Institute of Economic Affairs

THE BUDGET FOCUS

A Publication of the IEA Public Finance Management Programme

May, 2022

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

Executive Summary

The Fourth Schedule of the 2010 Constitution of Kenya assigns the County Governments the role of policy implementation and provision of services. The Constitution has further outlined policies and guidelines on how national revenue should be shared between the two levels of government and among counties, as well as other processes to finance County Governments deliver on their mandate (Government of Kenya 2010). For counties in Kenya, a major share of their funds comes from intergovernmental transfers from the nationally collected revenues. Other sources of county revenue are own source revenue generated by counties and conditional grants from development partners. Approval of withdrawal of funds by the controller of budget upon county treasury's request marks the beginning of county budget execution.

Busia county's approved budget for financial year 2021/22 was revised upwards by Ksh.1.8 billion through supplementary budget 1 for financial year 2021/22 in the second quarter from Kshs.8.43 billion to Kshs.10.23 billion. The total budget comprises of development expenditure at Ksh. 4.55 billion and recurrent expenditure at Ksh. 5.68 billion. Busia county's spending for the first quarter of financial year 2021/22 was only on recurrent expenditure at 10.5% of the total annual budget. Execution of development budget was hampered by delays in approval of the County Government Grants Bill 2021 by Parliament.

The poor performance for development expenditure is not unique only to Busia County and casts doubt on full implementation of counties development projects before the end of the financial year. By the end of Q2 financial year 2021/22, Busia county's total expenditure is Ksh. 2.84 billion. the general picture presents low

budget performance (10.5% in Q1) against the best practice of 25% budget execution by the end of Q1 and 27.8% in Q2 against the target of 50%.

Across the departments, health and sanitation department has the highest expenditure in the two quarters, Ksh. 603.6 million in Q1, accounting for 56% of the county's total expenditure in Q1. In Q2, health department spent Ksh. 1.34 billion in Q2, accounting for 47.2% of the county's total expenditure in Q2.

Busia County generated a total of Kshs.65.87 million as own-source revenue in Q1 of financial year 2021/22. Own source revenue increased to Ksh. 138.23 million in Q2 but is still an under performance in comparison to Q2 of financial year 2020/21 where the county generated Ksh. 151.34 million. The county should continue to enforce measures to increase own source revenue to ensure that the targets set for own source revenue is realized so as to allow for full implementation of the budget.

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) synthesizes first quarter-Q1 (July to September 2021[1]) and second quarter-Q2 (October to December 2021) 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

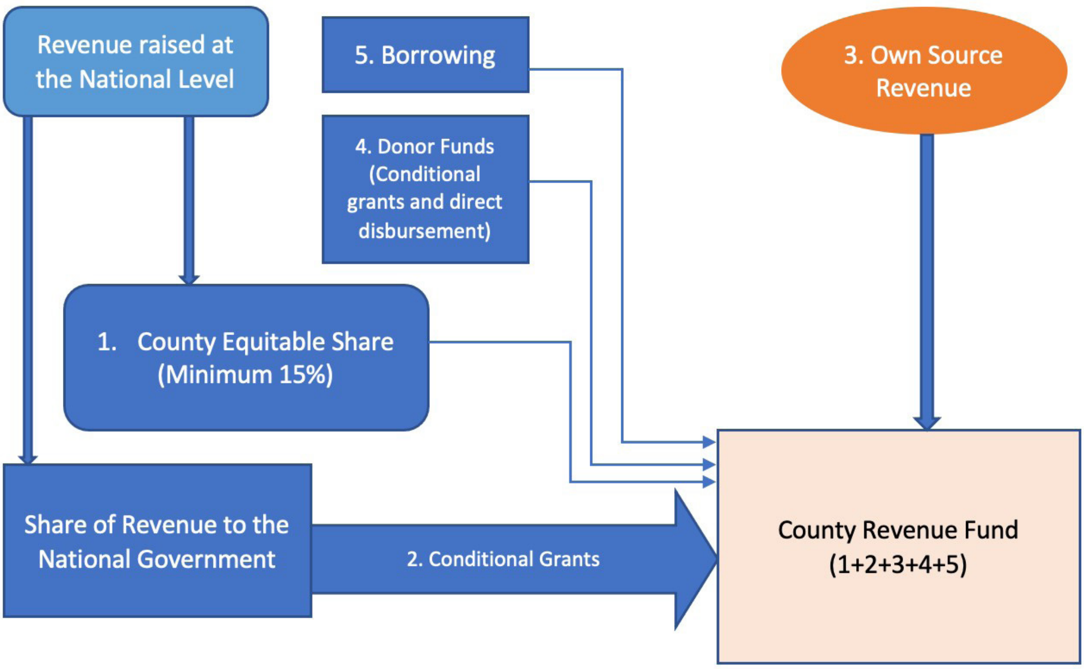
[1]The Government of Kenya financial year begins in July and ends the next year in June.

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[2] is another source that is yet to fully take off. Fig 1 presents a lay out of the different sources of funds for the county governments. The aggregate of funds from sources 1,2,3 and occasionally 4 is what constitutes county's revenue envelope. The Equalization Fund is excluded from the figure as it is not a source of funds directly controlled by the counties[3].

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties are deposited in their respective County Revenue Fund[4] (CRF), a holding account at the Central Bank of Kenya. OSR collections are remitted to the CRF. For counties to execute their budgets, the OCoB approves withdrawal of funds from the CRF to County operational accounts (commercial banks), through a process known as exchequer issue. At the end of every financial year, all unspent funds (cash balances) ought to be remitted to the CRF. In the following financial year, counties capture these cash balances as balance brought forward (balance b/f), a new source of revenue.

The following section presents an analysis of an overview of Busia County Budget for financial year 2021/22 in comparison to financial year 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.

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

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

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

1.2 Revenue and Expenditure Performance

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

	2020/21					201/22				
	Annual Budget	Q1		Q2		Annual Budget	Q1		Q2	
		Actual	Performance	Actual	Performance		Actual	Performance	Actual	Performance
Revenue										
Equitable revenue share	6,108.45	517.16	85%	1120.3	18.3%	7,172.16	1,183.41	16.5%	1,793.04	25.0%
Conditional grants from the N.G.	256.2	0	0.0	0.0	0.0	695.3	0.0	0.0	0.0	0.0%
Loans and grants from Development Partners	527.48	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Own source revenue (OSR)	350	68.41	19.6%	82.93	23.7%	976.11	65.87	6.7%	72.36	7.4%
Balance b/f		662.14		0.0	0.0	1,386.80	0	0.0	0	0.0%
Other revenue	106.46	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Grand Total Revenue	7,348.6	1247.7	17%	1,203.3	16.4%	10,230.4	1,249.3	12.2%	1865.4	18.2%
Expenditure										
Total Recurrent Expenditure	4,962 61	796.77	16.1	1544.1	311%	5681.53	1,078.77	19.0%	1,443.98	25.4%
Development Expenditure	2,385.98	48.21	2.0	326.5	13.7%	4,548.85	0	0.0%	316.86	7.0%
Grand Total Expenditure	7,348.6	845.0	115%	1,025.7	14.0%	10,230	1,078.77	10.5%	1,760.84	17.2%

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

Table 1 is a summary of revenue and expenditure for Q1 and Q2 for financial year 2020/21 and 2021/22. Since counties finalize their budgets after the passage of the County Allocation of Revenue Act (CARA), the county's target expenditure matches the revenue projected to be received in the financial year. Confirming that the budgets are balanced.

In the first quarter of FY 2021/22, the CoB approved the withdrawal and transfer of Kshs.61.05 billion from the Consolidated Fund to the various County Revenue Funds (CRF). The transferred amount represented 16.5 per cent of the approved equitable share, a deviation of 8.5 percentage points from the ideal 25%. Overall, there is an increase in both revenue and expenditure in Q2 in comparison to Q1 of the same year. However, a similar deviation is seen in the disbursement of funds to Busia County Q1 where the county received Ksh. 1.25 billion (16.5%) against the annual revenue envelope of Ksh. 7.2 billion. This comprises Ksh. 1.18 billion in equitable share and Ksh. 65.87 million in own source revenue. In the second quarter, the county received Ksh. 1.8 billion in equitable share, bringing the total of equitable share received by the end of quarter 2 to Ksh. 2.98 billion.

Own source revenue in Q2 amounted to Ksh. 72.36 million, this in addition to own source revenue raised in Q1 (Ksh. 65.87 million) sums to Ksh. 138.23 million. Own-source revenue is generated from local taxes levied within the counties. County Governments have the power to tax and can collect property taxes, entertainment taxes and can charge for services they provide, such as vehicle parking lots, entry into county parks, business licenses and permits. By the end of Q2, Busia County had received 30.4% of its annual revenue, this is still below the 50% target that the county ought to have received. Counties' total revenue envelope is distributed across four quarters and counties receive 25% of the total budget in each quarter.

Counties may also receive additional allocations from the National Governments' revenue in the form of conditional grants, usually sourced from the national equitable share. Conditional grants to counties are meant to ensure the provision of certain policy objectives which are of priority to the National Government (Government of Kenya 2010). Unlike the county equitable share, conditional grants are tied to implement specific national policies and cannot be diverted to other budget purposes. In the financial year of 2021/22, Busia County is allocated conditional grant of Ksh. 695.3 million but no amount has been disbursed to counties by the end of Q2.

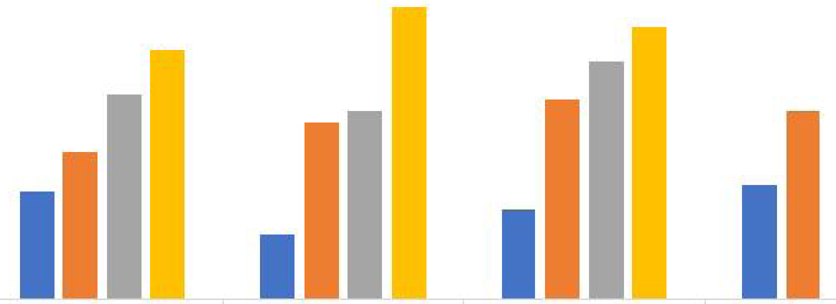
As summarized in Table 1, out of the total Ksh. 1.25 billion the county received; the county spent Ksh. 1.08 billion on recurrent expenditure and did not incur any development expenditure during Q1. In comparison to a similar period in financial year 2020/21, the county's expenditure as a share of the total budget declined by 1%. In Q2, the county's total expenditure of Ksh. 1.76 billion is split between development expenditure (Ksh. 0.32 billion) and recurrent expenditure (Ksh. 1.44 billion).

2.0 Overall Expenditure Performance

Busia county's approved budget for financial year 2021/22 was revised upwards by Ksh.1.8 billion through supplementary budget 1 for financial year 2021/22 in the second quarter from Kshs.8.43 billion to Kshs.10.23 billion. The budget revision was attributed to improvement in revenue collection at the national level, and also on account of drought relief funding and election preparedness. The budget revision for Busia County was mainly on development expenditure which accounts for 98% of the increase in the total budget. Development expenditure increased from Ksh.2.79 billion to Ksh. 4.55 billion. Recurrent expenditure increased from Ksh. 5.64 billion to Ksh. 5.68 billion. Across the departments, agriculture department had the largest increase in development budget from Ksh. 506 million to Ksh. 995 million.

Analysis of expenditure for the past financial years reveals a trend of low budget performance in Q1 but gradually increases in the subsequent quarters. By the end of Q2 financial year 2021/22, Busia county's total expenditure is Ksh. 2.84 billion. During Q1, the total expenditure for Busia County was Ksh. 1.08 billion that was all recurrent expenditure. Despite an increase in expenditure from Ksh. 0.84 billion in Q1 of financial year 2020/21 to Ksh. 1.08 billion in Q1 of financial year 2021/22, the general picture presents low budget performance (10.5% in Q1) against the best practice of 25% budget execution by the end of Q1 and 27.8% in Q2 against the target of 50%.

Chart 1: Total Expenditure (Ksh. Million)



	2018/19	2019/20	2020/21	2021/22
Q1	1,016.36	610.4	843.83	1,078.77
Q2	1,381.26	1,650.73	1,871.81	1,760.84
Q3	1,920.81	1,760.87	2,219.88	
Q4	2,330.23	2,729.25	2,538.94	

Q1 Q2 Q3 Q4

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

In Q2, the county's expenditure increased by Ksh. 682 million to Ksh. 1.76 billion and is composed of recurrent expenditure (82%) and development expenditure (18%). It is evident that budget performance is low on development expenditure. Expenditure as a share of total budget increased to 17.2% from 10.5% in Q1. In the second quarter, Busia County undertook various development programmes amounting to Kshs. 0.32 billion, which represented a decrease of 18.3% compared to a similar period in financial year 2020/21 when the expenditure was Kshs. 0.37 billion. The development programmes include; construction of mother and child hospital (Ksh. 22.5 million), construction of border point fish market (Ksh. 7.1 million), water pipeline extension (Ksh. 4.9 million) and maintenance of roads (Ksh. 17.6 million).

The development budget is characterised by designated projects such as the construction of roads, bridges, government buildings, classrooms and other infrastructure. The nature of these projects generally has long-term planning and execution horizons involving design and construction phases and the authorization of contracts with third parties under which payments are made following approved completion schedules. This could explain the differences in expenditure between recurrent and development in the first quarter as counties plans for execution of these activities. This points to the need for prior planning in the previous financial year to allow for execution throughout the financial year.

2.1 Breakdown of Recurrent Expenditure

Recurrent expenditure mainly comprises of compensation to employees (wages and benefits) and operation and maintenance. Section 25(1) of the Public Finance Management Regulations, 2015 sets a limit of the County Government's expenditure on wages and benefits at 35% of the county's total revenue. Recurrent expenditure as a share of total expenditure in the two quarters under review are 100% and 82% for Q1 and Q2 respectively. This unbalance in expenditure disproportionately affects development expenditure and this mirrors the allocation in the annual budget. In financial year 2021/22, the approved budget by the county assembly is split between recurrent and development expenditure at 56% and 44% respectively. This allocation is an improvement from the previous financial year where recurrent expenditure received 68% of the budget allocation. Busia County meets the fiscal rule requirement of ensuring that at least 30% of the budget allocation is set aside for development programs and projects. However, a review of Busia's budget for the period 2013/14-2019/20 confirms that the county has persistently spent more than 35% on compensation of employees at 41.6%, 38.4%, 41.2%, 46.8%, 41.6%, and 46.2% (IEA Kenya, 2022).

Expenditure on compensation to employees in Q1 amount to Ksh. 0.94 billion, representing 87% of the recurrent expenditure for the quarter. This expenditure decreases to Ksh. 0.87 billion in Q2. The share of recurrent expenditure on operations and maintenance increased to 40% in Q2 from 18% in Q1. It is important to ensure that compensation to employees does not displace the share of allocation to operations and maintenance, which is crucial in day-to-day activities at the county level and ultimately effective service delivery.

Public wage bill could grow to an unsustainable level if left unchecked. Besides, growing public wage reduces the space for development expenditure. In the quest to regulate the public wage bill, the Salaries and Remuneration Commission (SRC) has established guidelines on allowances and benefits. The OCoB reports that the county spent Kshs.42.04 million by the end of Q2 on committee sitting allowances for 54 members of the county assembly and the speaker against the annual budget allocation of Kshs.75.59 million. The county has violated the guideline by SRC on the average monthly sitting allowance by using a rate of Ksh.129,764 per member against the recommended monthly ceiling of Ksh.124,800. Lack of adherence to such ceilings could attribute to the high recurrent expenditure as a share of quarterly spending.

2.2 Performance in Spending Across Sectors

A breakdown of the county's expenditure for the two quarters of financial year 2021/22 across the 12 departments and the county assembly reveals that no single department incurred development expenditure in Q1, and a significant number of departments in Q2. By the end of Q2, Parliament had not approved the County Governments Grants Bill, 2021, which provides additional allocation by the National Government as conditional grants and other grants from development partners. The national and county budget process is intrinsic and execution of the county budget is heavily reliant on bills approved at the national level. Therefore, a delay in approval of a bill consequently delays the entire budget process.

Figure 1: Expenditure across departments

	2020/21				2021/22			
	Q1		Q2		Q1		Q2	
Department	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
Agiculture and Animal Resoure	0.2 %	0.0%	4.2%	24.5%	0.1%	0.0%	1.3%	13.8
Trade, Cooperative and Indus-trialization	29.3%	0.0%	0.1%	0.0%	0.1%	0.0%	0.5%	1.6%
Education and Vocational Training	0.0%	46.2%	1.6%	14.0	0.3%	0.0%	0.2%	0.2%
Finance, Economic Planning and ICT	3.9%	0.0%	20.5%	0.0%	30.8%	0.094	27.7%	0.0%
Youth, Culture, Sports Tourism and Social Services	75.8%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%	1.8%
Roads, Public Works , Energy and Transport	60.5%	40.2%	0.1%	44.8%	0.8%	0.0%	2.0%	28.7%
Public Service Management	8.8%	0.0%	6.1%	0.0%	0.2%	0.0	2.2%	0.0%
Lands, Housng and Urban Develoment	62.8%	0.0%	0.3%	0.0%	0.0%	0.0%	0.3%	14.4%
Water Environment and Natural Resources	1.0%	0.0%	2.4%	3.0%	0.5%	0.0%	1.5%	8.7%
Health and Sanitation	38.7%	13.5%	40.6%	7.3%	56.0%	0.0%	49.3%	30.9%
County Public Service Board	72.6%	0.0%	1.5%	0.0%	0.2%	0.0%	0.2%	0.0%
The Governorship	0.5%	0.0%	7.8%	0.0%	1.1%	0.0%	1.1%	0.0%
County Assembly	12.3%	0.0%	14.6%	0.0%	9.8%	0.0%	13.4%	0.0%
Total	100%	100%	100%	100%	100%	0.0%	100%	100%

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

During budget preparation, the county anticipated to receive several conditional grants worth Ksh. 695.3 million from different development partners. These grants include; Transforming Health Systems for universal health care of ksh.42.18 million, Kenya climate-smart agriculture project of ksh.295.80 million, Kenya devolution support programme level ''II" grant of ksh.69.82 million, agriculture sector development support programme II (ASDSP II) of ksh.26 million, water tower protection and climate change mitigation and adaptation programme (Water) of ksh.106 million and Kenya urban support programme of ksh.202 million. The delay by Parliament in approval of the bill casts doubt on timely implementation of these grants.

Lands, housing and urban development department did not incur any expenditure in Q1 but compensates in Q2 with recurrent expenditure of Ksh. 7.4 million and Ksh. 45.5 million on development expenditure. As a share of total county expenditure in Q2, the department's expenditure is low at 03% and 14.4% for recurrent and development expenditure. Health and sanitation department has the highest expenditure in the two quarters, Ksh. 603.6 million in Q1, accounting for 56% of the county's total expenditure in Q1. In Q2, health department spent Ksh. 1.34 billion in Q2, accounting for 47.2% of the county's total expenditure in Q2. The spending is mainly on recurrent expenditure given the service provision nature of the health sector; hence most spending goes to compensation of employees in terms of wages and benefits.

The low spending in the two quarters implies that the county will have limited time to implement all the activities outlined in the approved budget in the third and fourth quarter. County budget implementation and review reports are quite comprehensive in reporting the monetary amounts released to counties and expenditure of the same based on reports submitted by county treasuries. However, the data is limited in giving the reasons behind the numbers. This is an area of improvement that should be targeted in subsequent publication of these reports.

3.0 Budget Efficiency

3.1 Absorption rates

A critical measure in assessing county expenditure patterns is absorption rates. Absorption rates indicate how much of the initially approved county budget was actually spent in each quarter. A high absorption rate implies high budget implementation, while a low absorption rate implies a low degree of realization of budget objectives in the approved budget. Table 4 provides comparison between recurrent and development expenditure absorption rates for all the 47 counties and Busia County for the period between 2018/19-2021/22.

Table 2: Comparison of Q1 and Q2 Absorption Rates (cumulative)

		Quarter 1 (Target = 25%)			Quarter 2 (Target = 50%)		
County	**Year**	**Recurrent (%)**	**Development (%)**	**Total (%)**	**Recurrent (%)**	**Development (%)**	**Total (%)**
All 47 Counties	2021/22	15.4	1.9	10.5	41.1	13.5	30.8
	2020/21	**13**	**1.4**	**8.8**	**36.4**	**13.7**	**27.8**
	2019/20	15.8	1.1	10.1	41.7	11.6	29.5
	2018/19	17.4	2	11.3	40.6	13.2	29.5
	Mean	**15.4**	**1.6**	**10.2**	**40.0**	**13.0**	**29.4**
Busia	2021/22	19.1	0	12.8	44.4	7.0	27.8
	2020/21	16.1	2.0	11.5	47.2	15.7	37.0
	2019/20	28.4	0	8.7	38.1	5.7	24.4
	2018/19	20.6	3.9	14.5	39.6	10.4	27.5
	Mean	**11.5**	**2.1**	**8.3**	**42.3**	**9.7**	**29.2**

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

Absorption rates for both development and recurrent expenditure are below the target for each quarter. The missed target is even larger for development expenditure at an average of 1.6% in the first quarter for the past four financial years. The average increases to 13% in Q2 but this is still far from the 50% target at the end of Q2. Absorption rate for Busia County is below the average rate for the 47 counties with an average rate of 29.2% in Q2. Budget performance is higher for recurrent expenditure at 44.4% by the end of Q2 while development expenditure registered a low absorption rate of 7%.

3.2 Sectoral absorption rates

The figure below displays information on cumulative absorption rates across sectors for Busia County for financial years 2019/20, 2020/21 and 2021/22 on quarterly basis. Across the sectors, significant difference is seen across sectors and between recurrent and development expenditures. There is a uniform trend in low budget absorption rates in Q1 and gradually increases to reach rates as high as 100% for some departments in the fourth quarter. It is important to note that the score of 0 for some departments is not necessarily a red flag due to the nature of some departments focus on only service delivery. Highest improvement in the absorption for recurrent budget for financial year 2020/21 is recorded in lands, housing and urban development at 79.7% from 46.7% in financial year 2019/20.

Figure 2: Distribution of cumulative absorption rates across sectors

Department	Recurrent (%)						Development (%)					
	20/21				21/22		20/21				21/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture and Animal Resource	0.6	43.9	74.6	95.5	0.2	14.3	0	18.3	26.5	61.3	0	4.4
Trade,Cooperative and Industriazation	0.4	4	30.8	87.8	2.2	17.4	0	0	6.6	20.4	0	2.1
Education and Vocational Training	0	9.6	79.2	94.8	0.8	1.3	13	30.4	18.4	45	0	0.2
Finance,Economic Planning and ICT	41	64.7	80.5	97.6	40.8	76.1	0	0	73.3	89.8	0	0
Youth,Culture,Sports Tourism and Social Services	1	5.1	31.1	94.7	0.3	3.3	0	0	1.7	36.2	0	4.6
Roads,Public Works,Energy and Transport	0.5	2.9	48.8	95.4	5.2	39.5	2.3	22.9	28.3	54.8	0	8.3
Public Sevice Management	25.4	52.1	56.7	79.7	0.5	14	0	0	0	0	0	0
Lands,Housing and Urban Development	0.8	9.9	17.1	97.7	0	5.6	0	0	4	17.7	0	12.8
Water Enviroment and Natural Resources	7.2	49.4	57.3	98.7	4.4	27.2	0	4.4	17.6	39	0	5.1
Health and Sanitation	17.1	52.7	78.6	89.2	32.2	68.6	2.8	11.8	18.4	37.5	0	14.2
County Public Service Board	0.9	52.7	60.7	97	1.7	5.8	0	0	0	0	0	0
The Governorship	1	56.3	72	100	3.1	6.5	0	0	2.9	18.4	0	0
County Assembly	13.3	46.3	61.6	99.5	13.3	42.2	0	0	4.5	96.8	0	0
Total	16.1	47.2	70	93.4	19.1	44.4	2	15.7	20.3	45.8	0	7

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

Low performance is persistent for development expenditure across all departments. Only four departments reported over 50% absorption rate for development expenditure at the end of financial year 2020/21. The current trend in the first two quarters of financial year 2021/22 predicts that the rates will be similar at the end of the financial year if no corrective measures are enforced. Departments that registered 0 absorption rates denote that service delivery was compromised.

3.3 Utilization rates

Utilization rates indicate how much of the funds in the form of exchequer issues allocated to the county in each quarter were spent, or utilized, in that quarter. Busia county utilized Ksh. 2,839.6 million out of Ksh. 2,921 million disbursed for Q2, translating to utilization rate of 96.9% for recurrent expenditure and 99.9% for development expenditure. Utilization rates for both recurrent and development expenditure are high for both

Q1 and Q2, indicating that upon disbursement of funds to Busia County, the county has the capacity to spend the funds. In comparison to financial year 2020/21, there is low budget absorption for development expenditure. In Q1 of financial year 2020/21, the utilization rate for development expenditure was 309%, indicating that the county spent revenue at source before depositing in the County Revenue Fund as required by law. The law does not allow for counties to spend revenue they raise without approval by the controller of budget. Because utilization rate is expenditure as a share of funds received, this arises to more than 100% utilization rate. There is an improvement in utilization rates for recurrent expenditure in financial year 2021/22.

Table 3: Utilization rates for financial year 2021/22

	2020/21						2021/22					
Quarter	Exchequer Issues		Actual Expenditure		Utilization Rates		Exchequer Issues		Actual Expenditure		Utilization Rates	
	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
Q1	1,112.78	15.59	795.62	48.21	72%	309%	1,123.32	0	1,078.77	0	96%	0%
Q2	2,446	416.44	2,340.89	374.75	95.70%	90.00%	2,604	317.24	2,522.75	316.86	96.90%	99.9%
Total	3,558.55	432.03	3,136.51	422.96	83.6%	199.6%	3,727.16	317.24	3,601.52	316.86	96.5%	50.0%

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

4.0 What explains budget execution by end of Q2 financial year 2021/22?

Timely availability of funds is needed for effective budget implementation. County own source revenue is not sufficient to fund all county functions and counties receive funds from the nationally raised revenue. This transfer from the national government is the largest source of revenue for counties and it's delay impacts budget execution severely. In the first quarter of FY 2021/22, the County received 16.5% of the equitable share allocated for the year. This was supplemented by county's own source revenue of Kshs.65.87 million.

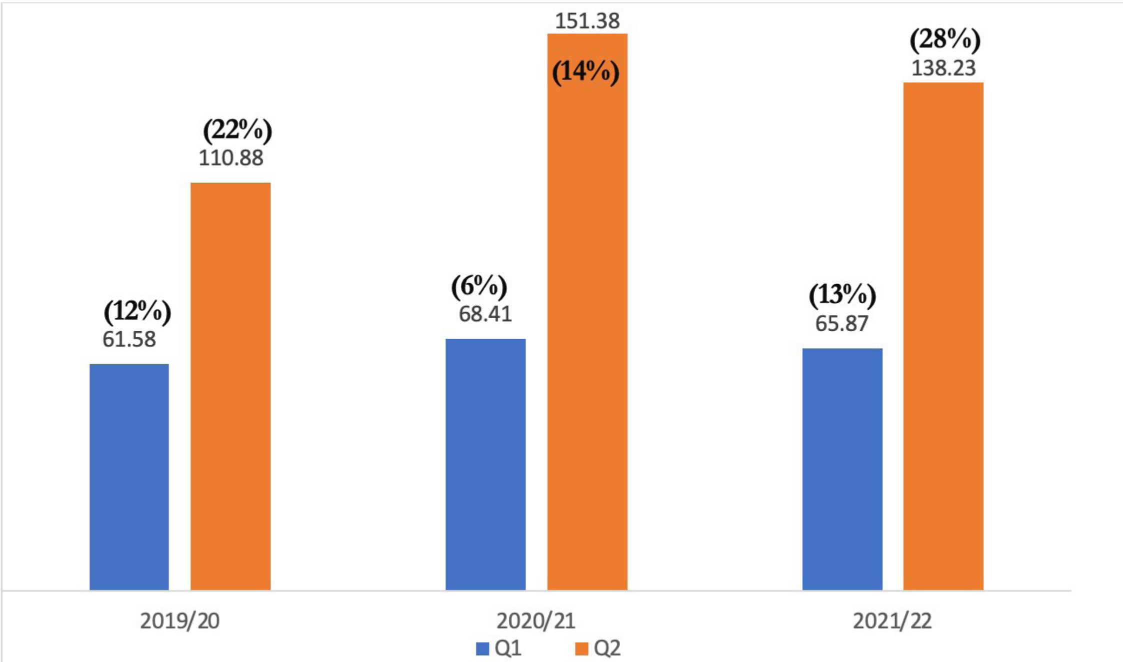
Table 4: Sources of revenue for budget execution (Ksh. Million)

	Annual Allocation	Exchequer Issues (Q1)	Exchequer issues as a % of Annual Allocation	Exchequer Issues (Q2)	Exchequer issues as a % of Annual Allocation
Equitable share	7,172,162,009	1,183,406,732	16.5%	2,976,447,235	41.5%
Own source revenue	499,797,154	65,868,496	13.2%	138,229,665	14.2%
Conditional Grant	782,369,893	0	0	0	0

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

In Q2, the county equitable share disbursed increased to Ksh. 2.98 billion and the own source revenue increased to Ksh. 138. 23 million. In total, Busia County received 39.5% (Ksh. 4,044.40 million) of the total annual allocation of Ksh. 10,230.38 million by the end of Q2. This is below the expected share of funds the county ought to have received. Coupled with no disbursement of funds, this has resulted in the low absorption rates seen across all departments.

Chart 2: Own-source revenue performance (Ksh. Million)



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

Busia County generated a total of Kshs.65.87 million as own-source revenue in Q1 of financial year 2021/22. In comparison to a similar period in the previous financial year, this is a decrease of 3.9% compared to Kshs.68.41 million realised in Q1 of financial year 2020/21. Own source revenue increased to Ksh. 138.23 million in Q2 but is still an under performance in comparison to Q2 of financial year 2020/21 where the county generated Ksh. 151.34 million. Own source revenue generated is the lowest in Q1 and gradually increases in Q2. As a share of annual target, there is an increase in financial year 2021/22 where the county generated 13% and 28% in Q1 and Q2 respectively. In financial year 2020/21, the county generated Ksh. 322.56 million, an increase from Ksh. 225.83 million by the end of financial year 2019/20. The increase in own source revenue in financial year 2020/21 is attributed to the implementation of the valuation roll which raised additional revenue. The county should continue to enforce such measures to ensure that the targets set for own source revenue is realized so as to allow for full implementation of the budget.

5.0 Recommendations

i) Use of evidence in advocacy by CSOs

Civil society organizations within the county can make use of the findings in this report to track budget implementation as approved in the annual budget. CSOs can use opportunities such as writing petitions and memos to the different county assembly committees where spending is not in line with the budget or is too low. Grassroot CSOs can also partner with national level CSOs to increase advocacy on timely approval of revenue bills as delays in approval of these bills consequently delays revenue sent to counties for budget execution.

ii) Parliament should approve the County Governments Grants Bill, 2021

In the first quarter of financial year 2021/22, Busia County did not incur any development expenditure and similarly registered very low absorption rates in the second quarter. This in part is attributed to delay by Parliament in approving the County Governments Grants Bill that will unlock conditional grants to counties. Parliament should prioritise and hasten the approval of this bill to ensure that budget execution is not affected in the subsequent quarters. Council of Governors, Civil Society Organisations (CSOs) and other non-state actors including the media should increase pressure on the legislators to approve the bill and any other bill relating to county affairs.

iii) Adherence to fiscal responsibility principles

Spending in the two quarters did not adhere to section 15 of the Public Finance Management Act (2012) that provides for a minimum threshold of 30% expenditure on development. In Q1, all the county expenditure was on recurrent expenditure and only 11% of the expenditure in Q2 was spent on development. There is a general trend of low development budget execution across all departments. Challenges limiting the execution of development budget need to be addressed to improve budget implementation and service delivery.

Busia County Assembly should also revise allowance and benefit rates to match the guidelines provided by the Salaries, Remuneration and Commission in order to limit expenditure to 35% of the county's total revenue.

iv) Improvement in management of county funds

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. Busia County has established three county funds; Busia County trade development fund, Busia County health services fund and revolving fund. The County had allocated Kshs.34.07 million to county established funds in financial year 2021/22, which constituted 0.33 per cent of the County's overall budget for the year. However, there is no report on the progress of these funds in the two quarters. The county treasury should ensure submission of all statements to the controller of budget. This information will improve ability of CSOs to use existing evidence in tracking budget execution and ensure accountability.

v) Enhance own source revenue collection

Busia County generated a total of Kshs.65.87 million as own-source revenue in Q1 of financial year 2021/22. Own source revenue increased to Ksh. 138.23 million in Q2 but is still an under performance in comparison to Q2 of financial year 2020/21 where the county generated Ksh. 151.34 million. The County government should place measures to enhance its revenue target by implementing various reforms aimed at enhancing own sources of revenue collection. The County Government should also adopt strategies of strengthening collection mechanisms to reduce leakages. The County should focus more on implementation of the valuation roll as the most appropriate and equitable source of revenue to finance development and provision of essential services as this reflected as one of the tax components which resulted in additional revenue collection in the county in the FY 2021/2022.

NOTES

Institute of
Economic Affairs

ACK Garden House, 5th Floor, 1st Ngong Avenue
P.O. Box 53989 – 00200, Nairobi~Kenya
Tel: +254 -20-2721262, +254 -20- 2717402
Fax: +254 – 20- 2716231
Email: admin@ieakenya.or.ke
Website: www.ieakenya.or.ke

With the support of National Democratic Institute (NDI)

NDI
NATIONAL
DEMOCRATIC
INSTITUTE
FOR INTERNATIONAL AFFAIRS