INTRODUCTION

County governments still struggle to meet the revenue and expenditure targets, as set in the approved budgets. Research conducted by International Budget Partnership Kenya (IBP Kenya), under the Addressing Budget Credibility Initiative, indicates that between FY 2014/15 to FY 2017/18, the forty-seven counties averagely were unable to utilize twenty percent of their budgets. One of the crosscutting challenges impeding full implementation of county budgets is slow and late disbursement of funds (equitable share and conditional) by the National Treasury.

In light of the above, IBP Kenya and its partners in Baringo, Busia, Mombasa, and Tana River counties, embarked on a cash flow study. In this report, the focus is the flow of funds from the County Revenue Fund account to the point of service delivery in the Department of Lands and Housing in Mombasa County. Through this study we sought to understand the following:

1. The legal framework on timelines, key actors, requisitions, procurement, and disbursement processes of funds from the County Revenue Fund Account to county operations account.
2. The actual practice of how funds flow from the County Revenue Fund (CRF) account to operations account, to departments, and finally to the point of service delivery in the Department of Lands and Housing.
3. Challenges in the flow chain of funds affecting budget implementation and possible practical solutions to address the latter.

METHODOLOGY: HOW THE STUDY WAS CONDUCTED

This study employed a mixed-method approach, involving both qualitative and quantitative aspects of primary and secondary sources. Secondary data was collected through desktop research and reviews. To establish how funds should flow and processes of requisitions and disbursements, the Constitution of Kenya (2010), Public Financial Management Act, 2012 and 2015 regulations, Division of Revenue Acts (DORA), and County Allocation of Revenue Act(s) (CARA) were reviewed.
To establish the actual practice on cash flow in Mombasa County, an analysis of the County Quarterly Budget Implementation Review Reports from 2018-2020 was conducted. The individual analysis of the County Quarterly Implementation report was integral to giving the actual quarterly receipts since disbursements are cumulative in nature. Further, other documents such as County Budget Review and Outlook Paper 2019, and the Cash Disbursement Schedules and Gazette notices were also analyzed. To complement the secondary data, primary data was collected through Key Informant Interviews (KIIIs) with relevant county government officials.

This research was conducted between July and November 2020. Access to information was one of the key challenges, especially county-specific information such as County Quarterly implementation reports, County Budget Review and outlook paper, County procurement plans, and County cash disbursement schedules, which are not publicly available. Further, the research was conducted during a period when the county and the country at large were under strict regulations such as restricted movement to curb the spread of the COVID-19 pandemic. With county government officials working remotely, data collection through KIIIs was a bit strained, especially securing appointments for the interviews. This research, although faced with information gaps, will be important to the county government, members of the public, and practitioners in public finance. They will gain further understanding how the flow of county funds and the practice and challenges observed should inform the next course of action towards ensuring effective budget implementation and delivery of services.

**KEY FINDINGS AND OBSERVATIONS**

This section presents the key findings and observations of the study. In particular, the section presents the legal and regulatory framework on the division of revenue, disbursements, and timelines. Further, the second part of this section covers the actual practice on cash flow as revealed in the analysis of data from implementation reports and data collected through Key Informant Interviews. In addition, identified challenges related to cash flow and disbursements are informed by this section.

**LEGAL FRAMEWORK ON DIVISION OF REVENUE AND CASH FLOW IN KENYA.**

1.1.1. Division of Revenue

Article 218 (1) (a) (b) of Constitution of Kenya, 2010 provides for vertical and horizontal sharing of revenue in Kenya. The Division of Revenue Bill divides nationally raised revenue between the national government and the county governments, whilst putting into account the criteria provided by Article 203(1) of the Constitution of Kenya. County Allocation of Revenue Act (CARA), on the other hand,
specifies the counties’ share of the nationally raised revenue and other transfer to the counties from the national government.¹

1.1.2. Disbursement schedule and timelines

The County Allocation of Revenue Act is required to be submitted before Parliament by 30th of April and approved not later than thirty (30) days after its introduction in parliament pursuant to section 42 of the PFMA, 2012.

At the county level, section 129 (6) of PFMA, 2012 obligates the CECM finance to prepare and submit before the County Assembly an Appropriation Bill after the approval of the Budget Estimates by the County Assembly. In line with section 131 (1) of the PFMA, 2012, the County Assembly should consider the Budget Estimates with a view to approve them with or without amendments by 30th June, including passing an appropriation Bill required to implement the budget.

Section 17 (6) requires the National Treasury to disburse monies to the counties, not later than fifteen days after the commencement of quarter. Section 17(7) further requires that the disbursements should be in accordance with a schedule, prepared by the National Treasury, in consultation with the IBEC, which should be approved by the senate and gazette, not later than 30th May each year.

1.1.3. Key actors in the cash flow process in counties

Article 207 (1) of CoK and section 109(1) establishes a County Revenue Fund Account (CRF) into which county revenue (equitable share, conditional grants, local revenue and A-I-A) is deposited.

1. The Controller of Budget - Article 207 (3), 228(4) (5) of the Constitution of Kenya mandates the Controller of Budgets to approve the withdrawal of funds from the CRF account.

2. The County Assembly - Approves the Appropriation Act to effect withdrawal from County Revenue Fund (CRF) Account (Article 207 (1) (b)).²

3. County Treasury - Headed by the County Executive Committee Member (CECM) finance,³ the County Treasury (CT) is made up of the Chief Officer Finance who is also the Accounting officer, the head of County treasury, Revenue officer, head of finance and economic planning, principal financial officer, head of IT and the head of internal audit committee.⁴ The County Treasury manages the County Revenue Fund Account according to Section 104 (1) and Section 109 (3).

¹ PFM Act, 2012, Section 191(1)(3)
² Appropriation Act
³ PFMA, 2012,Section 103(3)
⁴ Section 103 (1) (2)of PFMA,2012
4. **Accounting Officers** - the CECM finance should designate a county accounting officer and ensure every county entity has an accounting officer pursuant to Section 148(1) (2) of PFMA, 2012.

5. **Parliament (Both Senate and the National Assembly)** - Both houses have a role in the approval of the Budget Policy Statement and the Division of Revenue Bill. The Senate also approves the County Allocation of Revenue Bill. The timely approval of all these documents has a bearing on the cash disbursement process to counties.

6. **Intergovernmental Budget and Economic Council** - one role of the body provided in section 187(2) (d) of the PFM Act is to agree on a disbursement schedule from the Consolidated Account based on cash flow projections with the approval of the Senate (PFM Act 17(7)).

1.1.4. Requisitions and withdrawal

- **Approval** - Section 109 (6) indicates that the county treasury shall require approval from the Controller of Budgets to withdraw funds from the CRF account. However, this approval shall be accompanied by an Act of the county assembly that appropriates money for a public purpose and line with sections 133 and 134 of the PFM Act, 2012.

- **Requirements of withdrawing money from the CRF** - The approval of the Controller of Budget to withdraw money from the County Revenue Fund, together with written instructions from the County Treasury requesting for the withdrawal, is sufficient authority for the approved bank where the County Exchequer Account is held to pay amounts from this account in accordance with the approval and the instructions.\(^5\)

- **Decision on how much should go to each department/entity** - An accounting officer should not authorize the transfer of an amount that is appropriated—(a) for transfer to another county government entity or person; (b) for capital expenditure except to defray other capital expenditure; or (c) for wages to non-wage expenditures.\(^6\)

- **Reallocation of funds between programs** - An accounting officer for a county government entity may reallocate funds between programs, or between Sub Votes, in the budget for a financial year, but only if (a) provisions made in the budget of a program or Sub-Vote are available and are unlikely to be used; (b) a request for the reallocation has been made to the County Treasury explaining the reasons for the reallocation and the County Treasury has approved the request; and (c) the total of all reallocations made to or from a program or Sub-Vote does not exceed ten percent of the total expenditure approved for that program or Sub-Vote for that year.\(^7\)

---

\(^5\) PFMA, 2012, Section 109 (7)  
\(^6\) PFMA, 2012, Section 154 (1) (a) (b) (c)  
\(^7\) PFMA, Section 154 (2) (3)
ACTUAL PRACTICE ON FLOW OF FUNDS FROM THE CRF ACCOUNT

1.1.5. Revenue collection and disbursements

The study established that for the three years under review, Mombasa County was unable to realize 11.3 percent of the total budgeted revenue. During the first quarter of the three years reviewed, 13.4 percent of revenue was disbursed, 26.6 percent for quarter two, 25.3 percent during quarter three, and 34.2 percent during the final quarter. Notably, the disbursement is lowest during the first quarter and highest in the final quarter.

An interviewee indicated that despite huge disbursement in the fourth quarter, the county cannot spend all the funds due to the lengthy procurement and requisitions process, resulting in rollovers. The rollovers are treated as committed revenue in the next financial year, giving development projects the first priority. This explains expenditure in some departments the first few months of the year even when the exchequer releases for development budget is zero. The table below illustrates the quarterly disbursement trends of total revenue (Equitable share, Conditional grants, and local revenue) from 2017/18 to 2019/20.

TABLE 1. CUMULATIVE QUARTERLY CASH FLOW TRENDS FROM 2017/18 TO 2019/20 AS A PERCENTAGE OF THE TOTAL ANNUAL ACTUAL REVENUE (KSH. BILLION)

<table>
<thead>
<tr>
<th>FY</th>
<th>QTR.1</th>
<th>QTR.2</th>
<th>QTR.3</th>
<th>QTR.4</th>
<th>Actual annual revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>12.63</td>
<td>1.38</td>
<td>2.55</td>
<td>3.54</td>
<td>5.07</td>
</tr>
<tr>
<td>2018/19</td>
<td>14.41</td>
<td>1.99</td>
<td>5.06</td>
<td>2.19</td>
<td>4.6</td>
</tr>
<tr>
<td>2019/20</td>
<td>13.68</td>
<td>1.7</td>
<td>2.47</td>
<td>4.07</td>
<td>3.32</td>
</tr>
<tr>
<td>Average</td>
<td>13.57</td>
<td>1.69</td>
<td>3.36</td>
<td>3.2</td>
<td>4.33</td>
</tr>
</tbody>
</table>

Total percentage | 13.40% | 26.60% | 25.30% | 34.20% | 100%

Source: OCDB Reports 2017/18-2019/20

Further analysis of the individual revenue sources revealed that equitable share was fully realized by the end of the year unlike the conditional grants and the local revenue sources. In 2017/18, the total disbursement of conditional grants was 80 percent of the total annual allocation, 72.3 percent in 2018/19, and 55.3 percent in 2019/20. Comparing performance of grants from the national
government and those from development partners, the decline in percentage of conditional grants received can be attributed to the declining performance of grants from development partners. Only 37 percent of grants from development partners was received in FY 2019/20, down from 58 percent and 66 percent in 2018/19 and 2017/18 respectively. The performance of conditional grants from the government is better compared to conditional grants from the development partners. The disbursement pattern across the quarters is inconsistent, although the analysis reveals that the final quarter is the likely turnaround time for disbursement of most of the conditional grants as is with other exchequer issues.

**TABLE 2. CARA VERSUS ANNUAL BUDGET ALLOCATION OF CONDITIONAL GRANTS**

<table>
<thead>
<tr>
<th>Grant</th>
<th>2017/18 Annual CARA allocation</th>
<th>2018/19 Annual Budget Allocation</th>
<th>2019/20 Actual Receipts as a percentage of annual allocation</th>
<th>2018/19 Actual Receipts as a percentage of annual allocation</th>
<th>2019/20 Actual Receipts as a percentage of annual allocation</th>
<th>2018/19 Annual CARA allocations</th>
<th>2019/20 Annual Budget Allocation</th>
<th>2019/20 Actual Receipts as a percentage of total allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level-5 hospital</td>
<td>388.4</td>
<td>388.4</td>
<td>388.4</td>
<td>100%</td>
<td>388.4</td>
<td>388.4</td>
<td>388.4</td>
<td>100%</td>
</tr>
<tr>
<td>Leasing of Medical Equipment Supply</td>
<td>95.7</td>
<td>95.7</td>
<td>0</td>
<td>0%</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>User Fee Forgone</td>
<td>23.4</td>
<td>23.4</td>
<td>23.5</td>
<td>100%</td>
<td>23.4</td>
<td>216.6</td>
<td>23.4</td>
<td>11%</td>
</tr>
<tr>
<td>Road Maintenance levy fund</td>
<td>221.5</td>
<td>221.5</td>
<td>182.1</td>
<td>82%</td>
<td>216</td>
<td>50</td>
<td>256</td>
<td>512%</td>
</tr>
<tr>
<td>Rehabilitation of Village polytechnic</td>
<td>30.6</td>
<td>30.6</td>
<td>30.6</td>
<td>100%</td>
<td>39.9</td>
<td>35.8</td>
<td>25.5</td>
<td>25.5</td>
</tr>
<tr>
<td>Sub-total</td>
<td>759.6</td>
<td>759.6</td>
<td>624.6</td>
<td>82%</td>
<td>867.7</td>
<td>902.2</td>
<td>667.8</td>
<td>74%</td>
</tr>
<tr>
<td>Grants from Dev. Partners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WB (UHC)</td>
<td>23.6</td>
<td>23.6</td>
<td>10.7</td>
<td>45%</td>
<td>50</td>
<td>39.9</td>
<td>27.5</td>
<td>69%</td>
</tr>
<tr>
<td>IDA/WB (KSDP) LEVEL 1</td>
<td>49.8</td>
<td>49.8</td>
<td>49.8</td>
<td>100%</td>
<td>53.3</td>
<td>23.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>WB (KUSP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>312.5</td>
<td>-</td>
</tr>
<tr>
<td>DANIDA Grant</td>
<td>15</td>
<td>15</td>
<td>23.3</td>
<td>155%</td>
<td>27.3</td>
<td>27.3</td>
<td>24.4</td>
<td>24.4</td>
</tr>
<tr>
<td>IDA/WB WSDP- Water grant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,550.00</td>
<td>-</td>
<td>247.6</td>
<td>47%</td>
</tr>
<tr>
<td>Sweden (ADSDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16.4</td>
<td>16.4</td>
<td>9.4</td>
<td>57%</td>
</tr>
<tr>
<td>Other grants</td>
<td>38.1</td>
<td>38.1</td>
<td>0</td>
<td>0%</td>
<td>30.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sub-total</td>
<td>126.5</td>
<td>126.5</td>
<td>83.8</td>
<td>66%</td>
<td>120.6</td>
<td>93.9</td>
<td>54.8</td>
<td>58%</td>
</tr>
<tr>
<td>Total grants</td>
<td>886.1</td>
<td>886.1</td>
<td>708.4</td>
<td>80%</td>
<td>998.3</td>
<td>996.1</td>
<td>722.6</td>
<td>73%</td>
</tr>
</tbody>
</table>

**Source:** OCOB Annual year reports, 2017/18 -2019/20

There are inconsistencies in the number of conditional grants budgeted for in CARA and the county Budget. For some conditional grants, there is variance in figures budgeted for in CARA and approved county budget and the amount disbursed. In 2018/19, there is a notable difference in the amount allocated in the Annual CARA and the budgeted amount and vice versa. According to the 2018 CARA, one of the conditional allocations, that is, *Leasing of Medical Equipment Supply,* was budgeted for in the national government budget estimates. What remains unclear, in 2018/19, is why the county did not include the DANIDA grant in approved county budget.
Also observed is a trend in non-realization of local revenue against the set targets. A detailed analysis of the specific revenue streams indicates that property rates, vehicle parking, administrative charges/fees, business permits, and health & sanitation charges are the highest contributors of OSR. Their respective performance varies from one financial year to the next. For instance, property rates accounted for 15.35 percent and 31.62 percent in 2017/18 and 2018/19 respectively. On the other hand, administrative fees and charges accounted for 33.18 percent and 18.3 percent in 2017/18 and 2018/19 respectively; the volatility is evident.

Balance Carried Forward: In 2018/19 there was Ksh.654.59 million (a balance carried forward from 2017/18) which in the following year is indicated as ‘other revenues.’ The key informants indicated that balances carried forward/rollovers are treated as committed revenue. Further, at the end of the financial year, a statement on the remaining balance is made, submitted to the National Treasury, the CRA, and the Controller of Budgets.

Supplementary budgets: – The county approved supplementary budgets in the three years under review. Ideally, supplementary budgets are expected to make revenue/expenditure targets more realistic based on the prevailing economic outlook and climate. It is noted that, during the three years under review, there was no supplementary budget between quarters one and two. Supplementary budgets were introduced between quarters two, three, and four.

In 2017/18 the original budget was revised upwards by 0.8 percent, 6.4 percent in 2018/19, and 7.2 percent in 2019/20 respectively. The difference of the actual total budget absorption as a percentage of the original budget and as a percentage of the supplementary budget is very negligible as indicated in table 3, below. The following table and chart show changes in allocation between the quarters.

**TABLE 3. COMPARISON IN ABSORPTION RATES AS A PERCENTAGE OF ORIGINAL AND FINAL APPROVED BUDGETS**
### TABLE 4. CHANGES IN ALLOCATIONS AS A RESULT OF SUPPLEMENTARY BUDGETS WITHIN THE QUARTERS

Changes in allocations as a result of supplementary budgets in Billion shillings

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>QTR.1 (Approved Budget)</th>
<th>QTR.2</th>
<th>QTR.3</th>
<th>QTR.4</th>
<th>Percentage change between QTR3 and 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>8.57</td>
<td>8.57</td>
<td>8.57</td>
<td>8.81</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>3.96</td>
<td>3.96</td>
<td>3.96</td>
<td>3.83</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>12.53</td>
<td>12.53</td>
<td>12.53</td>
<td>12.63</td>
<td>0%</td>
</tr>
<tr>
<td>2018/19</td>
<td>8.63</td>
<td>8.63</td>
<td>4.97</td>
<td>4.14</td>
<td>-16.70%</td>
</tr>
<tr>
<td></td>
<td>4.97</td>
<td>4.97</td>
<td>4.14</td>
<td>4.34</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>13.59</td>
<td>13.59</td>
<td>13.59</td>
<td>14.46</td>
<td>0%</td>
</tr>
<tr>
<td>2019/20</td>
<td>8.74</td>
<td>8.74</td>
<td>9.36</td>
<td>9.39</td>
<td>7.10%</td>
</tr>
<tr>
<td></td>
<td>4.94</td>
<td>4.94</td>
<td>5.31</td>
<td>4.28</td>
<td>7.50%</td>
</tr>
<tr>
<td></td>
<td>13.68</td>
<td>13.68</td>
<td>14.67</td>
<td>13.67</td>
<td>7.20%</td>
</tr>
</tbody>
</table>

*Source: OCOB Reports*

**FIGURE 1. PERCENTAGE CHANGE IN ALLOCATION BETWEEN QUARTERS 3 AND 2 AND QUARTERS 4 AND 3 RESPECTIVELY**
There are discrepancies in figures provided by County Budget Review and Outlook Paper and Controller of Budget Reports. The study established notable differences in the total figures provided in the controller of budget reports and the County Budget Review and Outlook papers, during the years under review. This raises questions on the quality of data and information availed to the public and points out transparency and data quality issues. Further, it makes it almost impossible for the public to track and understand how cash flow to their county against their approved budgets. The table below presents the data in expenditure provided by COB and the CBROP.

**TABLE 5. CBROP VERSUS OCOB REPORTS ON EXPENDITURE DATA**
1.1.6. Quarterly trend in the disbursement of funds in the department of lands and housing from 2017/18 to 2019/20

1.1.6.1. Department of Housing - Key observations/ findings

Mombasa is an urban county and the second-largest city in Kenya after Nairobi. Just like other cities, experiencing urbanization challenges, the shortage of housing is one of the challenges that Mombasa is yet to address. The county which has a total population of 1.2 million people, according to the 2019 census report, has an estimated housing deficit of 380,000 units, with an annual housing supply of 4,000 units. The housing shortage is expected to rise to 650,000 by 2035⁸. With over 70,000 documented informal settlements, and the existing historical challenge of lack of security of tenure and landlessness, housing remains important to the majority of the residents. Housing as part of the big four agenda has been a priority area since 2017/18. Despite the department being the highest contributor to local revenue, the department is one of the least funded⁹.

Informed by the above background and the increased housing demand, the study analyzed the disbursement pattern in the department of housing. The focus here was to give us a picture of how money flows from the county operations account to the departments and to the point of service delivery.

**TABLE 6. MOMBASA COUNTY DEPARTMENT OF HOUSING, LANDS AND PHYSICAL PLANNING CASH FLOW DISBURSEMENT, EXPENDITURE, AND ABSORPTION RATE FROM 2017 TO 2020**

<table>
<thead>
<tr>
<th>FY</th>
<th>CBROP</th>
<th>OCOB Reports</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Budgeted Expenditure</td>
<td>Actual Recurrent Expenditure</td>
<td>Actual Development</td>
</tr>
<tr>
<td>2017/18</td>
<td>12.51 8.82 2.96 11.36</td>
<td>12.51 7.39 2.91 10.31</td>
<td>1.45</td>
</tr>
<tr>
<td>2018/19</td>
<td>14.46 10.25 3.11 13.36</td>
<td>14.46 9.42 3.11 12.64</td>
<td>0.83</td>
</tr>
<tr>
<td>2019/20</td>
<td>13.37 8.85 1.89 10.74</td>
<td>13.67 7.64 3.15 10.79</td>
<td>1.21</td>
</tr>
</tbody>
</table>

Sources: Mombasa county BROP and CoB reports, 2018/19-2019/20

⁸ https://unhabitat.org/sites/default/files/2020/02/the_frugs_city_study_report_on_mombasa_kenya.pdf
⁹ https://www.mombasa.go.ke/lands-planning/
For the development budget, expenditure is higher than exchequer releases. The actual development expenditure as a percentage of the exchequer releases was 101.8 percent and 162.2 percent in 2017/18 & 2018/19 respectively. Even with high expenditure against the exchequer releases, the absorption rate was very low in 2017/18 at 35.2 percent and higher in 2018/19 at 83.2 percent.

Notably, there are instances of development expenditure despite nil exchequer releases. For instance, in the second quarters of 2018/19 and 2019/20 financial years, there was development expenditure amounting to Ksh. 20.6 million and Ksh. 29.06 million respectively with exchequer releases at zero. Although there were no justifications from the reports, in-depth interviews with informants revealed that the expenditure was from the balances carried forward. Projects which had been invoiced and procured in the previous year, when the payment is done in the next financial year, has to be accounted for and the accounting can only happen in the current financial year. (See table 7 below)

TABLE 7. QUARTERLY DISBURSEMENT IN THE DEPARTMENT OF HOUSING

Source: CBQIRR Reports 2017/18, 2018/19, and 2019/20

<table>
<thead>
<tr>
<th>FY</th>
<th>Original approved budget(Million Ksh)</th>
<th>Supp. Budget(Million Ksh)</th>
<th>Annual total exchequer issues(Million Ksh)</th>
<th>Annual expenditure</th>
<th>Budget Absorption (Expenditure as % of Original Budget)</th>
<th>Absorption of Exchequer Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>220.19 438.29 658.47</td>
<td>203.41 245.08 448.5</td>
<td>200.28 151.56 351.84</td>
<td>121.99 154.25 276.24</td>
<td>53% 35% 42%</td>
<td>61% 102% 79%</td>
</tr>
<tr>
<td>2018/19</td>
<td>226.4 221.7 447.6</td>
<td>150.7 244.15 394.85</td>
<td>133.79 113.68 246.95</td>
<td>124.69 184.37 309.06</td>
<td>55% 83% 69%</td>
<td>94% 162% 125%</td>
</tr>
<tr>
<td>2019/20</td>
<td>220.15 211.33 431.48</td>
<td>205.4 149.15 354.59</td>
<td>172.15 25.4 197.53</td>
<td>113.9 78.7 192.6</td>
<td>52% 37% 45%</td>
<td>66% 310% 98%</td>
</tr>
<tr>
<td>Average</td>
<td>222.24 290.27 512.51</td>
<td>216.5 212.8 399.3</td>
<td>168.5 265.44</td>
<td>120.19 139.11 259.3</td>
<td>54% 48% 53%</td>
<td>71% 144% 98%</td>
</tr>
</tbody>
</table>

Source: CBQIRR Reports 2017/18, 2018/19, and 2019/20
Decreasing development budget across the years. The development budget seems to be reducing both in the original budgets and the revised budget. It was established that the development budget experienced cuts during supplementary budgets. In 2019/20 and 2017/18, the total development budget was reduced by 29.4 percent and 44.1 percent, respectively. Further, a key informant added that in case of budget changes, the operations/maintenance and development economic categories are usually the affected categories, as labor laws do not support the reduction of the employees’ salaries. This was further echoed by key informants from the county treasury citing that the county was struggling with a bloated wage bill which currently accounts for 37 percent of the total revenue; the legal threshold is 35 percent.

1.1.7. Understanding the processes of how cash flows from the County Revenue Fund Account (CRFA) to County Operational Account

1.1.7.1. County Cash flow projections/forecasts

Mombasa County has a cash flow forecast schedule. The county cash flow projection schedule is informed by the National Treasury’s disbursement schedule which is approved by the Senate. Based on the gazette schedule, the county creates a cash flow projection by integrating with the projected monthly local revenue collections. The interviewees indicated that even with the cash flow projection schedule, the flow and disbursement of the funds most of the time does not conform to the schedules, but is dependent on the availability of funds.

1.1.7.2. Requisitions requirements

According to interviewees from the county, the chief officer in the Department of Finance is responsible for raising a requisition to the Office of the Controller of Budget. Requisitions, however, depend on the availability of funds in the CRF account. During the first requisition, the chief officer Finance is required to enclose the following: the County Integrated Development Plan, The County Annual Development Plan, The County Budget Review and Outlook Paper, the approved budget, Gazetted appropriation Act, the Annual cash flow forecast, evidence that the budget was uploaded in the Integrated Financial Management Information System (IFMIS), the statement of Balance Carried Forward, a public participation report and evidence, and General Warrant from the governor authorizing the Chief officer Finance to make requisition on behalf of the county.

Further through the interviews, it was established that during the subsequent requisitions, the chief officer signs on behalf of the county treasury at least three forms namely form A, B, and C.

- Form A (this is the requisition form) accompanied by a statement reflecting the available balance of funds for expenditure, Internet Banking (IB) report and the processed IPPD for salaries,
operations & maintenance as well as development budget are submitted to the Office of the Controller of Budget.

- Form B is issued upon review of the submitted forms by the Controller of Budget’s Fiscal Analyst.
- Finally, the head of the county treasury and the Central Bank signatory of the county (CECM finance or the Chief officer) sign the form which is forwarded to the Central Bank of Kenya where the County Revenue Fund Account is managed.

The process takes two days however this is dependent on the queuing at the Controller of Budgets office and at the Central Bank of Kenya, by other officers from the counties as well as national government MDAs and back and forth especially when the documents presented do not conform to the required conditions. Further to the queuing and back and forth process incurred during requisitions, manual requisition comes with its own share of challenges that impact negatively on cash flow. There is a need for the government to digitize and streamline the requisition process to ensure efficiency.

In Mombasa County, the County Assembly has a procurement and finance officer who makes transactions on behalf of the County Assembly independently. However, the requisitions should be approved by the Chief Officer in the Department of Finance and Economic Planning.

1.1.7.3. Timelines for requisitions and disbursement.

Although the PFM Act, 2012 section 17(6) (7) requires disbursement to the counties to be made quarterly, the key informants revealed that requisitions and disbursements are made on a monthly basis. This was further confirmed from the disbursement schedules gazettes that give a report on monthly disbursements to counties. However, since the requisitions are dependent on the availability of funds in the CRF account, the informants stated that sometimes the county has to wait for even two months without monies in the CRF account. As at the time of the interview in September, the informant added that since the start of the financial year 2020/21, there was no exchequer releases of both Equitable share and Conditional Grants, following the stalemate in the approval of the Commission on Revenue Allocation (CRA) formula by the senate. However, in such circumstances, the county may spend the collected local revenue which is collected centrally at the Mombasa Local Authority account before transfer to the CRF account. Maintaining defunct local authority accounts is an issue that has been raised by the Office of the Auditor-General, as it leads to non-remittance revenue into the County Revenue Fund Account. Further, to access the local revenue, the same procedures for seeking approval and authorization from the controller of budgets by the chief Officer should be followed to the core.

---

10 Financial Statements of Mombasa County Executive for the Year Ended June 2018, Page 27, paragraph 4.0
1.1.8. Understanding how funds move from the county operations account to the point of service delivery in the Department of lands, housing, and physical planning

1.1.8.1. Requisitions and procurement

An outline of the requisition process in the department is as follows:

### TABLE 8. MONTHLY EXCHEQUER ISSUES IN THE FIRST HALF OF 2017/18 TO 2019/20

<table>
<thead>
<tr>
<th>FY</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Total exchequer Disbursement (1st half)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>597.97</td>
<td>0</td>
<td>473.29</td>
<td>0</td>
<td>996.79</td>
<td>843.1</td>
<td>2,911.15</td>
</tr>
<tr>
<td>2018/19</td>
<td>0</td>
<td>430.76</td>
<td>587.7</td>
<td>741.18</td>
<td>875.74</td>
<td>822.68</td>
<td>3,458.06</td>
</tr>
<tr>
<td>2019/20</td>
<td>0</td>
<td>0</td>
<td>1,228.08</td>
<td>632.22</td>
<td>0</td>
<td>824.68</td>
<td>2,684.98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>597.97</td>
<td>430.76</td>
<td>2,289.07</td>
<td>1,373.40</td>
<td>1,872.53</td>
<td>2,490.46</td>
<td>9,054.19</td>
</tr>
</tbody>
</table>

*Source: Mombasa County BROPs*

### FIGURE 2. EXCHEQUER MONTHLY DISBURSEMENTS IN THE FIRST HALF OF 2017/18, 2018/19, AND 2019/20

An outline of the requisition process in the department is as follows:
1. Confirmation of Available Balance in the Department’s Vote Book - Chief officer, Housing and Chief Officer Finance

2. Receipt of Authority to Incur Expenditure (AIE) Letter showing expenditure limits based on available balance. The letter is from the Chief Officer, Finance to the Department’s Chief Officer.

3. Raising a requisition (informed by the work plan, the ADP, and the approved budget). This is done by the department’s Chief Officer in form of a letter (attached to the letter is a request number) which is submitted to the Chief Officer, Finance.

4. Upon approval of the requisition by the Chief Officer, Finance, the requisition and the request number are forwarded to the Director of Procurement.

The requesting officer in the department of housing should make a follow up on how far the requisition is. This is because of the centrality of the procurement department, domiciled at the county treasury which procures for all the other county departments. How soon a procurement is finalized depends on how consistent one is in terms of following up with the county treasury. Once funds have been released, the chief officer in the department can decide how much goes to which program depending on the urgency and priorities at hand.

1.1.8.2. Procurement process after a requisition is made

An outline of the procurement process:

1. Online requisition – Conducted by the Director of Procurement.

2. Floating of tenders – Either open or closed tenders/quotations depending on the threshold. A quotation (prequalified) takes 7 days while an open tender takes 14 days.

3. Evaluation of the tenders – This is done by the tendering and evaluation committees.

4. Award – An award letter and a purchase order are given to the qualified contractor who then signs a contract after 14 days.

5. Site handover – A site handing over committee presents the contractor to the working site.

6. Inspection – Upon completion of the work by the contractor, an inspection committee inspects how the work, for example repair of leaking roofs, has been done.

7. Invoice raised by the contractor - An invoice is raised by the contractor and attached to a payment voucher which is submitted to the Chief Officer of Finance.

8. Request of funds to pay the contractor - At Internet Banking stage one, funds to pay the contractor are requested based on the invoice raised.
9. Payment – This is done at stage two of Internet Banking. However, the payment of the contractor will depend on the available funds. If the contractor is not paid by the end of a financial year, it becomes a pending bill. The pending bill however should be settled by the department of finance and not housing in this case.

**CHALLENGES ON DECISIONS AND THE FLOW CHAIN OF FUNDS AFFECTING BUDGET IMPLEMENTATION**

1. **The centrality of procurement.** All departments except the county assembly in Mombasa depend on one procurement directorate at the department of finance. Due to the bulkiness of procurement, it takes a lot of time, and the requesting department has to make a follow-up for their requisition to be approved and processed.

2. **Downtime and backlog in the Integrated Financial Management Information System,** which delays disbursement of the requested funds.

3. **Maintaining defunct local authority accounts for depositing local revenue before remitting the local revenue to the County Revenue Fund Account.** This exposes the local revenue to non-remittance and possible leakages which in turn has effects on the overall realization of targeted local revenue and in turn budget implementation.

4. **Cash flow disbursement schedules and timelines.** Whereas the county has a cash flow disbursement schedule, it is more of a projection as a disbursement is highly dependent on the availability of funds in the County Revenue Fund account. This then means Mombasa County has to manage what is available as opposed to what has been budgeted for. This then calls for effective prioritization by the departments.

5. **Requisitions are on a need-basis and are based on a work plan** as opposed to the approved budget whereas as requisitions at the departmental level should be in accordance with the approved budget. It was strongly stated that most of the time, for the department under review, requests are based on work plans and when the need arises.

6. **Data quality and transparency.** There is a need by the county to ensure data presented to the public is harmonized across various budget documents. The data discrepancy raises accountability and transparency questions.

**RECOMMENDATIONS AND POSSIBLE SOLUTIONS**

1. There is need to have decentralized procurement at each department with access to Integrated Financial Management Information System (IFMIS) for improved flow of funds after the requisition is made.
2. The National Treasury should streamline their systems and ensure timely disbursement of funds to the counties. Counties are as important as the national government Ministries, Departments, and Agencies (MDAs). There is also a need to address the backlog at the IFMIS to ensure timely processing of requested funds.

3. Mombasa county government to increase the capacity of the ICT department at the county treasury to address IFMIS system failures.

4. All the defunct local authorities’ revenue collection accounts should be closed and the county have a central payment account for local revenue collection to ensure all revenue collected is remitted to the County Revenue Fund Account.

5. The handling of funds while at the operational account should be based on the departmental requisitions made, to avert a situation where funds are re-allocated to different departments at the expense of others.

6. Strict adherence to the approved budget as opposed to work plans. Requisitions need to be based on the approved budget which acts as a road map and a guide for budget implementation. Cognizant of the fact that requisitions are based on the availability of funds, it is at the discretion of the implementing department to prioritize according to the budget.

CONCLUSION

Cash flow issues within counties are discussed extensively in the context of delayed disbursement of funds from the national government. However, some of the cash flow challenges which consequently affect spending and budget implementation, fall within what counties are in charge of, with Mombasa as an example. Mombasa County has a role to ensure that the county’s revenue targets, particularly own source revenue targets are realistic. Streamlining the revenue collection processes in the county is also imperative. Even with delays in disbursement, the county should strive to ensure effective utilization and prioritization of the available funds towards delivering services.
ANNEX

Figure: A flowgram of how cash flows from CRF to the point of service delivery in Mombasa County.