Institute of Economic Affairs

COUNTY BUDGET FOCUS

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Analysis of Kisumu County First Quarter and Second Quarter of 2021/22 Budget Implementation Report

Executive Summary

Overall budget implementation for the two quarters (July-December 2021) for Kisumu County was below 50% as would have been expected, albeit an improvement from the same period in the previous year. During this period, spending relative to annual budget was 33%, driven by recurrent expenditure, particularly spending in salaries and wages. Kisumu County adhered to fiscal rules in planning and budgeting by ensuring that at least 30% of the annual budget was set aside for development projects. However, the ratio of budgeted salaries and wages budget to county revenue was above the recommended 35% limit by five percentage points. By the end of quarter two of 2021/22, this ratio had deteriorated to 66%, thus a squeeze on availability of non-wage recurrent expenditure, particularly operations and maintenance expenditure. Consequently, this reduces availability of funds to cover running cost for existing development projects, thus negatively affecting their longevity.

The biggest challenge by end of Q2 of 2021/22, similar to the same period in the 2020/21 is the significantly low uptake of development budget, at 40% off the target. By the end of quarter one of 2021/22, there was no spending on development budget. As a result, the ability of the County to complete budgeted development project going forward is compromised, increasing risk of poor development outcomes for the citizenry.

The challenges in budget credibility are largely attributed to delays in timely release of funds to spending units. Low uptake of budgets in quarter one for instance mirrors low transfer of equitable share grants and collection of own source revenue by the County. This situation is made worse by the fact that no conditional grants from both the national government and development partners was budgeted for 2021/21 owing to delayed approval of the Conditional Grants Bill, 2021 in April 2022, two months before the end of the financial year.

To this end, the IEA-Kenya proposes:

(i) National Treasury should maintain realistic revenue projections in order to ensure timely release of funds to counties and in turn improved predictability of funds.

(ii) Increased civil society advocacy for the county executive to adhere to openness and transparency in provision of county quarterly budget implementation reports as well as their adherence to fiscal responsibility principles in budgeting and spending.

(iii) The County Assembly to sanction the County Treasury on these principles especially where there is no explicit explanation for non-adherence or a plan of how to stay on track in adherence to these principles.

(iv) The Senate should only approve cash disbursement schedule for Counties that reflects reality in monthly national revenue collection.

(v) The County Treasury should align its annual work plans and cash flow projections to seasonality in their revenue collection. Relatedly, the county should exploit the potential of revenue collection from property tax and strengthen administrative revenue collection system towards increased mobilization of own source revenue.

(vi) The County Treasury should consider the seasonality in OSR collections in designing annual work plans and cash flow projections in order to improve on the timing of the release of funds as this leads to improved service delivery.

1.0 Introduction

The Office of the Controller of Budget (OCoB) is mandated under Article 228(6) of the Constitution of Kenya, 2010 and section 9 of the Controller of Budget Act, 2016 to prepare quarterly budget implementation review reports (BIRR) for both the national and county governments. Every four months the county governments BIRR is submitted to the Senate and County Assemblies for their review and scrutiny as part of discharging their oversight role. The County Treasury consolidates quarterly financial statements on implementation of annual county budget as part of their role to monitor, evaluate and oversee management of public finances and economic affairs of the county government. It is these reports that feed into preparation of the OCOB quarterly BIRRs. However, unlike the OCoB who make these reports[1] available to the public in fulfillment of Constitutional requirements regarding public access to information, Kisumu County does not make their Quarterly Budget Implementation Reports publicly available[2].

[1]Available via https://cob.go.ke/reports/consolidated-county-budget-implementation-review-reports/

[2]https://internationalbudget.org/wp-content/uploads/CBTS-2021-County-Summaries-FINAL.pdf

The aim of quarterly budget implementation reports is to assess revenue collection and expenditure of public entities and to highlight status of budget implementation and challenges to effective budget execution.

The IEA-Kenya in partnership with the National Democratic Institute (NDI) synthesizes first quarter (Q1) and second quarter (Q2) of 2021/22[3] BIRR for Kisumu County as part of a joint project titled "Financial Transparency and Accountability".

In this analysis, the objective is to establish whether budget implementation is progressing according to the approved budget. Whereas in practice budgets may not always be implemented exactly as they were approved, this analysis will attempt to explain any significant gaps that may raise credibility issues.

This brief will form a series of analysis and insights that the IEA-Kenya will generate, intended for public education and policy discourse. Ultimately, this is expected to enhance citizen participation and advocacy in closing the accountability loop of the budget cycle.

1.1 County Financing and Funds Flow

To understand and interrogate the BIRRs, it is important to lay out the framework of how counties are financed and how the funds that are generated are disbursed (flow of funds). This process is well provided for in the chapter on Public Finance chapter in the Constitution of Kenya, 2010, with details laid out in the Public Finance Management Act, 2012.

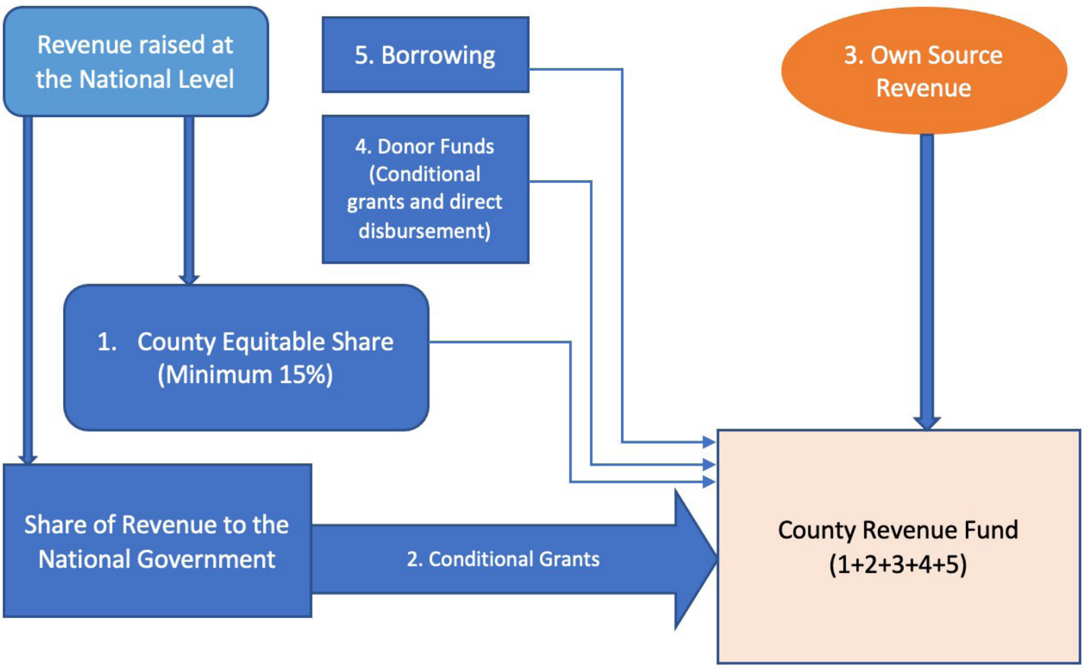
According to the Constitution, counties are entitled to receive an equitable share grant. Article 203(2) of the Constitution specifies that for every financial year, county equitable share grant shall be not less than 15% of nationally-collected revenue based on the most recent audited accounts of revenue as approved by the National Assembly. Equitable share grant is an unconditional transfer and constitutes the largest source of revenue for counties. As an unconditional transfer, counties can spend these funds as they choose (they have autonomy) to deliver on their mandate.

Equitable share grant to all counties is determined during the annual division of revenue process. The annual Division of Revenue Act (DoRA) is the mandatory legislation that provides for equitable division of national revenue between the national and county governments (vertical sharing). The DoRA is based on proposals by the Commission on Revenue Allocation (CRA) and the National Treasury, debated and approved by parliament to arrive at the quantum of funds to be shared. On the other hand, the annual County Allocation of Revenue Act (CARA) provides for the horizontal sharing of equitable share grant to each of the 47 counties every year based on a CRA approved technical formula.

[3]The Government of Kenya financial year begins in 1st July and ends on 30th June of the next year. Q1 covers the period July to September 2021 and Q2 from October to December 2021./

Besides the equitable share, the national government transfers money to the counties through conditional grants as funds through an individual line ministry. For example, funds to level 5 hospitals, that are county based is transferred from the Ministry of Health. Funds from development partners (donors) channeled either directly to counties or through the National Treasury, is another type of conditional grants. Unlike the equitable share grant, conditional grants are used for specific purposes, and in some cases, the respective national line ministry retains some control of how funds are spent.

Figure 1: Sources of Funds for County Governments



Source: (The World Bank 2012); with author's modification).

*Note: The figure excludes the equalization funds as these are funds not directly managed by the county governments.

Own-source revenue (OSR) is generated directly by the counties themselves from local taxes (property and entertainment taxes) and through levies or user charges, for example, counties charge for provision of car parking services, business permit, fees for advertisement, market cess and so on. Borrowing[4] is another source that is yet to fully take off. Figure 1 presents a lay out of the different sources of funds for county governments. The aggregate of funds from sources 1, 2, 3 and occasionally 4 is what constitutes a county's revenue envelope. The Equalization Fund is excluded from the figure as it is not a source of funds directly controlled by the counties[5].

[4]Policy debate on the opportunities of borrowing is exemplified by the recently approved issuance of infrastructure bond by Laikipia County.

[5]Equalization fund is established under Article 204(1) of the Constitution as one-half percent of all the revenue collected by the national government each year calculated based on the most recent audited accounts of revenue received as approved by the national assembly. The Equalization Fund is used by the national government to equalize development in counties so that they can converge around the national average level of services across the country in basic services such as health, roads, electricity, etc. 14 counties were identified as marginalized: Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo, and Lamu based on marginalized policy criteria developed by the Commission on revenue Allocation (CRA).

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties are deposited in their respective County Revenue Fund[6] (CRF), a holding account at the Central Bank of Kenya. OSR collections as provided for in the law, are supposed to be remitted to the CRF but this does not always happen in practice as will be discussed in subsequent sections of this analysis. For counties to execute their budgets, the OCoB approves withdrawal of funds from the CRF to County operational accounts held at commercial banks, through a process known as exchequer issue. At the end of every financial year, all unspent funds (cash balances), again as legally provided, ought to be remitted to the CRF. In the following financial year, counties capture these cash balances as balance brought forward (balance b/f), a new source of revenue.

The following section presents an overview of Kisumu Budget for 2021/22 in comparison to 2020/21 against actual spending in Q1 and Q2. This is followed by an analysis of expenditure trends, high level expenditure performance in comparison to the 47 counties and performance across sectors and drivers of this performance. The final part of the analysis presents factors that explain budget execution by the end of Q2 of 2021/22 and concludes with recommendations.

1.2 Kisumu County Budget Overview and Quarterly Performance

Table 1 summarizes movement of revenue and expenditure in Q1 and Q2 against Kisumu County's annual budget for 2021/22 compared to the same period in 2020/21.

The revenue that is realized is supposed to finance expenditure for Kisumu County government. Generally, expenditure is divided into recurrent and development (expenditure mix). Recurrent expenditure is used for the day-to-day spending or expenses by counties to conduct normal operations such as payment of salaries and wages (compensation to employees), purchase of goods and services for current consumption, and for operations and maintenance. Development expenditure on the other hand is spent on capital items or fixed assets such as land buildings, construction of roads, equipment and so forth intended to generate income in the future.

Table 1: Comparison of Cumulative Quarterly Budget Performance for 2021/22 and 2020/21

	2020/21					201/22				
		Q1		Q2			Q1		Q2	
	Annual Budget (Ksh mn)	Actual (Ksh mn)	Perfo-mance (%)	Actual (Ksh mn)	Perfor-mance (%)	Annual Budget (Ksh mn)	Actual (Ksh mn)	Perfor-mance (%)	Actual (Ksh mn)	Perfor-mance (%)
Revenue										
Equitable revenue share	6,838.3	0	0.0	2,256	33.0	9,442.7	1438.7	15.2	3,447.7	36.5
Conditional grants from the N.G.	804.9	0	0.0	0	0.0	0	0	0	0	0
Loans and grants from Development Partners	2,335.4	0	0.0	110.2	4.7	0	0	0	0	0

	2020/21					201/22				
	Annual Budget (Ksh mn)	Q1		Q2		Annual Budget (Ksh mn)	Q1		Q2	
		Actual (Ksh mn)	Perfo-mance (%)	Actual (Ksh mn)	Perfor-mance (%)		Actual (Ksh mn)	Perfor-mance (%)	Actual (Ksh mn)	Perfor-mance (%)
Own source revenue (OSR)	1,579.2	122.6	7.8	247.6	15.7	1,984	143.2	7.2	439.2	22.1
Balance b/f	968	657.6	67.9	657.6	67.9	719.5	719.5	100.0	719.5	100.0
Other revenue	254.5	0	0.0	0	0.0	0	0	0	0	0
Grand Total Revenue	**12,780.3**	**780.2**	**6.1**	**3,271.4**	**25.6**	**12,146.2**	**2,301.4**	**18.9**	**4,606.4**	**37.9**
Expenditure										
Total Recurrent Expenditure	8,025.4	1,414.5	17.6	2,947.6	36.7	8,439.2	1,237.8	14.7	3,731.5	44.2
Of which Compensation to Employees	5,081.6	1,255.8	24.7	2,273.8	44.7	4,856.9	1,072	22.1	2,674.9	55.1
Of which Operatition and Maintenance	2,943.8	158.7	5.4	673.8	22.9	3582.3	165.8	4.6	1,056.8	29.5
Development Expenditure	4,754.9	393.8	8.3	993.8	20.9	3,706.9	0	0.0	321.6	8.7
Grand Total Expenditure	**12,780.3**	**1,808.3**	**14.1**	**3,941.4**	**30.8**	**12,146.1**	**1,237.8**	**10.2**	**4,053.1**	**33.4**

Source: Various Issues of OCoB County Governments Budget Implementation Review Reports, FY 20/21 and 21/22

Kisumu County's annual budgets for the two financial years are balanced. The targeted overall expenditure of Ksh 12.1 billion in 2021/22 and Ksh 12.8 billion in 2020/21 were respectively matched by anticipated overall revenue receipts (see table 1) In other words, the funds that Kisumu expects to receive and raise from the different sources of revenue as shown in table 1 are sufficient to meet its budgetary needs (expenditure). This is a first good step to ensure proper management of public resources.

By the end of Q2 of 2021/22, Kisumu County had received and raised Ksh 4.6 billion, about 37.9% of its annual estimated revenue. The main sources of revenue received came from transfer of equitable share grant portion (37% of annual target); own source revenue (22.1% of annual target) and the entire quantum of balance b/f. For instance, actual receipts from equitable share by end of Q2 of 2021/22 went up by 53% from the same period in 2020/21.There however were no receipts from conditional grants (both GoK and development partners). Therefore, Kisumu County budget for 2021/22 did not factor any conditional grants as a source of revenue and neither did any of the other counties owing to delays in approval of the Conditional Grants Bill, 2021[7].

[7]Equalization fund is established under Article 204(1) of the Constitution as one-half percent of all the revenue collected by the national government each year calculated based on the most recent audited accounts of revenue received as approved by the national assembly. The Equalization Fund is used by the national government to equalize development in counties so that they can converge around the national average level of services across the country in basic services such as health, roads, electricity, etc. 14 counties were identified as marginalized: Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo, and Lamu based on marginalized policy criteria developed by the Commission on revenue Allocation (CRA).

Notably, revenue performance (ratio of revenue received/raised to annual revenue target) in the first half year of 2021/22 was a marked improvement compared to revenue performance of 25.6% for the same period in the prior year. Nevertheless, in the two financial years revenue receipts by the end of Q2 were below the expected target of 50%[8].

On the other hand, overall expenditure performance was Ksh 4.1 billion by the end of Q2 of 2021/22, about 33.4% of annual budget. This is an improvement from 30.8% over the same period during the previous year. Expenditure performance was fueled by recurrent expenditure, more particularly salaries and wages.

Comparatively, spending in the first half year of 2021/22 against annual budget was significantly lower than first half year revenue receipts against annual target. Nevertheless, it is encouraging to note that Kisumu County's overall revenue and expenditure performance picked up in Q2 after a dismal performance in Q1 of 2021/22.

Further details explaining the movement of revenue and expenditure and its implications on budget execution are presented in subsequent sections of this analysis.

1.3 Expenditure Trends

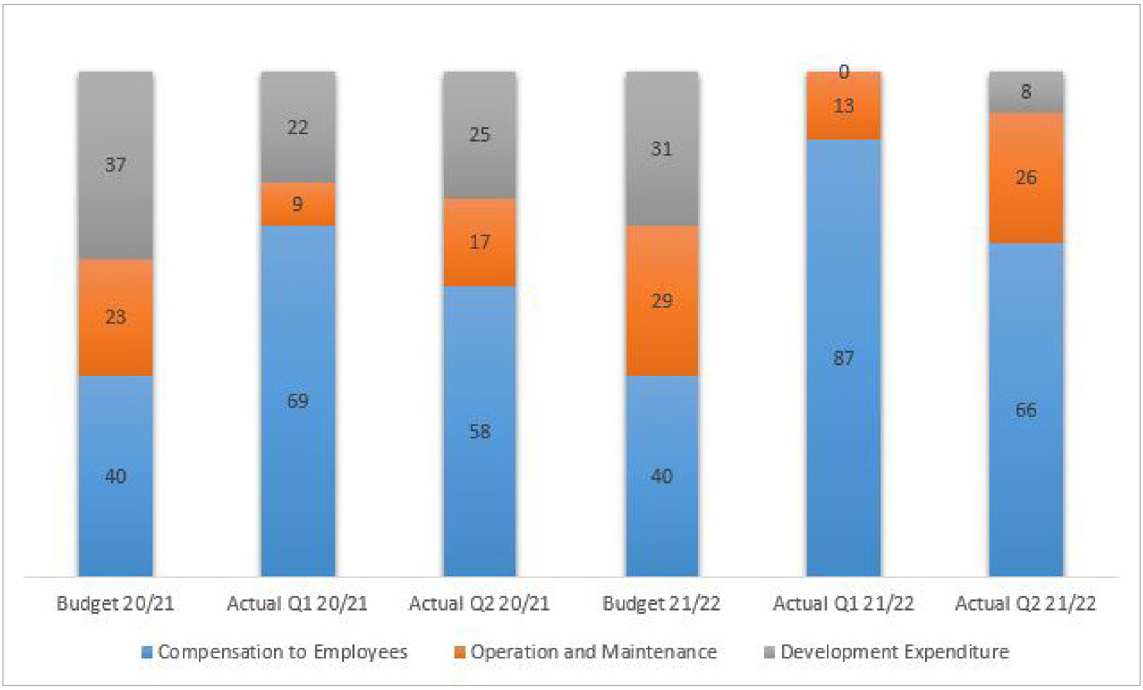
The budget for Kisumu County went down by five percent as shown in table 1. It is not clear what accounted for his reduction, but this is perhaps related to two things. First, the nominal value of 2020/21 budget is bigger because it factored various development projects including construction of Deputy Governor's residence, modern retail markets and other one-off budgets for items such as COVID 19 expenses amounting to Ksh 276.5 million. The second reason is related to the fact that the County's budget for 2021/22 did not consider any receipts from conditional grants.

In assessment of expenditure trends, it is important to note that the PFM Act, 2012 and associated regulations require county governments to comply with two important fiscal responsibility principles in their budgeting and spending. Section 107 (2)(b) of the PFMA, 2012 requires that at least 30 percent of the budget must be allocated for development programmes. Further, section 25(1)(b) of the Act requires that county government's expenditure on wages and benefits shall not exceed 35% of the county's total revenue. The purpose of these fiscal restrictions is to allow sufficient space in the budget for development programmes and to curb growth of public wages by ensuring appropriate staffing structures respectively. Controlled wage bill implies that expenditure on operation and maintenance will not be starved of funds.

Spending patterns across quarters as shown in figure 2 presents an interesting picture regarding the expenditure mix. Commendably, Kisumu County observed the fiscal responsibility principle of setting aside 30% of its annual budget for development programmes for each of the two financial years. In particular, its development budget share was 37% in 2020/21 but reduced to 31% in 2021/22.

[8]According to the Senate approved Disbursement Schedule, it is expected/assumed that every county will receive at least 25% of its authorized and approved portion of equitable share every quarter

Figure 2: Spending Patterns across Quarters, % of Total Expenditure



Source: Various issues of OCoB County Government BIRR reports

On the contrary, the County is in violation of the second fiscal responsibility principle, as its wage bill for each of the two financial years was 40% of total revenue, above the 35% limit. This means reduced allocation of funds to non-wage recurrent expenditure, particularly operations and maintenance (O&M). Despite a rise in O&M expenditure as a share of total recurrent budget from 37% in 2020/21 to 42% in 2021/22 as shown in table 1 or from 23% to 29% as a share of overall county budget as seen in figure 1, is not enough to mask the burden exerted by uncontrolled wage bill is evident.

Kisumu county government expenditure six months into the financial year 2021/22 as shown in figure 2 however show disruptions of the aforementioned ratios, development budget share as well as the wage bill in relation to county revenue[9] in Q1 and Q2 of the two financial years. By the end of Q2 of 2021/22 spending in wages as a share of total county spending was 66% and 58% by end of Q2 of 2020/21 above the budgeted 40% share.

As a matter of fact, spending on wages and salaries accounted for 53%[10] of county revenue by the end of the financial year of 2020/21. This is a point of concern that Members of Kisumu County Assembly should pick with County Officials as well as with the OCOB in exercising oversight on Kisumu County government's use of public funds. Equally, civil society groups should keep track of whether the county is on or off track in the observance of these fiscal responsibility principles, as this is an indicator of fiscal discipline and prudence in management of public funds.

[9]County revenue is equal to county expenditure. Therefore, we can assume to some extent that county salaries and wages as a percentage of county revenue is equal to county salaries and wages as a percentage of county expenditure

[10]Computation based on annual Office of the Controller of Budget County Budget Implementation Report 2020/21 via www.ocob.go.ke

Furthermore, figure 2 shows reduced O&M spending share by the end of Q2 compared to what was budgeted in the two financial years, 17% against 23% in 2020/21 and 26% against 29% in 2021/22. As expected, the lion's share of the O&M budget was domestic and foreign travel costs[11], Ksh 82.8 million and 112.2 million by end of Q2 in 2020/21 and 2021/22 respectively. However, by the end of Q2 of each of the two financial years, more than half of the domestic and foreign travels costs were absorbed by the County Assembly and not the County Executive. Although there are no standard thresholds benchmarking O&M spending between the County Executive and the County Assembly, comparatively more spending by the former is however expected to facilitate meeting cost of running operations as well as maintenance of projects.

Additional red flags on financial indiscipline are notable from the substantial portion of O&M dedicated to sitting allowances cost for the 49 member of county assembly (MCAs) of Kisumu. By the end of Q2 of 2021/22, Kisumu County Assembly spent Ksh 41.1 million on sitting allowances against annual budget allocation of Ksh 83.4 million. This translated to Ksh 98.3 per MCAs which is within the Salaries and Remuneration Commission (SRC) recommended average monthly sitting allowances of Ksh 124,800 per MCA. This is an improvement over the same period in the previous financial year where sitting allowances exceeded SRC threshold by 12%. Overall, the likelihood of slowdown in operations and running of projects and deterioration of existing infrastructure due to reduced spending on maintenance expenses is a reality.

It is important to note that there is a category of other recurrent expenditure. This category comprises established funds as shown in table 2. According to section 116 of the PFM Act, 2012, county governments are allowed to establish other public funds with approval from the County Executive Committee and the County Assembly. Constituting about six percent of total recurrent budget, majority of these funds fall under the County Executive. The Bursary Fund, intended for retention of post primary students in school takes nearly half of the entire basket of established funds. The only established fund under the ambit of the County Assembly, with a budget of Ksh 25 million is a loan mortgage fund to members of the County Assembly.

Table 2: County Established Funds (Ksh Million)

	Approved Budget 2021/22		AActual Expenditure by Dec 2021		Submission of quarterly financial statements	
County Established Fund Performance	County Executive	County Assembly	County Executive	County Assembly	Yes	No
Bursary Fund	205		102.5		Yes	No
Kisumu County Social Health Insurance Fund	140		0			
Kisumu County Emergency Fund	100		50		Yes	No
COVID-19 Response	50		20		Yes	
Kisumu County Assembly Loan Mortgage Fund		25		3	Yes	
Total	495	25	172.5	3		

Source: OCoB County Governments Budget Implementation Review Reports for Q2 of FY 201/22

[11]OCoB BIRR for FY 2021/21

Although table 2 shows that quarterly financial statements for the established funds were submitted to the County Assembly for review and scrutiny, except that for Kisumu County Social Health Insurance Fund, overall concern is the fiscal risk that may arise from proliferation of funds. If established funds are not accompanied by requisite implementation framework and regulations this may raise transparency and accountability questions. Besides, civil society groups should

Figure 2 clearly shows more pronounced disruptions in the implementation of expenditure for development projects. Development spending share of total county spending by the end of Q2 of 2020/21 was 25% against budgeted development share of 37%. This noticeably reduced significantly over the same period in 2021/22, to 8% against 31%. Actual spending on development programmes was Ksh 321.6 million by the end of Q2 of 2021/22 which represented a decrease of 66% compared to a similar period in 2020/21 (Ksh 993.8 million).

Table 3: Select List of Development Projects with Substantial Expenditure

FY 2020/21	Project Budget Ksh Million	Project Expenditure Ksh Million	FY 2021/22	Contract sum (Ksh Million)	Payment to Date (Ksh Million)
Construction of Deputy Governor's residence	29.3	12.6	Supply & Delivery of Motor Grader 180-200hp	36.9	31.8
Construction of modern retail at Pap Onditi	42.4	19.4	Stabilization of Parking Areas for Madaraka Celebrations at Mamboleo Show Ground	31.8	26.7
Construction of modern market at Kombewa market	36.0	35.5	Construction of Internal Road Within Mamboleo Show Ground	29.0	24.4
Supply of 300POS machines	21.5	21.5	onstruction of Ring Road Within Mamboleo Show Groun	25.2	21.2
Kisumu county valuation roll	23.8	9.5	Construction & Renovation of Outer Fence at Mamboleo Show Ground	21.4	18.0
Desilting of Alwera stream 3.7 Km	4.0	4.0	Supply, Installation, Testing & Commissioning Automated Asset Verification, Tagging & Management System	14.2	12.0
Construction of male ward at Ahero sub-county	4.0	4.0	Proposed Paving of Katito Open Air Market & Drains	8.7	7.3
Construction of Wambuka -Kanalegioa road	3.7	3.5	Construction of Kolewe Box Culvert	5.9	5.0
Improvement of Odiyo-Wang'eonenonam road	3.5	3.5	Construction of Kombewa Market Ring Road	5.9	5.0
Construction of Rambra water project	2.4	2.4	Construction of Esuvaru Water Project	5.8	4.9
Total Sum	170.5	115.9	Total Sum	184.9	156.2

Nevertheless, table 3 presents a select list of prioritized development projects in the two financial years out of the entire development programmes. This is evident from the fact that spending in relation to these projects by end of Q2 of 2021/22 averaged over 80% of the individual budgeted or contract amount. These projects are related to construction of roads and parking areas in preparation of grounds for celebration of *Madaraka*[12] day hosted by Kisumu County. The others were towards construction of supporting infrastructure for Kombewa market and Esuvaru water projects. It is not clear why the cost for preparations of a public holiday were borne by the county and yet this is a national public holiday and thus to be budgeted by the national government. It therefore calls for scrutiny from civil society on whether such expenditure was undertaken at the expense of other development projects.

Based on the foregoing, if corrective measures are not factored in the latter half of 2021/21, there is a high possibility that Kisumu County will not manage to absorb (call upon) its entire annual budget. This means that some of its programmes and projects will not be completed as was planned. Furthermore, delays in full payment to suppliers and contractors for work done is a highly likely, which could lead to a rise in pending bills[13], among other issues. As a result, overall service delivery will be compromised leading to poor socio-economic outcomes for Kisumu city residents.

The subsequent sections of this brief will discuss in-depth details of the drivers of overall budget performance.

2.0 Overall Expenditure Performance

Expenditure performance is measured by two key indicators, absorption and utilization rates. Absorption rate measures total county spending relative to initial county budgets while utilization rate measures spending relative to exchequer issues (disbursement of funds). Among other factors, evidence shows that delays in disbursement of funds has significant influence on spending patterns. This is demonstrated further in this section.

Table 4 presents a snapshot of Q1 and Q2 expenditure performance for Kisumu compared with the 47 counties for the period 2018/19 to 2021/22. As noted earlier, the ideal target for Q1 expenditure performance is 25% and that for Q2 is 50%. Kisumu County's overall expenditure performance is below the target for each of the quarters as is the performance for all the 47 counties, across the four financial years. This is confirmed by the mean/average absorption rates for Kisumu County and all the 47 Counties.

[12]Public holiday celebrated on 1st June annually to mark the day in 1963 when Kenya attained internal self-rule after being a British colony since 1920

[13]In fact, the OCOB reports that outstanding pending bills as of 30th June 2021 amounted to Ksh 2.17 billion (of which Ksh 1.71 billion, nearly 80% was for development expenditure). About 57% of the overall pending bill of Ksh 648.8 million as per the payment plan for 2021/22 already settled.

[14]IEA Kenya and UI (2022) Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution. An Empirical Analysis. Institute of Economic Affairs (IEA) Kenya and Urban Institute (UI)

Table 4: Comparison of Cumulative Quarterly Absorption Rates for Kisumu County & All 47 Counties

		Quarter 1 (Target = 25%)			Quarter 2 (Target = 50%)		
County	**Year**	**Recurrent (%)**	**Development (%)**	**Total (%)**	**Recurrent (%)**	**Development (%)**	**Total (%)**
All 47 Counties	2021/22	15.4	1.9	10.5	41.1	13.5	30.8
	2020/21	**13**	**1.4**	**8.8**	**36.4**	**13.7**	**27.8**
	2019/20	15.8	1.1	10.1	41.7	11.6	29.5
	2018/19	17.4	2	11.3	40.6	13.2	29.5
	Mean	**15.4**	**1.6**	**10.2**	**40.0**	**13.0**	**29.0**
Kisumu	2021/22	14.8	0	10.3	44.2	8.7	33.4
	2020/21	17.6	8.3	14.1	36.7	20.9	30.8
	2019/20	0	0	0	42.6	6.3	28.8
	2018/19	13.7	0	8.8	38.5	3.8	27.8
	Mean	**11.5**	**2.1**	**8.3**	**40.5**	**9.9**	**30.2**

Source: Various issues of OCoB County Governments Quarterly BIRRs

Notably in Q1 of 2021/21, Kisumu County's overall expenditure performance was slightly below that of the 47 counties. This however changed in Q2 with Kisumu's improved performance slightly above that of the 47 counties. For the same period of 2020/21, Kisumu County's performance was better than that of the 47 counties.

From table 4, absorption rates for development expenditure has consistently been lower than for recurrent expenditure. This is not only for Kisumu County across the quarters and years but also for all the 47 counties. It is therefore evident that the challenge of uptake of budgetary resources is more pronounced in relation to expenditure of development programs and projects.

Zero absorption rate for development expenditure in Q1 of 2021/22, implies that there was no spending on development. Notably no funds were released by the end of this quarter. Pick up in Q2 performance resulted in absorption rate of 8.7% for the development budget.

Table 5: Cumulative Quarterly Utilization Rates for 2021/22 and 2020/21

Quarterly FYs		Exchequer Issues (Ksh Mn)		Actual Expenditure (Ksh Mn)		Utilization Rates (%)	
		Recurrent	Development	Recurrent	Development	Recurrent	Development
2021/22	Q1	1,238.1	0	1,237.7	0	100.0	0
	Q2	3,858.0	352	3,227.9	321.6	96.6	91.4
2020/21	Q1	701.1	0	1,414.5	393.8	201.8	
	Q2	2,430.4	283.1	2,947.6	993.8	121.3	351.0

Source: Various issues of County Government BIRRs

As demonstrated in table 5, spending relative to exchequer issues (utilization rates) by end of Q2 for the two financial years is consistently high, in some case above 100%, for both recurrent and development budget. By contrast, spending relative to budget (absorption rate) consistently low for both recurrent and development as was earlier demonstrated.

Recurrent and development spending in Q1 and Q2 of 2020/21 was significantly higher than the funds that were made available (released in these respective quarters). In Q1, utilization rate for recurrent expenditure was 201.8% (two times higher) while development expenditure of Ksh 393.8 million was not based on any released/available funds. Similarly, utilization rates for recurrent and development expenditure by end of Q2 was equally high, 121.3% (slightly more than double) and 351% (nearly four times higher) respectively. This high utilization rate confirms effectiveness in the capacity of the county of Kisumu to spend resources that are at its disposal. But given that spending exceeded what is made available to the county government (approved exchequer issue). This question then is how this is possible. The answer is that the portion of spending above the quantum available funds must have come from sources outside exchequer (that is funds did not show that the county not go through the exchequer process). These funds could either be OSR and/or cash balances.

This issue of high utilization rates has been flagged numerous times by the OCoB in their reports and is alternatively as attributed to spending at source. What this means is that revenue mobilized, for instance through provision of services to citizen as user charges/fees is kept and used at source instead of these funds being remitted to the County Revenue Fund as is legally required. This is a common feature for the health sector, where health facilities instead of remitting funds generated from services offered at health facilities, they partially retain some funds for their own expenditure. Therefore, their total expenditure comprises what was released to them as a sector and spending from unremitted funds. As earlier noted, this is a violation of the PFMA, 2012 law as all the funds raised should be remitted to the CRF. Withdrawal and appropriation of these funds must first be sought and approved by the OCoB. Often the incentive to retain and not remit funds mobilized through user charges/fees is that these funds serve as cushion whenever there are delays in disbursement of funds to county governments.

Funds spent by Kisumu County in this period were associated with payment of salaries for the Health Services Department staff and towards diverse development projects for Kisumu city. These development projects include: construction of Kombewa market, aretail market at Pap Onditi and construction of the Deputy Governor's residence (see table 3).

For Q1 of 2021/22, Kisumu County spent the entire amount of funds released for recurrent expenditure. In contrast, there was no disbursement and neither was there any spending on development projects. By the end of Q2, the county did not utilize all the available funds. For recurrent expenditure, three percent of available funds remained unspent compared to development budget where a bigger portion, 9% was unspent. While other in-county factors including procurement challenges and administrative challenges such as timely reporting on use of donor funds may explain non optimal utilization of available funds for development project, delays in release of funds is often the main challenge.

2.1 Performance in Spending across Sectors

Further breakdown of Kisumu County quarterly spending reveals variations in recurrent and development expenditure performance across sectors as shown in table 6.

On recurrent expenditure, for the period 2019/20 to 2021/22, the biggest challenge in uptake of expenditure is in Q1. Surprisingly, there was zero spending on recurrent budget across all the sectors in Q1 of 2019/20, with marginal improvements in Q1 of 2020/21 and slight decline in Q1 of 2021/22. This implies that no salaries were paid in Q1 of 2019/20. In the same period of 2020/21, recurrent spending, largely on salaries and wages was only recorded for the County Assembly and in relation to the County Executive particularly for the Medical Services and Public Health, Finance and Economic Planning and Kisumu City and Governors and Administration. However, Q1 of 2021/22, recurrent spending is notable only for two sectors, the Medical Service and Public Health Ministry and in the County Assembly.

Q2 recurrent spending is above the expected ideal target of 25% in all but two sectors/departments in Q1. This is not surprising given that spending in payment of salaries and wages that were delayed in Q1 together with other non-wage recurrent expenditure such as travel, operation and maintenance was compensated in Q2.

Table 6: Quarterly Expenditure Absorption Rates Across Sectors[15]

	Recurrent (%)										Development (%)									
	19/20				20/21				21/22		19/20				20/21				21/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, Livestock & Fisheries	0	44	12	39	0	29	2	58	0	43	0	2	32	35	15	4	-17	57	0	15
County Assembly	0	42	28	30	17	23	13	43	13	30	0	0	0	61	0	0	4	60	0	0
Trade, Energy and Industry	0	34	2	13	0	4	-3	108	0	40	0	0	0	14	0	0	0	27	0	7
Kisumu City	0	44	35	13	6	5	13	72	0	40	0	1	2	6	19	19	-38	35	0	0
Governor and Admin.	0	33	34	18	5	33	-11	62	0	29	0	0	0	0	0	0	0	26	0	0
Education	0	45	3	-4	0	40	-12	68	0	48	0	13	7	20	0	1	6	30	0	14
Environment & Natural Resources	0	43	3	14	0	1	99	-24	0	40	0	0	0	51	0	4	-4	18	0	0
Finance and Economic Planning	0	29	17	27	7	34	-9	57	4	72	0	20	35	35	0	57	-31	66	0	21
Tourism, Culture and Sports	0	15	20	20	0	22	-8	52	0	27	0	0	6	5	0	0	0	14	0	0
Medical Services & Public Health	0	52	30	6	31	11	-32	84	28	8	0	1	42	11	0	0	0	26	0	0
Physical Planning and Housing	0	7	11	68	0	16	-8	54	0	44	0	0	31	22	0	0	0	7	0	0
County Public Service Board	0	27	13	26	0	7	-2	66	0	43	0	0	0	0	0	0	0	0	0	0
Transport and Infrastructure	0	20	22	23	5	21	-7	49	0	38	0	0	0	43	5.8	6	-8	43	0	0
Business, Cooperatives & Mkts	0	31	17	14	0	2	6	63	0	43	0	0	0	29	5.9	2	-8	17	0	0

Source: Various issues of County Government BIRRs

As earlier mentioned, uptake of development expenditure is comparatively lower than that of recurrent expenditure. In Q1 of 2019/20 and 2021/22 there was zero absorption rate and hence no spending across all the sectors. This was the same for Q1 of 2020/21 save for notable spending against quarterly budget for four departments, including: Kisumu County (19%), Agriculture, Livestock and Fisheries (15%) and 6% apiece for the Transport and Infrastructure and Business, Cooperative and Markets.

[15] This table captures quarterly absorption rates not cumulative

Q2 witnessed accelerated development spending across financial years and sectors with significant spending associated with the Finance and Economic Planning, and to a lesser extent for the Kisumu County, Education and Agriculture, Livestock and Fisheries. Zero development spending by the rest of the sectors is the reason behind overall underperformance of the development budget. Pace of completion of development projects in these particular departments with zero spending by Q2 will be adversely affected despite the fact that some development projects straddle several budget calendars. As a result, this may result to other risks such as cost overrun and pile up in pending bills. Even if disbursement of funds will increase towards Q4, there will be limited time to absorb such funds.

Separately, it is important to note that although, the focus of analysis is Q1 and Q2 of 2021/22 relative to the same period in the prior year, table 4 shows that there could be reporting and/or computation errors by OCoB for figures in Q3 of 2020/21. These quarterly absorption rates should not be negative (basically cumulative absorption rates in Q3 should not be lower than in the previous quarter-Q2).

3.0 What Explains Budget Execution by the end of Q2 of 2021/22

Predictability and availability of funds in a timely fashion is critical for effective budget execution. Breakdown in revenue performance (see table 1) partially points to the weak spots which can in turn be used to infer obstacles to timely availability and release of funds to county spending units.

3.1 Predictability of Funds

Overall underperformance of expenditure is attributed to delays in disbursements of funds. Like for a majority of counties, equitable share is the dominant contributor to overall revenue used to finance the Kisumu County annual budget. In 2020/21, it constituted slightly over a half of the budget whereas in 2021/22 it was slightly over three quarter of the annual budget. Therefore, and as noted earlier, any delays in release of these funds, as witnessed in Q1 disrupts budget execution. Studies show that delays in disbursement of funds to counties, particularly equitable share, emanates from optimistic national revenue projections. Lack of realization of projected national revenue to be shared between the national and county governments affects cash flow. Secondly, given disruptions in cash flow, national government prioritizes its spending at the expense of counties' spending (release of equitable share) .

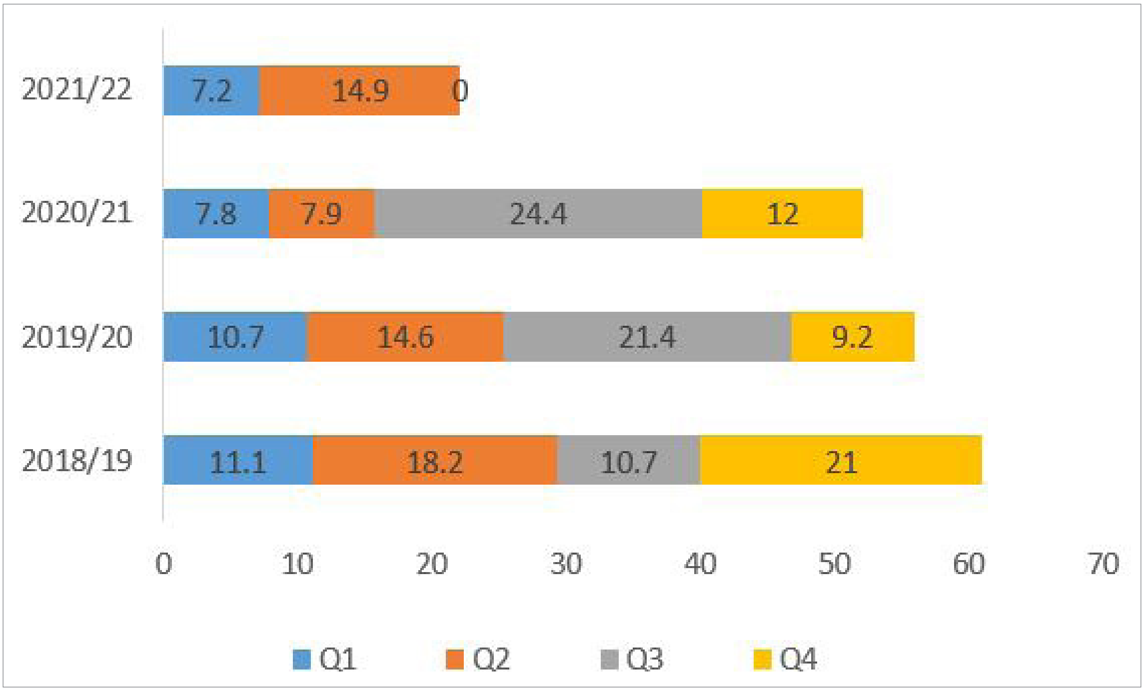
3.2 Unavailability of Conditional grants

The situation regarding availability of funds is made worse by the fact that no conditional grants from both the GOK or development funds was budgeted for in 2021/22. Conditional Grants Bill, 2021, was introduced in May 2021 to provide regulations and framework to govern transfer and utilization of conditional grants. However, this Bill was approved April 2022, two months before the end of the financial year 2021/22. Hence, conditional grants are not budgeted (zero budget) by all counties. As a result, there are no receipts from both GoK and development partners, reducing the expected overall county revenue.

3.3 Reliance on Own Source of Revenue and Cash Balances

Receipts from OSR and cash balances is what counties fall back to whenever there are delays in release of equitable share. What table 1 shows is that OSR accounted for 12% of total revenue for Kisumu County in 2020/21 which went up to 16% in 2021/22. Cash balances (balance b/f) share of total revenue however declined from 8% to 6%, for a combined reliance of 32% from 30%. In fact, actual OSR collection grew by 77.4% by the end of Q2 whereas cash balance increased by 9.4% relative to prior year. This points to the importance of OSR. However, and despite the huge potential for Kisumu in enhancing its mobilization of OSR, especially from the untapped property tax, it has continued to underperform (OSR collection has persistently missed the target). Specifically, Kisumu County government has since 2013/14 not realized annual OSR collection above Ksh 1 billion yet its projections for 2020/21 was Ksh 1.6 billion and Ksh 1.98 billion in FY 2021/22.

Figure 3: OSR Quarterly Performance (%), 2018/19 to 2021/22



Source: Various issues of County Government BIRRs

Besides, collection of OSR varies across quarters as shown in figure 3 denoting seasonality in OSR performance. For the period 2018/19 to 2021/22, there is no clear pattern of quarterly OSR performance. What is however clear across the financial years is that the lowest OSR performance is witnessed in Q1. This mirrors low execution of expenditure for Kisumu County government. With the exception of 2020/21, OSR performance picks up pace in Q2 and Q3. Consistent short fall in OSR performance against target may also to unrealistic projections, and administrative constraints in its mobilization as well as leakages.

[16] IEA Kenya and UI (2022) Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution. An Empirical Analysis. Institute of Economic Affairs (IEA) Kenya and Urban Institute (UI)

[17] Ibid

4.0 Conclusion and Recommendations

No.	Gaps	Recommendations
1.	Adherence to fiscal responsibility principles	Growth in the wage bill for the County is at the expense of operations and The County Assembly should exercise oversight on the County Executive's compliance with fiscal responsibility principles in budgeting and spending to ensure that implementation of development projects is not compromised.
2.	Pervasive underperformance of development expenditure and effect on development outcomes	Civil society groups should engage with the Budget and Appropriation Committee of the County Assembly for increased vigilance and pressure not to approve the budget for Kisumu County Government if not accompanied by an explanation and a clear road map of how they intend to keep the wage bill within the legal threshold of 35% of county revenue. Allowances and benefits of MCAs is one of the areas that contributes to growth of public wage bill of Kisumu County. In this regard, civil society should advocate that the budgetary allocation to allowances should not exceed the SRC recommended Ksh 124,000 per MCA.
3.	Underfunding of maintenance and operations recurrent budget	CUncontrolled growth in the wage bill for the County is often at the expense of operations and maintenance recurrent expenditure. Yet, this is an important component of sustaining delivery of services and longevity of development projects. If wage bill growth is unchecked, it may lead to a breakdown of existing development projects. Therefore, the County Assembly should sanction the County Treasury to ensure steady O&M budget is maintained.
4.	Delays in approval of the Conditional Grants Bill, 2021 and implications on release of conditional grants	The Conditional Grants Bill, 2021 was approved in April 2022, two months before end of the financial year 2021/22 and therefore not timely enough to enable unlocking of conditional grants to counties. This important source of revenue (contributing on average a fifth of total county revenue) is critical to ensure service delivery in areas such as urban development and in health service delivery.
5.	Overall delays in release of funds especially in Q1 and effect on low budget execution	Regarding the timely release of Kisumu's portion of equitable share and indeed improved overall predictability of resources, Council of Governors, the Senate and civil society should demand and petition for realistic national revenue projections from the National Treasury. The Senate should approve cash disbursement schedule for Counties that reflects reality in monthly national revenue collection. The County Treasury should consider the seasonality in OSR collections when designing annual work plans and cash flow projections in order to improve on the timing of their release as this is critical for effective service delivery.
6.	Unexploited potential for own source revenue and enhancement of other key sources of revenue	The County Treasury should put in place relevant legislative and institutional framework to support revenue enhancement practices from high potential sources such as the property taxes through proper geographic information system (GIS) mapping and linkage with revenue collection module. In addition, this can also be linked to land registry and single business permit data base. The County government should strengthen revenue collection system and administration as well as enforcement through adequate staffing and in adoption of cost-effective technology
7.	Errors in reporting in quarterly OCoB implementation review reports	The IEA-Kenya has noted some reporting errors or discrepancies in their regular interaction with the OCOB implementation review reports. These errors may not be substantial but it is important to pay attention and correct them so as to avoid misrepresentation. CSOs can track the comprehensiveness of BIRR and engage with OCoB on ways of enriching reporting.

No.	Gaps	Recommendations
8.	County quarterly budget implementation reports not publicly available	Unavailability of county quarterly budget reports undermines the Kisumu County ranking on budget transparency. This also impedes ability of civil society to meaningfully engage in the budget implementation phase. To this end, civil society groups should pressurize the County Treasury to make these reports publicly available as constitutional required.

NOTES

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