CENTER FOR INNOVATIONS IN OPEN GOVERNANCE
Transparency | Participation | Accountability

March 21, 2019

To:

Honorable Speaker, County Assembly of Elgeyo Marakwet

RE: Analysis and Policy options for Elgeyo Marakwet County: Addressing the county's budget deficit.

Center for Innovation in Open Governance wishes to participate in efforts to address the budget deficit identified in the recent County Fiscal Strategy Paper (CFSP), by sharing its analysis, comments and recommendations. The recently County Fiscal Strategy Paper (CFSP) had a deficit of KES 290 million, with proposals for addressing the same. The county assembly declined to approve the fiscal paper and instead returned the same to the executive for review. This has since turned to chase-game between the two arms of government.

Our review of the deficit and proposed measures prompted this submission for consideration by the two arms of government. Considering the possible effects of any misunderstanding between the assembly and executive on this matter on the county's service delivery in 2019/20 and over the medium, we are calling upon the county assembly and the executive to provide leadership and find the most appropriate remedy to the situation.

In this paper, we present several options for your consideration. The options are designed to provide both short and long-term remedies.

Sincerely,

Timothy Kiprono

Executive Director | Center for Innovations in Open Governance

March 21, 2019

CC:

His Excellency, The Governor

County Executive Committee

Committee on Finance and Economic Planning

Department of Finance and Economic Planning

Analysis and Policy Options for Elgeyo Marakwet County: Sustainably addressing the county's budget deficit

Summary

1. Save over KES 150 million by suspending employment and replacement of retiring staff to allow stabilization of the budget. This measure should be complemented with efforts to strengthen local revenue collection. For the time being, the county should utilize internships and rationalization of staff, where possible, to fill staffing deficit in core areas of service delivery during the period.
2. We recommend retention of county executive's proposal to generate KES 120 million from county assembly's O&M. This option entails rationalization of Operations and Maintenance to align with core operational needs. Clearly, operations and maintenance (O&M) costs is the other contributor of the deficit alongside personnel emoluments, however, it is not entirely clear to ordinary citizens what this cost entails and why it matters. Part of the efforts to addressing the challenge is for the county government to explain why and how O&M is crucial component for service delivery to its citizens.
3. Manage flexibility of development and recurrent budget votes. PFM requires 30-70 ratio of development and recurrent budget votes as a minimum, however, in our opinion, it beats logic to safeguard project budgets without proper implementation support. For example, once a dispensary is completed, in the absence of recurrent budget to operationalize (buy drugs and hire nurses etc) the dispensary, it remains a structure that deliver no healthcare.
4. Reducing ward project budget is inevitable, however, as the county assembly and executive consider this possibility, such proposals must be subjected to public participation as demonstration of respect to public voices. Moreover, the county's investments should henceforth be geared towards twin objectives of – service delivery and expansion of the economy to enhance revenue collection capacity.
5. The county should endeavor to bring all stakeholders into the discussion as its aims to arrest the current situation in the short and long-term. Stakeholders, beyond assembly and executive, have critical input. To do this, the county should start by disclosing important information as it revises the CFSP and subsequently through the budget, including personnel numbers and costs, including role of O&M.

Background on County Fiscal Strategy Paper (CFSPs)

6. The County Government of Elgeyo Marakwet submitted its 2019 County Fiscal Strategy Paper (CFSP) to the county assembly for review and approval as per the timelines provided in the PFM Act 2012. Through CFSP the government outlines its plans and strategy for revenue collection and expenditure for the coming year. This forms the basis from which the budget will be formulated by April 30. In any case that the county's budget is likely to be unbalanced i.e. having deficit, the county through this paper also explains how to address the deficit.

Proposal revenue and expenditure for 2019/20

7. The CFSP was accompanied by a memorandum that provided more detailed information on the proposals for the coming year. Our review of the both the memo and the CFSPs show that the county government plans to spend KES 4,848 million **(A)** while revenue target is set at 4,558 million **(B),** meaning the county expenditure is greater that the target revenue by KES 290 million **(C)** i.e. **A-B=C.**

8. In addressing the deficit, the county executive has proposed in the accompanying memo to county assembly, to reduce County Assembly ceiling by KES 120 million (representing 21%) and reduction of ward projects budget to offset the remaining KES 170 million (representing 21%). See annex I for detailed analysis of revenue and expenditure.

9. The County's legislature declined to approve the County's Fiscal Strategy Paper (CFSP) protesting reductions on its own budget ceiling as well as the budget for ward project projects to cater for the deficit. Accordingly, the County Assembly has fourteen (14) days to approve the CFSP – a period which lapsed on March 14, 2019. In essence, the county is yet to have an approved the County's Strategy Paper (CFSP) while way forward from this stalemate is yet to be established.

Which way for Elgeyo Marakwet County Government?

10. As a result, citizens of Elgeyo Marakwet County are looking at possible derailment in service accessing and implementation of their preferred projects in 2019/2020 as it's executive and legislative arms of government endeavor to find a way forward. The big question is: are there better alternatives to the proposals made by the executive to the assembly on how to address the deficit in a manner that citizens of Elgeyo Marakwet County continue to access services?

    We discuss core cost drivers that should be taken into account as the county consider options for addressing the stalemate:

    a. Personnel Emolument (PE) doubled over the period under review, 2013 – 2018, representing an average annual growth of 20%. If not managed, this growth is unsustainable and will continue causing problems to the county's development planning and service delivery over the long-term.
    b. Review assembly ceiling, rationalize and distribute operating costs on the basis of public service delivery needs. Logically, county assembly with total budget ceiling equivalent to 12% of the county's resources envelope, should not be allocated the same O&M budget as the executive, which is charged with the mandate of managing the largest portion of 88% county's resources.
    c. Minimize unnecessary spending. Even as the county endeavor to rationalize it's spending on operations and maintenance (O&M) and personnel emoluments (PE), cost drivers such as travel both for domestic and foreign should be allocated on the basis of need. In the past, such travels are yet to yield notable impact, at least according to the county's fiscal papers. Any travel cost going forward should be clearly justified in the budget including subjecting any justifications to budget for travel, through public participation in efforts to demonstrate impact.
    d. Other unnecessary costs during this period that should be avoided include hiring and replacement of staff. In consideration of the county's ability to raise own revenue and being among counties allocated the least through the revenue sharing formula, the county should endeavor to innovate and spend more efficiently the scarce resources in its possession. One way to innovate is to leverage on short-term staffing by employing interns over permanent employment for the time being as it stabilizes its income and expenditure.
    e. Recover loans & mortgages and, plug the same back in to the budget. In 2017, the county spent over KES 200 million on car loan and mortgages. On the basis of the circular that created the facility, it is time county recovered the loan, at least none of the county fiscal documents discusses this subject.

11. In this section, we discuss our recommended options for consideration. We highly recommend combination of one or more options in order to minimize the impact of the county's efforts to manage the deficit on other parts of the county's budget.

Options		Justifications
1	Suspend employment and replacement of retiring staff for some time preferably up-to three years to stabilize the personnel emoluments costs and strengthen local revenue collection. Utilization of internships and rationalization of staff could provide alternative to fill staffing deficit in core areas of service delivery during the period	Personnel Emoluments (PE) costs for county executive doubled in the period under review. Suspending employment is never a popular option, however, it is the most viable solution to address the current situation, thus saving up-to KES 185 million in 2019/2020. Moreover, it has been applied as an austerity measure across contexts of the world. In addition, Elgeyo Marakwet County's fiscal deficit is largely driven by fast growing personnel emoluments (PE) implying that employment is at the core of this problem. Ideally, the growth of all components of the budget, particularly ongoing costs such as personnel emoluments and O&M should be tandem, however, the county's PE and assembly's O&M has rapidly grown since 2013 and, best way to manage the wage bill and related costs is by managing personnel numbers and related cost drivers.
2	Rationalize Operations and Maintenance (O&M) to align with core operational needs.	First, we agree with the proposed reduction assembly O&M by KES 120 million for the following reasons. a. When, O&M, is viewed as an enabler for executing development, service delivery and oversight functions thus supporting personnel movements, operations and facilitation, it should be rationalized to align with its demand – cost drivers of O&M. b. A quick review of O&M for the county executive indicates fluctuating trends while Assembly's rapidly grew during the period of 2013 - 2018. Therefore, there is need for both the assembly and the executive to justify the need for O&M in a manner that links directly to service delivery. Secondly, O&M costs such as travel amounting as high as KES 180 million in 2016/17 are considered wasteful spending without proper justification of why such travel is necessary and demonstration of impact from past travels, thus the need for rationalization.
3	Manage development and recurrent budget votes, with any proposed reductions in ward budgets to be subjected to public participation.	The executive has made a proposal to reduce budget for ward projects by KES 170 million in efforts to address the deficit in its CFSP 2019, however, no demonstration of attempts was made to consult the public whose input during 2018 ADP public participation informed the content of the ADP. While there is cost implication regarding the option to consult public on any reductions on ward project budgets, including deciding on the projects to eliminate for savings, it is a good practice to respect the voice of the people. This option has to involve high level of transparency, openness and proper explanation of the root causes of the problem to justify the option to cut project budgets and, demonstrate future remedy. Moreover, any reductions should not be used to offset deficit, unless extremely necessary, we recommend reductions to create budget for countywide projects that have the ability to enhance the county's economic and strengthen local revenue generation.
Other options		
O	Recover Car Loans and Mortgage	In 2017/18, according to Controller of Budget (COB), the county spent KES 228 million on car loan and mortgage. None of the recent fiscal documents, including the 2019 CFSP discuss this loan in terms of recovery progress. The repayment should be used to finance the budget as a revenue source.

Annex I: Analysis of revenue and expenditure

Table I: Analysis of Revenue

Revenue by sources	Revenue (millions)
Local Revenue	140
CRA Share	3,782
Conditional Allocation	636
Total	**4,556**

Table II: Analysis of expenditure

Expenditure Items	Ideal budget for 2019	Revenue target	Variance	Proposal
	A	B	C (A-B)	D
Development	1,411			1,241
County Assembly Ceilings	567			447
Personnel Emoluments (PE)	2,363			2,363
Operations and Maintenance (O&M)	507			507
Total	**4,848**	**4,558**	**(290)**	**4,558**

Annex II: Notes on income and expenditure growth trends.

Expenditure

a. Over average, the county's expenditure grew by 97% by 2018/19 i.e. KES 2,531 million in 2013 to KES 4,982 million in 2018.
b. County assembly, as a cost center had the highest expenditure growth of 268% from base (2013) while development expenditure for the executive increased by 152%.
c. Personnel emoluments increased by 99% over the same period. While collective bargaining agreements (CBAs) contributed to the increases, considerable PE costs have largely been driven by additional staff numbers to staff numbers inherited from local authorities.
d. In contrast, operations and maintenance (O&M) for the executive decreased by 35% in the same period. Normally, O&M is an enabling cost driven by execution of development plans and personnel costs demands – the higher the personnel, demand for executing development projects and service delivery, the higher the O&M goes. See annex II for expenditure growth across individual cost centers.

Revenue - revenue represents the income from which the expenditure described above is funded. For a balanced budget, the revenue growth should be equivalent to the expenditure.

a. Over the period under review, the county has had three (3) main sources of funding – CRA share, which is an equitable transfer from national government; own source revenue and conditional grants[1].

b. On average, this represents 84% revenue growth rate – 13% slower than expenditure growth over the same period. However, since the county has had no deficit before, this variation can be explained by unspent balances which are normally carried forward to the coming year.

c. CRA share and local revenue grew by 58% and 53% respectively, while the conditional grants and donor support amounted to KES 1,569 million from zero base in 2013. See annex II for growth across individual sources.

Table 3: revenue growth (figure and percentage since 2013 – 2018

Revenue source	2013 (base year)	2014/15 (millions)		2015/16 (millions)		2016/17 (millions)		2017/18 (millions		2018/19 (millions)		Cumulative growth 2013-2018	
CRA Share	2,392	453	19%	347	12%	337	11%	91	3%	148	4%	1376	58%
Local Revenue	85	28	33%	15	13%	-31	-24%	5	5%	28	27%	45	53%
Conditional Grants	0.00	18	100%	117	650%	63	47%	363	183%	96	17%	657	0%
Total	**2,477**	**499**	**20%**	**479**	**16%**	**369**	**11%**	**459**	**12%**	**272**	**6%**	**2078**	**84%**

Table 4: expenditure growth (absolute figures and percentage) in expenditure since 2013 – 2018

Cost Centers	2013/14 (Base Year)	2014/15 (millions)		2015/16 (millions)		2016/17 (millions)		2017/18 (millions		2018/19 (millions)		Cumulative growth 2013-2018	
County Assembly Ceiling	154	223	145%	52	14%	38	9%	0	0%	100	21%	413	268%
County Executive	765	595	78%	-244	-18%	157	14%	88	7%	563	41%	1159	152%
PE (wage bill) Executive	1,074	206	19%	400	31%	101	6%	140	8%	220	11%	1067	99%
Operations & Maintenance (O&M)	538	-102	-19%	6	1%	-76	-17%	-118	-32%	102	41%	-188	-35%
Total	**2,531**	**922**	**36%**	**214**	**6%**	**220**	**6%**	**110**	**3%**	**985**	**25%**	**2451**	**97%**

Annex IV: General recommendations

The county should endeavor to bring all stakeholders into the discussion as its aims to arrest the current situation in the short and long-term. Stakeholders, beyond assembly and executive have critical input and could contribute to the efforts to strengthen the county's resource bases and avoid future cash crisis. To bring stakeholders on board, the county should start by:

[1] Conditional grants are funding meant for specific functions that the county has no discretion to reallocate. The county had no grants in 2013.

1. Disclosing all personnel numbers across departments and county assembly according to job groups and salary scales. In doing so, explain the areas of greater personnel needs to inform stakeholder input and deliberation on best way forward.
2. Disclosing and clearly explaining the role and needs for operations and maintenance (O&M) costs in delivering public services.
3. Reviewing its development planning to address service delivery while enhancing revenue generation. this means that the county's law, Equitable Development Act (EDA) 2015 should be reviewed.