Institute of Economic Affairs

THE BUDGET FOCUS

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

Executive Summary

Kitui county approved a budget for FY 2021/22 of Ksh.12.5billion comprising of Kshs.8.4 billion in recurrent expenditure and Kshs.4.1 billion in development expenditure. Kitui county's spending for the second quarter of financial year 2021/22 was 43.7% on recurrent expenditure and development expenditure of 31.7% of the total annual budget. Execution of development budget was hampered by delays in approval of the County Government Grants Bill 2021 by Parliament.

The biggest challenge by mid 2021/22, similar to the same period in the prior year is the significantly low uptake of development budget. By the end of quarter two of 2021/22 there was spending of 31% development budget representing an off target of 19%. Thus, the ability of the County to complete budgeted development project going forward is compromised, as a result, increasing risk of poor development outcomes for the citizenry.

On the revenue front, Kitui County raised Kshs.167.22 million from own sources of revenue for the first half of the FY 2021/2021. This was an increase in revenue collection of 51.1% compared to the same period of FY 2020/2021.This increase was attributed to cash received from National Health Insurance Fund relating to pending bills from previous years and county investment in cabros and interlocking bricks

Budget credibility challenges 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 the impasse over approval of the Conditional Grants Bill, 2021

To this end, the IEA-Kenya proposes the need for the Council of Governors and civil society groups should put pressure on parliament for it to expedite the approval of the Conditional Grants Bill, 2021 in order to unlock release of these funds to counties. Secondly the County Treasury the county should exploit the potential of revenue collection from property tax, improve administrative revenue collection system towards improved overall own source revenue mobilization.

Introduction

The Office of the Controller of Budget (OCoB) is mandated under Article 228(6) of the Constitution of Kenya 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. The reports are respectively submitted to the National Assembly and to the Senate and County Assemblies every four months for their review and scrutiny as part of discharging their oversight role. The OCoB also makes these reports available to the public in fulfillment of Constitutional requirements regarding access to information. The aim of these reports is to assess revenue collection and expenditure of public entities and to highlight status of budget implementation and any challenges that hampered effective budget execution.

The IEA-Kenya in partnership with the National Democratic Institute (NDI) synthesizes first quarter-Q1 (July to September 2021[1]) and second quarter-Q2 (October to December 2021) of 2021/22 BIRR for Kitui County as part of the "Financial Transparency and Accountability project. In the 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, as these 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 voice in closing the accountability loop of the budget cycle.

1.1 County Financing and Funds Flow

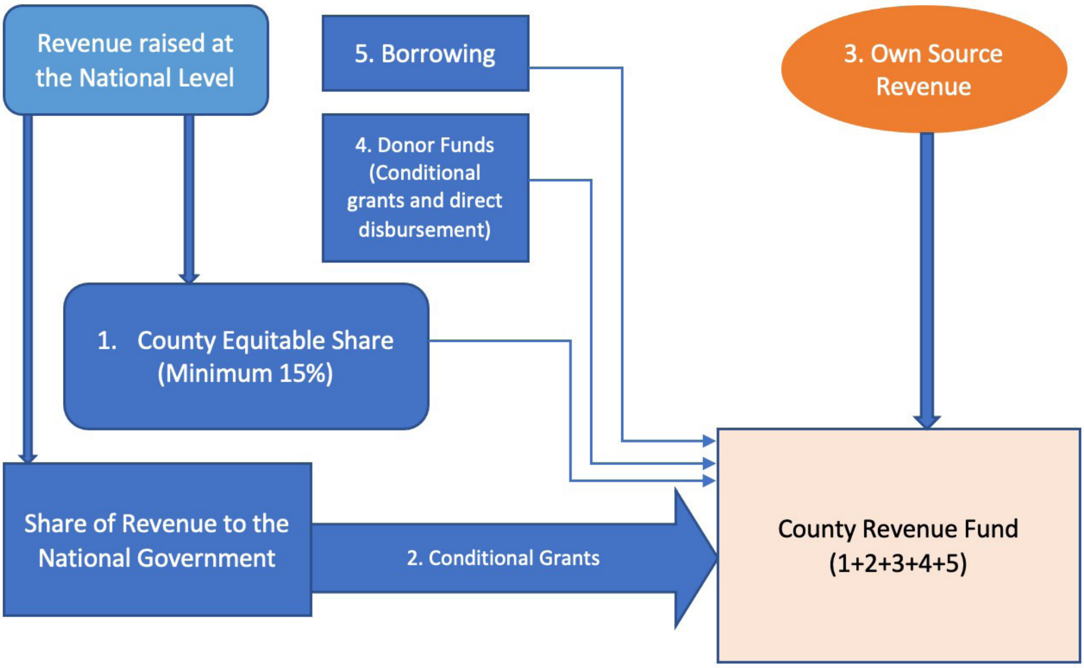
To understand and interrogate the BIRRs, it is important to lay out how counties are financed and how the funds that are generated are disbursed (flow of funds). This process is well provided for in the Public Finance chapter of the Constitution of Kenya, 2010 with details laid out in the Public Finance Management Act (PFMA), 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 not be 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.

[1]The Government of Kenya financial year begins in July and ends the next year in June.

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). On the other hand, the annual County Allocation Revenue Act (CARA) provides for the horizontal sharing of equitable share grant to each of the 47 counties every year based on a Commission on Revenue-CRA approved technical formula.

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.

Besides the equitable share, the national government sends money to the counties through conditional grants as funds given by a particular line ministry, for example, funds to level 5 hospitals 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 particular national line ministry retains some control on how funds are spent.

Own-source revenue (OSR) is generated directly by the counties themselves from local taxes (property tax and entertainment tax) and through levies or user charges, for example counties charge for provision of car parking services, business permit, advertisement, market cess and so on. Borrowing[2] is another source that is yet to fully take off. Fig 1 presents a lay out of the different sources of funds for the county governments. The aggregate of funds from sources 1,2,3 and occasionally 4 is what constitutes 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[3].

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties are deposited in their respective County Revenue Fund[4] (CRF), a holding account at the Central Bank of Kenya. OSR collections are remitted to the CRF. For counties to execute their budgets, the OCoB approves withdrawal of funds from the CRF to County operational accounts (commercial banks), through a process known as exchequer issue. At the end of every financial year, all unspent funds (cash balances) 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 analysis of an overview of Kitui Budget for 2021/22 in comparison to 2020/21. This is followed by further breakdown of expenditure analysis in comparison to all the 47 counties, expenditure pattern and performance across sectors to explain what drives overall expenditure performance. The final part presents an analysis of what explains budget execution by first half year 2021/22 and concludes with key recommendations.

1.2 Kitui County Budget Overview and Quarterly Performance

The table below captures an overview of Kitui county revenue and expenditure side for Q1 and Q2 for FY 2020/2021 and 2021/2022.It is important to note counties at start of financial, counties prepare balanced budgets i.e. The

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

[3]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).

[4]The CRF is where all revenue received or raised on behalf of the County Governments is deposited and is administered by the County Treasury at each County level.

annual budget projections should balance out with the financing sources. In the first quarter of FY 2021/2022 the county prepared a budget of ksh 12.5 billions which was an increase of 5.58% compared to the same period for FY2020/2021.

Kitui County received ksh 1.72 Billion as the equitable share of the revenue that is raised nationally for the first quarter FY2021/2022. Own sources of revenue collection amounted to Ksh. 91.43 Million while the county had a cash balance of Ksh. 1.08 billion from FY 2020/21. The total funds available for budget implementation during the period amounted to Ksh. 2.89 billion, as shown in table 1.0 below. The county received exchequer releases of 16.5% for the first quarter in equitable share which is below par for the quarter of required exchequer release of 25%. Additionally, the county, in the first half of FY 2021/2022 received an equitable share amount of Ksh 4.31 billion representing 48% of the receipts as a share of the annual budget in the second quarter. In comparison with the same period for the FY 2020/2021, this marked an increase in disbursement from 33% to 48% recording a 15% increase which is almost within the requirement of the PFM Act of 50% disbursement the half year.

Table 1: Kitui County Revenue and Expenditure Performance for Q1 and Q2 for FY 2020/2021 and 2021/2022

	2020/2021						2021/22			Q2			
	Annual Budget Q1	Actual Q1	Performance	Annual Budget Q2	Actual Q2	Performance	Annual Budget Q1	Actual Q1	Performance	Q1 on Q1 Change (%)	Actual	Performance	Q2 on Q2 Change (%)
Revenue													
Equitable revenue share	0.0	759.4	∞	8830.4	2914.0	33.0	10394.0	1715.5	16.5	225.9	4313.5	41.5	48.0
Conditional grants from the N.G.	0.0	0.0	∞	534.3	66.0	12.4	505.2	0.0	0.0	0.0	2.5	0.5	-96.2
Loans and grants from Devt partners	0.0	0.0	∞	778.8	203.2	26.1		0.0	0.0	0.0		0.0	-100.0
Own source revenue	0.0	51.9	∞	600.0	110.7	18.5	850.0	91.4	10.8	176.2	167.2	19.7	51.1
Balance b/f	0.0	657.6	∞	1096.3	1578.6	144.0	750.6	1084.5	144.5	164.9	1084.8	144.5	-31.3
Other revenue	0.0	0.0						0.0		0.0			
Grand total Revenue	**0.0**	**1468.9**	**0.0**	**11839.8**	**4872.5**	**41.2**	**12499.8**	**2891.5**	**171.8**	196.8	**5568.1**	**44.5**	14.3
Expenditure	**0.0**												
Total Recurrent Expenditure	**0.0**	1414.5	∞	7435.2	2982.5	40.1	8398.6	1767.3	21.0	124.9	3670.6	43.7	23.1
Compensation to Employees	**0.0**	1255.8	∞	4659.1	2301.8	49.4	5627.0	1208.6	21.5	96.2	2384.4	42.4	3.6
Operation and Maintenanca	**0.0**	158.7	∞	2776.0	680.7	24.5	2771.5	559.2	20.2	352.4	1286.1	46.4	88.9
Development Expenditure	-	393.80	∞	4,404.66	1,225.51	27.82	4,101.20	520.00	12.68	132.05	1,301.72	31.74	6.22
Grand Total Expenditure	**-**	**1,808.30**		**11,839.81**	**4,208.05**	**35.54**	**12,499.78**	**2,287.33**	**33.72**	126.49	**4,972.29**	**39.78**	18.16

Source: County Government budget implementation review report for quarter one FY 2020/2021 and quarter two FY2021/22

County Governments receive conditional grant from the National Government to ensure provision of certain policy objectives which are priority to the National Government. Conditional grants are intergovernmental grants from the national government to devolved governments with certain reporting requirements These conditional grants are tied to specific national policies and these funds cannot be diverted for other budgetary purposes. In the health sector, National Governments often use conditional grants to ensure the efficient and equitable delivery of core health services Kitui county budgeted to receive conditional grants amounting to ksh 505.23 millions in FY 2021/2022 and by quarter two the county had received total receipts of conditional grants amounting to ksh 2.5 million representing a performance of 0.5%. This represented 12.35% growth compared to the same period of FY 2020/2021.

Kitui County own sources of revenue amounted to Ksh 167.22 Million for the FY 2021/2022 compared to Ksh.110.7 Million collected in the same period for FY 2020/2021. This represents a growth in revenue in the same period of 51.06%. Own sources of revenue are generated from local taxes levied within the county. This taxies include parking fees, entry into county park fees, parking fees, entertainment taxes, property taxes, business licenses and permits. The OCoB report attributes this increases to a new revenue stream on County investments on the sale of cabros and interlocking bricks. In the FY 2018/19, the County also implemented an automated revenue management system called "zizi" which is a Kitui county based automated system on revenue collection designed to help in efficient collection of local revenues as well as reduce revenue loopholes in the county collection of own sources of revenue. However, the concern is on own sources of revenue collection targets the county set targets every years. For example, in quarter two of FY 2020/2021, the county targeted to collect ksh.600 million and by the end of quarter two the county realized only 18%. In the second quarter of FY 2021/2022, the county targeted to collect ksh 850million and by the end of quarter two, the county had managed to collect only 19%. This performance in revenue collection is below the target the county ought to have achieved by the end of the quarter two of about a half of the projected revenue collection.

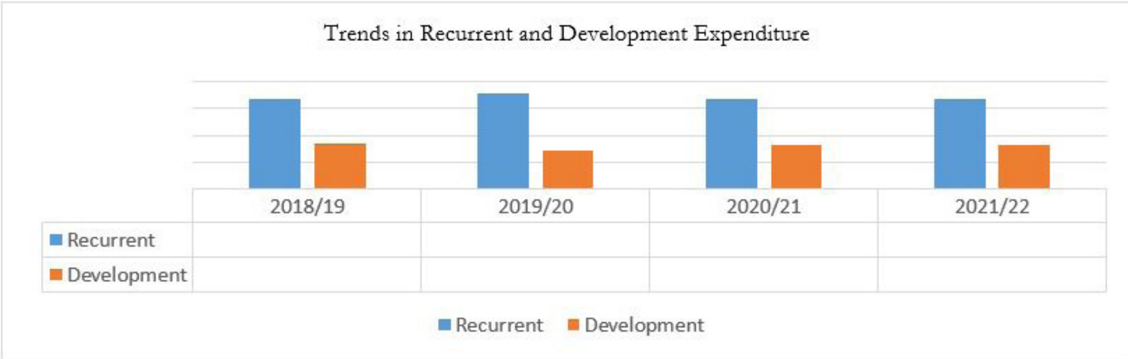
On the expenditure front, the county received a total of ksh.2.9 billion in the first quarter of FY 2021/2022 out of which the county spent Ksh 2.3 billion split into ksh 1.8 billion on day to day operations (recurrent expenditure) and ksh 0.52 billion on capital expenses (development expenditure). In Quarter two, the county cumulative receipt received was ksh. 5.5 billion which was apportioned into ksh. 3.7 billions for day to day operations and ksh.1.3 billions to capital items. In comparison with the same period FY 2020/2021, the county registered a growth of 23% in day to day operation while capital items have a growth of 6%.

2.0 Overall Expenditure Performance

The approved budget estimates for the 47 County governments in the first half of FY 2021/22 amounted to Ksh. 517.65 billion. This allocation had a recurrent component of Ksh. 325.37 billion and a development component of Ksh.192.29 billion. The approved budget allocation conformed with Section 107 (2(b) of the PFM Act, 2012, which requires that at least 30 percent of the budget be allocated for development programmes. As of 31st December 2021, Parliament had not approved the County Governments Grants Bill, 2021, which provides additional allocation by the National Government as conditional grants and other grants from development partners. This has a bearing in the budget implementation and the overall service delivery.

Kitui County approved a budget of Ksh. 12.50 billion for FY 2021/22 comprising Ksh. 4.10 billion and Ksh. 8.40 billion allocation for development and recurrent programmes, respectively. Compared with the FY 2020/21, the county approved budget increased by Ksh. 1.992 billion which translates to 18.96%.

Chart 1: Trends in Expenditure Performance (Ksh. Million)



Source: Office of the Controller of Budget/Budget Implementation and Review Reports (BIRR)

Chart 1.0 indicates that the trends in expenditures performance for Kitui county has been on the upward trend supported by revenue growth of equitable share, own sources of revenue and conditional grants. Indeed, FY 2019/2021 budget increased by 1.45% compared to FY 2018/2019 budget while FY 2020/2021 recorded an increase of 4.99% compared to the budget for FY 2019/2020.

The development component budget conformed with Section 107 (2(b)) of the PFM Act, 2012, which requires that at least 30 percent of the budget be allocated for development programmes. With exception of FY 2019/2020 which recorded 29.15 % of the allocation to the development component, the county conformed with section 10792(b)) of the PFM Act, 2012.Some of the development expenditures programmes included implementation of climate proofed infrastructure programme, Perimeter fencing of Kitui County Referral Hospital, Construction of Katulani hospital steel water tank, Construction of Mwinga Kithumula drift and other infrastructure. The nature of these development projects is short term and that is the reason why most of the development projects in the first half year recorded a 100% absorption rate in their respective expenditure allocation.

2.1 Performance in Spending Across Sectors

Table 2.1 displays expenditure performance across the sectors for both the recurrent and development from FY 2019/20 to quarter two of FY 2021/2022. An overview of the performance shows that the first quarter of each fiscal recorded low budget absorption rates for both recurrent and development but the scenario changes to positive towards the end of quarter four. The low performance is attributed to low disbursement which adversely affects the absorption rates across sectors particularly in the first quarter.

On recurrent expenditure, for the period 2020/21 to 2021/21, 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 2020/21, with marginal improvements in Q1 of 2020/21 This implies that no salaries were paid in Q1 of 2020/21. In the same period of 2020/21, on development spending in the department of public service board management and administration, county treasury and county public service board did not incur any capital expenditure.

It is therefore not surprising, that Q2 and Q3 for FY 2020/2021 recurrent spending is above the expected ideal of within 50% and 75% as compensation for zero spending in all but two sectors/department in Q1. This means that spending in payment of salaries that were delayed in Q1 together with other non-wage recurrent expenditure such as travel, operation and maintenance picked up pace in Q2 and Q3.

Table 2: Recurrent and Development Expenditure Sector Performance for FY 2019/20 – 2021/22

	Recurrent					Development						
	20/21				21/22		20/21				21/22	
Office of the Governor	0	22.4	59.6	94.0	5.7	33.8	0	37.9	37.3	77	8.4	22.60
Public Service management & administration	0	52.6	59.6	98.0	3.5	37.8	0	0.0	0.0	47	9.0	9.00
Agriculture water & Livestock development	0	42.8	56.7	94.5	3.7	52.0	0	22.6	58.7	89	15.6	24.40
Basic education ICT & youth development	0	44.8	71.3	97.9	17.2	47.4	0	12.7	29.8	50	14.3	29.90
Lands, Infrastructure, house &Urban development	0	41.8	54.3	96.8	6.3	34.2	0	24.8	63.6	85	19.7	77.40
Health & Sanitation	0	45.1	74.7	96.6	36.5	52.8	0	33.5	50.3	85	12.7	23.30
Trade, cooperative & Investment	0	12.3	20.2	75.7	10.1	26.7	0	32.1	55.6	84	6.4	33.20
Environment & Natural Resource	0	32.8	51.7	90.3	9.1	19.4	**0**	**32.5**	**49.9**	**87**	**11.4**	**12.60**
Tourism, sport & Culture	0	39.2	50.1	94.7	5.2	**11.8**	**0**	**30.6**	**58.9**	**80**	**0.0**	**16.80**
County Treasury	0	43.2	86.6	97.3	12.2	37.6	0	0.0	19.0	48	1.6	3.30
County public service board	0	35.5	57.2	96.0	6.8	21.3	0	0.0	0.0	0	0.0	0.00
County Assembly	0	33.3	61.0	93.2	19.3	40.8	0	19.6	19.6	20	0.0	0.00
Kitui Municipality	0	39.2	62.1	95.8	14.5	27.0	0	31.8	44.0	63	36.5	38.30
Mwingi Town	0	38.3	52.9	95.1	8.9	22.0	0	23.4	35.5	71	0.7	11.70
Apiculture, Livestock and fisheries development					2.5	8.3					0.0	16.60
land & physical planning					6.9	20.0					0.0	6.00
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2

Source: County Government budget implementation review report first quarter FY 2021/2019 - 2021/22

Additionally, A performance of zero as indicated in the first quarter of FY 2020/2021 indicates the county government's absence of an operating budget thus the controller of budget did not authorize any spending in that Quarter. Often counties, fail to approve budget on time due to political issues between the county executive and the County Assembly, negotiations between this two arms of government at the county level or even failure by the executive to present the budget on time for approval by the members of the County Assembly. This will have an effect in the county overall service delivery both on the day to day running and development component.

The leading sectors in absorption rates Q2 of FY 2021/21 on the recurrent side are Agriculture, Water and Livestock with 52% and Health and sanitation with 52.8%. The expenditures were mainly on compensation to employees in form of wages and benefits. The sectors with low spending are Apiculture, livestock and development with 8.3% and tourism, sport and culture with 11.8%. On the development expenditure performance, all the sectors recorded low performance with exception of land, infrastructure, house and urban development of 77.4%. The sectors which recorded lowest performance were land and physical planning with 6.0 % while public service management and administration recorded a performance of 9.0 %.

From table 2.0, the first and the second quarter recorded low performance particularly on the development expenditures implying that there was limited time in the implementation of activities as per the approved budget. This points out to timely disbursement and the effects it has in the implementation of the projects and overall service delivery in the county.

3.0 Budget Efficiency

3.1 Absorption Rates Across Counties

The overall first half of the FY 2021/22 County governments absorption rate was 30.8 per cent of the total annual County Governments' Budgets with a total expenditure of 159.52 billion. This was an increase from an absorption rate of 27.8 per cent reported in a similar period in FY 2020/21, where total expenditure was Ksh. 134.9 billion. Kitui county in the first half of the FY 2021/22 recorded an expenditure of Ksh 3.74 billion in recurrent and Ksh 1.31 billion in development component of expenditure. This represents an absorption rate of 43.7% and 37.7% in both the recurrent and development expenditure. The performance for the county which was 39.9% was above the mean of all the other counties of 30.8%. A high absorption rate shows high budget implementation and the requisite staff capacity for budget execution while low budget absorption rates imply low degree of realization of the initial budget objectives.

Table 3: Comparison of Q1 and Q2 Absorption Rates for Kitui County with all the 47 Counties, 2018/19-2021/22

		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**
Kitui	2021/22	21.3	12.7	18.5	43.7	31.7	39.8
	2020/21	0	0	0	40.1	27.8	35.5
	2019/20	49.3	13.3	20.3	49.1	13.3	20.3
	2018/19	18.7	8.4	14.3	41.8	28.8	14.3
	Mean	22.3	8.6	13.3	43.7	25.4	13.3

Source: County Government budget implementation review report first quarter FY 2018/2019 to 2021/22

The Controller of Budget did not approve any withdrawal of funds from the County Revenue Fund (CRF) account during the reporting period of first quarter FY 2020/2021 due to absence of County operational budget. Thus, the county did not report any expenditure in the period under review compared with the other counties which recorded an average of 8.8% though below expectation of 25% in absorption rates.

Table 3.0 provides a comparison of absorption rates of recurrent and development expenditures of FY2018/2019 to FY2021/2022 for all the forty-seven counties and Kitui county. The trend shows that on the average, the county performed well recording 22.3% and 8.6% compared to 15.4% and 1.6% for both recurrent and development expenditure in the first quarters. The second quarter depicts the same picture of county's better performance in both recurrent and development absorption rates of 43.7 % and 25.4% compared to the national average of 40% and 10.5% respectively.

3.2 Quarter Two FY 2021/2022 Budget Utilization and Absorption Rates

Table 4.0 displays information comparing the utilization and absorption rates across Kitui county sectors for the second quarter of FY 2021/2022. The absorption rate shows the extent of the spending in the specific period relative to the planned spending. It shows the share of the actual expenditure out of the targeted (budgeted). Utilization rate is a ratio between the expenditure and exchequers issues and shows the extent of spending to the planned spending. These benchmarks are important in determining the efficiency and effectiveness of the counties on the utilization, implementation, formulation and execution of county budgets.

Table 4 : Comparison of Q2 Absorption Rates and Utilization Rates for Kitui County for FY2021/22

	Recurrent		Development	
	Q2 (Target=50%)		Q2 (Target=50%)	
Sector	Utilisition (%)	Absorption (%)	Utilisition (%)	Absorption (%)
Office of the Governor	71.9	33.8	0.0	22.6
Public Service management& administration	70.9	37.8	0.0	9.0
Agriculture water & Livestock development	102.9	52.0	139.2	24.4
Basic education ICT & youth devel-opment	91.8	47.4	0.0	29.9
Lands, Infrastructure, house & Urban development	77.2	34.2	265.1	77.4
Health & Sanitation	145.9	52.8	0.0	23.3
Trade, cooperative & Investment	75.8	26.7	883.7	33.2
Environment & Natural Resource	71.2	19.4	444.3	12.6
Tourism, sport & Culture	34.2	11.8	0.0	16.6
County Treasury	109.2	37.6	4.0	3.3

County public service board	18.6	21.4	0.0	0.0
County Assembly	111.9	40.8	0.0	0.0
Kitui Municipality	80.6	27.0	0.0	38.3
Mwingi Town	79.2	22.0	0.0	11.7
Livestock, Apiculture and Fisheries	0.0	8.3	0.0	16.6
Lands and Physical Planning	0.0	20.0	0.0	6.1

Source: County Government budget implementation review report first quarter FY 2021/2022

From Table 4.0, the result shows that spending is highly dependent on the exchequer's issues. The absorption rates are associated with high utilization rates which means that counties are able to spend once the money is released on time. It is therefore important to enhance measures of ensuring that there is timely disbursement of funds to the counties. Inadequate or delayed disbursement often reduces the effectiveness of public service delivery at the county level.

For the absorption rates for quarter two FY 2021/2022, there is an increase in absorption rates across the sectors for both the recurrent and development side in comparison with the first quarter of the FY 2021/2022.There is a uniform a uniform trend in low absorption in the first quarter across all the sector and this trend gradually increases in the second quarter toward the required rate of around 50%. For the recurrent absorption rates, Agriculture water & livestock development and health and sanitation sector recorded the highest rates of 51% and 52% respectively. The sectors which recorded low absorption rates in the second quarter for recurrent include livestock, apiculture and fisheries and tourism, sports and culture with 8.34% and 11.0%.

The development expenditure absorption rates for the second quarter were below the expectation which can be attributed to low exchequer releases across all the sectors. The only sector that exceeded the 50% absorption rate was land, infrastructure, house and urban development which recorded a high of 77% absorption rate. This high absorption rate could be attributed to budget revision and capacity to spend the allocations within the department. The County Assembly did not report any expenditure on development activities showing that the department specifically focuses on service delivery to the county. The other department which recorded a zero in the development component is the public service board reflecting that the department focused on service delivery only.

Utilization rates for recurrent expenditure were high in the second quarter of FY2021/2022. It is important to note utilization of more than 100% shows that the county did not remit the revenues collected in the quarter to the county revenue fund but instead the department ended spending the amount. This means that the utilization rate in the department will be high. Table 4.0 show that the development components in the departments of Lands, Infrastructure, house & Urban development, Trade, cooperative & Investment and Environment & Natural Resource recorded utilization of more than a 100%.All the other department had utilization rates below the expectation reflecting disbursement issues or lack of capacity in the department to utilize the resources available.

3.3 County Established Fund Performance

The County Treasury in Kenya in each manages the county public funds. These funds are the County Revenue Fund and the County Emergencies Fund. Public Finance Management Act, Section 116 gives power to establish other county public funds through the County Executive Committee member for finance with the approval of the County Executive Committee and the County Assembly. For the FY 2021/2022, Kitui county had established five funds which include; Kitui County Assembly Service Board employees' car & mortgage fund schemes, Kitui County Assembly Car & mortgage (members) scheme fund, Kitui County Empowerment Fund, Climate Change Fund and Emergency Fund.

The County allocated Ksh.75 million to county established funds in FY 2021/22, which constituted 0.6 per cent of the County's overall budget for the year.

Table 4 : Comparison of Q2 Absorption Rates and Utilization Rates for Kitui County for FY2021/22

	Approved Budget Allocation in FY 2021/22 (Kshs.)	Actual	Submission of Financial Statements
Kitui County Assembly Service Board employees' & mortgage fund schemes	50.00	0.2	Yes
Kitui County Assembly car and mortgage (members) scheme fund	-	2.4	Yes
Kitui County Empowerment Fund	-	0	No
Climate Change Fund	20.00	0	No
Emergency Fund	5.00	0	No

Source: County Government budget implementation review report first quarter FY 2021/2019 - 2021/22

The administrator of the county funds provided some financial information for the established county funds for FY 2021/2022. The information on the financial statement shared was for Kitui County Assembly service board employee's car & mortgage fund schemes and Kitui County Assembly car & mortgage scheme fund. There was non-disclosure of financial statements for Kitui County Empowerment Fund, Climate Change fund and emergency fund. Disclosure of financial information is important for transparency and accountability for county operations.

Section 168 of PFM Act 2012 provides that the fund administrator is required to provide on quarterly basis funds reports to the Controller of Budget.Kitui County Empowerment Fund was operationalized in FY 2020/2021, and an exchequer of Ksh.100 Million was released to the fund. The controller of Budget flagged out in the half year report failure of the administrator to submit the financial statement of Kitui County Empowerment fund. This raises the administrator's credibility and transparency of the fund.

4.0 Explanation of Budget Execution

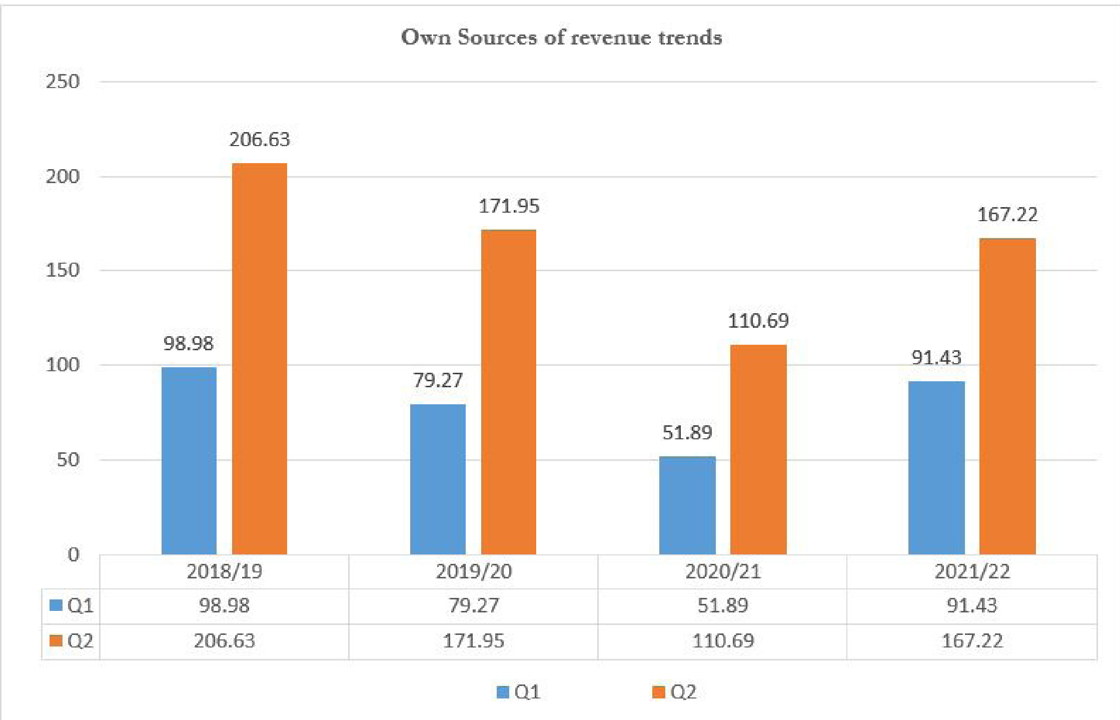
4.1 Reliance on own sources of Revenue

The County Governments of Kenya generated a total of Kshs.14.06 billion from their own sources of revenue (OSR), which was 24.3 percent of the annual target of Ksh. 57.80 billion. In the first half of FY 2021/2021 This was an improvement compared to Kshs.12.72 billion generated in a similar period of FY 2020/21.

The county of Kitui raised Kshs.167.22 million from own sources of revenue for the first half of the FY 2021/2021. This was an increase in revenue collection of 51.1% compared to the same period of FY 2020/2021.This increase was attributed to cash received from National Health Insurance Fund relating to pending bills from previous years and county investment in cabros and interlocking bricks.

On comparing the performance in own sources revenue collection with the county set target, the performance stood at 19.7% for the first half of the year which represents a below par compared to the annual target of Ksh 850 million. This is an under performance and the county should always ensure that set targets are realized for better execution of budget and proper service delivery. Additionally, timely availability of the funds is important in ensuring effective budget implementation.

Chart 2: Performance of Own source of Revenue for FY 2018/2019 to 2021/2022



	2018/19	2019/20	2020/21	2021/22
Q1	98.98	79.27	51.89	91.43
Q2	206.63	171.95	110.69	167.22

Source: County Government budget implementation review report first quarter and quarter two of FY 2018/2019 to 2021/22

From Chart 2.0, Own sources of revenue from FY 2018/19 to FY 2021/2022 underperformed in the first quarter of each fiscal year but the performance in revenue collection improved in the second quarters. Notable in revenue collection slowdown is FY 2020/2021 and this could be attributed to effect of COVID-19 to the economy bot at the National and the county level.

4.2 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, introduced in May 2021 was introduced to provide regulations and framework to govern transfer and utilization of conditional grants. However, this Bill has to date not been approved by parliament because of among other issues supremacy wars between the Senate and the National Assembly. Hence no conditional grants were not budgeted (zero budget) by all counties not just Kitui. As a result, no receipts from both GoK and development partners conditional grants (zero receipts).

4.3 Predictability of Funds

The underperformance of expenditure at the national or county level is attributed to delays in disbursements. Equitable share is the dominant contributor to overall revenue to finance the Kitui budget. For the FY 2021/22 it constituted 83% share in financing the annual budget. Therefore, any delays in release of these funds, as witnessed in Q1 of FY 2020/2021 disrupts budget execution. Studies[5] show that overall counties' challenge of delays in disbursement of funds, particularly equitable share emanates from issues related to 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)[6].

5.0 Recommendations

1.0 County Established Fund

Public Finance Management (PFM) Act, Section 116 gives power for establishment of other county public funds through the County Executive Committee member for finance with the approval of the County Executive Committee and the county assembly. During the financial year 2021/2022, the county had five established funds and PFM Act provides that the fund administrator is required by Section 168 to provide financial statements to the Office of the Controller of Budget. In FY 2021/2022, the administrator of the fund did not submit the financial statement for Kitui county empowerment fund, climate change fund and emergency fund. Subsequent analysis by the OCoB in the third quarter should insist on the financial statements from the administrator with a follow by the county budget and appropriation committee. Additionally, county treasury should always submit this reports to the controller

[5]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)

[6]Ibid

of budget. Disclosure of financial statements improves CSOs to track budget executions thus enhances transparency and accountability in all the funds established by the counties

2.0 Boost Own Revenue Collection

The County government should place measures to enhance its revenue target by implementing various reforms aimed at enhancing own sources of revenue collection. The County Government should adopt strategies amongst them mobilization of additional revenue by strengthening enforcement and expansion of the revenue base. The County should focus more on land and property tax as the most appropriate and equitable source of revenue to finance development and provision of essential services as this reflected as one of the tax components which resulted in additional revenue collection in the county in the FY 2021/2022. The county government through an executive order from the governor can provide extension of amnesty on people who have not paid land rates

3.0 Enforcement of Fiscal Responsibility principles

Section 107 (1) and (2) of the Public Finance Management (PFM) Act requires the County Treasury to oversee prudent public financial management by enforcing fiscal responsibility principles of e.g., thirty percent of all expenditure is dedicated to development expenditure over the medium term. On the expenditure performance between recurrent and development, the county performance has been in the range of 66.5% and 33.5% for FY 2018/2019 and 67.2% to 32.8% for FY2021/2022.The County Assembly should ensure that before approval of the county budget, the threshold of development component resource allocation of 30% is attained. Moreover, the County Assembly should exercise oversight regarding the County Executive compliance with fiscal responsibility principles not only in approval of the budget but through-out budget implementation to ensure that implementation of development projects is not compromised.

4.0 Approval of the Conditional Grants Bill, 2021

A quick scan of absorption rates in the first quarter of FY 2012/2022 shows low absorption rates even in the second quarter of the year. This is in part connected with delay by parliament in passing the conditional grant bill that unlock disbursement to the counties. The Council of Governors, the media and civil society should pressurize Parliament (National Assembly and the Senate) to expedite the approval of Conditional Grants Bill, 2021 in order to unlock conditional grants to counties.

5.0 Seasonal Delay in Quarter one Disbursement

Delays in disbursement at the county can caused by a number of reasons ranging from failure to approve budget on time as well as disagreement between the county executive and County Assembly. County Treasury should consider designing annual work plans and cash flow projections in order to improve on the timing of the release and thus enhance effective service delivery. Additionally, The Council of Governors, the Senate and civil society should demand for realistic national revenue projections from the National Treasury and county own sources of revenue projections.

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