Institute of Economic Affairs

COUNTY BUDGET FOCUS

July 2023

Analysis of Kitui County First Quarter (Q1), Second Quarter (Q2) and Third Quarter (Q3) of Financial Year 2022/23 Budget Implementation Report

Executive Summary

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) and CARITAS Kitui, synthesized the first, Second, third quarter of 2022/23 BIRR for Kitui County as part of the "Financial Transparency and Accountability" project. In the analysis, the objective is to establish whether budget implementation is progressing according to the approved budget. Whereas in practice budgets may not always be implemented exactly as they were approved, this analysis will attempt to explain any significant gaps, as these may raise credibility issues.

This brief is 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.

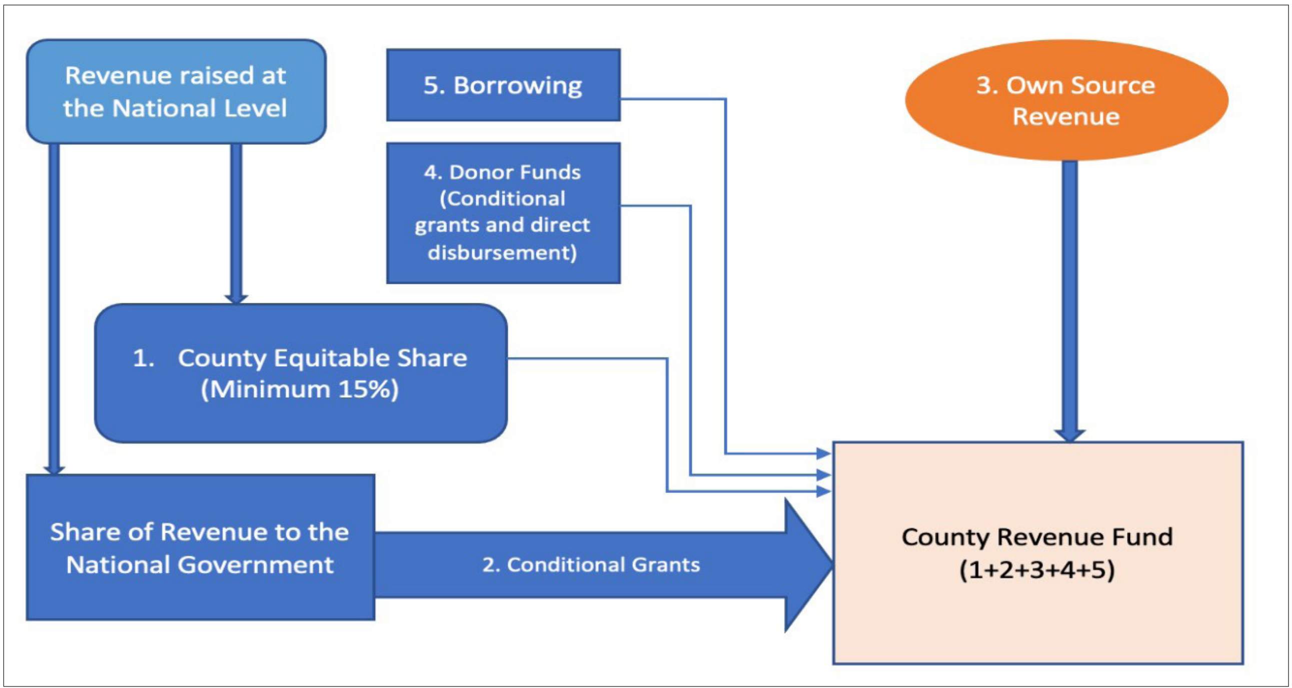
1.1 County Financing and Funds Flow

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 grant to each of the 47 counties every year based on a Commission on Revenue-CRA approved technical formula.

Figure 1: Sources of Funds for County Governments



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

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

Besides the equitable share, the national government sends money to the counties through conditional grants as funds given by a particular line ministry, for example, funds to level 5 hospitals from the Ministry of Health. Funds from development partners (donors) 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 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].

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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).

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 are remitted to the CRF. For counties to execute their budgets, the OCoB approves withdrawal of funds from the CRF to County operational accounts (commercial banks), through a process known as exchequer issue. At the end of every financial year, all unspent funds (cash balances) ought to be remitted to the CRF. In the following financial year, counties capture these cash balances as balance brought forward (balance b/f), a new source of revenue.

The following section presents an analysis of an overview of Kitui Budget for 2021/22 in comparison to 2022/23. 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 the end of quarter three for financial year 2022/23 and concludes with key recommendations.

1.2 Overview of Kitui County Budget Performance

Table 1.0 is a summary of actual revenue and expenditure against Kitui County's annual targets for Q1, Q2 and Q3 financial year 2021/22 and 2022/23.Kitui County's budget performance in the two periods fall short of not fully absorbing the quarterly budget by the end of third quarter. The performance of the budget is estimated based on the annual budget of ksh.12.5 billion of FY 2021/22 and the annual budget for FY 2022/2023 of ksh.11.5 billion. The performance at the end of quarter three for FY 2021/22 stood at 65.8% in comparison to FY 2022/23 where the performance was 70.4%.

Table 1: Comparison of Cumulative Quarterly Budget Performance for 2021/22 and 2022/2023

	2021/22								2022/23					
	Annual Budget (Ks mn)	Q1 Actual (Ksh mn)	Q1 Perfo-mance (%)	Q2 Actual (Ksh mn)	Q2 Perfo-mance (%)	Q3 Actual (Ksh mn)	Q3 Perfo-mance (%)	Actual (Ksh mn)	Q1 Actual (Ksh mn)	Q1 Perfo-mance (%)	Q2 Actual (Ksh mn)	Q2 Perfo-mance (%)	Q3 Actual (Ksh mn)	Q3 Perfo-mance (%)
Revenue														
Equitable revenue share	**10, 394**	**1,715**	**16**	**4,314**	**42**	**6,029**	**58**	**10,394**	**1,715**	**17**	**3,450**	**33.2**	**5,976.5**	**57.5**
Conditional grants from the N.G	505	0.0	0.0	2.5	0.5		0.0	505	58	0	58	11.4	191.6	37.9
Own Source Revenue (OSR)	850	91	91	167	20	280	33	600	62	10	142	23.7	338.6	56.4
Balance b/f	751	1,085	1,085	1,085	145	770	103						1,118.0	
Grand Total Revenue	12,500	2,891	23	5,568	45	7,078	57	11,499	1,834	16	3,650	31.7	7,624.7	66.3
Expenditure														
Total Recurrent Expenditure	8,399	1,768	21	3,671	44	6,027	72	8,100	1,560	19	3,448	42.6	7,586.1	93.7
Of which Compensation to Employees	5,156	1,209	23	2,384	46	3,923	76	5,075	1,261	25	2,575	50.7	3,904.1	76.9
Of which Operation and Maintenance	3,243	559	17	1,286	40	2,104	65	3,025	299	10	873	28.8	1,716.9	56.8
Development Expenditure	4,101	520	13	1,302	32	2,194	54	3,399	74	2	206	6.0	514.0	15.1
Grand Total Expenditure	12,500	2,288	18	4,972	40	8,221	66	11,499	1,634	14	3,653	31.8	8,100.1	70.4

Source: Various Issues of OCOB County Governments Budget Implementation Review Reports, 20/21 and 22/23

The actual expenditure by the end of third quarter of FY 2022/23 was Ksh. 8.1 billion consisting of recurrent expenditure at Ksh.7.5 billion and development expenditure at Ksh. 514 million. During a similar period in 2021/22, the overall spending was slightly higher amount of at Ksh. 8.2 billion, with a split between recurrent and development expenditure of Ksh. 6.0 billion and Ksh. 2.2 billion respectively. Comparing spending on development projects for the two periods by the end of the third quarter, the spending decreased by 38.4% from 55.5 % for FY 2021/22 to 15.1 % for the FY2022/23.

The performance for compensation to employees in FY 2022/23 as shown in Table 1 shows that the expenditure was Kshs.3.9 billion which represent a 51.2 per cent of the revenue for the first nine months. This expenditure represents a decrease compared to the FY 2021/22 of Kshs 3.92 billion which represents a 55.4 per cent of revenue for the first nine months. The Public Finance Management (County Government) Regulations, 2015 requires that expenditure on wages and benefits for public officers shall not exceed 35 percent of the total revenues. This means that Kitui County Governments spent 52.2 percent and 55.4 per cent of their total revenue on wages which is higher than the threshold of 35 percent for the FY 2022/23 and FY 2021/22 respectively.

The spending in FY 2022/23 for the first nine months was financed by various sources of county revenue which included equitable share, own source of revenue, balance brought forward from FY 2021/22 and conditional grants from Agricultural Sector Development Support Program, World Bank (Emergency Locust Response Project (ELRP) and National Agricultural Rural Inclusive Growth Program.In total, Kitui County had received Ksh. 7.6 billion by the end of Q3, which translates to 66.3% of the annual revenue for the FY 2022/2023 while comparing the same period of FY 2021/22 ,the County has received Ksh 7.1 billion translating to 56.6 percent. The largest source of revenue for Kitui County is the revenue received from the national shareable revenue, the equitable share, at Ksh. 6.0 billion. The county also had unspent funds (cash balances) by the end of financial year 2021/21 amounting to Ksh. 1.1 billion which was all spent in Q3 FY 2022/23.

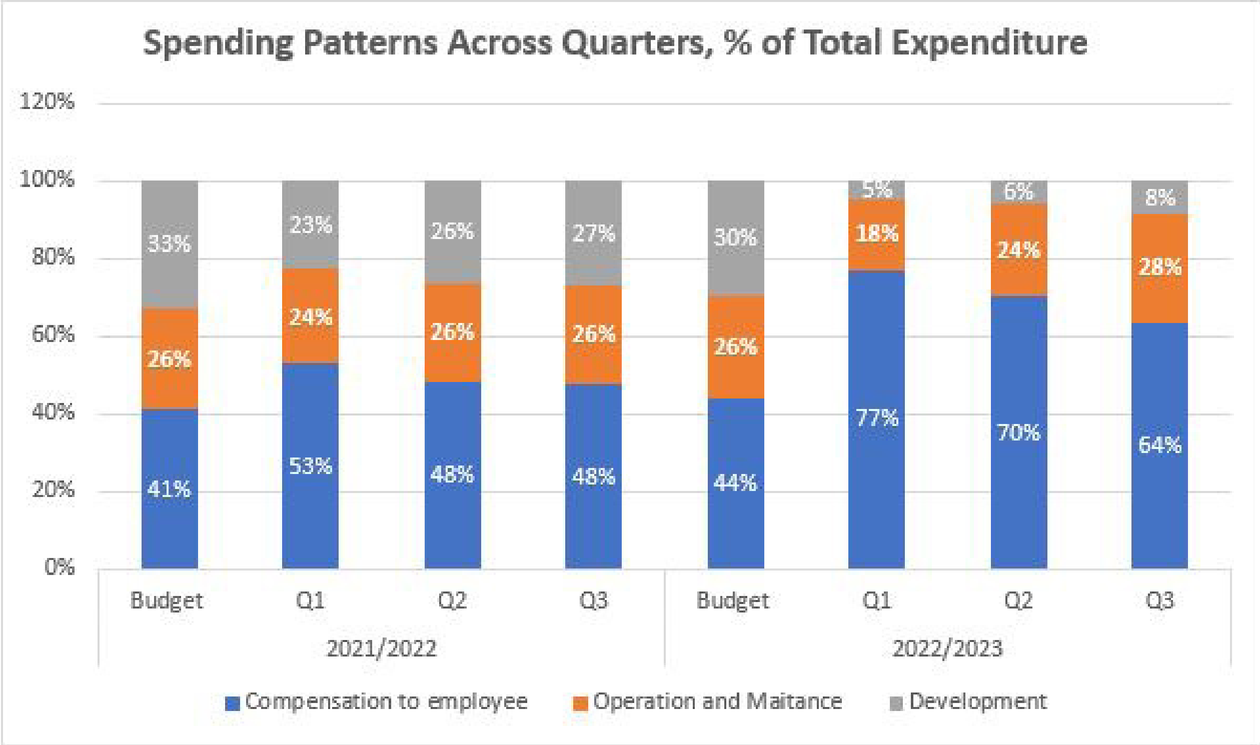
Kitui County received conditional grants from development partners in FY 2022/23 amounting to Ksh. 191.6 million in comparison to FY 2021/22 when the County received Zero amount by the third quarter. Additionally, the county collected Ksh. 338.6 million in own source revenue by Q3 FY 2022/23 compared with kshs 280.9 collected in the same period for FY 2021/2022.It is important to note that conditional grants are tied to specific spending and the county cannot divert the amounting to Kshs 191.1 million in FY 2022/23.

1.3 Expenditure Patterns

Review of expenditure patterns of Kitui County reveals that county does not 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 2, Kitui County in 2021/22 allocated 33% of the annual budget to development expenditure and 41% to compensation to employees, which comprises of wages. In 2022/23, the county allocated 30% of the annual budget to development expenditure and 44% to compensation to employees.

In Budget execution for FY 2022/23, by the end of Q3, the County spent 64% of the total on compensation to employee amounting to kshs.3.90 billion which represented a 51.2% of county's total revenue. This is a minimal reduction in expenditure performance compared with the same quarter of the previous year which had a spending of kshs 3.92 billion representing a 55.4 of county's total revenue. For the development expenditure, by the end of the third quarter of 2021/22 the proportion of spending was at 27% compared with a performance of 8% in the year 2022/23. The proportion of spending between the compensation to employee, operations and development summarised in figure 2.0.

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



Source: Various issues of OCoB County Government BIRR reports

Kitui County's largest component of the wage bill is wages in the health sector which accounts for 25.9 per cent of the total wage bill of Ksh. 3.90 billion in FY 2021/22 as reported by the OCoB report by the third quarter. Included in the wage bill is kshs 911.37 million which was paid to the health sector only. The county spent above the required limit on compensation to employees at 51.2 per cent and 55.4 per cent of the county's total revenue in the year 2022/23 and 2021/22 respectively.

Further analysis by OCoB indicates that kshs. 619.47million of personal emoluments was processed manually attributed to delay in the allocation of Unified Payroll Numbers (UPN) to staff, employment of staff on short term contract of less than six months and staff designation that do not conform to the scheme of service and Integrated Personnel and Payroll Database (IPPD) system. 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.

2.0 Overall Expenditure Performance

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

Ideally, by the end of Q1 expenditure performance should be at 25 percent, Q2 at 50 percent and Q3 at 75 percent. However, the trend shows that it is not always the case, with development expenditure performing dismally and this trend is common across all the 47 counties in the country. One of the challenges in county's poor budget execution is associated with procurement processes of development projects, coupled with delays in disbursement of funds Counties, associated with 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 2 (Target =50%)			Quarter 1 (Target =25%)		
County	Year	Recurrent (%)	Development (%)	Total	Recurrent (%)	Development (%)	Total	Recurrent (%)	Develop-ment (%)	Total
47 Counties	**2022/23**	**61.1**	**17.5**	**46.7**	**40.7**	**6.9**	**29.2**	**16.5**	**1.4**	**11.4**
	2021/22	63.5	24.4	48.7	41.1	13.5	30.8	15.4	1.9	10.5
	2020/21	56.2	25.1	44.2	36.4	13.7	27.8	13	1.4	8.8
	2019/20	63.9	25	86.9	41.7	11.6	29.5	15.8	1.1	10.1
	2018/19	64.5	24.4	48.4	40.6	13.2	29.5	17.4	2	11.3
	Mean	61.84	23.28	54.98						
Kitui	2022/23	64.2	13.8	48.23	39.8	5.5	29.5	19.3	2.2	14.2
	2021/22	63.5	12.4	65.9	43.7	31.7	39.8	21	12.7	18.8
	2020/21	66.2	48.8	59.7	40.1	27.8	35.5	0	0	0
	2019/20	72.8	35.3	59.1	49.3	13.3	35.7	21	4.8	16
	2018/19	71.9	42.7	59.6	41.8	28.8	36.33	18.7	8.4	14.3
	Mean	67.72	30.6	58.506						

Source: Various issues of OCoB County Governments Quarterly BIRRs

Table 2 above presents expenditure performance for Kitui County compared to all the 47 counties for the period 2022/23 for Q1, Q2 and Q3. The overall expenditure performance for Kitui County is below target in each of the analysed quarters across five financial years. Kitui County should therefore relook on the implementation of project across all the sectors as well as its procurement process as this can have an impact in the overall service delivery.

The OCoB reports indicates that counties continuously registered low performance in development expenditure as shown in. table 2 above. By the third quarter, of 2022/23 absorption rates for recurrent expenditure stood at 64 percent against a target of 75 percent. The development expenditure continued to perform badly registering only 13.8 percent against a target of 75 per cent. At the national level, on average the absorption rate for 2022/23 was at 61 percent while development expenditure rate was at 17.5 per cent. These trends need to be addressed as counties head to the fourth quarter low absorption rates particularly development side would mean that there is inadequate capacity in development of bills of quantities for projects leading to errors at the departmental level. Project implementation committee need to monitor progress of project implementation.

Actual expenditure to exchequer issue (disbursed funds) gives the utilization rates and is used to measure how much of the disbursed funds a county spent. The utilization rates for Kitui County are high, indicating that the County has the capacity to spend the revenue disursed during the financial year. The utilization rates are shown in Table 3 for Q3 2022/23.

Table 3: Sector Utilization Rates by end of Third Quarter 2022/2023

Sector	Recurrent Q3 (Target = 75%	Development Q3 (Target =75%)
	Recurrent Utilisation (%)	Development Utilisation (%)
Office of the Governor	**84**	**67**
Public Service management and administration	97	0
Agriculture water and Livestock development	100	133
Basic education ICT and youth development	81	91
Infractructure, house, transport and public works	58	99
Health and Sanitation	100	100
Trade, Cooperative and Investment	100	100
Environment and Natural Resource	83	48
Gender, sport and culture	77	-
County treasury	106	11
County public service board	100	-
County assembly	99	-
Kitui municipality	100	-
Mwingi Town	100	100
Livestock, Agriculture and Fisheries	100	100
Lands and physical planning	100	-
Office of the Deputy Governor	7	-

Source: Various issues of OCoB County Governments Quarterly BIRRs

Utilization rate for recurrent and development expenditure in Q3 of FY 2022/23 meet the target of 75 percent for most of the sector with exception of the office of the governor recurrent and health and natural resources development component. In all aspect, the utilization rates surpassed the threshold suggesting that the earlier noted low absorption rates in the development spending

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 utilization 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 are lawful.

2.1 Performance in Spending across Sectors

Table 4 shows Kitui County recurrent and development expenditure performance across sectors by the third quarter comparing two financial years. The county has eleven sectors with the exclusion of office of the governor, deputy governor, county assembly, county public service board, Mwingi Town and Kitui Municipality. Kitui County budget absorption across the sectors show that by the end of Q3 for FY 2022/23, the development expenditure was very low with only Livestock, Apiculture and Fisheries sector recording a highest of 44.3 per cent.

For the FY 2021/2, the highest absorption rate for development expenditure is Infrastructure, Housing, Transport & public works sector registering 90 per cent, followed by Trade, cooperative & Investment at 81.9 percent and Public Service management& administration at 73.5 per cent absorption rate by the end of Q3. In the FY 2022/23, Agriculture water & Livestock development had an absorption rate of 39.5 per cent followed by Health and sanitation at 22.9 per cent.

In the list of development projects under health and sanitation sector, the county had proposed to implement projects in the health sector amounting to Ksh. 4 billion in the FY 2022/2023.Given that the absorption rate for sector recorded a low of 22.9 percent by the third quarter, it is important check the implementation status of the project which included Scaling up Kitui Pharma Industry to increase production of health commodities worth ksh 20 million, Completion of Installation of integrated health management information system(IHMIS) in all 14 Hospitals of kshs 76.8 million, Completion of stalled construction of Kitui County referral hospital Amenity/ Surgical Ward. In the budget estimates for FY 2023/24 the sector received the highest funding with an envelope of 3.6 billion (31%) out of the total county budget of 11.6 billion. Its therefore important to scrutinize the absorption rates for the various progress and seek answers where the absorption rates as that low.

Table 4: Quarterly Expenditure Absorption Rates Across Sectors

Department	2022/2023		2021/2022	
	Q3		Q3	
	Rec	Dev	Rec	Dev
Office of the Governor	**50**	**0.4**	**58.9**	**46.5**
Public Service management& administration	97.2	0	77.4	73.5
Agriculture water & Livestock development	84.6	39.5	60.1	41.9
Basic education ICT & youth development	58.5	1.2	68.1	59.1
Infrastructure, Housing, Transport & public works	45.1	10.9	53.2	90
Health and Sanitation	83.8	22.9	90.3	57.6
Trade, cooperative & Investment	60.5	2.6	65	81.9
Environment & Natural Resource	60.2	5.8	34.2	16
Gender, Sport and Culture	33.9	0	28.1	34.2
County Treasury	64.6	0	55	5.8
County public service board	43.2	0	27.1	0
County Assembly	45.5	0	68.5	0
Kitui Municipality	44.9	0	43.6	71.4
Mwingi Town	54	10.1	32	27.8
Livestock, Apiculture and Fisheries	12.6	44.3	15.9	26
Lands and Physical Planning	46	0	47.9	10
Office of the Deputy Governor	3.8	0	0	0

Source: Various issues of County Government BIRRs

In the FY 2022/23, Public service management sector recorded the highest absorption rate of 97.2 percent, Agriculture water & Livestock development 84.6 percent Health and Sanitation 83.8 per cent on the recurrent expenditure. This high absorption rate for the public service management could be attributed to the new administration paying the county workers on time.

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. Kitui County has established a total of four County funds as of 31st march 2023.These funds are bursary fund, empowerment fund, Kitui County assembly service board employees' car & mortgage fund schemes and Kitui County assembly car loan and mortgage (members) scheme fund. For the first quarter of FY 2022/23, the County had allocated a total of 140 million with an emergency fund of kshs.10 million which was not operationalized. In the second quarter of FY 2022/23, the county allocated a total of Kshs 275 million with OCoB report indicating failure by the fund administrator to submit the Kitui County Empowerment fund and emergency fund financial statement contrary section 168 of the PFM Act, 2012.In the third quarter of FY2022/23, the County allocated a total of kshs.339 million. This was an increase of 23.3% compared to the second quarter.Table 5 summarises each established Fund's budget allocation and performance during the reporting period.

Table 4: County Established Funds as of 31st March 2023

S/No	Name of the Fund	Approved Budget Allocation in FY 2022/23 (Kshs.)	Exchequer Issues in the First Nine Months FY2022/23 (Kshs.)	Actual Expenditure for the First Nine Months of FY 2022/23 (Kshs.)	Submission of Financial statement as of 31st March 2023	Absorption (%)
		A	B	C	B/C*100	
County Executive Established Funds						
1	Bursary Fund	86,400,000	86,400,000	86,400,000	Yes	100
2	Empowerment Fund	20,000,00			No	
County Assembly Established Funds						
3	Kitui County Assembly Service Board Employees' Car & Mortgage Fund Schemes	130,000,000			No	
4	Kitui County Assembly Car Loan And Mortgage (Members) Scheme Fund	103,000,000			No	
	Total	339,400,000	86,400,00	86,400,000		

Source: Office of Controller of Budget/County Government BIRR 2022/23

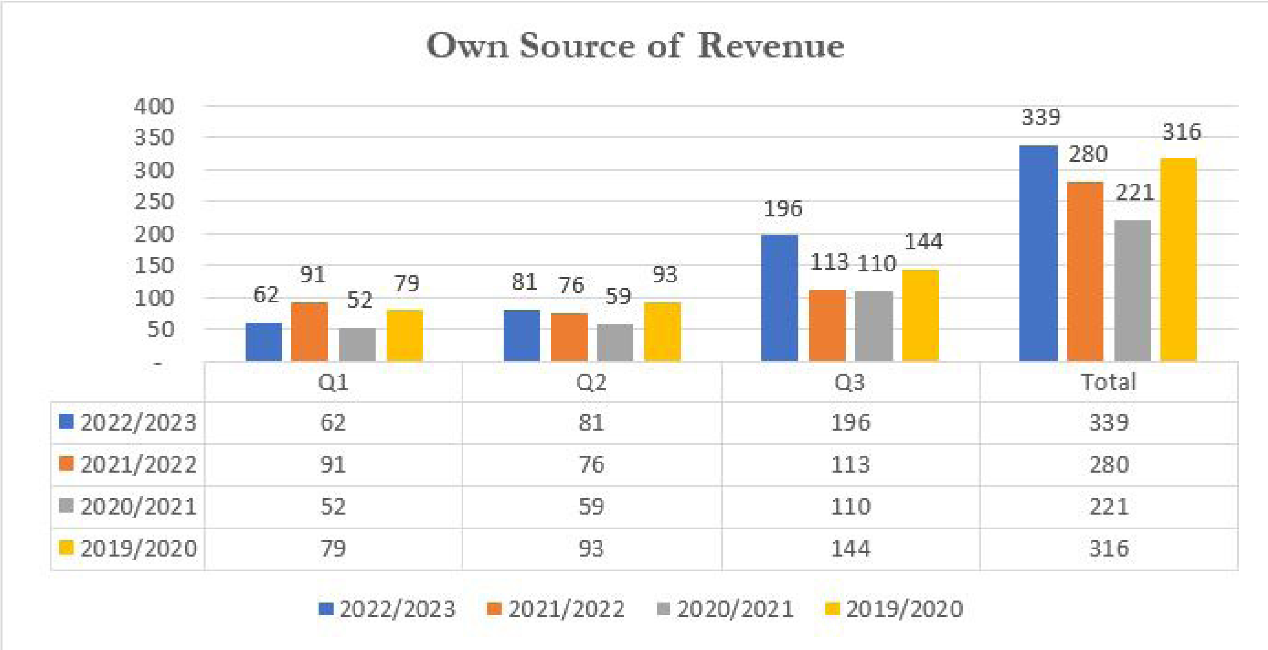
The fund administrators are required to submit quarterly financial reports on the receipt and expenditure of the county established funds. However, as shown in Table 5, no financial reports were submitted for empowerment fund, Kitui County assembly service board employees' car & mortgage fund schemes and Kitui County Assembly car loan and mortgage (members) scheme fund .This should be addressed to ensure timely submission of all financial reports. Lack of records 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 county envelope that counties raise through collection of taxes and charging user fees and the amount collected is used to finance the budget. Kitui OSR streams ranges from health facility fees, single business permit, land administration fees, land rates, parking fees, alcoholic drink licences and other stream. This revenue streams and the cash balances.

is what the county fall back whenever there are delays in the release of equitable share from the national shareable revenue. It is therefore essential for counties to set realistic targets and enforce measures to achieve the targets, since any short fall has implications on budget performance.

Figure 3: Own Source Revenue Quarterly Performance FY 2019/2020-2022/23 (Ksh Mn)

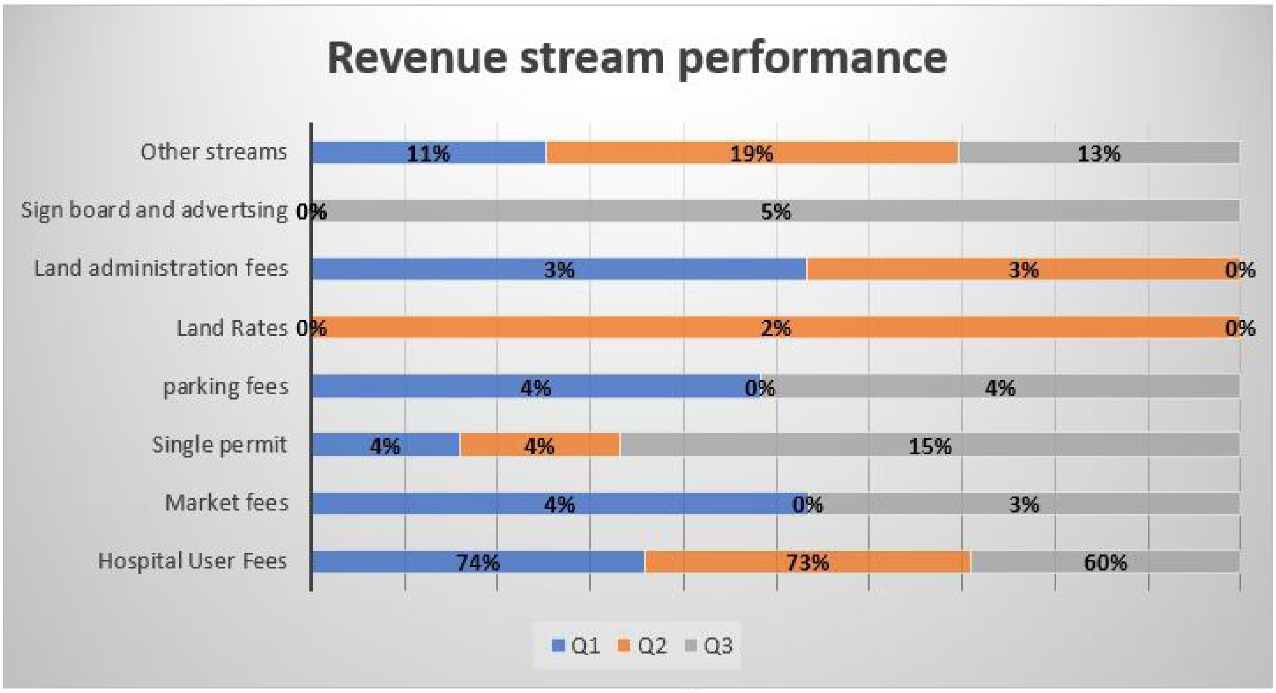


Source: Various issues of County Government BIRRs

Kitui County failed to meet the revenue targets set in the annual budget and comparison for FY 2021/22 and FY 2022/23 show that by the third quarter, ORS collection was at 33% and 56% respectively. During the Preparation of the annual budget, all set target on revenue collection ought to be evidence based in order to reduce the variances which in turn affects project implementation

Figure 3 shows evidence of OSR performance from FY 2019/20 to FY2022 across three quarters showing lowest revenue collection in Q1 and Q3 recording the highest revenue collection. In FY 2019/2020, Kitui County collected Ksh. 316 by the end of Q3. For FY 2022/2023 revenue collection was lowest in Q1 of kshs.62 millions while Q3 recorded a collection of kshs144 million.OSR declined to Ksh. 221 million in FY 2020/21 while FY 2021/22 the county collected Ksh. 280 million by the end of Q3. Revenue collection for FY 2022/23 by the end of Q3 amounted to Kshs 339 million.

Figure 4: Own Source Revenue Streams FY 2019/2020-2022/23 (Ksh Mn)



Source: Various issues of County Government BIRR

The highest revenue collection across the quarters was recorded in Q3 which largely associated with hospital user fees, single permit renewal fees, sign board and advertisement and market fees. Figure 4.0 show Kitui County revenue streams and how much each stream contribute to the overall OSR. Hospital user fees take the largest share with of OSR contributing 74% in Q1 ,73% in Q2 and 60% in Q3 for the FY 2022/23.Single permit fees comes second with contribution to OSR at 4% in Q1,4% in Q2 and 15% in Q3. The County government should implement reforms aimed at increasing revenue collection through sealing revenue leakage loophole, strengthening enforcement, expansion of revenue base and automation of all revenue collection. This will minimize leakages and expand access to payment points which will improve on accountability. The county is endowed with huge track of land and the county should focus on land and property tax as the most appropriate and equitable source of revenue to finance development and provision of essential services.

4.0 Pending Bills

Pending bills are unsettled financial obligation that occur at the end of a financial year as a result of non-payments for goods and services that have been properly procured. 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 and counties need to commit to paying pending bills before the end of the financial year. Non-payment of pending bills affects subsequent year budget as it is from first charge.

The outstanding pending bills for Kitui County by the end of FY 2021/22 was Ksh.1.6 billion which comprised of kshs.385.92 for the recurrent expenditure and kshs.1.23 billion for development expenditure. However, the Auditor General report for the FY 2021/2022 shows that the county had an outstanding pending bill of Kshs.1,810,944,338.These comprised of amounts of Kshs.1,735,281,542 for accounts payable, Kshs.1,195,000 for staff payables and Kshs.74,467,796 for other pending payables.Included in the pending bills comprised of an amount of Kshs.348,098,676 relating to payables dating back to financial year 2015/2016 and an amount of Kshs.908,240,464 relating to payables for the year under review.

Table 5: Progress on Settlement of Pending Bills

Budget Classification	AOutstanding Pending bills Amount as of 30th June 2021 (Ksh)	Amount paid in FY 2021/22 (Kshs)	Outstanding Pending Bill from previous financial years (Ksh)	Pending Bills for FY 2021/22 (Ksh)	Total Outstanding Pending Bill as of 30th June 2022
	A	B	C=A-B	D	E=C+D
Recurrent Expenditure	235,305,06	162,576,765	72,728,300	319,296,060	392,024,360
Development Expenditure	814,267,259	377,781,380	436,485,879	790,349,346	1,226,835,225
Total	**1,049,572,324**	**540,358,145**	**509,214,179**	**1,109,645,406**	**1,618,859,585**

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

The office of the controller of budget report for the first nine month months of FY 2022/23 indicates that the county had pending bills amounting of kshs. 898.40 million despite the availability of cash in the County Revenue Fund which stood at kshs 351.73 million. Kitui County should prioritise payment of pending bills in the fourth quarter before embarking on new financial commitments. The county leadership should take charge of the pending bills by ensuring genuine bills are paid without delay in the coming financial year of 2023/2024.

5.0 Recommendations

No.	Gaps	Recommendations
1	Payment of Pending bills	The outstanding pending bills for Kitui County by the end of FY 2021/22 was Ksh 1.62 billion. The County leadership should take charge and prioritize payment of pending bills situation to ensure genuine bills are paid. The CSOs should also work with county pending bill review committee established by the current administration to review project completion certificates and find out whether there are no fictitious and falsification of project document and check on the eligibility of some of the pending bills.CSOs also should follow up on the promise by the governor of payment to contractors who had authentic pending bill as the County Assembly has passed on allocation of Ksh.1.5 billion to clear the bills by September 2023.
2	Improvement on own source of revenue collection	The county has a potential of collecting more OSR.Comparing FY 2021/21 Q3 and FY 2022/23 Q3 show that ORS collection increased from Kshs. 113 million to Kshs 196. Million. The County Assembly through the Finance committee advocate of implementation of reforms aimed at increasing revenue collection through sealing revenue leakage loophole, strengthening enforcement, expansion of revenue base and automation of all revenue collection. This will minimize leakages and also expand access to more payment points which will improve on accountability component.
3	Adherence to fiscal responsibility principles	The county spent above the required limit on compensation to employees at 51.2 per cent and 55.4 per cent of the county's total revenue in the year 2022/23 and 2021/22 respectively. Public Finance Management Act 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. The current administration through the Kitui County Human Resource and Rationalization Committee commissioned a staff audit committee. CSOs should follow up on the committee reports to ensure there is diligence, fairness and justice for the County workers. CSOs should advocate for the County to adopt optimal staffing structure to ensure expenditure on personnel emoluments complies with public finance management regulations. Additionally, the County Government should ensure that that salaries are processed through the IPPD system and the County should also fast-track the acquisition of personal numbers for their staff. CSOs should also be vigilant and hold both the County Executive and County Assembly to account and control the wage bill through continuous monitoring of budget implementation.
4	Low absorption rate on the development expenditure by Q3 of FY 2022/23	Kitui County budget absorption rates across the sectors shows that by the end of Q3 of FY 2022/23, the development expenditure was very low with Livestock, Apiculture and Fisheries sector recording a highest of 44.3 per cent. The county should identify and address issues causing delays in implementation particularly absorption rate of development project and Civil Society Organizations can use social accountability mechanisms such as community scorecard to track implementation of projects and work with county officials in identifying action points towards improving execution of development budget.

No.	Gaps	Recommendations
5	Submission of county established funds financial reports	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 empowerment fund, Kitui County assembly service board employees' car & mortgage fund schemes and Kitui County Assembly car loan and mortgage (members) scheme fund by the end of Q3 for FY 2022/23 This should be addressed to ensure timely submission of all financial reports. Lack of records casts doubt on the validity of the expenditure and could lead to loss or misappropriation of funds and CSOs should advocate for submission of this reports in a timely manner.

NOTES

NOTES

COUNTY BUDGET FOCUS

The Institute of Economic Affairs is a public policy think tank which seeks to promote pluralism of ideas through open, active and informed debate on public policy issues by conducting policy research and analysis. IEA is independent of political parties, pressure groups and lobbies, or any other partisan interests.

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