HERU
HEALTH ECONOMICS RESEARCH UNIT

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How are county health budgets formulated and how does this influence efficiency?

Policy Brief - November 2022

Introduction

County managers formulate budgets by identifying health sector priorities and allocating financial resources to these priorities. Well formulated budgets can enhance the attainment of health system goals, while weakly formulated budgets compromise the subsequent steps in the budgeting cycle (budget implementation and monitoring) and ultimately health system goals. KEMRI Wellcome Trust carried out a study to examine how the budget formulation process for the health sector at the county level influences the efficiency of county health systems. The study was conducted at the national level and in four counties and collected data using document reviews and qualitative interviews with 70 participants drawn from county finance and health departments, national finance and health ministries, and development partners.

Key Messages

- County health budget ceilings were sometimes determined historically, not communicated to sub-county health budgeting units, and were insufficient
- Counties continued to develop and implemented line-item budgets despite the PFM law requirement for programme - based budgets, and budgets were misaligned with annual work plans
- The county health departments funding was fragmented. Donor support was characterized by off-budget funding, and funding flows to the department were multiple
- The involvement of health facility managers, frontline health workers, and the community in the budgeting process was inadequate
- The priority setting process for developing county health budgets inadequately used evidence, but rather was based on informal considerations such as lobbying
- Budgets that were developed by the county health department were reprioritized by the county treasury, the county executive, and the assembly at the approval stage, disempowering county health managers from influencing county health priorities

Key Findings

The Budget Formulation Process

Figure 1 outlines the budget formulation process in the public sector in Kenya. Kenya's fiscal year starts on the 1st of July and ends on the 30th of June of the next calendar year. The county treasuries release the budget circular by 31st August of every year marking the beginning of the budget formulation process. The budget circular contains key activities and deadlines for the budget process. The department of finance is also required to submit the Annual Development Plan (ADP) to the County Assembly (CA) and a copy to the commission on revenue allocation by 1st September. The county ADP consolidates sector/departmental ADPs. The department of finance then prepares the County Budget Review and Outlook Paper (CBROP) which is then submitted to the county executive committee (CEC) and CA by 30th September. The CBROP should be published by November. The CBROP assesses the performance of the previous financial year, and makes projections, including proposed budget ceilings, for the next financial year.

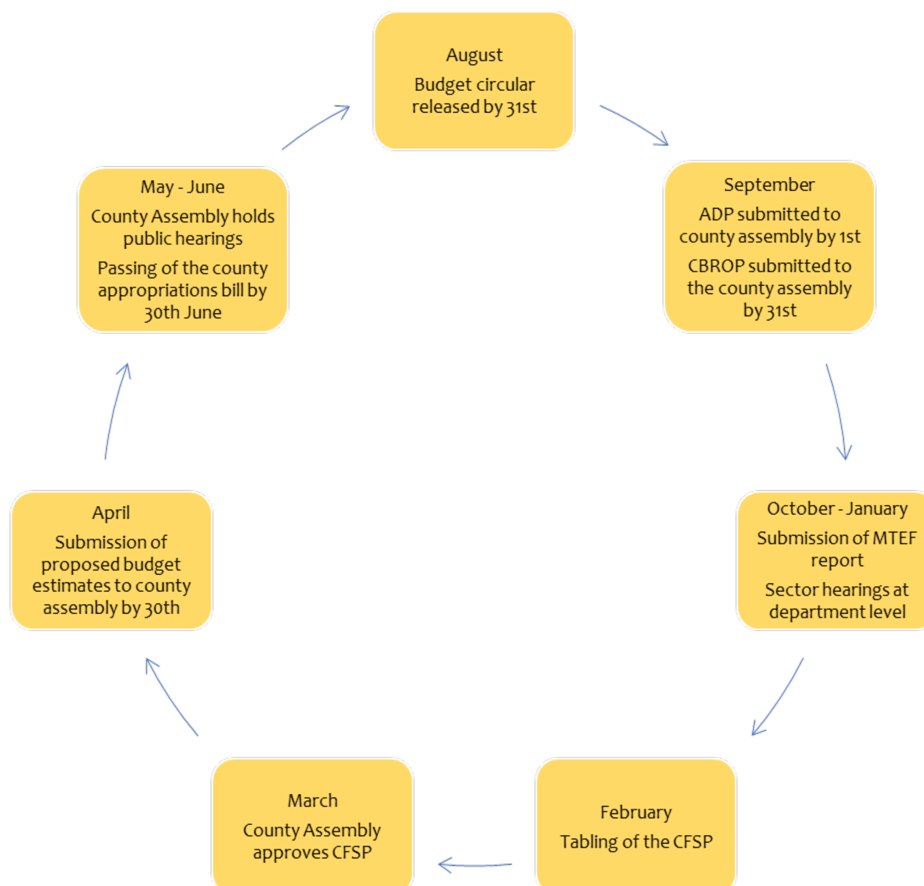

***Figure 1:** The budget formulation process in Kenya*

Thereafter, the various sectors, through the Sector Working Groups (SWG) in the county are to prepare the medium-term expenditure framework (MTEF) budgets which identifies priorities in the medium term (3years). The departments should then hold sector hearings where they incorporate public views in the MTEF, thereafter submit it to the department of finance as the final MTEF. By 28th February, the department of finance develops the County Fiscal Strategy Paper (CFSP) to the CA. The CFSP contains the final indicative budget ceilings to the department. The CA is to approve the CFSP by 14th March. Thereafter, this is released to departments who are to develop budgets based on the ceilings and provide proposed budget estimates to the department of finance. The department of finance should then compile the proposed estimates and submit them to the CA together with the supporting documents by 30th April. Between May and June, the CA budget appropriation committee should then conduct public hearings of the proposed estimates. Thereafter the CA is required to approve the estimates by 30th June, becoming the approved budget.

Budget ceilings were based on historical allocations, were not made available to sub-county and health facility managers, and were insufficient

Historical budget ceiling influenced county health system efficiency by making the budgeting process non-responsive to evolving county health system priorities. When ceilings are not provided to sub-county and health facility managers, budgets were not aligned with the reality of resource availability. When ceilings are insufficient, they compromised efficiency by constraining health system investments and hence health system input mix with negative implications for health outcomes.

Persistence of line-item budgeting

The PFM act required that programme budgets are developed. Counties developed programme - based budgets that were approved. However, counties then developed line-item budgets that were implemented in practice. The use of line-item budgets led to budget rigidities which limited the capacity of counties to respond to emergent healthcare needs.

Health sector budgets were not aligned with sector annual work plans

Health sector budgets were not always aligned with annual plans in terms of identified priorities, resources available, and allocation of resources across identified priorities. The misalignment between budget and plans meant that budgets did not adequately represent health sector priorities, which could compromise allocative efficiency.

Frontline service providers and the community were inadequately involved in the budget formulation process

This contributed to the misalignment of budgets with population health priorities and limited budget accountability, with implications for both technical and allocative efficiency.

County health funding was fragmented and donor funding to county health departments were predominantly off budget

The county health department received funding from multiple, fragmented sources including exchequer allocations, county own source revenue, and donor support. This this led to fragmented decision-making for budget priorities and increased the accountability load of county health managers. Further, Off-budget donor funding compromised health sector planning and led to duplication of efforts which compromised the technical efficiency of county governments.

The budget formulation processes were dominated by informal priority setting criteria such as lobbying

The priority setting process used to develop county budgets was not adequately informed by evidence. Priorities for the recurrent budget were decided based on historical expenditure and lobbying, while priorities for development budget were set based on demands from political leaders which had a bias towards visible infrastructure expenditure that enhanced positive citizen perception about their performance as politicians. This compromised allocative efficiency of health systems by compromising the optimal allocation of heath sector resources.

The county treasury and county assembly often revised the budgets without reference to the county department of health

The reprioritization of budget by the county assembly at the approval stage without reference to the county department of health disempowered health sector stakeholders. This had the potential of misaligning final budgets with health sector priorities and hence compromising both technical and allocative efficiency.

Recommendations

- Budget ceilings should be determined, among others availability of resources, and county health needs rather than historical allocation
- County governments should adopt explicit and evidence - based criteria for determining county health priorities
- County governments should explore strategies to mobilize and allocate sufficient budgets to the health sector, aligned with county health needs
- County government should transition to implementing programme-based budgets, in line with the requirement of the PFM laws
- County government should strengthen the engagement and participation of frontline service providers and the community in the budgeting process. These stakeholders should be included, sensitized, and provided with adequate information to participate in budget formulation
- County government should explore mechanisms for consolidating county health budgets. options include introducing basket funds to pool donor funds to a common pool
- County governments should ensure that budget re-prioritizations are done in consultation with county health departments to ensure that priorities are not misaligned

About this Work

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- Musiega A, Tsofa B, Nyawira L, Njuguna RG, Munywoki J, Hanson K, Mulwa A, Molyneux S, Maina I, Normand C, Jemutai J, Barasa E.Examining the influence of the budget formulation structures and processes on the efficiency of County health systems in Kenya. *medRxiv* 2022

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