Institute of Economic Affairs

COUNTY BUDGET FOCUS

October, 2022

Analysis of Kisumu County Third Quarter and Fourth Quarter of FY 2021/22 Budget Implementation Report

Executive Summary

Kisumu County government has persistently struggled to fully utilize its annual budget. By the end of Q4 of FY 2021/22 nearly 40% of Ksh 12.2 billion remained unspent. This struggle is bigger than it was over the same period in the previous financial year. The driver for this struggle is delays in timely release of funds as the revenue realized gathered pace in Q3 and by the end of Q4 but still fell short of target by 22.2% in FY 2021/22, albeit improved marginal performance than in the previous year. For this reason, in the course of budget implementation, payment of wage bill which is already above the 35% limit as a ratio of county revenue by five percentage points is prioritized ahead of provision of services in other areas. In fact, the county utilized the entire budget for wages by the end of Q4, bringing total wage bill spending as a share of total county spending to 54.3%. A half of spending on the wage bill was absorbed by the health sector. Notably, part of the total wage bill was paid through manual payroll system which is prone to loss of funds. All this point to financial indiscipline. As a result, resources left available to operation and maintenance expenditure are reduced.

Uptake of development budget is often affected the most during budget execution. On this point, only a half of the 31% allocation to development budget from total county budget was utilized. Underspending of development budget has ostensibly been deteriorating for Kisumu County from 2018/19 to 2021/22. These challenges manifest in slow pace of completion of development projects, stalled projects and pile up in pending bills.

Other factors that explain under spending of development budget beyond delays in release of

funds, include challenges in procurement and reporting. Apparently, availability of Conditional grants that were unlocked in Q3 of FY 2021/22 did not help much as only a quarter of the budgeted amount was realized. For OSR, half of the budgeted amount was collected, implying that its projections are not realistic.

To this end, this analysis calls for corrective action towards improving Kisumu county's budget execution through the following:

(i) 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.

(ii) Civil society groups should engage with relevant Committee of the County Assembly for increased vigilance and pressure not to approve the Budget for Kisumu County Government if not accompanied by a clear road map of how to keep the wage bill within the legal threshold.

(iii) The County Assembly should sanction the County Treasury to ensure steady O&M budget during their scrutiny and approval of the budget as it an important component of sustaining delivery of services and longevity of development projects

(iv) The County Assembly through the Budget and Appropriation Committee as well as the Senate through the Watchdog Committee should put the County Treasury to task on ensuring that they meet donor conditionalities on Conditional Grants.

(v) Civil society groups should track the use of implementation of Conditional Grants and engage other groups for increased awareness and empowerment to demand for accountability

(vi) 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.

(vii) The County government should strengthen revenue collection system and administration as well as enforcement through adequate staffing and in adoption of cost-effective technology.

(viii) Civil society groups should pressurize the county to make County quarterly budget implementation reports not publicly available as this will facilitate more meaningful public participation

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].

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

The IEA-Kenya in partnership with the National Democratic Institute (NDI) synthesizes quarter three (Q3) and quarter four (Q4) 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[4]. Ultimately, this is expected to enhance citizen participation and advocacy in closing the accountability loop of the budget cycle process.

1.1 County Financing and Funds Flow

To understand and interrogate the BIRRs, it is important to understand the layout and the framework of how counties are financed and how the funds that are generated and disbursed (flow of funds). This process is well provided for in the 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

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[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

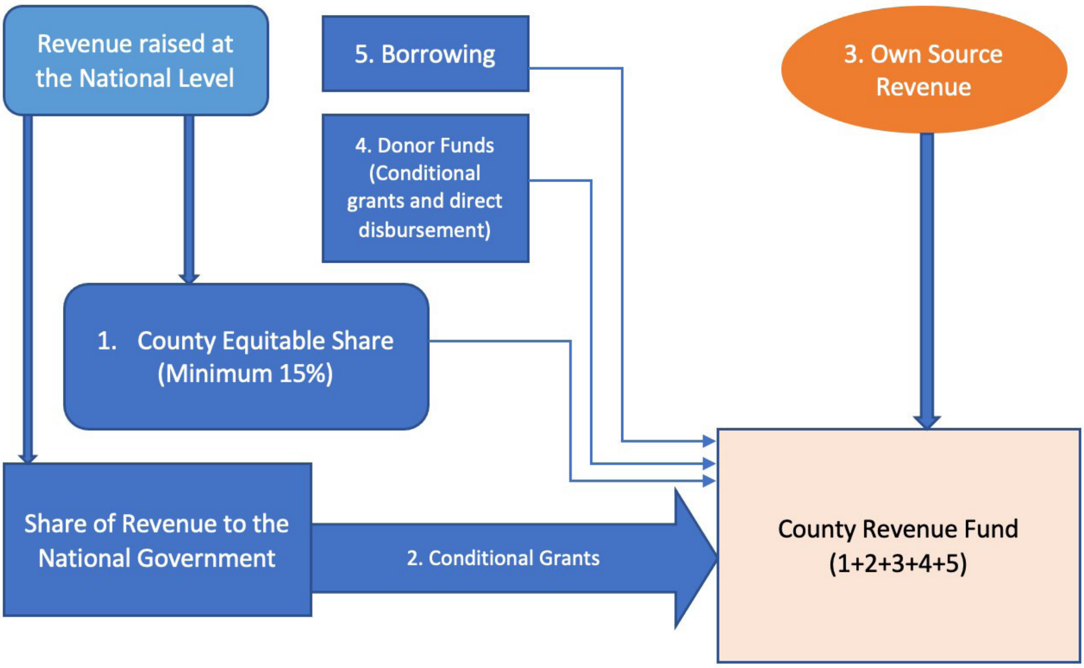
[3]The Government of Kenya financial year begins in 1st July and ends on 30th June of the next year. Q3 covers the period January to March 2022 and Q4 from April to June 2022.

[4]Visit IEA website for analysis of Kisumu Q1 and Q2 BIRR for FY 2021/22 via https://ieakenya.or.ke/?wpdmdl=2610

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.

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. For example, conditional grants for level five hospitals should not be diverted for other purposes.

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[5] is another source of funds 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[6].

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties are deposited in their respective County Revenue Fund (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. For example, there are several cases reported by the OCoB where some counties have retained funds received as user fees from provision of health care services. 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 County Budget for 2021/22 in comparison to 2020/21 against actual spending in Q3 and Q4. 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 Q4 of 2021/22 and concludes with recommendations.

1.2 Kisumu County Budget Overview and Quarterly Performance

Table 1 presents a summary of actual revenue and expenditure by the end of quarters three (Q3) and four (Q4) against Kisumu County's annual budget for FY 2021/22. This performance is compared to similar periods in FY 2020/21.

A quick review of table 1 helps to answer the question of whether Kisumu County budget was executed as was approved by the County Assembly or not, based on the revenue that was realized. Further breakdown of the analysis to explain any gaps and their implication on budget execution is presented in subsequent sections.

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

[6]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).

[7]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.

Table 1: Comparison of Cumulative Quarterly Budget Performance for 2021/21 and 2020/21 (Ksh million)

Budget items	2020/21 Annual Budget	2020/21 Q3 Actual	2020/21 Q3 Perfo-mance (%)	2020/21 Q4 Actual	2020/21 Q4 Per-for-mance (%)	201/22 Annual Budget	201/22 Q3	201/22 Q3 Per-for-mance (%)	201/22 Q4	201/22 Q4 Per-for-mance (%)
Revenue										
Equitable revenue share	6,838.3	1,128.0	16.5	6,836.4	100.0	8,026.1	4,655.2	58.0	7,384.0	92.0
Conditional grants from the N.G.	804.9	294.3	36.6	639.4	79.4	0	0	0 0	0 0	0
Loans and grants from Development Partners	2,335.4	73.2	3.1	864.3	37.0	1,416.5	116.9	8.3	362.7	25.6
Own source revenue (OSR)	1,579.2	633.2	40.1	822.3	52.1	1,984.0	784.2	39.5	982.8	49.5
Balance b/f	968.0	968.0	100.0	587.9	60.7	719.5	719.5	100.0	719.5	100.0
Other revenue	254.5	73.2	28.8			0 0	0	0	0	0
Grand Total Revenue	**12,780.3**	**3,169.9**	**24.8**	**9,750.3**	**76.3**	**12,146.1**	**6,275.8**	**51.7**	**9,449.0**	**77.8**
Expenditure										
Total Recurrent Expenditure	8,025.4	6,057.0	75.5	7,322.5	91.2	8,439.2	5,361.9	63.5	6,307.9	74.8
Compensation to Employees	5,081.6	4,544.8	93.0	5,184.1	102.0	4,856.9	4,041.2	83.2	5,127.4	100.0
Operitation and Maintenance	2,943.8	1,512.2	48.1	2,138.4	72.6	3,582.3	1,320.7	36.9	1,180.5	35.7
Development Expenditure	4,754.9	1,557.2	32.7	1,930.9	40.6	3,706.9	458.5	12.4	1,175.7	32.1
Grand Total Expenditure	**12,780.3**	**7,614.2**	**59.6**	**9,253.4**	**72.4**	**12,146.1**	**5,820.4**	**47.9**	**7,483.6**	**61.8**

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

By the end of Q4 of FY 2021/22, Kisumu County had received and raised Ksh 9.4 billion, falling short of its annual estimated revenue by 22.2%. Although this was a marginal improvement from its revenue performance in the previous financial year, overall revenue receipts however dropped by three percent.

This revenue performance was driven by receipts from transfer of equitable share grant portion (92% of annual target), availability of the entire quantum of balance b/f that was budgeted amidst struggling own source revenue, where only half of the annual target was realized. Interestingly, unlike in Q1 and Q2 periods of FY 2021/22, there were receipts from conditional grants, about 25.6% of Ksh 1.4

billion. Approval of Conditional Grants Bill, 2021[8] in early 2022 unlocked release of these grants to counties. Availability of these grants is to some extent what boosted Kisumu County's overall revenue performance by the end Q4 of FY 2021/22.

Overall expenditure execution, on the other hand is low. By the end of Q4 of FY 2021/22, Ksh 7.4 billion was spent out of the targeted annual budget of Ksh 12.1 billion. This implies that 38.2% of the annual budget remained unspent. Compared to the same period in FY 2020/21, underspending in FY 2021/22 was significantly higher on the back of low uptake, 35.7% of operation and maintenance budget and 32.1% for development budget. Already, this is an indicator that implementation of committed capital related projects was not full met, which manifest in stalled or incomplete projects. Low execution of operation and maintenance budget is evident in existing projects such as roads, health facilities falling apart or not being optimally used.

1.3 Expenditure Trends

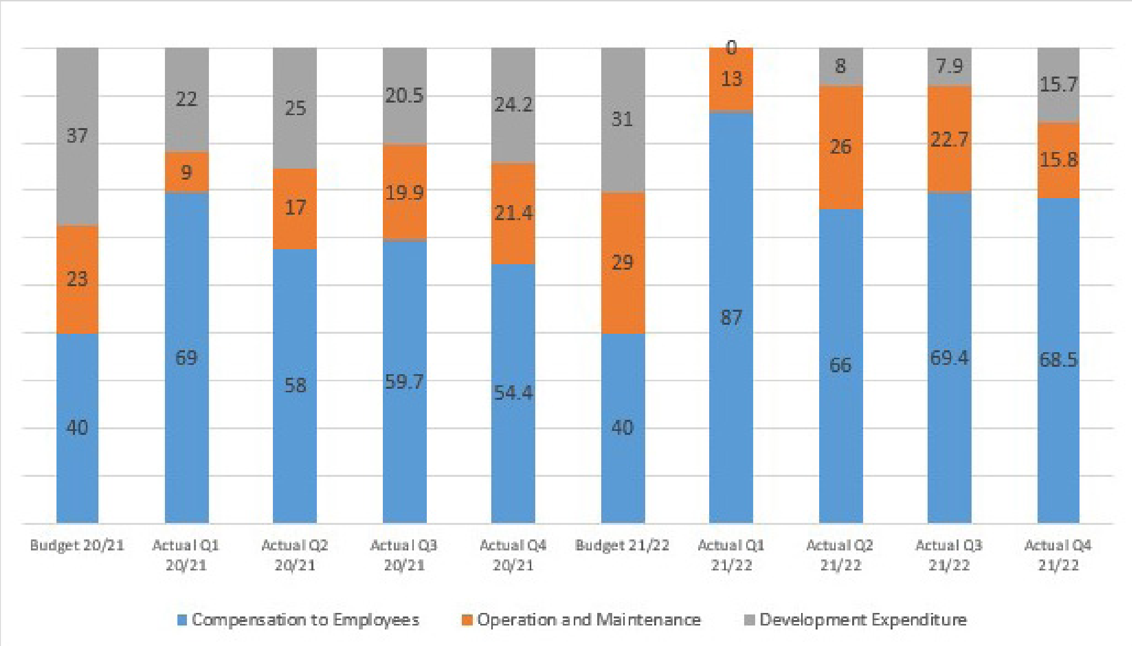
The annual budget for Kisumu County reduced by five percent as shown in table 1. It is not clear what accounted for this reduction, but this is perhaps related to two things. First, the nominal value of budget for FY 2020/21 is bigger because it factored various development projects including construction of Deputy Governor's residence, modern retail markets and for other one-off budgets items such as COVID 19 expenses amounting to Ksh 276.5 million. The second reason is related to the fact that although Conditional Grants were considered from Q3 as part of the County's revenue sources, they are slightly less than a half of what was budgeted in FY 2020/21. In other words, since the County anticipated reduced resources, to match this, the budget had to be reduced.

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 (actual implementation). 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. Overall, these fiscal responsibility principles are intended to obligate counties to maintain fiscal discipline (prudence in spending.

That said, spending patterns across quarters as shown in figure 2 present mixed results. Commendably, Kisumu County observed the fiscal responsibility principle of setting aside 30% of its annual budget for development programmes in each of the two financial years. In particular, its development budget share was 37% in FY 2020/21 but reduced to 31% in FY 2021/22

[8]The purpose of this Bill is to provide regulations and framework to govern transfer and utilization of conditional grants. The Bill was approved by the Senate and passed on to the, the National Assembly (the other house of parliament) for consideration and approval. However, the latter made various amendments which were rejected by the Senate as this was perceived as drawback to devolution, resulting to a standoff. As a result, and to unlock this impasse between the two houses of parliament, the mediation committee took over the process and spearheaded negotiations. This culminated to passing of the Bill in early 2022, thus unlocking about Ksh 40 billion as total grant to all the counties.

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 is often blamed on historical factors such as inherited staff cost from defunct local authorities and the fact that Kisumu is a former provincial head quarter of the former Nyanza Province. At the outset, this means that the resources available for delivery of other services by the county are reduced, 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 indicated in table 1 or from 23% to 29% as a share of overall county budget as seen in figure 2, is not enough to mask the burden exerted by uncontrolled wage bill.

It is apparent that budgets may have complied with fiscal responsibility principles, but during implementation from one quarter of the financial year to another, there are disruptions that may change the status of budget. It is for this reason, why oversight and vigilance by MCAs and civil society is imperative in advocating for counties to maintain fiscal discipline by complying with fiscal rules in the formulation of annual budgets but more so throughout budget implementation.

1.3.1 Expenditure on Wages and Salaries

Given that Ksh 40 out of every Ksh 100 that Kisumu County expects to raise (wage bill in relation to county revenue[9]) will go towards payment of wages and salaries, reveals the heavy burden that the wage bill is exerting on their budget. However, during implementation of the budget across quarters

[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.

as shown in figure 2, there were disruptions attributed in part to delayed release of funds. For example, in Q1 of FY 2021/22, nearly 90% of total spending went to payment of wages and by the end of Q4 this settled at 68.5%, significantly higher than the ratio by the end of Q4 of FY 2020/21 by 14 percentage points. On average, Kisumu County's wage bill is one of the biggest, that is number 43[10] of the 47 county governments. Specifically, of the revenue realized by the end of Q4, just slightly over a half (54.3%) constituted what was to be set aside for payment of wages and salaries. Of importance to note is that the medical personnel[11] and other staff of the health sector take up a half of the total wage of Ksh 5.13 billion[12]. Thus, any policy discourse on how to address rising wage bill, be it for example, audit and rationalization of staffing structures, should start with this sector.

Another general issue of concern for oversight by Members of Kisumu County Assembly and civil society as noted by the OCOB is that the entire payroll processing system for Kisumu County is not fully integrated. About 13% of the total wage bill was processed through manual payrolls but not the Integrated Personnel and Payroll Database (IPPD) system. It was reported that some staff members lack personal numbers and hence the reason why their salaries were processed manually. This raises public concern given that manual payroll processes are not only against government policy but also a red flag (existence of ghost workers) as they are prone to abuse. As a consequence, this manual system may lead to loss of public funds where there is lack of proper controls.

Furthermore, figure 2 shows reduced O&M spending share by the end of Q4 compared to what was budgeted in the two financial years, 21.4% against 23% in 2020/21 and 15.8% against 29% in 2021/22. As expected, the lion's share of the O&M budget, marginally over a quarter, was the combined expenditure on domestic and foreign travel cost of Ksh 303.3 million by the end of Q4 in FY 2021/22 . 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.

Sitting allowances, if not checked, is often another avenue for abuse of public funds. Kisumu County Assembly spent Ksh 45.6 million against an annual budget of Ksh 47.1 million on sitting allowance for their 49 members. This translated to a monthly sitting allowance of Ksh 77,620 per MCA which was commendably within the Salaries and Remuneration Commission (SRC) recommended cap of Ksh 124,800 per MCA.

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[10]file:///Users/ieakenya/Downloads/Know-Your-County-Fact-Book-2.pdf

[11]Doctors -9.66 per 100,000 population; nurses – 66.99 per per 100,000 population; clinical officers 8.5 per 100,000 population and public health workers – 10.28 per per 100,000 population via ibid

[12]OCoB County Government Budget Implementation Review Report for the FY 2021/22 September 2022

[13]OCoOCoB BIRR for FY 2021/21

Overall, reduced spending on operation and maintenance from 29% of annual budget to 15.8% has negative implication on the progress of operations and running of existing projects. This may manifest in the deterioration of existing infrastructure.

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 eight 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, accounts for nearly a third 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 Performance as at 30th June 2022 (Ksh Million)

Name of the Fund	Approved Budget Allocation in FY 2021/22 (Ksh)	Actutal Expenditure as of 30th June 2022 (Ksh)	Submission of Annual Financial Statements as of 30th June (Yes/No	Absorption Rate (%)
	A	B	C	B/A*100
Bursary/Education	205	205	Yes	100
Kisumu County Social Health Insurance Fund	140	140	Yes	100
Kisumu County Emergency Fund	100	100	Yes	100
COVID-19 Response	50	50	Yes	100
Kisumu County Assembly Loan Mortgage Fund	25	15	Yes	60
Kisumu Entreprises Fund	100			-
Kisumu County Rural Electrification and Renewal Energy Corp. Fund	35			-
Total	655	510		78

Source: OCoB County Governments Budget Implementation Review Reports for Q3 and Q4 of FY 2021/22

Although by Q2 of FY 2021/22, the uptake of some of the funds listed in table 2 was below the expected target, the pace picked up in Q3 and by the end of Q4 as each of the listed established funds were fully absorbed. The exception is however with Kisumu County Assembly Loan Mortgage Fund, whose uptake was 60%. No explanation is provided for this, something that civil society groups in Kisumu should follow up on.

It is not clear whether Ksh 100 million and Ksh 35 million budgeted for Kisumu Enterprises Funds and Kisumu County Rural Electrification and Renewal Energy Corp. Fund respectively were utilized or not, as information on the two is missing. In fact, by end of Q3, the respective financial statements for the two funds were not submitted to the Office of the Controller of Budget. Whether these reports were submitted by end of Q4 or not is not mentioned either. This opaqueness raises concerns that may lead to fiscal risks associated with proliferation of funds in circumstances where there are no proper checks and balances. This also raises value for money questions if these two funds were not utilized.

1.3.2 Development Spending Trends

Figure 2 clearly shows more pronounced disruptions in the implementation of expenditure for development projects. Development spending as a share of total county spending was 15.7% against budgeted development share of 31% by the end of Q4 of 2021/22 compared to 24.2% against 37% by the end of Q4 of 2020/21. The County has fallen significantly behind in its development spending relative to what was budgeted. Underspending of development budget compromises delivery of development projects and the anticipated outcomes.

Table 3: Select List of Development Projects with Substantial Expenditure

	Project Location	Contract Sum (Ksh million)	Bud-get	Amount Paid to Date	Con-tract Varia-tion	Imple-men-tation status	Sourc-es of Funding (GoK/ donor)	Remarks
Construction Of Ring Road Within Mamboleo Show Ground	Mamboleo Show Ground	21.2	25.2	21.2		84.1	GoK	Project completed
Construction & Renovation of Outer Fence At Mamboleo Show Ground	Mamboleo Show Ground	18.0	21.4	18.0		84.1	GoK	Project completed
Supply, Installation, Testing & Commissioning Automated Asset Verification, Tagging & Management System	HQ	12.0	14.2	12.0		84.0	GoK	Project completed
Proposed Paving of Katito Open Air Market and Drains	Katito	7.4	8.7	7.4		84.1	GoK	Project completed
Construction of Kolewe Box Culvert	Kolowe	5.0	5.9	5.0		84.0	GoK	Project completed
Construction of Kombewa Market Ring Road	Kombewa	5.0	5.9	5.0		84.1	GoK	Project completed
Construction of Esu-varu Water Project	Esuvaru	4.9	5.8	4.9		83.9	GoK	Project completed

	Project Location	Contract Sum (Ksh million)	Budget	Amount Paid to Date	Contract Varia-tion	Imple-men-tation status	Sourc-es of Funding (GoK/ donor)	Remarks
Stabilization of Parking Areas for Madaraka Celebra-tion At Mamboleo Show Ground	Mamboleo Show Ground	31.8		26.7		84.0		
Construction of Internal Road Within Mamboleo Show Ground	Mamboleo Show Ground	29.0		24.4		84.1		
Total Sum		134.1	87.2	124.4		92.8		

Source: OCoB County Governments Budget Implementation Review Reports for Q3 and Q4 of FY 2021/22

Despite challenges in development spending, a select list of prioritized development projects out of the entire development programmes were completed before the end of FY 2021/22 as shown in table 3. The implementation status, a comparison between amount paid by end of Q4 and the budget, on average is 84%, Notably, the amount paid for each respective project however matches the contract sum, implying full payment and suggesting that the budget exceeded the contract sum. These projects are related to construction of roads and parking areas in preparation of grounds for celebration of *Madaraka*[14] day hosted by Kisumu County. The others were related to construction of supporting infrastructure for Kombewa market and Esuvaru water projects. Total cost of these prioritized development projects in spite of successful completion rate, is small relative to the total development budget and hence the reason why their impact on overall development spending is minimal. Use of social accountability initiatives by civil society groups to ascertain whether what is on paper exists on the ground is imperative.

Separately, the status of the last two highlighted projects in table 3 was not reported in the Q4 Office of Controller of Budget Implementation Review Report for FY 2021/22., yet they were mentioned throughout Q1-Q3. Again, this points to issues that civil society can pick up for follow up and oversight.

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 (funds that have been released to spending units). The higher the rate of absorption the higher the county's efficiency in budget execution.

[14]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

Table 4 presents a snapshot of Q3 and Q4 expenditure performance for Kisumu compared with the 47 counties for the period 2018/19 to 2021/22. As noted earlier, the ideal target for Q3 expenditure performance is 75% and that for Q4 is 100%.

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

		Quarter 3 (Target = 75%)			Quarter 4 (Target = 100%)		
County	**Year**	**Recurrent (%)**	**Development (%)**	**Total (%)**	**Recurrent (%)**	**Development (%)**	**Total (%)**
47 Counties	2021/22	63.6	22.4	49.0	88.4	50.9	74.8
	2020/21	**56.2**	**25.1**	**44.2**	**89.5**	**62.1**	**79.3**
	2019/20	63.9	25.0	48.4	89.6	55.6	76.8
	2018/19	64.5	24.4	48.4	90.4	57.8	77.9
	Mean	**62.1**	**24.2**	**47.5**	**89.5**	**56.6**	**77.2**
Kisumu	2021/22	63.5	12.4	47.9	74.8	32.1	61.8
	2020/21	21.1	3.6	14.6	91.2	40.6	72.4
	2019/20	68.2	27.4	52.9	82.9	58.2	74.5
	2018/19	59.6	25.3	48.2	78.7	57.8	70.6
	Mean	**53.1**	**17.2**	**40.9**	**81.9**	**47.2**	**69.8**

Source: Various issues of OCoB County Governments Quarterly BIRRs

Kisumu County's overall expenditure performance is below the target for each of the quarters as is the performance for the 47 counties, across the four financial years. This is confirmed by the mean/ average absorption rates for Kisumu County as well as that for the 47 Counties.

Notably in Q3 and Q4 of FY 2021/22, Kisumu County's overall expenditure performance was below that of the 47 counties, but by a bigger margin for Q4. This scenario, that is performance in overall expenditure is similar for Q3 and Q4 of FY 2020/21 but by far poorer in Q3.

Absorption rates for development expenditure have consistently been lower than for recurrent expenditure and indeed by a substantial margin as shown in table 4. This is not only for Kisumu County, across the quarters and years but also for the 47 counties. It is therefore evident that the challenge of uptake of budgetary resources is more pronounced in relation to execution of development programs and projects. On average, Kisumu County development expenditure performance is 47.2% against a target of 100% across each of the four financial years as demonstrated in table 4.

Apparently, absorption rates for development expenditure across the four financial years for Kisumu County have been on a worryingly downward trend from 57.8% in 2018/19 to 32.1% in 2021/21. This is an indicator of the county's inability to address the challenges attributed to low uptake of development budget, beyond delays in disbursement of funds[15]. Therefore, the question that begs answers is what these challenges are. Table 5 on the utilization rates in part speaks to this question.

[15]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 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	3,727.9	321.6	96.6	91.4
	Q3	5,420.1	630	5,362.0	458.5	98.9	72.8
	Q4	7,395.8	1,334.8	6,307.9	1,175.7	85.3	88.1
2020/21	Q1	701.1	0	1,414.5	393.8	201.8	0
	Q2	2,430.4	283.1	2,947.6	993.8	121.3	351.0
	Q3	1,976.1	252.5	1,694.9	169.6	85.8	67.2
	Q4	7,344.7	1,931.3	7,322.5	1,930.9	99.7	100.0

Source: Various issues of County Government BIRRs

Spending relative to exchequer issues across the quarters for the two financial years is consistently high, in some cases above 100%, for both recurrent and development budget as seen in table 5. By contrast, spending relative to budget (absorption rate) is consistently low for both recurrent and development as was earlier demonstrated.

Utilization rates for both recurrent and development spending are comparatively higher in the FY 2020/21 across quarters than in the FY 2021/22. On recurrent spending, for Q1-Q3 of FY 2021/22 the average is nearly 100%, implying that the County utilized all the funds that were released to it during this period. It is only in Q4 when utilization rate drops to 85.3%. It is likely that the unspent portion, about 15% is related to operation and maintenance, the non-wage component of recurrent expenditure. With regard to development spending, utilization rates are below 100% across quarter, increased from 72.8% in Q3 to 88.1% by the end of Q4. This, to some extent, implies that in the FY 2021/22, Kisumu County faced capacity challenges in utilizing development funds that were made available to them unlike in the previous year.

In other words, from these numbers it is evident that in-county factors including procurement challenges (work plan and development of bills of quantities) and other administrative challenges such as timely reporting on the use of donor funds may explain non optimal utilization of available funds for development projects.

On the demand side, there seems to be a gap in community-based project management committees (PMCs) operations. It is either some PMCs do not exist for certain sectors and/or their effectiveness in monitoring project implementation is doubtful.

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.

Table 6: Quarterly Expenditure Absorption Rates Across Sectors[16]

	Recurrent								Development							
	2020/21				2021/22				2020/21				2021/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture, Livestock & Fisheries	0	29	2	58	0	43	17	34	15	4	-17	57	0	15	-14	43
County Assembly	17	23	13	43	13	30	23	33	0	0	4	60	0	0	0	59
Trade, Energy and Industry	0	4	-3	108	0	40	5	29	0	0	0	27	0	7	8.7	27
Kisumu City	6	5	13	72	0	40	9	42	19	19	-38	35	0	0	0	81
Governor and Admin.	5	33	-11	62	0	29	18	-10	0	0	0	26	0	0	0	0
Education	0	40	-12	68	0	48	27	24	0	1	6	30	0	14	12	19
Environment & Natural Resources	0	1	99	-24	0	40	10	30	0	4	-4	18	0	0	0	48
Finance and Economic Planning	7	34	-9	57	4	72	23	-47	0	57	-31	66	0	21	14	-27
Tourism, Culture and Sports	0	22	-8	52	0	27	10	26	0	0	0	14	0	0	0	44
Medical Services & Public Health	31	11	-32	84	28	8	19	15	0	0	0	26	0	0	11	36
Physical Planning and Housing	0	16	-8	54	0	44	1	70	0	0	0	7	0	0	0	2.5
County Public Service Board	0	7	-2	66	0	43	11	36	0	0	0	0	0	0	0	0
Transport and Infrastructure	5	21	-7	49	0	38	28	33	5.8	6	-8	43	0	0	5.5	12
Business, Cooperatives & Mkts	0	2	6	63	0	43	-43	0	5.9	2	-8	17	0	0	0	0

Source: Various issues of County Government BIRRs

Generally, budget execution in the Q1 for majority of the sectors/departments in both recurrent spending but particularly more for development spending is very low (zero spending). The expectation of expenditure performance, recurrent and development is 25% per quarter. However, what we see from table 6 is absorption rates that are above 25% in Q2 and Q4 for recurrent expenditure. For example, 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 on 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. As for development expenditure, most of the spending happened largely in Q3 and Q4. This pick up in spending, just like for recurrent spending, is to compensate for the period where spending was low, often due to delay in timely release of funds.

By the end of Q4, of FY 2021/22, the sectors where cumulative recurrent expenditure was below 75% are Medical Services and Public Health (69.1%); Finance and Economic Planning (51.2%); Public Administration & Devolution (73.2%) and the Office of Governor and County Administration (38.3%)

[16] This table captures quarterly absorption rates not cumulative.

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

Q3-Q4 witnessed accelerated development spending across financial years and sectors with significant spending associated with Kisumu County with cumulative absorption rate of 81% by the end of Q4, as the only Department that managed to absorb over 75% of its budget. This performance is associated with the list of prioritized development projects (see table 3). The other departments/sectors that experienced increased uptake of development funds are Agriculture, Livestock and Fisheries, Environment, Water, Irrigation and Natural Resources, Public Health, Medical Services, Tourism Culture, Arts and Sports. On the contrary, Public Administration and Devolution; Physical Planning and Housing and Finance and Economic Planning had relatively low absorptions rates.

Overall underperformance of the recurrent and development budget[17,] has affected the pace of completion of certain programmes (their budgets and absorption rates in parenthesis) including the following select examples,

- County roads and public works management – Ksh 1,037.1 milllion (29%)
- Promotion of crop production value chain-Ksh 82.3 million (39.2%)
- Tourism Development and Management – Ksh 15.6 million (32.4%)
- County and Sub-County Hospital Services – Ksh 234.2 million (54.7%)
- Early childhood education management – Ksh 304.8 million (49.9%)
- PFM related services
    - o Revenue mobilization – Ksh 75.2 million (34.2%)
    - o Public participation services – Ksh 4.7 million (12.2%)

From the foregoing, low uptake of funds may lead to poor service delivery in the areas mentioned above. This will make it difficult to address some of Kisumu's socio-economic challenges, for instance, in terms of high mortality rates (under 5 mortality rate of 63.1 deaths per 1,000 birth and maternal mortality rate of 343 per 100, 000 live birth), high morbidity cases. Kisumu County is ranked number 20 out of the 47 counties on its human development index of 0.52. Other challenges that may arise related to delays in completion of development project are risks related too cost overrun and pile up in pending bills.

Settlement of Pending Bills

Pending bills are unsettled financial obligation at the end of a financial year. Pending bills arise when counties fail to settle invoiced amounts for goods and services properly procured and delivered or services offered as at the end of a financial year. Pending bills are a liability to counties and weaken general county economic activities since suppliers need to be paid to manage day to day operations.

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[17]County Government Budget Implementation Review Report Q4 for the FY 2021/22,

The outstanding pending bills for Kisumu County by the end of FY 2021/22 was Ksh.1.88 billion and the sum included the bills classified as eligible by the Office of the Auditor General. The Auditor General reported that eligible pending bills as at June 30, 2020 were Ksh 1.04 billion, out of which the County has settled bills amounting to Ksh 508 million, leaving a balance of Ksh.539.13 million as of 30th June 2022 as shown in table 7.

Table 7: Progress on Settlement of Pendings as of 30th June 2022

Budget Classification	Outstanding Pending Bills Amount as of 30th June 2021 (Ksh)	Amount Paid in FY 2021/22 (Ksh)	Outstanding Pending Bill from previous FY (Ksh)	Pending Bills for FY 2021/22	Total Outstanding Pending Bills as of 30th June 2022
	A	B	C=A-B	D	E=C+D
Recurrent Expenditure	0	0	0	0	0
Development Expenditure	1,825.2	508.0	1,317.2	559.4	1,876.6
Total	1,825.2	508.0	1,317.2	559.4	1,876.6

Source OCOB 4th Quarter Report 2021/22

It is important to note that the rise in pending bills, not only for Kisumu but a majority of counties, is a recurring issue since the inception of devolution. To this end, the President in June 2019 directed that county governments clear existing pending bills that had been approved for payment which was reiterated by the National Treasury but the level of compliance is low by a majority of counties. Kisumu County is one of the counties that had partially complied with pending bills orders but could face sanctions, stoppage of disbursement of funds for not fully complying with this directive as per Article 225 of the Constitution of Kenya. In fact, the recent directive is that Counties should treat pending bill as a first charge on the CRF as a way of fast tracking its clearance. Again, MCAs and civil society groups should take the County Treasury for Kisumu to task on this regarding implementation of ongoing budget for FY 2022/23.

3.0 What Explains Budget Execution by the end of Q4 of FY 2021/22

Predictability and availability of funds in a timely fashion is critical for effective budget execution. Breakdown in revenue performance as shown in table provides insights on the bottlenecks to timely availability and release of funds to county spending units and ways to address them.

3.1 Predictability of Funds

Overall underperformance of expenditure is attributed to delays in disbursements of funds as has been noted severally in this analysis. 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 two thirds of the annual budget.

Therefore, and as noted earlier, any delays in release of these funds, as witnessed in Q1 disrupts budget execution. Studies[18] 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 often prioritizes its spending at the expense of counties' spending (release of equitable share)[19].

It is important to underscore that irrespective of the potential for Kisumu County's mobilization of OSR, equitable share will continue to be a major financing component for budget implementation not only for Kisumu but for a majority of counties.

3.2 Conditional grants

In Q3 and Q4 of FY 2021/22, after approval of the Conditional Grants Bill, 2021, conditional grants were unlocked to county governments. The OCOB reports indicated that Kisumu County expected to receive Ksh 1.45 billion (see breakdown below), a welcome boost to its revenue kitty.

Conditional Grants FY 2021/22 (Ksh Million)			
Donors	Ksh	GoK	Ksh
DANIDA	**15.13**	Road Maintenance Levy Fund	127.62
Kenya Devolution Support Programme (KDSP)	108.56	Level Five Grant	96.33
Kenya Smart Agriculture Project	**389.67**		
ASDP	49.83		
World Bank Grant for Transforming Health Care	134.82		
EU Ideas	**35.1**		
KISSIP	300		
Youth Polytechnic	16.36		
Kenya Urban Support Programme (KUSP)-UDG	135.4		
KUSP- (Urban)	0.579		
SEACAP	**7.13**		
Sub-total	1192.57	Sub-total	223.95
Grant total	**1,416.5**		

However, by the end of FY 2021/22, the actual receipts were Ksh 362.7 million, about 25% of what was expected. Although no explanations were provided for this poor performance, there are general factors that we note based on interaction with government reports and past engagements with county officers. Perhaps, this could be attributed to consequences of non-compliance with donor

[18] 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)

[19] Ibid

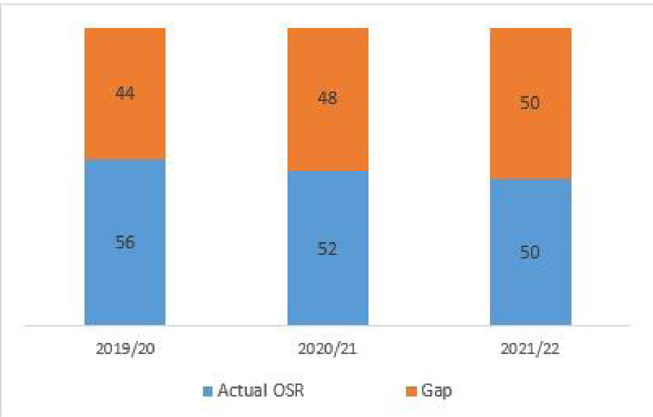
requirements for example on regular and timely reporting. Another factor could be public finance related, audit performance, which has been poor, adverse opinion[20] since FY 2016/17- FY 2019/20. its audit opinion -adverse or misappropriations of donor funds.

3.3 Reliance on Own Source of Revenue and Cash Balances

Receipts from cash balances and OSR is what counties fall back to whenever there are delays in release of equitable share. For example, by the of Q2 of FY 2021/22, Kisumu County had exhausted it entire cash balances funds. Moreover, leakages or any shortfall of the OSR due to unrealistic projections has negative implications on budget performance and overall service delivery.

The importance of OSR is underscored by the fact that it accounted for 12% of total revenue for Kisumu County in 2020/21 which went up to 16.3% in 2021/22 as computed from table 1. Cash balances b/f share of total revenue however declined from 8% to 6%. When combined, both OSR and cash balance b/f accounted for 22% of total revenue up from 20%.

Figure 3: Actual OSR Performance and Gap (%)

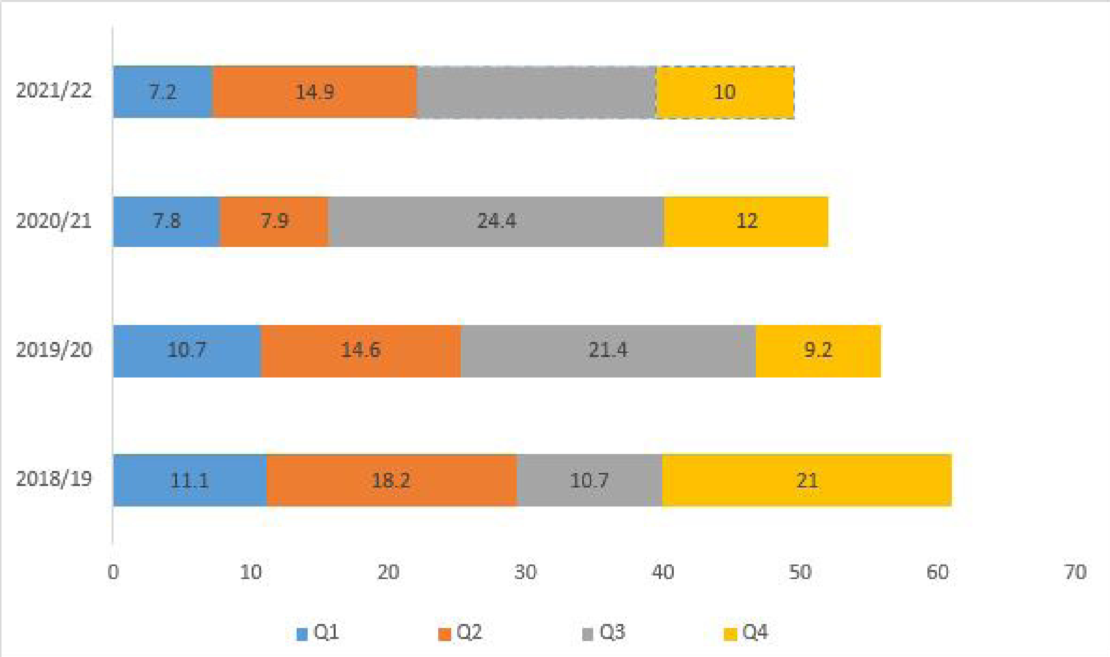


In fact, the actual OSR collection grew by 20% by the end of Q4 whereas cash balance increased by 22% relative to prior year. However, and despite the huge potential for Kisumu in enhancing its mobilization of OSR, especially from the untapped property tax, it has continued to underperform (OSR collection has persistently missed the target as shown in the figure 3

Specifically, Kisumu County government has since 2013/14 not realized annual OSR collection above Ksh 1 billion except in 2018/19 when it posted Ksh 1.013 billion, yet its projections for both FYs 2020/21 and 2021/22 was above Ksh 1 billion, respectively Ksh 1.6 billion and Ksh 1.98 billion.

[20]This type of opinion or judgement is awarded by the auditor in cases when the financial statements exhibit significant misrepresentation (material misstatements) with the underlying accounting records. Simply put, such an opinion is associated with widespread and persistent disagreements between financial statements and underlying books of accounts which requires considerable intervention by the management to rectify.

Figure 4: OSR Quarterly Performance, 2018/19 to 2021/22 (%)



Furthermore, collection of OSR varies across quarters as shown in figure 4 denoting seasonality in OSR performance (OSR collection as percentage of OSR target). 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 be attributed to unrealistic projections, and administrative constraints in its mobilization as well as due to leakages.

The other important point noticeable from figure 4 is that, OSR performance has been a downward trend from 61% in 2018/19 to 49.5%. In other words, the extent to which Kisumu County has continued to miss OSR target has been going up. It seems that past OSR actual collection and performance is not being used to inform realistic projections but driven more by the political incentive to show that there is no budget deficit (anticipated revenue match planned expenditure).

4.0 Conclusion and Recommendations

No.	Gaps	Recommendations
1.	Adherence to fiscal responsibility principles	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. As much as the allowances for FY 2021/22 were within the RSC recommended Ksh 124,000 per MCAs, civil society groups should continue to track and put pressure on County Executive and the Assembly to ensure that this is maintained.
3.	Underfunding of maintenance and operations recurrent budget	Uncontrolled 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 during their scrutiny and approval of the budget.
4.	Partial release of budgeted Conditional Grants	Conditional Grants Bill, 2021 are an 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. The County Assembly through the Budget and Appropriation Committee as well as the Senate through the Watchdog Committee should put the County Treasury to task on ensuring that they meet donor conditionalities on Conditional Grants. Civil society groups should track use of implementation of Conditional Grants and engage other groups for increased awareness and empowerment to demand for accountability.
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

No.	Gaps	Recommendations
7.	Settlement of pending bills	Through social audit or other social accountability tools, civil society group track the status and payment of pending bills (road map) and use the same for elevating public discourse on public debt. There is need for oversight especially by the County Assembly on whether eligible pending bills have been subjected as a first charge on CRF
8.	Non submission of financial statements on Kisumu Entreprises Fund and Kisumu County Rural Electrification and Renewal Energy Corp. Fund	The County Assembly through the relevant Committee should follow up on why the financial statements for these two Funds were not submitted to the Office of the Auditor General and the Office of the Controller of Budget and seek a report/ response from the County Executive on remedial action. This also call for civil society to request for the requisite reports on utilization of the funds to be made public and use this information to hold the County government official to account.
9.	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 and also through the CBEF should pressurize the County Treasury to make these reports publicly available as constitutional required. Further, civil society groups should petition the County Assembly to sanction the county executive for non-adherence to openness and transparency as principles of public finance.

NOTES

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