Institute of Economic Affairs

COUNTY BUDGET FOCUS

October, 2022

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

1.0 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 fulfilment 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) synthesises third quarter-Q3 (January to March 202) of 2021/22 BIRR for Busia 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.

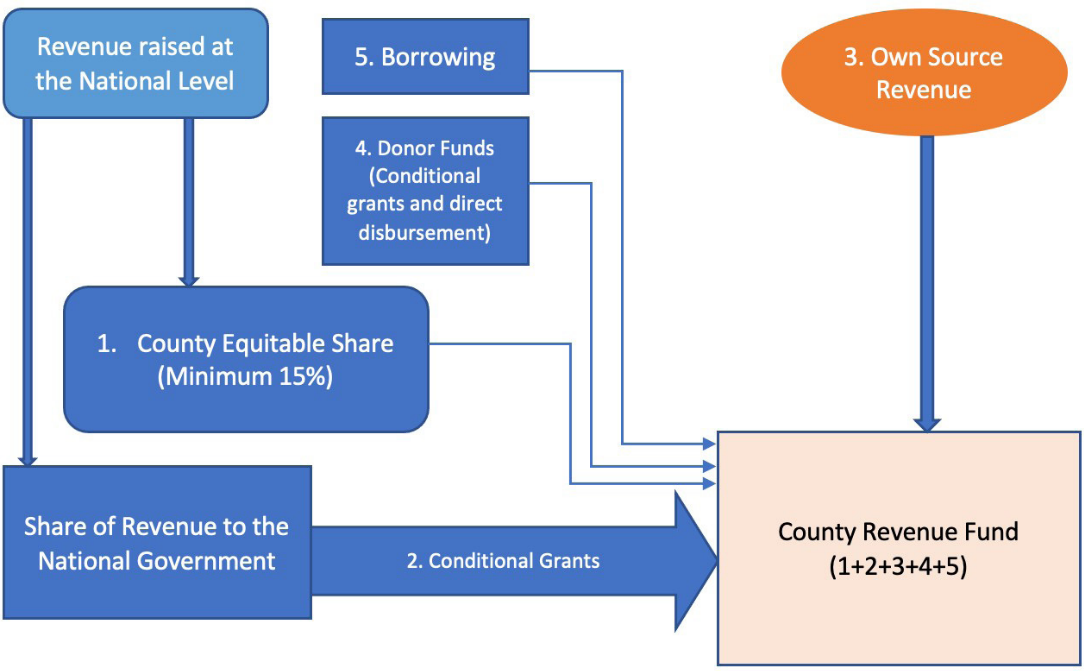
1.1 County Financing and Funds Flow

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.

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 grants 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) channelled 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 [1] 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 the 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[2].

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties are deposited in their respective County Revenue Fund[3] (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 Kisumu 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.

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

[2]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).

[3]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.

1.2 Overview of Busia County Budget Performance

Table 1 is a summary of actual revenue and expenditure against Busia County's annual targets for Q3 and Q4 financial year 2021/22. The review of budget performance measures the extent to which the annual budget has been executed. The performance is compared to similar periods in 2020/21 to assess any peculiar trend in the county's budget execution. Busia County's budget performance in the two periods is similar in terms of not fully absorbing the annual budget by the end of the two financial years. The annual budget for 2021/22, Ksh. 10.2 billion is a slight decrease from Ksh. 10.48 million in 2020/21, it is against these targets that the performance was estimated. The performance at the end of FY 2021/22 is also slightly lower at 62.8% in comparison to FY 2020/21 where the performance was 71.7%.

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

	2020/21					2021/22				
	Annual Budget (Ksh mn)	Q3		Q4		Annual Budget (Ksh mn)	Q3		Q4	
		Actual (Ksh mn)	Perfo-mance (%)	Actual (Ksh mn)	Perfor-mance (%)		Actual (Ksh mn)	Perfor-mance (%)	Actual (Ksh mn)	Perfor-mance (%)
Revenue										
Equitable revenue share	6,108.45	3,487.83	57.1%	6,108.45	100.0%	7,172.16	4,769.49	66.5%	6,598.39	92.0%
Conditional grants from the N.G.	256.20	28.60	11.2%	256.20	100.0%	695.30	0.0	0.0	242.40	34.9%
Loans and grants from Development Partners	733.39	205.44	28.0%	505.60	68.9%	0.0	0.0	0.0	0.0	0.0
Own source revenue (OSR)	1,119.56	231.23	19.6%	322.56	28.8%	976.11	227.32	23.3%	292.74	30.0%
Balance b/f	2,201.32	2,201.32	100.0%	0	0	1,386.80	1,386.80	100.0%	0.0	0.0
Grand Total Revenue	10,418.90	6,154.42	59.1%	7,192.85	69.0%	10,230.38	6,383.60	62.4%	7,133.52	69.7%
Expenditure										
Total Recurrent Expenditure	5,672.20	3,970.41	70.0%	5,298.97	93.4%	5,681.53	3,742.20	65.9%	4,887.78	86.0%
Compensation to Employees	3,298.76	2,661.20	80.7%	3,330.52	101.0%	4,856.9	2,538.00	52.3%	3,122.05	64.3%
Operation and Maintenance	2,373.43	1,309.21	55.2%	1,968.45	82.9%	3582.3	1,204.20	33.6%	1,765.73	49.3%
Development Expenditure	4,746.72	965.12	20.3%	2,175.49	45.8%	4,548.85	963.90	21.2%	1,537.63	33.8%
Grand Total Expenditure	**10,418.90**	**4,935.5**	**47.4%**	**7,474.46**	**71.7%**	**10,230.38**	**4,706.09**	**46.0%**	**6,425.41**	**62.8%**

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

The actual expenditure of Ksh. 6.4 billion by the end of FY 2021/22 consists of recurrent expenditure at Ksh. 4.9 billion and development expenditure at Ksh. 1.5 billion. During a similar period in 2020/21, the overall spending was slightly higher at Ksh. 7.5 billion, with a split between recurrent and development expenditure of Ksh. 5.3 billion and Ksh. 2.2 billion respectively. The spending on development projects decreased by 41.5% between the two periods (Ksh. 2.2 to Ksh. 1.5 billion). The spending in FY 2020/21 and FY 2021/22 translates to absorption rates of 45.8% and 33.8% for development expenditure and 93.4% in FY 2020/21 and 86% in FY 2021/22 for recurrent expenditure.

The performance of 101% for compensation to employees in FY 2020/21 as shown in Table 1 implies that the county spent more than what it received from the county revenue fund through approval by the controller of budget in a process known as exchequer requisition. Although the reason is not given for this in the reporting, the most likely reason is that the county spent some of its own source revenue at source. The public finance regulation requires that any revenue raised by the county should first be remitted to the county revenue fund and the county can only spend upon request and approval by the controller of budget.

The spending in FY 2021/22 was financed by the various sources of county revenue. In total, Busia County had received Ksh. 7.1 billion by the end of Q4, this translates to 69.7% of the annual revenue. The largest source of revenue for Busia County is the revenue received from the national shareable revenue, the equitable share, at Ksh. 6.6 billion. The county also had unspent funds (cash balances) by the end of financial year 2020/21 amounting to Ksh. 1.4 billion which was all spent in Q3 FY 2021/22. A similarity is seen in the county's spending of cash balances from the previous financial year in the subsequent year. In FY 2020/21, the county had carried forward Ksh. 2.2 billion in cash balances from FY 2019/20 and spent it all in Q3 FY 2020/21.

Busia County did not receive any loans from development partners in FY 2021/22 in comparison to FY 2020/21 where the county spent Ksh. 505.6 million of loans received. Additionally, the county collected Ksh. 65.42 million in own source revenue in Q4 FY 2021/22, bringing the total own source revenue raised by the end of Q4 to Ksh. 292.74 million. By the end of Q3 2021/22, Busia County had not received any of the annually budgeted Ksh. 695.3 million conditional grants from the national government. However, Ksh. 242 million was disbursed in Q4. These funds are conditional since they are tied to specific spending and the county cannot divert the funds to other uses. Out of the 695.3 million Busia County was to receive in grants in 2021/22, 63% (Ksh. 441.1 million) are grants towards improving food security and nutrition in the county.

The grants include; Kenya climate-smart agriculture project, Agriculture sector Development support programme 2, water tower protection and climate change mitigation and adoption, and grants towards improvement of nutrition in the county. With Busia County ranking 44th among the 47 counties in terms of food poverty rates where 59.5% of the population is food poor (IEA Kenya), these grants are critical in improving food security in the county hence timeliness in disbursement should be improved.

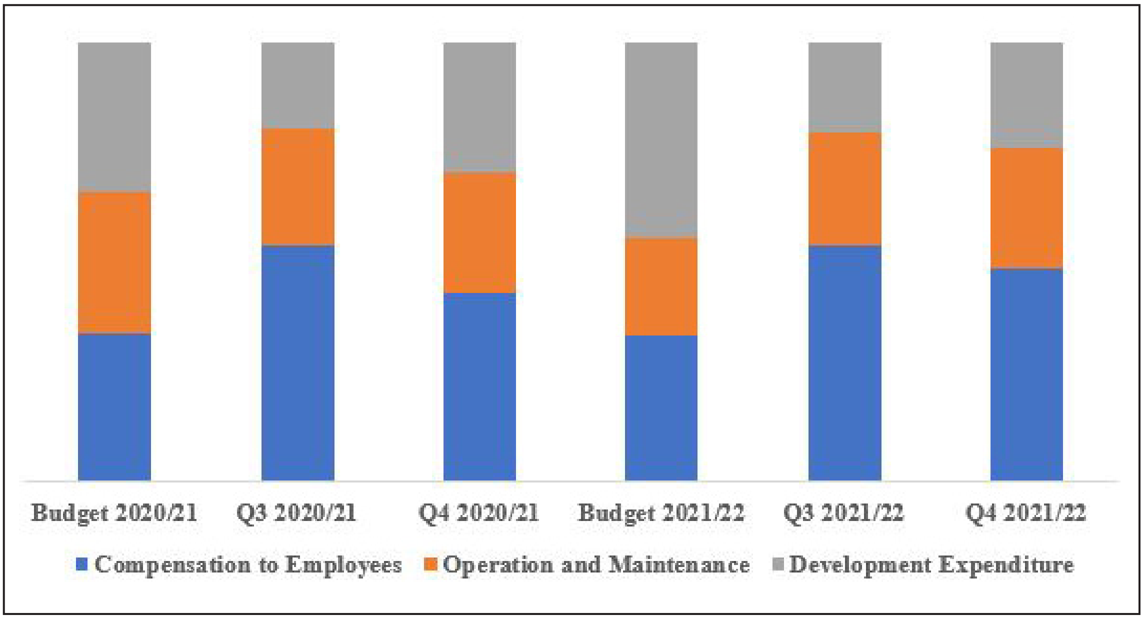
Comparing both revenue and expenditure performance in FY 2020/21 and 2021/22, total revenue receipts increased slightly with less than one percentage point but there is decline in release of equitable share and conditional grants which were fully disbursed in FY 2020/21 but only 92% of equitable share and 34.9% of conditional grants in FY 2021/22. There is a decline in spending by 8.9 percentage points. Development spending in the two periods decreased from 45.8% in FY 2020/21 to 33.8% in FY 2021/22, pointing to underlying challenges that are causing the delays in implementation of development projects.

1.3 Expenditure Patterns

In review of expenditure patterns by Busia County in the two financial years, it is evident that the county adheres to public finance management guidelines in preparation of the annual budget. Public Finance Management Act (PFMA), 2012 requires that at least 30 percent of the budget must be allocated for development programmes and that county government's expenditure on wages and benefits shall not exceed 35% of the county's total revenue. As shown in figure 1, Busia County in 2021/22 allocated 44.5% of the annual budget to development expenditure and 33.4% to compensation to employees, which comprises wages. In the previous year, the county allocated 33.7% of the annual budget to development expenditure and 34.1% to wages.

In execution of the budget by the end of Q3 2021/22, Busia County spent 20.5% of the Ksh. 4.7 billion expenditures on development. This is a slight increase in proportion from 19.6% in Q3 of the previous financial year but in absolute terms, it is a decrease from Ksh. 965.12 million to Ksh. 963.9 million. The same picture is seen in recurrent expenditure where the total spending by the end of Q3 2021/22 is less than that of Q3 2020/21 by Ksh. 228.21 million. By the end of FY 2021/22, the county spent 23.9% of the total expenditure on development. When the share of development expenditure by the end of FY 2021/22 is compared to annual development budget, the proportion is 33.8% as summarised in Table 1.

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



Source: Various issues of OCoB County Government BIRR reports

The county's spending on recurrent expenditure comprises compensation to employees and operation and maintenance. Busia County's largest component of the wage bill is wages in the health sector which accounts for 37.9% of the total wage bill of Ksh. 3.12 billion in FY 2021/22. When the share of compensation to employees is compared to the total revenue Busia County had received in FY 2021/22, the expenditure was 43.7% of revenue, above the 35% limit. In the financial year 2020/21, the county spent above the required limit on compensation to employees at 46.3%. Additionally, the county processed Ksh. 109.86 million worth of salaries through a manual payroll with the county citing lack of personal numbers as the reason for the failure. This is against the government policy that requires that salaries should be processed through the Integrated Payroll and Personnel Database (IPPD) system and the county should hasten the acquisition of personal numbers for their staff.

Domestic travels during the year account for the largest share of operations and maintenance at Ksh. 163.25 million. The county assembly committee sitting allowances amounted to Ksh. 58.99 million and were within the Salaries and Remuneration Commission's recommended monthly ceiling of Ksh. 124, 800. The county spent Ksh. 88. 31 million on public participation during the year. A review of the past four financial years reveals that Busia County last budgeted for public participation as a line item on its own was in FY 2018/19. Stakeholders under the project in Busia County reported during strategy meetings that persistent lack of resources is a hindrance to effective public participation. Adequate and continuous funding towards public participation could in part solve the existing challenges in the process.

2.0 Overall Expenditure Performance

Expenditure performance is measured by two key indicators, absorption and utilisation rates. Absorption rate measures total county spending relative to initial county budgets while utilisation rate measures spending relative to exchequer issues (disbursement of funds). The higher the rates of absorption and utilisation, the higher the county's efficiency in budget execution.

The ideal target for Q3 expenditure performance is 75% and that for Q4 is 100% since it is the end of the financial year. However, the trend shows that it is not always the case, with development expenditure disproportionately taking the hit. This is not the case only for Busia County but a common theme across most counties. Previous study that assessed the challenges in county's budget execution reported that the procurement processes in development projects, coupled with delays in disbursement of funds could in part explain the low performance in development expenditure. Counties, such as Marsabit County, that have higher absorption rates are attributed to proper planning through the established development projects committee.

Table 2: Comparison of Cumulative Quarterly Absorption Rates

		Quarter 3 (Target = 75%)			Quarter 4 (Target = 100%)		
County	**Year**	**Recurrent (%)**	**Development (%)**	**Total (%)**	**Recurrent (%)**	**Development (%)**	**Total (%)**
All 47 Counties	2021/22	63.6	22.8	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**	**24.3**	**47.5**	**89.5**	**56.6**	**77.2**
Busia	2021/22	65.9	21.2	46.0	86.0	33.8	62.8
	2020/21	70.0	20.3	47.4	93.4	45.8	71.7
	2019/20	61.0	19.4	43.4	92.2	44.6	72.8
	2018/19	66.1	26.2	49.6	91.4	52.8	75.3
	Mean	65.8	21.8	46.6	90.8	44.3	70.7

Source: Various issues of OCoB County Governments Quarterly BIRRs

Table 2 above presents expenditure performance for Busia County compared to all the 47 counties for the period 2018/19 to 2021/22. Busia County's overall expenditure performance is below the target for each of the quarters reviewed as is the performance for all the 47 counties, across the four financial years. This is confirmed by the absorption rates for Busia County and all the 47 Counties. Across the four years, Busia County's overall performance and development absorption rates in the fourth quarter is below the average of all the 47 counties.

As noted earlier, Busia County has persistently registered low performance in development expenditure and this explains the lower than all 47 counties' average performance. This is reiterated in the controller of budget reports that have continuously pointed out the low performance in development expenditure. On the other hand, absorption rates for recurrent expenditure have not deviated much from the 100% target as the County had an average of 90.8% across the four financial years. Similarly, in the third quarter, the absorption rates for recurrent expenditure are closer to the ideal 75% than absorption rates for development expenditure. Busia County had an average of 21.8% across the four years for development expenditure, way below 75%.

There is a general downward trend in absorption rates for development expenditure across the four years from 26.2% in Q3 FY 2018/19 to 20.3% in Q3 2020/21. This slightly increases to 21.2% in Q3 FY 2021/22 but the absorption rate of 33.8% in Q4 2021/22 is a decline from 45.8% in Q4 2020/21. If the County does not address the challenges leading to low absorption rates for development expenditure, this trend will continue to persist in addition to recurring issues of stalled projects. Some of the challenges reported include inadequate capacity in development of bills of quantities for projects leading to errors. A project implementation committee has also not been established to monitor progress of project implementation.

Table 3: Cumulative Quarterly Utilisation 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	Q3	4,377.65	969.97	3,742.18	963.90	85.5%	99.4%
2021/22	Q4	5,629.45	1,564.95	4,887.78	1,537.63	86.8%	98.3%
2020/21	Q3	4,183.27	962.59	3,970.41	965.12	94.9%	100.3%
2020/21	Q4	5,773.28	1,902.41	5,298.97	2,175.49	91.8%	114.4%

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

Actual expenditure to exchequer issue (disbursed funds) gives the utilisation rates and is used to measure how much of the disbursed funds a county spent. In contrast to the absorption rates, utilisation rates for Busia County are relatively high, indicating that Busia County has the capacity to spend the revenue disbursed during the financial year. The second contrast is that development expenditure registered a higher utilisation rate in comparison to recurrent expenditure in the two financial years. The utilisation rates are shown in Table 3.

Utilisation rate for recurrent expenditure in Q3 and Q4 of FY 2021/22 has declined when compared to the rates during the same period in FY 2020/21. In Q3 FY 2021/22, the utilisation rate for recurrent expenditure was 85.5%, a decrease of 9.4 percentage points from 94.9% in Q3 FY 2020/21. Development spending in Q3 and Q4 of 2020/21 was significantly more than the exchequer issues- the funds that were released in two respective quarters. In Q3, utilisation rate for development expenditure was 100.3% and 114.4% in Q4. In Q3, Ksh. 2.53 million was not based on any released/available funds while the variance in Q4 was Ksh. 273.08 million. In Q4, the variance of Ksh. 278.08 million is due to spending that exceeded received revenue by the agriculture sector, water sector and the governorship.

For Q4 of FY 2021/22, Busia County spent Ksh. 1.54 billion out of the received Ksh. 1.56 billion for development expenditure, translating to utilisation rate of 98.3%. In Q3 of the same year, the utilisation rate for development expenditure was slightly higher at 99.4%. Given this picture, it is evident that the low performance in development expenditure is not as a result of lack of capacity to spend as the County spent almost all the development revenue it received. The most likely cause could be due to delays in the release of funds.

This high utilisation rate shows effectiveness in the capacity of the county to spend resources that are at its disposal. In instances where the spending is beyond what is made available through the exchequer requisition process, the county should improve cash flow management to ensure all spending is lawful.

2.1 Performance in Spending across Sectors

Table 4 breaks down Busia County's recurrent and development expenditure performance across sectors. The county has ten main sectors with the exclusion of the governorship, the county assembly and the county public service board. Busia County budget performance presents a trend where the low budget performance in the first two quarters is compensated for in the third and fourth quarters.

However, even across sectors, the budget performance is lower for development expenditure in comparison to recurrent expenditure. Performance of development expenditure across sectors between Q4 FY 2020/21 and Q4 FY 2021/22 shows a decline from 71.2% to 33.8%.

Whereas in Q1 of FY 2021/22 there was zero spending on development budget across all the sectors, significant improvements are seen in Q3 and Q4. A similar trend is observed in FY 2020/21. The highest absorption rate for development expenditure is by the county assembly at 95.2%, followed by the health and sanitation sector at 57.1%. Health and sanitation sector also registered an absorption rate of 96.3% for recurrent expenditure. This is not surprising given the sector is reliant on services and accounts for the largest share of the county wage bill.

In the list of development projects under the health and sanitation sector is the construction and refurbishment of Amukura HC at a cost of Ksh. 69.83 million (90% complete) and construction of a mother and child specialist hospital at a cost of Ksh. 51.68 million (43.5%). Despite the constructions still incomplete, the use of facilities has commenced, raising safety questions. Furthermore, the project on the construction of the mother and child hospital had variations of 76% in the original budget amounting to Ksh. 39.27 million.

Table 4: Quarterly Expenditure Absorption Rates Across Sectors

	2020/21				2021/22			
	Q3		Q4		Q3		Q4	
Department	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
Agriculture and Animal Resource	74.6%	26.5%	98.7%	67.0%	26.5%	16.3%	90.7%	33.8%
Trade,Cooperative and Industriazation	30.8%	6.6%	94.9%	77.4%	60.2%	19.1%	78.4%	35.4%
Education and Vocational Training	79.2%	18.4%	99.1%	91.7%	67.4%	9.1%	81.5%	24.1%
Finance,Economic Planning and ICT	80.5%	73.3%	97.0%	51.4%	92.0%	7.8%	95.5%	7.8%
Youth,Culture,Sports Tourism and Social Services	31.1%	1.7%	75.2%	55.2%	63.3%	32.3%	84.0%	20.8%
Roads,Public Works,Energy and Transport	48.8%	28.3%	95.9%	74.8%	52.3%	20.3%	78.1%	28.4%
Public Sevice Management	56.7%	0.0%	68.4%	61.5%	29.1%	0.0%	39.1%	-
Lands,Housing and Urban Development	17.1%	4.2%	96.0%	84.8%	46.4%	16.5%	66.7%	11.8%
Water Enviroment and Natural Resources	57.3%	17.6%	95.9%	16.3%	48.7%	30.7%	54.9%	28.6%
Health and Sanitation	78.6%	18.4%	90.4%	0.0%	79.6%	21.6%	96.3%	57.1%
County Public Service Board	60.7%	0.0%	92.1%	-	44.4%	0.0%	74.4%	-
The Governorship	72.0%	2.9%	87.0%	46.5%	41.7%	54.4%	67.9%	18.9%
County Assembly	61.6%	4.5%	94.1%	68.1%	58.2%	8.1%	97.8%	95.2%
Total	70.0%	20.3%	86.5%	71.2%	65.9%	21.2%	86.0%	33.8%

Source: Various issues of County Government BIRRs

Public service management was the only sector with less than 50% absorption rate for recurrent expenditure in Q4 FY 2021/22 at 39.1%. Agriculture sector had an absorption rate of 90.7% for recurrent expenditure in Q4, an increase from 26.5% in Q3 FY 2021/22. It is likely that the county paid any wages that had not been paid in the last quarter before the close of the financial year. From table 4, it shows that several sectors have low spending by the end of the financial year, especially for development projects. This will result in project roll over to the next financial year and the risk of rising pending bills.

2.2 County Established Funds

Section 116 of the PFM Act, 2012, allows County governments to establish other public funds with approval from the County Executive Committee and the County Assembly. In line with this regulation, Busia County has established four main funds; Busia County cooperative enterprise development fund, Busia County health services fund, Busia County agricultural development fund and education revolving scheme. In total, the County allocated Ksh.90.51 million to the established funds in FY 2021/22, which constituted 0.9% of the County's overall budget for the year. The County spent Ksh. 32.3 million of the allocated funds, with Busia County health services fund registering the highest absorption rate of 99.6% and Education revolving scheme second at 50.3%. Table 5 summarises each established Fund's budget allocation and performance during the reporting period.

Table 5: County Established Funds

S/No.	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	Absorption (%)
		A	B	C	B/A*100
1.	Busia county Cooperative Enterprise Development Fund	6,000,000	1,700,000	YES	28.3
2.	Busia County Health Services Fund	23,070,935	22,979,428	YES	99.6
3.	Busia County Agricultural Development Fund	41,440,100	90,077	YES	0.22
4.	Education Revolving scheme	15,000,000	7,553,745	No	50.3
	Total	90,511,035	32,323,250		

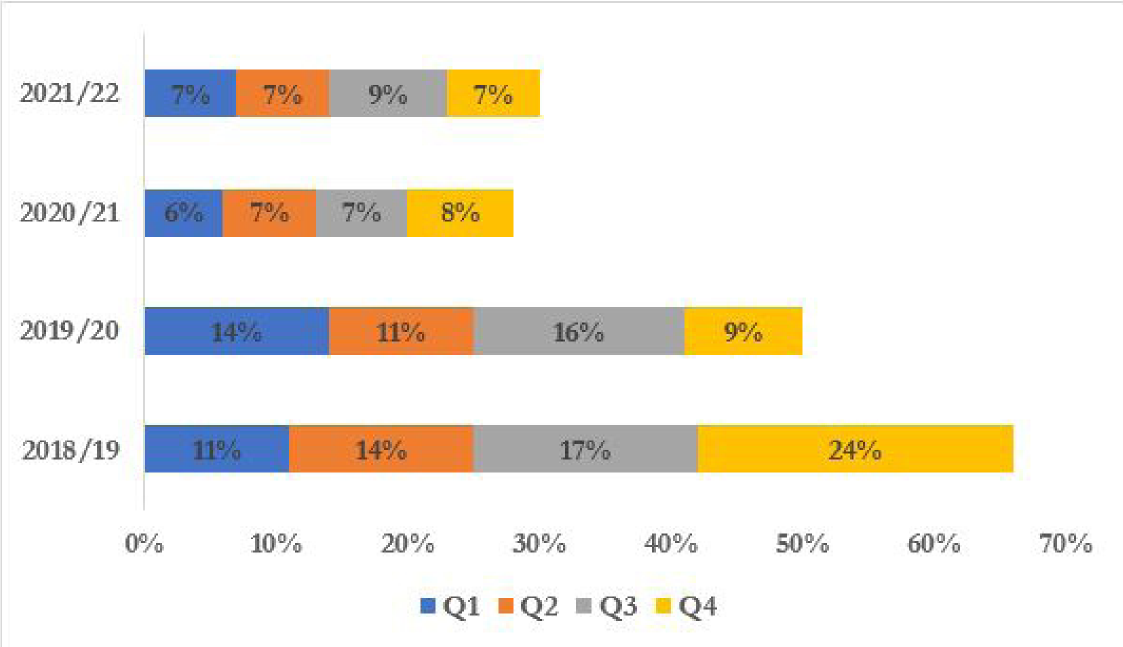
Source: Office of Controller of Budget/County Government BIRR 2021/22

The fund administrators are required to submit quarterly financial reports on the receipt and expenditure of the county established funds. However, as shown in Table 5, no financial reports were submitted for the Education revolving scheme. This should be addressed to ensure timely submission of all financial reports. Lack of records on the lawfulness of the Ksh. 7.55 million expenditure casts doubt on the validity of the expenditure and could lead to loss or misappropriation of funds.

3.0 Performance in Own Source Revenue

Own source revenue (OSR) is the share of the county envelope that counties raise through collection of taxes and charging user fees and is used to finance the budget. Although OSR is a small share of total county revenue funds, receipts from own source revenue and cash balances are what counties fall back on whenever there are delays in release of equitable share from the national shareable revenue. For these reasons, it is essential for counties to set realistic targets and enforce measures to achieve the targets, since any shortfall has implications on budget performance. In FY 2019/20, the County reported low performance in its own source revenue as one of the contributing factors to the high pending bills.

Figure 3: Own Source Revenue Quarterly Performance FY 2018/19-2021/22



Source: Various issues of County Government BIRRs

Busia County has persistently failed to meet the revenue targets set in the annual budget and the share of OSR has been declining. The targets ought to be evidence based and historical trends in order to reduce the magnitude in the variations between targets and actual own source revenue. Figure 3 shows evidence of seasonality in OSR performance, that is, variations across quarters and the lowest revenue collection in Q1.

In FY 2018/19, Busia County collected Ksh. 299.37 against a target of Ksh. 452.5 million. Figure 3 shows that the majority (24%) of that revenue was collected in Q4, 17% in Q3, 14% in Q2 and 11% in Q1. OSR declined to Ksh. 225 million in FY 2019/20 but increased to Ksh. 322.56 million in FY 2020/21. In FY 2021/22, the County had a target of Ksh. 976.11 million but only collected Ksh. 292.74 million, spread out almost evenly across the four quarters. This translates to a missed target of 70%. The highest revenue collection across the quarters was collected in Q3, Ksh. 89.09 and accounted for 9% of the revenue raised. Ksh. 72.36 million was collected in Q2, Ksh. 65.87 million in Q1 and Ksh. 65.42 million in Q4.

4.0 Pending Bills

Pending bills are unsettled financial obligations 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. The issue of pending bills has been recurring since the inception of devolution with directives given in FY 2019/20 for counties to commit to paying pending bills before the end of the financial year.

The outstanding pending bills for Busia County by the end of FY 2021/22 was Ksh.1.82 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 Kshs.742.93 million, out of which the County has settled bills amounting to Ksh.499.85 million, leaving a balance of Ksh.243.09 million as of 30th June 2022. In FY 2020/21, Busia County paid pending bills amounting to Ksh.583.06 million for development programmes only.

Table 6: Progress on Settlement of Pending Bills

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	29,099,005	-	29,099,005	567,962,222	597,061,226
Development Expenditure	740,655,335	583,059,944	157,595,390	1,069,645,257	1,227,240,647
Total	**769,754,339**	**583,059,944**	**186,694,395**	**1,637,607,478**	**1,824,301,873**

Source: Office of Controller of Budget/County Government BIRR 2021/22

In a review by the office of the controller of budget, the cumulative pending bills were attributed to unrealistic revenue estimates and low performance of own-source revenue. When a county does not meet set revenue, this means that some projects in the approved budget cannot be implemented as planned, often resulting in pending bills. Busia County should prioritise payment of pending bills in the next financial year before embarking on new financial commitments.

5.0 Recommendations

No.	Gaps	Recommendations
1.	Low performance in development expenditure	In FY 2021/22, Busia County realised low absorption of development funds as indicated by the expenditure of Kshs.1.54 billion against the annual development budget allocation of Kshs.4.55 billion. The development expenditure represented 33.8% of the annual development budget. The county should identify and address issues causing delays in implementing development projects. First, a project implementation committee should be established. Civil Society Organisations can use social accountability mechanisms such as community scorecards to track implementation of projects and work with county officials in identifying action points towards improving execution of development budget.
2.	Adherence to fiscal responsibility principles	When the share of compensation to employees is compared to the total revenue Busia County had received in FY 2021/22, the expenditure was 43.7% of revenue, above the 35% limit. In the financial year 2020/21, the county spent above the required limit on compensation to employees at 46.3%. 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. The County should adopt optimal staffing structure to ensure expenditure on personnel emoluments complies with public finance management regulations. Additionally, the Government policy is that salaries should be processed through the IPPD system, and the County should fast-track the acquisition of personal numbers for their staff. Civil society organisations should also be vigilant and hold both the County Executive and County Assembly to account and control rising wage bills through continuous monitoring of budget implementation
3.	Poor performance in own source revenue	Busia County has persistently failed to meet the revenue targets set in the annual budget and the share of OSR has been declining. The targets ought to be evidence based and historical trends in order to reduce the magnitude in the variations between targets and actual own source revenue. The County should address its revenue performance to ensure the approved budget is fully financed.
4.	Pending bills	The outstanding pending bills for Busia County by the end of FY 2021/22 was Ksh.1.82 billion. The County leadership should take charge of the worsening pending bills situation to ensure genuine bills are paid.
5.	Overall delays in release of funds in Q1 and impact on budget execution across the FY	The County Treasury should consider the seasonality in OSR collections in designing annual work plans and cash flow projections in order to improve on the timing of the release and thus to enhance effective service delivery. Delays in Q1 impact the whole FY since counties have very limited time to absorb funds when they are released late into the FY.

No.	Gaps	Recommendations
6.	Delays in submission of financial reports to OCoB	The fund administrators of the County Established Funds are required to submit quarterly financial reports on the receipt and expenditure of the allocated funds. However, no financial reports were submitted for the Education revolving scheme. This should be addressed to ensure timely submission of all financial reports.

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