Institute of Economic Affairs

COUNTY BUDGET FOCUS

October, 2022

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

Executive Summary

Kitui county approved a budget of Kshs.12.5 billion for the FY 2021/22 comprising Kshs. 8.4 billion in recurrent expenditure and Kshs. 4.1 billion in development expenditure. Kitui county's actual spending for the fourth quarter of financial year 2021/22 was Kshs 7.59 billion on recurrent expenditure and development expenditure ksh 2.73 of the total annual budget.

The main challenge by the third quarter of the FY 2021/22 heading to the fourth quarter was the significantly low uptake of development budget which was similar to the same period of the previous year. By the end of the fourth quarter of the FY 2021/22, the absorption rate was 50.9% for the development budget representing an off target of approximately 49%. Thus, the ability of the county to complete budgeted development projects was compromised, thus increasing the risk of poor development outcomes for the citizenry.

The Kitui county government raised Kshs. 361.27 million from its own sources of revenue by the fourth quarter of FY 2021/2021. This represented a 29% increase compared with the revenue collected in the third quarter of the same financial year. This increase is attributed to cash received from National Health Insurance Fund (NHIF) relating to pending bills from previous years and county investment in cabros and interlocking bricks

Challenges in budget credibility are largely attributed to delays in timely release of funds to spending units. Low uptake of budgets in every quarter for instance mirrors low transfer of equitable share grants and collection of own source revenue by the county.

To this end, the IEA-Kenya proposes the need for the County Treasury to exploit the potential of revenue collection from property tax, improve administrative revenue collection system towards improved overall own source revenue mobilization.

1.0 Introduction

The Office of the Controller of Budget (OCoB) is mandated under Article 228(6) of the Constitution of Kenya, 2010 and section 9 of the Controller of Budget Act, 2016 to prepare quarterly budget implementation review reports (BIRR) for both the national and county governments. Every four months, the county governments' BIRR is submitted to the Senate and County Assemblies for their review and scrutiny as part of discharging their oversight role. The County Treasury consolidates quarterly financial statements on implementation of the annual county budget as part of their role to monitor, evaluate and oversee management of public finances and economic affairs of the county government. It is these reports that feed into preparation of the OCoB quarterly BIRRs. However, unlike the OCoB who make these reports available to the public in fulfillment of the Constitutional and statutory requirements regarding public access to information, Kitui county does not make their Quarterly Budget Implementation Reports publicly available .

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

The IEA-Kenya in partnership with the National Democratic Institute (NDI) synthesized the third quarter (Q3) and fourth quarter (Q4) of the FY 2021/22 BIRR for Kitui county as part of a joint project titled "Strengthening Financial Accountability at The County-Level". The objective of the analysis 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 attempts to explain any significant gaps that may raise significant budget credibility issues.

This brief is part of a series of analysis and insights that the IEA-Kenya in partnership with NDI will generate, intended for public education and policy discourse. Ultimately, this is expected to enhance citizen participation and advocacy 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 the framework of how counties are financed and how the funds that are generated are disbursed (flow of funds). This process is well provided for in chapter 12 of the Constitution on public finance and further elaborated in the Public Finance Management Act, 2012.

The Constitution provides that counties should receive equitable share grants of not less than 15% of nationally-collected revenue based on the most recent audited accounts of revenue as approved

[1] Available via https://cob.go.ke/reports/consolidated-county-budget-implementation-review-reports/

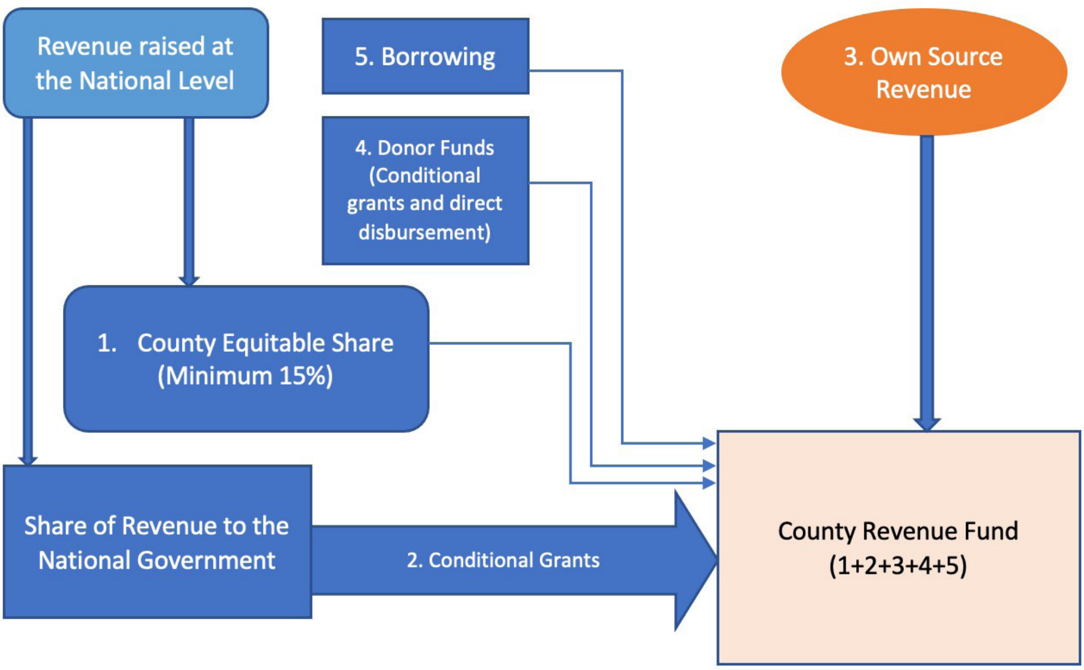
[2] https://internationalbudget.org/wp-content/uploads/CBTS-2021-County-Summaries-FINAL.pdf

[3] The Government of Kenya financial year begins on 1st July and ends on 30th June of the next year. Q1 covers the period between July to September and Q2 from October to December.

by the National Assembly[4]. The 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. The 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). The DoRA is based on proposals by the Commission on Revenue Allocation (CRA) and the National Treasury, debated and approved by parliament to arrive at the quantum of funds to be shared. On the other hand, the annual County Allocation of Revenue Act (CARA) provides for the horizontal sharing of equitable share grants to each of the 47 counties every year based on a CRA approved technical formula.

Besides the equitable share, the national government transfers money to the counties through conditional grants as funds through an individual line ministry. For example, funds to level 5 hospitals that are county based are transferred from the Ministry of Health. Funds from development partners (donors) channeled either directly to counties or through the National Treasury, is another type of conditional grants. Unlike the equitable share grant, conditional grants are used for specific purposes, and in some cases, the respective national line ministry retains some control of how funds are spent.

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.

[4]Article 203 (2) of the constitution of Kenya, 2010

Own-source revenue (OSR) is generated directly by the counties from local taxes (property and entertainment taxes) and through levies or user charges. For example, counties charge for provision of car parking services, business permits, fees for advertisement, market cess and so on. Borrowing[5] is another source that is yet to fully take off. Figure 1 presents a lay out of the different sources of funds for county governments. The aggregate of funds from sources 1, 2, 3 and occasionally 4 is what constitutes a country's revenue envelope. The Equalization Fund is excluded from the figure as it is not a source of funds directly controlled by the counties[6].

In terms of flow of funds, upon approval of DoRA and CARA, funds allocated to counties should be deposited in their respective County Revenue Fund[7] (CRF), a holding account at the Central Bank of Kenya. The law also provides that the OSR collections ought also to be remitted to the CRF. Both of these are hardly aligned with the provisions of the law as will be discussed in the subsequent sections of this analysis. For counties to execute their budgets, the OCoB approves withdrawal of funds from the CRF to county operational accounts held in commercial banks, through a process known as exchequer issue. According to the law, 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), and technically as a new source of revenue.

The following sections present an overview of the Kitui county budget for the FY 2021/22 in comparison to the FY 2020/21 against actual spending in Q3 and Q4. This is followed by an analysis of expenditure trends, high level expenditure performance in comparison to the 47 counties and performance across sectors and drivers of this performance. The final part of the analysis presents factors that explain budget execution by the end of Q3 and Q4 of the FY 2021/22 and concludes with recommendations.

1.2 Kitui County Budget Overview and FY 2021/22 Q3 and Q4 Performance

Table 1.0 captures an overview of Kitui county revenue and expenditure for Q3 and Q4 of theFY 2020/2021 and the FY 2021/2022. The table also summarizes the revenue and expenditure performance for Q3 and Q4 for the two fiscal years. Kitui county prepared balanced budgets i.e.A balanced budget is a situation where in any financial planning, the total expected revenues are equal to the planned spending in a period of one years. In the FY 2021/2022, the county prepared a budget of ksh 12.5 billion which was an increase of 5.3% compared to the same period for FY 2020/2021.

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

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

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

In Q3 of FY 2021/2022 cumulatively, Kitui county had received Kshs. 6.1 billion as the equitable share of the revenue raised nationally. The county's OSR collection amounted to Kshs. 280.37 million while the county had a cash balance of Kshs.769.55 million from Q2 of FY 2021/22. In Q4 of FY 2021/22 cumulatively, the county recorded Kshs. 9.6 billion as equitable share of revenue while OSR recorded Kshs. 361.27 million. Conditional grants from the national government recorded Kshs. 147.67 million while the county had a cash balance of Kshs. 769.55 million. The total funds available for budget implementation during the period amounted to Kshs. 10.84 billion, as shown in table 1 below. The revenue performance by the end of the Q4 for FY 2021/2022 was 86.9% representing an increase of 30.1% compared with Q3.In comparison with the same period for the FY 2020/2021, this marked a reduction in revenue performance of 12.1% which is largely attributed to collection of own source revenue and conditional grants from the national government performance which collected less than half of what was projected.

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

	2020/21					201/22				
	Annual Budget	Q3		Q4		Annual Budget	Q3		Q4	
		Actual	Perfo-mance	Actual	Per-for-mance		Actual	Perfor-mance	Actual	Perfor-mance
Revenue										
Equitable revenue share	8,830.35	5,121.60	58.0	8,830.35	100.0	10,393.97	6,028.50	58.0	9,562.45	92.0
Conditional grants from the N.G.	534.30	178.14	33.3	378.8	70.9	505.23	0	0.0	147.67	29.2
Loans and grants from Development Partners	778.83	279.47	35.9	607.4	78.0	0	0	0.0	0	0.0
Own source revenue (OSR)	600.00	220.98	36.8	326.5	54.4	800	280.37	35.0	361.27	45.2
Balance b/f	1,096.32	1,579	144.0	1,578.6	144.0	769.55	769.55	100.0	769.55	100.0
Grand Total Revenue	11,839.81	7,378.77	62.3	11,721.6	99.0	12,468.74	7,078.42	56.8	10,840.94	86.9
Expenditure										
Total Recurrent Expenditure	7,435.15	4,919.03	66.16	7,058.38	94.93	8,327.23	6,026.54	72.4	7,586.10	91.1
Compensation to Employees	4,718.91	3,553.08	75.29	4,675.73	99.08	5,164.89	3,922.57	75.9	4,996.60	96.7
Operation and Maintenance	2,716.23	1,365.95	50.29	2,382.65	87.72	3,162.35	2103.97	66.5	2,589.40	81.9
Development Expenditure	4,404.66	2,149.99	48.81	3,452.09	78.37	4,141.51	2194.45	53.0	2,728.10	65.9
Grand Total Expenditure	11,839.81	7,069.02	59.71	10,510.47	88.77	12,468.74	8,220.99	65.9	10,314.20	82.7

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

The national government provides conditional grants to the county governments to ensure provision of certain policy objectives which are a priority to them. Conditional grants are intergovernmental grants from the national government to devolved governments with certain reporting requirements and cannot be diverted for other budgetary purposes. Kitui county budgeted for a conditional grant amounting to Kshs. 505.23 million in FY 2021/2022 and by quarter three, the county had not received any conditional grant. However, in the fourth quarter, the county received a conditional grant amounting to Kshs. 147.67 million which represented a 29.2% of revenue performance. Compared with the same period in the FY 2020/2021, conditional grants had registered a revenue performance of 33.3% while in the fourth quarter, the performance was at 70.9%.

Revenue performance is attributed largely from receipts from transfer of equitable share grant and availability of the quantum of balance b/f. In FY 2021/2022, Equitable share contribution to the budget was estimated at be 83%, conditional grants contribution 4 % while OSR revenue contribution was estimated at 6.0%. Comparing performance in revenue for FY 2020/2O21 and 2021/2022 in Q3 and Q4, receipts from equitable share shows that there is a sharp increase in performance from 58% in Q3 to 100% in Q4 in FY 2020/2021 while FY 2021/2022 shows an increase in performance from 58% in Q3 to 92% in Q4.OSR performance in Q3 and Q4 increased from 36% to 54% in FY 2020 while the FY 2021/2022 recorded a performance of 35% in Q3 which increased to 45% in Q4.Approval of Conditional Grants Bill, 2021[8] in early 2022 unlocked release of these grants to counties. Availability of these grants is to some extent what boosted Kitui County's overall revenue performance by the end Q4 of FY 2021/22

For the FY 2020/21 and the FY 2021/2022, Kitui county had budgeted Kshs. 600 million and Ksh 800 million as OSR respectively. OSRs are generated from local taxes levied within the county which include; parking fees, county park entry fees, entertainment taxes, property taxes, business licenses and permits. By the end of the fourth quarter of the FY 2021/22, OSR performance was at 45.2% while the same quarter the previous financial year's performance was at 54.4%. In nominal terms, the county recorded an increase in revenue from Ksh 326.5 million (FY 2020/21) to Kshs.361.27 million (FY 2021/2022) representing an increase of 10.7%. The OCoB report attributes this increases in OSR to revenue arrears and penalties charged in the arrears of the previous financial years of Ksh.8.77 million. Increase in OSR is attributed primarily to collection of hospital fees and charges, market fees and dues, Single Business Permits (SBP) and county investment on sale of cabro blocks and interlocking bricks. Additionally, in FY 2016/2017 the county automated a revenue management system called "Zizi "which is designed to help in efficient collection of local revenues as well as reduce revenue loopholes in the collection of OSR.

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

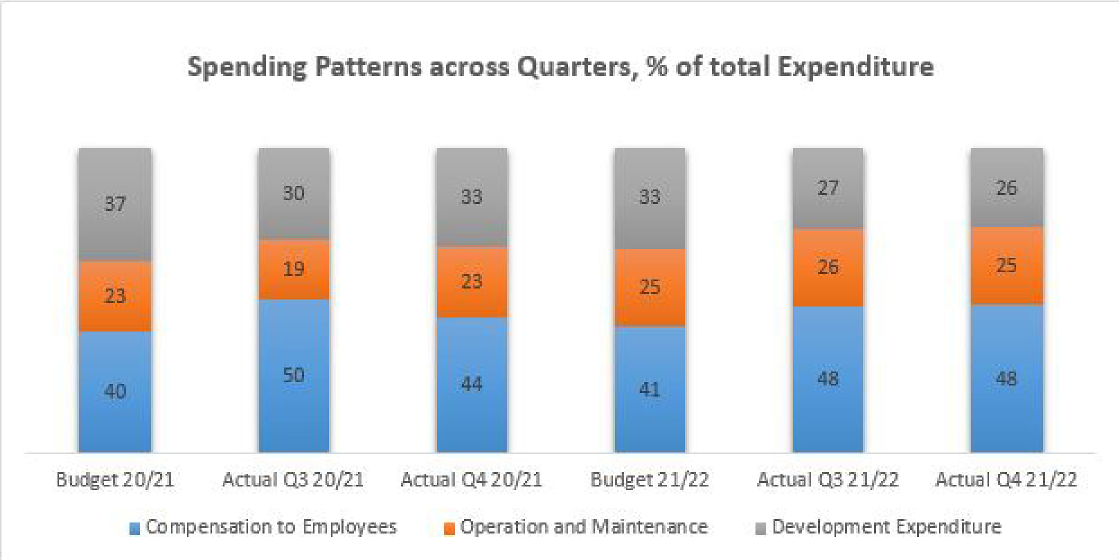
On the expenditure front, the county spent a total of Ksh. 8.2 billion in the third quarter and Ksh 10.3 billion in the fourth quarter of FY 2021/2022. The spending on day-to-day operations (recurrent expenditure) for the third quarter in FY 2021/21 amounted to Ksh 6.01 billion while capital expenses (development expenditure) was Ksh 2.2 billion. The fourth quarter of FY 2021/2022 recorded a recurrent spending of ksh 7.6 billion while the development component had a spending of ksh 2.7 billion. In comparison with the same period FY 2020/2021, the expenditure performance was at 59.1% in the third quarter while the fourth quarter recorded an expenditure performance of 88.8% out of the annual county budget.

1.3 Expenditure Trends

The aggregated budget estimates for the 47 county governments for FY 2021/22 amounted to Kshs. 535.74 billion. This allocation had an operations and maintenance component of Ksh. 193.53 billion and a development component of Kshs. 342.21 billion. The approved budget allocation conformed with Section 107 (2(b) of the PFM Act, 2012, which requires that at least 30 percent of the budget be allocated for development programmes. Further, section 25(1)(b) of the Act requires that the county government's expenditure on wages and benefits shall not exceed 35% of the county's total revenue. The purpose of these fiscal restrictions is to allow sufficient space in the budget for development programmes and to curb growth of public wages by ensuring appropriate staffing structures respectively. A controlled wage bill implies that expenditure on operations and maintenance will not be starved of funds.

Kitui county approved a budget of Kshs. 12.50 billion for FY 2021/22 comprising Kshs. 4.10 billion and Kshs. 8.40 billion allocations for development and recurrent programmes respectively. Compared with the FY 2020/21, the county approved budget increased by Kshs. 628.93 million, an increase of 5.31% in the annual budget. Figure 2.0 below shows trends in expenditure performance for Kitui county for both the development and recurrent expenditure components. Spending patterns across the two quarters reveals that the county government did not observe the fiscal responsibility principle of setting aside 30% of its annual budget for development programmes for Q3 and Q4 of FY 2021/2022. In particular, its development budget share was 27% in Q3 and 26% 33% in Q4.

Figure 2.0: Trends in Expenditure Performance



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

The spending on wages and salaries accounted for 44% of county revenue by the end of the FY 2020/21 and 48% in FY 2021/2022. The spending on wages is concerning as it goes against the 35% threshold. Members of the county assembly should engage the county executive to demand responsible use of public resources as provided for in law. Equally, civil society groups should question whether the county is on or off track in the observance of these fiscal responsibility principles, as this is an indicator of fiscal indiscipline and imprudence in the management of public funds.

According to section 116 of the PFM Act, 2012, county governments are allowed to establish other public funds with approval of the county executive committee and the county assembly. A majority of these funds fall under the county executive. Table 2.0 shows that Kitui county assembly MCAs mortgage & car loan fund did not have an approved budget in FY 2021/2022 but there was an actual expenditure of Kshs. 312,300. From Q1 and Q2 Budget implementation report analysis, the administration of Kitui county did not furnish the Controller of Budget with a financial report for FY 2021/2022 for Q1 and Q2 on empowerment funds[10]. Failure to disclose financial information impedes transparency and accountability in the county's operations.

[9]Computation based on annual Office of the Controller of Budget County Budget Implementation Report 2020/21 via www.ocob.go.ke

[10]Empowerment fund is a revolving fund which offers organized groups access to soft loans for their respective business ventures

Table 2.0: County Established Funds (Ksh Million)

	AApproved Budget Allocation in FY 2021/22 (Kshs.)	Actual Expenditure as of 30th June 2022 (Kshs.)	Submission of quarterly financial statements
Kitui County Assembly MCA Mortgage & Car Loan Fund *	0	312,300	Yes
Kitui County Assembly Staff Mortgage & Car Loan Fund **	50,000,000	42,519256	Yes
Kitui County Empowerment Fund **	80,000,000	80,000,000	No
Total	130,000,000	122,831,556	

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

1.4 Performance in Spending Across Sectors

Table 3.0 shows expenditure performance across the sixteen sectors of Kitui county for both the recurrent and development components for the FY 2021/2022 on a quarterly basis. An overview of the performance shows that the first quarter recorded low budget absorption rates for both recurrent and development with marginal increases in quarters up to the end of quarter four The low performance is attributed to delayed disbursement in the first quarter which adversely affects the absorption rates across sectors particularly in the first quarter.

On recurrent expenditure for the FY 2021/2022, the spending across the sectors in Q1 was below the target of 25% with exception of the health and sanitation sector which recorded an absorption rate of 36.5%. On the development spending for Q1, the department for Kitui municipality recorded an absorption rate of 36.5% while other departments like public service board management and administration, county assembly, livestock, Agriculture and fisheries development and Land and Physical planning did not incur any expenditure in the quarter. Low absorption rate in Q1 is associated with late release of funds to the county from the exchequer.

Table 3.0. Recurrent and Development Sector Quarterly absorption rates FY 2021/22

	Recurrent				Development			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Office of the Governor	5.7	28.1	25.1	27.4	8.4	14.2	23.9	15.5
Public Service Management and Administration	3.5	34.3	39.6	13.0	9.0	0.0	64.5	0.0
Agriculture, Water, and Irrigation	3.7	48.3	8.1	30.6	15.6	8.8	17.5	22.0
Basic Education, ICT and Youth Development	17.2	30.2	20.7	26.1	14.3	15.6	29.2	0.1
Infrastructure, Housing, Transport, and Public Works	6.3	27.9	19.0	35.5	19.7	57.7	12.6	0.9
Health and Sanitation	36.5	16.3	37.5	3.8	12.7	10.6	34.3	13.3
Trade, Cooperatives, and Investment	10.1	16.6	38.7	18.9	6.4	26.8	48.7	3.7
Environment, Tourism and Natural Resources	9.1	10.3	14.8	48.7	11.4	1.2	3.4	71.5
Gender, Sports and Culture	5.2	6.6	16.3	37.4	0.0	16.8	17.4	-1.4
County Treasury	12.2	25.4	17.4	40.2	1.6	1.7	2.5	2.6
County Public Service Board	6.8	14.5	5.8	57.6				
County Assembly	19.3	21.5	27.7	24.1	0.0	0.0	0.0	0.0
Kitui Municipality	14.5	12.5	16.6	30.0	36.5	1.8	33.1	8.5
Mwingi Town	8.9	13.1	10.9	40.1	0.7	11.0	16.1	-4.5
Livestock, Agriculture and Fisheries Development	2.5	-2.2	15.6	72.5	0.0	16.6	9.4	21.5
Lands & Physical Planning	6.9	13.1	27.9	15.9	0.0	6.0	4.0	19.1

Source: County Government budget implementation review report FY2021/22

The analysis in table 3 above provides individual sector performance to establish which sector leads in the quarterly absorption rates both for recurrent and development expenditure. A performance of a negative value means that there was an error in reporting or the sector had over budgeted in the quarter thus revisions affected the overall reporting on the absorption figures. The dark green highlighted values show that the specific sector had a favorable performance in terms of releases from the revenue fund.

As at the end of the fourth quarter, the best performing departments on the recurrent expenditure included, Infrastructure, Housing ,Transport and public works with 35.5%,Environment,Tourism and Natural Resources with 48.7%,Livestock, Agriculture and Fisheries Development with 72.5%, County Public Service Board with 57.6 % and the County Treasury with 40.2%.The best performing departments by the end of the fourth quarter on development spending was only Environment, Tourism and Natural Resources with a performance of 71.5%.

The departments with low absorption rates in Q4 on the recurrent expenditure are Health and Sanitation with 3.8%, Public Service Management and Administration with 13.0% and Land and Physical Planning with 15.9%.The low spending departments on the development component in Q4 are Public Service Management and Administration with no spending, Basic Education ICT with 0.1% Infrastructure, Housing ,Transport and public works with 0.9%,Trade Cooperatives and investment with 3.7%, Gender Sport and Culture with -1.4%, County Treasury with 2.6%,County Assembly with no spending ,and Mwingi town all recording -4.5%.

2.0 Overall Expenditure Performance

2.1 Absorption Rates Across Counties vs Kitui County

Table 4.0 provides a comparison of 47 counties' average absorption rates of recurrent and development expenditure for FY 2018/2019 to FY 2021/2022 as compared with performance for Kitui county. The trend shows that on average, Kitui county absorption rates were 68.6% and 34.8% for recurrent and development expenditures respectively compared with the national average counties' performance of 62.0% and 24.7 % for the third quarter of FY 2021/2022. In the fourth quarter, the absorption rates for Kitui county continued to perform better than the counties' national average at 93.7 % and 70.6% compared with the national average of 89.5 % and 56.6% for recurrent and development expenditures respectively.

During the FY 2021/2022, the overall county government absorption rate was 48.7% and 74.8% of the total annual county budget for Q3 and Q4 respectively. Compared with the same period in the FY 2020/2022, the absorption rate was 44.2% and 79.3%. Comparing Q3 and Q4 of FY 2021/2022 absorption rates on the recurrent expenditure increased by 24.9 percentage points from 63.6% to 88.4% while the development expenditure recorded 24.4% absorption rates in Q3 while Q4 recorded an absorption rates of 50.9% representing an increase of 26.5%.

The absorption target by the end of Q3 of any financial year should be 75% and 100% by the end of the fourth quarter. In FY 2021/22, Kitui county recorded below targets in both recurrent and development expenditure absorption rates. Notable is the development expenditure absorption rates which recorded below the targets. A low absorption rate for development component is associated with delay in disbursement of funds and long procurement processes. A high absorption rate on other hand shows high budget implementation and the requisite staff capacity for budget execution.

Table 4.0: Comparison of Cumulative Quarterly Absorption Rates for Kitui County & 47 Counties

		Quarter 3 (Target = 75%)			Quarter 4 (Target = 100%)		
County	**Year**	**Recurrent (%)**	**Development (%)**	**Total (%)**	**Recurrent (%)**	**Development (%)**	**Total (%)**
47 Counties	2021/22	63.5	24.4	48.7	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	86.9	89.6	55.6	76.8
	2018/19	64.5	24.4	48.4	90.4	57.8	77.9
	Mean	**62.0**	**24.7**	**57.1**	**89.5**	**56.6**	**77.2**
Kitui	2021/22	63.5	12.4	65.9	91.1	65.9	82.7
	2020/21	66.2	48.8	59.7	94.9	78.4	88.8
	2019/20	72.8	35.3	59.1	95.8	66.5	84.9
	2018/19	71.9	42.7	59.6	93.0	71.4	82.7
	Mean	**68.6**	**34.8**	**61.1**	**93.7**	**70.55**	**84.8**

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

It is evident from table 4.0 that there is a challenge of uptake of budgetary resources on development programs and projects across all the counties in the country. Kitui county absorption rates for development expenditure has consistently been higher than the national average. For example, in FY 2021/2022 the overall absorption rate for development expenditure was 50.9% in the country while Kitui county recorded an absorption rate of 65.9%. This absorption rates are below the required target of 100% by the end of the fourth quarter. The counties and specifically Kitui county should address the challenges leading to the low absorption rates on development component which has been recurring over the years. Kitui county assembly should oversight on the project implementation across the county and put in a place a committee that will monitor and report on the progress of project implementation in the county.

2.2 Quarter Four FY 2021/2022 Budget Utilization Rates

Table 5.0 shows information of FY 2021/2022 Q4 utilization rates across sectors for Kitui county. Utilization rate is a ratio between the expenditure and exchequers issues and shows the extent of spending to the planned spending. These benchmarks are important in determining the efficiency and effectiveness of the counties on the utilization, implementation, formulation and execution of county budgets.

Table 5.0: Q4 Recurrent and Development Utilization Rates for Kitui County for FY 2021/22

	Q4 (Target=100%) Recurrent Utilization (%)	Q4 (Target=100%) Development Utilization (%)
Office of the Governor	98.2	93.2
Public Service management & administration	90.4	100.0
Agriculture water & Livestock development	**91.0**	**133.5**
Basic education ICT & youth development	94.2	146.7
Lands, Infrastructure, house & Urban development	89.4	102.4
Health and Sanitation	95.8	114.6
Trade, cooperative & Investment	84.7	91.7
Environment & Natural Resource	83.0	258.2
Gender, Sport and Culture	67.8	106.4
County Treasury	105.6	11.5
County public service board	154.0	0.0
County Assembly	100.0	0.0
Kitui Municipality	87.2	307.5
Mwingi Town	110.1	398.4
Livestock, Apiculture and Fisheries	134.4	1877.6
Lands and Physical Planning	67.1	293.7

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

From Table 5.0, the result shows that spending is highly dependent on the exchequer's issuances. Table 3.0 shows that spending is dependent on the timely receipt of funds. Enhanced and timely release of funds to the counties is very important as delays in fund releases often reduce the effectiveness of public service delivery at the county level. Members of the County Assembly should ensure County Budget are approved on time while Civil Society Organizations should advocate and demand for realistic revenue projections from the National Treasury and County Treasury.

During Q4 of the FY 2021/2022, there was an increase in utilization across the sectors for both the recurrent and development expenditures in comparison with the previous quarters in the same year. The best performing department by the end of Q4 on utilization rates on the recurrent expenditure included Livestock, Agriculture and Fisheries with 134.4%, Mwingi Town with 110.1%, County public service board with 154% County Assembly with 100% and County Treasury with 105.6%. For the development expenditure, the department which performed well by the end of Q4 included Livestock, Apiculture and Fisheries with 1,877.6%,Lands and Physical Planning with 293%,Mwingi town with 398%Kitui Municipality with 307%and Environment and Natural Resources with 258%

The sectors which recorded low utilization rates by the end of the fourth quarter for recurrent included; Gender, Sport and Culture and Lands with 67.8% and Physical Planning with 67.1% while the development expenditure low utilization rates included county Assembly with no spending, county public service board with no spending and County Treasury with 11.5%

Utilization rates for development expenditure were high in the fourth quarter of FY 2021/2022. It is important to note utilization of more than 100% shows some departments did not remit the revenues collected within the departments to the county revenue fund but instead the department ended spending the amount.

3.0 Explanation of Budget Execution

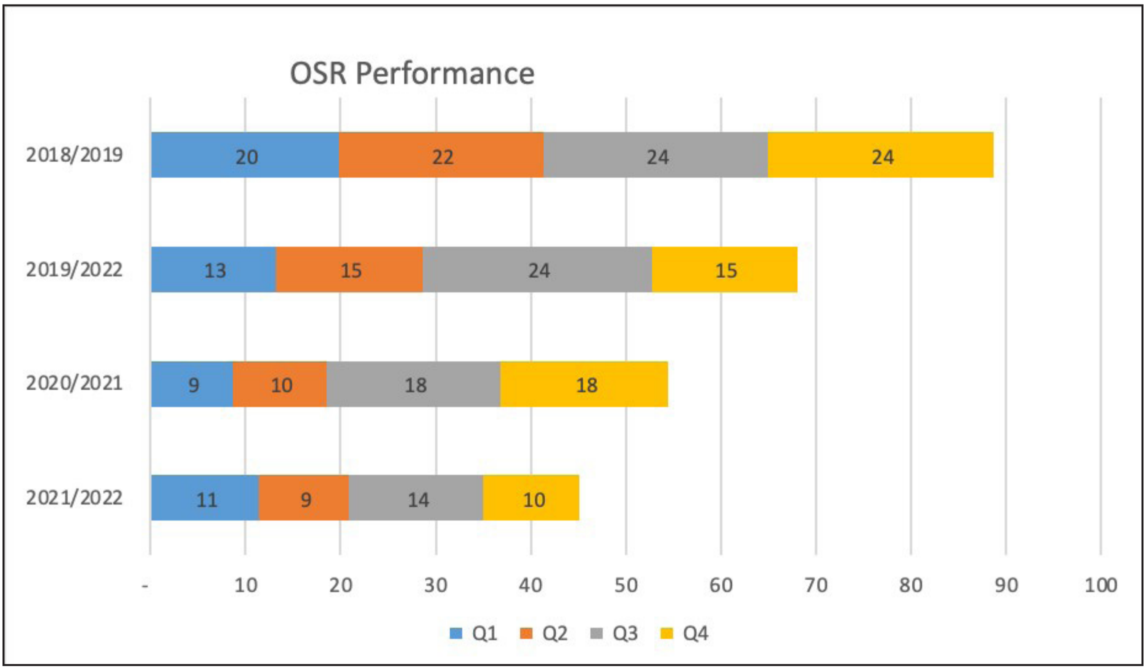
3.1 Reliance on own sources of revenue

The 47 county governments cumulatively generated a total of Kshs. 35.91 billion from their own source revenue (OSR), accounting for 59.4% of the annual target of Kshs. 60.42 billion. This marked an improvement from Kshs. 34.44 billion recorded in the same period in the FY 2020/21.

In FY 2021/2022, Kitui county raised Kshs. 361.27 million from own source revenue. This was an increase in revenue collection of 10.7% compared to the same period of the previous financial year which recorded revenue collection of Ksh. 326.45 million. This increase was attributed to cash received from the National Health Insurance Fund relating to pending bills from previous years and county investment in cabros and interlocking bricks.

On comparing the performance in own sources revenue collection with the county set target, the performance stood at 45.2% for FY 2021/2022 which represents a below par compared to the annual target of Ksh 800 million. This is an under performance and the county should always ensure that set targets are realized for better execution of budget and proper service delivery. Comparing this performance with prior years 2020/2021 had a performance of 54% against the budgeted OSR, FY 2019/2020 had a performance of 68% and FY 2018/2019 had a performance of 89% against the budgeted OSR for the county. Additionally, timely availability of the funds is important in ensuring effective budget implementation.

Chart 2.0: Performance of Own source of Revenue for FY 2021/2022



Source: County Government budget implementation review report FY2021/22

In FY 2021/22, Kitui County collected Ksh. 361million against a target of Ksh.800 million. Figure 2.0 shows that majority (31%%) of that revenue was collected in Q3.In FY 2019/2022,the county targeted to collect OSR Kshs.600 but the county managed to collect kshs.326 million and majority of the revenue was collected in Q3 standing 34%.The above trends shows that the county has failed over the years to meet the revenue targets set in the annual budget and revenue collection is highest in Q3 as shown in chart 2.0.this suggest therefore that revenue target ought to be based on historical trends in order to reduce the magnitude in revenue variation between the targeted and realized revenues an annual basis.

In a nutshell, the OSR performed well in Q3 and Q4 compared with Q1and Q2 as shown in chart 2.0.

3.2 Predictability of Funds

The underperformance of expenditure at the national or county level is attributed to delays in disbursements. Equitable share is the dominant contributor to overall revenue to finance the Kitui budget. For the FY 2021/22, it constituted 83% share of the annual budget. Therefore, any delays in the release of equitable share disrupts budget execution[11]. Studies show that the challenge of delayed disbursement of funds, particularly equitable share, emanates from optimistic national revenue projections and lack of realization of projected national revenue to be shared between the national and county governments. Secondly, given disruptions in cash flow, national government prioritizes its spending at the expense of counties' spending (release of equitable share)[12].

5.0 Conclusion and Recommendations

No.	Gaps	Recommendations
1.	Own source revenue collection	The executive arm of Kitui County should adopt strategies amongst them to mobilize its own source of revenue by strengthening enforcement and expansion of the revenue base. The county government should give an executive order which provides an amnesty to land owners who have not paid land and property taxes. This can result in additional revenue collection for FY 2022/2023.
2.	Underperformance of the development expenditure	Members of the county Assembly and Civil society organization should be wary about the performance in the development expenditure component. Notable is the development expenditure absorption rates which recorded below the targets in the fourth quarter for FY 2021/2022.A low absorption rate for development component is associated with delay in disbursement of funds and long procurement processes at the department which MCAs and CSOs can fast-track to enhance service delivery.
3.	Adherence to fiscal responsibility principles	Kitui County spending on wages and salaries accounted for 44% of county revenue by the end of the financial year of 2020/21 and 48% in FY 2021/2022. Civil society groups should engage with the County Assembly for increased vigilance and pressure the executive to always have an explanation and a clear road map of how they intend to keep the wage bill within the legal threshold of 35% of county revenue. For example, this analysis shows that compensation to employee was at 48% by the end of Q4 for FY 2021/2022. The County Assembly should exercise oversight on the County Executive's compliance with fiscal responsibility principles in budgeting and spending to ensure that implementation of development projects is not compromised.
4.	County established funds	In Q4 of FY 2021/2022, the administrator of the fund did not submit the financial statement for Kitui county empowerment fund. Subsequently Kitui County Assembly MCA Mortgage & Car Loan Fund was not initially budgeted for but the actual expenditure by the end of FY 2021/2022 was Ksh 312,300. The county Treasury should always submit financial reports to the controller of budget on time. Disclosure of financial statements improves and enhances transparency and accountability in all the funds established by the counties .Additionally, CSOs should advocate for financial disclosure of all established funds in the County.

[11]IEA Kenya and UI (2022) Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution. An Empirical Analysis. Institute of Economic Affairs (IEA) Kenya and Urban Institute (UI)

[12]Ibid

No.	Gaps	Recommendations
5.	Utilization rates in the fourth Quarter	Kitui county utilization rates for development expenditure were high in the fourth quarter of FY 2021/2022 with some sectors recording over 100%. This shows that the specific sectors did not remit the revenues collected in the quarter to the county revenue fund but instead the sectors ended spending the amount. Revenues collected within the sectors should be deposited with the County Revenue fund. MCAs should conduct their oversight role by ensuring that revenue generated within department are deposited with CRF first before that amount is spent.
6.	Seasonal delay in Quarterly disbursement	Delays in disbursement at the county can be caused by a number of reasons ranging from failure to approve budget on time as well as disagreement between the county executive and County Assembly. The County Treasury should consider designing annual work plans and cash flow projections in order to improve on the timing of the release and thus enhance effective service delivery. Additionally, The Council of Governors, the Senate and Kitui civil society organizations should demand for realistic national revenue projections from the National Treasury and county own sources of revenue projections.

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

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