THE
PUBLIC FINANCE CONFERENCE
2024 | SETTING THE AGENDA

SESSION PAPER NO. 2

Prioritizing Health in Public Budgets

This session paper sets the context for a discussion to convene policymakers, county officials, and key health sector stakeholders to deliberate the systemic and operational challenges in financing Kenya's healthcare system. The discussions will be framed within the broader context of public financial management reforms to ensure sustainable and efficient healthcare financing.

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Background

In recent years, public finance debates and policies have centered around macroeconomic issues, as the country contends with constrained fiscal space, economic shocks, and high debt servicing obligations. As a result, for example, debt servicing being the first charge has crowded out available resources towards essential service delivery areas, particularly in sectors like healthcare and education, which are crucial for the country's poor and marginalized populations. This makes it imperative to continually assess how macroeconomic decisions impact the funding and provision of these basic services.

With the government's introduction of austerity measures in the national budget, public discourse is needed to ensure a fair balance between fiscal consolidation and the protection of key services. The impact of such reforms could lead to lowered investments in such crucial sectors. For example, in the first supplementary budget for 2024/25, the budget for the State Department for Medical Services was cut by 7% which was equal to Ksh 7 billion. In the healthcare sector, reforms aimed at achieving universal health coverage (UHC) have reorganized the system, creating new structures to improve access, quality, and cost-efficiency. A central question is how these reforms will be sustainably funded, particularly in light of budget cuts. Additionally, how will the two levels of government, national and county, coordinate to safeguard critical health services and ensure efficient execution of approved budgets?

In addition, there are challenges that have faced the health sector over the years such as slow disbursement of funds, reversals of priority funding through supplementary budgets, slow adoption of programme-based budgets and PFM reforms such as the Treasury Single Account that could affect facility level autonomy.

Objectives of the Session

The session aims to bring together policymakers, county officials, and health sector stakeholders to address the systemic and operational challenges in Kenya's healthcare financing under the broader umbrella of public financial management reforms. The goal is to ensure that despite fiscal constraints, key services like healthcare continue to receive adequate funding and support while fostering better collaboration between national and county governments. By the end of the session, participants should have a clearer understanding of the obstacles in healthcare financing and practical solutions to address them in the current fiscal environment.

- **Provide insights into how macroeconomic and fiscal policies impact essential service delivery, particularly in health, under Kenya's current fiscal challenges.**
- **Encourage discussions on the effects of austerity measures, delayed disbursements, and reforms in healthcare financing.**
- **Generate actionable recommendations for improving inter-governmental collaboration, efficient budget allocation, and addressing systemic issues like delayed disbursements and pending bills that affect service delivery.**

Key Themes to be Discussed

THEME ONE: Inter-governmental Disbursements

The consistent delays in national government equitable share transfers to county governments and the long and complicated approval and procurement processes, delay service delivery in the

health sector in counties and result in increasing pending bills. In a news report in the Business Daily of 15th September 2024, the Treasury had not released Kshs 100 billion to counties, being July, August and September 2024 disbursements, paralyzing county operations. The PFM Act 2012 has provided for the National Treasury to, at the beginning of every quarter, and in any event not later than the fifteenth day from the commencement of the quarter, disburse monies to county governments. A schedule for disbursement by the national treasury in consultation with the intergovernmental budget and economic council (IBEC) and approved by the senate is not followed/enforced. Pending bills continue to mount and paralyze service delivery in the country.

A business daily report on 16th September 2024 indicated that pending bills are estimated at Kshs 665 billion. A report by the Senate in May 2024 showed that county governments owed supplies Kshs 156 billion. KEMSA, for example, is owed in excess of Kshs 2.8 billion (as of June 2, 2024) by county governments crippling KEMSA's ability to meet counties essential medicines and supplies needs. KEMSA's order fill rates have remained at just about 50% for the last three financial years. All this is despite there being frameworks, regulations and laws that govern the management of debt and guide the procurement process.

The national government and county government PFM regulations provide that debt service payments shall be a first charge on the consolidated fund and CRF, that the accounting officer shall ensure that this is done to the extent possible and that the governments shall not default on their debt obligations. The Public Procurement and Asset Disposal Act (PPADA) section 53(8) provides that the accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

THEME TWO: Supplementary Budgets

The budget-making practices at the county governments are still evolving and numerous opportunities exist to improve the accuracy of county budgets and forecasts. Meanwhile, to ensure that county expenditure aligns with (new) revenue targets, supplementary budgets are developed and sometimes have adverse effects on health priorities, e.g., a reduction of the health products and technologies budget allocation to align with new (reduced) revenue targets. In FY 2022/23, all 47 counties developed supplementary budgets, with 30 counties having 2 supplementary budgets within the financial year and 4 counties having 3 supplementary budgets within the financial year. Between FY 2013/14 to FY 2021/22, counties achieved an average of 63% of their own source revenue targets. (Enhancing Own Source Revenue Collections Across Counties in Kenya. KIPPRA January 2024)

The Constitution, PFM Act (2012) and PFM regulations provide conditions for preparing and approving the supplementary budgets, limiting spending to 10% of the appropriated amount unless special circumstances arise as well as details on the impact of budget revisions on fiscal discipline as well as adherence to the 10% limit upon revision. (Progress and challenges in the transparency of supplementary budgets. IBP. May 2024).

Given the frequent use of supplementary budgets by counties and their impact on critical sectors like health, how can we strengthen county-level financial planning revenue forecasting and collections to reduce the need for multiple budget revisions and shifting of health priorities? Furthermore, what mechanisms can be put in place to ensure that when supplementary budgets are necessary, they adhere to legal limits and maintain transparency without compromising essential services or long-term development goals? What guidelines would need to be developed to protect critical sectors like health from frequent budget reallocations?

THEME THREE: Budgeting for the Future?

There are no interoperable systems that link financial resources allocated to programs and outcomes from such allocations. In Kenya, IFMIS is the national financial reporting system where national and county government revenues and expenditures are accounted for. KHIS is

a comprehensive source of health service delivery data. Current budget practice still relies on the line-item format. Program-based budgeting on the other hand organizes the budget around programs with clear objectives, indicators and expected outcomes.

How can we effectively bridge the gap or link financial allocation systems like IFMIS and outcome tracking systems like KHIS to create a more robust, interoperable framework that aligns program-based budgeting with measurable health outcomes? What steps are needed to fully transition from line-item budgeting to a fully integrated program-based approach that enhances accountability and allows for data-driven decision-making in public health financing? How can national and county health managers be capacity-built to understand and mainstream the program-based budget approach?

THEME FOUR: Transition from cash accounting to accrual accounting and the Treasury Single Account

The national government is now rolling out accrual-based accounting, a significant shift that will now record transactions when they are earned (for revenues) or incurred (expenditures). Currently, the government uses a cash accounting system that records transactions when cash is received or paid out. In addition, the PFM Act 2012 has provided for the establishment of a treasury single account at both national and county levels. How will these reforms affect health facility recognition of claims revenue from SHA? Will facilities incur expenditures based on income earned given that the FIF Act 2023 requires that expenditure in a health facility shall be based on, and limited to the available funds in the bank account? How will the rollout of the treasury single account affect how own source revenue funds will flow to facilities, especially now that the FIF Act 2023 has provided for health facilities to retain and utilize funds through their facility bank accounts?

THEME FIVE: Facility Own Source Revenues & Expenditure accounted for as Appropriations in Aid

The recently passed FIFA 2023 provides that counties reflect their facilities' revenue collection as appropriations in aid (A in A) in the county budget implementation review report. Further, the Act provided that an integrated financial management system be the primary accounting platform for county entities. Health facilities have been defined as county entities in FIFA 2023. FIFA 2023 now provides that facilities shall retain 100% of all the revenues generated and shall utilize those funds to defray their operational expenses.

In addition, FIFA 2023 requires health facilities to open bank accounts to receive revenues raised or collected and defray expenses from these accounts. Health department accounts have argued that for them to account for revenues and expenditures arising from health facilities as A in A in their budgets, and to ensure that facility expenditures are accounted for and reflected in the county budget implementation review report, funds should be deposited into and spent from the county revenue fund (CRF). What procedural requirements in IFMIS are required for counties to account for monies spent at source (facility bank accounts)? What are the interpretation challenges that need to be clarified to ensure facility revenues and expenditures are accounted for in IFMIS as A in A.

THEME SIX: Minimum of 30% allocation for Development

The PFM Act 2012 Section 107(2)b provides that over the medium term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure. In addition, section 107(2)c provides that the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly. In the health sector, counties typically spend at least 70% of their budgets on salaries and wages leaving very little for essential medicines and supplies, operations and development budget. How can county governments design and implement effective regulations to ensure compliance with the PFM Act 2012's provisions on budget allocations while addressing the unique challenges of the labor-intensive health sector? What support can the national treasury provide to

county treasuries to implement and enforce those guidelines?

Expected Outcomes of the Session

1. Harmonization of all the approaches to the disbursement of funds to the frontline healthcare provision. There are multiple laws, guidelines and policies that are sometimes in contradiction of each other. There is a need to set up a team made up of different stakeholders to review all disbursement and facility-level funding policies and ensure they are supportive of the autonomy as highlighted in the Facility Improvement Financing Act 2023.
2. Implement safeguard mechanisms within the budgeting process, specifically targeting healthcare and other essential services, to shield them from arbitrary cuts during supplementary budgeting. This can be done through a review and adjustment of the processes of preparation and approval of supplementary budgets as expounded in the Constitution and the PFM Act to protect reversals in basic services.
3. Build county capacity to adopt program-based budgeting fully and link financial allocations to outcomes, especially in health. Encourage data-sharing between systems like IFMIS and KHIS to monitor budget performance.
4. Clarify the operational aspects of the TSA at the county level, ensuring that health facility autonomy is preserved while adhering to PFM reforms. Develop specific guidelines for health facilities on how to manage revenues and expenditures under TSA.