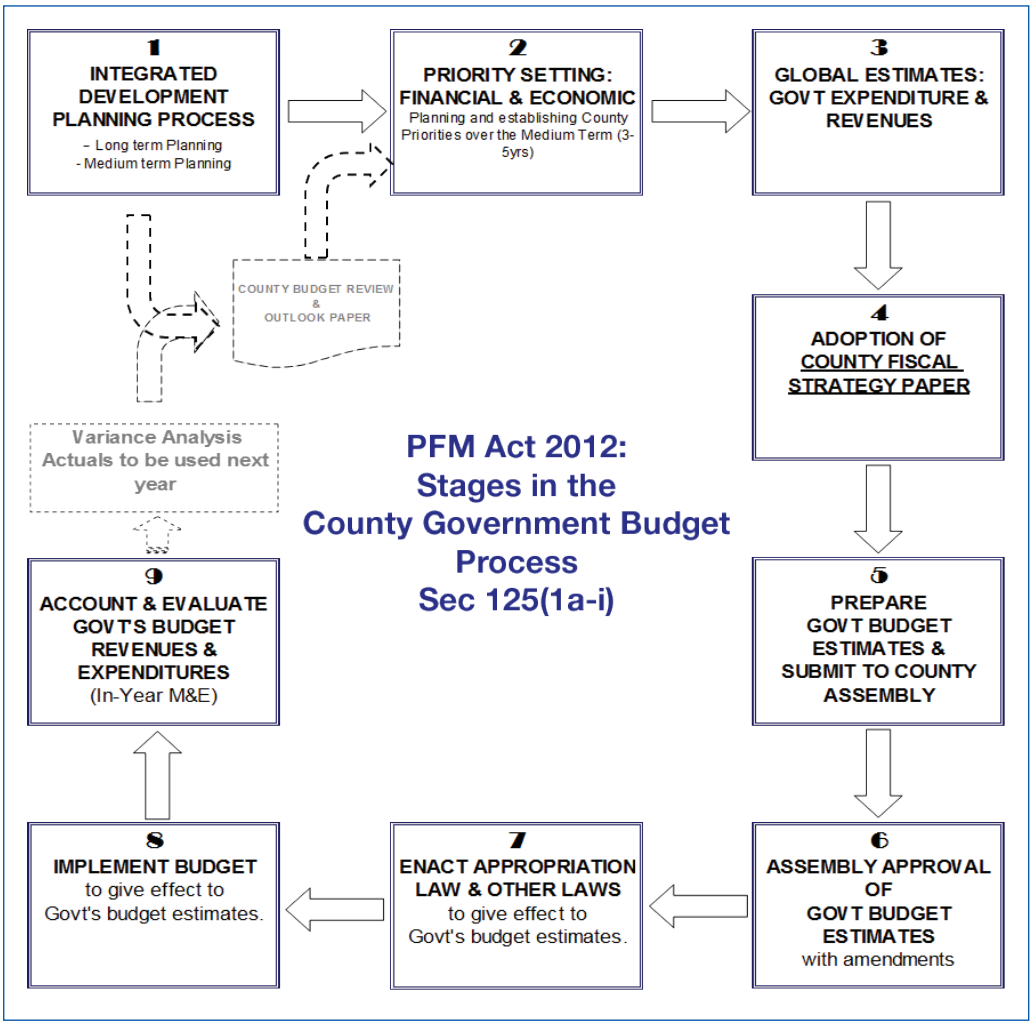
050 The Legislative Process for Approving the County Budget

Under Section 131 of the PFM Act 2012, the legislative process for approving the county budget is as follows:

(a) The County Assembly is required to consider the County Government budget estimates and pass them, with or without, amendments. This must also be done by the 30th of June which is the deadline by which the relevant appropriation law and any other laws required to implement the budget should have been passed;

(b) Before the County Assembly considers the estimates of revenue and expenditure:

Figure 3: Stages of the County Budget Process according to the Public Finance Management Act 2012



1) The relevant committee of the County Assembly will discuss and review the estimates and make recommendations to the County Assembly. This is the Budget and Finance Standing Committee of the County Assembly headed by a chairperson. Ideally, it should be made up of members with a finance background;

2) Its task is to scrutinize the budget estimates and should ideally be assisted by a budget/financial analyst as in the case of the National Assembly where the benefit of expertise from the Parliamentary Budget Office reinforces its technical ability to adequately interrogate the budget estimates;

3) The Budget and Finance Standing Committee of the County Assembly should take into account the views of the County Executive Committee Member for Finance and the public before finalizing and submitting its recommendations to the County Assembly.

(c) The County Assembly may only amend the budget estimates if:

1) The amendment it proposes is in accordance with the resolutions adopted regarding the County Fiscal Strategy Paper; and if,

2) Any increase in expenditure in a proposed appropriation is balanced by a reduction in expenditure in another proposed appropriation; and/or

3) Any proposed reduction in expenditure is used to reduce the budget deficit where one exists.

4) The first two principles above also apply where a member of the County Assembly proposes amendments after the passing of budget estimates and the Appropriations Bill by the County Assembly.

(d) The County Treasury must also consolidate the budget estimates and publish and publicise them no later than twenty-one days after the County Assembly has approved the budget estimates.

(e) The County Executive Committee Member for Finance must take all reasonably practicable steps to ensure that the approved budget estimates are prepared and published in a form that is clear and easily understood by, and readily accessible to, members of the public;

(f) The PFM Regulations 2014 then adds a requirement that: in approving the annual budget, any increase or reduction in expenditure of a vote must not exceed ten percent of the ceilings set out in the County Fiscal Strategy Paper adopted by the County Assembly.

Key Concepts, Terms and Definitions

051 Programme-Based budgeting

Programme-based budgeting is the required form of public sector budgeting in Kenya. It is a form of budgeting that links the government budget and its use of resources directly to defined public policy objectives and intended outcomes through programmes. It requires these programmes to stretch beyond one fiscal year and to have embedded in them effectiveness measures for its outputs (services) and outcomes - the final tangible impacts ‘on the ground’.

Programme-based budgeting operates within a medium term framework where the County Government plans and funds its spending ministries, departments and agencies (MDAs) to achieve assigned policy priority objectives within a three year rolling timeline. It is a performance-based system which focuses on closely linking the policy intention to the budgeting preparation to the end results of spending the allocated funds.

Table 1: Example of Programme Based Budgeting Programme Logic

PBB Programme logic		Example
Programme	[1.0]	Preventive health services
Sub programme	[1.1]	Community health
Output/service	[1.1.1]	Malaria eradication
Activity	[1.1.1.1]	Distribution of treated nets
Activity	[1.1.1.2]	Larvae eradication-treatment of breeding grounds
Activity	[1.1.1.3]	Public education on preventive measures
Activity	[1.1.1.4]	Prophylaxic medicine
Activity	[1.1.1.5]	Early detection and response service

052 The Medium Term Expenditure Framework (MTEF)

This is a three-year rolling expenditure horizon or timeline that modern government budgets run on. It differs from the past in that it incorporates planning as an integral part of the budgeting process. It requires that any public budgeting process is explicitly based on, and directed by, the County Government's policy priorities through a structured planning process to achieve its intended impacts on improving the welfare of county residents.

053 Macroeconomic Framework

The macroeconomic framework is the context within which national and international economic variables impact on Kenya's economic and fiscal health. Variables such as the inflation rate, GDP growth rates, interest rates, and on the international scene, international trade dynamics, economic growth patterns of Kenya's external trading partners, and the general international economic environment, to name a few. These must be taken into consideration when planning budgets for the future such as making projections of local

revenues that will be needed to finance the government's service delivery priorities and obligations and to determine the pace of spending necessary to ensure a County Government lives within its means.

054 The Fiscal Framework

This is the financial context within which government spending or intended spending on providing goods and services to Kenya's citizens through the budget process, is enhanced or limited by the quantum of revenues it expects to collect and the efficiency with which it spends them on effective service provision. It is fundamentally concerned with efficient and effective service delivery in light of the economic dilemma of limited resources against unlimited needs. To this end, the fiscal framework seeks to ensure prudent management of public resources and incorporates superlative record keeping and recall, effective costing mechanisms for pricing service delivery and strong and independent monitoring and evaluation processes to ensure value for money is delivered consistently.

055 The Microeconomic Framework

This is the economic context within which the County Government puts in place policies to encourage the growth of the county's private sector through effective industry-friendly policies in order to encourage economic growth and thereby widen its own revenue base and thereby capacity to finance more or better services. The growth of its private sector is essential to the county's long term feasibility, prosperity and sustainability.

Examples of microeconomic policy in action include competition policy and industry-specific policy initiatives aimed at those sectors where the county has an actual or potential competitive advantage, such as agriculture, mining or tourism.

056 Monitoring, Evaluation and Reporting Framework

This is the policy and operational context and process that ensures policy priorities and intentions are being delivered as intended. It is not only concerned with the end-of-process review of whether the result(s) intended by a policy has been achieved but also with the period of implementation; where there should be a mechanism and process for regular monitoring and reporting on

progress to date to ensure the process/project or programme is on track to achieve intended objective(s).

057 Activity Based Costing Methodology

This is based on costing activities that are the basic building blocks of outputs that deliver a desired outcome. It relies on applying a fair market fair value to cost the resource inputs that go into an activity to derive a cost of the activity. For this reason, Activity Based Costing as a methodology has an intuitive appeal and convergence with programme-based budgeting and is the recommended methodology for costing inputs in the budget compilation process of county departments. It does have its challenges, however, including apportioning indirect costs, or those inputs costs that cover several programmes or functions.

058 Sector Ceilings (Revenue and Expenditure)

These are the mandatory expenditure limits imposed by the County Treasury to ensure the County Government departments live within their means or allocated budgets. It is determined by the latest assessment of the resource envelope the county is likely to collect, including the national allocation, the county's own collected revenues, donor funding and debit financing.

059 Post Budget: Implementation, monitoring and evaluation, reporting

The Controller of Budget is charged by the Constitution with overseeing the implementation of all budgets of National and County Governments by wielding the sole authority of authorizing withdrawals from public funds under Articles 204, 206 and 207.

060 Every four months, the Controller also submits to each House of Parliament a report on the implementation of the budgets of both the National and County Governments.

061 The responsibility for independent verification of compliance, systems rigor and regularity of reporting on budget implementation, monitoring and evaluation belongs to the internal auditors and the independent County Audit Committees. They are required to report to the Auditor General; the latter also has constitutional independence and the authority to conduct audits of any and all government entities.

062 Integrated Financial Management Information System (IFMIS)

The budget preparation process is ICT based with the mechanics of compiling the budget required to be done entirely through the Plan-to-Budget module of IFMIS.

063 When fully operational, IFMIS will have four modules:

(a) **Plan to Budget:**

A fully integrated process and system that links planning, policy objectives and budget allocation. This module is already operational.

(b) **Procure-to-Pay:**

An automated procurement process from requisition, tendering, contract award to payment. This module has recently become operational.

(c) **Revenue to Cost:**

Auto-reconciliation of revenue and payments with automatic file generation. This module is not yet operational.

(d) **Record to Report:**

A secure two-way interface with the Central Bank of Kenya for accurate up-to-date information on the Government of Kenya's financial position and the production of statutory reports in real time.

CHAPTER 2

The Medium Term Budget Planning Process

064 Overview:

This chapter explores the role and importance of the Medium Term Expenditure framework and how it works, its links to the national budget calendar and its place within the County's wider strategic planning process.

065 Chapter Objectives:

(a) Introduce and explain the concept of the Medium Term Expenditure Framework and its importance to the county budget process;
(b) Provide a detailed budget calendar for counties;
(c) Explore setting sector ceilings and what considerations get into the process;
(d) Explain how to prepare the county macroeconomic framework among others;
(e) Examine data sources for supporting evidence-based decision making;
(f) Examine absorption capacity constraints and contributing factors;
(g) Outline the usefulness of a county microeconomic framework; and,
(h) Introduce Sector Working groups.

Medium Term Expenditure Framework

066 The Medium Term Expenditure Framework is meant to improve budget decision making.[10]

The Medium Term Expenditure Framework is a transparent planning and budget formulation process meant to improve budget decision making by linking government policies, priorities and requirements with and within its limited resources. Its key features are taking a medium-term perspective to budget planning – typically a time span of three years; making an explicit link between policy priorities and resource allocations; and an emphasis on the efficient use of limited public resources.

[10] Overview of MTEF: Medium Term Expenditure Framework Manual (Kenya Budget Process) 2011

Thus MTEF aims to ensure:

(a) Aggregate financial discipline through control of budget aggregates (revenues, expenditures and debt financing where applicable);

(b) Efficient allocation of resources so that budgetary expenditure allocations between and within sectors reflect, and are consistent with, government policies and priorities, with resources being progressively reallocated from lesser to higher priority programmes, from old priorities to new, and from less to more effective programmes and;

(c) Technical efficiency. Public agencies should embrace on-going efficiency strategies in order to deliver high level of public services at the lowest cost.

067 The Medium Term Expenditure Framework is a rolling timeline

The MTEF is a rolling timeline within which the county budget is prepared. It consists of the current budget year (N), the next budget year (N+1), that is, the year the current budget process is being prepared for, and the following two years (N+2) and (N+3).

068 It is the timeframe within which the best estimate of projected expenditures to deliver government goods and services is made as illustrated in Figure 4.

069 Through the MTEF, the County Government seeks to:

(a) Provide a comprehensive and realistic framework for planning and managing public expenditure;

(b) Improve resource predictability through using a structured budget planning process that provides more reliable estimates of revenues and expenditures over a three year period;

(c) Better link resource allocation to government policy and programme priorities;

(d) Restructure and rationalize resource allocation so that priority areas receive adequate funding;

(e) Improve the basis of budgeting by estimating the actual costs of government activities in delivering goods and services;

(f) Integrate the preparation and presentation of recurrent and development budgets as one internally consistent whole;

(g) Introduce a forward or medium term perspective to the planning of policies, expenditures and revenues.

(h) Align the county's planning to national planning and long term initiatives such as Vision 2030.

Figure 4: The MTEF Timeline

Current Budget Year	Next Budget Year	2nd Year from current Yr	3rd Year from current Yr
N	N+1	N+2	N+3
The budget for this year was finalised last year. The Budget is now being executed and monitored	This is the target period of the current budget process. It is the estimate of the cost of delivering government goods and services to county residents given the reality of the limited pool of revenue that the government will realistically collect from national allocations, own revenue or donor funding.	This is an estimate of likely expenditure spending to provide services beyond the next budget year. - Given the time horizon, it is a forward estimate of likely expenditure based on the programmes arising from intended policy outcomes and direction. - It normally will include multi-year programmes that are spread from previous years and the next budget year. - These are typically adjusted for inflation and include any changes anticipated in funded programmes in responding to external factors such as revenue or demand fluctuation. - Due to uncertainty, these estimates are likely to change. They are useful as they provide a good idea of expenditure boundaries to be taken into account.	This is an estimate of likely expenditure spending to provide services beyond the next budget year. - Given the time horizon, it is a forward estimate of likely expenditure based on the programmes arising from intended policy outcomes and direction. - It normally will include multi-year programmes that are spread from previous years and the next budget year. - These are typically adjusted for inflation and include any changes anticipated in funded programmes in responding to external factors such as revenue or demand fluctuation. - Due to even greater uncertainty, these forward estimates are highly likely to change. Their value remains the expenditure boundaries they give for planning.

070 County Budget Calendar and Links To The National Budget Calendar

The County Budget Calendar sets out the essential activities necessary to complete the budget process along the mandatory timeline – the MTEF. It contains all the necessary activities from strategic planning right through to budget preparation and its passing by the County Assembly. It envisages the adoption of the county budget before the start of the fiscal year to the closure of the audit review process before the following year's budget is adopted.

071 The county budget calendar and the national budget calendar intersect in the County Integrated Development Plan where the CIDP must include the impacts of national initiatives such as Vision 2030 and in the preparation of the County Budget Circular where the County Treasury issues instructions to commence the county budget process on 30th August.

072 Links between the county budget calendar and the national budget calendar can also be seen in the County Fiscal Strategy Paper where the county responds to the Budget Policy Statement (BPS) of the National Government when it is tabled before the National Assembly. The BPS may contain changes to policy priorities triggered by changes in macro-economic fundamentals that also impact the county's economy. For example: a rapid fall in aggregate demand or rise of adverse terms of trade may require a revision of national revenue estimates which in turn impacts the share of revenues counties can expect. The C-FSP must then reflect what the County Government intends to do to live within its means given these new dynamics.

Table 2: The County Budget Calendar

Deadline Dates	Deliverables or Process to be completed	Responsibility and actions required
30th August	County Budget Circular must be issued Details budget process, procedures and timeline to be followed by county departments Provides detail of mode of public participation Sets expenditure ceilings	*CEC – Member for Finance
1st September	County Integrated Development Plan (CIDP) must be submitted to the County Assembly	**CEC – member for Planning. Publish CIDP within 7 days of submission to County Assembly Send Copy to Commission on Revenue Allocation
30th September	County Budget Review & Outlook Paper (BROP) must be submitted to the County Executive Committee CEC must review in 14 days BROP reviews previous year's budget performance	The County Treasury 7 days after approval by CEC, BROP must be: Tabled before County Assembly; Published and publicised for the public to be informed
21st October	Last day by which the County Treasury must submit the BROP to the County Assembly	CEC Member for Finance

Deadline Dates	Deliverables or Process to be completed	Responsibility and actions required
1st January	Commission on Revenue Allocation (CRA) submits its recommendations for division of revenue to Parliament, National and County Governments for debate	Commission on Revenue Allocation (CRA)
31st January	Sector Working Groups submit their Sector Working Group reports to County Treasury as input into the County Fiscal Strategy Paper	Sector Working Groups/County Treasury
15th February	The Division of Revenue Bill goes to Parliament for debate	National Treasury/National Assembly
28th February [I]	County Fiscal Strategy Paper (FSP) must be: Submitted to the County Executive Committee (CEC) for review and approval then tabled in the County Assembly Reviewed and adopted by the County Assembly within 14 days of submission Published and publicised within 7 days of submission to the County Assembly	The County Treasury
[II]	County Debt Management Strategy must be: Submitted to the County Assembly as soon as possible Published and publicized for the public's information and comment Copied to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council (IBEC)	The County Treasury's Debt Management Department
15th March	County Fiscal Strategy Paper must be adopted by the County Assembly	County Assembly
16th March	Division of Revenue Bill must be passed by Parliament	National Assembly
10th April	County MDA's to re-adjust estimates in light of C-FSP then finalize and submit to County Treasury	County Ministries, Departments and Agencies (MDAs)

Deadline Dates	Deliverables or Process to be completed	Responsibility and actions required
11th – 19th April	Period to conduct county budget hearings to review MDAs strategic plans and estimates to ensure they align to county economic policy and fiscal framework	County Treasury
20th April	Date by which MDAs budget estimates have been reviewed, consolidated and their final draft budget estimates submitted to County Executive Committee	County Treasury
30th April	The County Budget Estimates must be: Submitted to the County Executive Committee for approval Accompanied by draft appropriation bill Accompanied by a budget narrative on the estimates Published and publicized for the public's information and comment	CEC – Member for Finance The County Treasury
15th June	The County Annual Cash Flow Projections (ACFP) must be prepared and submitted to The Controller of Budget Intergovernmental Budget and Economic Council (copy) The National Treasury (copy) (Procurement and ministerial work plans need to have first been prepared).	County Treasury submits on behalf of the County Government
30th June [I] [II]	Debate to approve County Budget Estimates by the County Assembly must be conducted and approved including with any amendments Appropriation Bill must be approved by the County Assembly	The County Assembly
30th September	County Finance Bill must be submitted to the County Assembly	CEC – Member for Finance after CEC's approval

073 MTEF and The County Strategic Planning Process

The function of the MTEF on the county's strategic planning process is to circumscribe the context within which the County Integrated Development

Plan (CIDP) is expected to provide time bound targets for the government and its ministries. While the MTEF works to a three year time horizon, the CIDP looks at planning over a five year horizon.

By requiring estimates over the first three years of the CIDP's five year time horizon, the MTEF provides a framework that expects County Governments to take into account:

(a) The impact of current and anticipated economic and fiscal events and incidents into its policy settings and targets i.e. set a realistic roadmap for the future;
(b) The estimated financial and economic impacts of all national priority projects in the county. For example, large Vision 2030 projects such as Lapsset or Konza Techno City Projects or those that traverse more than one county.
(c) National Government spending on building the infrastructure will by itself have significant year-to-year and long term economic and financial effects. The MTEF requires these impacts to be anticipated, quantified and factored into the county's strategic planning and therefore their budgets;
(d) The fact that having estimates over the medium term (three years) also provides a base to extrapolate estimates over the CIDP's 5 year horizon and to give a strategic planning context for a rolling budget that will, over time, give continuity and predictability to its long term budgeting practice;
(e) Projected growth rate of its various sectors in the county economy to enable the setting of budget ceilings over the medium term. These ceilings also encourage an ongoing conversation about the longer time horizon of the CIDP and how realistic it is.

The MTEF and Its Link to the County Budget Process

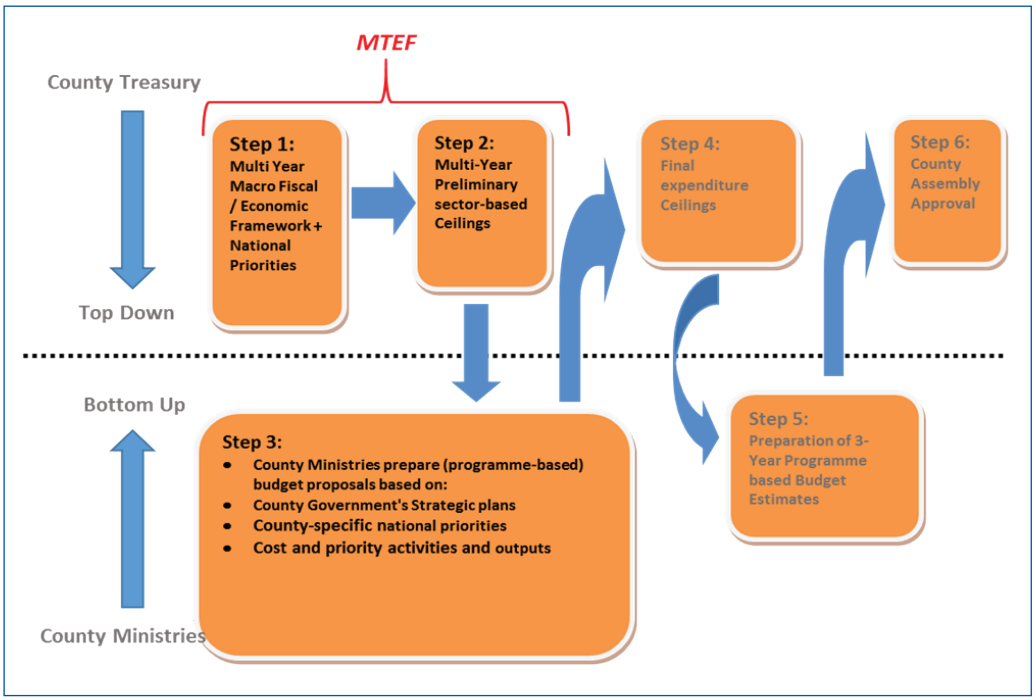
074 The MTEF and the County Treasury

The County Treasury must take a top-down and bottom-up approach of the budget process to ensure fiscal discipline and that line departments live within their means. To do this, it must develop a multi-year macro fiscal and economic view of the county to guide the budget process. From this top-down approach, line departments should then plan and budget within known resource envelopes as illustrated in Figure 5.

075 The MTEF and County Ministries, Departments and Agencies

County Ministries, Departments and Agencies (MDAs) are required to prepare their budgets using the Medium Term Expenditure Framework.

Figure 5: The Medium Term Expenditure Framework of the County Budget Process[11]



076 The planning and budget preparation process must be over a three year time horizon and based on the government's identified and prioritized programmes together with their expected, clearly defined outcomes and outputs.

077 All national programmes which either impact the county or for which there is a requirement in national legislation for the county to address or comply with, should also be reflected in the MDA's planning and budget preparation process and their expected impacts. An example of a national program is Vision 2030.

078 The MTEF in action is illustrated in Figure 6 using a hypothetical example of a County Health Department's project to distribute treated mosquito nets.

079 How the MTEF works

(a) As illustrated in Figure 6, the Medium Term Expenditure framework lays out a 3 year expenditure plan based on achieving defined targets (malaria eradication).

[11] Figure 15: The Kenya Budget process, Government of Kenya Programme Based Budgeting Manual 2011

(b) The period of the MTEF therefore starts from the next budget year (N+1) and the two subsequent years. That is, from N+1 to N+3 or in this instance from 2015 to 2017 inclusive.

(c) The budget does not include the current year's (2014) budget of KSh 45m except to factor in its target shortfall of 30,000 nets in the next budget year's (2015) numbers, and hence its higher estimate. (See Figure 6).

Figure 6: How MTEF works in budgeting

Health Ministry Example - MTEF Budget for the Distribution of Treated Nets Project

(An Activity of the Malaria Eradication Service under -> the Community Health Sub-programme under -> the Preventive Health Services Programme)

Budget Year N	Budget Year N+1	Budget Year N+2	Budget Year N+3
2014	2015	2016	2017
(Fiscal Year 2014/15)	(Fiscal Year 2015/16)	(Fiscal Year 2016/17)	(Fiscal Year 2017/18)
Successfully distributed 20000 treated nets @ 500/- ea = Ksh 45m	Project target for this year = 20,000 treated nets @ 500/- ea = Ksh 10m	Target estimate for distributing 30,000 treated nets in 2016/17 adjusted to account for inflation ***and*** various other changes such as reduction of personnel etc...	Target estimate for distributing 30,000 treated nets in 2017/18 adjusted to account for inflation ***and*** various other changes such as further reduction of personnel etc...
Cost: Kshs 10,000,000	**Cost: Kshs 10,000,000**	**Cost: Kshs 16,500,000**	**Cost: Kshs 18,975,000**
The budget for this year was finalised last year. The Budget is now being executed and monitored	This is the target period of the current budget process. It is the estimate of the cost of delivering government goods and services to county residents given the reality of the limited pool of revenue that the government will realistically collect from national allocations, own revenue or donor funding.	This is an estimate of likely expenditure spending to provide services beyond the next budget year. - Given the time horizon, it is a forward estimate of likely expenditure based on the programmes arising from intended policy outcomes and direction. - It normally will include multi-year programmes that are spread from previous years and the next budget year. - These are typically adjusted for inflation and include any changes anticipated in funded programmes in responding to external factors such as revenue or demand fluctuation. - Due to uncertainty, these estimates are likely to change but are useful as expenditure boundaries.	This is an estimate of likely expenditure spending to provide services beyond the next budget year. - Given the time horizon, it is a forward estimate of likely expenditure based on the programmes arising from intended policy outcomes and direction. - It normally will include multi-year programmes that are spread from previous years and the next budget year. - These are typically adjusted for inflation and include any changes anticipated in funded programmes in responding to external factors such as revenue or demand fluctuation. - Due to even greater uncertainty, these forward estimates are highly likely to change. Their value remains as expenditure boundaries for planning purposes.

(d) This pattern is to be repeated at the lowest level of departmental programmes then aggregated upwards to derive departmental aggregates.

(e) For the County Treasury, the MTEF process consists of two phases, each of which requires the consideration and implementation of a series of actions. These are: preparing an economic and fiscal update of the county – called a Macroeconomic Framework and setting sector ceilings.

080 Preparing a County Macroeconomic Framework:

The County Treasury prepares an economic and fiscal outlook of the county to establish the county's macroeconomic framework. The factors and actions to take into account when preparing the County Macroeconomic Framework include:

(a) Economic growth targets should be projected over the medium term – the next three years. This will take into account such factors as:

1) The National Government's own macroeconomic outlook on the national economy and how it is likely to impact the county;
2) An assessment of the county's main economic activities and their likely behaviour in the coming three years. e.g. agricultural production, commercial and industrial production, tourism, mining and other extractive industries;
3) The County Government's own policy aims and priorities in key areas and sectors such as on public sector wages, infrastructure investment and other sectors of the county economy.

(b) Once the County Treasury has set these targets in place, they then become the basis for projecting revenue targets that are consistent with the growth targets.

(c) Revenue targets should be broken down by sector. Thus the economic growth targets that have been derived are themselves sector based so that a conservative estimate of its growth provides a realistic baseline of what county revenues are likely to accrue to the government from that sector. Overestimation of own revenues to ensure balanced budgets is strongly discouraged and will inevitably lead to rejection of such budgets by the Office of the Controller of Budget.

(d) For example, if a county's agricultural sector currently accounts for Ksh 300 million of a county's own revenue and is now projected to grow by fifteen percent due to favourable tea and coffee prices, it may then be possible to conservatively estimate that - net of costs and profits - it will lead to a seven percent increase or Kshs 21 million in additional tax revenue to the County Government. Thus a sector growth target of fifteen percent, leads to a projected

increase of Kshs 21 million that can be expected to – maybe - increase allocations to the Department of Agriculture by KShs 21 million to be invested in developing a value addition sub-sector within the agriculture sector.

081 Setting Sector Ceilings

Sector ceilings are directly related to the resource envelope a county has. They should also reflect the County Government's policy priorities per the County Integrated Development Plan. The county resource envelope reflects the total amount of revenues from various sources the county realistically expects to collect to finance its expenditures from four generic revenue sources: the national revenue allocation, the county's own revenues, donor funding and debt financing.

082 The county sector ceilings above are therefore based on an assessment by the government of each sector's most realistic growth potential. The basic economic statistics for each sector such as size, value of output, number of employees and relative ranking in the county, are an important ingredient in accurately estimating the size of these sectors.

083 Sector ceilings are also determined on the basis of government policies and priorities attached to each sector. The task of producing them falls on the County Treasury and three of its programmes, namely: Economic and Financial Planning, Budget Management and Resource Mobilization and Revenue.

084 Establishing sector ceilings is also dependent on effective engagement and use of sector working groups. They play a critical role in assisting the County Government through their sector working group reports which assess the sector's realistic growth prospects that form the foundation for the County Treasury's sector and general aggregated revenue estimates.

085 Data Sources:

To determine ceilings and more generally the operation of the county budget process as enumerated above, the County's capacity to access and use accurate information is crucial and essential for effective and evidence-based decision making. Some sources of relevant information include:

(a) The Open Data website *https://opendata.go.ke/facet/counties*

(b) The Kenya National Bureau of Statistics *http://www.knbs.or.ke/index.php?option=com_content&view=article&id=176&Itemid=645*

(c) **The National Government.** The Department of Devolution and Planning is likely to yield useful information from the former local authorities' databases. These figures may need to be adjusted for inflation and assessed for reasonableness using the county's own assessment of the reality on the ground to develop defensible figures and facts upon which to develop sector aggregates;

(d) **District data.** Another proxy source is the National Government's district data which is roughly along current county boundaries;

(e) **Constituency data.** Given that counties are made up of a number of constituencies, a third proxy source of information is constituency-specific data sets from the Kenya National Statistics Bureau, the Department of Devolution and Planning and publications of National Government departments such as health and education.

(f) Failing all of the above, the use of national sectoral information adjusted for the county through applying a clear methodology may suffice in the interim and can be used to develop a baseline for each sector.

086 The above exercise also strongly reinforces the urgent need for the county to develop a strong statistical function and capability to ensure it has accurate and robust economic and financial data to aid effective, evidence-based decision making.

087 Some Main Considerations in Determining Ceilings include:[12]

(a) The County Government's policy priorities to spur economic growth;

(b) The spending levels of current programmes;

(c) Current donor commitments through grants and loans;

(d) Levels of own revenue that have significant impacts or potential for growth;

(e) Reviewing Sector Working Group Reports to prepare conservative estimates of sector growth rates in the county economy. It should be noted that most counties will have only one or two sectors to analyze.

The County Treasury should use these estimates of growth rates for each sector as the basis to estimate revenues by sector. Aggregated together, these sector revenues then form the overall estimate of the county's own revenue growth and the county's own revenue quantum for the budget year and forward years.

[12] Setting Ceilings and Guiding Expenditure Planning: Medium Term Expenditure Framework Manual (Kenya budget Process) 2011

088 This aggregate of own revenue should then be added to conservative estimates of what the county expects from the national revenue allocation, to the amount of expected donor funding and the likely amount of debt funding it can expect to raise to derive the county's overall resource envelope within which it must finance the delivery of all its goods and services.

089 For the county's development budget, the County Treasury must:

(a) Assess current ongoing projects for their funding needs going forward. It should be remembered that under the fiscal responsibility principles of the PFM Act 2012, thirty percent of expenditure is dedicated to development expenditure. It is prudent practice to apply this percentage to the annual budget estimate rather than attempt to vary it year to year as the medium term per the MTEF is a rolling timeline.

(b) Assess new project proposals against policy priorities including those that are partly or fully funded by donors through project loans and grants or through a mix funding arrangement with the National Government. The total is put against a sector's account as a floor since this represents ear-marked sector funding on the revenue side.

090 On the recurrent side, the process involves determining what the non-discretionary expenditures are, such as statutory debt payments, the wage bill for all the ministries, and essential operating expenses, before any discretionary funds can be found for new projects or the expansion of existing services.

091 The final process in budgeting is to add up all funding requirements of sectors and compare them with available resources and, by making trade-offs between sectors in the discretionary, non-core poverty programmes and non-committee portions of budget proposals, to arrive at the final budget.

092 Absorption Capacity challenges

A special note should be made of the county's absorption capacity challenges and the factors that hinder it. It is relevant for budgeting purposes as it indicates the maximum capacity of the county to use allocated funds.

The County's absorption capacity should be taken into account during budget preparation to ensure the expenditure estimates submitted for funding do not

exceed the county's own capacity to use the allocated funds to adequately deliver services. Persistent under-spending undermines budget credibility and future budget appropriation negotiations.

093 Contributory factors to Absorption Capacity Challenges

Some of the factors that contribute to absorption capacity challenges of county line departments can be addressed by the county itself. On the main, these are:

(a) Complex procurement modalities;

(b) Lack of suitably qualified suppliers;

(c) Staff capacity constraints such as inadequate numbers of staff due to slow or incompetent recruitment practices, staff inexperience, lack of adequate qualifications and training;

(d) Slow government procedures other than procurement i.e. government red tape;

(e) Poor or non-existent project and contract management capabilities (including in the county's private sector) to ensure effective management of programmes;

(f) Limited County Assembly capacity and capability to scrutinize and approve budgets on time;

(g) Business relationship management challenges between the County Executive and the County Assembly leading to delays in the passing of bills and finalizing budgets.

094 It is therefore important for these factors to be noted and addressed to ensure effective and efficient mechanisms for maximizing the County's absorption capacity. It is therefore also a strategically important aspect of county financial management that should be addressed at the County Integrated Development Planning looking forward. For it may entail outsourcing certain functions to competent private sector firms, strengthening procurement facilitation processes in government, performance incentivization of the county public service etc.

095 Department expenditure ceilings are also directly related to sector ceilings and do not include any adjustments for inflation because they are based on a realistic estimate of sectors' projected expenditure and revenues over the medium term. Expenditure ceilings set an absolute upper limit line departments cannot exceed.

096 A noteworthy inclusion in sector analysis – a Microeconomic Framework

Behind the sector analysis that is expected in drafting the County Integrated Development Plan, developing a comprehensive microeconomic framework is useful, relevant and important to county budgeting due to its potential effect of encouraging economic growth through private sector-friendly policy initiatives that then lead to boosting the county's own revenues beyond the national allocation and donor-dependency.

A robust microeconomic policy framework spells out the County Government's policy stance on developing, facilitating or addressing factors that either impede or encourage the county's private sectors growth potential.

Its main aim is to establish clear overarching policy settings that spur economic growth. For example competition or industry-specific policies such as an agricultural revitalization policy that encourages development of a local fertilizer industry or incentivizes value-adding investors to set up shop in the county.

097 Defining County Budget Sectors for Concise Budgeting

The Medium Term Expenditure Framework at the department level is based on the outlook of individual departments of their respective sectors with regard to the services and goods they plan to deliver. Thus each department is responsible for addressing the needs of its sectors within a finite resource envelope. In this, an effective means of defining and engaging these sectors is through Sector Working Groups.

098 Sector working groups

Discussed at length in Chapter Four on public participation, the County Treasury, along with the rest of the County Government departments, is expected to also engage the public through representative groups from various sectors of the county economy through sector working groups under the County Budget and Economic Forum convened by the Governor. Membership comprises of an equal number of ministerial officials and representatives from a wide variety of citizen, community, professional, commercial and other interest groups. This is to be one manifestation of the constitutional principle of public consultation and participation in government decision making.

These groups engage government through chosen representatives who submit and make presentations to the forum on a continuous basis especially during consideration of, and before the adoption of, critical budget documents by the County Government and County Assembly such as the County Integrated Development Plan (CIDP), the County Budget Review & Outlook Paper, the County Fiscal Strategy Paper and the final Budget Estimates.

CHAPTER 3

The County Integrated Development Plan (CIDP)

099 Overview

This chapter reproduces and sets out the process to be followed to prepare the County Integrated Development Plan as required by the Ministry of Devolution.

0100 What the Law says:

0101 The County Government Act 2012

The County Government Act 2012, in fulfillment of constitutional requirement to legislate preparation of county plans, details the goals and procedures of "County Planning" (Part XI of the Act). County planners are required to prepare 5-year integrated county development plans and the annual county budgets to implement them.

Under Section 102(h) of the Act, county planning is expected "to provide a platform for unifying planning, budgeting, financing programmes, implementation, and performance review". A county planning unit shall be responsible for "coordinated integrated development planning". County plans will have the goal of promoting harmony with national and other county plans, land-use plans, urban planning and environmental conservation.

The County Government Act, 2012, section 104 (1), states that, "a County Government shall plan for the county and no public funds shall be appropriated without a planning framework developed by the county executive committee and approved by the County Assembly". It also states that the county planning framework (as in the definition above) shall integrate economic, physical, social, environmental and spatial planning. In addition to an integrated county development plan, each county is expected to have the following:

(a) A County Sectoral Plan;
(b) A County Spatial Plan; and
(c) A City and Urban Areas Plan.

These county plans (Section 107(2)) "shall be the basis for all the budgeting and planning in a county".

0102 Transition to Devolved Government Act, 2012

Under the Transition to Devolved Government Act (2012), the Transition Authority is expected "to provide mechanisms for capacity building requirements" of the new county authorities to prepare the appropriate plans and budgets. (Section 3 (f))

0103 Public Finance Management Act (PFMA), 2012

The Public Finance Management Act (PFMA), 2012, emphasizes what the County Government Act states but puts a slightly different emphasis on planning. Whereas the County Government Act requires a "five-year County Integrated Development Plan", the PFMA (Part IV Section (126) (1)) requires both a long-term and medium term plan. According to the PFMA, a budget process for the County Government in any financial year shall consist of the following stages:

(a) Start with an integrated development planning process, which shall contain both short term and medium term plans.

(b) Every county shall prepare a development plan as per Article 220 (2) of the Constitution.

(c) Budgets are to be based on projects and other expenditure contained in the plan.

0104 Urban Areas and Cities Act, 2011

Urban Areas and Cities Act (2011) is also emphatic on the need for 5 year integrated development planning and the need to align annual budgeting to the plan. These plans are separate from those of the county. In section 36(2) it states that "an integrated urban or city development plan shall bind, guide, and inform all planning for development and decision-making and ensure comprehensive inclusion of functions."

The PFM Act (2012) Section 126 also requires the County Government to prepare a County Integrated Development Plan (CIDP) in accordance with Article 220(2) of the Constitution through the County Executive Member for Planning (CEC-Planning) and whose responsibilities are to:

(a) Be responsible for preparing the CIDP using the format prescribed by regulations;

(b) Submit the CIDP no later than the 1st September of each year to the County Assembly for approval;
(c) Send a copy to the Commission on Revenue Allocation and the National Treasury;
(d) Publish and publicise the CIDP within seven days after submitting it to the County Assembly. To publish and publicise is to use all the communication channels listed and required under Chapter Four on public participation.

0105 Compiling a CIDP is the responsibility of the County Executive Member for Planning

The County Executive Committee Member for Planning and through him/her the Department of Planning and Development is tasked by Section 126(2) of the Public Finance Management Act 2012 with the development of the County Integrated Development Plan. Close collaboration with the County Treasury is essential as a large number of the plans contained therein require the costing expertise of the County Treasury including an assessment of the resource envelope within which the government's spending plan must be implemented.

0106 The Legal Obligation to Plan

The County Government is obligated to plan as a condition before it can use public funds of any kind. These obligations are laid out in the County Government Act 2012 in Section 104 which states that:

(a) A County Government shall plan for the county and no public funds shall be appropriated outside a planning framework developed by the county executive committee and approved by the county assembly.
(b) The county planning framework shall integrate economic, physical, social, environmental and spatial planning.
(c) The county government shall designate county departments, cities and urban areas, sub-counties and Wards as planning authorities of the county.
(d) To promote public participation, non-state actors shall be incorporated in the planning processes by all authorities.
(e) County plans shall be binding on all sub-county units for developmental activities within a County.

0107 A County Planning Unit is mandatory

To facilitate the fulfillment of this obligation, Section 105 of the County Government Act requires that a County Planning Unit is established within the County whose responsibilities include:

(a) Coordinating integrated development planning within the county;
(b) Ensuring integrated planning within the county;
(c) Ensuring linkages between county plans and the national planning framework;
(d) Ensuring meaningful engagement of citizens in the planning process;
(e) Ensuring the collection, collation, storage and updating of data and information suitable for the planning process; and
(f) Ensuring the establishment of a GIS based database system.

The Act then requires in Section 105 that a designated planning authority in the county to "appropriately organise for the effective implementation of the planning function within the county".

0108 Principles of Planning and Development Facilitation

According to Section 102 of the County Government Act 2012, the principles of planning and development facilitation in a county shall:

(a) Integrate national values in all processes and concepts;
(b) Protect the right to self-fulfillment within the county communities and with responsibility to future generations;
(c) Protect and integrate rights and interest of minorities and marginalized groups and communities;
(d) Protect and develop natural resources in a manner that aligns national and county governments policies;
(e) Align county financial and institutional resources to agreed policy objectives and programmes;
(f) Engender effective resource mobilization for sustainable development;
(g) Promote the pursuit of equity in resource allocation within the county;
(h) Provide a platform for unifying planning, budgeting, financing, programme implementation and performance review; and
(i) Serve as a basis for engagement between county government and the citizenry, other stakeholders and interest groups.

0109 Objectives of County Planning

The County Government Act then lays out in Section 103 the objectives of County planning to be:

(a) Ensure harmony between national, county and sub-county spatial planning requirements;
(b) Facilitate the development of a well-balanced system of settlements and

ensure productive use of scarce land, water and other resources for economic, social, ecological and other functions across a county;

(c) Maintain a viable system of green and open spaces for a functioning eco-system

(d) Harmonize the development of county communication system, infrastructure and related services;

(e) Develop urban and rural areas as integrated areas of economic and social activity;

(f) Provide the preconditions for integrating under-developed and marginalized areas to bring them to the level generally enjoyed by the rest of the county;

(g) Protect the historical and cultural heritage, artifacts and sites within the county;

(h) Make reservations for public security and other critical national infrastructure and other utilities and services;

(i) Work towards the achievement and maintenance of a tree cover of at least ten per cent of the land area of Kenya as provided in Article 69 of the Constitution; and

(j) Develop the human resource capacity of the county.

0110 A Suggested Model To Compile The CIDP:

To effectively execute this responsibility, there should be formed a Standing Technical Ministerial Working Group chaired by the County Executive Committee member for Planning or in their absence by delegation - the Chief Officer of the Department of Planning and Development. It's Vice chair should be the Chief Officer of the County Treasury or in their absence a designated alternative.

0111 The Standing Technical Ministerial Working Group should be made up of between 12-15 selected senior department executives representing as wide a spectrum of competences as possible including but not limited to: planners; economists; engineers; environmental scientists; urban planners; agriculturalists, accountants, statisticians, development economists and finance experts. These members also must be representatives specifically selected by each County Executive Committee member and their related government department for their experience and expertise in their sector.

0112 Guided by the Public Finance Management Act 2012, the County Government Act 2012 and the latest guidelines on compiling the CIDP issued by the Department of Devolution and Planning and the County's Department for Planning, the Standing Technical Ministerial Working Group should be tasked to:

(a) Compile - in priority order - all the policy priorities that have been decided upon by the County Executive Committee – by sector;

(b) Incorporate National Government policy and development priorities into the county's priority policy initiatives;

(c) Invite and consult with sector groups on service and development priorities through sector hearings;

(d) Incorporate feedback from the general public obtained from all public consultation forums (including barazas) that have been gathered down to the county ward level;

(e) Consolidate the above submissions into a prioritized list of programmes and by sector or department with details for each programme of:

1) The strategic priority to which it will contribute;
2) The goods and services to be provided;
3) The measurable performance indicators wherever feasible;
4) The budget allocated to it;
5) A description of how the County Government is responding to changes in the financial and economic environment;
6) Payments to be made on behalf of the County Government including details of any grants, benefits and subsidies that are to be paid;
7) A description of significant capital developments;
8) A detailed description of proposals with respect to the development of physical, intellectual, human and other resources of the county including measurable indicators where those are feasible;
9) A summary budget in the prescribed format;
10) Any such matters as may be required by the Constitution or the PFM Act 2012.

(f) Develop the above cost estimates and indicative budgets of the above mentioned programmes in close partnership with County Treasury;

(g) Compile a Draft County Integrated Development Plan for review by the County Executive Committee;

(h) Revise the Draft County Integrated Development Plan after amendments by the County Executive Committee to produce the final County Integrated Development Plan.

0113 The County Executive Committee member for Planning shall then release the CIDP on behalf of the County Executive Committee to the County Assembly and thereafter to the public for comment and review.

0114 Definition of Integrated Development Planning:[13]

This is defined as "a process through which efforts at national and devolved levels of government and other relevant public institutions are coordinated at local level, and through which economic, social, environmental, legal and spatial aspects of development are brought together to produce a plan that meets the need and targets set for the benefit of local communities".

0115 Attributes of a Good Integrated Development Plan

A good plan is one that is simple, realistic, comprehensive, consistent, precise, and facilitative in terms of policy and resource outlay for project implementation. Therefore, in the course of the preparation of the CIDP, it is necessary to ensure that the following issues are taken into account:

(a) **Comprehensiveness:** The CIDP should be inclusive and comprehensive in addressing issues that affect the livelihoods of people. The adopted development strategies should therefore influence interactions amongst various stakeholders involved in the county development process.

(b) **Performance Analysis:** A good plan should entail a comprehensive review of the past sector performance in the county. This should include an analysis of the situation at the beginning of the plan, any changes realised, constraints encountered, and the lessons learnt. This analysis helps the County Planning Unit to guide the county in the formulation of effective strategies that promote sustainable development in the county.

(c) **Development Vision and Mission:** A good plan should clearly state the vision agreed upon by all county stakeholders, towards which all development actors will have to work. This county vision must be linked with the national vision, hence showing how the county will contribute to the realisation of the long-term aspirations of the nation. The vision statement should be followed by an agreed county mission.

[13] Ministry of Devolution and Planning's Guidelines for Preparation of County Integrated Development Plans, 2013 Chapters (1) and (2)

(d) **Strategy Presentation:** A good CIDP should present strategies through which the sectoral objectives are translated into specific targets. Defining the county objectives helps formulate the best strategies through which the selected interventions shall be achieved.

(e) **Monitoring and Evaluation:** A good CIDP fulfils its function as a superior information base for decision making, hence an instrument for monitoring the development process in the county.

0116 What the County Governments Act (2012) requires of the County Integrated Development Plan

Sections 108 and 112 of the County Government Act (2012) lay out detailed requirements for the County Integrated Development Plan and its three sub-plans. The Act stipulates that the CIDP shall be a five year development plan which has:

(a) Clear goals and objectives;

(b) An implementation plan with clear outcomes;

(c) Provisions for monitoring and evaluation; and

(d) Clear reporting mechanisms.

0117 Attachments to the CIDP

An integrated development plan must also have attached to it maps, statistics and other appropriate documents; or refer to maps, statistics and other appropriate documents that are not attached but held in a GIS based database system. These plans must be open for public inspection at the offices of the county in question.

0118 Details of the Resource mobilization and management framework in the CIDP

This must be reflected in a county's integrated development plan. It should as a minimum include the budget projection required under the law governing county government financial management and indicate the financial resources that are available for the county's capital project developments and operational expenditure, including a financial strategy that defines sound financial management and expenditure controls well as ways and means of increasing revenues and external funding for the county and its development priorities and objectives.

This strategy may address strategies for revenue raising; asset management; financial management; capital financing; financing operations and any other strategies that would enhance cost-effectiveness.

0119 Amending County Integrated Development Plans

0120 In Section 112 of the County Governments Act 2012, it stipulates the conditions under which the CIDP may be amended. That is, a County Executive Committee may by a resolution, introduce a proposal to amend the county's integrated development plan.

0121 This proposed amendment must be considered and approved or rejected by the County Assembly in accordance with its Standing Orders. It must also be accompanied by a memorandum setting out the reasons for the proposal and aligned with the framework that ensures the integration of national and county planning.

0122 Where the amendment has impacts on neighbouring counties, the county government must consult all the county governments affected by the proposed amendment and take all comments submitted to it into account before it reaches a final decision on the proposed amendment.

0123 Any amendment to the CIDP must also involve consultations with the cities and urban areas within the county and take all comments submitted to it into account before a final decision on the proposed amendment is made.

0124 No amendment to a CIDP may be considered by the County Assembly unless all the members of the County Assembly have been given reasonable notice. The proposed amendment must have been published for public comment for a period of at least *twenty one days* in a manner that allows the public an opportunity to make representations with regard to the proposed amendment. However, this requirement does not prevent a person who is ordinarily resident in the county from proposing an amendment to the County Integrated Development Plan.

0125 Giving Effect to the County Integrated Development Plan

Section 113 of the County Governments Act 2012 provides for how the CIDP is brought into effect in the County. It stipulates that a CIDP shall inform the

county's budget so that it is based on the objectives of county planning and the performance targets set by the county. The CIDP shall also be used to prepare action plans for the implementation of strategies identified by the county.

0126 On Performance and the CIDP

A county integrated development plan must provide clear input, output and outcome performance indicators including—

(a) The percentage of households with access to basic services contemplated under Article 43 of the Bill of Rights of the Constitution;

(b) The percentage of a county's capital budget actually spent on capital projects identified for a particular financial year in terms of the county's integrated development plan;

(c) The number of jobs created through any local economic development initiatives including capital projects; and

(d) Financial viability of the integrated development plan in accordance with nationally applicable ratios.

The performance management system used to measure and monitor performance must itself also conform to nationally applicable guidelines.

0127 Chapters of the County Integrated Development Plan[14]

(a) CIDP Chapter 1: County General Information

This chapter should provide a detailed background of the county, population, history, resource endowments, major development constraints, previous development achievements, health, education, etc. Most of this information is available in the County Development Profiles already provided to the counties.

Writers of this chapter should aim at giving a brief introduction of the county but should, in addition to providing basic county data, introduce economic analysis of the main challenges facing the county, and the strategies to address them. The writers should ensure that the sub-sections listed below are well covered. Each sub-section should not be more than four paragraphs covering at least the indicated bullets under each sub-section. This outline is not exhaustive but it should serve as a guide, which can be improved to

[14] Guidelines for Preparation of County Integrated Development Plans, 2013: Chapter 3

suit each respective county profile. The emphasis should be on presentation of a detailed "bird's eye view" of the county for use by various interested stakeholders.

The chapter structure should be as follows:

(b) **Introduction to Chapter 1**

This should lay out the main themes and significant items in the chapter especially where they will be covered in greater detail later in the Plan. It should provide basic county facts such as its relative socio-economic position, size and a Map of Kenya showing the County's location. The rest of the chapter should cover the following items under the bolded headings.

(c) **Physiographic and Natural Conditions**

1) Physical and Topographic Features
2) Ecological Conditions
3) Climatic conditions

(d) **Administrative and Political Units**

1) Administrative subdivision (constituencies, divisions, locations)
2) (Insert the map of the county's administrative/political units)
3) Table 1: Area of the County by Sub-County
4) Political units (constituencies, electoral wards)
5) Table 2: County's Electoral Wards by Constituency

(e) **Demographic Features**

1) Population size and composition
2) Tabular information is recommended, containing population data as at the last national census, current estimates, and medium-term projections. Similar projections should be done for urban population in key towns in the county, and population distribution and density per division and constituency. Analysis of each table should be done.
3) Table 3: Population Projection by Age Cohort
4) Table 4: Population Projections by Urban Centre
5) Population density and distribution
6) Table 5: Population distribution and density by Constituency/Sub-county

(f) **Human Development Approach**

Give a brief explanation of the Human Development Indicators and briefly compare the county HDIs to the national HDIs.

(g) **Infrastructure and Access**

1) Road, Rail Network, Ports and Airports, Airstrips and Jetties

2) Posts and Telecommunications: Post Offices, Mobile telephony, landlines etc
3) Financial Institutions: Banks, SACCOs, Micro Finance Institutions
4) Education Institutions: Primary/Secondary Schools, Polytechnics, Colleges, Universities
5) Energy Access (Main sources of energy, Electricity coverage etc)
6) Markets and Urban Centers
7) Housing: Types

(h) Land and Land Use

1) Mean holding size
2) Percentage of land with title deeds
3) Incidence of landlessness
4) (Insert Spatial Map)

(i) Community Organizations/Non-State Actors

1) Cooperative Societies
2) Non-Governmental Organizations
3) Self Help, Women & Youth Groups

(j) Crop, Livestock and Fish Production

1) Main crops produced
2) Acreage under food crops and cash crops
3) Average farm sizes
4) Main storage facilities
5) Main livestock bred
6) Number of ranches
7) Main fishing activities, Types of fish produced, Landing sites

(k) Forestry and Agro Forestry

1) Main Forest types and size of forests.
2) Main Forest products Gazetted and Ungazetted forests
3) Promotion of Agro-Forestry and Green Economy for:
   - Income generating activities including farm forests
   - Protection of water catchment areas
   - Prevention of soil erosion
   - Provision of wood fuel and generation of energy for industries e.g. for Tea Estates
   - Improvement of soil fertility by growing fertilizer trees
   - Growing of fruit trees for improved nutrition both for domestic use and surplus for markets

- Provision of carbon sinks e.g. Carbon Trading
- Beautification activities in towns, highways, schools
- Homes and other public places
- Animal feeds production ventures
- Growing and processing for medicinal purposes/Value plants and products

(l) **Environment and Climate Change**

1) Major contributors to environmental degradation in the county
2) Effects of environmental degradation
3) Climate change and its effects in the county
4) Climate change mitigation measures and adaptation strategies

(m) **Mining**

1) Ongoing activities
2) Mining potentials

(n) **Tourism**

1) Main tourist attractions, National Parks/Reserves
2) Main wildlife
3) Tourist class hotels/restaurants, bed occupancy

(o) **Industry Employment and Other Sources of Income**

1) Wage earners
2) Self-employed
3) Labour force
4) Unemployment levels

(p) **Water and Sanitation**

1) Water resources and quality
2) Water supply schemes
3) Water sources (distance to nearest water points)
4) Sanitation

(q) **Health Access and Nutrition**

1) Health Access (Health Facilities, Personnel)
2) Morbidity: Five most common diseases in order of prevalence
3) Nutritional status (prevalence of stunting and wasting in children under 5 years: height-for-age, weight-for-height, weight-for-age)
4) Immunization coverage
5) Access to family planning services/contraceptive prevalence

(r) **Education and Literacy**

1) Pre-School Education

2) Primary Education
3) Literacy
4) Secondary Education
5) Tertiary Education

0128 CIDP Chapter 2: County Socio-Economic Development, Challenges and Strategies

This chapter should describe developmental strategies the county will adopt. In view of locally-defined priorities, it proposes specific policies that the County Government plans will put in place to address the current challenges and previous development shortfalls.

This section will also include the strategies to mitigate the effects of cross-cutting issues such as climate change, environmental degradation, HIV/AIDS, gender inequality among others. These strategies should be based on the developmental needs of the county as identified by the stakeholders and prioritised over the implementation period taking into account the available resources and any other challenges.

In drafting this chapter, authors should aim at giving a brief introduction of the chapter giving some analysis of the main challenges facing the county and the reasons behind the strategies adopted to deal with them:

(a) Major Development challenges such as poor infrastructure, poor marketing systems, and low agricultural productivity, among others.
(b) Cross cutting issues in the county such as population growth, poverty, environment and climate change, HIV and AIDS, Gender. A SWOT analysis to be provided for each cross cutting issue.
(c) County Strategic Policy Thrusts: Provide a matrix giving an analysis of development issues, causes, development objectives, immediate objectives and potential strategic policy thrusts.

0129 CIDP Chapter 3: County Spatial Framework

This chapter should describe the spatial framework within which development projects and programmes will be implemented.

(a) Every county, city, municipality and town must prepare a spatial plan. Spatial plans have a regulatory and developmental function in a county. Spatial planning identifies development projects and programmes and locates them on specific geographic areas in a county or territory.

(b) Spatial plans also display the necessary coordination between various sectors, e.g. transport networks and their relationship to agricultural production and markets; industrial areas and energy projects that supply them; zoning of urban-versus-rural areas; public facilities and private home developments, etc. In addition, spatial plans must include economic, social and governance dimensions of the Integrated Development Plan

(c) The County Spatial Plan is a 10 year, GIS-based plan
Section 110 (1) of the County Governments Act 2012 stipulates that a County Spatial Plan must be a ten year spatial plan held in a Geographic Information System (GIS) based database system. It must be a component part of the county integrated development plan providing a spatial depiction of the social and economic development programme of the county as articulated in the integrated county development plan.

(d) It must also contain clear statements of how the spatial plan is linked to the regional, national and other county plans and clear clarifications on its anticipated sustainable development outcomes.

(e) Section 110 (3) and (4) provide that each county spatial plan shall be developed by the county executive committee and approved by the county assembly in accordance with procedures approved by the respective county assembly and reviewed every five years and the revisions approved by the county assembly.

(f) The County Spatial plan is the County's Spatial Development Framework According to Section 110(2), the county spatial plan is the spatial development framework that:

1) Gives effect to the above principles of planning and development facilitation and the objectives of county planning.
2) Sets out objectives that reflect the desired spatial form of the county taking into account the development programme of the county as articulated in its county integrated development plan.
3) Indicates where public and private land development and infrastructure investment should take place;
4) Indicates desired or undesired utilization of space in a particular area;
5) Delineates the urban edges of the municipalities within its jurisdiction and mechanisms of dealing with the rural urban interfaces;
6) Identifies areas where strategic intervention is required;
7) Indicates areas where priority spending is required;
8) Provides clarifications on the anticipated sustainable development outcomes of the spatial plan; and
9) Indicates the areas designated to conservation and recreation.

10) Lays out the strategies and policies that:

- indicate desired patterns of land use within the county;
- address the spatial construction or reconstruction of the county;
- provide strategic guidance in respect of the location and nature of development within the county;
- set out basic guidelines for a land use management system in the county taking into account any guidelines, regulations or laws as provided for under Article 67(2)(h) of the Constitution;
- set out a capital investment framework for the county's development programs;
- contain a strategic assessment of the environmental impact of the spatial development framework;
- identify programmes and projects for the development of land within the county; and
- be aligned with the spatial frameworks reflected in development the integrated development plans of neighbouring counties;

0130 CIDP Chapter 4: Linkage with other Plans

This chapter should describe the linkages of the County Integrated Development Plan with the county sector plans, county spatial plans, sub-county plans, national plans and international commitments made by the government such as the MDGs, and how they apply to the county. This chapter should also include:

(a) Linkages to the Constitution of Kenya 2010

(b) Linkages to the Vision 2030 and Medium Term Plans: National programmes and projects in the county, Flagship projects of Vision 2030 in the county.

(c) Cross-cutting projects and programmes involving the county and neighboring counties.

(d) Mainstreaming of MDGs at the county level: indicate status of the MDGs and explain what will be done to reach the MDGs not yet attained.

(e) Linkage with Sectoral Plans, Urban and City Plans within the county.

0131 CIDP Chapter 5: Institutional Framework

The County Government's Act requires in Section 108 (2) the county integrated development plan to identify the institutional framework it operates under as informed by the strategies and programmes set out in the CIDP. That is;

the organizational arrangements that have been put in place to oversee and manage the process of implementing the integrated development plan and addressing the county's internal transformation needs.

It must also include an organization chart and outline the stakeholders in the county, their roles and how their functions are accommodated to avoid duplication of effort.

0132 CIDP Chapter 6: Resource Mobilization Framework

This chapter should explain the county's resource mobilization framework. It should include outlines of strategies for:

(a) Raising revenue;
(b) Asset management;
(c) Financial management;
(d) Capital financing and;
(e) Accountability.

The chapter should also:

(a) Contain budget projections required for managing the County Government;
(b) Indicate the resources that are available for capital projects development;
(c) Include, but not limited to, strategies to expand the county's revenue base, resource sharing with the National Government and means it proposes to attract external funding.

0133 CIDP Chapter 7: County Development Priority Programmes and Projects

This chapter should provide details of programmes and projects that will be implemented in the county and include details of strategic priorities addressed, measurable indicators of performance, and budgets.
It should commence with a brief introduction of the chapter giving a summary of what is being discussed.

The programmes and projects that are outlined should be based on the new Medium Term Expenditure Framework (MTEF) Sector Working Groups' work and output working under the auspices of the County Budget and Economic Forum.

The following sub-sections should be covered with sufficient detail to make a coherent and concise presentation of the priority programmes and projects:

(a) The Sector title;

(b) Sector Vision and Mission (as per national MTEF SWGs);

(c) County Response to Sector Vision and Mission;

(d) Role of Stakeholders per the matrix below;

Stakeholder	Role

(e) Sub-sector Priorities, Constraints and Strategies per the matrix below;

Sub-sector	Priorities	Constraints	Strategies

(f) Ongoing and new Projects and Programmes including priority activities identified during Medium Term Planning consultations and flagship projects in the county;

(g) On-going projects/programmes per the matrix below;

Project Name Location/Ward/ Constituency	Objectives	Targets	Description of Activities

(h) New Project Proposals per the matrix below;

Project Name Location/Ward/ Constituency	Priority ranking	Objectives	Description of Activities

(i) Flagship Projects per the matrix below;

Project Name	Location	Objectives	Targets	Description of activities

(j) **Stalled Projects**

Project Name	Location	Description of activities	Reasons for stalling

0134 Strategies for mainstreaming cross cutting issues in the sector

0135 Strategies for mainstreaming cross cutting issues in the sector refers to programmes and projects address and ensure the inclusion of issues such as gender balance, youth unemployment, poverty alleviation or people with disability and other marginalized groups, are built into the various development programmes as matter of course and constitutional necessity.

0136 It is necessary, therefore, that the County Development Plan clearly highlights the approaches that will be applied to mainstream these issues at and in all stages of the proposed projects/programmes. For example, the CIDP should indicate how the County Government will reserve or ring fence 30% of the total value of construction contracts of all county development projects for the county's youth, women and disabled persons.

0137 CIDP Chapter 8: Implementation, Monitoring and Evaluation

This chapter should outline how programmes and projects will be monitored and evaluated. It should:

(a) Specify the programmes/projects that will be implemented during the plan's time line;

(b) Specify objectively verifiable indicators that will be used to monitor implementation of the project/programme implementation; and

(c) Define medium term milestones for impact assessment.

0138 The outline of this chapter should have an:

(a) Introduction – a brief description of the issues covered in the chapter;

(b) Institutional Framework for Monitoring and Evaluation in the county;

(c) Implementation, Monitoring and Evaluation Matrix that should include all ongoing and proposed projects in chapter three.

The following format should be used:

Implementation, Monitoring and Evaluation Matrix

Project Name	Cost estimate (Ksh)	Time Frame	Monitoring Indicators	Monitoring Tools	Implementing agency	Souce of funds	Implementation Status

CHAPTER 4

Public Participation in the Budget Process

0139 Overview

This chapter explains the role, place and process for conducting public consultations and participation in the budget preparation process. It lays out the procedures for conducting public consultation forums, the role of the County Budget and Economic Forum and elaborates on the place and role of sector working groups in the budget process.

0140 Chapter Objectives

(a) Review the legal framework of public participation
(b) Examine the principles of public participation
(c) Demonstrate and explain how to run public consultation forums
(d) Define what sector working groups are, their roles, uses and operations
(e) Identify key stakeholders and their engagement in the budget process

0141 What the law says about public participation:

The Constitution of Kenya (2010) under Article 201 (a) and the Public Finance Management Act (2012) under Section 125 Subsection 2 confer the right to citizens and the obligation on National and County Governments to ensure the public participates and is consulted in the budget making process.

0142 The County Governments Act 2012 provides a detailed description of what public participation and consultations entail.

0143 Modalities and platforms for citizen participation

Under Section 91 of the County Governments Act 2012, the County Government is required to facilitate the establishment of structures for citizen participation. These must include:

(a) information communication technology based platforms;
(b) town hall meetings;
(c) budget preparation and validation forums;

(d) notice boards: announcing jobs, appointments, procurement, awards and other important announcements of public interest;
(e) development project sites;
(f) avenues for the participation of peoples' representatives including but not limited to members of the National Assembly and Senate; or
(g) establishment of citizen forums at county and decentralized units such as at the sub-county and ward levels.

0144 The effective modes of communication

The effective modes of communicating with the public are physical interaction, audio-visual media and through printed material - in that order.

0145 Audio-visual includes any media that county residents are regularly exposed to and familiar with. The most popular tend to be radio and television with other popular forms being films and the internet.

0146 The use of vernacular media is an effective mode of communication but has the disadvantage of not being readily translatable into budget language and concepts. Swahili also suffers this disadvantage to a lesser extent. The use of these languages nonetheless is an effective means of outreach to encourage attendance at public consultation meetings or barazas.

0147 The purposes of communicating with the public in the budget process includes to:

(a) Comply with the Constitution and the legislation;
(b) Raise awareness of the importance of citizen participation in the budget process;
(c) Emphasize every citizen's right under the Constitution to give their input on the County Government's priorities;
(d) Present to county residents the total financial implications of budget decisions for their informed consent;
(e) Present budget information – preferably in simplified summary forms, that breaks down complex budget data into digestible and accessible information that county residents can understand and use;
(f) Invite, collect and incorporate feedback on budget issues from county residents;
(g) Disseminate the reasons and justifications for budget decisions including resource constraints and project timelines to county residents.

0148 Principles of citizen participation in counties

Under Section 87 of the County Governments Act 2012, citizen participation in County Governments should be based upon the following principles:

(a) timely access to information, data, documents, and other information relevant or related to policy formulation and implementation;

(b) reasonable access to the process of formulating and implementing policies, laws, and regulations, including the approval of development proposals, projects and budgets, the granting of permits and the establishment of specific performance standards;

(c) protection and promotion of the interest and rights of minorities, marginalized groups and communities and their access to relevant information;

(d) legal standing to interested or affected persons, organizations, and where pertinent, communities, to appeal from or, review decisions, or redress grievances, with particular emphasis on persons and traditionally marginalized communities, including women, the youth, and disadvantaged communities;

(e) reasonable balance in the roles and obligations of County Governments and non-state actors in decision-making processes to promote shared responsibility and partnership, and to provide complementary authority and oversight;

(f) promotion of public-private partnerships, such as joint committees, technical teams, and citizen commissions, to encourage direct dialogue and concerted action on sustainable development; and

(g) recognition and promotion of the reciprocal roles of non-state actors' participation and governmental facilitation and oversight.

0149 Additional guidelines for public consultation

(a) Public forums must be open to the widest spectrum of citizens and taxpayers, without discrimination;

(b) The term "public" here refers to all county citizens and does not normally include government officials except in specified circumstances such as where they are required to provide input to a matter, or are there in their private and non-official capacity and where there is no demonstrable conflict of interest;

(c) Government officials in attendance at a forum in their official capacities shall not have a vote on the issues under discussion;

(d) All venues for public consultations must be known to the community and easily accessible, that is, are natural locations the community normally uses and are not located where they are inconvenient to reach or use;

(e) Notification of public consultations must be made using the most popular forms of media in the county such as vernacular and national language radio and television stations, leading regional and national newspapers, and notice boards;

(f) No one group, such as a political, lobby or special interest group should dominate public consultation proceedings to give the maximum opportunity for all participants an equal opportunity to participate;

(g) Public forums must have a convener (normally the County Treasury or County department of the sector), a facilitator and a recorder;

(h) Decision making on contentious matters can be made by secret ballot if supported by a simple majority of a show of hands. Contentious issues are defined as any matters of a sensitive nature whose open debate is likely to compromise county security, relates to resource allocation decisions, community or ethnic sensitivities or any matter deemed as such by forum attendants by a simple majority of a show of hands;

(i) Budget materials must be understandable to the average county citizen. The language must be simple and the preferred format for presenting figures is in summary form with brief explanatory narrative;

(j) Budget materials must also be accessible. That is, easily available to county residents for examination and so must be posted on the county department's website and on a prominent notice board or the main door to any venues where the public forum will occur;

(k) Public consultations must be regular but no less than quarterly. During the budget preparation process, they must take place at least four weeks ahead of the deadline date on the budget calendar when any one of the budget output papers – that is, the County Integrated Development Plan, the County Budget Review and Outlook Paper, the County Fiscal Strategy Paper or the Budget estimates themselves are due to be submitted to the County Assembly for review and approval.

(l) Budget estimates must make provisions for funding their public consultation obligations.

0150 Specific guidelines for the conduct of Public Consultation Forums

Public Consultation Forums should be conducted in an open, non-intimidating manner and environment and should observe the following guidelines:

(a) Consultation on different budget documents will differ according to the nature and detail. Appropriate consultations are most likely at the Sector Working Group level for those instances where a high degree of technical detail will be considered.

(b) Forum convener must keep an attendance list. Participants should be encouraged to sign themselves. If they decline, the convener's staff shall record their presence including name and what organization they belong to, if any;

(c) Rules of participation should be read out before the meeting commences and the meeting must endorse these by a simple majority of a show of hands;

(d) Have an agenda that must be circulated at least two weeks in advance of the meeting's date;

(e) The agenda should be printed on government letterhead and signed by the County Executive Committee Member for Finance or his/her delegate;

(f) The agenda should be clear on the purpose of the meeting and include as a minimum, why the meeting has been called. For example - to collect county residents' views on development and/or service priorities for the county/sub-county or ward.

(g) The agenda should have attached one A4 page of a summary narrative of the proposed programmes and their individual estimated costs at the appropriate level of detail – e.g. ward level, sub-county level etc.

(h) An attachment of a summarized version of the financials to be discussed including the total budget set aside for the appropriate level of programmes to be considered e.g. ward level, sub-county level etc. This should be no more that one A4 page;

(i) Posted on a prominent public notice board used by the community or the door of the venue at least 24 hours prior to the meeting;

(j) The first agenda item must be a review of the previous forum's resolutions and the current status of implementation or lack thereof;

(k) Have a convener. This will normally be the government department that has called the meeting. For the budget consultation process, this will be the County Executive Committee Member for Finance;

(l) Have a facilitator. This must be an individual who enjoys the community's respect and is a competent official from the convener's department;

(m) Have a recorder. This must be a technically competent individual who shall record the forum's proceedings and decisions for the record;

(n) Make decisions by a simple majority of a show of hands of those present;

(o) Use secret ballot wherever the matter under consideration is contentious or sensitive;

(p) Make note in the forum record where more than 40% of the forum's attendees belong to a defined group such as a political, interest or community group;

(q) Wherever possible, the forum should use a technically qualified team to manage the forum's procedures. This should be made up of equal numbers of government officers and community members;

(r) Wherever possible, attendees should be encouraged to submit written memoranda in addition to their physical participation to ensure their views are captured properly;

(s) At the end of the forum, it should be concluded by the recorder reading out all the decisions or resolutions that have been agreed upon and the actions to be taken;

(t) Conclude the forum with the record of resolutions and decisions read out being endorsed by a simple majority of a show of hands;

(u) Have the forum's record of proceedings signed by the facilitator, the recorder and two community representatives.

0151 Citizens right to petition and challenge

Under Section 88 of the County Governments Act 2012 county citizens have a right to petition the County Government on any matter under the responsibility of the County Government. This must be done in writing. County legislation must give further effect to this right

0152 County Government's duty to respond to citizens' petitions or challenges

Section 89 of the County Government Act 2012 places a duty and obligation on all county authorities, agencies and agents to respond quickly to petitions and challenges from citizens.

0153 Local Referendum and matters that apply

Under section 90 of the County Government's Act 2012, the County Government may conduct a local referendum (that is one limited to an area of the county such as a sub-county or ward) on, among other local issues county laws and petitions or planning and investment decisions affecting the county for which a petition has been raised and duly signed by at least twenty five percent of the registered voters where the referendum is to take place.

0154 That local referendum should be conducted under the provisions of the Elections Act (No. 24 of 2011) with necessary modifications.

0155 Identifying key players for effectiveness

There are five groups of players the county should seek to engage to ensure effective and comprehensive public consultation and engagement in the budget process. These are:

0156 Professional and Tertiary Groups

These are any and all professional associations that represent high-skill employed and independent professionals such as doctors, lawyers, accountants, etc., such as the Doctors and Dentist Board, the Law Society of Kenya and ICPAK.

0157 Commercial & Industry Groups

These are groups that represent the interests of employers and the private sector. They are industry associations such as the Kenya Association of Manufacturers, Kenya Federation of Employer, Chambers of Commerce and Real Estate Associations etc.

0158 Worker-affiliated Groups

These consist of any and all labour-related organizations whose primary objective is the protection and advocacy of salaried workers and employees. They include all worker unions such as those for nurses, teachers, private sector workers, jua kali artisan associations etc.

0159 Non-Governmental Organizations and Community Benefit Organizations

These consist of not-for-profit organizations that are not government departments or agencies. They tend to have a primary objective of providing a community benefit aimed at improving life outcomes such as health, well-being, education etc. at no profit to themselves or little or no cost to the community.

0160 These include donor-nation organizations such as USAID, DFID of the UK, and international non-affiliated organizations such as the World Bank and the United Nations; Community Benefit Organizations that have been established

by local communities and other Kenyans to pursue a particular community outcome such as improved water quality or agricultural outputs or child welfare.

0161 Village groups and individual citizens

These consist of villagers and some loosely-organized, largely informal groupings of individuals. Due to this loose organization, the best forum for engaging them is village barazas and through significant influential individuals such as chiefs, village elders and politicians.

0162 Engaging Stakeholders

The following are appropriate and effective ways of engaging the first three groups of stakeholders:

(a) Invitation to participate in Sector Working Groups;
(b) Targeted invitations to submit memoranda of their views;
(c) Holding invitation-only meetings to individual entities in appropriate venues where necessary; and,
(d) Using the internet such as email and the Department's website to disseminate greater detail of the budget for their analysis.

0163 For the last category, namely village groups and individual citizens, other more appropriate ways of engaging them include:

(a) Holding public consultation forums - more commonly known as village barazas;
(b) Continuous engagement with defined community leaders such as chiefs, village elders, religious and civic leaders;
(c) Informal engagement with trusted professionals with strong grassroots influence such as teachers and doctors;
(d) Use of notice boards at County Government offices;
(e) Suggestion boxes at County Government offices.

0164 The County Budget and Economic Forum

The Public Finance Management Act 2012 Section 137(1), requires the county to establish a County Budget and Economic Forum which should comprise of:

(a) the Governor as the chairperson;
(b) other members of the county executive committee;

(c) Representatives from persons nominated by organisations representing professionals, business, labour issues, and women, persons with disabilities, the elderly and faith based groups at the county level.

0165 Under the auspices of the County Budget and Economic Forum, the county sector working groups should operate to add depth to the constitutional principle of public participation and consultation.

0166 Representatives to the Budget and Economic Forum must not be County Government officials other than those of the County Executive Committee. They must however be equal in number to the number of executive committee members appointed by the Governor and any other government officials.

0167 Sector Working Groups

For the budget process, sector working groups are the preferred method of engaging stakeholders effectively although they are not the only means of doing so. These groups are defined by the sectors of the county economy under which individual government departments either operate or oversee.

0168 The sectors of a county economy as defined under the Classification of Functions of Government (COFOG) are as indicated in the table below. It should be noted that county government departments are required to use the COFOG classification protocol to ensure consistency and comparability at the county and national level of sectors and to also align with international best practice. It should also be noted that sectors should be restricted to the functions granted by the Constitution unless others have been granted under an Act of the National Assembly.

Table 3: Classification of Functions of Government (COFOG) – MTEF Sectors & Ministries

Classification of Functions of Government (CoFoG)	Corresponding MTEF sector	Ministries / Departments / Agencies (MDA's)
1. Economic affairs	Agriculture & Rural development	Agriculture
		Livestock development
		Cooperative development
		Land
		Fisheries
		Forestry and wildlife
		Research and development
	Energy, infrastructure & ICT	Transport
		Roads
		Urban development
		Public works
		Information
		R & D (EII)
	General Economics, Commercial and labour affairs	Trade & Commerce
		Industrialization
		Tourism
		labour
2. Health	Health	Health
3. Education	Education	Early childhood
		Technical colleges & village polytechnics
		R & D (Education)
4. Public order and safety	Public order and safety	
5. General public services	Public administration and international relations	County public service board
		County assembly
		County executive committee
		Planning
		County treasury
		Office of the Governor
		Office of the Deputy Governor
6. Defence	National security	
7. Recreation, culture and social protection	Social protection, culture and recreation	Culture and recreation
		Gender, children & social
		Youth
		Sports

Classification of Functions of Government (CoFoG)	Corresponding MTEF sector	Ministries / Departments / Agencies (MDA's)
8. Housing and community amenities	Environmental protection, water and housing	Environment
		Mineral resources
		Water & irrigation
		Housing
		Community housing

0169 The limit of the number of sector working groups should be the number of gazetted departments in the County Government.

0170 Suggested Membership of County Sector Working Groups

Members of the sector working groups are the following:

(a) County Treasury – One Senior Officer (Convener & Chair);

(b) County Department of Planning or relevant county department - One Senior Officer (Co-conveners);

(c) Relevant sector's county department officials - maximum of three representatives;

(d) One representative by invitation from each stakeholder group from the particular sector under review, i.e. from:

1) Professional Associations (e.g. ICPAK);
2) Tertiary Education Associations (e.g. Association of University Lecturers);
3) Commercial and Industry groups (e.g. Chamber of Commerce, KAM, FKE);
4) Worker-affiliated groups (e.g. Teachers Union, Cotu etc.);
5) Non-Governmental Organizations and Community Benefit Organizations (One member each for Donors and CBOs);
6) Two representatives from village groups selected by a publicly conducted random selection process.

0171 Suggested Operations of the Sector Working Group

(a) Sector conveners should be the Chief Officer of the County Treasury or the Department of the relevant department for the sector or in their absence their designated representative;

(b) The Chair of the Sector Working Group is the senior officer from the County Treasury;

(c) The Vice-Chair is the senior officer from the host department;
(d) Stakeholder attendance to Sector Working Groups is by invitation and not mandatory. They are however strongly encouraged to attend, make presentations and participate;
(e) The groups should meet at a venue of the host department of the sector under review;
(f) Timing for the sector meetings should commence soon after August of each year and not later than September of that year;
(g) The logistical and administrative responsibility for supporting the Sector Working Group remains with the host department of the sector under review.

0172 The role of the Sector Working Group:

The Sector Working Group (SWG) offers a permanent and continuing forum for dialogue between the government and the various sectors of the county economy. As such it gives the government and county residents the benefit of working closely in a collegiate manner to ensure the budget process and policy decisions arising from it maximize the benefit of the county's limited resources to its citizens. Thus a sector working group's role is to:

(a) Coordinate the preparation of Ministerial Public Expenditure Reviews (MPER);
(b) Review sector objectives and strategies in relation to the overall county goals as stated in the County Government's Policy Priorities;
(c) Identify sector priorities and rank them by their relevance to county goals;
(d) Analyse the cost implications of sector policies and strategies, the required prioritisation and to discuss the mix and level of goods and services that will be provided within the available ceiling for the sector;
(e) Identify sector programmes that prioritize poverty-reduction in the county to ensure they are optimally funded subject to County Government policy priorities;
(f) Identify linkages both within the sector and across sectors to ensure ministerial spending plans take account of these linkages;
(g) Identify all sources of funding for the sector including the national allocation, the county's own revenue, extra-budgetary sources such as donor and appropriations-in-aid (department-raised revenues budgeted to be used to fund service delivery in the year);
(h) Identify whether there are further sector-wide resource needs guided by guidelines from the County Treasury;
(i) Improve communication and nurture partnerships with all stake holders to achieve government priorities.

0173 The output of a Sector Working Group – the Sector Report

The end result of a Sector Working Group is its report – the Sector Working Group Report (SWGR). It is the instrument through which the relevant department submits spending proposals and identifies the level of goods and services it aims to provide - given their resource limitations and levels. It is the point at which stakeholder submissions and interactions with government impacts on the budget process and the clearest proof of public participation.

0174 Contents of the Sector Working Group Report:

(a) A brief definition of the sector – e.g. Health, Tourism, Agriculture;

(b) Details of the sector's objectives and an identification of the key county priorities in the sector, that is, the key policy objectives each department programme is charged with achieving, E.g. in Health: to reduce prevalence of water borne diseases to 50% below the current county average;

(c) A review of the sector's performance over the past year or two including an analysis of changes in service levels and their performance indicators, e.g. in Health: reduced prevalence of water borne diseases by 15% or 25,000 fewer cases against a target of 38,000;

(d) The expected outputs of the sector, i.e. what will be delivered to the sector through the various programmes in order to achieve the sector objectives. For example in the health sector: "Malaria Eradication project of the community health programme will this year entail - among other services - the delivery of 20,000 treated nets to families in all 9 wards in the county";

(e) A clear description of the programmes that will be initiated to achieve these outputs;

(f) A clear description too of the key constraints on the sector's future performance and the strategies to address these constraints;

(g) Key policy and system reform initiatives in the sector and progress to date;

(h) A spending plan for delivering the programmes that will achieve the expected sector outputs and objectives;

(i) Comment on liabilities and their likely impact on service delivery in the budget year and forward years. For example: debts owed to suppliers and their likely withdrawal of services;

(j) The necessary analysis to support and justify each of these components.

0175 Sector Hearings

The sector hearings are forums where stakeholders have the opportunity to make their submissions to the Sector Working Group. They can either utilize the draft Sector Working Group Report or the previous year's report as a discussion document.

Sector hearings are the last stage before the SWG Report is incorporated into the Department's final budget estimates prior to submission to the County Treasury.

0176 The Purpose of Sector Hearings is to:

(a) Fine tune sector policy, spending allocations and implementation modalities by providing beneficiary groups and other stakeholders with an opportunity to engage the Sector Working Group prior to the finalization of the Sector Working Group Report;

(b) Inform sector stakeholders of the government's intentions in the sector and to facilitate their participation;

(c) Refine the results that the sector is targeting over the budget period thus improving sector accountability;

(d) Explain the budget process and economic concept of scarce resources vs unlimited needs;

(e) The budget process should be kept simple and engaging by using locally appropriate language and examples. It should be appreciated that the community is mainly interested in how the budget process impacts their location and individual circumstances.

0177 The language must be appropriate with provisions made for presentations in Swahili as another preferred medium of instruction. The use of vernacular languages is also useful to encourage open debate and clarify issues.

0178 The key elements of the budget process to explain at a public forum

Prior to discussing the budget process, the following concepts are to be presented:

(a) Previous performance and reasons for or against achievement of previous year's targets – use only local projects or the local impact of budget decisions to keep it relevant;

(b) The broad policy objectives behind the proposed budget and how exactly it will impact the local community and when;
(c) The proposed projects within budget programmes and sub-programmes that will impact the local community;
(d) The priority listing of these projects, especially how they will impact the community;
(e) The current budget's local impacts including all projects that are to be launched or continued this year, their individual and aggregated costs and the justification for prioritization;
(f) The scarcity concept of economics that is the dilemma of limited resources against unlimited wants/needs and the need for prioritization. Give local examples: for example with a funding limit of 15 million shillings which one of three alternatives should the money be spent on between building three cattle dips, hiring 30 veterinary doctors or building a milk storage facility?
(g) Other proposed programs under consideration but yet to be prioritized;
(h) The total cost of each of the various programs.
(i) The cost of service provision against the benefits they will gain, that is the cost/benefit principle and obtaining value for money;
(j) The tight budget timeline for making decisions and therefore the need for quick decision making.

0179 Translating and incorporating public views into the budget

From the record of all public consultative forums, suggestions including proposals and memoranda submitted from various stakeholders including those of Sector Working Groups, should be compiled by theme under sector headings.

0180 These suggestions compiled by theme should then be listed by priority into graduated lists of themes and programmes by relative importance. The Departments of Planning and the County Treasury should then review these against the County Integrated Development Plan to compare and contrast whether the two align and also against the previous year's County Fiscal Strategy Paper. Any gaps between these and the public's feedback should be noted in an advisory memorandum.

0181 An advisory memorandum to the County Executive Committee should then be sent, jointly signed by the CEC for Finance and Planning, for review. The CEC should then instruct the two on what and how to harmonize priorities indicated in the feedback.

0182 Upon harmonization, the annual budget circular can be issued.

0183 Any public feedback provided subsequently should be reflected in the final drafts of all budget output papers i.e. CIDP, C-BROP and C-FSP provided they are not radical departures from the priorities as set in the CIDP and the C-FSP.

0184 Radical suggestions from the public that signal a marked departure from previous trends should be considered in terms of reviewing the CIDP for continuity and sustainability reasons.

CHAPTER 5

The County Budget Review & Outlook Paper (C-BROP)

0185 Overview

This chapter explores in detail how to compile the County Budget Review and Outlook Paper and its format, structure and contents.

0186 Chapter Objectives are to:

(a) Establish the legal framework that governs this process and,

(b) Walk through the process of developing the paper chapter by chapter.

0187 What the Law says about the Budget Review & Outlook Paper (BROP)

Section 118 of the PFM Act 2012 requires the County Treasury to prepare a County Budget Review & Outlook Paper for the county for each financial year and to submit the paper to the County Executive Committee by the 30thSeptember of that year for review and approval.

0188 The significance of C-BROP is that it ensures the government reviews its previous year's budget performance, the county and national economic-financial environment and its likely impact on the level of future revenues; and to set preliminary sector ceilings in the light of this review of revenue.

0189 Contents of A Budget Review & Outlook Paper (C-BROP)

In preparing the C-BROP, the County Treasury must provide:

(a) Details of the actual fiscal performance in the previous year compared to the budget appropriation for that year (Actual-vs.-Budget);

(b) 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—

- Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

- How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
- Reasons for any deviations from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

0190 Format and content of the County Budget Review & Outlook Paper (C-BROP)

The County Budget Review & Outlook Paper is conceptually divided into two: a review section and an outlook section. It is written in the present tense and should have a two page preamble, the first page of which should restate the legal basis for the publication of the C-BROP in the Public Finance Management Act 2012 and PFM (County) Regulations 2014, while the second should restate and list the Fiscal Responsibility Principles laid out in Section 107 of the Public Finance Management Act 2012.

0191 C-BROP Section I: Introduction

This should be no more than a page and concisely written to make easy reading. It should contain no more than three paragraphs:

Para 1: States the objective of the C-BROP,

Para 2: lays out its significance in the budget preparation process especially with regard to the Medium Term Expenditure Framework within which the government's planning, budgeting and execution of its programmes is managed and,

Para 3: provides a brief description of the paper's structure into its four sections and a one line description of what they are about.

0192 C-BROP Section II: Review of County Fiscal Performance (previous year)

This section details the county's fiscal performance and should be made up of three sub-sections, the overview, fiscal performance and implications of fiscal performance.

0193 The Section Overview

A two paragraph description of the overall assessment of the county's fiscal performance – that is, as relates to revenues and expenditures compared

to the previous year. By the time a BROP is compiled, the budget cycle of the year in review has been completed and a comparison between budget and actual revenues and expenditure is possible. This overview provides the overall scorecard as to whether the county is doing well or not, or maintained the status quo.

0194 The Fiscal Performance of the County (N-1)-(N)

This sub-section should first present the county's fiscal performance for the last financial year in tabular form for ease of understanding. It should also include deviations between the actual numbers and the original budget estimates. Table 4 illustrates this.

The Fiscal Performance sub-section should then provide explanations of the deviations shown in the table. These should be provided under the headings of Revenue, Expenditure and the overall balance or net position after offsetting the first two. Thus it should be laid out as follows:

0195 County Own Revenue Performance

The first part of this section is a descriptive one. It describes the behavior of the total revenue aggregates between the actual and target revenues for the immediate past financial budget year. A similar exercise should also be done for the top three revenue items that make up that aggregate. For example: "*Ordinary revenue collection totaled KSh 120m million against the target of KSh 185 million, reflecting an under collection of KSh 25 million.*"

0196 The second part of this section is analytical. It provides explanations for why and what caused the deviations described in the previous paragraph. For example: "*Unfavourable microeconomic conditions in the second half of 2012 due to significant labour unrest in the tourism sector combined with under capacity challenges in collecting county taxes were the key factors behind the revenue shortfall.*"

0197 If necessary a supplementary table with greater detail of breakdown of the revenue collections should be included to aid clarity.

Table 4: Sample County Fiscal Performance Table

	Year before last	Immediate past financial year		Deviation	% Growth
	20xx	20x (x+1)			
	Actual	Actual	Targets		
A. TOTAL REVENUE &GRANTS	1+2+3	1+2+3	1+2+3		
1. Revenue (Total)	1+2	1+2	1+2		
National revenue allocation	1	1	1		
County own revenue (Totals)	2	2	2		
County taxes	a	b	c	c-b	(b-c)/b
Liquor licensing					
Gaming and racing					
Other taxes					
Rates					
Property					
Land					
Other rates					
Fines, fees and charges					
Fines					
Other fines					
Investment revenue					
Appropriations in Aid					
Others					
2. Grants (Totals)	3	3	3		
Programme grants					
Cash					
Appropriations in Aid					
TOTAL EXPENDITURE	4+5	4+5	4+5		
3. Recurrent	4	4	4		
Interest expense					
Foreign interest expense					
Wages & salaries expense	a	b	c	c-b	(c-b)/b
Other expense					
Maintenance expense					
4. Development expenditure	5	5	5		
SURPLUS (DEFICIT) Total revenues less Total expenditures					

0198 Common causes for revenue underperformance:

(a) Over-optimistic projections;

(b) Economic down turns during the year;

(c) Under collections due to capacity challenges such as:

1) Untrained staff and incompetence;
2) Inadequate collection systems and protocols e.g. poor monitoring;
3) Theft & corruption.

(d) Microeconomic causes such as exit of industries from county, labour unrest leading to lost productivity;

(e) Government economic policy or decision making. Government under-spending leads to depressed aggregate demand, leading to a down turn in the county economy.

0199 County Expenditure Performance

As with revenue, this first part of this section is a descriptive one. It describes the behaviour of the total expenditure aggregates between the actual and targets for the immediate past financial budget year. A similar exercise should also be done for the top five expenditure items that make up that aggregate. For example: "*Total expenditure totaled KSh 350m million against the target of KSh 390 million, reflecting an under-spend of KSh 50 million*".

0200 The second part of this section is analytical. It should provide explanations for why and what caused the deviations described in the previous paragraph. For example: "*The under-spend is attributed to low absorption of both recurrent and development expenditures by the line departments partly due to delays in recruitment as the County Public Service Board is not yet operational and slow procurement processes in finalizing and awarding tenders for the construction of various approved development projects*".

0201 A supplementary table with greater detail of breakdown of expenditures should be included to aid clarity.

0202 Common causes of expenditure underperformance:

(a) Low absorption capacity of county departments due to reasons such as;

1) Slow procurement processes;
2) Excessive bureaucracy (government red tape);
3) Inadequate staffing both in quantity and quality;
4) Inadequate management & supervision of programmes and projects.

(b) Government policy shifts during the year such as recruitment freezes;
(c) Over-ambitious expenditure estimates.

0203 Fiscal balance (or net position):

This section reflects on the net impact of the combined performance of revenue and expenditure – that is, the net financial position or fiscal balance of the county's budget in the immediate past year against that of the year before it. It examines the fiscal balance and explains how the government addressed it so that if it was a deficit, the section will describe the steps the government took to finance it and if it was a surplus, how the government made prudent use of it.

0204 Implication of FY1-FY2 fiscal performance

This section links the analysis of the past to intended actions of the future. It does this by using the previous analysis to draw the implications of the county's performance against the fiscal responsibility principles laid out in the PFM Act 2012 and the County Government's financial objectives, as contained in the current budget year's County Fiscal Strategy Paper.

It should list the ways in which the performance of the previous year has affected the financial objectives set out in that year's County Fiscal Strategy Paper (C-FSP) and the current year's budget. Examples of this include:

(a) That the revenue base has changed significantly enough to warrant an adjustment to projected revenues for this and the next budget year; and/or,
(b) That low absorption capacities of County departments imply that current expenditure ceilings are too high and need to be adjusted in the next County Fiscal Strategy Paper; or,
(c) Good macroeconomic factors such as inflation rate stability, favorable global economic conditions such as rising commodity prices in the county's main cash crops portend good revenue outcomes.

These implications will then inform the C-FSP's projections and objectives to enable adjustments to be made in light of this new analysis. For clarity, these implications should be captured in a table of projections that compares the updated fiscal projections in the previous year's BROP and the County Fiscal Strategy Paper of that same year as it was what informed the current budget year's projections and in the medium term thereafter as Illustrated the adapted in Table 5.

Table 5: Sample Table: County Government Fiscal Projections in the Medium Term

	2012/13	2013/14		2014/15		2015/16		2016/17
	Prov.	N		N+1		N+2		N+3
		CFSP '13(R)	CBROP '13	CFSP '13(R	CBROP '13	CFSP '13(R)	CBROP '13	CBROP '13
Revenue & Grants	868.2	1,119.5	1,109.2	1,216.3	1,268.5	1,400.7	1,460.1	1,659.7
Revenue	847.2	1,071.2	1,031.5	1,145.8	1,192.8	1,321.5	1,375.0	1,564.2
Tax revenue	779.4	895.5	863.0	969.5	998.4	1,120.5	1,153.3	1,317.7
Non-tax revenue	67.8	175.3	168.5	176.4	194.4	201.0	221.7	246.5
Grants	20.9	48.4	77.7	70.4	75.7	79.2	85.1	95.5
Expenditure	1,117.0	1,286.2	1,280.0	1,392.5	1,546.4	1,607.7	1,748.5	1,955.7
Recurrent	818.1	858.9	814.5	945.5	890.6	1,107.2	1,007.3	1,124.9
Development	298.9	427.3	465.4	447.0	443.9	500.5	498.0	554.0
County transfer	-	-	193.5	-	211.8	-	243.1	276.9
Budget balance (-Deficit, +Surplus)	(248.9)	(166.6)	(170.8)	(176.2)	(277.9)	(207.0)	(288.4)	(296.0)
Net external financing	62.7	52.6	246.7	100.7	100.7	122.7	122.7	118.5
Disbursement loans	86.2	138.8	335.3	131.6	131.6	153.9	153.9	174.7
Repayment due	(23.5)	(86.2)	(88.6)	(31.0)	(31.0)	(31.2)	(31.2)	(56.3)
Domestic borrowing	169.8	114.1	106.7	75.6	177.2	84.3	155.7	147.5
Nominal GDP (Ksh Million)	3,662.6	4,164.6	4,1646	4,775.3	4,775.3	5,480.5	5,480.5	6,241.0

For example:

The above adapted table provides comparison between the *updated* fiscal projections in Year (N), i.e. C-BROP 2013 (red circle), and which will be confirmed in the CFSP 2013 (blue circle) and in the projected medium term.

Thus from the above deviations, revenue and expenditure estimates should be revised based on the macroeconomic assumptions contained in the updated C-BROP. This will now be included in this year's CFSP and can then be firmed up by the time it is finalized.

The rule of thumb in this is the County Government must not deviate from fiscal responsibility principles laid out in Section 107 of the PFM Act 2012 such as the requirement of balanced budgets, thirty percent allocation to development expenditure and respecting the wage bill limit set in the PFM Regulations.

Consequently, the government must make whatever appropriate modifications to its financial objectives also contained in its upcoming CFSP to reflect and adapt to the changed circumstances.

These may include - for the County Government, changes to microeconomic - or even a sector or industry-specific policy - such measures to revamp agriculture through irrigation to support its favourable growth prospects.

0205 C-BROP Section III – Recent Economic Developments and Outlook

This section is divided into three subsections, namely Recent Economic Developments; Medium Term Fiscal Framework and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future.

0206 This section provides an opportunity for the government to discuss its assessment of the prospects for growth after an analysis of recent economic events and circumstances and the short term.

0207 An essential pre-requisite to this chapter, as with the entire budget preparation process, is access and use of good data on the county's economy and its fundamentals. For example, on its economic size, economic sectors, annual output (GDP) etc.

0208 Recent Economic Developments

This sub-section looks to analyze the impact of national macroeconomic variables such as inflation and GDP growth and relies heavily on national level data from the National Treasury, the National Bureau of Statistics and other such sources. It is divided into two parts, an overview of recent developments and their impact and, a progress report on budget implementation.

0209 Overview of recent developments

This part gives the opportunity for the County Government to present

evidence-based analysis of how recent movements, incidents and events of these macroeconomic variables have impacted the county's own economy and their anticipated continued effects in the near future. For example, a rising inflation rate in a county with a large consumer base will have a more marked impact on county revenue projections through the negative impact of inflation on aggregate demand. This is a task for county economists.

Some of the items to discuss in this part include:

(a) The growth trend of the county GDP in light of national macroeconomic policy settings;

(b) Observed effects of inflation on national and county economic growth prospects;

(c) The impact of interest rates on investment and consumer demand at the county level;

(d) The direction of investments whether towards industry/commercial production or consumption and the impacts anticipated thereof;

(e) Recent and anticipated growth trends of the county's major economic sectors such as agriculture, mining, industrial production or livestock trade;

(f) An overall impact assessment of all of the above, and others, will have on the county's general growth trajectory.

0210 Progress report on budget implementation:

This part of the sub-section should report on the progress in implementing the current budget. It should be broken into three brief paragraphs:

(a) **Paragraph one**: should discuss the overall state of progress and what impediments or successes may have affected it, such as the improved performance of the G-Pay or the Integrated Financial Management Information System (IFMIS) in fast tracking supplier payments or the capacity challenges of recruiting adequately qualified personnel.

(b) **Paragraph two**: should give an update and short analysis of revenue performance to date in terms of deviation of actual revenue to date from its related budget estimate and what the trends portend in the short term for achieving revenue targets and magnitude of the gap.

(c) **Paragraph three**: should give an update and short analysis of expenditure performance to date in terms of deviation of actual expenditure from its related budget estimate, what these trends portend in the short term especially in terms of risks to expenditure ceilings, and emerging absorption capacity challenges, if any.

0211 County economic outlook and policies

This sub-section is suggested to present what the county will be doing to grow its economy through interactions with other counties and/or the National Government. What synergies and joint policy initiatives it will pursue to widen its revenue bases and economic opportunities for its residents, such as what the county is doing or is about to do with regard to national projects and initiatives such as Vision 2030 to leverage them for economic growth.

0212 Medium Term Fiscal Framework

This sub-section should address the key elements of the county's Medium Term Fiscal Framework, that is, its policy intentions to manage the budget over the next three years given the known or anticipated impacts of the above macroeconomic variables and any other events including natural ones on the economy, such as its fiscal policy.

(a) **Paragraph one:** state fiscal policy stance going forward, broad actions to be taken in support of it and how it will be done prudently and remain within sustainable resource management. For example: "*the county's fiscal policy objective will be to focus government spending in the coming year on efforts to expand the county's two key sectors of tourism and agriculture to take advantage of the favorable international and national economic environment. To ensure sustainable resource usage, other sector allocations will be reduced to the appropriate level*."

(b) **Paragraph two:** address the fiscal balance and what the government will do with it if it is a surplus or if it is a deficit. Set targets in terms of the county GDP or a quantum to be achieved.

(c) **Paragraph three:** Address county revenues (own and national allocations) and what the government intends to do to grow or sustain current growth trends. Give a target range as a percentage of GDP or a quantum. List the top three measures it will target, such as increase liquor and entertainment taxes and also review land rates. Mention other revenue forms such as conditional and unconditional grants from donors or the National Government, their purpose, share of total revenue and how they fit in the government's policy priorities.

(d) **Paragraph four:** Address the expenditure side and what the government intends to do to control or rationalize them. Select the top three expenditure categories, two of which will be wages and development expenditure and comment on their anticipated behavior in the coming budget year and beyond. Mention any key initiatives that will impact on management of or outcomes

in these expenditure categories such as impending microeconomic policy initiatives like competition policy.

(e) **Paragraph five:** comment on any structural issues in the machinery of government that may or will have an impact on the county achieving its growth objectives. For example, "*The full roll out of IFMIS' Procure-to-pay system along with the simplification of the procurement legislation are likely to significantly improve the County Government ministries' absorption capacity with positive impacts on economic activity in the county triggered by increased County Government spending*"

(f) **Paragraph six:** Comment on the County Government's debt management strategy and the county debt; its purpose(s), debt ceilings per the MTEF, size, type and proportion thereof (concessional vs non-concessional), management, and any challenges, and how it will overcome them in the light of the government's fiscal policy stance.

An important inclusion should be a statement of how the County Government will ensure its borrowings do not crowd out the private sector. That is, how it intends to control the level of interest expense it pays as a share of total government expenditure especially in light of PFM Regulation No 25.(1) (d) which limits the county's total public debt level to 15% of total county revenues.

Any policy intentions to raise debt through various methods, including issuing County Government bonds, should be mentioned here, what it is for (i.e. what infrastructure projects), how much is to be raised, in which market (local, regional or international), and the total exposure in terms of repayment commitments.

0213 Risks to the outlook

This section should address the key risks the County Government envisages with regard to the coming budget year and the medium-term.

(a) **External risks:** These are those arising from the levels of international, regional, national and local economies. For example, weak international economic growth has negative impacts on Kenya's exports and tourism activities; regionally, East African integration process will have impacts on counties bordering Tanzania and Uganda; aggressive National Government tax collection policies may adversely affect counties with large consumer populations or a concentration of commercial and industrial entities.

(b) **Fiscal Risks:** These cover the fiscal position of the county and its components. For example, expenditure growth due to high wage bills may threaten or limit development expenditure intentions to grow the private sector through investing in county infrastructure. Revenue risks also need to be addressed. That is the difference between what has been projected and what is likely to now occur given the current and future conditions and events that have been discussed above.

0214 C-BROP Section IV - Resource Allocation Framework

This section sets out how the government intends to live within its means. It establishes the resource envelope or total revenues it expects by sector then allocates these across government departments by setting expenditure limits or ceilings for each government department. It has the following four sub-sections:

(a) Adjustment to the proposed (FY1-FY2) budget;
(b) The medium term expenditure framework;
(c) Proposed (FY1-FY2) budget framework; and
(d) Projected fiscal balance and likely financing.

0215 Adjustment to the proposed (FY1-FY2) budget

This sub-section takes the analysis of the county's budget performance in the previous year and, together with its analysis of the macroeconomic outlook as discussed previously, draws conclusions about the prospects of the budget position going forward. It picks the key fiscal risks that the government identified previously and states what these risks mean for the proposed budget.

Below are examples of explanatory narrative taken from the National Treasury Budget Policy Statement to illustrate how this can be reported:

"*Given the performance in 2012/13 and the updated macroeconomic outlook, the risks to the FY 2013/14 budget include weak growth in advanced economies that will impact negatively on our exports and tourism activities and geopolitical uncertainty on the international oil market.*

Expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the new Constitution and the devolved government may limit continued funding for development expenditure.

In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures and uptake of external resources. These risks will be monitored closely and the government would take appropriate measures in the context of the next Supplementary Budget."

The sub section then explains whether or not there will be adjustments to the proposed budget and why. In deciding what these adjustments will be it should take into account actual performance of expenditure so far and assess the absorption capacity of the departments for the remainder of the financial year (i.e. to what extent departments are able to use their allocations to avoid over-allocating scarce resources).

A similar exercise should be carried out on the revenue side especially with regard to implementing more efficient tax collection regimes to boost the county's local revenue base and its access to other forms of non-debt revenues.

0216 Medium Term Expenditure Framework

This sub-section presents the government's decisions regarding the adjustments it will make to the budget over the immediate and following three years – that is the medium term expenditure framework. If the outlook is negative then it may set out to adjust non-priority expenditures to cater for the priority sectors.

0217 Identifying priority sectors is useful as it helps decide the re-allocation of resources in the event of adverse economic and financial circumstances. The need for efficiency should also be emphasized and how the government will pursue it.

0218 The hierarchy of county sectors in terms of their contribution to the county economy and its economic growth are noteworthy and the government should describe briefly what its interventions are going to be to assist them grow, such as a focus in the medium term to upgrading all feeder roads in the county in order to boost agricultural output.

0219 Resources earmarked for these interventions should be protected and a summary table of these sectors and the tentative allocations made to them should be prepared and attached to give the reader a bird's eye view of the government's policy priorities by sector as defined by resource allocations. These allocations therefore represent the preliminary and projected baseline ceilings for the proposed budget year's MTEF. A sample table from the National Treasury illustrates this below.

Table 6: Total Sector Ceilings for the MTEF Period 2014/15 - 2016/17 (Ksh. Million)

		Total Expenditure, Ksh Mn				% Share of Total Expenditure		
Sector		ESTIMATES 2013/14	CEILING FY 2014/15	PROJECTIONS		ESTI-MATES	CEIL-ING	PRO-JEC-TIONS
				2015/16	2016/17	2013/14	2014/15	2015/16
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	53,343.5	55,674.9	64,974.5	66,966.1	5.0%	5.0%	5.4%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,531.9	241,908.1	290,198.6	279,286.6	20.5%	21.7%	24.1%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	12,930.2	14,243.4	14,610.8	14,868.7	1.2%	1.3%	1.2%
HEALTH	SUB-TOTAL	36,218.1	37,900.6	40,522.6	43,430.0	3.4%	3.4%	3.4%
EDUCATION	SUB-TOTAL	276,242.5	303,150.7	316,799.0	327,787.4	26.1%	27.1%	26.3%
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	126,151.8	135,065.8	140,967.3	149,203.9	11.9%	12.1%	11.7%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	173,454.5	172,643.6	177,641.9	182,789.7	16.4%	15.5%	14.7%
NATIONAL SECURITY	SUB-TOTAL	84,723.2	80,301.0	81,104.1	81,915.9	8.0%	7.2%	6.7%
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	20,542.8	21,001.5	21,792.9	22,596.9	1.9%	1.9%	1.8%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	57,133.5	55,278.9	57,795.2	58,979.1	5.4%	4.9%	4.8%
TOTAL	**TOTAL**	**1,057,271.9**	**1,117,168.5**	**1,206,406.9**	**1,227,824.3**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury – for illustrative purposes only

0220 The Proposed Budget Framework

This sub-section notes the context of the proposed budget's planned roll out set against the background of the updated medium term framework of resource allocation in the table above. It should lay out the estimated growth rate of the county's GDP if possible, or at least the expected volume growth of the county's total output by a simple aggregation of its various sectors. Any key assumptions behind the growth estimates should be noted such as inflation and weather forecasts, to name a few. These estimates should also be broken down into revenue projections and expenditure forecasts.

0221 Revenue Projections

State the proposed budget's total revenue collection target e.g. KSh 5.25 billion in FY1 and forward years against the revenue figures estimated in the previous year's budget. Include Appropriations-in-Aid (AiA) and, if possible, what percentage of the county's GDP they represent. Briefly note also what specific initiatives will be used to support the achievement of this revenue target such as microeconomic policy reform initiatives like a liberal competition or industrial policy.

0222 Expenditure Forecasts

State the proposed budget's total expenditure forecast e.g. KSh 5.20 billion in FY1 and forward years compared with the expenditure forecasts in the previous year's budget and, if possible, what percentage they represent of the county's GDP. Briefly note also what specific initiatives will be used to support the achievement of this revenue target such as microeconomic policy reform initiatives like a liberal competition or industrial policy.

(a) **Recurrent vs Development:**

Ensure there is a split between recurrent and development expenditure by amount and percentages to demonstrate that the ratios are compliant with the PFM Act 2012 of 70:30.

(b) **Debt obligations:**

Note the debt obligations of the county and how they are expected to change from the previous year. Note any major events that are likely to impact on it such as new issues of County Government bonds or early redemption.

(c) **Wage bill:**

Note the anticipated behavior of the wage bill compared to previous year.

(d) **Expenditure ceilings:**

Note any changes that have or will be made to expenditure ceilings on goods and services for sectors/ministries.

(e) Expenditure ceilings tend to be based on the budget allocation of the previous year's budget as the starting point then adjusted to account for inflation. However, this is not automatic and they are primarily subject to the revenue projections following the assessment of macroeconomic variables as discussed previously.

(f) **Development expenditure ceilings:**

These should include donor funded projects and their trends, compared to the previous year.

0223 Projected fiscal balance (deficit) and likely financing

This sub-section should summarize the overall fiscal balance, whether a budget deficit (including grants) or surplus, stating its amount and compared to the previous year. Importantly, it should briefly spell out how the County Government intends to cover the deficit especially in light of the fiscal responsibility principle that stipulates balanced budgets.

For example: "*the projected budget deficit will be covered from expected savings from the anticipated rationalization of the county's public service and reforming its service delivery model to increase the use of outsourced service providers from the private sector*."

0224 C-BROP Section V - Conclusion And Next Steps

This section is the opportunity to concisely capture the purpose and value of the Budget Review and Outlook Paper. It re-paints the broad picture of the previous year's fiscal outcome, the updated macroeconomic forecast that indicates changed circumstances, and then their implications on the financial objectives that were elaborated in the last County Fiscal Strategy Paper that was submitted to the County Assembly the previous April. This section then sets to reaffirm that the set of policies outlined in this C-BROP:

(a) Reflect the changed circumstances;

(b) Are in line with the fiscal responsibility principles outlined in the PFM law;

(c) Are also consistent with the county's strategic objectives as pursued by the County Government as a basis of allocation of public resources;

(d) Have strategic objectives provided in the plans to implement the county's development blueprint as contained in its County Integrated Development Plan (CIDP).

0225 Attachments to the C-BROP

The policies and sector ceilings that will guide county departments in preparing their budgets should then be attached to this C-BROP.

0226 Review and Approval of the County Budget Review & Outlook Paper by the County Assembly

(a) After completing the County Budget Review & Outlook Paper, the County Treasury is required by law to submit it to the County Executive Committee for approval by the 30th September.

(b) The CEC must review and then approve it, with or without amendments, within fourteen days after its submission, that is, by 14th October.

(c) After approval by the County Executive Committee, the County Treasury must arrange for it to be submitted to the County Assembly within seven days, that is, by the 21st October.

(d) After submitting it to the County Assembly the law requires that 'as soon as practicable' the County Treasury must publish and publicise the County Budget Review & Outlook Paper.

CHAPTER 6

The County Fiscal Strategy Paper (C-FSP)

0227 Overview:

This chapter lays out the process for compiling the County Fiscal Strategy Paper and its format, structure and content.

0228 Chapter Objectives are to:

(a) Establish the legal framework that governs this compilation process and

(b) Provide a detailed walk of compiling the paper chapter by chapter.

0229 What the Law Says About the County Fiscal Strategy Paper

Under Section 107 of the *PFM Act 2012* and Regulations 26, 27 and 28 of the *PFM Regulations 2014*, the County Treasury is required to prepare the County Fiscal Strategy Paper. They also set out the content requirements for the CFSP which must:

(a) Align itself with the national objectives contained in the Budget Policy Statement;

(b) Apply fiscal responsibility principles under Section 107 in the management of public finances. Namely:

(1) **Balanced Budgets are mandatory:** The County Government's expenditure shall not exceed its total revenue;

(2) **Thirty percent of all expenditure is dedicated to development expenditure:** Over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure;

(3) **Limit county wage bill to thirty five per cent of the County Government's total revenue:**

The County Executive Member for Finance can set the percentage of the County Government's expenditure on wages and benefits for its public officers provided it does not exceed thirty five per cent of the County Government's total revenue, excluding revenues from extractive natural resources such as coal, oil etc. as prescribed in the Regulations and approved by the County Assembly;

(4) **County debt financing only used for development:** Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(5) **Sustainable debt:** The county's debt shall be maintained at a sustainable level not exceeding fifteen percent of the County Government's total revenue as approved by the County Assembly; short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited County Government revenue;

(6) **Prudent risk management:** Fiscal risks shall be managed prudently. That is the CEC Member for Finance should outline key areas of uncertainty that may have a material effect on the fiscal outlook and the potential policy decisions they may portend;

(7) **Predictable taxes:** A reasonable degree of predictability 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.

(c) Include a statement of fiscal risks in line with prudent management of risks. This must outline potential policy decisions and key areas of uncertainty that may have a material effect on the county's fiscal outlook.

0230 Contents of the Statement of Fiscal Risk

(a) Potential policy decisions that affect revenue, tax payer behavioural responses and court decisions likely to affect revenue bases and overall tax collections and government income, including tax concessions (or 'tax expenditures'), increases in tax rates, tax minimization and avoidance by tax payers;

(b) Potential policy decisions that could increase or decrease government expenditure depending on decisions taken and which of these decisions constitute risks to the fiscal forecasts but only to the extent that they cannot be managed within existing expenditure baselines or budget resources allowances;

(c) Potential capital investment decisions that are risks to financial forecasts but only to the extent that they cannot be managed within the existing County Government's balance sheet including the Future Investment Fund;

(d) Matters dependent on external factors such as the outcome of debt or grant negotiations or international obligations; and

(e) A list of contingent liabilities - that is, known commitments that may or may not eventuate in a specific and binding obligation to pay or service the resulting payments in the future, including debt guarantees or pensions for county public servants.

0231 Mandatory disclosure of Specific Fiscal Risks by the CEC Member for Finance[15] if:

(a) Their impact is significant enough in his view;

(b) A decision has not yet been taken but it is reasonably possible, but not probable, that the matter under consideration will be approved or the situation will occur, or;

(c) It is reasonably probable that the matter under consideration will be approved or the situation anticipated will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty; and

(d) Any other matters the County Treasury considers, using their best professional judgment, may have a material effect (more than $100 million over five years) on the county's fiscal and economic outlook but are not certain enough to include in the fiscal forecasts.

0232 Assessing the county's current economic environment should include:

(a) The medium term macroeconomic framework and its outlook as contained in the Budget Policy Statement released by the Cabinet Secretary for Finance and how it impacts on the county economic environment;

(b) A medium-term fiscal framework defining a top-down aggregate resource envelope and broad expenditure levels;

(c) Indicative allocation of available resources among County Government entities;

(d) The economic assumptions underlying the county budgetary and fiscal policy over the medium term; and

(e) A statement of fiscal responsibility principles, as specified in the PFM Act 2012 and the PFM Regulations 2014, indicating whether the fiscal strategy adheres to these principles.

0233 Contents of a Fiscal Framework of the County Government are:

(a) Updated forecasts expressed in Kenya Shillings for the current budget year and three further years and the actual results for the previous budget years of the consolidated County Government budgets for:

(b) Level of budgetary revenues by classification of the main categories of revenues, i.e. tax vs non-tax revenues, from the national revenue allocation,

[15] PFM Regulation 25(3) of PFM (County) Regulations 2014

county's own revenues, donor funding (grants and loans) and debt financing;

(c) Level of budgetary expenditures by economic classifications, i.e. wages and salaries, rent expense, travel etc. and functional classifications, i.e. by government entity, e.g. agriculture, trade and commerce, health etc. capital expenditures;

(d) The overall balance and primary balance position;

(e) Level of county public debt;

(f) Sensitivity analysis taking account of possible changes in macroeconomic and other conditions, i.e. analysis of how the county's fiscal position responds to different economic and financial scenarios, e.g. how the fiscal position would be affected by an increase of one percent in the prevailing interest rate; and

(g) Any other information the County Executive Committee Member determines is material to fiscal strategy.

(h) An explanation of the County Government's fiscal policies in relation to fiscal responsibility principles, and any temporary measures to be implemented to ensure compliance, if necessary;

(i) An analysis and explanation of the County Government's:

(j) Revenue policy, including planned changes to taxes and policies affecting other revenues;

(k) Deficit and debt policy, including an analysis of county debt sustainability;

(l) Expenditure policy including expenditure priorities;

(m) Aggregate expenditure intentions, including for the county consolidated budgets; and

(n) Expenditure ceilings and other targets or limits implied by or required by the fiscal responsibility principles.

(o) An analysis of the consistency of the updated fiscal strategies with the previous fiscal strategies, providing an explanation of any significant changes; and

(p) The County Executive Committee Member will gazette effective dates for preparing consolidated county government accounts for statistical purposes.

0234 The County Assembly's process for approving the CFSP[16]

(a) The County Executive Committee Member for Finance must submit the County Fiscal Strategy Paper to the County Assembly for its consideration by 28thFebruary;

[16] Public Finance Management Act 2012 Section 117

(b) After reviewing it, the relevant committee of the County Assembly (such as the Budget and Finance Committee) must seek the views of the County Executive Committee Member for Finance on the recommendations it intends to make before submitting them to the County Assembly;

(c) Once the County Fiscal Strategy Paper has been approved and adopted by the County Assembly it shall serve as the basis of expenditure ceilings specified in the fiscal framework;

(d) Once approved by the County Assembly, the ceilings set in the CFSP for development expenditure and the wage bill of the County Government's budget are binding for the next two budget years;

(e) The County Treasury must also include a statement explaining any deviations from the expenditure ceilings specified in the fiscal framework of the CFSP.

0235 Using the CIDP to set priorities

The County Integrated Development Plan (CIDP) is the "…*process through which efforts at national and devolved levels of government and other relevant public institutions are coordinated at the local level, and through which economic, social, environmental, legal and spatial aspects of development are brought together to produce a plan that meets the needs and targets set for the benefit of local communities*."[17] Against this backdrop:

(a) The County Budget Review and Outlook Paper (C-BROP) reviews the previous year's budget performance and analyses the likely impact of current macroeconomic circumstances, incidents and events on the proposed budget for the next budget year and the medium term then uses these analyses to chart or adjust the implementation or funding of the County Government's policy priorities in light of these changed circumstances. A key result of this exercise is setting preliminary expenditure ceilings following the revised assessment of revenue projections. With this in mind therefore:

(b) The County Fiscal Strategy Paper (CFSP) is the County Government's primary financial policy statement which sets out the priority programmes the government intends to implement within the medium term expenditure framework (next three years). Thus it lists the government's policy priorities by sector for implementation in the next budget year and over the medium term. These priorities may be new or continuing sector-specific programmes that are to be funded.

[17] Guidelines for Preparation of County Integrated Development Plans (June 2013) – Ministry of Devolution and Planning.

(c) For example, in the Health Department, it may be decided to focus on the Preventive Health Programme as the most cost effective means of keeping county health expenditures within their set expenditure ceilings. The CIDP will have included specific performance indicators as with all prioritised programmes. The CFSP gets to define and allocate resources to ensure that health sector indicator is achieved.

0236 Preparing The County Fiscal Strategy Paper (C-FSP) Content And Format

The County Fiscal Strategy Paper, like its national counterpart - the Budget Policy Statement, is a prime policy document of the government as it reveals and specifies what its priorities are, how it will implement them through a number of programmes and the amount of funds it has dedicated towards paying for these programmes to achieve its priorities and within the context of limited resources.

The County Fiscal Strategy Paper should have five chapters, that is: the County Strategic Blueprint; Recent Economic Developments & Policy Outlook, Fiscal Policy and Budget Framework, Intergovernmental Fiscal Relations and Division of Revenue and the Medium Term Expenditure Framework. The CFSP follows a similar chapter format as the Budget Review & Outlook Paper but with the added advantage of incorporating the latest information on pertinent macroeconomic and financial variables and of the financial aggregates of the previous budget year to enable the government to make and commit to important decisions such as programme priorities and expenditure ceilings for the proposed budget year.

Compiling the CFSP should therefore use the following guidelines. For the sake of brevity, the content is a summary of points that are expected to be included in this chapter.

0237 C-FSP Section I: County Strategic Blueprint

This section sets the pace and direction of the document. Its heading should be a concise statement or slogan of the County Government's strategic objective for the county. It should capture the County Government's 'big idea' on how it intends to transform the county during its tenure of office. Example: "*Economic Transformation for a shared prosperity in Kenya*." The content of this section is as follows:

(a) **An Overview:** This is a scene setting narrative that provides a general and a specific context for the paper:

1) **General context:**

This section is descriptive not analytical. It should set the broad context of Kenya and the international economy within which the county operates and the county government sets its policy priorities and decisions. As most of the data on macroeconomic variables is compiled by the National Government, this section should analyse the narrative and indicators on these variables provided in the Budget Policy Statement issued by the Cabinet Secretary for Finance and weave in its implications for the county economy. For example, on the latest forecasts on inflation for the short to medium term and what effect can be anticipated for the county's economy. A statement on the relative placing of the county among its peers in economic and human development terms is useful too, in explaining the base position the county strategic plan is starting from.

2) **Specific Context:**

This should articulate the County Government's strategic blueprint for the county. It should answer the question, "*What top 5 to 7 outcomes/ transformations does the County Government intend to achieve during its tenure?*" These will normally be found in the party manifesto of the political party that won power and is headed by the Governor.

A shortlist of all 5 to 7 outcomes/transformations should be provided, each with a brief explanatory note to give a snapshot of all of them together.

Examples of outcomes/transformations include:

1) Creating a conducive business environment;
2) Investing in agricultural transformation and food security;
3) Investment in first class transport and logistics.

(b) **Programmes for achieving the County Strategic Blueprint's Objective**

To set the scene, this sub-section should commence with the following sentence:

"*This County Fiscal Strategy Paper articulates priority economic policies and structural reforms as well as sector-specific expenditure programs to be implemented under the Medium Term Expenditure Framework for FY[(N+1), (N+2) and (N+3)] in order to achieve the County Government's development goal to …..(County Government's strategic Blueprint's Objective*)."

For the next step, under each of the 5 to 7 outcomes/transformations listed above, the priority economic policies, structural reforms and sector-specific expenditure programs that will be implemented to achieve that particular outcome should be identified and described in succinct detail.

Example:

Under the outcome/transformation in (ii) (b) above i.e., investing in agricultural transformation and food security, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

1) Identifying local and international markets that can be supplied with Kenyan agri-products and negotiating forward contracts of the same;
2) Unlocking agricultural productivity to all farmers big and small by guaranteeing markets and prices, then assisting them to achieve optimal production;
3) Directing agricultural production to their ideal agro-econological zones to guarantee maximized yields and returns;
4) A comprehensive agri-business initiative to provide irrigation kits to all secondary schools.

(c) **Outline of County Fiscal Strategy Paper**

This sub-section provides an outline of the sections that make up the rest of the paper with brief descriptions of each which should be retained as the introductory paragraphs to each section.

0238 C-FSP Section II: Recent Economic Developments and Policy Outlook

(a) **Overview**

This section reviews the latest information on the macroeconomic variables and their latest trends at the national level since they were last analysed during the compilation of the County Budget Review & Outlook Paper (C-BROP) and compared to the previous financial year to derive a percentage growth rate. It is information that is best obtained from the National Government's Budget Policy Statement.

It is important to link in this sub-section the broad national macroeconomic parameters with the county's own economy in terms of their broad impacts. Indeed, it is a requirement of the PFM Regulations to assess the medium term macroeconomic framework and its outlook as contained in the Budget Policy Statement released by the Cabinet Secretary for Finance and how it impacts on the county's economic environment;

For example: what has been the observed impact of rising interest rates on the county's general economic activity.

The national macroeconomic variables that are analysed under this sub-section are:

1) GDP growth and its main drivers by sector e.g. agriculture, tourism, manufacturing etc;
2) The broad money supply trend;
3) Private sector growth trends;
4) The inflation rate trend;
5) The interest rate trend;
6) The balance of payments trend;
7) The exchange rate trend; and,
8) The stock market trend.

(b) **Update on Fiscal Performance and Emerging Challenges**

This sub-section should begin with a concise narrative of the context and policy intent of the previous budget; the circumstances that prevailed at the time of its completion, its progress through the year and where it ended. The discussion at this level is on aggregates alone and not their breakdown. That is, total expenditure, total revenue and the fiscal balance or net position thereof. Ideally, no more than a paragraph should be committed to each. Expenditure should be split into recurrent and development.

(c) The narrative compares actual performance against the budget or target and is meant to paint a picture for the reader of the overall financial position of the county.

(d) The sub-section should mention any significant economic, legislative or financial events that impacted on budget performance to date such as, for example, new public finance legislation that changed financial protocols in government etc.

(e) Systems-related events or circumstances can also affect budget performance such as staff capacity constraints, low general absorption capacity challenges of certain departments e.g. health, due to a lack of adequate doctors.

(f) No analysis is complete without the inclusion of a table or matrix that invites independent analysis of the facts by the reader. It is therefore imperative for the County Treasury to ensure it embeds a table of the above analysis in this sub-section such as Table 7 which has been adapted from the National Treasury.

Table 7: Cumulative Budget Out-Turn Actual vs Budget (July – December 2013 vs June 2014 Budget)

	Dec-12	Dec-13			Jun-14	Annual	Dec-13		Jun-14
	Actual	Target	Prel.	Deviation	Budget	Growth	Target	Prel.	Budget
	Kshs Million					%	as % of GDP		
TOTAL REVENUE AND GRANTS	387.9	524.6	469.0	(55.6)	1,105.4	20.9	12.6	11.3	26.5
TOTAL REVENUE	381.6	489.2	460.6	(28.6)	1,027.2	20.7	11.7	11.1	24.7
County Tax Revenue	359.1	455.6	445.1	(10.4)	959.9	24.0	10.9	10.7	23.0
Liquor Licencing	28.2	34.3	34.5	0.2	69.0	22.2	0.8	0.8	1.7
Culture & Entertainment	40.5	54.3	48.1	(6.3)	113.1	18.5	1.3	1.2	2.7
Other taxes	168.4	216.6	210.7	(5.9)	459.0	25.1	5.2	5.1	11.0
Non-tax Revenue	87.6	106.8	110.7	3.9	221.8	26.4	2.6	2.7	5.3
Rates	34.4	37.1	31.1	(5.9)	83.4	(9.5)	0.9	0.7	2.0
Fines, fees & charges	0.0	6.5	10.1	3.5	13.5	-	0.2	0.2	0.3
Investment Revenue	22.5	33.7	15.5	(18.2)	67.3	(31.3)	0.8	0.4	1.6
Ministerial Approps-in-Aid	6.3	35.3	8.4	(27.0)	78.2	32.3	0.8	0.2	1.9
GRANTS									
TOTAL EXPENDITURE AND NET LENDING	**510.5**	**685.0**	**574.2**	**(110.8)**	**1,439.7**	12.5	16.4	13.8	34.6
County Recurrent Expenditure	385.4	368.0	394.9	26.9	780.6	2.5	8.8	9.5	18.7
Interest Payments	59.1	63.0	65.1	2.1	121.5	10.2	1.5	1.6	2.9
Pensions & Other CFS	14.4	21.9	15.5	(6.4)	41.7	7.9	0.5	0.4	1.0
Ministerial Recurrent	312.0	283.1	314.3	31.2	617.5	0.7	6.8	7.5	14.8
o/w Wages & Salaries	131.1	135.0	136.5	1.5	269.9	4.1	3.2	3.3	6.5
Development	125.1	217.4	112.8	(104.7)	444.1	(9.8)	5.2	2.7	10.7
Domestically Financed (Gross)	95.6	96.8	83.1	(13.7)	201.0	(13.1)	2.3	2.0	4.8
Donor Financed	28.2	119.4	29.4	(89.9)	240.6	4.5	2.9	0.7	5.8
Net Lending	1.2	1.2	0.2	(1.0)	2.4	(82.5)	0.0	0.0	0.1
	0.0	2.5	0.0	(2.5)	5.0	-	0.1	-	0.1
	0.0	97.1	66.5	(30.6)	210.0	-	2.3	1.6	5.0
BALANCE INCLUSIVE OF GRANTS	**(122.5)**	**(160.5)**	**(105.2)**	**55.2**	**(334.3)**	(14.1)	(3.9)	(2.5)	(8.0)
TOTAL FINANCING	**123.6**	**160.5**	**78.7**	**(81.8)**	**334.3**	(36.3)	3.9	1.9	8.0
NET FOREIGN FINANCING	11.0	77.3	11.3	(66.0)	226.2	2.7	1.9	0.3	5.4
NET DOMESTIC FINANCING	112.6	83.1	67.4	(15.7)	108.1	(40.1)	2.0	1.6	2.6
Discrepancy	1.0	0.0	(26.6)	(26.6)	0.0	-	-	(0.6)	-

Table adapted from the National Treasury- For illustrative purposes only

(g) Revised Estimates

In this sub-section, the government identifies any challenges that have impacted, then notes whether these have necessitated in-year adjustments through supplementary budgets. It then briefly lays out the justifications for amending the budget's expenditure and revenue aggregates in the proposed budget (N+1) and their medium term projections i.e. (N+2) and (N+3).

Examples of these challenges can include:

1) Unforeseen expenditures such as emergencies which the emergency fund cannot cover;
2) Under-collection of revenues due to capacity constraints or economic downturns;
3) Salary awards to teachers and medical personnel;

4) The response to these challenges need not necessarily mean seeking funding supplementation. Other responses include:
5) Rationalization of expenditure;
6) Re-prioritization of programmes and projects including capital ones;
7) Funding carryovers e.g. where absorption capacity constraints mean programmes will take longer to implement than anticipated.

(h) Economic Policy and Outlook

In this sub-section, the County Government should relate the growth outlook for Kenya as contained in the Budget Policy Statement to the county's own economic policy settings. Of particular interest would be the county's policy outlook and response to the National Government's growth projections of GDP, inflation, investment, savings, its own budget aggregates (expenditure and revenue), and external sector. That is, the County Government's view and estimation of the impact of the indicators shown in the Table 8:

(i) Risks to the Outlook

This sub-section deals with the risks associated with the outlook of the proposed budget (N+1) and the medium term. It should enumerate them in summary only, including the reason for their selection by the County Government.

A statement of fiscal risks in line with prudent risk management should be included in this part of the County Fiscal Strategy Paper. Thus it must address and include the following:

1) An outline of potential policy decisions and key areas of uncertainty that may have a material effect on the county's fiscal outlook;
2) Potential policy decisions that affect:
   - Revenue;
   - Tax payer behavioural responses; and
   - Court decisions likely to affect revenue bases and overall tax collections and government income, including tax concessions (or 'tax expenditures'), increases in tax rates, tax minimisation and avoidance by tax payers.
3) Potential policy decisions that could increase or decrease government expenditure depending on decisions taken and which of these decisions constitute risks to the fiscal forecasts but only to the extent that they cannot be managed within existing expenditure baselines or budget resources allowances;

Table 8: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework, FY [(N+1)…(N+3)]

	(N)	(N+1)	(N+2)	(N+3)
	Prov.	Projections		
	Annual Percentage Change			
National Account and Prices				
Real GDP	5.5	6.1	6.6	6.9
GDP Deflator	6.5	7.2	6.8	6.3
CPI Index (eop)	5.8	5.3	5.0	5.0
CPI Index (avg)	6.0	5.7	5.0	5.0
Terms of Trade (-deterioration)	-0.3	4.2	5.6	3.8
	In Percentage of GDP			
Investment and saving				
Investment	22.3	23.8	24.9	25.5
Gross National Saving	12.7	14.9	16.9	18.0
Central government budget				
Total revenue	24.5	25.2	25.2	25.1
Total expenditure and net lending	35.3	33.1	32.3	31.7
Overall balance (commitment basis) excl. grants	-10.8	-7.9	-7.2	-6.6
Overall balance (commitment basis) incl. grants	-8.9	-6.3	-5.4	-4.9
Nominal public debt, net	51.8	52.0	50.8	49.6
External sector				
Current external balance, including official transfers	-9.6	-8.9	-8.0	-7.5
Gross international reserve coverage in months of imports	4.5	5.0	5.2	5.5

Source: Adapted from National Treasury - for illustrative purposes only.

4) Potential capital investment decisions that are risks to financial forecasts but only to the extent that they cannot be managed within the existing County Government's balance sheet including the Future Investment Fund;
5) Matters dependent on external factors such as the outcome of debt or grant negotiations or international obligations; and
6) A list of contingent liabilities - that is, known commitments that may or may not result in a specific and binding obligation to pay or service the resulting payments in the future, including debt guarantees or pensions for county public servants.

In addition to these requirements, the CEC Member for Finance is also expected to disclose specific fiscal risks if:

1) Their impact is significant enough in his/her view;

2) A decision has not yet been taken but it is reasonably possible, but not probable, that the matter under consideration will be approved or the situation will occur; or
3) It is reasonably probable that the matter under consideration will be approved or the situation anticipated will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty;
4) Any other matter(s) the County Treasury considers, using its best professional judgment, under consideration which may have a material effect of more than KSh 8.5 billion over five years, on the county's fiscal and economic outlook but is/are not certain enough to include in the fiscal forecasts.

(j) Examples of these risks include:
1) Weak economic growth in Kenya and the county – economic risk;
2) Wage rises – fiscal risk;
3) Escalating cost of infrastructure – fiscal risk;

0239 C-FSP Section III: Fiscal Policy And Budget Framework

(a) Section Overview

This sub-section provides a summary of the section and the key actions the County Government has decided to take in the budget allocation. These decisions are best listed in point form as a concise summary of the way forward that has been decided.

Examples of such decisions are:
1) Reduction of recurrent expenditure to devote more to development;
2) Reform expenditure management and tax collections regimes;
3) Productivity reform of the public sector to improve value-for-money in service delivery, such as capacity enhancement to improve absorption capacities of line ministries.

(b) Fiscal Policy Status

This sub-section sets out the County Government's fiscal policy stance in light of its strategic blueprint's objective, e.g. is the emphasis growth, maintaining the status quo, economic recovery etc. This is of course being undertaken in the context of the wider national economic environment and after assessing the county's current economic environment.

1) This sub-section should lay out a detailed medium-term fiscal framework defining a top-down aggregate resource envelope and broad expenditure levels, indicative allocation of available resources among County Government entities and the economic assumptions underlying the county's budgetary and fiscal policy over the medium term.
2) The fiscal framework should also include updated forecasts expressed in Kenya Shillings for the current budget year (N) and three forward years (N+1, N+2 & N+3) and the actual results for the previous budget year of the consolidated County Government budgets for:
   - The level of budgetary revenues by classification of the main categories of revenues, i.e. by tax revenues, non-tax revenues, grants, investment revenues and any other revenues for sources that do not fall under any of the ones listed here;
   - The level of budgetary expenditures by economic classifications i.e. expenditure category, e.g. wages & salaries, travel etc., and functional classifications, i.e. by department such as agriculture, health or tourism.
   - The level of development (capital) expenditures;
   - The overall balance and primary balance position;
   - The level of the county's public debt;
   - Sensitivity analysis taking account of possible changes in macroeconomic and other conditions, i.e. analysis of how the county's fiscal position responds to different economic and financial scenarios, e.g. how the fiscal position would be affected by an increase of one percent in the prevailing interest rate;
   - Any other information the County Executive Committee Member determines is material to fiscal strategy;
   - An explanation of the County Government's fiscal policies in relation to fiscal responsibility principles, and any temporary measures to be implemented to ensure compliance, if necessary;
   - An analysis and explanation of the following County Government strategies:
     i. Revenue policy, including planned changes to taxes and policies affecting other revenues;
     ii. Deficit and debt policy, including an analysis of county debt sustainability;
     iii. Expenditure policy including expenditure priorities;

iv. Aggregate expenditure intentions, including for the county consolidated budgets; and

v. Expenditure ceilings and other targets or limits implied by or required by the fiscal responsibility principles.

- An analysis of the consistency of the updated fiscal strategies with the previous fiscal strategies, providing an explanation of any significant changes. An important part of this process is to provide a comparison table showing how budget aggregates and net positions have changed since the last County Fiscal Strategy Paper of the previous year as illustrated in Table 9.

Table 9: County Government Fiscal Projections, 2012/13 – 2016/17

	2012/13	(N)		(N+1)		(N+2)		(N+3)
	Prov.	*CFSP'13*	*CFSP'14*	*CFSP'13*	*CFSP'14*	*CFSP'13*	*CFSP'14*	*CFSP'14*
Revenue and Grants	868.2	1,063.8	1,098.3	1,214.3	1,244.6	1,398.8	1,421.4	1,610.5
% of GDP	*23.7%*	*25.5%*	*26.4%*	*25.4%*	*26.8%*	*25.5%*	*26.9%*	*26.9%*
Revenue	847.2	987.3	1,019.9	1,138.6	1,169.1	1,313.7	1,328.7	1,506.8
% of GDP	*23.1%*	*23.7%*	*24.5%*	*23.8%*	*25.2%*	*24.0%*	*25.2%*	*25.1%*
Tax Revenue	701.2	839.5	854.5	969.5	982.9	1,120.5	1,117.9	1,273.3
Non-Tax Revenue	146.1	147.9	165.4	169.2	186.2	193.2	210.8	233.4
Grants	20.9	76.4	78.4	75.7	75.5	85.1	92.7	103.7
Expenditure	1,117.0	1,462.2	1,470.6	1,407.4	1,536.1	1,603.9	1,706.7	1,902.0
% of GDP	*30.5%*	*35.1%*	*35.3%*	*29.5%*	*33.1%*	*29.3%*	*32.3%*	*31.7%*
Recurrent	808.3	859.6	826.9	916.5	860.7	1,057.6	924.0	987.9
Development	298.9	385.2	428.7	482.0	442.0	538.9	534.6	635.7
	9.8	4.0	1.5	5.0	2.0	3.0	3.0	-
Budget Balance (-Deficit, +surplus)	(248.9)	(398.4)	(372.3)	(193.1)	(291.5)	(205.1)	(285.3)	(291.5)
% of GDP	*-6.8%*	*-9.6%*	*-8.9%*	*-4.0%*	*-6.3%*	*-3.7%*	*-5.4%*	*-4.9%*
Net External Financing	62.7	90.8	238.8	100.7	100.7	122.7	117.0	110.5
Domestic borrowing	169.8	106.7	133.5	92.5	190.8	82.5	168.4	181.0
% of GDP	*4.6%*	*2.6%*	*3.2%*	*1.9%*	*4.1%*	*1.5%*	*3.2%*	*3.0%*
Public Debt to GDP (net of deposits)	*47.8%*	*49.1%*	*51.8%*	*49.0%*	*52.0%*	*47.6%*	*50.8%*	*49.6%*
Nominal GDP (Ksh Million)	3,662.6	4,164.6	4,164.6	4,775.3	4,636.7	5,480.5	5,277.0	5,992.1

Source: Table Adapted from National Treasury - for illustrative purposes only.

(c) **Fiscal Strategy Paper's obligation to observe Fiscal Responsibility Principles**

The purpose of this sub-section is for the County Government to restate its observance of the fiscal responsibility principles in fiscal and medium term expenditure frameworks as laid out in the Public Finance Management Act 2012. The County Government is expected to address and demonstrate its compliance to each of these principles in the County Fiscal Strategy Paper by including a statement of these principles indicating how this fiscal strategy adheres to these principles.

The principles are repeated below:

- **Balanced Budgets are mandatory:** The County Government's expenditure shall not exceed its total revenue;
- **Thirty percent of all expenditure is dedicated to development expenditure:** Over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure;
- **Limit county wage bill to thirty five percent of the government's total revenue:** The County Executive Member for Finance can set the percentage of the County Government's expenditure on wages and benefits for its public officers provided it does not exceed thirty five per cent of the County Government's total revenue excluding revenues from extractive natural resources such as coal, oil etc. as prescribed in the regulations and approved by the County Assembly;
- **County Debt financing to be only used for development:** Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- **Sustainable debt:** The County's debt shall be maintained at a sustainable level not exceeding fifteen percent of the County Government's total revenue as approved by the County Assembly; short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited County Government revenue.
- **Prudent risk management:** Fiscal risks shall be managed prudently. That is, the CEC Member for Finance should outline key areas of uncertainty that may have a material effect on the fiscal outlook and the potential policy decisions they may portend;
- **Predictable taxes:** A reasonable degree of predictability 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.

(d) **Fiscal Structural Reforms**

This sub-section is best used to provide an update on the county's progress in enacting and implementing fiscal structures to enable it to be fully compliant with the PFM Act 2012 and PFM Regulations 2014. In this regard, an account of the state of progress in the following areas should be provided:

- Roll out and operations of the Integrated Financial Management Information System (IFMIS);
- Use and feedback on use of GPay;
- Capacity building efforts to date and the measure of progress in:
  - Staff training in IFMIS, percentage of finance officers trained and competent in IFMIS;
  - Training, roll out and use of process manuals such as the County Budget Operations Manual, the accounting manual etc.;
  - Recruitment and retention levels of finance staff;
  - Establishment versus actual numbers of finance staff;
  - Trainings conducted to date against targets.

    A narrative should be provided of the county's future plans and intentions to address any shortcomings in these areas as these capacity constraints go to the county's ability to meet its operational and service obligations and its strategic goals. For example, the often mentioned challenge of absorption capacity has meant funds are unable to be utilized adequately to enable service delivery. Commentary on how the above measures improve the county's absorption capacity would be a good example.

(e) **Debt Financing Policy**

Under the Fiscal Responsibility Principles, deficit financing is not allowed as debt can only be used to fund development expenditure. This sub-section should therefore provide details of the County Government's public debt management strategy and its operationalization. This should be an analysis and explanation of the County Government's deficit and debt policy and should include:

1) An analysis of the county's debt sustainability – that is, analysis of how these loans are being managed to remain within the prescribed debt limit of fifteen percent of total county revenue;
2) The actual level of county public debt;
3) The outcome of debt or grant negotiations or international obligations;
4) A list of debt-related contingent liabilities such as debt guarantees;

5) Capital projects to be financed through debt of whatever form. Concessional loans are always preferable.

(f) Budget Framework for proposed budget year (N+1)

This sub-section is an update of the same section in the Budget Review & Outlook Paper with the latest figures on the trends of the budget aggregates to enable firm decisions to be made on budget allocations for the proposed budget year (N+1).

At this point, updated analysis of the various macroeconomic and financial environments has been done and the latest trend projections of revenue and expenditure have been considered with the attendant risks better defined and understood; this sub-section now communicates the County Government's decision going forward in finalizing the budget for the coming year.

To support and justify the County Government's budget allocation and finalization, this sub-section should address each of the following budget aggregates and features. Remember the focus here is the future and the narrative is about what the County Government has decided and the justification thereof.

1) Revenue projections;

These projections are what quantum the County Government anticipates will be collected next budget year (N+1) as compared to the previous year (N) and why, and by what means or avenues. It can be expressed through a statement such as "*The (N+1) budget targets a total revenue amount of Kshs 5.4 billion made up of Ksh 4.9 billion from the national allocation of equitable share, Kshs 400 million from county tax revenue and Kshs 100 million from county non-tax revenue*" "*These projections will be achieved from securing a national allocation unchanged from last year of Kshs 4.9 billion and the rest from reforming the county's revenue collection system and the recruitment and training of 150 revenue collectors throughout the county*". Facts and figures are mandatory to make the case for this justification.

2) Expenditure forecasts;

These forecasts reveal what expenditure levels the County Government anticipates for the coming budget year (N+1) as compared to last year and why; whether it is expected to rise, fall or remain stable and also the justification for holding that view.

At this level of expenditure aggregation this sub-section provides overall numbers only and points to the guiding policy document(s) behind it,

for example, the County Government's Strategic Blueprint, the National Government's Budget Policy Statement (especially where the county hosts one or a number of Vision 2030 projects) and the Medium Term Expenditure Plan for the period (N+1) to (N+3). The next step is to break it down into recurrent and development sub-aggregates.

3) Recurrent expenditure forecasts;

   This sub-section should state the expected level of recurrent expenditure as compared to last year and why. Justifications for that view of anticipated expenditure behaviour can be rationalization of expenditure, wage negotiations etc. The sub-section core message can be captured by a statement such as "The (N+1) budget projects total recurrent expenditure will be Kshs 5.1 billion compared to last year (N)'s Kshs 4.9 billion. It will be mainly made up of Ksh 4.3 billion for wages and salaries up from 3.8 billion due to anticipated aggressive recruitment of medical, educational and agricultural extension staff." Facts and figures are mandatory to make the case for this justification and a mention of expenditure ceiling imposed to constrain expenditure growth should also be included.

4) Development and Net Lending;

   This sub-section should state the expected level of development expenditure as compared to last year and why. It should provide a breakdown of how much of it is to be funded through debt versus own funding and the structure of that debt. That is, how much of it is through concessional vs non-concessional loans. It should also demonstrate that it aligns with the thirty percent fiscal responsibility principle.

   Justifications for the level of funding as compared to the previous year (N) should highlight what has changed since then. In light of the statement of specific risks required under the PFM Regulations 25(2), any risks associated with the county's asset portfolio financed through debt should be concisely and explicitly identified. A statement should be contemplated for inclusion here on the County Government's long term debt strategy derived from its debt management strategy as it relates to borrowing.

5) Fiscal balance and deficit financing

   This sub-section should provide the net budget position of the proposed budget year (N+1) and the reasons for it, whether a deficit or surplus. More important is the County Government's plan to address any deficit in the medium term. For the proposed budget itself, no deficit is allowed and the County Government must make adjustments until it can submit a budget that does not have one.

(g) **Summary**

What is required in this sub-section is a restatement of the County Government's fiscal policy goal(s) for the county economy mainly in terms of prudent financial management, efficiency, debt sustainability, public sector productivity enhancement in order to achieve the objective of the County Government's strategic blueprint.

0240 C-FSP Section IV Medium Term Expenditure Framework

(a) **Resource Envelope**

The resource envelope available for allocation among the county's ministries, departments and agencies (MDAs) is based on the County Government's final resource projections contained in the medium term fiscal framework as outlined in the Fiscal Policy and Budget Framework section of this paper. This sub-section should therefore list and describe in concise detail the projected levels of the following resource bases and what percentage of total expenditure they fund to give an idea of relative importance; that is for:

1) The National Allocation
2) County Own revenue
3) Tax revenues
4) Non-tax revenues
5) Other Income
6) Donor funding
7) To recurrent
8) To Development
9) County Debt

The above analysis thus paints a clear picture of the county's resource base and sets the scene for the next section on the spending plan and the inevitable necessity for expenditure ceilings.

(b) **Spending Priorities**

This sub-section lays out what the MTEF budget's prioritization of expenditure will look like - what sectors will get less in order to fund priority ones. It should show what the County Government's priority sectors, programmes and even initiatives are, why they have been chosen and the hierarchy of spending priorities in the medium term. It should be noted of course that all the various sectors are expected to receive some funding.

(c) **Medium Term Expenditure Estimates**

The most important part of this exercise is what follows – the medium term expenditure estimates. This sub-section should provide projected baseline ceilings for the proposed budget year i.e. (N+1) classified by sector as illustrated in Figure 7.

(d) **Baseline ceilings**

In all narratives, the emphasis is on the County Government's priority programmes and their achievement. The baseline estimates in the above table reflect the current ministerial spending levels in sector programmes. This is not ideal for counties as most spending levels were initially set quite arbitrarily. Baseline estimates going forward are expected to be evidence based using the best information of actual service levels vis-à-vis the most realistic assessment of the resource envelope the county must work with and within.

The process of budget estimates compilation is expected to be strongly evidence-based and one prerequisite for this is using credible data to apply best practice unit costing methodologies such as Activity Based Costing to derive departmental expenditure estimates.

This way the County Government has an empirical basis for projecting accurately, deploying resources where they are most effective and ensuring greater value for money spent. Baseline ceilings are an essential tool for ensuring this.

The narrative in this sub-section should separately address the cost drivers behind recurrent and development expenditure and how these will be managed to remain within the ceilings assigned.

On development expenditure ceilings, it is expected that some commentary will be provided on:

1) On-going projects, such as how they are still aligned to the strategic objectives of the government;
2) Jointly-funded projects such as what they are and whether the County Government's portion of the project's cost has been allocated and ring-fenced to ensure project continuation or completion;
3) Any policy initiatives the County Government intends to execute, such as the intended recruitment of, say, 100 doctors to address the County's precipitously low staffing levels in its hospitals.

Figure 7: County Medium Term Expenditure Ceilings for FY[(N+1)…(N+3)]

Classification of the Functions of Government (COFOG)	Corresponding MTEF Sector	Ministries/Departments/ Agencies (MDAs)	COLUMNS	1	2	3	4	5	6	7	% SHARE OF TOTAL EXPENDITURE					
								PROJECTIONS							PROJECTIONS	
				ESTIMATES (N)	REVISED BASELINE (N)	CBROP CEILING (N+1)	CFSP CEILING (N+1)	(N+2)	(N+3)	% CHANGE (N)->(N+1)	ESTIMATES (N)	REVISED BASELINE (N)	CBROP CEILING (N+1)	CFSP CEILING (N+1)	(N+2)	(N+3)
1 Economic Affairs	Agriculture & Rural Development	Agriculture & Livestock Development	SUB-TOTAL	a = (r1+d1)	b	c	d	e	f	(c-a)/a	(a/A)	(b/B)	(c/C)	(d/D)	(e/E)	(f/F)
			Recurrent Gross	r1	r2	r3	r4	r5	r6	(r3-r1)/r1	(r1/Ar)					
			Development Gross	d1	d2	d3	d4	d5	d6	(d3-d1)/d1	(d1/Ad)					
		Cooperative Development	SUB-TOTAL													
			Recurrent Gross													
			Development Gross													
		Land														
		Fisheries														
		Forestry & Wildlife														
		Research & Development (ARD)														
	Energy, Infrastructure and ICT	Trasnport														
		Roads														
		Urban Development														
		Public Works														
		Information and Communications														
		R&D (EII)														
	General Economic, Commercial and Labour Affairs	Trade & Commerce														
		Industrialization														
		Tourism														
		Labour														
		R%D(GECLA)														
2 Health	Health	Health														
3 Education	Education	Early Childhood														
		Technical Colleges & Village Polytechnics														
		R&D(Education)														
4 Public Order and Safety	Governance, Justice and Law & Order															
5 General Public Services	Public Administration and International Relations	County Public Service Board														
		County Assembly														
		County Executive Committee (County Cabinet)														
		Planning														
		County Treasury														
		Office of the Governor														
		Office of the Deputy Governor														
6 Defence	National Security															
7 Recreation, Culture and Social Protection	Social Protection, Culture and Recreation	Culture & Recreation														
		Gender, Children & Social Development														
		Youth														
		Sports														
8 Housing and Community Amenities	Environmental Protection, Water and Housing	Environment														
		Mineral Resources														
		Water & Irrigation														
		Housing														
		Community Services														
			TOTAL	A	B	C	D	E	F							
			Recurrent Gross	Ar	Br	Cr	Dr	Er	Fr							
			Development Gross	Ad	Bd	Cd	Dd	Ed	Fd							

To be repeated for each county department

(e) **Finalization of spending plans**

In finalizing the counting spending plan, it is imperative that estimates are scrutinized in detail to ensure resources are being directed toward priority programmes. As budgets are finalized and the county's resource envelope concretized, this process of scrutiny will give the County Government opportunities to direct any savings or additional resources that may arise in future towards its priority programmes.

This sub-section should therefore list no more than five priority programmes or areas the County Government will direct any such savings or additional resources.

(f) **Details of Sector Priorities**

This sub-section is arguably one of the most important in this County Fiscal Strategy Paper as it provides a narrative description of the government's priorities by sector and how it will be funded. The process for carrying this out is as follows:

Listed in order of sector priority, each county sector narrative should be presented per the structure as follows:

Name of Sector:	e.g. Health
Name of sub-sectors:	e.g. Hospitals, Community health
Sector Policy blueprint:	e.g. The County Health Sector
Sector mandate:	e.g. "To promote and participate in the provision of integrated and high quality curative, preventive and rehabilitative services that is responsive, equitable and accessible to county residents."
Key sector achievements x5	e.g. "Child mortality rates have dropped by 7% in the last 10 years, preventive health outreach has expanded in the last twelve months to cover 75% of county residents through building 25 community health clinics."
Sector challenges:	e.g. "The sector suffers from an unacceptably low number of doctors from that recommended by the World Health Organization. Prevalence of preventable diseases such as malaria and water borne disease still affects over 40 % of the population; HIV prevalence has remained above the national average."

Sector's medium term plan:	e.g. "The sector intends to address these challenges by investing heavily in recruiting more doctors, launching a sustained health education initiative to improve awareness of simple hygiene measures especially for children and, a community-based malaria eradication program over the next five years targeting over 90,000 families a year to equip the community with the tools and equipment and support to eradicate sources of malaria."
Sector Resource Usage:	Explains what the sector intends to use allocated resources for. Give facts & figures for the whole medium term period. e.g. "The sector intends to use its allocated resources to expand its workforce by 40%; increase the number of health clinics by 35 units and train up to 500 community nurses to expand the outreach of county health services."

0241 Conclusion

A Summary of the main changes and decisions to be put to effect should be revisited in this section.

0242 ANNEXES of the CFSP

These appendices provide the tabulation of various data and analysis that went into preparing this CFSP. They should be attached as an essential component of this paper by the County Treasury. Samples of these are attached.

On the Statement of Specific Fiscal Risks, the PFM Regulation 25(2) requires it to be attached to this CFSP and contain the following content:

(a) It must outline potential policy decisions and key areas of uncertainty that may have a material effect on the county's fiscal outlook. This statement of fiscal risk shall therefore include:

1) Potential policy decisions that affect revenue, tax payer behavioural responses and court decisions likely to affect revenue bases and overall tax collections and government income, including tax concessions (or 'tax expenditures'), increases in tax rates, tax minimisation and avoidance by tax payers;
2) Potential policy decisions that could increase or decrease government expenditure depending on decisions taken and which of these decisions constitute risks to the fiscal forecasts but only to the extent that they cannot be managed within existing expenditure baselines or budget resources allowances;

3) Potential capital investment decisions that are risks to financial forecasts but only to the extent that they cannot be managed within the existing County Government's balance sheet including the Future Investment Fund;
4) Matters dependent on external factors such as the outcome of debt or grant negotiations or international obligations; and
5) A list of contingent liabilities - that is, known commitments that may or may not eventuate in a specific and binding obligation to pay or service the resulting payments in the future, including debt guarantees or pensions for county public servants.

(b) The format and structure of the statement is immaterial and a sub-section of the above points should suffice.

(c) List of Attachments

1) Statement of Specific Fiscal Risks
2) Main macroeconomic Indicators (3 year estimates)
3) County Government Operations (3 year estimates)
4) Medium Term Sector Ceilings (3 year estimates)
5) Recurrent Sector Ceilings (3 year estimates)
6) Development Expenditure Ceilings (3 year estimates)
7) Summary of Strategic Interventions (3 year estimates)
8) Summary of Expenditure by Programmes (3 year estimates)

CHAPTER 7

Programme-Based Budgeting Estimates

0243 Overview

Before addressing the budget preparation and calendar process in detail, it is essential to gain an understanding of Programme-Based Budgeting (PBB) - the fundamental budgeting methodology used to prepare budgets in Kenya. This chapter explores the conceptual, structural and process mechanics of programme based budgeting to enable county departments to compile compliant budgets.

It explores the programme logic of a programme based budget, its process logic and its expenditure structure including Activity Based Costing (ABC) - the preferred costing methodology to be used in costing Inputs.

0244 Chapter Objectives are to:

(a) Establish the legal framework that governs this process;
(b) Explain the conceptual underpinnings of the PBB process
(c) Walk through the PBB process in detail;
(d) Provide examples of the concept in action;
(e) Introduce Activity Based Costing (ABC) as viable costing methodology alongside PBB;
(f) Explore the limitations of unit costing;
(g) Revisit expenditure ceilings

PBB Structure & Elements: Programmes, Sub-Programmes, Outputs And Activities

0245 Programme-based Budgeting (PBB) – Definition

Programme-based budgeting is a way of compiling budget information so that it helps decision makers choose among competing alternatives for providing services. The PBB approach addresses the following questions:

- What are we trying to accomplish?

- How will the goal be accomplished?
- How much will be spent to accomplish the goal?
- What are the performance indicators that will measure the achievement of that goal?
- Is the expenditure to attain the goal value for money?

0246 Programme-based budgeting is the mandatory form of public sector budgeting in Kenya. It is embedded in a medium term framework where the County Government funds spending ministries, departments and agencies (MDAs) over a rolling three year period and guided by policy objectives contained in a comprehensive strategic plan - the County Integrated Development Plan and its implementing twin – the County Fiscal Strategy Paper.

0247 Contents of Programme Based Budgeting Estimates:

Policy Goals: For example, *Improve Community Health in the County by 50% over the next five years*;

Objectives: For example, *Target water borne diseases for eradication or drastic reduction*;

Key performance indicators: For example, *Target malaria eradication and reach at least 1 million families with health initiatives to reduce prevalence of malaria over the next five years*;

Programme Narratives: Concise description of programme(s) that will drive the achievement of the policy goals and objectives;

(a) **Multi-year expenditure estimates**

Costing measured against prioritized objectives and performance indicators, e.g. Community health's water-borne diseases project funding over next five years is KSh 320m; and,

(b) Information on past spending measured against objectives and performance indicators.

0248 Advantages of Programme Based Budgeting:

(a) Improves the prioritization of expenditure in the budget. That is, it helps allocate limited government resources to those programmes which are of greatest benefit to the community;

(b) Encourages spending departments to improve the efficiency and effectiveness of their service delivery;

(c) Ensures the budget clearly reflects government priorities by making the purposes for which funds are being allocated more transparent together with the service levels anticipated for these activities;
(d) Improves decision-making by providing better information on how well government services meet the needs of its citizens;
(e) Enables performance measurement. That is, measuring the efficiency and effectiveness of government service provision.

0249 Disadvantages of Programme Based Budgeting:

(a) Has heavy information requirements;
(b) Is premised on the capacity of its users to keep and maintain detailed statistical and financial data over long periods of time to make it useful and effective. For example, performance indicators data;
(c) Requires commitment of significant resources of a high quality such as consistently maintaining good databases along with competent qualified staff is essential to, for example: calculate each year the government's service delivery costs by applying relatively sophisticated and appropriate costing methodologies such as Activity Based Costing without loss of capability.

0250 The Time Frame of Programme Based Budgeting

Programme-based budgeting operates within the Medium Term Expenditure Framework (MTEF) which views budgeting as an integrated multi-year expenditure planning process put in place to achieve specific policy priorities for the current year and beyond to three and five years into the future.

0251 The MTEF sheds light on the long range impacts of current programmes to achieve defined policy outcomes for example, improved community health outcomes, improved participation in education for a given region etc. The Medium Term Expenditure Framework is explored in detail in Chapter Two.

0252 The Practice and Structure of Programme Based Budgeting

All Government Ministries, Departments and Agencies are required to breakdown their expenditure estimates structure using the PBB programme logic into programmes built around key policy objectives and their desired outcomes. These programmes are themselves then broken down into sub-programmes.

0253 PBB's Programme Logic

The structure of programme-based budgeting provides a framework for planning expenditure around programmes which cascades down into sub-programmes then into outputs/projects (services) then into activities. Understanding this programme logic is essential to creating compliant programme-based budgets.

It can be illustrated as:

Programme ⟵ Sub-programme(s) ⟵ Output(s) ⟵ Activities.

See Figure 8.

0254 County Departments and Entities must use PBB to compile their budgets

After the approval of the County Integrated Development Plan (CIDP), the various sectors of the county economy are represented through sector plans in the various government ministries. These plans also represent policy priorities of individual departments around which they should develop programmes to achieve them. Thus each county department or agency must identify the key policy objectives it aims to achieve within the wider context of the County Government's policy priorities and also the larger national goals.

0255 These policy objectives and priorities should then be translated into a number of programmes by sector for each department.

0256 A programme is an overarching theme or function to achieve a given policy objective. It is a collection of related activities working towards a common intended purpose or outcome and usually has a shared mode of intervention or client group.

0257 The preferable number of programmes per department is five but should not exceed seven to minimize complexity of supervision and reporting that arises from cascading subprogrammes that are attached to each programme.

0258 The first programme in each department or government entity is Administration under which headquarter operations management and administration is classed.

0259 A Sub-programme is a group of projects and activities under the same operational or development priority policy objective.

Figure 8: Programme Logic of PBB

PROGRAMME LOGIC OF PBB

PBB TERM	*DEFINITION	EXAMPLE(S)
PROGRAMME	A collection of related activities working towards a common purpose. Programmes are groupings of outputs, that is of services provided to or for the direct benefit of the community.	***Programme Objectives are strategic as they translate a CIDP/County Fiscal Strategy Paper policy priority or strategic objective into a ministerial goal.*** *For Example:* Health policy priority No 4: *"Focus on reducing the impact of endemic diseases in the county which tend to be mainly waterborne by at least by 30%."* Health Ministry response: Under its Preventive Health Programme's Objective No 2: "*Reduce prevalence of common water borne diseases by 30% through pre-emptive community health interventions and appropriate educational outreach over the next five years"*
Sub-Programme	A group of projects/activities under the same operational or development priority policy objective.	***Sub-programme objectives tend to be operational i.e. are preoccupied with shorter term tasks and activities that together work to achieve the broader programme objective.*** Community Health sub-programme: Outcome No 1: Reduce prevalence of malaria by 15% or 475,000 over five years based on a historic baseline average. Target for 2014-15: 95,000 fewer hospital admissions attributable to programme interventions.
Outputs	These are all the services that are delivered to parties external to the ministry or department. Services delivered to a client within the same ministry are ***not*** outputs but support services. Outputs must be able to achieve an intended outcome and are not to be confused with activities. For example Bus driving is an activity but passenger trips is an output. Hospital: The completed service of patient care is an output.	Malaria & Water-borne Disease Eradication Service launch to reduce prevalence of Malaria and other water-borne diseases by 20% or 95,000 fewer cases each year for the next three years based on historic baseline average;
Activities	Activities are work processes in the production of the Output. They are the smallest building block of a programme. Hospital: Work process in patient care such as surgery, nursing,cleaning, record keeping are activities.	- Distribute 20,000 treated nets distributed to 9500 households this year; - Larvae eradication - Treatment of breeding grounds; - Public Education on preventive measures; - Prophylaxic Medicine; - Early detection and response service

**Programme Based Budgeting Manual 2011*

0260 Sub-programmes under a programme should also not exceed seven in order to manage complexity of the number of programmes that can be adequately supervised and also for managing the reporting burden within reasonable limits.

0261 The number of outputs under sub-programmes should be kept at manageable levels to ensure adequate supervision, monitoring and reporting.

0262 Applying Programme logic to a County Department - An illustration

The PBB programme logic sets out the structure of how a department translates or breaks down its sector strategic plans as contained in the County Integrated Development Plan into a performance-based expenditure framework. See Figure 9.

0263 The Process Logic of PBB

While PBB's programme logic sets out the structure of how a department translates its sector strategic plans from the CIDP into a performance-based expenditure framework, PBB's process logic sets out the hierarchy of steps taken towards achieving an objective within a programme.

It enables cost estimates to be closely aligned to the achievement of the programme objective as illustrated in Figure 10:

⟵ Outcome ⟵ Output ⟵ Activities ⟵ Inputs

Figure 9: Example of a Ministry PBB Programme Logic

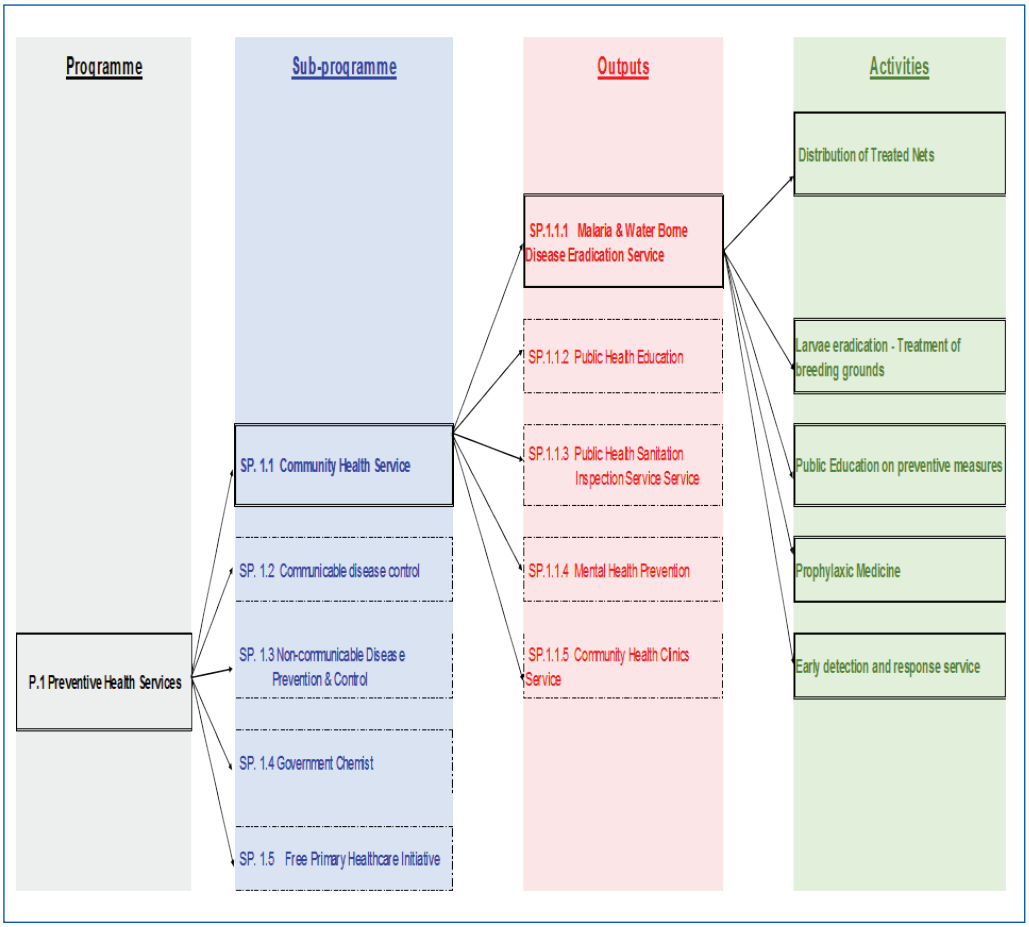


Figure 10: Process Logic of PBB

OTHER PBB TERMS	*DEFINITION	SAMPLE DEPARTMENT - HEALTH
Programme	The overarcing goal which all of the outputs (services) provided under the programme aim to achieve. It should indicate all the key outcome(s) it seeks to achieve. They are ***not*** programme performance indicators or targets.	Preventive Health Services *Programme :* *Objective No 1:* Reduce prevalence of common diseases by 30% through pre-emptive community health interventions and appropriate educational outreach..
Outcomes	Changes which government interventions bring about on individuals, social structures or the physical environment. For example literacy is an outcome of education or reduced crime of policing. They can also be defined as Impacts.	*Community Health* *Sub-programme Outcome 1:* Reduce prevalence of malaria by 15% or 475,000 over five years based on a historic baseline average; Target for 2014-15 is 95,000 fewer admissions attributable to programme interventions.
Outputs	These are all the services that are delivered to parties external to the ministry or department. Services delivered to a client within the same ministry are ***not*** outputs but support services. Outputs must be able to achieve an intended outcome and are not to be confused with activities. For example Bus driving is an activity but passenger trips is an output. Hospital: The completed service of patient care is an output.	Malaria Eradication Service launch to reduce prevalence of Malaria and other water-borne diseases by 20% or 95,000 fewer cases each year for the next three years based on historic baseline average;
Activities	Activities are work processes in the production of the Output. They are the smallest building block of a programme. Hospital: Work process in patient care such as surgery, nursing,cleaning, record keeping are activities.	- Distribute 20,000 treated nets distributed to 9500 households this year; - Larvae eradication - Treatment of breeding grounds; - Public Education on preventive measures; - Prophylaxic Medicine; - Early detection and response service
Inputs	These are resources required to be used in an activity to produce outputs. It include such items as labour, materials, equipment, buildings and other - mainly tangible - resources which are or will be used in the activities that produce the outputs at the project and sub-programme level.	1) Health workers & Clinicians @ cost of Kshs/per staff x No of staff 2) Offices @ cost of Kshs/SqM 3) Vehicles and fuel supply @ cost of Kshs/unit x No of months/kms 4) Equipment e.g office equipment, mobile phones, @ cost/unit x unit nos 5) Admin support staff @ cost of Kshs/per staff x No of staff 6) Procure treated nets etc. @ cost of Kshs/unit x No of units

**Adapted from Programme Based Budgeting Manual 2011*

0264 Expenditure structure within programme-based budgeting

With a good grasp of the programme and process logics that are the foundation of programme-based budgeting, the final plank in compiling compliant budgets is to understand the expenditure structure at the lowest operational unit of a PBB structure, that is, the activity.

This is the unit or level at which a full complement of resources are managed coherently to produce an outcome. At this level, the expenditure structure breaks down expenses into expenditure categories under what are known as Item Control Totals.

0265 Item Control Totals -An Important Distinction of the PBB Expenditure Structure

An important feature of the expenditure structure under programme-based budgeting that is different from former practice is the use of Item Control Totals. Under PBB, managers are more responsible for achieving broader strategic outcomes and this has entailed giving them greater latitude in managing their budgets.

0266 Item Control Totals - Definition:

These are an aggregation of previously exhaustive lists of line items that represented all the inputs that went into preparing budget under the previous line item budgeting methodology. As budgets were based on individual line items, managers were confined to spending within very narrow parameters. For example, money earmarked for travel, fuel and oil etc. could not be reallocated to other uses without Treasury authorization.

0267 Item Controls Totals' Five Groups of line items

Item control Totals aggregate line Items under only five groups or clusters each of which is a summation of a number of line items within them. These are:

1) Personnel expenses
2) Utilities, supplies and services
3) Foreign travel and related expenses
4) Other recurrent expenditure
5) Capital expenditure

0268 Using Item Control Totals, expenses are now grouped into clusters and the programme manager has greater flexibility to transfer resources within individual control totals without the need to seek Treasury authorization. This gives considerable latitude for adjusting expenses in response to changing programme circumstances or dynamics. For example, with regard to the 'Other Recurrent Expenditure' control total, a manager can now opt to transfer resources from say - the Hospitality budget to the Training budget in response to an urgent capacity building needs.

0269 A full budget template of line items structured into Item Control Totals is illustrated in Table 10.

0270 Some transfers between Item control totals are not allowed

While movements within individual Item Control Totals is allowed, movement between them is restricted or prohibited altogether.

0271 For example, transfers to personnel expenses from any other control total or transfers from the capital expenditure control to any other control are forbidden. The County Treasury is also not authorised to grant permission in these circumstance and must seek the express permission of the County Assembly.

0272 Applying the programme, process and expenditure structure to an entity - example

As noted before, preparing programme based budget estimates by departments is envisioned as a bottom up process starting at the output/project level within the entity and aggregating up to the global budget expenditure ceilings set at the programme level.

0273 It is likely that the county may not yet have its programmes broken down to the project/service level as illustrated here. In this case, the same expenditure structure still applies at the higher levels of the sub-programme and county departments should break down their expenditure estimates as prescribed here.

Table 10: Expenditure Structure & Line Item Control Categories in Programme Based Budgeting

EXPENDITURE STRUCTURE - ITEM CONTROL TOTAL ==> ACTIVITY BUDGET FORMAT Item Control Totals in Programme Budgeting					
Expenditure Categories	Items	N	N+1	N+2	N+3
		2014-15	2015-16	2016-17	2017-18
BUDGET TOTALS (RECURRENT + DEVELOPMENT EXPENDITURE)		**A+B+C+D**	**A+B+C+D**	**A+B+C+D**	**A+B+C+D**
RECURRENT EXPENDITURE *(Total)*		**A+B+C**	**A+B+C**	**A+B+C**	**A+B+C**
Wages & Salaries		**A**	**A**	**A**	**A**
Personnel Emoluments	Basic Salaries - Permanent Employees	a	a	a	a
	Basic Salaries - Temporary Employees	a	a	a	a
	Personal Allowance - Paid as Part of Salary	a	a	a	a
	Personal Allowances Paid as Reimbursements	a	a	a	a
Other Expenses (Total)		**B**	**B**	**B**	**B**
Utilities, Supplies and Services	Utilities, Supplies and Services	*b*	*b*	*b*	*b*
Foreign Travel & Related expenses	Foreign Travel and Related expenses	*b*	*b*	*b*	*b*
Expenditure	Communication, Supplies and Services	*b*	*b*	*b*	*b*
	Supplies and Services	*b*	*b*	*b*	*b*
	Training Expenses	*b*	*b*	*b*	*b*
	Hospitality Supplies and Services	*b*	*b*	*b*	*b*
	Specialised Materials and Suppliers	*b*	*b*	*b*	*b*
	Office and General Supplies and Services	*b*	*b*	*b*	*b*
	Fuel Oil and Lubricants	*b*	*b*	*b*	*b*
Maintenance Expense (Total)		**C**	**C**	**C**	**C**
	Transport Equipment	c	c	c	c
	Routine Maintenance - Other Assets	c	c	c	c
		c	c	c	c
DEVELOPMENT EXPENDITURE *(Total)*		**D**	**D**	**D**	**D**
	Capital Equipment installation costs	d	d	d	d
	Equipment	d	d	d	d
	Purchase of Specialised Plant, Equipment and Machinery	d	d	d	d
	Research, Feasibility Studies, Project Prep, Design & Supervision	d	d	d	d
	Communication, Supplies and Services	d	d	d	d
	Construction of Buildings	d	d	d	d
	Construction and Civil Works	d	d	d	d
	Overhaul and Refurbishment of Construction and Civil Works	d	d	d	d

0274 Based on the example from the Department of Health below, one of the department's lowest functional units is the Malaria Eradication Project charged with delivering treated mosquito nets.

It contributes towards the objective of the sub-programme called Community Health Services sub-programme's to achieve its 2014-15 target of reducing hospital admissions by 95,000 through various programme interventions.

The Sub-programme in turn contributes to the Programme called Preventive Health Services' objective to reduce the prevalence of malaria by 15% or 475,000 over five years based on a historic baseline average. The standard-expenditure structure at this level is as illustrated in Figure 11.

0275 An illustration of the application of all the three conceptual frameworks is shown in Figure 12.

0276 Merging Programme and Process logics within an Expenditure Structure

Programme Based budgeting thus combines the above programme and process logics within an expenditure structure to give a comprehensive picture of where and how funds are spent, for what purpose.

Thus, the PBB programme Logic is:

Programme ⟵ Sub-programme(s) ⟵ Output(s) ⟵ Activities

And its Process logic is:

Objective ⟵ Outcome(s) ⟵ Output(s) ⟵ Activities ⟵ Inputs

Its expenditure structure operates to Item Control Totals.

From a bottom up perspective, these three concepts result in a structure for departments as illustrated in Figure 12.

The PBB process is traced upwards from the individual projects and/or outputs all the way up to the sub-programme and programme it belongs to.

0277 Thus on the larger context of the Department of Health, it looks in Figure 12.

Figure 11: Expenditure Structure under Programme Based Budgeting

Sample Department: Health

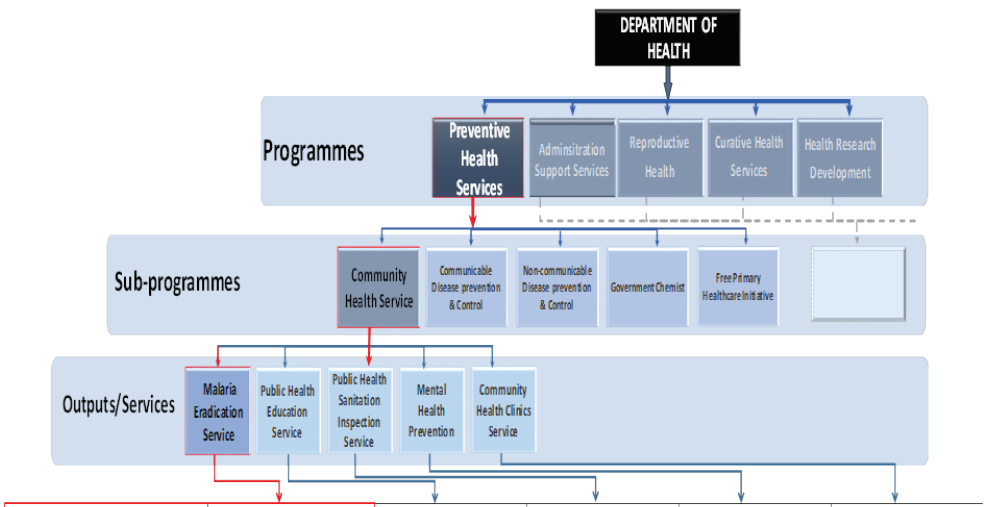
PBB Programme Logic	Example
Programme [1:0]	Preventive Health Services
Sub-programme [1:1]	Community Health
Output(Service) [1:1:1]	**Malaria Eradication**
Activity [1:1:1:1]	Distribution of Treated Nets
Activity [1:1:1:2]	Larvae eradication - Treatment of breeding grounds
Activity [1:1:1:3]	Public Education on preventive measures
Activity [1:1:1:4]	Prophylaxic Medicine
Activity [1:1:1:5]	Early detection and response service

BUDGET SUMMARY for
MALARIA ERADICATION SERVICE
(Staff Establishment = 60: 45 permanent, 15 temporary)

Costed Inputs/resoruces needed *(Summary Totals)*	N	N+1	N+2	N+3
	2014/2015	2015/2016	2016/2017	2017-2018
	Kshs (million)	Kshs (million)	Kshs (million)	Kshs (million)
BUDGET TOTALS (RECURRENT + DEVELOPMENT EXPENDITURE)	**127.7**	**108.4**	**121.2**	**134.3**
RECURRENT EXPENDITURE *(Total - Kshs Million)*	**96.1**	**104.4**	**113.5**	**123.5**
Wages & Salaries (Total)	43.2	45.4	47.6	50.0
Other Expenses (Total)	52.1	58.2	64.9	72.5
Maintenance Expense (Total)	0.8	0.9	1.0	1.1
DEVELOPMENT EXPENDITURE *(Total)*	**31.6**	**4.0**	**7.7**	**10.7**

For the full budget statement - See Appendix

Figure 12: Programme Based Budgeting in a County Department



Ministry of Health Budget Summary Expenditure Structure Item Control Totals	Malaria Eradication (made up of 5 activities)				Public Health Education Service				Public Health Sanitation Inspection Service Service				Mental Health Prevention				Community Health Clinics Service			
	N	N+1	N+2	N+3	N	N+1	N+2	N+3	N	N+1	N+2	N+3	N	N+1	N+2	N+3	N	N+1	N+2	N+3
	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18
	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)	Kshs (M)
BUDGET TOTALS (RECURRENT + DEVELOPMENT EXPENDITURE)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recurrent Expenditure																				
Personnel Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities, Supplies & Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Travel & related Expenses																				
Other Recurrent Expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

0279 Economic classification of expenditure

This identifies the type of expenditure incurred by its economic activity, for example, salaries, goods and services, transfers and interest payments, or capital spending.

It involves arranging the expenditures and receipts of the County Government by significant economic categories, distinguishing them between current from capital outlays, spending for goods and services from transfers to individuals and institutions, tax receipts from other receipts, and borrowings and inter-governmental loans and grants etc.

0280 Functional classification of expenditure

This categorizes expenditure according to the government function it is being used for such as Health, Agriculture and Public Works and for the sub-units below these. It helps to analyze how much the government is allocating to different functions, purposes and objectives in accordance with the priorities laid down in its strategic or expenditure plan.

0281 It is designed to group the main items of government expenditures in terms of broad purposes to be served, i.e. defence, administration, and is independent of the government's administrative or organizational structure.

0282 This expenditure classification is especially useful in analyzing the allocation of resources among sectors and may also be used for tracking poverty-reducing expenditures.

0283 A sound and stable functional classification helps to generate the data that are necessary to produce historical surveys and analysis of government spending, and provides room for comparing data from different fiscal years.

Table 11: Classifications of expenditure

Economic Classification			Functional Classification		
Section	Article	Paragraph	Main function	Function	Secondary function
Main classification	Sub classification	Other information	Division	Group	Class
Expenses	Compensation of employees	Wages and salaries in cash	Economic affairs	Agriculture Health etc	Agriculture

0284 Tension between PBB and organizational Structures of Government Departments

Programme based budgeting is based on economic classifications of expenditure while most government departments are primarily structured on a functional basis. These leads to the challenge of reconciling the two classifications during budget preparation.

0285 For purposes of performance measurement, PBB's use of economic classification is effective and preferable. For historical and managerial convenience, functional classifications are sometimes necessary in government. This may then lead to instances where budgets must be created in both formats. The treatment of budget in these circumstances is addressed in Chapter 17 on Measuring programme performance

0286 For the sake of clarity, programmes should ideally be limited to defined and separate functions of the department with no overlaps. Where such overlaps exist, performance monitoring can become a challenge. However, a rule of thumb is to ensure responsibility for each outcome - together with its attendant performance indicator(s) - is clearly assigned to specific managers to avoid ambiguity in the future irrespective of current functional classifications.

0287 Costing in the Public Service

To derive accurate budget estimates, it is expected that a costing methodology will have been applied to ensure there is a rational basis for the estimates. For this reason, the consistent application of a costing methodology enables the entity to defend its estimates, compare expenditures over time and between entities, provides a robust basis for defending the estimates during resource allocation discussions and provides a credible foundation for in-year performance monitoring and post implementation performance measurement.

Due to the inherent complexity of adequately costing the large variety of public services, Activity Based Costing (ABC) in its simplest form is the recommended costing methodology and basis for PBB budgeting.

0288 Activity Based Costing (ABC) – a definition[18]

Developed initially by Professors Robert Kaplan and Robin Cooper of Harvard University in late 1980's for the private sector, this is a "cost accounting approach concerned with matching costs with activities (called cost drivers) that cause those costs. Under ABC, it is the activities that consume resources, these activities are the cost drivers, and that these activities are not necessarily based on the volume of production.

[18] http://www.businessdictionary.com/definition/activity-based-costing-ABC.html

Thus instead of allocating costs to cost centers, ABC allocates direct and indirect costs to activities such as processing an order, attending to a customer complaint, or setting up a machine.

ABC enables management to better understand how and where efficiencies are being achieved, where money is being spent and which areas have the greatest potential for cost reduction (or give best value for money)".

0289 ABC has gained significant traction as a costing methodology in the public sector due to its focus on driving "efficiency by allocating costs based on the use of resources in the delivery of distinct services and …the growing need in the public sector for greater "transparency of how its resources are being used on activities and how effective these activities are in delivering required outcomes"[19]

0290 PBB's process logic, Activity Based Costing and the Standard Chart of Accounts

ABC has a natural and intuitive convergence with Programme-based budgeting due to their common focus on activity as the building block of costing outcomes. For this reason and the purposes of budgeting, it is the preferred costing methodology county departments are expected to use. In its simplest form and as recommended later in this manual, ABC costs each of a series of sequential activities that are orchestrated to deliver an output or service that will contribute towards effecting an intended outcome that achieves the programme objective.

0291 Within the PBB framework, the guiding principle in applying ABC is PBB's process logic. That is the flow:

Objective ⟵ Outcome(s) ⟵ Output(s) ⟵ Activities ⟵ Inputs

The costing methodology must focus on the inputs that go into activities in order to derive the expenditure estimate of the programme.

0292 Using the Health Department example above, the flow of the PBB Process Logic is as shown in Table 12.

[19] http://www.localgov.co.uk/Activity-Based-Costing/27926

Table 12: Flow of PBB Process Logic

Objective	⟵ Outcome(s)	⟵ Output(s)	⟵ Activities	⟵ Inputs
Reduce prevalence of common diseases by 30% through pre-emptive community health interventions and appropriate educational outreach..	Reduce prevalence of malaria by 15% or 475,000 over five years based on a historic baseline average. Budget Year Target: Reduced prevalence by 95,000 in fewer hospital admissions attributable to programme interventions.	Launch of Malaria Eradication Service Mandate: Reduce prevalence of Malaria and other water-borne diseases by 20% or 95,000 fewer cases each year for the next three years based on historic baseline average;	1) Distribute 20,000 treated Mosquito nets distributed to 9500 households this year; 2) Larvae eradication - treatment of breeding grounds; 3) Public Education on preventive measures; 4) Prophylaxic Medicine; 5) Early detection and response service	Health workers & Clinicians Office space Vehicles and fuel supply Equipment e.g. sprayers, office equipment, mobile phones, Admin support staff Procure medicines and treated nets etc.
Programme Preventive Health	Sub-programme Community Health	Output Malaria & Water-borne Disease Eradication Service	As above	As above

0293 From the above table, ABC assigns costs to all inputs into each of the activities so that these can be costed appropriately in turn and then aggregated into budget estimates of sub-programmes and programmes. Thus by using the process logic above, it ensures the natural melding of strategic intent and cost estimation that is at the heart of programme based budgeting.

0294 The Basic Structure of Activity Based Costing (ABC)

The ABC costing methodology enables an intimate understanding of how and where money is being spent by costing each activity through costing an activity's inputs.

0295 ABC is useful in that once an activity has been costed, it becomes the basic building block for future reference for similar projects or service(s).

0296 It also provides an empirical costing basis by having a stable set of components (inputs) that make up a costed activity that can be tested for rigor in applying it to the funding rationale if similar programmes in the future.

0297 ABC is built on activities and inputs

(a) Identifying activities required to deliver a service/output, such as in the Health Department example of the distribution of treated mosquito nets in the Malaria Eradication Service's activities; and,

(b) Costing those activities, and this, by identifying in detail and costing the inputs (resources) that go into each of those activities.

0298 Responsibility of the programme/project/service manager for rigor in the estimates

The task and responsibility for assessing the appropriate level of inputs necessary to carry out programme (activities) efficiently (at minimum cost) and effectively (able to achieve the intended purpose) is the sole responsibility of the programme manager preparing the budget.

0299 The programme manager must on request provide to the County Treasury the rationale and method they used to derive their budget estimates. At the same time, it is the task and duty of the County Treasury to ensure that it has tested – on a random sampling basis – these costing rationales to satisfy itself of the rigor and rationale of line department's costing methodologies in compiling their budget estimates before submitting them to the County Executive Committee and to the County Assembly for approval.

0300 Applying a fair market price to each optimized input

Having selected the inputs necessary for the activity to be carried out effectively, the task of the manager and his/her team is to cost it rigorously. To do that, a clear template and structure for applying fair market value costs to each of the inputs is essential.

0301 Defining Costs under the ABC methodology

Inputs into an activity are resources that cost money. These costs need to be classified guided by the Item Control Totals expenditure structure but at the detailed line item level. As illustrated previously, the component items underneath the Item Control Totals for recurrent expenditure are, but not limited to, the following list:

0302 Item Control Total Component Items of Control Total

Recurrent Expenditure	
Personnel Expenses	• Basic Salaries – Permanent Employees • Basic Salaries – Temporary Employees • Personal Allowances – part of salary • Personal Allowances – reimbursements
Utilities, Supplies & Services	• Electricity, water, telephone and other facility expenses
Foreign Travel & related exp.	• Foreign travel and subsistence and other transportation costs
Other recurrent costs	• Communication, supplies and services, • Domestic travel and subsistence and other transportation costs • Printing, advertising and information supplies and services • Hospitality, supplies and services • Specialised materials and supplies • Office and general supplies and services • Fuel, oil and lubricants • Routine maintenance – vehicles and other transport equipment • Routine maintenance – other assets
Development Expenditure	• all expenditure on all durable assets needed to support service delivery.

0303 Under PBB, the cost of capital, that is, development expenditure, is added to ensure a comprehensive picture of the total costs of an output/service or project for that matter is captured in one place to aid resource allocation decision making and later on to perform performance evaluations.

0304 It should also be noted that costs directly related to acquiring and installing durable assets such as buildings or heavy machinery can be classified as development expenditure while those of an operational nature such as periodic maintenance should be factored under recurrent expenditure. A fuller treatment of this issue is available from the public sector accounting standards board and current accounting standards.

0305 Applying ABC to a PBB Entity

To effectively apply ABC, a government entity must:

(a) Define and list all its programmes and their related sub-programmes in detail; then,

(b) Apply the PBB process logic to identify all the outputs/services/projects necessary to deliver each sub-programme;

(c) Identify for each output/service or project the essential activities necessary to deliver it;

(d) Compile for each activity the complement of inputs necessary for each activity to be performed or executed to the required standard;

(e) Apply a standard cost to each of those inputs using an average fair market value to be supplied by the National Treasury. An input corresponds with an item in the Standard Chart of Accounts (SCOA). There are 575 expenditure items with codes in the SCOA used by IFMIS and so it is unlikely there will not be found the appropriate item to code the input in question.

0306 Thus, in costing the input, it is imperative that its item label or name be taken from the SCOA along with its coding especially at the lowest level of budget compilation – i.e. the activity level. Accurate coding is critical to IFMIS especially as the budget consolidation process for both the department and the County Treasury relies entirely on it.

0307 If an appropriate item label and coding can't be found in a SCOA where the SCOA name for the input/item is inappropriate or vague, then the following procedure is to be followed:

(a) Identify the generic economic classification the item belongs to e.g. wages and salaries, domestic travel, rental expense etc;

(b) Identify what about the item in question makes it unique or not easily confined to the expenditure category;

(c) Code it to that generic economic classification and include an explanatory footnote to the table or text to ensure it is flagged to the reader.

0308 Alternatively:

In the unlikely event that there is no economic classification for the input/item in question,

(a) Seek direction from the County Treasury in the first instance;

(b) Identity whether it is a direct or indirect cost item and code it to '2990103 – Overhead' or'2990105 – Expenses' then attach an explanatory footnote. If it is a table, then at the bottom of it, note that such generic labeling of items is strongly discouraged and attracts particular scrutiny during internal and external audits.

0309 Costing programme activity under ABC

Using the earlier example from the Health Department's Malaria & Water Borne Diseases Eradication Service Project under the Community Health sub-programme, the ABC methodology is to be applied as shown in Figure 13.

0310 To execute the highlighted Activity i.e., '*Distribution of 20,000 Treated Mosquito Nets to 9,500 Families*', the following steps need to be followed in order to derive a total budget of the project based on a fair market value:

Figure 13: Applying ABC Methodology

Activity-Based Costing Applied to Activity No 1 of the

Malaria Eradication Service:
Distribution of 20,00 Treated Mosquito Nets

PBB Programme Logic	Example	
Programme [1:0]	Preventive Health Services	
Sub-programme [1:1]	Community Health	
Output/Service [1:1:1]	**Malaria Eradication**	**Cost of Service**
Activity [1:1:1:1]	***Distribution of 20,000 Treated Mosquito Nets***	**29,284,605**
Activity [1:1:1:2]	Larvae eradication - Treatment of breeding grounds	
Activity [1:1:1:3]	Public Education on preventive measures	
Activity [1:1:1:4]	Prophylaxic Medicine	
Activity [1:1:1:5]	Early detection and response service	

0311 Step One: List all the inputs required to execute the activity.

It is the project/service manager's responsibility to ensure not only the type, number and quality of these inputs, but also to assign a fair value market cost to each input as if the project was a stand-alone entity charged with executing its mandate at the lowest cost possible without sacrificing effective service delivery. It is also imperative that this input resource list be compiled using the standard chart of accounts' coding as shown below:

(a) RECURRENT

2110101 Basic Salaries - Civil Service (Admin Staff)
2110101 Basic Salaries - Civil Service (Field Staff)
2110101 Basic Salaries - Civil Service (Professional Non-medical staff)
2110101 Basic Salaries - Civil Service (Professional - Medical staff)
2210603 Rents and Rates - Non-Residential
2210101 Electricity
2210102 Water and sewerage charges
2210299 Communication, Supplies - Other
2210302 Accommodation - Domestic Travel
2211031 Specialised Materials - Other
2211299 Fuel Oil and Lubricants - Other
2220105 Routine Maintenance - Vehicles
2220201 Maintenance of Plant, Machinery and Equipment (including lifts)
2220202 Maintenance of Office Furniture and Equipment

(b) DEVELOPMENT

Vehicles (field and professional staff) - four staff/vehicle
*Vehicles (management)
Equipment - Office support (office staff & professionals)
Equipment - Field operations (field staff) (staff)

0312 Note that IFMIS has a comprehensive list of these input items and that they can be used even for manual budget compilation by using the spreadsheet version of IFMIS provided there is no amendment of the Code+label format embedded into the IFMIS-formatted excel-based items list as depicted for recurrent expenses in the list above. Using this pre-formatted IFMIS spreadsheet this way enables IFMIS to import it without further need for human intervention.

0313 Step Two: Ensure there is a clear rationale for picking an appropriate input cost. The probable cost of each input must be judged against whether there is a clear rationale behind it. This rationale is important as it justifies the metric used to cost the input. For example, rental expense.

If the metric chosen is rent expense per staff, the rationale could better justify it by using the average cost of renting a 3 square metre floor space necessary to accommodate one staff person derived from taking the total floor space and dividing by the number of only those staff who use the office – i.e. excluding field staff.

An example of input costing of an activity is illustrated in Table 13.

0314 Step Three: Assign the cost of the input
Ensure that the input's cost refers to the same time period (i.e. weekly, monthly or annual costs), that the units of input are also clear (one staff, four staff per car for field vehicles etc.) and that the consumption of the resource refers to the same period for consistency.

0315 Where there are shared costs for example those of the manpower, common facilities and common areas. A clear rationale for the apportionment of costs must be supplied upon request by the County Treasury. Some rules of thumb include: For human resource: projected time allocations to be spend serving a programme; for shared facilities and common services – pro-ration by the number of staff under each programme. The national and County Treasury should also be consulted for further clarification.

0316 On the information source to be used for the costing exercise, the National Treasury will assist by providing guidelines. In the transitional period, the Kenya National Bureau of Statistics is the other preferred source of such cost data. Other sources of data include price lists from the procure-to-pay module of the Integrated Financial Management Information System (IFMIS), the Public Procurement Oversight Authority, the Salaries and Remuneration Commission, pricing protocols used by professional associations such as those for architects, engineers and quantity surveyors.

Table 13: Input costing table (Activity Budget)

Output/Service: Malaria Eradication

INPUTS: Activity No 1: Distribution of Treated Mosquito Nets Project			*Fair Market Value Cost (IFMIS)*
RECURRENT - Items	**Designation / Rationale**	**Metric**	
2110101 Basic Salaries - Civil Service (Admin Staff)	Admin	Admin Rate	*15,000*
2110101 Basic Salaries - Civil Service (Field Staff)	Field	Field Ops Rate/staff	*30,000*
2110101 Basic Salaries - Civil Service (Professional Non-medical staff)	Professional - non Medical	Professional Rate - Non-medical	*80,000*
2110101 Basic Salaries - Civil Service (Professional - Medical staff)	Professional - Medical	Professional Rate - Medical	*105,600*
2210603 Rents and Rates - Non-Residential	All Admin/Professional staff @ rate/3Sqm	3SqM/Staff	*5,200*
2210101 Electricity	Average Cost/Mon/Staff		*623*
2210102 Water and sewerage charges	Average Cost/Mon/Staff		*312*
2210299 Communication, Supplies - Othe	Average Cost/Mon/Staff		*720*
2210302 Accommodation - Domestic Travel	Cost/year/field & professional -Medical Staff		*3,500*
2211031 Specialised Materials - Other	Field & professional staff	Piece(s)	*11,650*
2211299 Fuel Oil and Lubricants - Othe	%cost of travel of field & Prof staff	12% of travel cost	*1,050*
2220105 Routine Maintenance - Vehicles	% of cost of vehicles/yr	0.03% of cost	*39,750*
2220201 Maintenance of Plant, Machinery and Equipment (including lifts)	% of cost of field equipment per yr	0.9% of cost	*2,385*
2220202 Maintenance of Office Furniture and Equipment	% of cost of office furniture and equipment per yr	0.30% of cost	*6,900*
DEVELOPMENT			
4x4 Vehicles (field & Professional Staff) - four staff/vehicle	Units	4 staff/unit	*1,325,000*
* 4x4 Vehicles (Management)	Units	2 staff/unit	*780,000*
Buildings	Units/staff	x3	*23,000*
Heavy & durable Field Equipment - Field operations (field staff) **(staff)**	Units/staff	x1	*26,500*

0317 Step Four: Attach complete narratives justifying the costing rationale(s) used

Ensure a complete narrative of all rationales used in compiling the costs accompanying the costings and budget. This is important to ensure consistency of application over time. Budgeting each year should be a predictable, empirical exercise that is defensible as it uses a known methodology and consistent rationale.

0318 Step Five: Be conservative in forward-year projections, remember inputs tend to fluctuate.

Project the likely costs for the budget's forward years and remember to include an adjustment for inflation and a provision for likely changes in the quantity, availability and quality of programme inputs and the likely impacts of unforeseen events on the programme & project such as economic and weather events.

The mere escalation for inflation of base year costs for forward years is discouraged and effort must be put into taking into account other contingencies to make these forecasts as realistic as possible.

0319 Step Six: Respect expenditure ceilings

All expenditure ceilings set by the County Treasury are non-negotiable. Note also that the County Fiscal strategy Paper establishes ceiling over the medium term that cannot be changed without the approval of the County Assembly.

0320 This is the process that should be followed in every county MDA to compile compliant budgets.

0321 On other types of outputs other than a service or project:

The same methodology can equally apply to the provision or production of an output such as a building or a road. For many of these types of outputs, there exists professional bodies such as the Institute of Civil Engineers that have detailed costing protocols that provide excellent sources of empirical data and professional knowledge to ensure realistic projections

0322 It is expected that where such professional bodies exist, their involvement through sector working groups should be evident and demonstrable in the compilation of budget estimates. This should be a key budget preparation performance indicator to be used by the County Treasury in ensuring rigor is

applied by county departments in compiling their budget estimates. In other words the use of subject matter experts in the costing exercise described above is mandatory wherever possible.

0323 Programme managers responsible for budget compilation are expected to convene multi-disciplinary teams to adequately and professionally carry out this task. In their absence, the costing exercise should be peer-reviewed as a minimum interim measure.

0324 Through the ABC methodology it is possible to derive the cost of providing any service per unit of output such as the cost per learner, per occupied hospital bed or per outpatient, per passport issued, per passenger mile. When these are then aggregated into sub-programmes and programmes they provide an empirical basis for effective budgeting.

0325 The Activity budget shows how future estimates can tell a story

The preliminary budget for the activity labelled Distribution of 20,000 treated mosquito nets will resemble Table 14. It also illustrates the benefits of compiling the budget using ABC. These include:

(a) Being able to derive a per unit cost of providing the service e.g. cost per net = KSh 1,464, cost per family = KSh 3,083 or even per staff = KSh 976,154;
(b) Providing a basis for benchmarking future performance and other providers;
(c) Setting an empirical standard that can be used in compiling budgets in future;
(d) Enabling managers to make rational resource utilization decisions;
(e) Inviting analysis and exploration of alternatives of which option is the best value-for-money, for example, whether to run the distribution activity in-house or outsource it altogether.

0326 Limitations of Unit Costing

Notwithstanding the above, there are some limitations to any costing methodology including ABC. For this reason, it is important to compile detailed rationale that justifies the metric used and any variations from standard practice. It is also essential to use competent multi-disciplinary departmental teams in preparing budgets to ensure the costings exercise benefits from the knowledge and experience of these subject matter experts.

Activity-Based Costing Applied to Activity No 1 of the

Malaria Eradication Service:
Distribution of 20,00 Treated Mosquito Nets

PBB Programme Logic	Example	Cost of Service
Programme [1:0]	Preventive Health Services	
Sub-programme [1:1]	Community Health	
Output/Service [1:1:1]	**Malaria Eradication**	
Activity [1:1:1:1]	***Distribution of 20,000 Treated Mosquito Nets***	**29,284,605**
Activity [1:1:1:2]	Larvae eradication - Treatment of breeding grounds	
Activity [1:1:1:3]	Public Education on preventive measures	
Activity [1:1:1:4]	Prophylaxic Medicine	
Activity [1:1:1:5]	Early detection and response service	

Table 14: Sample Activity budget for the Malaria Eradication Service

Activity No 1's Budget Distribution of Treated Mosquito Nets			*Fair Market Value Cost (IFMIS)*	Quantity	Monthly Total / Unit Cost	N+1 Budget Estimate	N+2 Budget Estimate	N+3 Budget Estimate
RECURRENT - Items	**Designation / Rationale**	**Metric**				**19,310,355**	**21,048,287**	**22,837,391**
2 110101 Basic Salaries - Civil Service (Admin Staff)	Admin	Admin Rate	*15,000*	2	30,000	360,000	392,400	425,754
2 110101 Basic Salaries - Civil Service (Field Staff)	Field	Field Ops Rate/staff	*30,000*	25	750,000	9,000,000	9,810,000	10,643,850
2 110101 Basic Salaries - Civil Service (Professional Non-medical staff)	Professional - non Medical	Professional Rate - Non-medical	*80,000*	2	160,000	1,920,000	2,092,800	2,270,688
2 110101 Basic Salaries - Civil Service (Professional - Medical staff)	Professional - Medical	Professional Rate - Medical	*105,600*	1	105,600	1,267,200	1,381,248	1,498,654
2 210603 Rents and Rates - Non-Residential	All Admin/Professional staff @ rate/3Sqm	3SqM/Staff	*5,200*	4	20,800	249,600	272,064	295,189
2 210101 Electricity	Average Cost/Mon/Staff		*623*	29	18,067	216,804	236,316	256,403
2 210102 Water and sewerage charges	Average Cost/Mon/Staff		*312*	29	9,048	108,576	118,348	128,407
2 210299 Communication, Supplies - Othe	Average Cost/Mon/Staff		*720*	25	18,000	216,000	235,440	255,452
2 210302 Accommodation - Domestic Travel	Cost/year/field & professional -Medical Staff		*3,500*	27	-	1,134,000	1,236,060	1,341,125
2 211031 Specialised Materials - Other	Field & professional staff	Piece(s)	*11,650*	27	314,550	3,774,600	4,114,314	4,464,031
2 211299 Fuel Oil and Lubricants - Othe	%cost of travel of field & Prof staff	12% of travel cost	*1,050*	27	28,350	765,450	834,341	905,259
2 220105 Routine Maintenance - Vehicles	% of cost of vehicles/yr	0.03% of cost	*39,750*	7.5	24,844	298,125	324,956	352,578
2 220201 Maintenance of Plant, Machinery and Equipment (including lifts)	% of cost of field equipment per yr	0.9% of cost	*2,385*	25	-	59,625	64,991	70,516
2 220202 Maintenance of Office Furniture and Equipment	% of cost of office furniture and equipment per yr	0.30% of cost	*6,900*	4	-	27,600	30,084	32,641
DEVELOPMENT						**9,974,250**	**10,871,933**	**11,796,047**
4x4 Vehicles (field & Professional Staff) - four staff/vehicle	Units	4 staff/unit	*1,325,000*	6.75	-	8,943,750	-	-
* 4x4 Vehicles (Management)	Units	2 staff/unit	*780,000*	0.75	-		-	-
Buildings	Units/staff	x3	*23,000*	4	92,000	368,000	-	-
Heavy & durable Field Equipment - Field operations (field staff) **(staff)**	Units/staff	x1	*26,500*	25	-	662,500	-	-
TOTAL						**29,284,605**	**31,920,219**	**34,633,438**

*no car as staff less than 2

Cost of Service Delivery	
Per net	1,464
Per Family	3,083
Per staff	976,154

0327 The unit cost methodology is appropriate when the unit cost of the service concerned is constant. Take the example of a policy commitment to inoculate all children under 5 against certain diseases. If it is known that the cost of purchasing and administering these inoculations is, for example, Kshs 800 per child, and this cost does not vary significantly between regions, the total cost of the vaccination programme can be most accurately estimated by multiplying Kshs 800 by the projected number of children under 5 to be inoculated. The cost of a proposed new initiative may, if the unit cost of the service is constant, be estimated on the same basis.

0328 Unit cost calculations can be difficult for some government services such as:

Where the unit cost is not constant. Other considerations and limitations with respect to unit costs include:

(a) Costs are not always linearly related to outputs – such as direct costs. There is usually an element of fixed variation of the cost structure. For example, the cost of training a class of twenty is not necessarily half of the cost of training a class of 40 students. Some costs (e.g. teacher's salary, lighting) may remain constant;

(b) Products, public goods and services or outputs are not always quantifiable. This is usually the case for qualitative outputs, e.g. improvement in the health of the population or satisfaction with a government service, but their execution is, and this should be measured. The task of monitoring and evaluation falls on other agencies to assess and report on, such as the Office of the Auditor-General;

(c) Some outputs cannot be easily attributed to a single sector. Contribution is from more than one sector or agency. For example, in the provision of sanitation services, contribution comes from education, health and water ministries. When it comes to combating violence against women, contribution comes from education, health, communication, internal security and justice;

(d) Unit costs may not be standardized across the board because of varying conditions. For example, conditions for maintaining 1 km of road may differ from region to region.

0329 Setting Budget Ceilings

A budget sector ceiling is the maximum amount that the County Government, through the County Treasury, allocates to each budget sector. It is a rigid standard that must be respected at all times with sanctions for breaching it including personal liability for Accounting Officers who breach it.

0330 Budget ceilings are the means by which the County Treasury ensures that the government lives within its means. It is the practical manifestation of the economic principle of managing limited resources against unlimited needs and wants.

0331 Budget ceilings are based on:

(a) Having a realistic estimate of the total revenues the county is likely to collect or receive over the next year and the medium term; and consulting widely to ascertain the level of each budget sector's needs for government goods and services both within government and outside with citizens through groups such as Sector Working Groups;

(b) The County Treasury must then allocate and distribute these revenues to the various sectors usually at the cabinet level. It is against these sector allocations that budget sector expenditure ceilings are set which departments must abide by in carrying out their service obligations.

0332 Expenditure ceilings

Once an expenditure ceiling is assigned to individual MDAs; these must be cascaded down to the lowest level of budget compilation following the same path taken by the budget vote and sub-vote. Thus the task for the project-level manager is more often likely to be of choosing between inputs that will provide the greatest return for the lowest cost in order to stay within their budget limits.

0333 Expenditure ceilings are set by the County Treasury through the County Fiscal Strategy Paper in its fiscal framework once it is adopted by the County Assembly according to PFM Regulation 26 (5).

0334 Ceilings are also applied to the development expenditure and to personnel. Once approved by the County Assembly, they are binding for the next two budget years according to PFM Regulation 26 (5).

0335 The County Treasury is also required by PFM regulations to report to the County Assembly any deviations from the expenditure ceilings.

0336 Setting a budget ceiling in the County Fiscal Strategy Paper

To set a budget ceiling in the County Fiscal Strategy Paper, according to PFM Regulation 32. (1), the following should be considered:

(a) The aggregate resource envelope following the forecast of major revenue including the national revenue allocation to the county and, expenditure categories according to both economic and administrative classification;

(b) Non-discretionary expenditure, that is, that expenditure an MDA is obligated to pay such as debt service, wages and other related items;

(c) The overall expenditure taking into consideration the fiscal rules;

(d) Breakdown of the overall expenditure into recurrent and development expenditure by sector ceilings; and

(e) Expenditure priorities as set out in County Government policies.

0337 Annual budget ceilings put pressure on departments to prioritise their requirements to undertake new activities or provide greater support to effective programmes and thus better achieve their objectives. Hard budget ceilings assist departments in taking the initiative to:

(a) Better relate activities to objectives;

(b) Review activities in terms of providing better value;

(c) Improve effectiveness, efficiency and equity of spending.

0338 Overall prioritization

Once the budget ceilings have been provided by the County Treasury, it is necessary to reduce or increase the ministerial budget to meet the ceiling. The difference between the indicative ceilings for the department and the baseline spending is the discretionary funds that can be spend on new spending priorities.

0339 While departments will not generally need to reduce their baseline budgets but to rationalise proposed new priority spending initiatives as the allocation will normally cover the baseline expenditure, this is not a certainty and departments should always be vigilant to ensure they are getting the best value for money of the regular allocation. If for example, the total identified expenditure requirements exceed the set ceiling, departments should prioritise

new priority spending initiatives expenditures by either eliminating the new spending initiatives entirely, deferring new priority spending initiatives, and scaling back or reducing the scope of these spending priorities.

0340 Annual Spending Plan

The annual spending plan is another name for the total government budget. As seen previously, it is the combination of two phases, the first of which is the top-down phase where the County Treasury issues budget directions through the annual budget circular for the budget process to begin, and sets the expenditure ceilings and the second is the bottom-up phase where government departments cost their services and compile their programme-based budgets organized around programmes and sub-programmes ideally from the lowest level of their operations that delivers a service.

0341 Supplementary Budget Estimates

Under Section 135 of the PFM Act 2012, the county government may spend money that has not been appropriated if the amount appropriated for any purpose under the County Appropriation Act is insufficient or a need has arisen for expenditure for a purpose for which no amount has been appropriated by that Act, or money has been withdrawn from the county government Emergency Fund.

0342 To obtain county assembly approval, the County government should submit a supplementary budget in support of the additional expenditure for authority for spending. It should also describe how the additional expenditure relates to the fiscal responsibility principles and financial objectives in the request memoranda to the Assembly.

0343 Approval of the county assembly of supplementary budget estimates:

The approval of the county assembly for any spending under these circumstances should be sought within two months after the first withdrawal of the money. Where the county assembly is not sitting during this time or is sitting but adjourns before approval has been sought, approval should be sought within fourteen days after it next sits.

0344 What the regulations stipulate with regard to Supplementary Budget Estimates

Under PFM Regulation 39, the procedure for the county government to raise supplementary budget estimates is laid out as follows:

(a) Accounting Officers should prepare revised budget estimates in a format to be prescribed and within the guidelines of the County Treasury's supplementary budget circular and the budget guidelines issued by the County Executive Committee Member;

(b) Accounting Officers should seek the approval of the County Treasury prior to incurring any expenditure under the revised budget estimates. If approval is granted by the County Executive Committee Member for Finance, this should be communicated to Accounting Officers through a formal notification which should be copied to the Auditor General and the Controller of Budget;

(c) The purpose for which approval of the supplementary budget is sought should be unforeseen and unavoidable, in circumstances where no budget provision was made or unavoidable and in circumstances where there is an existing budgetary provision which is now deemed inadequate;

0345 What is NOT considered unforeseen or unavoidable expenditure

Expenditure that could not be accommodated within allocations even though it was known when finalising the estimates of the original budget and tariff adjustments and price increases.

0346 Circumstance where a supplementary may be accommodated

Accounting Officers may seek supplementary budget if the expenditure cannot be met by budget reallocation under section 154 of the PFM Act. That is, where:

(a) Provisions made in the budget of a program or Sub-Vote are available and are unlikely to be used;

(b) A request for the reallocation has been made to the County Treasury explaining the reasons for the reallocation and the County Treasury has approved the request; and

(c) The total of all reallocations made to or from a program or Sub-Vote does not exceed ten percent of the total expenditure approved for that program or Sub-Vote for that year.

0347 Also noting regulations approved by the county assembly may prescribe requirements for the reallocation of funds within Sub-votes or programs.

0348 Under these circumstances, the request for supplementary budget should be presented in a format that facilitates comparison with the original budget and should contain all the information necessary to enable a decision on the application to be reached. It should include:

(a) The Vote, program, sub-programme and broad expenditure category which it is desired to supplement, the original sum voted thereon and any supplements which may have since been added;

(b) The actual expenditure and the outstanding liabilities or commitments against the item on the date when the request is made;

(c) The amount of the supplement required, the reasons why the supplement is necessary and why it has not been possible to keep within the voted provision;

(d) The basis for the calculation underpinning the supplementary;

(e) The proposed source of financing of the additional expenditure;

(f) An analysis of the fiscal impact of the additional expenditure; or of the implications, if any, for the planned outputs and outcomes of the affected programmes;

(g) Any implied deviation from the Medium Term Expenditure Framework (MTEF) and the financial objectives;

(h) Be accompanied by the latest fiscal projections.

0349 The county government entity requesting additional funds through a supplementary budget process should submit a memorandum to the County Treasury, on a date determined by the County Treasury.

0350 Supplementary budgets are not for new policy and service delivery initiatives Budget allocations for new policy options and service delivery initiatives should only be considered when introduced in the annual estimates of budget in accordance with the procedure laid down in the PFM Act and Regulations.

0351 In approving any estimates under sections 135 and 154 of the PFM Act, National Assembly approval should not exceed ten (10%) percent of the approved budget estimates of a Vote unless it is for an unforeseen and unavoidable need as defined in section 112 of the Act.

0352 The total amount of reallocations to other votes should not exceed the original appropriation they were taken from.

Under PFM Regulation 41(1) (a) reallocations for a particular appropriation line in a given fiscal year may not exceed the amount appropriated for that

line in the annual Appropriations Act that may be amended from time to time through budgetary reallocations pursuant to Section 154 of the PFM Act and any supplementary Appropriations Acts enacted under section 135.

0353 Votes of abolished government departments

Under PFM Regulation 54 on the reorganisation of government functions, where a government department has been abolished the supplementary Appropriation Act should provide the details of the affected votes to the County Treasury which shall subsequently inform the affected Accounting Officers of the effective date when they shall effect accounting entries in their books and any other necessary inter-vote adjustments.

0354 Grant monies and donations

Under PFM Regulation 72 (1) all monies received by way of grants and donations constitute public monies and should be paid into the County Revenue Fund. Where the quantum of the grant or donation is unknown, a provision should be included in the original estimates and when the quantum becomes known a supplementary estimate shall be raised for the amount involved.

Preparing Development Expenditure Estimates

0355 Definition

Development expenditure is expenditure for the creation or renewal of assets. Development expenditure is a key component of budget making. Contrary to common understanding, assets that are the result of expending development expenditure are not of themselves outputs or even programmes but inputs into service delivery. This chapter lays out the process and procedure for compiling compliant development expenditures that make up the second equally important part of County budget estimates.

0356 What the law says:

0357 30% of government budget

Under Section 107(2) (b) of the PFM Act, a minimum of 30% (thirty per cent) of the county budget must be allocated to development expenditure.

0358 Government borrowings in medium term is exclusively for development

Under Section 107(2) (d) over the medium term the county government's borrowings must only be used for development expenditure.

0359 Clearly separate expenditure between recurrent and development

Under Section 130(b) (v) the County Executive Committee Member for Finance must submit to the county assembly budget estimates that include all estimated expenditure by Vote and programme, clearly identifying both recurrent and development expenditures.

0360 Repayment of loans financed from development appropriations

Section 145(3)(a) also provides that one of the means of repaying any money loaned by a county entity under the PFM Act or any other legislation is through an appropriation for development expenditures.

0361 It is one of two ceilings endorsed by the county assembly for two budget years

Under PFM Regulation 26(5) with regard to the County Fiscal Strategy Paper, development expenditure is only one of two expenditure categories that have a ceiling set and approved by the County assembly and remain binding for the next two budget years.

Preparing Development Expenditure Estimates For Programmes

0362 Step One: Identify the assets as inputs that programmes need to deliver outcomes.

Each government department must first identify for its programmes the assets needed to support the intended service delivery outputs to deliver sub-programme and programme outcomes. In other words, contrary to common understanding, assets derived from development expenditure are not of themselves outputs or even programmes but inputs into service delivery.

0363 A requirement in planning is the clear identification and costing of the assets needed to facilitate and support service delivery. To treat patients, doctors and nurses need physical buildings, equipment, vehicles like ambulances etc to use in order to fulfill their service obligations. This is also an important reason for having asset registers.

0364 An asset register is essential

Maintaining an asset register for the department is good capital expenditure practice and also for developing sustainable long term strategies for asset management and replacement.

0365 Step Two: list these assets and their indicative costs derived from the evaluation carried out by a competent department professional and independently verified by a quoted prices of various suppliers.

0366 Step Three: given there are likely to be development expenditure ceilings already in place, use them to conduct a prioritization exercise until the aggregated indicative costs fit within the ceiling limit.

0367 Step Four: Any proposed acquisition of new assets should be supported by a detailed proposal justifying the need for the asset. Such justifications are best demonstrated where it can be shown the asset(s) is essential to service delivery, significantly enhances service outcomes or has large impacts beyond the service itself such as having multiple uses for example a social hall.

0368 Consumable and Durable Assets

Assets are generally of two types, those that can be considered consumable are due to their rapid depreciation or the accounting treatment accorded them such as cars and equipment that rarely survive usage beyond twelve months. For the most part these are expensed in the year and therefore not eligible for listing on any long term asset registers

0369 Durable assets such as buildings, heavy machinery or hospital equipment need to be acquired after a detailed proposal justifying their acquisition has made a case for the purchase. The County Treasury through its Asset Management Division should provide guidelines on how these proposals should be structured and the entire process of acquiring the assets.

0370 Step Five: Provide for asset replacement if the programme is a long term one. This ensures service delivery is not affected in the forward years.

0371 Step Six: Be sure to include in the acquisition costs all the attendant costs of sourcing, transporting, installation and any other costs incidental to its acquisition.

0372 Step Seven: Ensure all recurrent costs associated with the operation of the asset or development project such as maintenance, fuel & oil, wages of the maintenance staff are factored into the department's recurrent budget. Also include the cost of insurance under recurrent costs as it is an annual charge to protect against loss

0373 Step Eight: Where the acquisition was through debt financing, include the interest expense as a recurrent expense but all costs associated with securing the financing should be added to the cost of acquisition.

0374 Step Nine: Even where there is no requirement to provide for depreciation, it is advisable to do as it provides a measure of consumption for durable assets. These do not factor in the budget per se but provide a useful reminder of the need to replace the asset in the future.

0375 Step Ten: Aggregate all the above costs for each asset to be deployed or employed in each of the programmes to derive development estimates by programme or sub-programme.

0376 Step Eleven: Re-check to ensure expenditure ceilings have not been breached.

0377 A Suggested Process For Originating Development Projects or Acquiring Durable Assets

0378 Each development project should have a Capital Project Plan (CPP) prepared setting out the following:

(a) The name of the project;
(b) The project sponsor and co-sponsor;
(c) The project manager;
(d) The procurement approval and reference number;
(e) The names of the project implementation and management team;
(f) The total value of the project;
(g) The form of financing used for the project.
(h) If debt finance, attach a copy of the pro-forma debt instrument if not the actual signed financing agreement;
(i) If allocations, the financial year it was granted and all the conditions attached to that approval;

(j) The project's timeline from commencement to completion;
(k) The estimated completion date;
(l) The contractor or project implementation group;
(m) An analysis of the return on investment of the project in terms of:
    1) The Net Present Value (using an interest rate and term provided by the County Treasury)
    2) The Estimated Internal Rate of Return (IRR);
(n) Where a rate of return is neither possible nor practical, a signed analysis of the project's estimated social benefit return that has been prepared and approved by the parent department and endorsed by the project sponsor and co-sponsor;
(o) A signed statement of authority to proceed from the approving authority with signatures of the sponsor and co-sponsor of the project.

0379 Each project shall also identify the recurrent expenditure component necessary to maintain the project upon completion to include:
(a) The depreciation rate applied to the completed project's estimated useful lifespan calculated in consultation with the treasury;
(b) The annual maintenance expense of the project and under what recurrent expenditure vote it is provided for;
(c) The responsible department, unit or team within the department or entity for carrying out the maintenance.

0380 A signed value-for-money statement by the project sponsor for funds expended.

Designing Programmes[20]

0381 Designing programmes is an important aspect of programme based budgeting that is discussed in detail in the Programme Based Budgeting manual published by the National government in 2011. To highlight a few in this regard are:

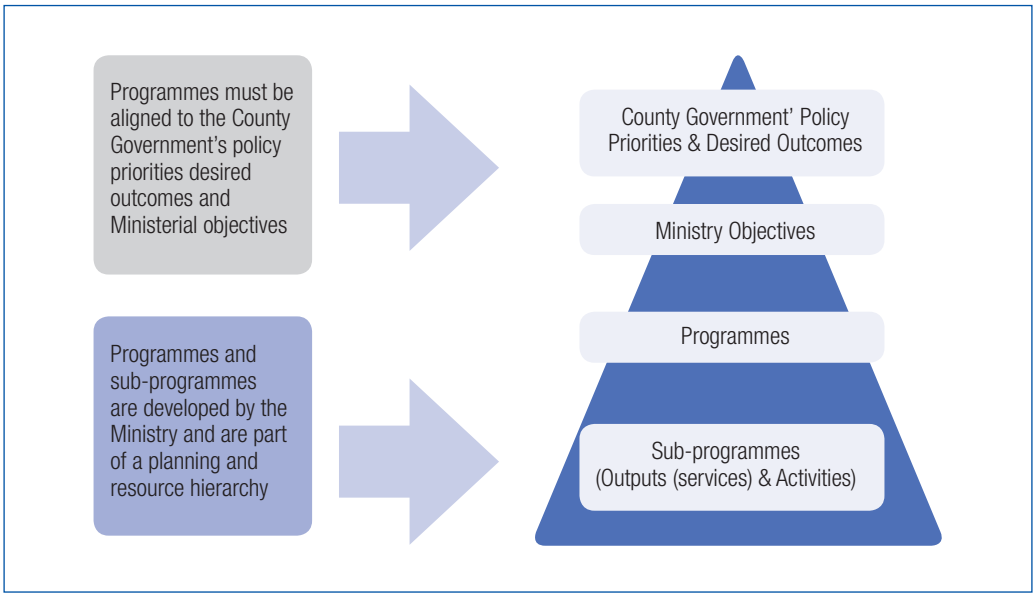
[20] Government of Kenya Programme Based Budgeting Manual 2011: Designing Programmes

(a) Their titles should be short and informative, make clear the types of outputs and/or outcomes the programme aims to deliver and communicate with its content by the type of outputs, clients, or objective of the programme. Examples of good programme titles are: “nature conservation”, “crime prevention”, and “adult education”.

0382 Programme objectives should be explicit and brief and not focused on the outputs that is, they should not rehash what services the programme will provide but the intended outcome of those services (outputs when they are provided. e.g. higher literacy, few hospital admissions etc. A program objective should however indicate the key outcome(s) it seeks to achieve not only for clarifying programme definitions, but also to provide a framework for the derivation of programme performance indicators and targets.”

The PBB Manual also goes to great lengths to discuss salient features of programme design. Among these is the useful discussion of programme hierarchy as depicted in Figure 14.

Figure 14: Programme Hierarchy



0383 The PBB manual then goes on to note that "through this hierarchy, it is possible for budget implementers to assess the likely effectiveness of programmes as clear linkages can be made between the sub programmes and programmes and among programmes. Once the budget is executed and the department's report against their programme goals and objectives, assessments can be made of the effectiveness of the programmes, and this assessment can provide guidance to the allocations required in the next budget.

0384 Efficiency assessment is also facilitated by the programme hierarchy. Where a department's programme is similar in nature to programme(s) in any other department, the opportunity exists for benchmarking between department's programmes. This is particularly the case in the administration programmes that will appear in each department's structure. For the benefits of this to be achieved, it is important that these programmes cover the same functions and activities in each department.

0385 Rapid evaluation has significant benefits in Budgeting

The PBB Manual 2011 notes that with regard to rapid evaluation, that "a well-developed programme based budgeting system requires the conduct of selected programme evaluations specifically intended to inform the budget process - that is, to give budget decision-makers better information upon which to base budget decisions. Such evaluations will differ in important ways from evaluations conducted for other purposes, such as internal management improvement within ministries.

0386 Budget-linked evaluations needs to:

(a) **Be focused on outcome evaluation,** with process evaluation only relevant to the limited degree that it can guide budget decision makers on whether it is worth postponing cuts to an ineffective programme to give the agency a chance to make design or management improvements; and

(b) **Deliver its findings quickly and at the right time to be taken into account in budgetary decisions**

Evaluations can be conducted in great depth, if desired, making extensive use of surveys, interviews and other data gathering techniques. However in-depth evaluations tend to take considerable time, and therefore are as a rule not well geared to serving the needs of budget decision-makers.

(c) **Rapid evaluations are, as a rule, much more** useful for budgetary purposes. This system will essentially involve the selection of a small number of major expenditure programmes (no more than ten) in each year for rapid evaluation and the provision to Treasury and CEC members of a timely report advising on whether the programme concerned should be eliminated or scaled down in the coming budget.

0387 Rapid evaluations focus primarily on:

(a) **Evaluation of Programme Logic**

This considers whether it makes sense to believe that the programme intervention is likely to achieve the intended programme outcome. To evaluate programme logic, the first step is to be clear on exactly how the programme is supposed to achieve the outcome.

Expressed in terms of the "results chain" (or programme logic), the key questions are: What intermediate outcome is the programme expected to deliver? How is it that those intermediate outcomes are expected to generate, or contribute to, higher-level outcomes? Once the programme logic is clarified, the next step is to ask whether it is reasonable to assume that the programme will achieve its intended outcomes.

(b) **Analysis and Interpretation of Available Performance Indicators**

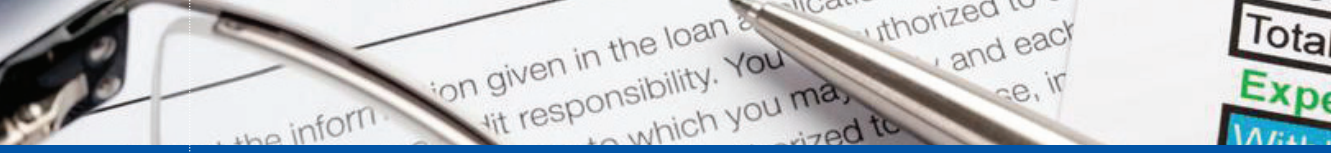
The extent to which this can be done will depend critically on the availability of good indicators.

0388 Most programme budget evaluations can initially be limited to simple reviews which consider the following questions:

(a) Are the outcomes of a programme and the priority objectives of a sub programme a priority with the Government?

(b) Is the programme designed in such a manner that it can be expected to achieve its intended outcome(s)?

(c) What do the available performance indicators signify about the efficiency and effectiveness of the programmes? Have the goals and objectives been achieved?"



CHAPTER 8

Preparing Revenue Estimates and the Operation of the Treasury Single Account

0389 Overview:

This chapter focuses on how the county should compile its revenue estimates, the conduct of revenue-related matters and the operation of Treasury Single Account.

0390 Chapter Objectives are to:

(a) Establish the legal framework that governs this process;
(b) Define what county revenue is and its sources;
(c) Define the role of the Revenue and Resource Mobilization division of the County Treasury;
(d) Explain how the county share of the national revenue is derived;
(e) Explore the various distinctions between the County Treasury Single account, the Revenue fund & the County Exchequer Account;
(f) Review the role of Sector working groups in the revenue conversation;
(g) How to compile revenue estimates;
(h) The modalities of revenue management including the responsibilities of county staff in it;

0391 County Revenue:

County Government revenue is all monies collected by the County Government for the purpose of financing the delivery of its goods and services to County residents and for the implementation of development programmes.

0392 Revenue includes all receipts collectable under the revenue estimates specified by the County Treasury and included in its revenue proposals presented in the annual budget.

0393 Revenue is classified under PFM Regulation 30 to be domestic and external receipts. Domestic receipts comprise of domestic loans receipts, tax revenues and non-tax revenues including exchequer non tax receipts and Appropriations in Aid. External receipts comprise of external Loans including national exchequer loan receipts and credit purchases and external grants including national exchequer grant receipts and direct payments.

0394 Role of the Revenue and Resource Mobilization Division of the County Treasury in raising revenues

Raising revenue in the county entails maximizing the effectiveness and efficiency of the county government's revenue assessment and collection capabilities. It should be a key performance measure of the County Treasury through its Revenue and Resource Mobilization Division whose responsibilities include:

(a) Mobilising county resources for funding the budgetary requirements of the County Government;

(b) Developing and implementing mechanisms to raise county revenue and resources in kind;

(c) Preparing annual revenue estimates in consultation with the Economic and Financial Policy Division;

(d) Providing advisory support to the county cabinet on all revenue-related matters;

(e) Providing advisory expertise on all matters of resource exploitation and conversion into revenue streams such as in extractive industries.

Developing County Revenue Estimates

0395 Sources of County Revenue

There are four sources of county revenue: National share of revenue and grants; County Own Revenue; Donor funding including grants and Debt receipts. See Figure 15.

0396 In reality these sources are fragmented and have proven a lot harder to track without strong information systems since the demise of local authorities. Thus County revenues sources look more like Figure 16:

Figure 15: Sources of County Revenue

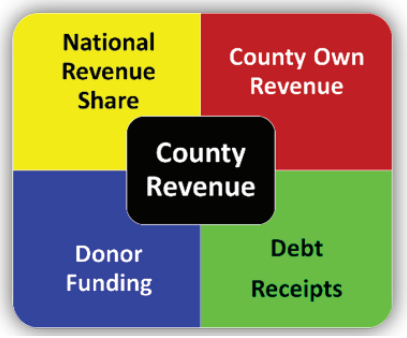
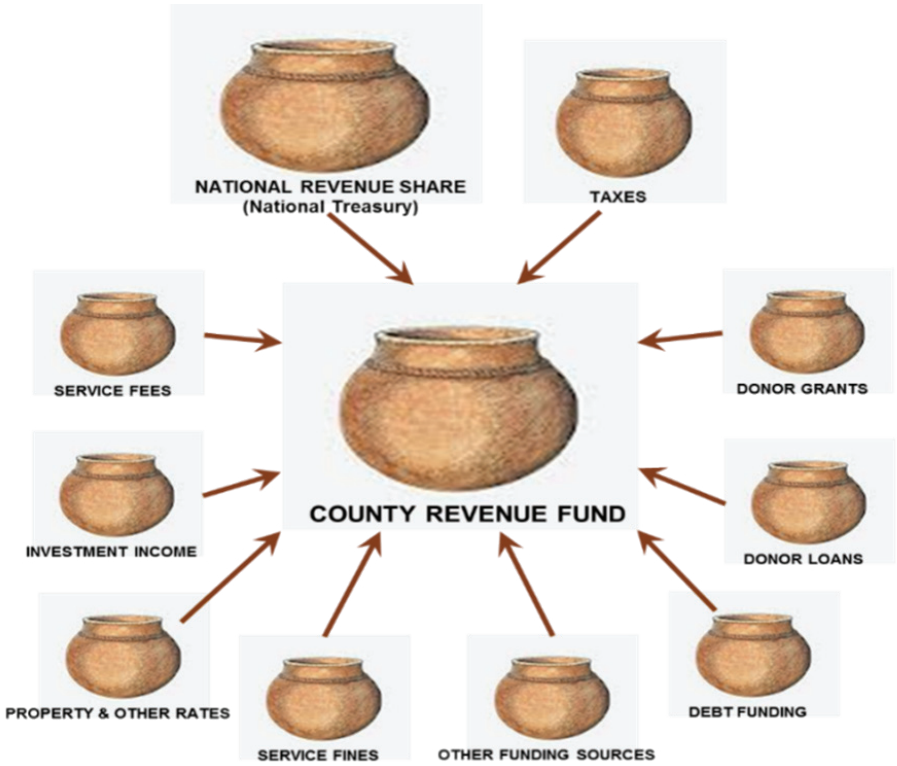


Figure 16: County Revenue Sources



The Four Revenue Sources for the County Government

0397 National Revenue Allocation:

(a) **The Annual Revenue Allocation**

The first is the annual revenue allocation from the Division of Revenue process overseen by the National Assembly and guided by the Commission on Revenue Allocation under Article 217 of the Constitution and Sections 42 and 191 of the PFM Act;

County revenue allocations are passed by the National Assembly following a recommended formula devised by the Commission on Revenue Allocation as shown below:

- Cai = Pi+PVi+Ai+BSi + FRi

Where:

1) Cai = Revenue allocated to county where (i) is the county's number identifier from 1 to 47.
2) Pi = Revenue allocated to a county on the basis of population parameter. Its ratio is 45%
3) PVi = Revenue allocated to a county on the basis of poverty gap parameter. Its ratio is 20%
4) Ai = Revenue allocated to a county on the basis of land area. Its ratio is 8%
5) BSi = Revenue allocated to a county on the basis of basic equal share parameter. This is share equally distributed among the 47 counties. Its ratio is 25%
6) FRi = Revenue allocated to a given county on the basis of fiscal responsibility. This is shared equally among the 47 counties. Its ratio is 2%

- The component ratios that make up the Division of Revenue formula used by the Commission to determine a county's revenue allocation are:

1)	National Allocation	(Cai)	=	100%
2)	Population	(Pi)	=	45%
3)	Poverty Gap	(Vi)	=	20%
4)	Land Area	(Ai)	=	8%
5)	Basic Equal Share	(BSi)	=	25%
6)	Fiscal Responsibility	(FRi)	=	2%

- This formula is reviewed periodically by the Commission to ensure equity and relevance and the review exercise is subject to extensive consultations with all stakeholders.

(b) **Supplementary budgets**

While supplementary budget can mean additional budget allocations that have been approved by the county assembly arising from additional revenues such as additional grants from the national government or windfalls in the county's own revenues; in practice, supplementary budgets tend to be an exercise in reallocating earlier appropriations between programmes and budget votes of government departments. They should therefore not be counted as a source of revenue.

(c) **Grants**

The third component of the national revenue allocation is Conditional and Unconditional grants from the National Government. These are monies provided to the county over and above its national revenue allocation but earmarked for specific programmes or purposes.

Under section 138 of the PFM Act, a grant is any financial assistance that is not repayable to the giver and is intended to finance or facilitate the development of projects or delivery of services or to otherwise assist the grant recipient to achieve goals that are consistent with the policy objectives of the national government.

- Conditional Grants - a definition

  Conditional grants cannot be used for any other purpose than the one they are designated for. Unconditional grants have no such restriction.

  An example of a conditional grant are monies allocated to the Department of Youth and Women for specific youth employment or empowerment programmes a county may be implementing and for which there may exist a national allocation to be disbursed to qualifying county initiatives.

  Any grant funds released for a specific purpose by the national government are restricted to that purpose. If unspent, they must be returned to the National Treasury; and if still required, must be budgeted for afresh in the following year's budget estimates. As a general rule, grants will be included and identified as a separate revenue item in the national revenue allocation.

- Unconditional grant – a definition
  An unconditional grant can be used for other purposes with the provision that the granting authority is informed of the use before diverting the use of the funds to another purpose. An example of this may be the provision of additional budget support by the national government to meet anticipated budget shortfalls due to circumstances beyond the county's control.

(d) **National Government Loans as a source of revenue**

A fourth source of revenue can be concessional and non-concessional loans from the National Government. These are restricted to development expenditure and have been addressed separately under Debt Management in Chapter 9 of this Manual.

0398 County Own Revenue.

This includes all:

(a) County taxes as defined by the constitution or National legislation;

(b) County-based service fees as defined by the Constitution, National and County legislation;

(c) County fines and service charges;

(d) Interest income on investments and loans made;

(e) Dividends and profits derived from county-owned trading enterprises;

(f) Share of revenues and royalties arising out of national resource exploitation of local resources as dictated by the Constitution, national legislation or intergovernmental agreements on revenue shares between the National and County Governments;

(g) Any other lawful source of revenue that County Government may create or secure.

(h) Appropriations in Aid: These are classes of revenue that are generated by a county government entity from the sale of goods or rendering services to the public in the normal course of its business that it is authorized by the County Treasury to defray expenses. It should be noted that these revenues must still be appropriated through the normal budget process before they can be used. It is illegal to use funds at source without appropriation and approval of the County Assembly.

0399 Donor Funding

These are:

(a) Conditional and unconditional grants from donors;

(b) Conditional and unconditional grants in kind from donors (after monetization using prevailing market prices at time of receipt;
(c) Investment funds directed at county owned investments such as infrastructure by foreign private sector firms.

0400 Debt Funding:

Debt is covered in detail in Chapter 9 of this manual, however these are

(a) Borrowings from the National Government;
(b) Borrowings from donor partners;
(c) Borrowings from the local financial market through the issuance of county government debt instruments such as treasury bills, bond or loans;

0401 Preparing Revenue Estimates - Assessing Revenue sources for Credible estimates

County Revenue estimates are a realistic assessment of the total amount of revenues that are collectable from the four revenues sources noted previously, namely: the national revenue allocation, county own revenue, donor funding and debt receipts – which are only allowed for development expenditure.

0402 Reminder: estimates cover the medium term expenditure framework

In assessing revenue estimates it should be remembered that these are estimates for the budget year and two years out in line with the Medium Term Expenditure Framework which these revenues will fund. The four sources of revenue noted should be assessed for budget revenue estimates purposes as follows:

0403 A Preferred Format for Capturing Revenue Estimates

Guided by the following format for capturing projected revenue estimates from the sources mentioned above, revenue estimates can be compiled to ensure they define a credible quantum of the resource envelope that funds the county budget, informs the decisions of setting expenditure ceilings to ensure the county government lives within its means and projects the medium term funding requirements of the budget.

Table 15: County Revenue Summary of Estimates

County Revenue Summary of Estimates				
REVENUE SOURCES	**N**	**N+1**	**N+2**	**N+3**
County Own Revenue Sources				
County Taxes				
Service Fees & Charges				
Property & Other Rates				
County Fines				
Resource Rxploitation receipts:				
Royalties - Extractive industries e.g. mining				
Share of Resource Profits				
Other resource-related receipts				
Investment Income:				
Interest income				
Rental & Other investment incomes				
Other funding sources				
Donor Funding				
Conditional grants				
Unconditional grants				
EXPENDITURE-EXCLUSIVE				
Debt Funding				
Government Bond Issue Funds				
Concessional National Govt loans				
Non-concessional National Govt loans				
Donor Concessional loans				
Donor non-concessional loans				

0404 Supplementary budget allocations are not included in the table as they are in-year post budget adjustments.

0405 R/Estimates I: Assessing National Revenue Allocations

(a) Use the previous year's national revenue allocations as a guide

The previous year's national revenue allocation is the natural sum to extrapolate as the next year's revenue allocation. However exceptions must be contemplated if there are adverse external economic shocks that force a downward review of projected economic growth in the whole economy thus shrinking the pool of projected resources available in the national accounts.

(b) In adverse economic circumstances use pro-ration to reduce projections of national revenue allocations

Under these circumstances, the County Treasury should closely analyse national economic trends and consult with the National Treasury to derive a realistic assessment of the likely resource envelope counties may have to work with under these new circumstances. A rough rule of thumb is to pro-rate the County's likely revenue share estimate using its share of the last national resource envelope used to calculate the division of revenue allocations.

(c) Large unused end-of-year cash balances can adversely impact future allocations

Also, under Section 109(8) of the PFM Act, funds once allocated to Counties cannot lapse back to the Consolidated Fund at year end and are retained for the purposes for which they were established. However, as financial reports are provided to the Commission on Revenue Allocation and the Controller of Budget, search unutilized funds may give the impression of serious absorption capacity constraints or over-allocation of resources. A situation that may adversely impact the next year's budget allocations as an offset to reduce likely allocations.

(d) National Government Grants should be included in the national allocation quantum

Both conditional and unconditional grants should be included in the County's national revenue allocation. Their treatment thereafter will differ markedly in that conditional grants will be designated to a particular vote or sub-vote while the other will not.

0406 R/Estimates II: Assessing the County's Own Revenue Sources

0407 Sector Revenue is important to County revenue forecasts

The Fourth Schedule of the Constitution allocates functions to counties from which to raise its own revenues subject to Article 209(5) of the Constitution which prohibits any revenue raising measures that "prejudice national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour".

(a) Sector assessment of economic growth potential feeds sector revenue estimates

Compilation of revenue estimates thus requires an assessment of each sector's projected economic growth and from it a projection of revenue streams by way of taxes, fees, charges and investment income. This exercise must be repeated for each sector of the county and while it is noted that some counties have not more than one or two sectors, the exercise is essential to aid accurate budgets.

(b) Over-reliance on the National revenue allocation should not discourage sector revenue assessment

The reliance of most counties on the national revenue allocation should not discourage the county from developing its analytical capabilities and capacities in assessing its sectors' revenue potential. This is because, an expanding resource envelope fed by growing local revenues provide the county government with ever wider options for funding increased service delivery to the benefit of county citizens.

(c) Investment in strong credible revenue management systems is essential to revenue growth

The above revenue modeling exercise is both complex and heavily dependent on strong and credible information sources. For this reason, the County government through the County Treasury is well advised to invest in strong revenue collection and management systems with deep information gathering and warehousing capacities and capabilities. These will also have the added benefit of supporting evidence-based decision making much wider afield.

0408 Sector Working Groups are important in assessing the County's own revenue potential

As most of the revenues of the County's own revenues are derived from its various economic sectors, the role of Sector Working Groups' and their sector report plays an important role as they assess each sector's economic growth

potential during the preparation of the County Integrated Development Plan, County Budget Review and Outlook Paper and the County Fiscal Strategy Paper.

0409 How to Compile Revenue Estimates from Sector-specific Receipts

(a) Using an appropriate tool, derive conservative estimates of likely receipts collectable from each sector

Using a tool such as the Sector Revenue Estimation Matrix illustrated below, derive conservative estimates of likely receipts to be collected from each of the sectors assigned to counties by the Constitution under the fourth Schedule. As IFMIS' revenue module is not yet functional, the use of a revenue management system is recommended to manage the complexity inherent in the exercise.

(b) Exhaustively list and quantify the likely value of revenue contributions each sector component can muster

Each Sector working group should be tasked with first listing - in the greatest possible detail - all examples of sector specific receipts listed in the second column illustrated below then attaching a realistic and conservative value to the estimated revenue contributions as depicted in the third column of the matrix in Table 16.

(c) Consolidate sector revenues to obtain total revenues by sector

A simple aggregation of the Sector Revenue Estimation Matrix above will yield a total revenue estimate by sector and their aggregation will consequently yield a total revenue estimate of all sectors.

(d) Reorganize sector revenues under own revenue headings of the Revenue Summary of Estimates Table:

For the purposes of deriving revenue estimates by revenue source, all sector revenue estimates compiled in the Sector Revenue Estimation Matrix above should then be re-compiled under the different revenue source headings such as Service Fees and charges, property & other Rates, County Fines etc… from the County Revenue Summary of Estimates Table as illustrated in Table 17.

County own revenues will thus be compiled to be used in setting the resource envelope as required. It is again worth noting that the above exercise is normally the function of a good revenue management ICT system.

Table 16: Sample of a Sector Revenue Estimation Matrix

SECTOR REVENUE ESTIMATION MATRIX		
Note: Under section 161 of the PFM Act, the county government must ensure that in imposing a tax or other revenue raising measure that the tax or measure conforms to Article 209(5) of the constitution which stipulates that "…the taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.		
Sector components (Per county functions assigned in the fourth schedule of the constitution)-these are not exhaustive definitions for purposes of revenue raising)	Example of sector-specific receipts	Estimated Revenue Contribution (Kshs)
Agriculture, Livestock and Fisheries	Service fees & charges e.g. for extension services, output taxes, taxes, land lease rates and fees etc	
1. Agriculture, including -		
(a) crop and animal husbandry	Service fees & charges e.g. for extension services, business registration and licensing fees.	
(b) livestock sale yards	Service fees & charges e.g. for extension services,	
(c) county abattoirs	Inspection and sanitation service charge	
(d) plant and animal disease control; and	Inspection and service charges, extension service fees to commercial	
(e) fisheries	Commercial fishing license fees	
6. Animal control and welfare, including -		
(a) licensing of dogs; and	License fees for pets, veterinary services	
(b) facilities for the accommodation, care and burial of dogs	Service fees and charges, disease control charges for the removal and disposal of dead animals.	
Health		

A complete sample of this Sector Revenue Estimation Matrix is found in the Appendix V.

Table 17: County Revenue Summary of Estimates

County Revenue Summary of Estimates				
REVENUE SOURCES	**N**	**N+1**	**N+2**	**N+3**
County Own Revenue Sources				
County Taxes				
Service Fees & Charges				
Property & Other Rates				
County Fines				
Resource Rxploitation receipts:				
Royalties - Extractive industries e.g. mining				
Share of Resource Profits				
Other resource-related receipts				
Investment Income:				
Interest income				
Rental & Other investment incomes				
Other funding sources				

0410 R/Estimates III Assessing Donor Funding Revenue Sources

(a) Conditional grants

In the course of sector working group consultations where donor organizations are well represented, discussions about budget funding may arise. Conditional grants tend to be the norm given that most donor funding tends towards specific programmes and projects such as feeding programmes, maternity or child health or environmental management for example; and that these are aimed at achieving non commercial outcomes such as distribution of food, improved health or environmental outcomes.

In any event, there is an extensive regime of rules and regulations that govern the management of grants under the provisions of Articles 221 and 223, 224 of the Constitution and Sections 47, 48, 126, 130, 138, 139 of the PFM Act.

(b) **Only confirmed and committed grants should be counted**

For the purposes of revenue estimates, only grants that have been confirmed by the donor for the current year should be included in the budget estimates for the next budget year. For future years, only ongoing funding of current projects or new funding that has been formally committed for future projects should be considered under the prudential rule.

(c) **Grants in Kind**

A special case for those conditional and unconditional grants given in kind in the form of the supply of physical goods to a programme or projects. These should be monetized using the prevailing market price at the time of receipt or be assessed in terms of the opportunity cost of procuring the same goods through the government procurement process. The most recent procurement transaction of similar goods can also provide a guide.

(d) **Foreign private sector investments**

With regard to investment funds directed at county owned investments such as infrastructure by foreign private sector firms, the resulting income streams should be treated as investment income net of any standing obligations for the payment of interest and other charges including any counterpart funding obligations payable to the national government as guarantors.

0411 R/Estimates IV Assessing Debt Funding as a Revenue Source

(a) Fiscal responsibility principles and guarantee protocols limit the viability of debt as a revenue source

Debt is addressed in Chapter 9 of this manual. Suffice it to say that under the fiscal responsibility principle of Section 107(2) (d) of the PFM Act, the government's borrowings can only be used to on development and not for recurrent expenditure.

Additionally, any debt funding to be undertaken by the county government must obtain loan guarantees from the national government which are themselves subject to lengthy protocols under PFM Regulations 177 and 178. Given the restriction to development expenditure and these extensive protocols, it is doubtful whether debt funding offers a viable option as a revenue source.

0412 Modalities of Revenue Management

Receivers of county government revenue

Under Section 157 of the PFM Act, the County Executive Committee Member for Finance is required to designate and specify in writing receivers of county

government revenues. These are persons who are to be responsible to the CEC Member for Finance for collecting, receiving and accounting for such county government revenue and ensuring all monies collected or recovered are recorded and accounted for.

0413 PFM Regulation 59(2) further stipulates that the designated receiver of revenue must in the letter of the designation indicate his/her responsibility and the manner in which they may delegate the duties of collection of revenue to officers under them or of another county government entity.

0414 Receiver of revenue for loans and grants must be the Chief Officer of the County Treasury

Sub-regulation 59(3) stipulates that the receiver of revenue for loans and grants funds will be the Chief Officer to the County Treasury and the County Executive Committee Member for Finance must specify such items of revenue in the designation letter.

0415 Under Section 158 (3) of the PFM Act a receiver of revenue for a county government must provide quarterly statements to the County Treasury with copies to the National Treasury and the Commission on Revenue Allocation.

0416 Collectors of county revenue

Under Section 158(1) of the PFM Act, a receiver of county revenue may in turn authorise any public officer employed by that county government or any of its entities to be a collector of revenue for the purpose of collecting revenue for that county government and remitting it to the receiver.

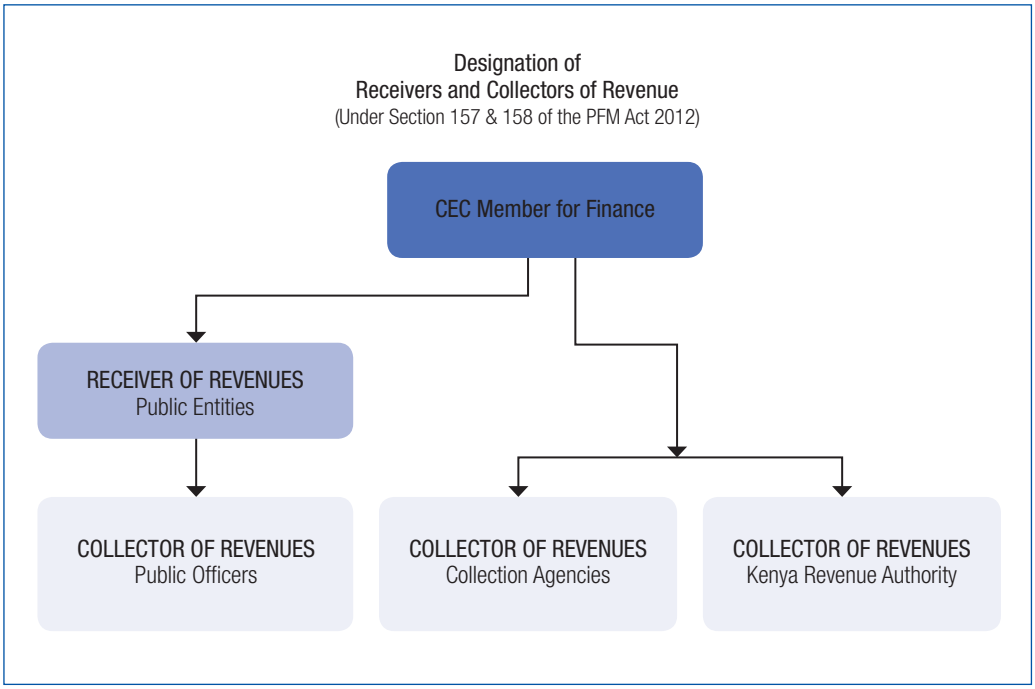
0417 Any other public officer, who collects revenue other than a receiver or collector of revenue for a county government, must deliver within three days after receiving it the revenue collected to a receiver or collector of revenue of the county government.

0418 Sub-regulation 60(2) of the PFM (County) Regulations 2014 further stipulates that except with the specific authority of the collector of revenue, a public officer whose duty involves the posting of assessment registers, rent rolls and similar documents must not be authorised to collect public moneys or to post collections into a cash book.

0419 The Kenya Revenue Authority can be appointed a Collector of County Revenue

Under Section 160 of the PFM Act the CEC Member for Finance can authorise the Kenya Revenue Authority or appoint a collection agent to be a collector of county government revenue on such terms and conditions as may be agreed in writing in accordance with PFM regulations.

Figure 17: Designation of Collectors and Receivers of Revenue



0420 Revenue raising mustn't hinder national or county economies nor the mobility of people or commerce

Under Section 161 of the PFM Act, the county government must ensure that in imposing a tax or other revenue raising measure that the tax or measure conforms to Article 209(5) of the Constitution which stipulates that "…the taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour".

0421 Views of the Cabinet Secretary and Commission on Revenue Allocation must be sought when contemplating revenue raising measures

Section 161 of the PFM Act also stipulates that revenue raising measures including tax increase must also conform to any other legislation and that before imposing such measures the county government must seek the views of the Cabinet Secretary for Finance and the Commission on Revenue Allocation.

0422 Responsibility for Revenue Management

Under PFM Regulation 60, six responsibilities are stipulated for the professional conduct of all revenue collection and management. These are mandatory and binding on all officers involved in revenue-related activity in the county. They are:

(a) **Staff are personally liable for ensuring revenue safeguards, obtaining payments and issuing receipts**

According to PFM Regulation 60, An Accounting Officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all county government revenue and other public moneys relating to their county departments or agencies; adequate measures, including legal action where appropriate, are taken to obtain payment; official receipts are issued for all moneys paid to county government.

(b) **Difficulties in revenue collection must be reported.**

An accounting officer or receiver of revenue who experiences difficulty in collecting revenues due to the county government shall report the circumstances to the County Executive Committee Member for Finance without delay.

(c) **Forex conversion of local current revenues prohibited**

Except with the authority of the County Executive Committee Member, no receiver of revenue or collector of revenue, may convert public moneys received in local currency into foreign currency and vice versa.

(d) **Prompt banking of collections required and spending of the same prohibited**
All public moneys collected by a receiver of revenue or collector of revenue or collected and retained by a county government entity, shall be paid into the designated bank accounts of the county government and shall not be used by any public officer in any manner between the time of their receipts and payment into the bank except as provided by law. A public officer who makes payment from monies collected under this regulation commits an offence and an Accounting Officer or receiver of revenue or collector of revenue must take disciplinary measures against the public officer who has contravened this rule.

(e) **Books of Accounts on revenue collections mandatory**
An Accounting Officer or receiver of revenue or collector of revenue must ensure adequate books of accounts are kept relating to all revenue collection and management.

0423 Assessment of County Revenue Potential

The county government should provide for a professional function under the County Treasury to give effect to the resource mobilization and management framework as stipulated in Section 108(4) of the County Governments Act. It should include a continuous revenue assessment capability and setting up a revenue evaluation framework to ensure it defines and values the total revenue potential of the county by sector. The Fourth Schedule of the Constitution details the functions of the county government and by such extension defines these as the areas from which it can derive its own revenues.

0424 Reconciliation of expenditures and revenues

Budgets must be balanced in order to comply with fiscal responsibility principles of Section 107 of the PFM Act. Reconciliations therefore entail ensuring that expenditures do not exceed total estimated revenues.

0425 It also entails monitoring expenditure continually to ensure it is adjusted to match the latest estimate of total revenue collections. In this regard, this monitoring exercise is closely linked to abiding by County Treasury instructions on expenditure ceilings by way of treasury circulars which may amend these ceilings in response to changes to the County's resource envelope. Consequently, all county government ministries, departments and agencies must comply with expenditure ceilings set by the County Treasury.

0426 IFMIS:

While the Integrated Financial Information Management System (IFMIS) has not as yet activated its revenue module, expenditure ceilings can and should still be set in the system. These should be set in the system by the County Treasury as the system does not allow expenditure to exceed the set ceilings.

0427 Detailed accounting codes are also embedded into IFMIS and must be used in the planning and estimates stages of the budget preparation process. The use of the appropriate description is essential to ensure the data inputted is internally consistent with system requirements and protocols for best practice.

0428 Treasury Single Account, the County Revenue Fund and the Exchequer Accounts

0429 The PFM Regulations[21]

Under PFM Regulations 93 and 94, the creation of the County Treasury Single Account (CTSA) at the central bank unifies all banking arrangements for easier supervision and comprehensively consolidates all public funds under one roof. This consolidation includes the County exchequer Account. The County Executive Committee Member for Finance is required to issue guidelines to Accounting Officers for the operations of the County Treasury Single Account. Please refer to the relevant legislations for more details.

0430 The County Treasury shall ensure operating cash balances in the CTSA sub accounts are kept to a minimum through consolidation into a County Treasury Single Account.

0431 The County Treasury Single Account shall reflect at the minimum the following features-

(a) Unified banking arrangements to enable the County Treasury to have proper oversight of county government cash inflows and outflows on these bank accounts;

(b) That no County Government entity shall operate bank accounts outside the County Treasury Single Account unless expressly authorized by the County Executive Committee Member.

[21] PFM (COUNTY) Regulations 93 & 94 of 2014

(c) The comprehensive consolidation of County Government controlled public monies encompassing all government cash resources, including the County exchequer account, special funds, trust funds and other public funds unless expressly exempted by the County Executive Committee Member for Finance.

0432 County Government deposits or exchequer releases to County Government entities by the County Treasury shall be deposited in the CTSA sub-accounts and shall form part of cash balances of these accounts.

0433 Unless exempted by an Act of Parliament or by judicial order, all deposit bank accounts of the county government's entities shall be sub-accounts of the County Treasury Single Account for the County Governments.

0434 The County Revenue Account

The Constitution in Article 207 mandates the establishment of a county revenue account "in which shall be paid all money raised or received by or on behalf of the county government, except money reasonably excluded by an Act of Parliament." Section 109 of the PFM Act further defines and describes the County Revenue fund "that all money raised or received by or on behalf of the county government is paid into the County Revenue Fund."

0435 The County Exchequer Account

Section 109 of the PFM Act then stipulates that the county revenue fund shall be "kept at the Central Bank of Kenya or a bank approved by the County Executive Committee member responsible for finance and shall be kept in an account to be known as the "County Exchequer Account" and from which monies can be paid out.

0436 The Treasury Single Account

Section 119 (2) of the PFM Act states that "As soon as practicable, each County Treasury shall establish a Treasury Single Account at the Central Bank of Kenya or a bank approved by the County Treasury *through which payments of money to and by the various county government entities are to be made*."

0437 Under Section 109 (2), there are three exceptions to the rule that all monies must be deposited into the County Revenue Account. These are where the money:

(a) Is excluded from payment into that Fund because of a provision of the PFM Act or another Act of Parliament, and is payable into another County Public Fund established for a specific purpose;
(b) In accordance with other legislation, the PFM Act or other County legislation has been retained by the County Government entity which received it for the purposes of defraying its expenses – also known as Appropriation in Aid; or
(c) Is reasonably excluded by an Act of Parliament as provided in Article 207 of the Constitution.

0438 Withdrawals from the County Treasury Single Account (CTSA)

Withdrawals from the County Treasury Single Account (CTSA) are only allowed for authorized expenditures as have been approved in a budget or supplementary budget vote by the County Assembly. Thus withdrawals must:

(a) Be linked to an approved budget vote as identified in the departmental breakdown of its budget;
(b) Not exceed the approved aggregate of a given vote by law without the approval of the county assembly;
(c) Not exceed the ceilings set by the County Treasury in its budget circular; and,
(d) Be approved by the Controller of Budget.

CHAPTER 9

County Debt Management

0439 Overview:

This chapter details the role, place and process of initiating and managing County Debt and reproduces Regulation 173 to Regulation 189 of the PFM (County) Regulations 2014.

0440 Chapter Objectives are to:

(a) Establish the legal framework that governs this process;
(b) Elaborate on the responsibilities of accounting officers in debt management;
(c) Enable users to understand how the County Debt Management Strategy is compiled;
(d) Lay out the procedure for securing a national government loan guarantee when a county government wishes to borrow.

0441 Debt Management

0442 Article 212 of the Constitution stipulates that a county government may only borrow if the national government guarantees the loan and the County Assembly approves it.

0443 Section 58(2) lays out ten pre-requisites before the Cabinet Secretary for Finance can grant a loan guarantee. Namely that a loan guarantee shall not be given unless:

(a) The loan is for a capital project;
(b) The borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it;
(c) In the case of a private borrower, there is sufficient security for the loan;
(d) The financial position of the borrower over the medium term is likely to be satisfactory;
(e) The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the national government;

(f) Where Parliament has passed a resolution setting a limit for the purposes of this section—
   1) The amount guaranteed does not exceed that limit; or
   2) If it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament;

(g) The Cabinet Secretary takes into account the equity between the national government's interests and the county government's interests so as to ensure fairness;

(h) The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations;

(i) The Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a county government; and

(j) The loan is made in accordance with provisions of the PFM Act and any regulations made thereunder.

0444 Objectives of county public debt management

The objectives of public debt management are to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term with a prudent degree of risk.

0445 It is to also promote development of the domestic debt market while ensuring the sharing of benefits of public debt between current and future generations.

0446 Borrowing purposes

County governments may borrow pursuant to the requirements of sections 140 of the PFM Act for the purposes of:-

(a) Financing county government budget deficits;

(b) Cash management;

(c) Refinancing outstanding debt or repaying a loan prior to its date of repayment;

(d) Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted; and

(e) Meeting any other development policy objectives that the County Executive Committee Member for Finance might feel necessary, consistent with the law, and as County Assembly may approve.

0447 Roles and responsibilities of Accounting Officers in debt management operations

The role and responsibility of Accounting Officers in county debt management operations are to:

(a) Prepare and submit project proposals for approval to the County Treasury;

(b) Ensure public disclosure to intended beneficiaries within thirty days of the allocation and disbursement of the loan whose authorisation has been granted for the project to start;

(c) Report within fifteen days after the end of each quarter to the intended beneficiaries on the expenditures and performance achieved in relation to the loan taken after the disbursement of the loans by the loan recipient Accounting Officer;

(d) Ensure that during the project identification and design, the intended beneficiaries are involved through the public participatory approach to planning through public forums to enhance leadership, ownership, social accountability and sustainability of the project;

(e) Prepare expected disbursements profiles;

(f) Submit loan disbursement claims for approval by the County Treasury;

(g) Make comments on draft loan agreements from the County Treasury;

(h) Participate in all consultations and negotiations of all loan agreements for projects and programmes under their jurisdiction; and

(i) Implement, monitor and evaluate, in close collaboration with the county government entity responsible for county Planning, all projects and programmes within their jurisdiction.

0448 Borrowing powers for county governments

The County Executive Committee Member for Finance derives powers to raise loans for the County Government from Section 140 of the Public Finance Management Act 2012.

0449 The county government may borrow money within and outside Kenya in amounts and on terms and conditions such as interest, repayment, disbursement or otherwise as the County Executive Committee Member for Finance may think fit, in any of the following ways:—

(a) By issuing County Treasury bonds;

(b) By bank overdraft facility from the Central Bank of Kenya; and

(c) By any other loan or credit evidenced by instruments in writing.

0450 Any borrowing by the county government other than a bank overdraft for short term cash management purposes requires a national government guarantee under section 58 of the PFM Act.

0451 Bank overdraft facility

Any bank overdraft facility for a County entity taken from the Central Bank of Kenya:

(a) Must be for cash management purposes only;
(b) May need to be authorized by the Count Assembly;
(c) Cannot exceed five percent of the most recent audited revenues of the county entity;
(d) Must be of short term duration, that is, it is repaid within a year from the date it was taken;
(e) Is deemed to be guaranteed by the Cabinet Secretary for Finance and secured by the county's equitable share of the revenue raised nationally.

0452 Use of borrowed monies

All money borrowed must be spent on the activities that are in the approved estimates of expenditure of the county government entity that borrowed the money.

0453 County Government Medium Term Debt Management Strategy

The county government medium term debt management strategy sets out the framework for the management of the county's public debt. It is prepared and executed by the County Treasury on behalf of the County Executive Committee and is formulated annually on a three year rolling basis and becomes effective only with the approval of the County Assembly.

0454 The county medium term debt management strategy must take into account:

(a) The borrowing needs of the County Government;
(b) Fiscal responsibility principles set out in section 107 of the Act and regulation 25 of these regulations;
(c) Prevailing macro-economic conditions;
(d) Prevailing conditions of the financial markets;
(e) Measures to minimize borrowing costs with a prudent degree of risk;
(f) Any other relevant factors.

0455 Setting the County Debt Limit

The obligations and restrictions to county government borrowing by way of setting a debt limit in the County Medium Term Debt Management Strategy, the limit must:

(a) Not exceed the nominal value of the total public debt that is determined in accordance with fiscal responsibility principles listed under regulation number 25;

(b) Be specified annually in the county fiscal strategy paper and the medium term debt management strategy paper;

(c) Guide the level of new annual government debt to ensure it is consistent with that limit;

(d) Guide the amount of county government debt(s) that are not denominated in shillings after they are recalculated at the prevailing exchange rate of the Central Bank of Kenya for the purposes of monitoring compliance with debt limits.

0456 Framework for approving loan guarantee to County governments

The County government must meet the following requirements before seeking loan guarantees from the national government:

(a) Prior to commencing negotiations with any lender, The County Treasury shall – on behalf of the County Government - submit to the Cabinet Secretary for Finance a capital project financing proposal for review and advice. This advice shall be communicated back to the county government within two weeks from the date of submission;

(b) If approved by the Cabinet Secretary for Finance, the County Treasury must make the necessary adjustments suggested by the Cabinet Secretary and thereafter proceed to begin negotiations with possible lenders. It must then prepare an Initial Draft Loan Agreement (IDLA) which shall spell out the terms and conditions of the loan;

(c) This Initial Draft Loan Agreement must be submitted to the Cabinet Secretary for review and advice on the terms and conditions of the IDLA. A response shall be issued within two weeks from the date of submitting the IDLA;

(d) If approved by the Cabinet Secretary, the County Treasury and the lender will make the necessary amendments suggested by the Cabinet Secretary and submit a final draft loan financing agreement (FDLFA) to the Cabinet Secretary;

(e) The Cabinet Secretary shall review this final draft loan financing agreement and submit it to the Attorney General for legal opinion which shall itself be provided within two weeks after the date of submission by the Cabinet Secretary;

(f) The Cabinet Secretary shall send the final loan financing agreement to the county government with the opinion of the Attorney General and the Cabinet Secretary's opinion for the necessary final adjustments, if any, before formalizing the loan financing agreement.

0457 After taking into account the legal opinion of the Attorney General and that of the Cabinet Secretary, The CEC Member for Finance with the help of the County Treasury, must:

(a) Submit the loan agreement to the County Executive Committee for approval of the borrowing including its terms and conditions; and

(b) After approval by the County Executive Committee, submit the loan agreement to the County Assembly for approval of the borrowing including its terms and condition.

0458 After obtaining the County Assembly's approval, the County Executive Committee Member for Finance should submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary with an accompanying letter requesting for a national Government guarantee of the final loan financing agreement.

0459 After receiving the request for a guarantee, the Cabinet Secretary will seek the recommendations of the Intergovernmental Budget and Economic Council as required under section 58 of the PFM Act. These recommendations shall be given not later than 30th November each year.

0460 The Cabinet Secretary shall take into account the recommendations of the Intergovernmental Budget and Economic Council before seeking approval of the loan guarantee from Cabinet and Parliament respectively. This approval shall be given by 31st January each year.

0461 The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee by 15th February each year to the respective County Executive Committee Member.

0462 After receiving the communication of the decision of Parliament on the draft loan guarantee, the County Executive Committee member shall report to the County Assembly of the decision.

0463 Evaluation criteria for guarantee requests by County government

As a preamble, it should be noted first that a county government that has or does default on a loan is not eligible for a national government loan guarantee. Its eligibility shall only be restored upon the successful completion of a financial recovery programme agreed between the County Treasury and National Treasury.

0464 It should also be noted that under the PFM Act loans can only be used to finance development expenditure and cannot be used for recurrent expenditure. The sole exception to this rule is a bank overdraft taken for cash management purposes, which is then also restricted to a repayment period of one year or less.

0465 So, in order for a county government to secure a national government guarantee for a capital project loan, the following mandatory requirements must be met. The county government must:

(a) Demonstrate that the project could not be financed on reasonable terms and conditions without a government loan;

(b) Provide the projected cash flow clearly setting out a projected cash disbursement schedule and repayment plan;

(c) Demonstrate that the county government or its entity has contributed a substantial portion of equity funds of not less than twenty (20) percent, from its own resources;

(d) Prove that it is a feasible project that has been approved by the county government or its entity as may be required by national or county legislation;

(e) Ensure the application for the guarantee has been submitted with a signed loan agreement attached but only for loans on concessional terms in the case of external loans;

(f) meet all the fiscal responsibility principles set out in the PFM Act and PFM regulations prior to applying for the national government guarantee unless exempted under certain conditions by the Cabinet Secretary;

(g) Demonstrate that the loan will be used to finance a capital project of a devolved function in line with schedule four of the Constitution;

(h) Have had the National Treasury confirm that the lender is of good credibility and standing with the Government of Kenya; and

(i) Any other guidelines as may be prescribed by the Cabinet Secretary in a government gazette.

0466 Annual County Government Borrowing Programme

The county medium term debt management strategy shall be implemented through the annual county government borrowing programme for each fiscal year which shall also include issuance of county government securities for the fiscal year and show indicative dates of such issuance.

0467 Criteria for the issuance of government securities

To raise debt capital, county government securities should only be issued by way of auction or such other method as the County Executive Committee Member for Finance may determine with the agreement of the Cabinet Secretary.

0468 The auction of domestic county government securities should also take into account the following factors:

(a) Pricing of the domestic county government securities;

(b) Refinancing risk of the domestic county government securities;

(c) The market stability when taking up domestic county government securities; and

(d) The borrowing programme which is consistent with the county medium term debt strategy and county fiscal strategy paper.

0469 Formalisation of loan agreements

Negotiation with foreign governments and agencies for external loans should culminate in and be formalized into either one of the following two recognized debt instruments in addition to the national government guarantee. That is a loan agreements or Exchange of letters that constitute an agreement.

0470 Credit purchases

Where development partners have opted to give loans through credit purchase/commodity loan arrangements, for the purposes of budgeting and accounting, the following procedures shall be followed:—

(a) The amount of expenditure and matching direct payment as agreed and as applicable, shall be included in the development estimates under separate items;

(b) The Accounting Officer shall apply through the County Treasury for utilisation of the credit purchase facility in the prescribed manner as set-out in the loan instrument;

(c) After supplying goods or services, the development partner shall notify County Treasury of the amount disbursed against the loan;
(d) The County Treasury shall record the amounts disbursed as a drawing against each loan facility;
(e) The County Treasury shall forward invoices and debit advices to the Accounting Officer concerned to bring the expenditure involved into account;
(f) The Accounting Officer shall, on satisfying herself/himself of receipt of goods and services, record the transactions in the stores ledger card and the Accounting Officer shall notify the County Treasury on the receipt of goods and services; and
(g) Upon receipts of the notification under (f) above, the County Treasury shall notify the Cabinet Secretary of the receipt of goods and services.

0471 Modes of payment (disbursement) of loan funds

The procedure to be followed in the disbursement of loan funds shall be defined in the respective agreement and will generally assume one or more of the following methods:—

(a) Credit purchase;
(b) Direct disbursement to the County Revenue Fund; and
(c) Reimbursement, where the county government pays for goods and services supplied and later on claim reimbursement from the financier.

0472 Redemption, conversion, and consolidation of loans

The County Executive Committee Member for Finance may, on such terms and conditions as he may determine, and, when necessary, with the concurrence of the lender and the Cabinet Secretary:

(a) Repay any loan prior to the redemption date of that loan;
(b) Convert the loan into any other loan; or
(c) Consolidate two or more loans into an existing or new loan.

0473 County Annual debt reporting

The County Executive Committee Member for Finance must prepare and submit an annual report on public debt to the County Assembly no later than three months after the end of each financial year.

0474 The annual county public debt report shall be in the format provided in the PFM regulations and shall include the following information:-

(a) Review of previous year's financing of budget deficit.

(b) Composition of Domestic debt;

(c) Composition of External debt;

(d) On-lent loans and contingent liabilities;

(e) Debt strategy and debt sustainability;

(f) Outlook for the medium term; and.

(g) Any commitment fees and penalties paid on any undisbursed amounts of a loan

CHAPTER 10

Chart of Account (SCOA) and its Coding Structure

0475 Overview:

This chapter is a brief summary of the structure and rationale of the Standard Chart of Accounts (SCOA) especially with regard to programme based budgeting. It explores such details as the coding structure as applied to budget preparation and monitoring purposes and the purposes and scope of individual SCOA segments. It is reproduced from the 2011 edition of the Government's Programme Based Budgeting Manual.

It should also be noted that the Standard Chart of Accounts is currently under review and that changes are anticipated in the near future.

0476 The Standard Chart of Accounts Design - Code Segments

The Integrated Financial Management Information System – IFMIS has embedded in it the entire chart of accounts as is capable of accommodating multiple code segments, where:

(a) Each segment is independent from other segments and concentrates on a particular analytical; dimension;

(b) Transactions will be defined by combining relevant values from each code segment; and

(c) Each code segment can contain one or more reporting hierarchies whereby:

I. The number of reporting levels is determined by operational and managerial requirements,

II. Transactions are recorded at the bottommost (or the most disaggregated level), and

III. Drilldown and rollup functionality allows the same data to be analysed at different levels of aggregation.

0477 These segments and code lengths are illustrated in Table 18.

Table 18: SCOA Design - Code Segments

Segment	Description	No. of characters digitscharacters
Segment 1	Class	1 digit
Segment 2	Vote	3 digits
Segment 3	Administrative	7 digits
Segment 4	Projects	6 digits
Segment 5	Source of Funding	8 digits
Segment 6	Programme	9 digits
Segment 7	Economic Items	7 digits
Segment 8	Geographic Location	7 digits

NB: The above structure is currently under review and may change in the near future as the SCOA undergoes its review. The revised SCOA will be re-issued through a National Treasury Circular in due course.

0480 SCOA – Reporting Segments

The SCOA structure of eight code segments with each containing one or more reporting hierarchies allows for flexible reporting and is capable of being used by all levels of government to meet all the requirements of programme based budgeting. It also seeks to cater for a progressive move from cash to an accrual-based reporting regime. The SCOA segments are described in further detail in Table 19.

Table 19: A Description of SCOA Reporting Segments

Code Segment	Segment Description
Segment 1 Class (1 digit; 1 level)X 11	This segment basically distinguishes the type of budget-revenue budget, Recurrent and Development expenditures budgets. It also enables identification of transactions that do not affect the budget-referred to as Below the Line Items. The second level provides further breakdown e.g. recurrent and development budget.
Segment 2 Vote (3 digits; 1 level) XXX	Within the Oracle IFMIS system, this is described as the "balancing segment". The segment at which a trial balance is generated and financial statements produced. The structure allows for balancing at Department/ County organizational level. The higher reporting level allows for consolidated (aggregated) reporting.

Code Segment	Segment Description
Segment 3 Administrative (7 digits; 3levels) XXX.XX.XX	This segment represents the organisational structure of a particularly government entity. The lowest level indicates the cost/revenue centre. Thus the code string runs as follows: Department>Department (Head) >Cost Centre (Sub-head). Special Funds have been designated at Departmental level and should be able to prepare separate financial statements.
Segment 4 Projects (6 digits; 2levels) XX.XXXX	A separate segment for Projects has been created. Projects will be linked to implementing Departments in the system, but not hard coded per department. The 6 digit project code includes 2 digits representing the year of project agreement and 4 digits for specific project code. The project coding will be specific in a particular year.
Segment 5 Funding Source (8 digits; 4 levels) X.XXX.XXX.X	Allows for analysis of revenues and payments by funding source. At broad level, it categorises revenues as either domestic or external. At the lower level, it drills down to a particular source. E.g. a particular donor like WB. Donor funding is further identified by donor items (donor facilities) as each donor normally commits funding under a specific facility (referred to - as "programme" in donor speak). And finally, at level 4, the funding mode (either Revenue or AiA) is identified.
Segment 6 Programme (9 digits; 5 levels)XX.XX.X.XX.XX	Provides for a programmatic reporting structure - all expenditures are Categorized by programme/sub programme to support performance or Programme based budget. The reporting hierarchy comprises: Sector>Programme>Sub programme>Output>Activity Each sub programme will be mapped to CoFoG code to enable generation of the relevant reports. The level of Activity will not be populated in the near future.
Segment 7 Economic (7 digits; 5 levels)X.X.X.XX.XX	Analyses the nature of receipts, payments, assets, liabilities and funding flows. The values will be aligned to GFSM 2001. The reporting hierarchy comprises. Category>Chapter>Sub chapter>Item>Sub Item.
Segment 8 Geographic (7 digits; 3 levels)XXX.XX.XX	Enables payments to be tracked to the benefiting locations. The reporting hierarchy comprises: County>Constituency / District>Location/Ward The lower levels of devolution below the County level have not yet been determined, but the proposed structure is considered adequate for any structures that may be finally agreed,

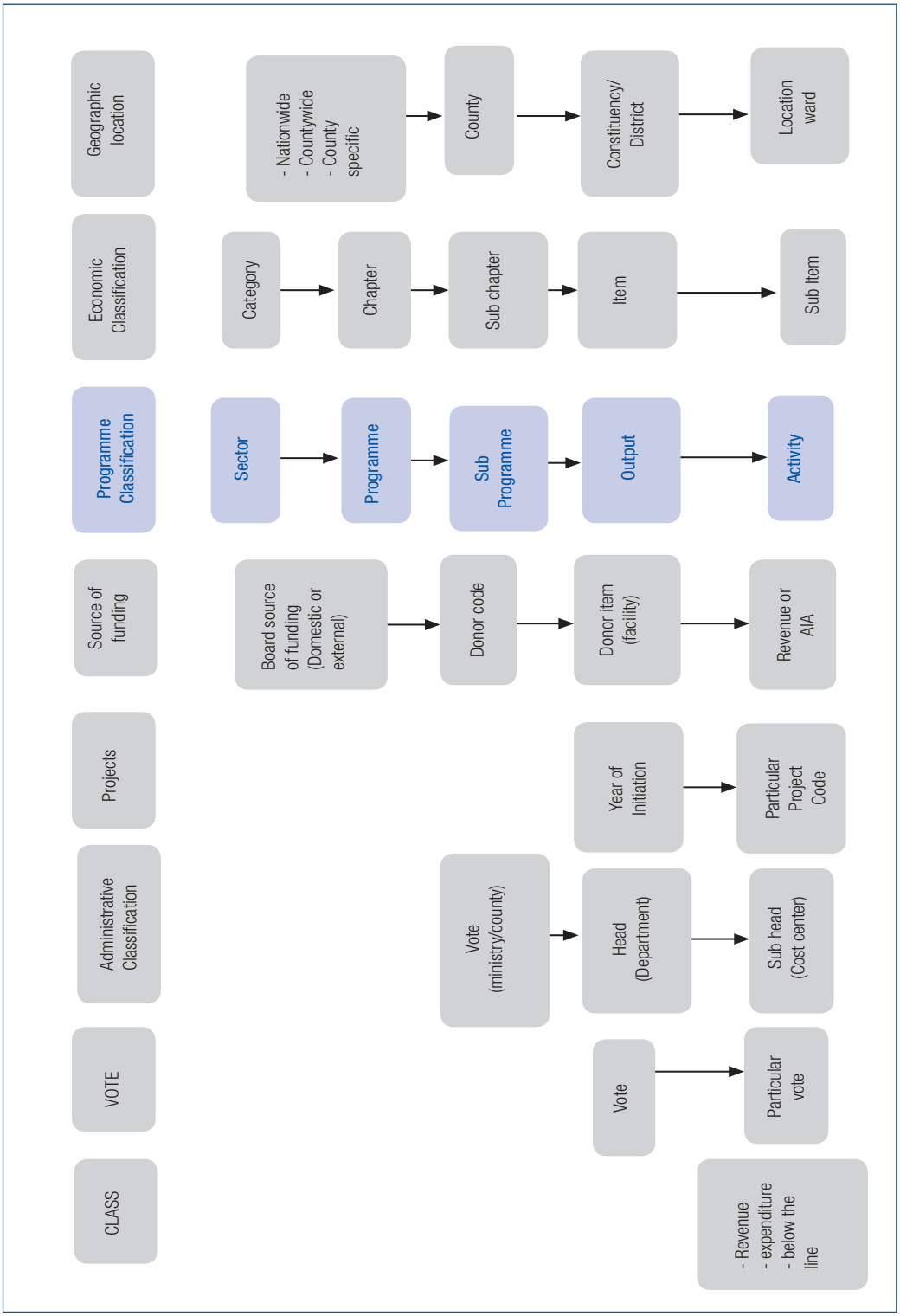
Please note: The above structure was derived from the updated version of SCOA by the time of finalisation of the previous PBB Manual of 2011. Given that the SCOA is currently under review the above structure may change at which point the revised SCOA will be re-issued through a National Treasury Circular in due course.

0481 The Structure of the Standard Chart of Accounts (SCOA)

The SCOA structure, showing the code segments and the reporting hierarchies within each segment, is illustrated in Figure 18. Within this diagram, the bottommost levels of each code segment represent the coding levels which are to be applied for all accounting transactions; the higher levels indicate the levels at which data can be aggregated for reporting purposes.

Alternative reporting hierarchies are shown in segments 5 and 6, enabling dual reporting streams - the primary stream to satisfy internal management purposes and the alternative stream to enable compliance to international reporting standards.

Figure 18: Standard Charts of Accounts Structure



0482 Programme Segment

The structure of the programme segment in the Chart of Accounts is described below. This segment provides for classification of expenditures by programmes and sub-programmes. The current configuration of IFMIS includes this segment although it may not yet be fully operational. The segment has the following five levels:

Table 20: Structure of the Programme Segment

Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
Sector	Programme	S-Programme	Output	Activity	
2 digits	2 digits	1 digit	2 digits	2 digits	9 digits

0483 The numbering outline contained in Table 21 on the next page illustrates the levels and sizes of each level within this programme segment. Illustrative coding has been taken from the Agriculture and Rural Development sector.

Table 21: Standard Chart of Accounts Coding Structure: Example from Agricultural and Rural Development

Level 1	Level 2	Level 3	Level 4	Level 5	Full code	Description	Level
Sector	Prog-rmme	Sub-pro-gramme	Output	Activity	9 digits		
2 digits	2 digits	1 digit	2 digits	2 digits			
1	0	0	0	0	10000000	Agricultural and Rural Development	Sector 1
1	1	0	0	0	1010000	Policy, Strategy and Management of Agriculture	Programme 1
1	1	1	0	0	10110000	Development/Review of Agriculture policy, legal and Regulatory Framework	Sub-programme
1	1	1	1	0	10110100	Policy framework reviewed and developed	Output 1
1	1	1	1	1	10110101	Activity 1	
1	1	1	1	2	10110102	Activity 2	
1	1	1	1	3	10110103	Activity 3	
1	1	1	2	0	10110200	Bills processed and submitted to the Attoney General	Output 2
1	1	1	2	1	10110201	Activity 1	
1	1	1	2	2	10110202	Activity 2	
1	1	1	2	3	10110203	Activity 3	
1	1	2	0	0	10120000	Agricultural planning and Financial Management	Sub-programme 2
1	1	2	1	0	10120100	Establishment of Agricultural Development Fund	Sub-programme 2's - Output 1
1	2	0	0	0	10200000	Crop Development and Management	Programme 2
1	2	1	0	0	10210000	Land and Crops Development	Sub-programme
1	2	1	1	0	10210100	Surveillance and control of strategic pests carried out (1)	Output 1
1	2	1	2	0	10210200	Metric tons of traditional crop seeds multiplied and distributed (2)	Output 2
1	2	1	3	0	10210300	Reference Materials on horticulture prepared (3)	Output 3
1	2	1	4	0	10210400	Water harvesting pans constructed for agricultural use (4)	Output 4
1	2	1	5	0	10210500	Agricultural Machinery bought for AMS stations (5)	Output 5
1	2	1	6	0	10210600	Appropriate agricultural technologies developed/ adapted, tested and disseminated (6)	Output 6

Appendices

Appendix I: County Fact Sheet – Vital Statistics

INFORMATION CATEGORY	STATISTICS
County Area	
Topography and Climate	
Demographic Profiles	
Welfare Indicators	
Crop Farming	
Livestock Farming	
Fish Farming	
Wildlife Resources	
Forestry	
Environment	
Mines, Mineral and Quarrying	
Cooperatives	
Health	
Education	
Water and Sanitation	
Energy	
Infrastructure	
Wholesale, Retail Trade and Industry	
Tourism	
Financial Services	
Housing	
Community Development and Social Welfare	
Number of People Employed by Sector and Gender	

Appendix II: Structure & Format of the County Integrated Development Plans

Introduction

This chapter presents the detailed structure of the County Integrated Development Plans. It builds on the outline presented in Chapter Three.

Structure of The CiDPs

The following is the proposed structure of the County Integrated Development Plan

(a) **Cover Page**

The cover page should contain the following

- The Government Logo followed by:
- Republic of Kenya
- {County Name}
- First County Integrated Development Plan 2013-2017
- Theme: A Globally Competitive and Prosperous Kenya
- (Vision 2030 Logo)

(b) **First Page (Title page):**

- County Vision and Mission

(c) **Subsequent Pages of the Plan**

- Table of Contents
- List of Tables
- List of Maps/Figures
- Abbreviations and Acronyms
- Glossary of Commonly Used Terms

(d) **Foreword:** Rationale for preparing County Integrated Development Plan. It should discuss role of County Government under the Constitution 2010 as well as in implementation of the Vision 2030, Medium Term Plan (MTP) and National and Flagship projects and MDGs.

(e) **Acknowledgements:** This should acknowledge all those involved in the CIDP preparation process. The role played by the National Government in the process, including the guidelines issued by Department of Devolution and Planning, should also be acknowledged.

(f) **Executive Summary:** An executive summary is a brief overview of a document intended to give readers a quick preview of its contents. Its purpose is to summarize the contents of all the chapters in one place. After reading the executive summary, a reader should understand the overall aims of the plan and the projects proposed in the individual chapters without having to read every part of it in full. It should be about two pages.

Appendix III: Sample Budget: Malaria Eradication Service – Project Budget

Expenditure Categories	Items	N 2014/2015 Kshs	N+1 2015/2016 Kshs (million)	N+2 2016/2017 Kshs (million)	N+3 2017-2018 Kshs (million)
BUDGET TOTALS (RECURRENT + DEVELOPMENT EXPENDITURE)		**A+B+C+D**	**A+B+C+D**	**A+B+C+D**	**A+B+C+D**
RECURRENT EXPENDITURE *(Total)*		**A+B+C**	**A+B+C**	**A+B+C**	**A+B+C**
Wages & Salaries (Total)		**43.2**	**45.4**	**47.6**	**50.0**
Personnel Emoluments	Basic Salaries - Permanent Employees	27.0	28.4	29.8	31.3
(Staff Establishment = 60) 45 permanent, 15 temporary)	Basic Salaries - Temporary Employees	4.9	5.1	5.4	5.6
	Personal Allowance - Paid as Part of Salary	8.1	8.5	8.9	9.4
	Personal Allowances Paid as Reimbursements	3.2	3.4	3.6	3.8
Other Expenses (Total)		**52.1**	**58.2**	**64.9**	**72.5**
Utilities, Supplies and Services	Utilities, Supplies and Services	*2.2*	*2.3*	*2.4*	*2.5*
Foreign Travel & Related expenses	Foreign Travel and Related expenses	*0.6*	*0.6*	*0.6*	*0.6*
Other Recurrent Expenditure	Communication, Supplies and Services	*12.0*	*13.4*	*15.1*	*16.9*
	Domestic Travel and Subsistence, and Other Supplies and Services	*8.4*	*9.4*	*10.5*	*11.8*
	Training Expenses	*2.3*	*2.6*	*2.9*	*3.2*
	Hospitality Supplies and Services	*4.0*	*4.5*	*5.0*	*5.6*
	Specialised Materials and Suppliers	*13.0*	*14.6*	*16.3*	*18.3*
	Office and General Supplies and Services	*4.2*	*4.7*	*5.3*	*5.9*
	Fuel Oil and Lubricants	*5.5*	*6.2*	*6.9*	*7.7*
Maintenance Expense (Total)		**0.82**	**0.89**	**0.97**	**1.06**
	Routine Maintenance - Vehicles and Other Transport Equipment	0.59	0.66	0.74	0.83
	Routine Maintenance - Other Assets	0.23	0.23	0.23	0.23
DEVELOPMENT EXPENDITURE *(Total)*		**D**	**D**	**D**	**D**
	Capital Equipment installation costs	0.56	0.112	0.1176	0.12348
	Purchase of Office Furniture and General Equipment	720	0	d	d
	Purchase of Specialised Plant, Equipment and Machinery	15	3.75	7.5	10.5
	Research, Feasibility Studies, Project Prep, Design & Supervision	0.3	0	0	0
	Communication, Supplies and Services	0	0	d	d
	Construction of Buildings	15	0	0	0
	Construction and Civil Works	0	0	d	d
	Overhaul and Refurbishment of Construction and Civil Works	0	0	d	d
		0	0	d	0

Appendix IV: County Functions

1) **Department of Agriculture, Livestock and Fisheries**

   The functions and powers of the county are Agriculture, including—

   a) Crop and animal husbandry;

   b) Livestock sale yards;

   c) County abattoirs;

   d) Plant and animal disease control; and

   e) Fisheries.

2) **Animal control and welfare, including—**

   a) Licensing of dogs; and

   b) Facilities for the accommodation, care and burial of animals

3) **County health services, including, in particular—**

   a) County health facilities and pharmacies;

   b) Ambulance services;

   c) Promotion of primary health care;

   d) Licensing and control of undertakings that sell food to the public;

   e) Veterinary services (excluding regulation of the profession);

   f) Cemeteries, funeral parlors and crematoria; and

   g) Refuse removal, refuse dumps and solid waste disposal.

4) **Control of drugs and pornography**

5) **Control of air pollution, noise pollution, other public nuisances and outdoor advertising**

6) **Implementation of specific national government policies on natural resources and environmental conservation, including—**

   a) Soil and water conservation; and

   b) Forestry.

7) **Cultural activities, public entertainment and public amenities, including—**

   a) Betting, casinos and other forms of gambling;

   b) Racing;

   c) Liquor licensing;

   d) Cinemas;

e) Video shows and hiring;

f) Libraries;

g) Museums;

h) Sports and cultural activities and facilities; and

i) County parks, beaches and recreation facilities

8) **County public works and services, including—**

a) Storm water management systems in built-up areas; and

b) Water and sanitation services

9) **Fire fighting services and disaster management**

10) **County transport, including—**

a) County roads;

b) Street lighting;

c) Traffic and parking;

d) Public road transport; and

e) Ferries and harbors, excluding the regulation of international and national shipping and matters related thereto.

11) **Trade development and regulation, including—**

a) Markets;

b) Trade licenses (excluding regulation of professions);

c) Fair trading practices;

d) Local tourism; and

e) Cooperative societies.

12) **County planning and development, including—**

a) Statistics;

b) Land survey and mapping;

c) Boundaries and fencing;

d) Housing; and

e) Electricity, gas reticulation and energy regulation.

13) **Pre-primary education, village polytechnics, home craft centers and childcare facilities.**

Appendix V: Sector Revenue Estimation Matrix

Note:
Under Section 161 of the PFM Act, the county government must ensure that in imposing a tax or other revenue raising measure that the tax or measure conforms to Article 209(5) of the Constitution which stipulates that "...the taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour".

Sector Components (per County Functions assigned in the Fourth Schedule of the Constitution) - *these are not exhaustive definitions for purposes of revenue raising.*	**Examples of sector-specific receipts**	**Estimated Revenue Contribution (Kshs)**
Agriculture and Livestock and Fisheries	Service fees & Charges e.g. for extension services, output taxes, taxes, land lease rates and fees etc..	
1. Agriculture, including—		
(*a*) crop and animal husbandry;	service fees & charges e.g. for extension services, business registration & licencing fees	
(*b*) livestock sale yards;	service fees & Charges e.g. for extension services,	
(*c*) county abattoirs;	Inspection and sanitation service charges	
(*d*) plant and animal disease control; and	Inspection and Service charges, extension service fees to commercial	
(*e*) fisheries.	Commercial fishing license fees	
6. Animal control and welfare, including—		
(*a*) licensing of dogs; and	Licence fees for pets, veterinary services	
(*b*) facilities for the accommodation, care and burial of animals.	Service fees & charges, disease control charges for the removal and disposal of dad animals	
Health		
2. County health services, including, in particular—	national governemnt conditional and unconditional health grants	
(*a*) county health facilities and pharmacies;	Pharmacy fees, elective surgery fees,	
(*b*) ambulance services;	Service fees for elective medical evacuations	
(*c*) promotion of primary health care;	-	
(*d*) licensing and control of undertakings that sell food to the public;	Inspection and sanitation fees, licencing fees,	
(*e*) veterinary services (excluding regulation of the profession);	Veterinary service fees, business licence fees	
(*f*) cemeteries, funeral parlours and crematoria; and	Burial/internment fees, service fees	

Sector Components (per County Functions assigned in the Fourth Schedule of the Constitution) - *these are not exhaustive definitions for purposes of revenue raising.*	**Examples of sector-specific receipts**	**Estimated Revenue Contribution (Kshs)**
(*g*) refuse removal, refuse dumps and solid waste disposal.	waste disposal service rates, remediation fees and fines for industrial & pollution	
13. Control of drugs and pornography.	Fines and charges, National Government conditional and unconditional vice & crime prevention grants	
Environment, Water and Natural Resources		
3. Control of air pollution, noise pollution, other public nuisances and outdoor advertising.	Fines & charges	
10. Implementation of specific national government policies on natural resources and environmental conservation, including—	National governemnt conditional and unconditional environmental grants,	
(*a*) soil and water conservation; and	Resource access & use fees, conservation fees	
(*b*) forestry.	Resource access & use fees, conservation fees	
Culture and Social services		
4. Cultural activities, public entertainment and public amenities, including—	National Government conditional and unconditional cultural & tourism grants	
(*a*) betting, casinos and other forms of gambling;	Business registration and/or operation license fees	
(*b*) racing;	Business registration and/or operation license fees	
(*c*) liquor licensing;	Business registration and/or operation license fees	
(*d*) cinemas;	Business registration and/or operation license fees	
(*e*) video shows and hiring;	Business registration and/or operation license fees	
(*f*) libraries;	Subscription fees, National Government conditional and unconditional eductional grants	
(*g*) museums;	Entry fees, National Government conditional and unconditional cultural & tourism grants	
(*h*) sports and cultural activities and facilities; and	Entertainemnt taxes, stadium fees	
(*i*) county parks, beaches and recreation facilities.	Entry fees, Events fees & charges, National Government conditional and unconditional cultural & tourism grants	
11. County public works and services, including—		
(*a*) storm water management systems in built-up areas; and	Service charge and rates, monthly service charges	
(*b*) water and sanitation services.	Water use fees, monthly service charges	
12. Fire fighting services and disaster management.	Service charge and fees	

Sector Components (per County Functions assigned in the Fourth Schedule of the Constitution) - *these are not exhaustive definitions for purposes of revenue raising.*	**Examples of sector-specific receipts**	**Estimated Revenue Contribution (Kshs)**
Transport and Infrastructure		
5. County transport, including—		
(*a*) county roads;	-	
(*b*) street lighting;	Monthly service charge	
(*c*) traffic and parking;	Parking fees, traffic congestion charge etc...	
(*d*) public road transport; and	National Government conditional and unconditional infrastructure grants	
(*e*) ferries and harbours, excluding the regulation of international and national shipping and matters related thereto.	National Government conditional and unconditional infrastructure grants	
Commerce and Tourism		
7. Trade development and regulation, including—		
(*a*) markets;	Market fees, trading licenses	
(*b*) trade licences (excluding regulation of professions);	fees and charges	
(*c*) fair trading practices;	dispute arbitration and enforcement fees	
(*d*) local tourism; and	Business registration and/or operation license fees	
(*e*) cooperative societies.	Membership fees and service-specific fees and charges	
Land, Housing and Urban Development		
8. County planning and development, including—		
(*a*) statistics;	Service fees to external users such as businesses, professional assocs, researchers, educational institutions	
(*b*) land survey and mapping;	Service fees to external users such as businesses, professional assocs, researchers, educational institutions	
(*c*) boundaries and fencing;	Service fees to external users such as businesses, professional assocs, researchers, educational institutions	
(*d*) housing; and	Service fees to external users such as businesses, professional assocs, researchers, educational institutions	
(*e*) electricity and gas reticulation and energy regulation.	Service charge to service providers	
Education		
9. Pre-primary education, village polytechnics, home craft centres and childcare facilities.	Fees for techincal colleges, licensing fees for private institutions	
Planning & National Coordination		
14. Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.	Funds secured in all the above under National Government conditional and unconditional grants	

Appendix VI - Sample of Program-Based Budgets by Department

COUNTY GOVERNMENT DEPARTMENTS
Sample Programmes & Sub-Programmes

DEPARTMENT OF HEALTH

Responsible for:

County health services, including, in particular—
(a) county health facilities and pharmacies;
(b) ambulance services;
(c) promotion of primary health care;

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1 : Administration, Planning And Support Services		
	Administration Services	
	Personnel Services	
	Finance Services	
P2: Preventive Health Services		
	Community Health Services ---------->	*Distribution of 20,000 Treated Mosquito Nets*
	Free Primary Healthcare	*Larvae eradication - Treatment of breeding grounds*
	Community Workers Basic Health Service Training	*Public Education on preventive measures*
	Disease control (Communicable & Non-Communicable)	*Prophylaxic Medicine*
		Early detection and response service
P3: Curative Health Services		
	County Hospital Services	
	County Clinics Management	
	County Mental Health Services	
	Surgery & Specialized Medical Services	
P4: County Pharmaceutical Service		
	County Pharmacies	
	County Clinic Medicine Supply & Inventory Management Service	
P5: County Health Policy Development & Management		
	Health Policy, Planning & Financing	
	Health Standards, Quality Assurance & Standards	
	Health Capacity Building & Training	
	County Health Research & Innovation programme	
P6: Reproductive Health		
	Family planning Services	
	Maternity & Child Health Services	
	Immunization Services	

OFFICE OF THE GOVERNOR

Responsible for:

(a) Provide due diligence in the execution of the functions and authority provided for in the Constitution and other legislations;
(b) Set up the County Budget and Economic Forum performing state functions within the county;
(c) Issue the Governor's Warrant to authorize the withdrawal of funds from the County Treasury Single Account;
(d) Submit county plans and policies to the County Assembly for approval;
(e) Represent the county in national and international forums and events;
(f) Consider, approve and assent to the bills passed by the County Assembly;
(g) Chair meetings of the county executive committee; and,
(h) Hold the CEC Member for Finance accountable for the due performance of his/her duties.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS/SERVICES
P1 : Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 County Cabinet Support Services	
	SP1.4 Finance Services	
P2: Government Advisory Services		
	SP2.1 Policy Development & Liaison	
	SP2.2 Inter-County Advisory Services	
	SP2.3 Finance & Economic Review Services	
	SP2.4 Legal and County Assembly Liaison & Advisory Services	
P3: Deputy Governor		
	SP3.1 Office of the Deputy Governor	
	SP3.2 Ministerial Oversight of Public Works and Infrastructure	
	SP3.3 Coordination of Interior County Matters	
P4: Leadership and Coordination of MDAs		
	SP4.1 Departments	
	SP4.2 Intergovernmental Relations Council Support	
	SP4.3 Strategic Human Resource Management	
	SP4.4 Human Resource Development	
	SP4.5 County Service/Huduma Kenya Service Network Management	
	SP4.6 Performance Management	

DEPARTMENT OF ENVIRONMENT,WATER AND NATURAL RESOURCES

Responsible for:

Control of air pollution, noise pollution, other public nuisances and outdoor advertising.

10. Implementation of specific national government policies on natural resources and environmental conservation, including—

(a) soil and water conservation; and

(b) forestry.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: Environment Management and Protection		
	SP2.1 County Environmental Moniroing & Management	
	SP2.2 Water Catchment Areas Protection, Rehabilitation and Conservation	
P3: Water Resources Management		
	SP3.1 Water Policy Development & Management	
	SP3.2 Water Resources conservation and Protection	
	SP3.3 Water Storage and Flood Control	
	SP3.4 Water Supply Infrastructure	
P4: Natural Resources Conservation and Management		
	SP4.1 Forests Conservation and Management	
	SP4.2 Wildlife Conservation and Security	
	SP4.3 National Policy Coordination and Support	
	SP4.4 Extractive Resources Conservation and Sustainable Management	
	County Reserves Management	

THE COUNTY TREASURY

Responsible for:

1 County's Public Financial Management & Oversight
2 Revenue raising & monitoring;
3 Expenditure management & Oversight
4 County Budget compilation of the county government budget,
5 Liaison & Collaboration with National Treasury Finance & Economics

PROGRAMMES	Sub-PROGRAMMES		OUTPUTS/PROJECTS
P1 : Administration, Planning And Support Services			
	SP1.1	Administration Services	
	SP1.2	Personnel Services	
	SP1.3	Finance Services	
P2: Economic and Financial Policy Management			
	SP2.1	Economic & Financial Policy Formulation, Modelling and Review	
	SP2.2	Microeconomic Policy Formulation, Modelling & Advisory and Management	
	SP2.3	Economic and Financial Planning	
	SP2.4	Economic & Financial Research and Advisory Support	
	SP2.5	National Liason on Economic & Fiscal Matters	
P3: Budget Management			
	SP3.1	Budget Preparation, Coordination and Management	
	SP3.2	Management of County Financial Resources	
	SP3.3	Government Investment and Assets	
	SP3.4	IFMIS 'Plan-to-Budget' Operations & Oversight	
	SP3.5	Capacity Building & Training in Budget	
	SP3.6	Budget Implementation, Monitoring and Reporting	
P4 Resource Mobilization & Revenue			
	SP4.1	Natural Resource Inventory, Analysis, Modelling & Exploitation	
	SP4.2	Revenue Generation & Estimates Modelling	
	SP4.3	Resource & Revenue Policy Advisory and Research	
P5: County Debt Management			
	SP5.1	Debt Management Strategy Formulation, Monitoring and Review	
	SP5.2	Debt Policy Development	
	SP5.3	Debt Monitoring & Reporting	
	SP5.4	Debt Advisory, Research & Liaison with National Treasury	
	SP5.5	Debt & Fiscal Risk Assessment & Management	
P6: Accounting, Financial Standards & Reporting			
	SP6.1	Accounting Standards Policy Enforcement and Monitoring	
	SP6.2	Accounting Systems Support Oversight (IFMIS et al)	
	SP6.3	Standard Chart of Accounts Use and Training	
	SP6.4	Government Financial Records Administration	
	SP6.5	Financial Reporting Standards enforcement	
	SP6.6	Audit Query Review & Resolution	
P7: County Corporations & Asset Management			
	SP7.1	County Corporations Oversight, Advisory, Monitoring & Reporting	
	SP7.2	Government Asset Register Development, Management & Reporting	
	SP7.3	Commercial Policy Development, Research and Advisory	
P8: Procurement and Supply Chain Oversight			
	SP8.1	Procurement Compliance and Reporting	
	SP8.2	Procurement Policy Advisory and Support	
	SP8.3	National Projects Procurement Review and Reporting	
P9: Internal Audit			
	SP9.1	Government Internal Audit Service	
	SP9.2	County Audit Committees Resourcing & Support	
	SP9.3	Training & Development - Internal Auditors	
	SP9.4	Internal Audit Legislation Compliance & Enforcement	
	SP9.5	Monitoring, Evaluation and Reporting - Internal Audit	

DEPARTMENT OF SPORTS, CULTURE AND THE ARTS

Responsible for:

Cultural activities, public entertainment and public amenities, including—
(a) betting, casinos and other forms of gambling;
(b) racing;
(c) liquor licensing;
(d) cinemas;
(e) video shows and hiring;
(f) libraries;
(g) museums;
(h) sports and cultural activities and facilities; and
(i) county parks, beaches and recreation facilities.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: Sports		
	SP2.1 Sports Training and Competitions	
	SP2.2 Development and Management of Sports Facilities	
P3: Culture		
	SP3.1 Conservation of Heritage	
	SP3.2 Public Records and Archives Management	
	SP3.3 Cultural Development	
	SP3.4 Promotion of Kenyan Music and Dance	
P4: The Arts		
	SP4. County Film & Arts Festival Services	
	SP4. County Theatre Development & Promotion	

DEPARTMENT OF TRANSPORT, PUBLIC WORKS AND INFRASTRUCTURE

Responsible for:

County transport, including—
(a) county roads;
(b) street lighting;
(c) traffic and parking;
(d) public road transport; and
(e) ferries and harbours, excluding the regulation of international and national shipping and matters related thereto.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: Public Works & Infrastructure Maintenance		
	SP2.2 Maintenance of County Roads and Bridges	
	SP2.3 Maintenance of County Marine Assets	
	SP2.4 Rehabilitation of County Roads and Bridges	
P3: Road Transport		
	SP3.1 Design & Construction of County Roads and Bridges	
P4: Marine (Lake & Sea) Transport		
	SP4.1 Lake Transport Development	
	SP4.2 Harbour Services Management	

DEPARTMENT OF AGRICULTURE, LIVESTOCK AND FISHERIES DEVELOPMENT

Responsible for:

1. Agriculture, including—
(a) crop and animal husbandry;
(b) livestock sale yards;
(c) county abattoirs;
(d) plant and animal disease control; and
(e) fisheries.

6. Animal control and welfare, including—
(a) licensing of dogs; and
(b) facilities for the accommodation, care and burial of animals.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning and Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: Policy, Strategy and Management of Agriculture		
	SP2.1 Agricultural Policy, Legal and Regulatory Frameworks	
	SP2.2 Agricultural Planning and Financial Management	
	SP2.3 Sector Working Group Support & Liaison	
	SP2.4 National Policy Coordination	
P3: Crop Development and Management		
	SP3.1 Land & Crop Productivity Enhancement & Management	
	SP3.2 Irrigation Development and Management	
	SP3.3 Strategic Food Security Service	
	SP3.4 Quality Assurance and Monitoring of Outreach Services	
	SP3.5 Agricultural Research Application	
P4: Agribusiness and Information Management		
	SP4.1 Agribusiness Policy development	
	SP4.2 Agribusiness Market Development	
	SP4.3 Agricultural Information Management	
P5: Fisheries Development and Management		
	SP5.1 Fisheries Policy, Strategy and capacity building	
	SP5.2 Aquaculture Development	
	SP5.3 Management and Development of Capture Fisheries	
	SP5.4 Market Development & Value Addition	
	SP5.5 Research Application	
P6: Livestock Resources Management and Development		
	Livestock Policy Development and capacity building	
	SP6.1 Programme	
	SP6.2 Livestock Production and Management	
	SP6.3 Livestock Products Value Addition and Marketing	
	SP6.5 Animal Health & Disease Management and Control	

DEPARTMENT OF COMMERCE, TOURISM & INDUSTRIALISATION

Responsible for:

Trade development and regulation, including—
(a) markets;
(b) trade licences (excluding regulation of professions);
(c) fair trading practices;
(d) local tourism; and
(e) cooperative societies.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: General Administration Planning and Support Services		
	Administration Services	
	Personnel Services	
	Finance Services	
P2: Tourism Development and Promotion		
	Tourism Promotion and Marketing	
	Local Content Niche Tourism Development	
	Tourism Infrastructure Development	
	Tourism Training & Capacity Building	
P3: Trade Development and Promotion		
	Local Markets Development (AgriProduce, Industrial & Service Sectors)	
	County Trade & Export Markets Development	
	Competition Policy & Consumer Protection	
	Enterprise Training & Development	
	Business financing & incubation for MSMEs	
P4: Industrial Development and Investments		
	Industrial Development and Investment Promotion	
	Industrial Training & Development - Technical College Liaison	
	Industrial Parks & Infrastructure Development	
P5: Cooperative Development	Cooperative Society Development & Promotion	
	Cooperative Policy, Research & Advisory	
	Cooperative Oversight and Compliance	

DEPARTMENT OF EDUCATION

Responsible for:

Pre-primary education, village polytechnics, home craft centres and childcare facilities.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: Early Childhood		
	SP2.1 Childcare Facilities	
	SP2.2 Early Childhood Eductation	
	SP2.3 Nursery Infrastructure and facility development	
	SP2.4 Teacher Training & Curriculum development	
	SP2.5 Quality Assurance and Standards	
P3: Technical Vocational Training		
	SP3.1 Technical Training Colleges Development	
	SP3.2 Technical Accreditation and Quality Assurance	
	SP3.3 Technical Trainers and Instructor Services	
	SP3.4 Curriculum Collaboration with Industry Programme	
	SP3.5 ICT Training in Youth Polytechnics	

DEPARTMENT OF LAND,HOUSING AND URBAN DEVELOPMENT

Responsible for:

County planning and development, including—
(a) statistics;
(b) land survey and mapping;
(c) boundaries and fencing;
(d) housing; and
(e) electricity and gas reticulation and energy regulation.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1: Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: County Information Management Service		
	SP2.1 County Statistical Information Service	
	SP2.2 County Land Information Service	
	SP2.3 National Information Collaboration	
	SP2.4 County Information Warehousing & Technology Management	
P3: Land Survey & Mapping		
	SP3.1 County Land Planning and Spatial Development	
	SP3.2 County Land Survey & Mapping, Boundaries & Fencing Service	
	SP3.3 County Human Settlement Service	
P4: County Urban Planning & Housing		
	SP4.1 Housing Development Agency	
	SP4.2 Affordable Hosusing Programme	
	SP4.3 Urban Planning & Development Agency	
	County Building Construction Standards Enforcement Agency	
P5: Energy Distribution & Regulation Programme	SP5.1 Electricity & Gas Distribution	
	SP5.2 Renewable Energy Development & Distribution	
	SP5.3 Energy Regulation	

DEPARTMENT OF PLANNING

Reonsible for:

Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.

PROGRAMMES	Sub-PROGRAMMES	OUTPUTS/PROJECTS
P1 : Administration, Planning And Support Services		
	SP1.1 Administration Services	
	SP1.2 Personnel Services	
	SP1.3 Finance Services	
P2: County Strategic Planning and Oversight		
	SP2.1 County Integrated Development Planning:	
	SP2.2 County Statistical Information Service (incl, liason with KNBS)	
	SP2.3 Mainstreaming: Gender, Marginalized & Disadvantaged Communities	
P3: Programme Monitoring and Evaluation Office		
	SP3.1 County Integrated Monitoring and Evalaution Service	
	SP3.2 Programme Effectiveness & Efficiency Evaluation Service (WoG)	
	SP3.3 Human Resource Effectiveness Review & Planning	
P4: National Government Liaison and Collaboration		
	SP4.1 County Interest Monitoring Service (WoG)	
	SP4.2 Intergovernmental Programmes & Projects management & Liaison	
	SP4.3 Capacity Building Liaison Service	
P 5: Devolution Advisory		
	SP5.1 Intergovernmental Relations Management (IBEC etc)	
	SP5.2 Legislative & Procedure Protocols Management	
	SP5.3 Research, Negotiation and Review Service	
P6: Public Participation & Consultation	SP6.1 Public Participation Information Service	
	SP6.2 Public Consultation Support and Facilitation Service	
	SP6.3 Public Survey and Monitoring Service	

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Figures

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