



**COUNTY GOVERNMENT OF TRANS-NZOIA**

**TREASURY**

**COUNTY BUDGET REVIEW**

**AND**

**OUTLOOK PAPER**

**SEPTEMBER 2017**

## **FOREWARD**

This County Budget Review and Outlook Paper (CBROP) present the fiscal outcome for the 2016/17 financial year and how this affects the financial objectives set out in the 2017 County Fiscal Strategy Paper (CFSP). The updated macroeconomic outlook therein also provides us with a basis to revise the 2017/18 Budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the 2018/19 budget.

Despite brief challenges in the 1<sup>st</sup> quarter of financial Year 2016/17, the county government closed the year satisfactorily despite the revenue shortfall and significant expenditure reprioritization.

The 2016/17 fiscal outcome has had implications on the base on which the fiscal projections for the Financial Year 2017/18 were based on. This in turn informs the budget framework for the financial year 2018/19. While at the both levels of government the macroeconomic environment has been significantly unstable due to the just concluded general elections, at the county level, the fiscal outcome for FY2016/17 and the first two months of financial year 2017/18 call for a review of the 2017/18 budget estimates and forms the basis of the sector ceiling provided in this policy document for the financial year 2018/19. However, these ceilings have been underpinned by the county's desire in maintaining the medium term macroeconomic framework that seeks to increase youth employment, reduce poverty and enhance land productivity as outlined in the county integrated development plan - CIDP.

This CBROP outlines the policies that the county government seeks to implement in order for it to live up its mandate given the prevailing macroeconomic circumstances and in conformity with the fiscal responsibility principles outlined in the PFM Act 2012 and the County's development Strategic objectives as contained in the county development plans.

The sector strategies include;-

- prudent management of the county's financial resources in line with the PFM Act 2012,
- establishing a county public service that can deliver efficiently,
- developing appropriate social economic policies that can spur growth and development,
- creating a conducive investment environment,
- providing accessible and affordable social services and

- providing efficient and affordable transport and communication services.

Other strategies include:-

- promoting youth, women and the marginalized members of our community,
- increasing land productivity to ensure increased farm incomes and food security,
- promoting sustainable exploitation of the county's natural resource base and
- ensuring security of land tenure as well as providing adequate land for infrastructure and development of public institution.

The fiscal framework presented in this 2017CBROP provides a strong basis for building our common future under the new constitution dispensation. This CBROP must be anchored to great fiscal discipline, transparency and public participation if it can be able to achieve the aspirations of the people of Trans Nzoia County. These policy strategies will be firmed in the next County Fiscal Strategy Paper (CFSP) to be released by February 2018.

**Prof. Ben Wanjala**

**For COUNTY EXECUTIVE MEMBER FOR FINANCE.**

## **LIST OF ABBREVIATIONS**

ADC	Agricultural Development Corporation
CARA	County Allocation of Revenue Act
CARB	County Allocation of Revenue Bill
CBD	Central Business District
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development plan
CPSB	County Public Service Board
CRA	Commission for Revenue Allocation
DORB	Division of Revenue Bill
ECDC	Early Child Development Centre
FY	Financial year
ICT	Information Communication technology
IFMIS	Integrated Financial Management System
KIE	Kenya Industrial Estate
MTEF	Medium term Expenditure Framework
PFM Act 2012	Public Financial management Act 2012
PSM	Public service management
SRC	Salaries and Remuneration Commission
TC	Tissue Culture Banana
VTC	Vocational Training College

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## **SECTION ONE**

### **BACKGROUND INFORMATION**

#### **i. Legal Basis for the Publication of the Budget Review and Outlook Paper**

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Finance Management Act, 2012. The law states that:-

- (1) A County Treasury shall:-
  - (a) Prepare a County Budget Review and Outlook Paper in respect of the County for each Financial year and
  - (b) Submit the paper to the County Executive Committee by 30<sup>th</sup> September of that year.
  
- (2) In preparing its CBROP, the County Treasury shall specify:-
  - (a) Details of the actual fiscal performance in the previous 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 Fiscal Strategy Plan.
  - (c) Information on :-
    - (i) any changes in the forecasts compared with CFSP or
    - (ii) how actual financial performance for the previous fiscal year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP financial year and
  - (d) Reasons for any deviations from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
  
- (3) Not later than Seven days (7) after the CBROP is submitted to the County Executive Committee(CEC), the County Treasury shall:-
  - (a) arrange for the Paper to be laid before the County Assembly, and
  - (b) as soon as practicable after having done so publish and publicize the Paper.
  
- (4) The County Executive Committee shall consider the CBROP with a view to approving it with or without amendments, within fourteen days (14) after its submission.

## **ii. Fiscal Responsibility Principles in the Public Financial Management Law.**

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the Management of Public resources. The PFM Law (Section 107) states that:-

County Treasury to enforce fiscal responsibility Principles(Sec. 107):

- (1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
- (2) In managing the County government's public finances, the county treasury shall enforce the following fiscal responsibility principles:-
  - (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 per cent of the County government's budget shall be allocated to the development expenditure.
  - (c) The county government's recurrent expenditure shall not exceed a percentage of the county government's total revenue as prescribed by the County Committee Executive Member for Finance in regulations approved by the County Assembly.
  - (d) Over the medium-term, the government's borrowings shall be used only for the purpose of financing development expenditure and not recurrent expenditure.
  - (e) The county debt shall be maintained at a sustainable level.
  - (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.
- (3) For the purpose of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- (4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.
- (5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2)

# 1. INTRODUCTION

## 1.1. Background

The CBROP is a key document linking Policy, planning and budgeting. The CBROP provides the County Government the basis upon which to reprioritize project portfolio as contained in the County Integrated Development Plan (CIDP) and other County Development plans in view of the indicative sector budget ceiling provided by the CBROP while taking into account emerging county developmental needs.

This County Budget Review and Outlook Paper (CBROP) is the fifth to be prepared by the County Government of Trans-Nzoia as stated in the Public Financial Management Act, 2012. In line with the PFM Act, the CBROP contains a review of the fiscal performance of the financial year 2016/17, updated macroeconomic forecast, and deviations from the CFSPs submitted to County Assembly in February 2017 after getting approval from the County Executive Committee as well as providing indicative sector ceilings for the 2018/19 budget and the medium term guided by the PFM Act 2012. The Ceilings thus provided will set in motion the budget preparation process for the Fiscal Year 2018/19.

The updated macroeconomic outlook will be firmed up in the CFSP to reflect any changes in economic and financial conditions. The next CFSP will be submitted to the Assembly as per February deadline as per the PFM law and the Treasury budget circular for 2018/19 - 2020/21 MTEF period.

## 1.2. Objectives of the CBROP

Specifically, the objectives of this CBROP is;

- To provide a review of the 2016/17 fiscal performance.
- To update expectations for key economic indicators and implication for budget performance in 2017/18 financial year, this informs revision of the FY 2017/18 budget and the preparation of the FY 2018/19 budget.
- To propose indicative sector (Departmental) budget ceiling for the financial year 2018/19 budget and medium term in line with the Budget circular issued.



### **1.3. Organization of Report**

This report has been organized into three Sections, namely;

- Section one provides Background information on CBROP which contains, an introduction and objectives of the CBROP.
- Section two provides a review of the fiscal performance in FY 2016/17 and its implications on the financial objectives set out in the last CFSP.
- Section three provides brief highlights of the recent economic developments and updated macroeconomic outlook and
- Section four provides the Resource allocation framework and the conclusion.

## **SECTION TWO**

### **REVIEW OF FISCAL PERFORMANCE IN FY 2016/17**

#### **2.0 Overview**

The fiscal performance in the 2016/17 financial year was fairly satisfactory. The total cumulative revenue realized was Ksh.6,203,313,904 compared to the targeted Ksh. 6,875,000,761. This represents a revenue shortfall of Ksh585,668,990 of which ordinary local revenues under collection was Ksh 282,897,517 while transfers from the National Treasury underperformed by Ksh.302,771,473.

On the other hand of the actual revenue realized, expenditure amounted to Ksh.6,289,947,484 of which Ksh. 4,079,513,870 was recurrent while Ksh. 2,210,433,614 was development expenditure. Thus, expenditure underperformed by Ksh. 585,053,277.

#### **2.1 2016/17 Fiscal Performance**

##### **2.1.1 Revenue Performance;**

The approved total revenue for the financial year 2016/17 was Ksh. 6,875,000,761 comprising of both local revenues and grants from the national Treasury. However, the actual realized revenue was Ksh6,203,313,904 reflecting a shortfall of Ksh. 671,686,857. The detailed revenue budget is provided in table 1 below.

**Table 1: Approved and Actual Revenue Realized by Source for FY 2016/17**

SOURCE	APPROVED BUDGET	ACTUAL	VARIANCE
CRA Allocation	5,502,547,171	5,502,547,171	-
Local Sources	500,000,000	217,102,483	282,897,517
Grants; i) DANIDA	13,763,015	13,763,015	-
ii) Health Min.	28,200,000	28,200,000	-
iii) User fee - Health	20,209,153	20,209,152	1
iv) Training - KDSP	28,840,847	-	28,840,847
v) Universal Health care P.	35,601,180	35,601,180	-
Free Maternal Health care	76,292,795	77,287,289	(994,494)
Road Maintenance Fuel Levy	84,546,600	84,546,600	-
Unspent Balance for FY 2015-16	585,000,000	311,069,374	273,930,626
<b>Total Income</b>	<b>6,875,000,761</b>	<b>6,290,326,264</b>	<b>584,674,497</b>

Source: County Budget Reports 2017

Local sources underperformed by Ksh.282,897,517 while disbursement on unspent balance underperformed by Ksh.273,930,626. On the other hand all the grants under the Health sector were received.

Table 2 below provides an analysis of estimated and Actual Revenues from local sources by sector realized during the Financial Year 2016/17.

**Table 2: Revenue Report for FY 2016/17**

Sector / Revenue Source	Approved Budget (Ksh)	Actual Collection (Kshs)	Variance
<b>AGRICULTURE, LIVESTOCK AND FISHERIES</b>			
Application fees	4,763,072	2,644,455	-2,118,617
Cattle auction and slaughter fees	2,324,655	286,100	-2,038,555
Veterinary services	-	832,095	832,095
Agricultural mechanization/sale of seedlings	3,513,127	602,850	-2,910,277
Cooperative development	-	84,965	84,965
<b>Total</b>	<b>10,600,854</b>	<b>4,450,465</b>	<b>-6,150,389</b>
<b>ECONOMIC PLANNING, COMMERCE AND INDUSTRY</b>			

Open Air Market	38,911,810	11,855,760	-27,056,050
Market stalls, bandas and enclosed markets	11,503,821	95,300	-11,408,521
<b>Total</b>	<b>50,415,631</b>	<b>11,951,060</b>	<b>-38,464,571</b>
<b>ENVIRONMENT, WATER AND NATURAL RESOURCES</b>			
Refuse collection and conservancy	11,744,982	3,254,525	-8,490,457
<b>WORKS, TRANSPORT AND INFRASTRUCTURE</b>			
Advertisement, Trade names, billboards and signboards	15,096,311	8,936,778	-6,159,533
Building plans, clearances and completion certificates	10,117,056	6,157,060	-3,959,996
<b>Total</b>	<b>25,213,367</b>	<b>15,093,838</b>	<b>-10,119,529</b>
<b>HEALTH</b>			
Income from Health services	169,043,098	43,321,452	-125,721,646
<b>PHYSICAL PLANNING, LANDS AND HOUSING</b>			
Change of user, plot sub-division and transfers	3,843,503	3,001,460	-842,043
<b>GENDER, YOUTH, SPORTS, CULTURE AND TOURISM</b>			
Hire of facilities (social hall, stadium)	202,210	-	-202,210
Amusement fees	258,967	147,300	-111,667
<b>Total</b>	<b>461,177</b>	<b>147,300</b>	<b>-313,877</b>
<b>FINANCE</b>			
Cess (maize, tea, sand, ballast etc)	37,290,756	19,346,062	-17,944,694
Land Rates and clearances (current year)	41,186,258	33,912,021	-7,274,237
Land Rates penalties	2,725,274	766,453	-1,958,821
Single Business permits	65,979,092	56,615,052	-9,364,040
Single Business permits penalties	1,566,273	165,585	-1,400,688
Vehicle Parking fees	61,763,740	16,075,830	-45,687,910
Vehicle parking automation	-	3,040,000	3,040,000
Liquor Licences	18,165,995	5,961,383	-12,204,612
<b>Total</b>	<b>228,677,388</b>	<b>135,882,383</b>	<b>-92,795,005</b>

<b>Grand Total</b>	<b>500,000,000</b>	<b>217,102,483</b>	<b>-282,897,517</b>
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**Source -Draft RevenueReport FY 2016/17**

From the foregoing, the total cumulative local revenue realized was Ksh. 217,102,483 compared to the targeted Ksh. 500,000,000. This represents a revenue shortfall of Ksh 282,897,517.

The underperformance in revenue collection was largely on account of challenges as listed below:-

1. Non-payment of rates namely Kenya Railways, A.D.C., CILOR, K.I.E. etc.
2. Continued strikes by doctors and nurses affected the Health sector Revenue
3. No enactment of the County Finance Act 2016.
4. Poor enforcement mechanisms and collection due to transport challenges.
5. Undergoing construction works on the central matatu terminus and Kitale market hence reduced parking fee and market fee.
6. Manual revenue collection system and even after automation, fluctuation in network connectivity.
7. General laxity in payment of taxes due to the general elections, eg motorcycle operators stopped paying.

This will be corrected;

- once the business park and Kitale modern market are completed and operational,
- correction in the connectivity of the automated system and expansion of automation to other sources,
- timely enactment of finance and enforcement laws,
- sensitization of the public on payment of taxes,
- finding a permanent workable solution to the ongoing health sector strikes and any other that may come up and
- improvement in enforcement and transport systems of the Revenue section.

### 2.1.2 Expenditure Performance

Expenditure for both recurrent and development budget for the financial year 2016/17 was Ksh. 6,289,947,484 against a target of Ksh. 6,875,000,761 comprising of Ksh. 4,079,513,870 under the recurrent vote and Ksh. 2,210,433,614 under the development vote as can be deduced from table three below.

**Table 3: Summary of Budget and Actual Expenditure by Category for FY 2016/17**

Particulars	Budgeted ( Ksh)	Actual (Kshs)	Variance
Personnel	2,220,743,378	2,163,765,760	56,977,618
Operations & Maintenance	2,004,538,209	1,915,748,110	88,790,099
Development	2,649,719,174	2,210,433,614	439,285,560
<b>Total</b>	<b>6,875,000,761</b>	<b>6,289,947,484</b>	<b>585,053,277</b>

Source- IFMIS Reports 2016/17

The recurrent vote expenditure experienced mixed performance during the year. Operations and maintenance under performed by Ksh. 88,790,099 while personnel emoluments component under spent by Ksh. 56,977,618. On the other hand, the development vote experienced an under expenditure amounting to Ksh. 439,285,560 leading to an overall under expenditure of Ksh. 585,053,277. The departmental budget performance is provided in the table below.

**Table 4: Sectoral Budget Performance FY 2016/17**

Sector	Detail	Approved Budget	Actual Expenditure	Variance
Agriculture	Recurrent	311,035,049	284,207,536	26,827,513
	Development	120,000,000	104,489,697	15,510,303
Economic Planning, Commerce & Industry	Recurrent	82,805,111	81,174,414	1,630,697
	Development	61,500,000	42,337,539	19,162,461

Water, Environment & Natural Resources	Recurrent	74,735,653	62,516,038	12,219,615
	Development	265,457,642	253,090,473	12,367,169
Public Works, Infrastructure	Recurrent	371,599,606	353,499,980	18,099,626
	Development	1,091,616,195	893,666,772	197,949,423
Health Services	Recurrent	1,578,329,208	1,611,921,676	-95,613,116
	Development	622,900,000	589,080,517	33,819,483
Lands, Housing & Urban Development	Recurrent	92,065,190	39,169,625	52,895,625
	Development	74,420,000	6,147,997	68,272,003
Gender, Youth, Culture	Recurrent	123,695,923	96,614,605	27,081,318
	Development	102,700,000	105,778,101	-3,078,101
Education, ICT	Recurrent	373,123,304	362,523,423	10,599,881
	Development	140,300,000	118,395,411	21,904,589
Governance, PSM, CPSB	Recurrent	284,246,381	256,159,729	28,086,652
	Development	31,491,445	18,058,544	13,432,901
Finance	Recurrent	460,595,800	404,244,686	56,351,114
	Development	115,447,348	79,388,564	36,058,784
County Assembly	Recurrent	534,271,010	527,482,219	6,788,791
	Development	48,986,544	0	48,986,544
<b>Total Expenditure</b>	<b>Recurrent</b>	<b>4,225,281,587</b>	<b>4,079,513,870</b>	<b>145,767,717</b>
	<b>Development</b>	<b>2,649,719,174</b>	<b>2,210,433,614</b>	<b>439,285,560</b>

Source- IFMIS Reports 2016/17

### **2.1.3 Departmental milestones achieved during the FY 2016/17**

#### **Economic Planning, Commerce and Industry**

In the financial year 2016/17, the sector's key milestones included;-

The preparation of the County Development Plans including the Development plan 2017/18 and Nabiswa ward strategic plan, coordinated the preparation of Agriculture sector policy, conducted review of the implementation of CIDP and prepared its End term report, and participated in the of the 2017/2018 MTEF budgeting process. During the period, the department fast tracked the completion of five major fresh produce markets and 18 ward based fresh produce markets.

#### **Land, Housing and Urban Development.**

The major achievements for the period included, completion of survey for various market centres and public utilities for the reestablishment of misplaced beacons; preparation of Kiminini integrated urban development plan, completion of Kitale integrated urban development plan, processing of 88,000 titles, and acquisition of land for the development of various county infrastructural facilities and market expansion.

#### **Agriculture, Livestock, Fisheries and Cooperative Development Sector**

The sector's key projects implemented during the year included acquisition of a mobile cereal dryer to enhance post harvest management, completion of three (3) grain storage warehouses at Saboti, Kwanza and Kiminini, promotion of indigenous poultry, establishment of livestock auction yard at Sibanga, distribution of subsidized mavuno fertilizer, establishment and Equipping of Tissue Culture Banana Laboratory, distribution of TC Banana plantlets, promotion of tea farming subsidy, promotion of coffee farming subsidy, and procurement of assorted modern farm machinery. The sector also procured a modern drag line for desilting dams.

Under disease control, a total of Ksh. 45 million was spent on combating army worms in all the wards. Besides the sector undertook routine activities that enhance outreach to farmers such as plant clinics and extension services.



## **Gender, Youth, Sports, Culture and Tourism**

In the financial year 2016/2017 the gender sub sector availed funding to youth and women group under the revolving youth and women fund, Provided Welfare services for the disabled and elderly, completed the child rescue center and undertook capacity building and training for various groups.

In the sports sub sector, the department, rehabilitated sports facilities, and coordinated the county participation in KICOSCA Games. In addition, the department procured assorted sport equipment and distributed to Sports teams, and availed financial grants to sport teams.

To promote a peaceful and cohesive society, the department of culture facilitated ward cultural festivals and activities of the Councils of elders among other activities.

The department also mapped tourism niche products.

## **Public Works, Transport and Infrastructure**

The key sub sector achievement included the continuation of modern bus park and business centre flagship project, installation of culverts, acquisition of land for excavation of murram, opening up and paving of backstreets, completion of 100 boda boda parking sheds. In addition, the department conducted routine maintenance of existing street lighting and high mast floodlights. Routine maintainance of the various county roads was also undertaken.

Further, the department initiated the construction of office and duty offices for the fire station.

## **Environment, Water, and Natural Resources**

In the 2016/17 financial year the department implemented 60 piped schemes, one water dam and 20 water points. Most of the water projects are complete and a population of 186,450 is accessing clean potable water. This has increased the number of households accessing clean potable water from 53,855 to 59,930 representing 35.32 % of the total projected population of the County of 1,018,175 people

Other activities included drilling of boreholes, spring protection, and sinking of boreholes. Other activities funded were tree planting and town cleaning services. In addition, the County Government also acquired Two (2) skip loaders and 2 side-loaders and refuse containers for efficient solid waste management.

### **Governance and Public Service Management**

In the financial year 2016/17, the sector facilitated, development and approval of county organizational structure, coordinated public service training and capacity development, facilitated the recruitment of county staff. In addition, the sector also facilitated placement and attachment of student interns across the departments. At the same time, the sector is also charged with facilitating Public Participation and Civic Education.

### **Education and ICT**

Among the programmes implemented in the financial year 2016/17 in the sector include; Infrastructural Development (construction) of ECDC classrooms and VTC twin lab blocks, Procurement of ECDC and VTC learning and instructional materials disbursement of Ksh. 127,700,000 million under Elimu bursary fund. The sector also finalized the Employment of 756 ECDC caregivers and 140 polytechnic instructors. The sector also hosted an education day that saw a rewarding of performance in all the schools within the county. Finally the department also undertook capacity building for teachers and instructors.

### **Health**

The key achievements for the sector in the financial year 2016/2017 included continuation of construction of the county referral hospital, renovations at Kitale County Hospital, construction of health centre staff quarters, automation of management information systems, completion of renovations of mt.Elgon hospital, equipping of health facilities, supply of drugs and other medical supplies.

#### 2.1.4 Budget Performance for FY 2017/18 (July and August 2017)

The 2017/18 budget performance in the months of July and August has been low with variances across the sectors. A summary of sector performance is provided in tables 5 and 6 below.

##### 2.1.4.1 Revenue Performance

The estimated local annual Revenue for the current financial year 2017/18 is Ksh. 600,000,000. The revenue collected during the two months period is Ksh. 7,471,069 a paltry 1.2% of the target revenue for the year.

**Table 5: July and August Revenue Report Fy 2017/18**

Sector/Source of Revenue	Approved Revenues (Ksh.) 2017/18	Actual
<b>Agriculture, Livestock and Fisheries</b>		
Coffee license	500,000	0
Veterinary services	4,500,000	0
Agricultural mechanization Services – hire	7,000,000	0
Sale of fish fingerlings	500,000	0
<b>Economic Planning, Commerce and Industry</b>		
Open Air Market	18,000,000	1,358,420
Market stalls, bandas rent	2,000,000	19,700
Enclosed market fees	2,000,000	0
Weights and measures fees	7,000,000	0
<b>Environment, Water and Natural Resources</b>		
Refuse collection and conservancy	7,000,000	44,000
Hire of water drilling machines	70,000,000	0
Sale of seedlings	200,000	0

<b>Sector/Source of Revenue</b>	<b>Approved Revenues (Ksh.) 2017/18</b>	<b>Actual</b>
Noise control pollution fees	500,000	0
<b>Works, Transport and Infrastructure</b>		
Advertisement, Trade names, billboards and signboards	13,000,000	176,500
Clearances and completion certificates	6,300,000	59,500
Hire of works machinery	100,000,000	6,500
<b>Health</b>		
Income from Medical & Public Health services	140,000,000	385,124
Cemetery fees	400,000	18,000
<b>Lands, Housing and Physical Planning</b>		
Change of user, plot sub-division and transfers, plans approval	20,000,000	807,480
House Rents	600,000	0
<b>Gender, Youth, Sports, Culture and Tourism</b>		
Hire of Stadium	2,000,000	0
Liquor fees	20,000,000	80,000
Hire of social hall, tents & chairs	1,500,000	0
Registration/Renewal of sporting clubs	1,000,000	0
<b>Finance</b>		
Cess (maize, tea, sand, ballast etc)	35,000,000	631,150
Land Rates and clearances (current year)	50,000,000	931,286
Land Rates penalties	3,000,000	133,019
Single Business permits	60,000,000	1,835,975
Single Business permits penalties	3,000,000	115,355
Street Parking fees	15,000,000	118,000

Sector/Source of Revenue	Approved Revenues (Ksh.) 2017/18	Actual
Barrier fees(enclosed)	10,000,000	751,060
<b>Total:</b>	<b>600,000,000</b>	<b>7,471,069</b>

Source: Monthly revenue report FY 2017/18

In overall, the revenue collection is at 1.2% as percentage of the total budget from local sources. Many of the sectors have recorded zero collection on some items for the two months period.

#### 2.1.4.2 Expenditure Performance

The expenditure during the two months' period is Ksh.357,896,278 under the recurrent vote while development vote has not recorded any expenditure at all.

**Table 6: July and August expenditure FY 2017/18**

DESCRIPTION	BUDGETED	ACTUAL	% PERFORMANCE
Personnel	2,266,262,414	298,105,439	13
Operations & Maintenance	2,163,389,034	59,790,839	2
Development	2,393,482,490	0	0
<b>TOTAL</b>	<b>6,823,133,938</b>	<b>357,896,278</b>	<b>5.2</b>

Source IFMIS Expenditure report FY 2017/18

The only captured expenditure of Ksh. 357,896,278 is under the recurrent vote. Personnel Emoluments form the greater part of the expenditure at 13% while O&M is 2% resulting in an overall expenditure of 5.2 % of the county budget.

#### 2.1.4.3 Implication of 2016/17 Fiscal Performance on Financial Objectives.

The budget performance in the FY 2016/17and the first two months of the 2017/18 budget has a great bearing on the implementation of the current budget as well the envisaged 2018/19 county budget, and this will greatly affect the financial objectives set out in the current County Fiscal Strategy Paper.

The implication of the above revenue and expenditure trend is a less than targeted revenue in addition to a slow absorption of the development budget while the recurrent expenditures are way below the quarterly budget allocation. This slow start may be associated with the current political environment and just concluded general elections. However, this is likely to erode the base upon which the Income and Expenditure Projections for 2018/19 and the medium term is based. This means that revenue projection needs to be cautious and in line with the revised budget

framework assumptions. Consequently, the MTP Ceilings will need to change reflecting the updated revenue and expenditure forecast. In this regard, the ceilings in the 2017 Budget Circular will have to be modified to reflect new developments in the Resource Envelope as well as to be in tandem with the current expenditure trends.

## **SECTION THREE**

### **RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

#### **3.0 Recent Economic Developments**

The Kenyan economy has remained robust despite global economic slowdown due to its diversified nature, registering strong economic growth of 5.8 percent in 2016, from a growth of 5.7 percent in 2015. This is above the 1.4 percent growth for sub-Saharan Africa, which has mainly been suppressed by low commodity prices that have affected its three largest economies (Angola, Nigeria and South Africa).

In the first quarter of 2017, the National economy grew by 4.7 percent from a growth of 5.3 percent in the same quarter in 2016. The growth in the first quarter of 2017 was supported by stable macroeconomic conditions and improved performance in key sectors including: accommodation and restaurant (15.8 percent), information and communication (11.4 percent), transport and storage (9.9 percent), mining (9.7 percent), real estate (9.6 percent), wholesale and retail trade (6.1 percent) and manufacturing (2.9 percent). The quarter witnessed contraction in the activities of agriculture as well as a deceleration in growth of financial intermediation and electricity supply. (*THE NATIONAL TREASURY- Quarterly Economic and Budgetary Review, Fourth Quarter, Financial Year 2016/2017 Period ending 30th June, 2017*).

Agriculture, forestry and fishing sector recorded a contraction in growth of 1.1 percent in the first quarter of 2017 compared to a growth of 4.0 percent in the same period in 2016. The performance of the sector was dampened by severe drought due to failure of the 2016 short rains and delay in the onset of the 2017 long rains which affected the production of the main food crops. The production of tea and horticultural products also declined. However, exports of coffee registered improved performance during the first quarter of 2017.

Overall month on month inflation declined to 9.2 percent in June 2017 from 11.7 percent in May 2017. The decline in June, 2017 was largely on account of significant decline in prices of key food items following improved weather conditions and

Government policy interventions on maize and milk. Fuel prices also decreased during the period on account of reductions in fuel pump prices. On average, the annual inflation rate increased to 8.1 percent in June 2017 compared to 6.5 percent in the same period in 2016.

On the fiscal performance, by the end of June 2017, total cumulative revenue including collected amounted to Ksh 1,400.6 billion against a target of Ksh 1,455.4. This performance was below the target by Ksh 54.8 billion. Ordinary revenue collection was Ksh 1,305.8 billion against a target of Ksh 1,311.3 billion, which was Ksh 5.5 billion below the target. However, compared to the last financial year, the Revenue collection increased by 14.9 percentage.

At the county level, the government purposely targeted poverty reduction, increased youth employment and increased land productivity during the plan period 2013-2017. As a result Key projects and programmes were implemented in the plan period. The County Government has addressed land productivity gradually through the provision of the non acidic subsidized Mavuno fertilizer, crop diversification and adoption of conservation agriculture.

The County Government also implemented other programmes including those geared towards Women and Youth fund, youth and women empowerment hence effectively addressing youth unemployment and high poverty levels. The Government initiated key flagship projects such as the modern bus park and business centre whose completion will lead to availability of adequate parking and orderly transport sector. The continued investment in trade is being realized through construction of fresh produce markets in the entire county, construction of business centre alongside the modern bus park, and street lighting programme among others.

Albeit the slow implementation of development projects due to delays in exchequer disbursements, the general welfare of the citizens has substantially improved following gradual increase in maize production rising from about 4 million bags in 2013 to about 5.4 million bags in 2016. However this may be substantially affected due to the infestation of fall army worms on maize crop in early 2017. The county Government spent over KES.45 million to combat the army worm menace.

This CBROP aims to build on the growth momentum arising from the ongoing programmes and projects while taking advantage of any new growth opportunities that may arise. The government has put in place measures to improve on revenue collection, key among them being the automation of the revenue collection system. The Government will also ensure efficient procurement and delivery of services and streamline expenditure management while creating a conducive environment for investment.

### **3.1 Growth Prospects**

The projected revenue both locally, and from the national government for the months of July and August has been **quiet low**. The local revenue collected in first Quarter of July, August and September 2017 is Ksh.7,471,069 compared to Ksh.52,065,791 in the previous year. This is way below what was projected. Therefore there is need to analyze and evaluate the annual Revenue Estimates for the Current financial year in line with what is feasible hence affecting the budget framework for the financial year 2017/18 as well as in the medium term.

The economy is expected to gain from increased investment in the county following investment agreements as well as increased inquiries from prospecting investors as a result of the successful international investor conference (TICE) organized towards the end of FY 2015/16. In addition, this budget will attempt to facilitate the creation of a conducive environment that will boost investor confidence and increase private investment in the county.

Whereas the rise in the transport index is likely to lead to increased prices of essential food and non food items, the anticipated pumber harvest will caution the residents as the cost of grain and milk is likely to fall. In addition, the implementation of key development project may be hindered by slow implementation of development budget as witnessed in the first two months of the financial year 2017/18. Moreover, revenue projections have also fallen short of the target. This is likely to reduce the growth levels envisioned in the county development plans.

To supplement the public sector investment there is need to explore new financing options such as asset financing, PPP and donor support to ensure that the projects and programmes contained in the county development plans are implemented without delay, taking into account limited public resources.

### **3.2 Fiscal Framework**

The Government will continue to pursue prudent fiscal policy to ensure sustainability of the county's development agenda of poverty reduction, youth employment and increasing agricultural productivity as outlined in the CIDP 2013-2017 (currently under review). The gains realized in the implementation of this CIDP will spill over to the plan period 2018-2022. The overall County Government objective is to maintain a balanced budget during the year and in the medium term.



This will provide adequate room for adjustment of fiscal policy in the event of budget shocks.

The County Government will maintain a strong revenue effort over the Medium term. Measures to achieve this effort include;

- Completion of Automation of revenue collection system,
- Simplification of Collection process in line with international best practices
- Improved compliance with enhanced administrative measures.
- Expansion of the the tax base and improving collection and administration
- The government will seek to augment revenues through new forms of financing including, asset financing and PPP.
- The government will seek for donor support in form of grants and loans from domestic and external sources, in line with the regulations as set out in the PFM Act and other financial regulations.

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management is strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments and enforcing and up scaling the e-procurement in line with the PFM Act, 2012.

### **3.3 Risks to the outlook**

The risk to the outlook for 2017 and medium term include the uncertainties in the political arena due to the electioneering period of 2017 general elections, inability to realize the estimated local revenues, slow pace of implementation of the development budget, overreliance on maize as the main cash crop by most of the county residents, low private investments in the county, late disbursement of CRA allocation by the national treasury, delay by local contractors and suppliers in delivering projects in timely manner among other issues.

## **SECTIONFOUR**

### **RESOURCE ALLOCATION FRAMEWORK**

#### **4.0 Adjustment to 2017/18 Budget**

Given the performance in 2016/17 and the updated budget framework, the risks to the FY 2017/18 budget include;

- weaker revenue performance in 2017/18 and the medium term,
- Expenditure pressures with respect to sector/departmental operations and maintenance budgets,
- demands for employment of extra personnel due to gaps specifically in Finance

Adjustments to the 2017/18 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Because of the resource constraints, the County Government will rationalize expenditures by cutting those that are non-priority, and shifting expenditures from new projects that may not be completed towards ongoing project portfolio in order for the County Government to live within its means.

Any review of salaries and benefits for the public sector workers will be implemented based on recommendation by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination, published in the Gazette Notice by the SRC. In addition internal promotions will be handled on a case to case basis as well as the ability of the county government to meet the extra costs.

On local Revenue collection, the County Government will undertake regular sensitization of citizens on various tax revenues and enhance enforcement to raise compliance levels. Sealing of revenue leakages is ongoing and will be strengthen once the automation of the whole revenue collection into one system is in place. The Automation process began with street parking and is anticipated to continue until all Revenue sources are covered. Revenue collectors will be closely monitored in addition, to placing them on performance contracts to ensure that targeted levels are met.

## **4.1 Medium-Term Expenditure Framework**

In view of the recent macroeconomic circumstance, growth prospects and limited resources, MTP budgeting will entail adjusting non-priority expenditures to cater for the priority expenditures across the sectors. The current CIDP has been reviewed in preparation of the 2<sup>nd</sup> generation CIDP which is ongoing and this will guide resource allocation in the medium term. The 2017/18 annual development plan is being finalized and the sectors have outlined key strategies for implementation in the financial year 2018/19 which will guide the resource allocation. The proposed sector ceiling under the development vote has been annexed.

## **4.2 FY 2018/19 Budget Framework**

The FY 2018/19 budget framework is set against the background of the updated medium-term county fiscal framework set out above. Real growth is expected to increase in FY 2018/19 underpinned by continued good performance across all sectors of the County. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation especially on most food items (despite challenges like the invasion of fall army worms which has been contained) is expected to remain low and stable, reflecting continued favorable weather conditions and implementation of a prudent monetary policy and stable commodity prices at the national level.

### **4.2.1 Revenue Projections**

The FY 2018/19 budget will target revenue collection of Ksh. 600 Million from Local Sources. As noted above, this performance will be underpinned by on-going reforms in Revenue policy and administration. As such, total revenues including Exchequer disbursements are expected to be approximately Ksh. 6.8 billion.

### **4.2.2 Expenditure Forecasts**

In FY 2018/19 the general Sector expenditure will go towards the following:-

- Training and Capacity Building & motivation of county staff
- Citizen participation
- Creating enabling environment for agricultural valuation addition.
- Fast tracking the implementation of the CIDP
- Creating an enabling environment for business partners and other investors
- Looking for new ways of doing business in order to attain the Vision of the County
- Promoting agricultural diversification,

- Ensuring easy access to basic social services including water, education and health care. The summary of the expenditure forecast for 2017/2018 FY is as below.

**Table 7: Summary of proposed Expenditure by Economic Classification**

<b>Expenditure Category</b>	<b>Amount in Ksh. Billion</b>
Personnel	2,335,000,000
Operations & Maintenance	2,232,000,000
Development	2,875,500,000
<b>Total</b>	<b>7,442,500,000</b>

The determining factor will be the CRA share of allocation that the National Assembly will approve in the County Allocation of Revenue Bill (CARB) for 2018/19 and the actual share of the revenue that will be passed by the Senate through the Division of Revenue Bill (DORB) for the same period.

## Annex 1

**Table 8: Indicative Sector Development Budget Ceiling for 2017/18 FY**

Sector	Revenue 2017/18	Approved Development 2017/18	Projected Expenditure Ksh.	
			2018/19	2019/20
Agriculture, Livestock, Fisheries and Cooperative Development	12,500,000	202,123,423	250,000,000	300,000,000
Economic Planning Commerce & Industry	29,000,000	109,500,000	153,500,000	200,000,000
Water Environment and Natural Resources	77,700,000	289,883,837	320,500,000	360,000,000
Works, Transport & Infrastructure	119,300,000	614,478,809	680,000,000	720,000,000
Education, ICT and Vocational Training	0	244,009,877	290,000,000	330,000,000
Health Services	140,400,000	537,000,000	600,000,000	650,000,000
Lands, Housing and Urban Development	20,600,000	86,500,000	121,500,000	150,000,000
Gender, Youth, Culture, Sports, Women & Tourism	24,500,000	103,000,000	150,000,000	200,000,000
Governance ,PSM CPSB	0	68,000,000 20,000,000	120,000,000	170,000,000
Finance	176,000,000	70,000,000	110,000,000	150,000,000
County assembly	0	48,986,544	80,000,000	120,000,000
<b>Total</b>	<b>600,000,000</b>	<b>2,393,482,490</b>	<b>2,875,500,000</b>	<b>3,350,000,000</b>

Source: Budget circular 2017