

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KILIFI

THE COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2019

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This 2019 Kilifi County Budget Review and Outlook Paper has been compiled using latest information, some of which is unaudited or subject to revision.

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FOREWORD

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012. This 2019 CBROP is the sixth to be prepared under the county government of Kilifi. It presents the actual fiscal performance in the previous financial year compared to the corresponding budget appropriations in the current financial year. This entails analysis of total revenue collected versus projected revenue and highlighting the causes for deviations. The analysis also includes expenditure performance of county departments with highlights on actual performance of FY 2018/19

In addition to this, it shows the updated financial and economic forecasts as well as any changes in the forecasts of the previous financial year and how it affects compliance to fiscal responsibility principles as well as financial objectives in the subject financial year. The paper also states reasons for deviation, if any.

LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER

The 2019 Kilifi County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Finance Management Act, 2012 which states that:

- 1) A County Treasury shall;
 - a) Prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
 - b) Submit the paper to the County Executive Committee by 30th September of that year.
- 2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify-
 - a) The details of actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
 - b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
 - c) Information on-
 - i. any changes in the forecasts compared with the CFSP or;
 - ii. how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP for that year; and
 - iii. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
- 3) The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the CBROP is approved by County Executive Committee, the County Treasury shall:
 - a) Arrange for the CBROP to be laid before the County Assembly; and
 - b) As soon as practicable after having done so, publish and publicize the paper.

FISCAL RESPONSIBILITY PRINCIPLES IN THE PUBLIC FINANCE MANAGEMENT ACT, 2012

Section 107(2) of the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

- (a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
- (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) The county government's expenditures on wages and benefits shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly
- (d) Over the medium term, the county government's borrowings shall be used only for the purpose for financing development expenditure and not for recurrent expenditure;
- (e) The county debt shall be maintained at a sustainable level as approved by the County Assembly.
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

In addition to the fiscal responsibility principles set out in section 107 of the Act, Regulation 25 of the Public Finance Management (County Government) Regulations, 2015 provides the following fiscal responsibility principles in the management of public finance:

- (a) the County Executive Committee Member with the approval of the County Assembly shall set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Act;
- (b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the county government's total revenue;
- (c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues that accrue from extractive natural resources including as oil and coal;
- (d) the county public debt shall never exceed twenty(20%) percent of the county governments total revenue at any one time;
- (e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);
- (f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
- (g) pursuant to section 107(5) of the Act, the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act;
- (h) if the county government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the county executive committee member for finance shall submit a responsibility statement to county assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and
- (i) the compliance plan above shall be binding and the county executive committee member for finance shall ensure implementation

INTRODUCTION

Overview

1. The 2019 County Budget Review and Outlook Paper is a year-end report on FY 2018/19 budget and includes previous economic and fiscal projections, current economic and fiscal position as well as indicative allocation of resources to departments/divisions for the next fiscal year. FY 2018/19 budget was premised on the transformative agenda that has been under implementation since the County's inauguration, but focus shifted from structural to people transformation.

2. The country successfully transitioned from the centralized to devolved system of government in 2013 with the county government setting up administrative and functional structures to effectively deliver on its mandate to the people. The county government also moved in to bridge the gap on availability of structures for dispensaries, health centers, markets, social halls, agro-processing plants, sub-county administration blocks and classrooms by constructing buildings for such purposes. These infrastructural projects were a physical tier to the structural transformation, which together with staffing in critical service areas such as public finance management, devolution services, medical services and early childhood education laid the foundation for taking services closer to the people.

3. With the administrative structures and infrastructural projects in place or being put in place albeit with challenges, attention shifted to the demand to put these structures into their intended use, therefore avail their benefits to the people. Thus, the FY 2018/19 budget responded to this demand by prioritizing programmes and projects for implementation under the five-point agenda for action entailing;

- i. Food sufficiency
- ii. Provision of safe water
- iii. Good performance and quality education
- iv. Adequate health care services, and
- v. Beneficial use of land

4. This 2019 CBROP will provide an assessment on the implementation of programmes and projects towards the attainment of these policy goals as far as FY 2018/19 fiscal performance is concerned and how this affects implementation of FY 2019/20 and the county's development aspirations presented in the County Integrated Development Plan (CIDP) 2018-2022 and taken up in the County Annual Development Plan (CADP) for FY 2020/21. The effect of FY 2018/19 fiscal performance on implementation FY 2019/20 budget will be reflected in the adjustments to FY 2019/20 budget in the context of supplementary budget while ways to achieve the county's development aspirations are considered under the indicative allocation of resources to departments/divisions.

Outline of the Paper

5. The outline of the 2019 CBROP is as follows:

- i. Introduction
- ii. Fiscal outturn for FY 2018/19 and its implication on the financial objectives set in 2018 CFSP
- iii. Recent economic developments and outlook
- iv. Resource allocation framework and
- v. Conclusion

CHAPTER TWO: FISCAL PERFORMANCE FOR FY 2018/19 AND ITS IMPLICATION ON 2019 FINANCIAL OBJECTIVES

Overview

6. This chapter presents actual fiscal performance in FY 2018/19 against budget appropriation and its impact on the financial objectives and fiscal responsibility principles thereby indicate progress towards achieving the people-focused transformative agenda.

7. The overall fiscal performance in FY 2018/19 was impressive except for challenges on revenue shortfall, recurrent expenditure pressures and delays in completion of projects.

8. On the revenue front, the county government raised Ksh. 13,337,111,004 against a target of Ksh. 14,471,491,081 representing a 7.8 percent shortfall. In nominal values, this was an increase from Ksh.11,129,099,244 raised in FY 2017/18 as well as an improvement in revenue shortfall, which was at 8.2 percent.

9. Actual expenditure excluding commitments by the county government was Ksh.11,512,058,819 out of which Ksh.8,551,870,398 was spent on recurrent outlays representing 74.3 percent of the total expenditure. Nominally, this was an increase from FY 2017/18 where the Ksh. 10,426,865,174 spent consisted recurrent expenditure of Ksh. 6,981,842,358. In relative values, there is indication that the county government yielded to mounting recurrent expenditure pressures in FY 2018/19 more than in FY 2017/18 when recurrent expenditure was 67.0 percent of the total expenditure.

10. However, the County's revised allocation to the 'drivers' of the people-focused transformative agenda increased nominally to Ksh.8,826,258,848 from original amount of Ksh.8,664,090,572. In relative values, the revised allocation was 61 percent of the total budget down from the original allocation of 63 percent. The revised allocation to 'enablers' was Ksh. 5,645,232,233 (39 percent) from the original amount of Ksh.5,155,324,449 (37 percent). This resource allocation stance was impressively approached on the actual expenditure front amid expenditure pressure on administrative and other operational and maintenance costs which are tilted more to the 'enablers' than 'drivers.' In this regard, the county's actual expenditure on the 'drivers' of the people-focused transformative agenda amounted to Ksh.6,890,367,412 while that on 'enablers' amounted to Ksh.4,644,964,995 representing 60 percent and 40 percent of the total expenditure respectively.

11. The recurrent expenditure pressure and delays in completion of projects militated against actual development expenditure which amounted to Ksh. 2,960,580,400 (25.7 percent of total expenditure) down from Ksh.3,445,022,816 (33.0 percent) in FY 2017/18.

FY 2018/19 Fiscal Performance

12. FY 2018/19 fiscal performance is classified into;

- A. Revenue Performance
- B. Expenditure Performance
- C. Overall Fiscal Balance

Each of these is presented in detail in the sub-sections that follow.

A. Revenue Performance

13. There are three categories of revenue for the county government namely;

- i. Equitable share of revenue raised nationally
- ii. Conditional grants and
- iii. Own source revenue (OSR)

14. The analysis of these categories will be based on approved equitable share or grant against disbursement and own source revenue collection against target. Withdrawals from the County Revenue Fund Account will be presented separately to show the amount of revenue that was available for spending in FY 2018/19.

- i. *Equitable Share of Revenue Raised Nationally*

15. The county's equitable share of revenue raised nationally in FY 2018/19 was Ksh. 10,833,000,000 up from Ksh. 9,950,900,000 in FY 2017/18. Except for delays in the disbursement of these funds, the county received the full share as shown in the Table 1.

Table 1: Disbursement of Equitable Share of Revenue Raised Nationally FY 2018/19

Months	Disbursement Schedule FY 2018/19	Actual Disbursement FY 2018/19
Jul-18	541,650,000	-
Aug-18	758,310,000	-
Sep-18	974,970,000	541,650,000
Oct-18	1,083,300,000	758,310,000
Nov-18	1,083,300,000	974,970,000
Dec-18	866,640,000	1,083,300,000
Jan-19	1,029,135,000	1,083,300,000
Feb-19	974,970,000	866,640,000
Mar-19	866,640,000	1,029,135,000
Apr-19	920,805,000	974,970,000
May-19	866,640,000	866,640,000
Jun-19	866,640,000	920,805,000
Jul-19		1,733,280,000
Total	10,833,000,000	10,833,000,000

Source: County Treasury

ii. *Conditional Grants*

16. The revised conditional grants in FY 2018/19 increased to Ksh.1,827,992,901 from the original amount of Ksh.1,629,707,963 on account of unspent or undisbursed grants amounting to Ksh. 135,073,627 in FY 2017/18. In FY 2018/19, the total disbursements of conditional grants to the county government amounted to Ksh.1,050,768,550 thereby falling short of the target by Ksh.795,951,287 as detailed in the Table 2.

Table 2: Conditional Grants and their Disbursement FY 2018/19

Description of Grants	Original Grants FY 2018/19	Revised Grants FY 2018/19	Unspent/Undisbursed Grants FY 2017/18	Disbursed Grants FY 2018/19	Undisbursed Grants FY 2018/19
Compensation for User Fee Foregone	25,969,864	26,072,672	102,808	25,969,855	9
Leasing of Medical Equipment	200,000,000	200,000,000		-	200,000,000
Road Maintenance Fuel Levy	285,223,455	293,653,336	8,429,881	285,223,456	(1)
Rehabilitation of Village Polytechnic	53,035,000	87,896,049	34,861,049	40,041,425	12,993,575
Kenya Devolution Support Programme (KDSP)	61,148,106	83,874,401	22,726,295	153,800,563	61,148,106
National Agricultural and Rural Inclusive Growth Project (NARIGP)	140,435,163	196,045,018	55,609,855	50,078,476	90,356,687
Agriculture Sector Development Support Programme (ASDSP)	-	22,011,311		8,611,847	13,399,464
Water and Sanitation Development Project	400,000,000	400,000,000			400,000,000
Transforming Healthcare Systems for Universal Care Project (THSUCP)	100,000,000	101,527,335	1,527,335	81,946,553	18,053,447
Universal Healthcare in Devolved System Program(DANIDA)	33,361,875	45,178,279	11,816,404	33,361,875	-
Kenya Urban Support Programme-Urban Institutional Grant (KUSP-UIG)	-	41,200,000		41,200,000	-
Kenya Urban Support Programme	330,534,500	330,534,500		330,534,500	-
Total	1,629,707,963	1,827,992,901	135,073,627	1,050,768,550	795,951,287

Source: County Treasury

iii. *Own Source Revenue*

17. The county government generated Ksh. 852,837,168 from own sources in FY 2018/19, an increase from Ksh.522,331,980 raised in FY 2017/18 as shown in Table 3. This nominal increase signals the fruition of efforts to seal loopholes through automation, cashless transactions and easing of political tensions that riddled the country’s economy for a better part of FY 2017/18. On the flip side, the amount generated was a 37 percent shortfall from the target of Ksh.1,345,066,521, but an improvement from that of 44 percent in FY 2017/18.

18. Analysis of OSR collection by stream indicate major streams in FY 2018/19 as Cess on natural resources which stood at Ksh. 238,009,455, Land rates and other Land Revenue at Ksh. 187,241,170 and Health Services Improvement Fund (HSIF) at Ksh. 160,768,219. The major streams also recorded significant improvements from previous year’s collection. As such, HSIF increased from Ksh. 59,056,231 in FY 2017/18, Land rates and other land revenue increased from Ksh. 126,238,602 and Cess on natural resources increased from 141,702,600. On the other hand, the county government surpassed OSR targets for House rent (3141 percent), Refuse collection (647 percent), Food hygiene fees (597 percent), Parking Fees (65 percent), Billboards and signage (16 percent) and Plot ground rate (1 percent).

19. The persistent shortfalls in OSR collection poses the challenge of in-year budgetary adjustments in the context of supplementary budget to take up pending bills and ongoing projects. Since the likelihood of having in-year additional revenue is minimal, then pending bills and ongoing projects take up allocations for planned programmes and projects thereby deferring their implementation. This calls for concerted efforts to contain expenditure appetite, make conservative, if not realistic, OSR projections, or upscale OSR collection effort.

Table 3: Own Source Revenue Collection, FY 2017/18 and FY 2018/19

REVENUE STREAM	APPROVED REVENUE ESTIMATES FY 2017/18	ACTUAL REVENUE COLLECTION FY 2017/18	APPROVED REVENUE ESTIMATES FY 2018/19	ACTUAL REVENUE COLLECTION FY 2018/19	DEVIATION FROM TARGET (%) FY 2018/19
Health Service Improvement Fund (HSIF)	101,257,492	59,056,231	445,535,172	160,678,219	-64%
Land Rates and other Land Revenue	328,153,020	126,238,602	313,677,194	187,241,170	-40%
Cess on natural resources	198,763,781	141,702,601	341,052,835	238,009,456	-30%
Business Permit	101,966,052	70,150,392	114,623,556	67,530,278	-41%
Parking fees	34,656,760	17,832,833	21,488,039	35,452,472	65%
Market fees	21,022,218	11,744,236	15,258,534	10,688,373	-30%
Billboards & Signage	26,334,482	17,844,177	16,604,823	19,196,108	16%
Building Plan approval and Inspection	9,306,873	2,119,318	8,102,161	6,492,114	-20%
Rent/Stall rents	9,541,852	5,306,499	6,896,158	3,839,372	-44%
Survey fees and plot rents	3,449,830	1,742,540	2,307,628	1,655,861	-28%
Sale of Tender Documents	1,006,267	23,000	625,010	1,000	-100%
Plot ground rent	9,775,820	2,558,333	6,198,608	6,229,677	1%
House rent	47,591,612	37,614,075	1,963,043	63,627,022	3141%
Refuse Collection	866,249	505,803	563,781	4,209,353	647%

REVENUE STREAM	APPROVED REVENUE ESTIMATES FY 2017/18	ACTUAL REVENUE COLLECTION FY 2017/18	APPROVED REVENUE ESTIMATES FY 2018/19	ACTUAL REVENUE COLLECTION FY 2018/19	DEVIATION FROM TARGET (%) FY 2018/19
Food Hygiene Fees	1,293,470	679,700	1,143,701	7,969,917	597%
Slaughterhouse and Livestock sale Yards	4,313,631	743,839	2,088,733	1,212,619	-42%
Others	30,363,849	26,469,802	46,937,545	38,804,156	-17%
TOTAL	929,663,257	522,331,980	1,345,066,521	852,837,168	-37%

Source: County Treasury

Withdrawal for the County Revenue Fund (CRF) Account

20. The county government withdrew Ksh.11,972,933,281 from the County Revenue Fund (CRF) Account in FY 2018/19 against a revised target of Ksh.14,471,491,081. Total withdrawals from equitable share of revenue raised nationally and OSR generated stood at Ksh.10,917,903,979 against a target of Ksh.12,643,498,180. This consisted of Ksh.8,018,503,979 withdrawn for recurrent purposes and Ksh. 2,899,400,000 for development expenses. The county assembly withdrew the full amount of the recurrent budget at Ksh.903,513,979.

21. With regards to conditional grants, the county government withdrew all the conditional grants and, where required, transferred the funds to respective special purpose accounts for utilization. Table 4 presents an analysis of withdrawals from CRF Account.

Table 4: Withdrawals from the County Revenue Fund Account FY 2018/19

DESCRIPTION	ORIGINAL ESTIMATES FY 2018/19	REVISED ESTIMATES FY 2018/19	WITHDRAWAL FROM COUNTY REVENUE FUND ACCOUNT FY 2018/19		
			RECURRENT	DEVELOPMENT	TOTAL
Equitable Share and OSR	12,178,066,521	12,643,498,180	8,018,503,979	2,899,400,000	10,917,903,979
Compensation for User Fee Foregone	25,969,864	26,072,672	39,166,162	-	39,166,162
Leasing of Medical Equipment	200,000,000	200,000,000	-	-	-
Road Maintenance Fuel Levy	285,223,455	293,653,336	-	293,653,337	293,653,337
Rehabilitation of Village Polytechnic	53,035,000	87,896,049	-	74,902,474	74,902,474
Kenya Devolution Support Programme (KDSP)	61,148,106	83,874,401	22,726,295	-	22,726,295
Agricultural and Rural Inclusive Growth Project (NARIGP)	140,435,163	196,045,018	112,109,855	-	112,109,855
Agriculture Sector Development Support Programme (ASDSP)	-	22,011,311	13,611,847	-	13,611,847
Water and Sanitation Development Project	400,000,000	400,000,000	-	-	-

DESCRIPTION	ORIGINAL ESTIMATES FY 2018/19	REVISED ESTIMATES FY 2018/19	WITHDRAWAL FROM COUNTY REVENUE FUND ACCOUNT FY 2018/19		
			RECURRENT	DEVELOPMENT	TOTAL
Transforming Healthcare Systems for Universal Care Project (THSUCP)	100,000,000	101,527,335	81,946,553	-	81,946,553
Universal Healthcare in Devolved System Programme (DANIDA)	33,361,875	45,178,279	45,178,279	-	45,178,279
Kenya Urban Support Programme-Urban Institutional Grant (KUSP-UIG)	-	41,200,000	41,200,000	-	41,200,000
Kenya Urban Support Programme-Urban Development Grant (KUSP-UDG)	330,534,500	330,534,500	-	330,534,500	330,534,500
Total	13,807,774,484	14,471,491,081	8,374,442,970	3,598,490,311	11,972,933,281

Source: County Treasury

B. Expenditure Performance

22. The revised budget in FY 2018/19 forms the basis for analysis of expenditure performance. The analysis of expenditure performance also explicitly presents actual expenditure and commitments to distinguish met and unmet obligations to pay. Actual expenditure is recorded when payment is made while commitments are a future obligation to pay. In principle, commitment arises when a purchase order has been made or a contract signed and that goods will be delivered, or services rendered, and that payment will have to be made later.

23. First, expenditure outturn will be presented at the aggregate level highlighting expenditure on 'drivers' and 'enablers, of the people focused transformative agenda. Then, at the disaggregated level, expenditure outturn will be presented according to economic classification consisting of compensation to employees, use of goods and services, and development.

Aggregate Expenditure

24. The aggregate expenditure in FY 2018/19, that is actual expenditure including commitments, was Ksh. 12,353,693,271. This implies that a budget of Ksh.2,117,797,800 was unspent. This expenditure consisted of Ksh. 7,368,984,032 that was spent on the 'drivers' of the people-focused transformative agenda and Ksh.4,984,709,249 spent on 'enablers.' Excluding commitments, the county government spent Ksh.11,512,058,819 out of which Ksh.6,867,093,824 was spent on the 'drivers' and Ksh.4,644,964,996 on 'enablers' representing 60 percent and 40 percent of the total expenditure respectively. The analysis of expenditure on the 'drivers' and 'enablers' of the people-focused transformative agenda is presented in Table 5.

Table 5: Analysis of Aggregate Expenditure based on 'Drivers' and 'Enablers' of the People-Focused Transformative Agenda

DEPARTMENT	APPROVED BUDGET FY 2018/19		ACTUAL EXPENDITURE FY 2018/19	COMMITMENTS FY 2018/19	CUMULATIVE EXPENDITURE FY 2018/19
	ORIGINAL	REVISED			
'DRIVERS'					
County Division for Agriculture	682,478,377	767,865,562	558,235,146	76,520,906	634,756,052

DEPARTMENT	APPROVED BUDGET FY 2018/19		ACTUAL EXPENDITURE FY 2018/19	COMMITMENTS FY 2018/19	CUMULATIVE EXPENDITURE FY 2018/19
	ORIGINAL	REVISED			
County Division for Livestock	126,511,767	160,297,152	122,265,963	8,570,165	130,836,128
County Division for Fisheries	89,520,066	88,020,066	44,891,447	28,525,458	73,416,904
County Division for Water and Sanitation	1,138,460,863	1,218,710,863	774,543,548	95,262,324	869,805,872
County Division for Environment and Solid Waste Management	153,600,000	185,218,000	154,465,676	7,202,497	161,668,173
County Division for Education	1,866,067,588	1,769,336,390	1,300,197,350	82,919,771	1,383,117,121
County Division for ICT	47,000,000	47,000,000	32,224,108	1,874,178	34,098,286
County Division for Medical Services	3,547,248,631	3,516,960,989	3,173,936,243	139,358,674	3,313,294,917
County Division for Public Health	254,243,263	267,689,810	168,948,658	409,004	169,357,661
County Division for Lands and Energy	208,191,888	213,191,888	406,041,026	24,384,472	430,425,498
County Division for Physical Planning, Urban Development and Housing	550,768,129	591,968,129	131,344,659	36,862,761	168,207,420
SUB-TOTAL	8,664,090,572	8,826,258,848	6,867,093,824	501,890,208	7,368,984,032
% OF GROSS TOTAL	63%	61%	60%	60%	60%
'ENABLERS'					
County Assembly	1,214,680,971	1,214,680,971	1,024,269,315	19,678,178	1,043,947,493
Office of the Governor	354,810,088	371,339,934	336,155,334	11,910,014	348,065,348
County Attorney	111,258,000	121,507,990	92,171,409	14,140,260	106,311,669
County Division for Finance	661,861,827	596,608,667	486,705,964	30,056,687	516,762,651
County Division for Economic Planning	33,825,000	51,134,497	36,693,384	-	36,693,384
Roads, Transport and Public Works	1,455,628,400	1,680,280,361	1,534,634,712	103,984,149	1,638,618,861
Gender, Culture, Sports, Social Services	365,417,451	402,436,092	214,689,915	28,678,293	243,368,208
County Division for Trade and Tourism	277,091,302	306,843,702	269,976,357	20,968,462	290,944,819
County Division for Cooperatives	5,780,000	9,574,425	8,419,322	507,700	8,927,022
County Public Service Board	61,509,147	72,446,956	67,114,457	1,739,444	68,853,901

DEPARTMENT	APPROVED BUDGET FY 2018/19		ACTUAL EXPENDITURE FY 2018/19	COMMITMENTS FY 2018/19	CUMULATIVE EXPENDITURE FY 2018/19
	ORIGINAL	REVISED			
Devolution, Public Service and Disaster Management	613,462,263	818,378,639	574,134,826	108,081,066	682,215,892
SUB-TOTAL	5,155,324,449	5,645,232,233	4,644,964,996	339,744,253	4,984,709,249
% OF GROSS TOTAL	37%	39%	40%	40%	40%
GROSS TOTAL	13,819,415,021	14,471,491,081	11,512,058,819	841,634,462	12,353,693,281

Source: County Treasury

Expenditure According to Economic Classification, FY 2018/19

25. The county government spent Ksh.12,353,693,281 out of which Ksh.8,825,626,226 was used on recurrent outlays and Ksh.3,528,067,054 was for development. Excluding the recurrent commitments of Ksh.274,147,807 and development commitments of Ksh.567,486,655, the actual recurrent expenditure was Ksh. 8,551,478,420 and development was Ksh.2,960,880,400. The actual recurrent expenditure consisted of Ksh.3,728,174,623 used for compensation to employees and Ksh.4,823,303,796 for use of good and services representing 32 percent and 42 percent of the total actual expenditure of Ksh.11,512,058,819 respectively. The actual development expenditure was 26 percent of the total actual expenditure. The status of payments on development projects for each department in respective programmes and sub-programmes is presented in Annex 1 while Table 6 below presents the analysis of expenditure according to economic classification for FY 2018/19.

Table 6: Analysis of Expenditure According to Economic Classification, FY 2018/19

DEPARTMENT	APPROVED BUDGET FY 2018/19				ACTUAL EXPENDITURE AND COMMITMENTS FY 2018/19				
	RECURRENT		DEVELOPMENT		COMPENSATION TO EMPLOYEES FY 2018/19	USE OF GOODS AND SERVICES FY 2018/19	COMMITMENTS FY 2018/19 (USE OF GOODS AND SERVICES)	DEVELOPMENT EXPENDITURE FY 2018/19	DEVELOPMENT COMMITMENTS FY 2018/19
	ORIGINAL	REVISED	ORIGINAL	REVISED					
County Assembly	903,514,171	903,514,171	311,166,800	311,166,800	288,140,205	607,910,704	19,678,178	128,218,406	-
Office of the Governor	354,810,088	371,339,934		-	133,902,969	202,252,365	11,910,014		-
County Attorney	111,258,000	121,507,990		-		92,171,409	14,140,260		-
County Division for Finance	632,937,126	577,801,696	28,924,701	18,806,971	191,833,681	277,654,373	30,056,687	17,217,911	-
County Division for Economic Planning	33,825,000	51,134,497		-		36,693,384	-		-
County Division for Agriculture	320,192,219	584,398,273	362,286,158	183,467,289	219,564,228	234,087,723	1,632,062	104,583,195	74,888,844
County Division for Livestock	31,170,563	28,501,325	95,341,204	131,795,827		25,195,853	(348,836)	97,070,110	8,919,000
County Division for Fisheries	30,295,066	28,795,066	59,225,000	59,225,000		23,273,588	917,267	21,617,859	27,608,191
County Division for Water and Sanitation	187,833,228	241,083,228	950,627,635	977,627,635	185,817,282	85,697,577	7,193,453	503,028,690	88,068,871
County Division for Environment and Solid Waste Management	58,100,000.00	89,718,000	95,500,000	95,500,000		83,358,656	6,321,013	71,107,020	881,484
County Division for Education	1,039,445,610	930,853,363	826,621,978	838,483,027	351,407,407	840,187,320	10,406,138	108,602,622	72,513,633
County Division for ICT	37,000,000	37,000,000	10,000,000	10,000,000		28,204,908	1,874,178	4,019,200	-
County Division for Medical Services	2,699,454,714	2,671,167,072	847,793,917	845,793,917	1,946,688,175	775,005,593	10,622,408	452,242,475	128,736,266
County Division for Public Health	254,243,263	267,689,810		-		168,948,658	409,004		-
Roads, Transport and Public Works	442,469,214	466,691,294	1,013,159,186	1,213,589,067	100,466,950	363,018,193	3,232,134	1,071,149,569	100,752,015
County Division for Lands and Energy	151,391,888	151,391,888	56,800,000	61,800,000	37,175,745	340,337,422	7,314,297	28,527,859	17,070,175
County Division for Physical Planning, Urban Development and Housing	52,362,000	52,362,000	498,406,129	539,606,129		30,932,926	24,564,840	100,411,733	12,297,921
Gender, Culture, Sports, Social Services	109,074,266	184,442,907	256,343,185	217,993,185	37,410,823	97,830,094	10,891,660	79,448,999	17,786,633
County Division for Trade and Tourism	96,344,758	119,892,308	180,746,544	186,951,394	41,861,817	72,454,929	3,004,839	155,659,611	17,963,623
County Division for Cooperatives	5,780,000	9,574,425		-		8,419,322	507,700		-
County Public Service Board	61,509,147	72,446,956		-	32,257,714	34,856,743	1,739,444		-
Devolution, Public Service and Disaster Management	545,617,912	750,534,288	67,844,351	67,844,351	161,647,628	394,812,056	108,081,066	17,675,142	-
Total	8,158,628,233	8,711,840,490	5,660,786,788	5,759,650,591	3,728,174,623	4,823,303,796	274,147,807	2,960,580,400	567,486,655
% OF TOTAL ACTUAL EXPENDITURE					32%	42%		26%	

Source: County Treasury

OVERALL FISCAL BALANCE, FY 2018/19

26. The overall fiscal balance on a commitment basis increased to a surplus of Ksh.983,417,723 in FY 2018/19 from Ksh.702,234,070 in FY 2017/18. This is not a desirable result but it is an indication of improvement in budgeting to eliminate hidden deficits arising from incorporating expenditure estimates with unrealistic revenue estimates. Table 7 presents the overall fiscal balance based on actual expenditure as well as expenditure including commitments.

Table 7: Overall Fiscal Balance on a commitment basis, FY 2016/17-FY 2018/19

ITEM DESCRIPTION	ACTUAL PERFORMANCE FY 2016/17	ACTUAL PERFORMANCE FY 2017/18	APPROVED ESTIMATES FY 2018/19	ACTUAL (REVENUE/ EXPENDITURE) FY 2018/19	ACTUAL & COMMITMENT (REVENUE/ EXPENDITURE) FY 2018/19
Total Revenue	9,287,583,089	11,129,099,244	14,471,491,081	13,337,111,004	13,337,111,004
Equitable Share	8,029,167,703	9,950,900,000	10,833,000,000	10,833,000,000	10,833,000,000
Conditional Grants	638,321,809	583,123,717	1,692,919,274	1,050,768,550	1,050,768,550
Local Revenue	554,484,876	463,275,749	899,531,349	692,158,949	692,158,949
Health Services Improvement Fund (HSIF)	65,608,701	59,056,231	445,535,172	160,678,219	160,678,219
Unspent CRF	-	72,743,547	465,431,659	465,431,659	465,431,659
Unspent/Undisbursed Conditional Grants			135,073,627	135,073,627	135,073,627
Total Expenditure	10,843,121,165	10,426,865,174	14,471,491,081	11,512,058,819	12,353,693,281
Recurrent	5,863,908,630	6,981,842,358	8,711,840,490	8,551,478,420	8,825,626,226
Development	4,979,212,535	3,445,022,816	5,759,650,591	2,960,580,400	3,528,067,054
Fiscal Balance	(1,555,538,076)	702,234,070	(0)	1,825,052,185	983,417,723

Source: County Treasury

27. This increase in surplus overall fiscal balance is also an indication of challenges encountered to deliver goods, render services or complete works/projects in time for processing of payments within the fiscal year. This can be attributed to technical capacity issues, both staff and bidders, to undertake procurement through the e-procurement module in the IFMIS (Integrated Financial Management Information System) that took effect on the 1st of January 2019 as directed through the Executive Order No.2 of 2018 on Procurement of Public Goods, Works and Services. This in turn slowed the sourcing of suppliers, service providers and contractors thereby contributing to delays in delivery of goods, provision of services and completion of works/projects. The challenges associated with adoption of e-procurement were also exacerbated by the delays in disbursement of funds by the national government which meant that suppliers, service providers

and works contractors would not be paid on time even when they had raised their invoices for goods delivered, services rendered or obtained completion certificates for works done.

Fiscal Performance for the FY 2018/19 in Relation to Financial Objectives

28. The County's fiscal performance for FY 2018/19 has affected the financial objectives set in the 2019 County Fiscal Strategy Paper and FY 2019/20 budget which were aligned to the 2019 Budget Policy Statements in the following ways;

- i. Equitable share of revenue in the approved budget for FY 2019/20 is set to increase to Ksh. 10,444,500,000.
- ii. There is a downward adjustment to OSR in FY 2019/20 and the medium term to reflect the revenue performance in FY 2018/19 and the waivers on penalties on land rate payers which cannot be run in consecutive years as a strategy to collect more revenue. that were employed unrevised based
- iii. The expenditure outturn for FY 2018/19 will be used to adjust FY 2019/20 budget and base expenditure ceilings set for FY 2020/21 and medium term with a view to contain recurrent expenditure and increase development expenditure.

Fiscal Responsibility Principles

29. The county government's fiscal outturn in FY 2018/19 adhered to the fiscal responsibility principles with notable challenges on development expenditure. Whereas development allocation in FY 2018/19 exceeded the requirement at 40 percent of the total budget, actual expenditure was at 26 percent of the total budget. As highlighted above, this under-spending is attributed to delays in sourcing for service providers and works contractors on account of inadequate technical capacity to use the e-procurement module by both staff and bidders. To remedy this, the county government, with the support of the National Treasury and Planning, will continue to build the capacity of both staff and bidders to use e-procurement.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK OVERVIEW PERFORMANCE

30. The overall macroeconomic performance of the economy is a key determinant in the allocation and utilization of resources in the country. Therefore, macroeconomic management and performance of sectors in the economy affects transfers to County Governments much the same way that it affects own source revenue collection. Therefore, a good economic outturn is a boost to the sub national government units.

31. Over the medium term, Keya's economy is projected to grow at 7% per annum due to investments in strategic areas of the Big Four Agenda. These investments are aimed at increasing job creation in the manufacturing sector, improving food and nutrition security, achieving universal health coverage and provision of affordable housing to Kenyans. It is projected that the multiplier effect from these crucial investments will lead to an overall positive surge in economic activities and outputs to support the business environment, create jobs and promote inclusive growth, leading to development.

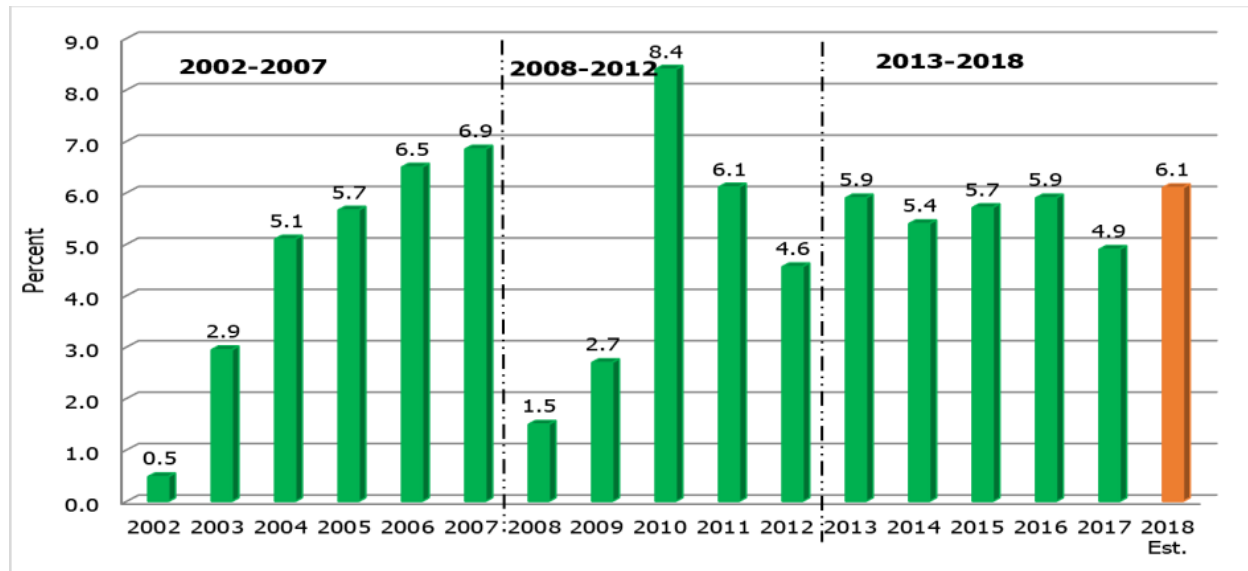
32. Therefore, it is safe to anchor the macroeconomic projections on a vibrant and stimulating environment which will spur growth in the nation, more so at the county level.

RECENT ECONOMIC DEVELOPMENTS

33. The World Economic Forum of 2019 projects the global growth rate to be at 3.7%, fueled by the closing of output gaps in advanced economies, imposition of tariffs on the China-US trade lines as well as a gradual tightening of the financing conditions in advanced economies. These constraints are likely to negatively impact confidence, prices, global trade and investments. However, though the global economic patterns are grim, the growth prospects in Sub Saharan Africa are vibrant and is projected to increase from 3.1% in 2018 to 3.8% in 2019. These projections are likely to be preceded by improved market access, fiscal balance and higher commodity prices in a majority of the SSA countries.

34. In Kenya, the economic growth has remained resilient and on an upward trajectory due to increased public and private sector investments; more so in infrastructure and other socioeconomic amenities. As such, the broad based economic growth has averaged 5.6 percent in the last five years. This is depicted in the graph below.

Figure 1 Rate of Growth of Kenya's GDP



SOURCE: Kenya National Bureau of Statistics

35. Other macroeconomic indicators present a positive trajectory. There is a significant increase in the number of jobs created in 2018; rising to 930,000 from 898,000. The value of goods per capita income also increased by 67.8 percent in 2019, with a GDP growth of 6 percent in the last quarter of 2018.

36. These indicators point at a solid macroeconomic framework on which a vibrant economic growth and development can take place.

37. A sectoral analysis of Kenya's economy is done through an analysis of the domestic output, which is comprehensively done in the Gross Domestic Product as follows:

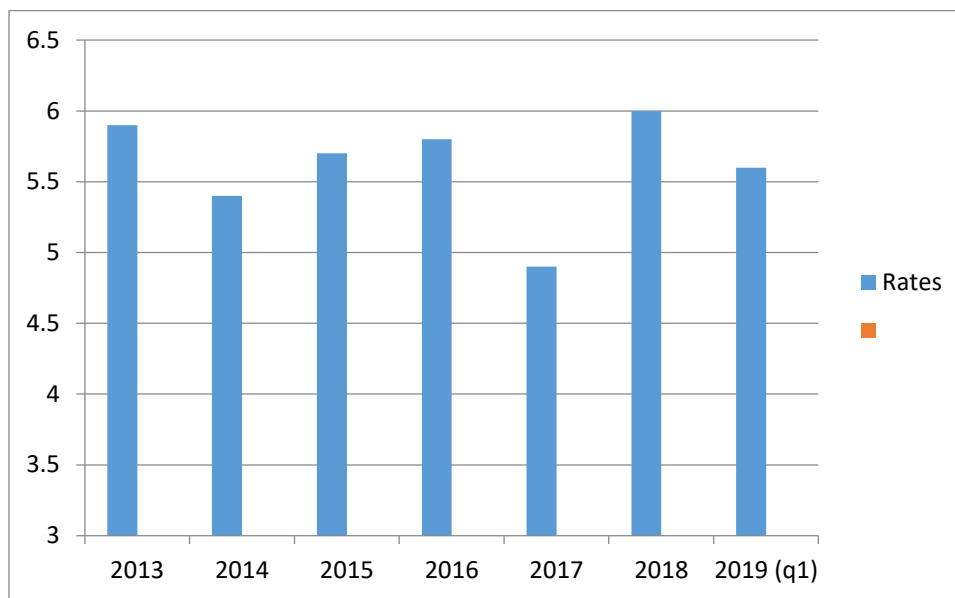
Gross Domestic Product

38. Gross domestic product is the monetary value of all goods and services produced in country geographical borders over a specific period of time. It is the widest quantitative measure of a nation's total economic activity. In the fourth quarter of 2018, the economy grew by 6.0 percent while the first quarter of 2019 registered a growth of 5.6 percent. The slight drop in growth is attributed to unfavorable weather conditions, delayed rains, that led to reduced agricultural production and processing activity in the manufacturing sector. The slowdown in agricultural growth somewhat affected agro-processing and consequently led to slowed manufacturing activities during the review period. However, during the said period, the economy expanded by 5.6 per cent compared to 5.8 per cent in the corresponding quarter of 2018. The growth, albeit slower than that of the first quarter of 2018, was mostly supported by growths in the service sector industries such as wholesale and retail trade, transportation, accommodation and food services, financial and insurance activities. The agriculture, forestry and fishing sector grew by 5.3 per cent compared to a growth of 7.5 per cent in the first quarter of 2018.

39. Overall, the economy expanded by 6% in 2018 from 4.9% recorded in 2017. This was the fastest economic growth since 8.4% recorded in 2010, and above the 5-year average GDP growth

of 5.6%. This expansion in real GDP was supported by good weather, eased political uncertainties, improved business confidence, and strong private consumption.

Figure 2 GDP Growth Rates, 2013-2019 (%)



Source: Kenya National Bureau of Statistics

A sectoral analysis of the economic output is as follows:

Agriculture, Forestry and Fishing

40. The sector is estimated to have expanded by 5.3 per cent in the first quarter of 2019 compared to 7.5 per cent in the same quarter of 2018, (KNBS, 2019). The slowed performance was mainly on account of delayed rains that characterized the quarter under review and curtailed agricultural production. In the horticulture sub-sector; volume of cut flowers, fruits and vegetables grew by 3.7, 22.2 and 0.9 per cent, respectively, over the same period. The sector's performance was hampered by contractions in production of coffee and sugarcane during the same period. Nevertheless, the sectors' contribution to GDP remained unchanged at 21.3%. Growth was mainly driven by marked improvement in crops and animal production anchored by favorable weather conditions that characterized the year under review. Increased supply of food crops led to a significant drop in prices of key food crops during the review period. Cash crops also witnessed increased supply, with coffee and tea production rising by 7.3% and 12.1% in 2017, respectively. As a consequence of improved agricultural production, inflation remained low at 4.7% in 2018 compared to 8.0% in 2017, majorly due to considerable declines in prices of food after the shortage experienced in 2017.

41. From the foregoing, there is bound to be a positive growth trajectory in this sector, thus increased consumption and output; increasing its contribution to the country's GDP.

Manufacturing

42. The manufacturing sector is estimated to have grown by 3.2 per cent in the first quarter of 2019 compared to a growth of 3.8 per cent in a similar quarter of 2018; a growth was attributed to

both manufacture of food and non-food activities. In the manufacture of food products, growth was attributed to manufacture of sugar, prepared and preserved fish and processing of coffee which recorded contractions in the review period. Similarly, in the manufacture of non-food products, growth was attributed to manufacture of cement and manufacture of leather products that recorded declines in the first quarter of 2019. However, growth in the manufacture of food products subsector was supported by manufacture of bakery products, processing of tea, manufacture of vegetable oils and fats and manufacture of beer. In the non-food subsector, growth was mainly supported by assembly of motor vehicles. Credit extended to the manufacturing sector by commercial banks expanded by 7.1 per cent in the period under review compared to a growth of 12.1 per cent in the first quarter of 2018.

43. The manufacturing sector was further supported by the improved access to credit which rose by 6.5% to Kshs 336.0 bn from Kshs 315.5 bn in 2017. We expect growth in this sector to improve driven by ongoing government infrastructural projects such as phase two of the Standard Gauge Railway and roads as well as the development in real estate with the expected implementation of the “Big 4 Agenda” of which housing is one of the key agendas, which will enhance the manufacturing of cement and clinker. Furthermore, with government initiatives like reducing the cost of energy, that are aimed towards supporting various industries, such as textile, leather and agro-business, we expect improved growth in the sector thus increasing the overall GDP.

Construction

44. The construction sector grew by 5.6 per cent in the review quarter compared to a growth of 6.6 per cent in the corresponding quarter of 2018. The growth was supported by other public infrastructural developments especially road construction. Consumption of cement which is an indicator of construction activities declined by 3.1 per cent in the review period. Credit advanced to the construction sector declined by 1.0 per cent in the quarter under review, reflecting a general decrease in construction activities. Despite this, real estate is still one of the sectors expected to drive growth in in the next 5 years with the government’s plan to construct 1,000,000 units by 2022, with 80.0% being affordable housing and 20.0% being social developments that fall under the slum upgrade programme. The implementation of the affordable housing initiative however is still in contention, after the Labour court issued orders temporarily stopping the government from implementing the 1.5% levy for the housing fund that was to take effect from the end of March 2019.

45. In this regard, there is expected to be a slight increase in the sector’s contribution to GDP, which will be supported by private real estate projects and government construction of social and public amenities.

Electricity and Water

46. The sector registered a decelerated growth of 6.1 per cent in the first quarter of 2019 compared to a growth of 6.5 per cent in the same quarter of 2018. In the electricity supply subsector, growth was driven by generation of electricity from renewable sources which are cheaper to produce relative to non-renewable sources. The total electricity production grew by 7.0 per cent in the first quarter of 2019 compared to a growth of 7.6 per cent in the same quarter of 2018. On the other hand, electricity derived from geothermal and thermal sources contracted by 2.3 and 55.1 per cent, respectively.

47. Power being a major industrial factor of production, it is important to note that an increase in production should be commensurate to a decrease in the cost of power. This may be possible by the addition of wind power to the national grid, which will not only increase the total power available for use but also bring down the cost of power thus boosting production. This will further increase the total economic output, signaling a positive trajectory.

Transport and Storage

48. The performance of the transport and storage sector recorded a slower growth of 6.7 per cent in the first quarter of 2019 compared to 8.5 per cent registered in the same period of 2018. The slowdown in the sector may be attributed by the freight services reverting to commercial prices after the reduced SGR charges were scrapped. This decrease also points out to the viability of the internal cargo depots as most traders are finding it hard to move their imports from the port to the point of collection. Such bottlenecks have led to the slow growth and point to a grim sector output going forward.

Accommodation and Food Service Activities.

49. The sector is estimated to have grown by 10.1 per cent in the first quarter of 2019, comparative to a growth of 13.1 per cent in same quarter of 2018. The sector has remained stable over the last three years, expanding at an average of 14.7 per cent. The total number of tourist arrival through the Jomo Kenyatta International Airport and Moi International Airport declined by 0.5 per cent, signaling an overall decline in this sector.

However, with the increased promotion of domestic tourists and other new destinations, there is bound to be a positive outlook in the sector's contribution to the GDP.

Financial and Insurance

50. Financial and insurance sector recorded a decelerated growth of 5.0 per cent in the quarter under review from a growth of 5.2 per cent in the corresponding quarter of 2018. The Central Bank Rate (CBR) was reviewed downwards to 9.0 per cent in March 2019 from 9.5 per cent in March 2018. The 91 days Treasury bill rates decreased from 8.02 per cent in March 2018 to 7.08 per cent in March 2019. Similarly, interbank rates declined from 4.09 per cent in March 2018 to 3.72 per cent in March 2019. However, though there is a decrease in the interest rates, the uptake of credit was low hence the slowdown in growth. With the calm political outturns, there is meant to be an improved business environment, leading to consumer confidence and increased business activities for the small and medium enterprises leading to credit uptake.

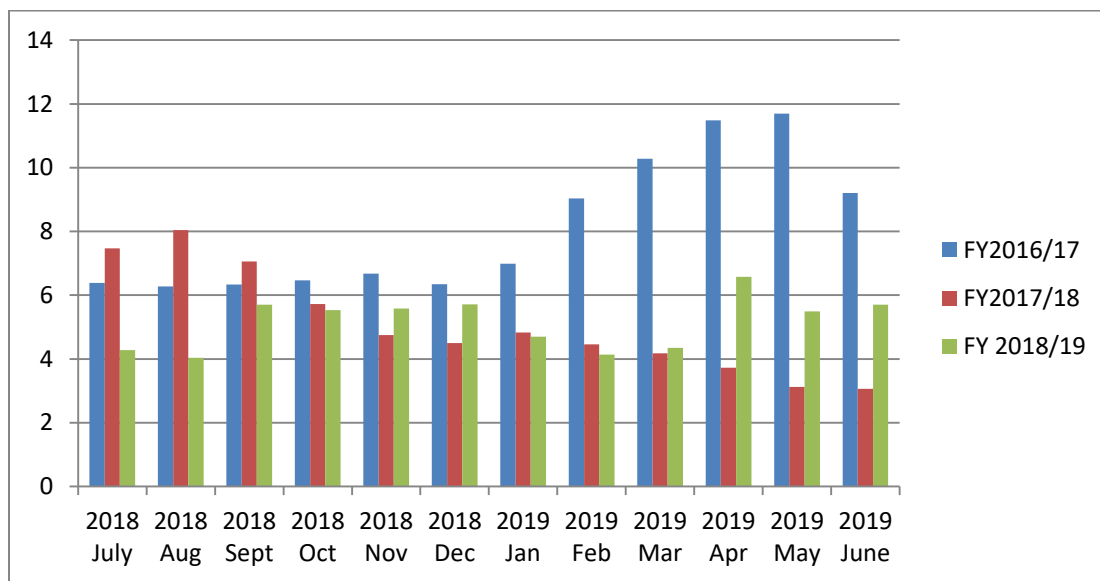
51. Other macroeconomic indicators performed as follows:

Inflation rate

52. This is the rate at which prices increases over time, resulting in a fall in the purchasing value of money. Inflation rates has been low, stable and within the government targets of between 2.5 to 7.5 in the period 2016 to 2019. An increase of inflation rates was witnessed in 2017 that was above the set target and it was due to drought that affected food prices, it was eased in 2018 supported by improved weather conditions that resulted to lower food prices. It is expected that

inflation will decline and fall in FY 2019/20, a projection that will increase the consumer spending leading to increased output in the economy.

Figure 3 Overall Inflation Rate (%), FY 2016-2019

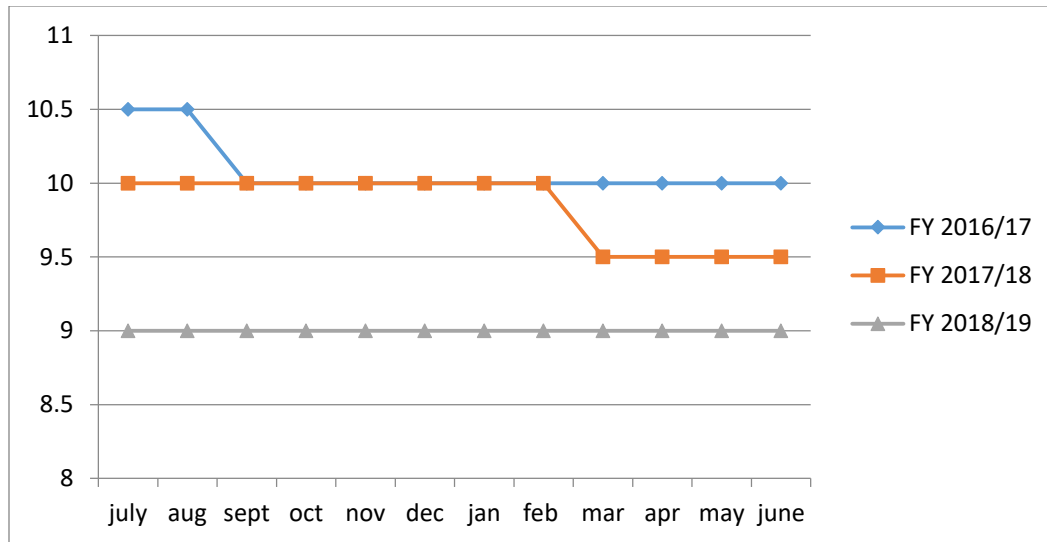


Source; Kenya National Bureau of Statistics

Interest Rates

53. In FY 2018/19, the average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, fluctuated from 6.7 percent in June 2018 to 5.8 percent in April 2019. A preliminary assessment of the impact of the lowering of the Central Bank Rate (CBR) in March 2018 showed that the change under the interest rate capping regime had a smaller and slower impact on key macroeconomic variables such as credit and economic growth. The lending rates for commercial banks loans are at an interest of 13 percent from 13.5 percent in line with the interest rate capping rule that limits lending rates to 4 percentage points above the CBR. Kenyans will now borrow at a lower interest rate after the Central Bank of Kenya Monetary Policy Committee cut the determining bank rate from 9.5 percent to 9 percent. While the interest rates are low and favorable, growth of commercial bank credit to various sectors improved in the first two quarters of 2018 compared to 2017. In the first quarter of 2018, building and construction, finance and insurance, households and business services sectors recorded positive demand for credit compared to the same period in 2017 which was negative. Agriculture, and mining and quarrying sectors recorded negative growth rates in demand for credit in the first quarter of 2018. However, this was an improvement compared to a similar period in 2017. In the second quarter of 2018, other than mining and quarrying that had a decline of 8.4%, all the remaining ten economic sectors had a growth in credit, better than the performance in the same period of 2017 and reflecting recovery in private sector credit. It is expected that interest rate cap will have little effect on demand for credit in the third quarter of 2018. Therefore, the credit uptake for the small and medium enterprises will be relatively stable and the output to the economy will be at a positive trajectory.

Figure 4 Analysis of Trends in Interest Rates (%), FY 2016/17, 2017/18, 2018/19

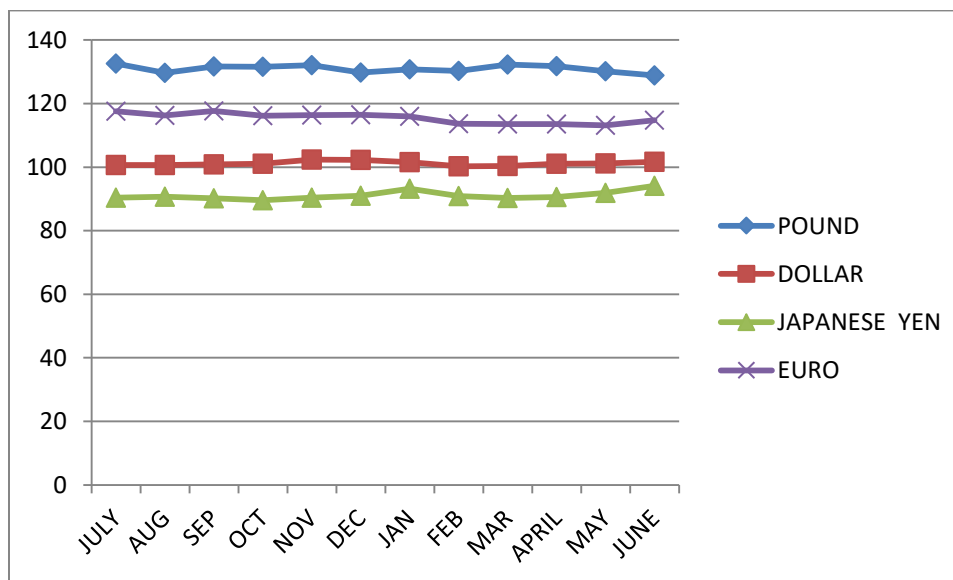


Source: Kenya National Bureau of Statistics

Exchange Rates

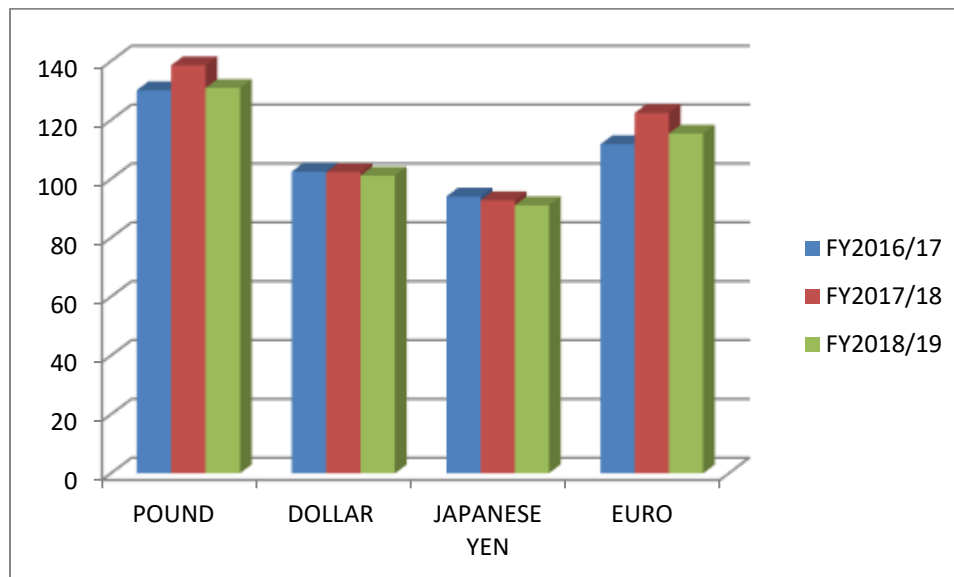
54. The exchange rate of the Kenyan shilling to US dollar remained fairly stable in FY 2018/19. The Kenya Shilling exchanged at a low of Ksh.100.23 to the US dollar in February 2019 and a high of Ksh.102.36 in November 2018. The Kenya Shilling to Sterling pound fluctuated from a high of Ksh.132.58 in July 2018 and a low of Ksh.128.82 in June 2019. The Kenya Shilling to the Euro exchanged at a low of Ksh.113.19 in May 2019 and a high of Ksh.117.66 in September 2018. The Kenya Shilling to Japanese Yen slopped downwards in the period under review having exchanged at a high of Ksh.94.10 in June 2019 and a low of Ksh.89.59 in October 2018 Figure 4 presents the exchange rates of these major currencies for FY 2018/19.

Figure 5 Exchange Rates FY 2018/2019



Source: Kenya National Bureau of Statistics

Figure 6 Average Exchange Rates FY 2016/2017, 2017/18 & 2018/19



Source: Kenya National Bureau of Statistics

55. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies as shown on the table above. Against the dollar, the exchange rate has been relatively less volatile exchanging at an average of Ksh 101 in the FY 2018/19 from Ksh. 102.31 in FY 2017/18. Against the Euro and the Sterling pound, the Shilling also strengthened to an average of Ksh. 115.43 and Ksh.130.95 in FY 2018/19 from Ksh 122.45 and Ksh 138.66 in FY 2017/18, respectively (Figure 5).

56. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most international Currencies. This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism.

57. The BREXIT position in the United Kingdom may cause a major fluctuation of the Great Britain Pound against other currencies. Kenya may be affected as the UK is one of its major trading partners, more so in horticultural products like fresh cut flowers and vegetables. The uncertainty of the BREXIT exercise may cause a strain on the exchange rate of the country.

The stability of the dollar to the Kenya shilling will benefit the country greatly, more so as it is set to exploit the duty free product lines exportation under the AGOA trade pact that USA has with other African countries; for which Kenya is a member. This will increase the outturns of the manufacturing sector, as the export processing zones are in it.

58. A proposed ban on the importation of used motor vehicles above 8 years may affect the stability of the Japanese Yen exchange rates to the Kenya Shilling. While this is an important move in cutting the carbon emissions for environmental stability, it may have a negative spiral into the economy where most traders rely on this business.

MEDIUM TERM FISCAL FRAMEWORK:

59. In the FY 2019/20 Kenya's revenue collection including Appropriation-in-Aid (A.I.A) is projected to increase to Ksh 2,080.9 billion (18.3 percent of GDP) up from Ksh 1,831.5 billion

(18.3 percent of GDP) in the FY 2018/19. This revenue performance will be underpinned by ongoing reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,877.2 billion (16.5 percent of GDP) in FY 2019/20 up from Ksh 1,651.5 billion (16.5 percent of GDP) in FY 2018/19.

60. Overall expenditure and net lending for FY 2019/20 are projected at Ksh 2,704.7 billion (23.8 percent of GDP) from the estimated Ksh 2,514.4 billion (25.1 percent of GDP) in the FY 2018/19 revised budget. These expenditures comprise among others, recurrent of Ksh 1,657.3 billion (14.6 percent of GDP) and development of Ksh 670.9 billion (5.9 percent of GDP).

The overall fiscal framework for the county points to a positive and vibrant revenue projection although the expenditure outturns are not within a reasonable margin. 56.4% of the GDP in the country goes into servicing loans and debts, restraining the amount available for use in development streams and other expenditures. However, given the revenue projections, it is enough to hypothesize that the county's share of the revenue will remain unaffected and may increase in the medium term, given the vibrant macroeconomic underpinnings.

61. The County Government of Kilifi 2019/20 budget was assented on 28th June, 2019. The budget aims at addressing the five-point agenda of the 2019 CFSP, which were tailor, made for Kilifi County but resonate with the national government's policy on the Big Four Agenda. The five point agenda for the county includes:

- i. Ensure food sufficiency for all residents;
- ii. Provide safe water within a radius of 3.5 kms;
- iii. Promote good performance and quality education;
- iv. Ensure accessible, equitable and quality healthcare services, and;
- v. Secure beneficial use of land, other natural resources and build environment.

62. There is bound to be a delay and shortage in funds due to the impasse in passing of the Division of Revenue Bills by both the National Assembly and the Senate. This may affect the budget implementation cycle as well. Other bottlenecks may arise from other compliance issues by the county government in order to access the cash.

63. The County Treasury hopes to leverage and maximize on the promising economic outturns and reap maximally for the citizens of Kilifi. To this end, the following objectives will be pursued:

- i. Leveraging on the automation of revenue collection to reach the set own source revenue collection targets
- ii. Shifting the mindset and use of development expenditure from traditional brick and mortar to soft development that can lead to a more sustainable socioeconomic prosperity
- iii. Monitoring and timely payment of pending bills to make the debts sustainable and the budget implementation smooth

RISKS TO ECONOMIC AND FISCAL OUTLOOK

64. Macroeconomic developments constitute one of the largest and highest probable sources of fiscal risk. Economic shocks come in many shapes and sizes and propagate through the public finances in complex ways. As elsewhere in this report, our main focus is the various downside risks to our latest medium-term forecast and to longer-term fiscal sustainability. The County will closely monitor such risks with a view to take appropriate measures and safeguards should they materialize. The risks include;

- i. External shock due to a reduction in the level of output in the country. This results in a dampening effect on the County growth with the effects transmitted primarily through the trade channel. In the traded sector, a decrease in external demand contributes to reductions in both the demand for the County produced goods and services which, in turn, lead to a fall in investment, employment and wages. These effects result in lower domestic demand and, accordingly, reduced employment and a rise in the unemployment rate. Lower employment wages lead to a decrease in personal incomes and depress consumption which, in turn, negatively affects the tax base.
- ii. Competitiveness shock due to an increase in the domestic wage level that is not offset by higher productivity. In this scenario, higher labour costs result in lower employment over the medium- to long-run, and a slightly higher unemployment rate. The level of GDP is negatively affected via a decrease in the competitiveness of the Kenyan economy, which reduces exports and lowers output in the traded sector. Production in the non-traded sector also declines due to the impact of higher labour costs. There is a limited positive impact on the fiscal position in the short-run, which turns to a negative impact in the medium term due to output being below where it otherwise would have been.
- iii. Monetary policy shock - The impact of a high interest rate adversely affects the level of the Kenyan economic activity growth over the medium term. The main transmission mechanism is the trade channel: lower output as a result of higher interest rates leading to a reduction in external demand for Kenyan exports. Exchange rate appreciation also depresses exports.
- iv. Cyclical fluctuations in GDP matter fiscally because of their impact on both revenues and spending. When economic activity weakens, this reduces tax revenues (because tax bases are smaller), increases welfare spending (with higher unemployment and more households on low incomes) and also increases the share of GDP devoted to spending on public services (because it is largely fixed in cash terms, so as a share of unexpectedly weak GDP it rises). The opposite happens when activity strengthens.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK ADJUSTMENTS TO THE FY 2019/20 BUDGET

65. In consideration of the fiscal income and spending of FY 2018/19, it is clear that changes to the implementation process and preconditioning preparation of the FY 2020/21 budget are required. The fiscal outturn for the FY 2018/19 was unsatisfactory, the budget implementation was riddled with complications and therefore the absorption rate was at 75% of the budgeted amount; implying a slow uptake of the allocated revenue.

66. Own Source Revenue (OSR) was lower than the projected amount of 1.4 billion Kenyan Shillings. The county collected 852 million Kenyan Shillings. This deviation amounted to 37 percent less than the estimated amount. Though a dismal performance, it sets a better trajectory than the financial year 2017/18 whose collection was 16% less OSR than FY2016/17.

67. The deviation in collected revenues and the estimated amounts as well as the delays in disbursement of funds by the national government led to orientation of expenditure towards priority programs to attain the 2018/19 five point agenda for action while instilling fiscal discipline due shrinking fiscal space. The implementation of the people focused agenda affected the fiscal stance it took. As a result, problematic financial and non-financial positions were experienced, such as payment lags, delayed payments of county staff salaries, pending bills and delayed completion of projects.

68. For the FY 2019/20 budget, the County is incorporating unspent funds as part of additional revenue and takes up pending bills and ongoing projects emanating from FY 2018/19 into the revised estimates for FY 2019/20. This will secure funds for pending bills and ongoing projects before new ones commence and therefore curtailing the trend of unfinished projects and huge pending bills. It is also important to note that this strategy to incorporate unspent funds from the previous financial year has been implemented with success over previous years, and is not a new strategy.

69. Whilst the implementation of the FY 2019/20 budget in the County started after July 1st, 2019, there have been ongoing activities that began before this deadline and will continue until after this coming fiscal year with the introduction of Kilifi and Malindi municipalities, where each will need their own budgets. Therefore, to attain independence and get the municipal up and running, it is important to draw the independent budgets for the two respective municipals. This calls for a supplementary appropriation of funds.

70. At the national level there has been a change in the allocation of funds per the Finance Act of 2018 and the Division of Revenue Bill, 2019. Due to this uncertainty and deadlock caused in the build up to the new allocation of revenue, the bill has been detrimental to Kilifi, which resulted to a loss of approximately 1.5 billion Kenyan Shillings for FY 2019/20. While the bill is yet to be finalized and passed, it remains uncertain just how much the county will have as its equitable share. However, it is important to take cognizance of the fact that the FY2019/20 budget was done with the amounts in the Division of Revenue Bills of 2019.

71. In conclusion, the revisions of FY 2019/20 budget forms the first precondition for the preparation of FY 2019/20 supplementary budget especially that it forms the base year for revenue projection and spending options. The spending options for FY 2019/20 will revolve implementation of County Integrated Development Plan (CIDP) 2018-2022 flagship projects and other ongoing and priority programs taking into account ongoing projects that will have been affected during the adjustment of FY 2019/20 budget, the enactment of the municipalities as well as the Division of Revenue Bill, 2019.

BUDGET FRAMEWORK FY 2019/20

72. The Budget Framework FY 2019/20 is intended to improve the fiscal space for the County to take up flagship projects and programs from the CIDP 2018-2022 by improving efficiency and effectiveness in OSR collection and continued alignment of revenue and expenditure to also address delays in payments for goods, works and services that affects timely completion of projects. Bold policy measures will be taken towards recurrent expenditure containment in order to release resources for development spending as well as seeking for alternative sources of funds like donor aid and grants.

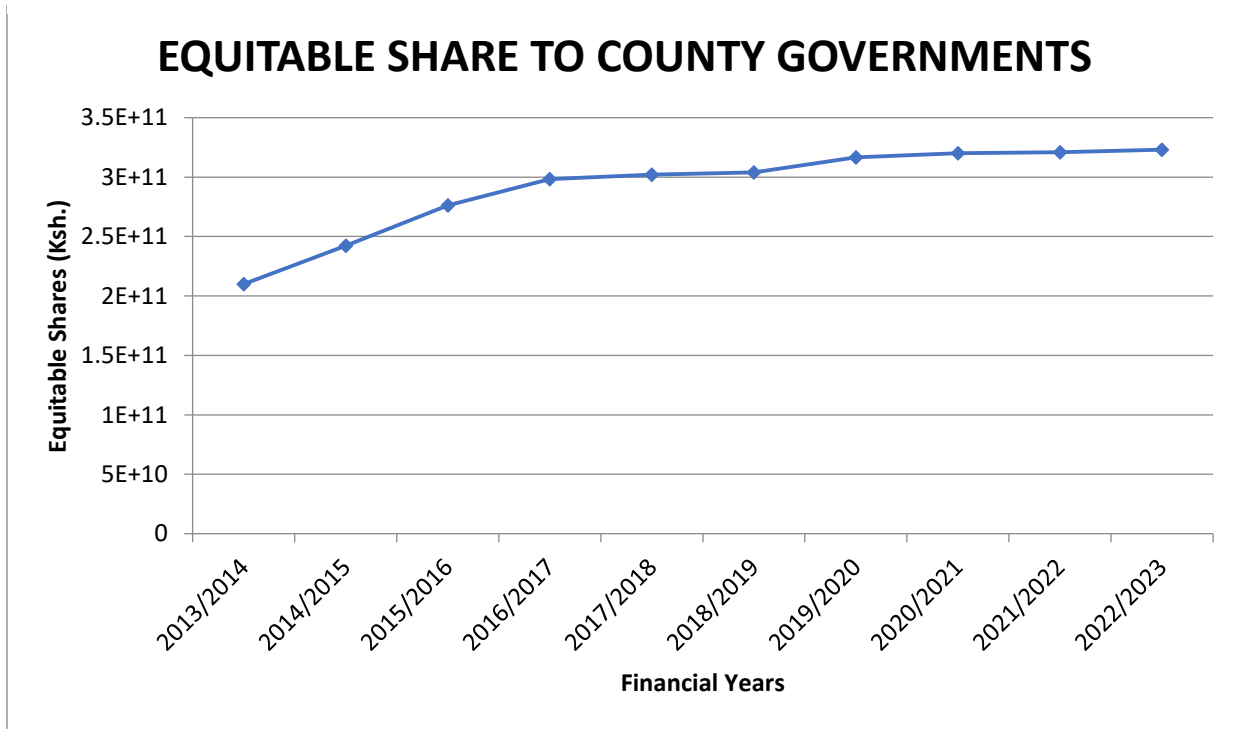
73. Revenue projection for FY 2020/21 provided excludes conditional grants because they will be allocated to the respective departments when they are determined. What has been provided here is OSR projections and equitable share. The projections are not only conservative but provisional because of the assumption that the County's proportionate allocation shall hold. The allocation is in accordance with the third basis formula for equitable sharing of revenue which is recommended by the Commission on Revenue Allocation (CRA) to be used for FY 2019/20 to 2023/24. This seeks to address;

- Enhancing service delivery
- Promoting balanced development
- To incentivize county governments optimizing capacity to raise revenue
- To incentivize prudent use of public resources

74. The framework is seen to allocate 65% of the revenue for enhancing public service delivery, 31% for promotion of balanced development and 4% to incentivize revenue collection and fiscal prudence.

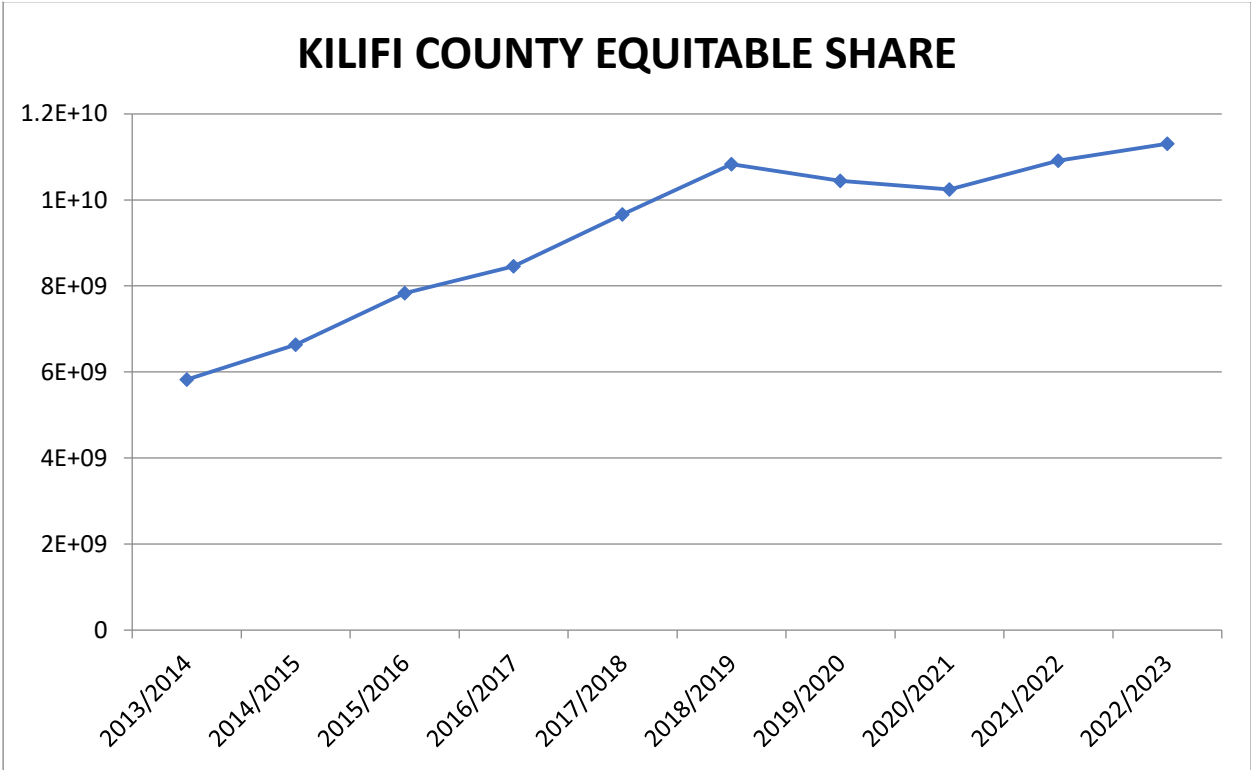
75. The framework is anticipated to correspond with the limited fiscal space the county now faces. The amount of equitable shares as per the above formula by CRA has shrink by Kenyan shillings 1.5 Billion relative to FY2018/2019 amount of Ksh. 10,833,000,000.

Figure 7 The Total Amount of Equitable Shares all Counties received from the Government per Financial Year



76. The total equitable share contributions to all County governments in Kenya has increased steadily, from 210,000,000,001 Ksh in FY 2013/14 to 316,500,000,000 in FY 2019/20, signifying an increase of 51 percent. This steady increase in total equitable share payments however has not been reflected in the amount that the Kilifi County government is receiving. Kilifi’s equitable share also rapidly increased by 86 percent from 5,820,419,123 in FY 2013/14, to 10,833,000,000 in FY 2018/19. However despite this increase up until 2018/19, the equitable share payment for FY 2019/20 was 3.6 percent less. The projected equitable share payments for the Kilifi County government are projected to continue decreasing until 2020/21, despite the increase experienced in overall equitable shares for the all the counties in Kenya.

Figure 8 The Total Amount of Equitable Share Received by Kilifi Government each Financial Year



77. Expenditure projections FY 2019/20 budget comprise recurrent and development projections and corresponding projections for strategic interventions. Recurrent expenditure is projected at 67.39 percent in FY 2019/20, and 68.23 percent in FY 2020/21 and 68.53 percent in FY 2021/22. The projected growth is intended to operationalize development projects that continue to be completed. The development expenditure forecast is 32.61 percent 2019/20, 31.77 percent in 2020/21 and 31.47 percent in 2021/22. On recurrent strategic interventions, the County projects to spend Ksh. 1,375,950,575 in 2019/20, Ksh. 1,415,498,104 in 2020/21 and Ksh. 1,465,752,066 in 2021/22. Expenditure on strategic development interventions is projected at Ksh. 1,375,000,000 in FY 2019/20, Ksh. 1,280,000,000 in FY 2020/21 and Ksh. 1,242,100,000 in FY 2021/22.

78. In allocating resources, the County will continue with its policy of expenditure prioritization in order to fund core services, ensure equity and minimize cost through elimination of duplication and inefficiencies. Allocation of resources will be guided by the following criteria:

- Programme Performance Review findings will be used to determine allocation of resources to on-going programmes.
- Ongoing activities of the county government flagship projects and programmes will be accorded priority.

- There should be linkage of the programme with the objectives of Vision 2030.
- There should be linkage of the programme with the objectives of the CIDP 2018-2022.
- The degree to which a programme addresses wealth and employment creation will be paramount
- The degree to which the programme is addressing the core mandate of the County department will be given appropriate consideration
- The expected outputs and outcomes from a programme should be provided explicitly.
- Cost effectiveness and sustainability of the programme is key to programme funding
- Immediate response to the requirements of the implementation of the Constitution.
- Other key considerations during review of budget proposals FY 2019/20 will be:
- Analysis of the baseline expenditure and remove all the “one-off” expenditure for the previous years;
- Identification and pending of activities of low priority in order to realize savings that should be directed to high priority programmes;

- Allocation of resources to projects that have been fully processed including feasibility studies done, with detailed designs, necessary approvals and land secured as well as pay attention to the estimated requirements for each of the stages of the project cycle;
- Requirements for innovation/inventions to ensure efficiency savings in departmental Budgets through reduction of operating costs and elimination of non-core service delivery activities

- Detailed explanation for the rescheduling of projects which should include savings and financial implications.

79. Going forward, County Department and Divisions will bid for resources in their respective sectors. This will entail convening sector working group meetings where programme and project objectives and outcomes will be the basis for bidding for resources. The sector composition and expenditure projections are provided below. Sectors must remain within expenditure projections as they prepare and submit their budget proposals.

Table 8 Revenue and Expenditure Projections FY 2020/21-2022/23

DESCRIPTION	REVISED ESTIMATES FY 2019/20	ESTIMATES FY 2020/21	PROJECTED ESTIMATES FY 2021/22	PROJECTED ESTIMATES FY 2022/23
Equitable Share	10,444,500,000	10,494,000,000	10,923,000,000	11,385,000,000
Health Service Improvement Fund (HSIF)	132,000,000	200,853,633	209,462,651	218,071,668
Land Rates and other Land Revenue	218,954,450	203,639,762	207,153,746	210,667,730
Cess on natural resources	285,191,553	279,739,470	288,681,615	297,623,761
Business Permit	76,063,491	65,476,776	65,036,740	64,596,704
Parking fees	51,248,545	43,566,974	45,305,796	47,044,618
Market fees	9,356,308	8,823,483	8,423,863	8,024,244
Billboards & Signage	20,207,148	20,611,564	20,914,876	21,218,188
Building Plan approval and Inspection	6,870,972	7,022,516	7,136,173	7,249,831
Rent/Stall rents	3,031,532	2,708,395	2,466,043	2,223,691
Survey fees and plot rents	1,749,081	1,786,370	1,814,336	1,842,302
Sale of Tender Documents				
Plot ground rent	6,824,785	7,062,828	7,241,360	7,419,893
House rent	82,341,907	89,827,861	95,442,326	101,056,792
Refuse Collection	5,546,589	6,081,483	6,482,654	6,883,825
Food Hygiene Fees	10,511,450	11,528,063	12,290,522	13,052,982
Slaughter House and Livestock sale Yards	1,185,478	1,174,621	1,166,479	1,158,337
Others	38,067,616	37,773,000	37,552,038	37,331,076

DESCRIPTION	REVISED ESTIMATES FY 2019/20	ESTIMATES FY 2020/21	PROJECTED ESTIMATES FY 2021/22	PROJECTED ESTIMATES FY 2022/23
TOTAL	11,393,650,904	11,481,676,798	11,939,571,219	12,430,465,640
EXPENDITURE				
County Assembly		987,462,839	1,026,065,534	1,031,851,159
Office of the Governor		281,203,817	275,697,936	293,844,460
County Attorney		88,865,899	87,125,933	92,860,589
County Division for Finance		554,432,029	586,171,285	670,336,562
County Division for Economic Planning		75,377,462	84,684,783	96,967,746
County Division for Agriculture		430,644,571	422,212,686	450,002,857
County Division for Livestock		117,881,184	215,573,107	123,180,165
County Division for Fisheries		243,281,521	242,434,083	245,227,107
County Division for Water & Sanitation		692,077,100	678,526,449	723,187,272
County Division for Environment, Natural Resources & Wildlife		148,003,452	145,105,592	154,656,487
County Division for Education		1,256,755,930	1,232,149,047	1,313,249,482
County Division for Information, Communication & Technology		81,068,466	80,460,156	82,465,053
County Division for Medical Services		2,998,125,805	3,139,423,452	3,332,897,222
County Division for Public Health		162,889,713	159,700,384	170,211,913
Roads, Transport & Public Works		1,476,706,245	1,447,792,804	1,543,086,979

DESCRIPTION	REVISED ESTIMATES FY 2019/20	ESTIMATES FY 2020/21	PROJECTED ESTIMATES FY 2021/22	PROJECTED ESTIMATES FY 2022/23
County Division for Lands & Energy		144,741,903	241,907,902	201,248,325
County Division for Physical Planning, Urban Development and Housing		126,634,293	124,154,833	132,326,743
Gender, Culture, Social Services and Sports		390,615,240	386,883,054	249,183,755
County Division for Trade, & Tourism		251,857,000	246,925,720	263,178,448
County Division for Cooperative Development		58,117,383	59,958,447	68,482,275
County Public Service Board		65,085,476	68,811,123	70,011,191
Devolution, Public Service and Disaster Management		601,498,832	689,721,676	728,537,341
Kilifi Municipality		123,530,639	142,060,235	187,519,510
Malindi Municipality		124,820,000	156,025,000	205,953,000
TOTAL		11,481,676,798	11,939,571,219	12,430,465,640
FISCAL BALANCE		(0)	(0)	0

CHAPTER FIVE: CONCLUSION

80. The FY 2020/21 expenditure framework has been covered in this 2019 County Budget Review and Outlook Paper (CBROP). It has taken into account key issues surrounding overall expenditure patterns, revenue collection and the need for fiscal discipline as expressed in the PFM Act of 2012.

81. Allocation of resources as set out in this paper are meant to ensure completion of ongoing projects and programs as well as addressing critical priority areas that are important to the development of the County. These priorities resonate with those in the CIDP 2018-2022 as well as the Annual Development Plan of 2019. This paper is also consistent with the Big 4 Agenda of the government that aims at fast tracking the pace of the country's development by investing in four main areas. The paper also prioritizes spending to establish the Kilifi and Malindi municipalities.

82. The set of policies outlined in this 2019 CBROP and the Annual Development Plan, 2019 will guide departments in their Sector Working Groups in their bid for resources and preparation of the FY 2020/21 budget. The sector ceilings will be firmed up in the next County Fiscal Strategy Paper by the February 2020 deadline.

83. The fiscal outcome for the FY 2018/19 has had implication on the financial objectives contained in the 2019 County Fiscal Strategy Paper. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the budget outturn for the FY 2018/19. Both revenues and expenditures have been revised as reflected in this CBROP which is broadly in County Budget Review and Outlook Paper, 2019 in line with the fiscal responsibility principles outlined in the PFMA, 2012 and also consistent with the county strategic objectives pursued by the County Government as a basis of allocation of public resources.

84. In the fiscal year 2019/20, revenue enhancement remains a key focus area for the Government. In order to achieve set revenue targets, widening of Revenue base and updating the valuation roll backed by an effective enforcement strategy will be key.

85. The indicative departmental ceilings annexed herewith will guide the county Departments in preparation of the FY 2020/21 budget. These ceilings will be firmed up in the CFSP that will be finalized by November 2020.