



# **COUNTY GOVERNMENT OF TRANS-NZOIA**

## **TREASURY**

### **COUNTY BUDGET REVIEW**

**AND**

### **OUTLOOK PAPER**

**SEPTEMBER 2018**

## **FOREWARD**

This County Budget Review and Outlook Paper (CBROP) has been prepared in line with the Public Finance Management (PFM) Act, 2012 and Regulations. It presents the fiscal outcome for the 2017/18 financial year and how this affects the financial objectives set out in the 2018 County Fiscal Strategy Paper (CFSP). The updated macroeconomic outlook therein also provides us with a basis to revise the 2018/19 Budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the 2019/20 budget.

Despite the challenges in the 1<sup>st</sup> half of financial Year 2017/18 caused by the longer than expected electioneering period, the county government closed the year satisfactorily despite the revenue shortfall and significant expenditure reprioritization.

The 2017/18 fiscal outcome has had implications on the base on which the fiscal projections for the Financial Year 2018/19 were based on. This in turn informs the budget framework for the financial year 2019/20. While at the both levels of government the macroeconomic environment has been significantly unstable due to the long election period, at the county level, the fiscal outcome for FY 2017/18 and the first two months of financial year 2018/19 call for a review of the 2018/19 budget estimates and forms the basis of the sector ceiling provided in this policy document for the financial year 2019/20. 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 to 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 (Health care, housing and Education)
- Providing efficient and affordable transport and communication services.
- promoting empowerment of 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 2018 CBROP provides a strong basis for building our common future under the new constitution and in aligning our objectives to ‘The Big Four Agenda’. This CBROP is anchored on great fiscal discipline, transparency and public participation as a prerequisite to achievement of 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 2019.

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FINANCE AND ECONOMIC PLANNING**

## **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
ECDE	Early Childhood Development Education
FY	Financial year
ICT	Information Communication technology
IFMIS	Integrated Financial Management System
KIE	Kenya Industrial Estate
MTEF	Medium term Expenditure Framework
PFMA 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

### 1. BACKGROUND INFORMATION

#### 1.1. Legal Basis for Preparation of CBROP

##### **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. Section 107 of the Act states that:-

- 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)



## **1.2. Introduction**

The CBROP is a key document linking County policies, County plans and budget. This CBROP provides the County Government the basis upon which to reprioritize project portfolio as contained in the County Integrated Development Plan (CIDP) and other Development plans as guided by the indicative sector budget ceiling provided by the CBROP while taking into account macro-economic status and emerging county development needs.

In line with the PFM Act, the CBROP contains a review of the fiscal performance of the financial year 2017/18, updated macroeconomic forecast, deviations from the CFSP 2018 and indicative sector ceilings for the 2019/20 budget and the medium term. The indicative Ceilings thus provided will set in motion the budget preparation process for the Fiscal Year 2019/20. These indicative sector ceilings and macro-economic outlook will be firmed in the CFSP 2019.

## **1.3. Objectives of the CBROP**

CBROP has three important functions:

- It's an end year report, providing an assessment of budget performance from the previous financial year.
- It also provides an update on the government's fiscal position for the first quarter of the current financial year which provides the basis for revising the current budget.
- The CBROP sets the share of the indicative budget that will be distributed to different sectors for the next financial year.

## **1.4. Organization of Report**

This report has been organized into three Sections, namely;

- Section one provides Background information on CBROP, introduction and objectives of the CBROP.
- Section two provides a review of the fiscal performance in FY 2017/18 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

### 2. REVIEW OF FISCAL PERFORMANCE IN FY 2017/18

#### 2.1. Overview

The fiscal performance in the 2017/18 financial year was fairly satisfactory considering the political environment in the Country over the same period. The total cumulative revenue realized was Ksh. **6,310,337,968** against a projected target of Ksh. **6,628,528,220**. This represents a revenue shortfall of Ksh **318,190,252** of which ordinary local revenues under collected by Ksh **153,937,098** while transfers from the National Treasury underperformed by Ksh. **164, 253,153**.

On the other hand, the actual total expenditure for both development and recurrent was Ksh. **5,839,385,755** against an approved budget of Ksh. **6,628,528,220** resulting in underperformance by Ksh. **789,142,465** inclusive of pending claims at the close of the financial year.

#### 2.2. 2017/18 Fiscal Performance

##### 2.2.1. Revenue Performance;

The approved total revenue for the financial year 2017/18 was Ksh. **6,628,528,220** comprising both local revenues and grants from the national Treasury. However, the actual realized revenue was Ksh **6,310,337,968** reflecting a shortfall of Ksh. **318,190,252**. Table 1 below provides an analysis of revenue performance by source during the year under review.

**Table 1: Approved and Actual Revenue Realized by Source for FY 2017/18 in Ksh.**

SOURCE	APPROVED	ACTUAL	VARIANCE
CRA Allocation	5,647,400,000	5,647,400,000	-
Local Sources	400,000,000	246,062,902	153,937,098
Universal Health Care Project	113,923,776	35,601,180	78,322,596
Agriculture and Rural Growth Project	50,000,000	50,609,855	(609,855)
DANIDA	22,821,679	14,723,664	8,098,015
User Fees	21,304,915	20,209,153	1,095,762
World Bank - KDSP	43,386,482	43,386,482	-
Kenya Urban Support Programme	20,000,000	-	20,000,000
Youth polytechnics Development	39,109,877	39,109,877	-
Road Maintenance Fuel Levy	217,278,809	178,630,435	38,648,374
Unspent Balance C/F	53,302,682	34,604,420	18,698,262
<b>Total</b>	<b>6,628,528,220</b>	<b>6,310,337,968</b>	<b>318,190,252</b>

Source: County Budget Reports 2017

As can be deduced from table 1 above, Local sources underperformed by Ksh. 153,937,098. On the other hand other national grants were fully disbursed. Only Agriculture and Rural Growth Project disbursed more than the approved budget by Ksh. 609,855.

Table 2 below provides an analysis of estimated and Actual Revenues from local sources by sector and source realized during the Financial Year 2017/18.

**Table 2: Revenue Report for FY 2017/18**

<b>Sector / Revenue Source</b>	<b>Approved Budget( Ksh)</b>	<b>Actual Collection (Kshs)</b>	<b>Variance</b>
<b>AGRICULTURE,LIVESTOCK AND FISHERIES</b>			
Application fees	0	2,265,180	2,265,180
Veterinary services	3,000,000	1,230,100	-1,769,900
Cattle auction and slaughter fees	0	536,310	536,310
Agricultural mechanization/ sale of seedlings	5,000,000	754,974	-4,245,026
Cooperative development	350,000	33,585	-316,415
<b>Total</b>	<b>8,350,000</b>	<b>4,820,149</b>	<b>-3,529,851</b>
<b>ECONOMIC PLANNING,COMMERCE AND INDUSTRY</b>			
Open Air Market	13,000,000	12,720,630	-279,370
Weights and Measures	4,500,000	411,150	-4,088,850
Market stalls, bandas and enclosed markets	1,300,000	508,200	-791,800
<b>Total</b>	<b>18,800,000</b>	<b>13,639,980</b>	<b>-5,160,020</b>
<b>ENVIRONMENT,WATER AND NATURAL RESOURCES</b>			
Refuse collection and conservancy	5,000,000	3,043,279	-1,956,721
Hire of drilling machines	45,000,000	0	-45,000,000
<b>Total</b>	<b>50,000,000</b>	<b>3,043,279</b>	<b>-46,956,721</b>
<b>WORKS,TRANSPORT AND INFRASTRUCTURE</b>			
Advertisement, Trade names, billboards and signboards	9,000,000	11,133,838	2,133,838
Building plans, clearances and completion certificates	65,000,000	0	-65,000,000
<b>Total</b>	<b>74,000,000</b>	<b>11,133,838</b>	<b>-62,866,162</b>
<b>HEALTH</b>			
Income from Health (public and medical services )	95,000,000	66,053,762	-28,946,238
Cemetery Charges	250,000	102,500	-147,500
Public Health charges			
<b>Total</b>	<b>95,250,000</b>	<b>66,156,262</b>	<b>-29,093,738</b>

## PHYSICAL PLANNING, LANDS AND HOUSING

Survey fees	0	183,600	183,600
Housing			
Fire charges	3,000,000	2,214,500	-785,500
Change of user, plot sub-division and transfers	20,000,000	5,642,105	-14,357,895
<b>Total</b>	<b>23,000,000</b>	<b>8,040,205</b>	<b>-14,959,795</b>

## GENDER, YOUTH, SPORTS, CULTURE AND TOURISM

Hire of facilities (social hall, stadium)	3,000,000	76,040	-2,923,960
Amusement fees	600,000	121,750	-478,250
<b>Total</b>	<b>3,600,000</b>	<b>197,790</b>	<b>-3,402,210</b>

## FINANCE

Cess (maize, tea, sand, ballast etc.)	25,000,000	25,469,801	469,801
Land Rates and clearances (current year)	33,000,000	29,140,297	-3,859,703
Land Rates penalties	2,000,000	34,230	-1,965,770
Single Business permits	37,000,000	56,058,725	19,058,725
Single Business permits penalties	2,000,000	2,799,944	799,944
Vehicle Parking fees	8,000,000	13,608,930	5,608,930
Vehicle parking automation	10,000,000	10,263,300	263,300
Parking penalties (automation)	0	657,000	657,000
Miscellaneous (automation)	0	345,088	345,088
Liquor Licenses	10,000,000	300,000	-9,700,000
<b>Total</b>	<b>127,000,000</b>	<b>138,677,315</b>	<b>11,677,315</b>

<b>Grand Total</b>	<b>400,000,000</b>	<b>246,062,902</b>	<b>-153,937,098</b>
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Source - Draft Revenue Report FY 2017/18

From table 2 above it is clear that most of the sectors' actual revenue realized was far below the approved revenue except for Finance whose overall performance was Ksh. **138,677,315**, against an approved revenue of Ksh. **127,000,000** thus, the sector realized Ksh. 11,677,315 above the target revenue for the year most of it attributed from the Single Business Permits.

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

- i. Non-payment of rates by key rate payers namely Kenya Railways, A.D.C., CILOR, K.I.E. etc.
- ii. Regular strikes by doctors and nurses affected the Health sector Revenue
- iii. Delays in passing the finance bill 2017.
- iv. Poor enforcement and collection mechanism
- v. Undergoing construction works on the central matatu terminus and Kitale market hence reduced parking fee and market fee and other markets under construction.

- vi. Prolonged electioneering period.

This will be corrected;

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

### 2.2.2. Expenditure Performance

The total Expenditure in both recurrent and development budget for the financial year 2017/18 was Ksh. **5,839,385,755** against a target of Ksh. **6,628,528,220** comprising Ksh. **4,888,529,960** under the recurrent vote and Ksh. **950,855,795** under the development vote. The actual recurrent expenditure was **Ksh. 4,888,529,960** (106%) against the approved expenditure of **Ksh. 4,632,197,963** resulting to an over expenditure of Ksh. **256,331,997** excluding unpaid commitments. On the other hand, the actual development expenditure was Ksh **950,855,795** (48 %) against an approved expenditure of Ksh. **1,996,330,257** thus underperforming by Ksh. **1,045,474,462** inclusive of unpaid claims by the end of the financial year 2017/18.

**Table 3: Sectoral Budget Performance Analysis for FY 2017/18**

SECTOR	DETAIL	APPROVED BUDGET	ACTUAL EXPENDITURE	VARIANCE
Agricultural, Livestock & Co operative	Recurrent	295,392,246.00	290,244,336.20	5,147,909.80
	Development	109,361,849.00	62,745,030.00	46,616,819.00
Trade, Commerce & Industry	Recurrent	61,701,034.00	54,387,511.00	7,313,523.00
	Development	79,953,686.00	21,750,902.00	58,202,784.00
Water Environment & Natural Resources	Recurrent	72,568,298.00	63,351,705.50	9,216,592.50
	Development	188,397,053.00	155,821,241.00	32,575,812.00
Public Works Transport & Infrastructure	Recurrent	343,155,308.00	291,191,965.05	51,963,342.95
	Development	565,978,809.00	319,909,505.00	246,069,304.00
Health Services	Recurrent	1,570,724,082.00	1,672,920,531.89	(102,196,449.89)
	Development	592,394,773.00	271,345,020.00	321,049,753.00

Lands, Housing & Urban Development	Recurrent	94,948,240.00	85,103,266.48	9,844,973.52
	Development	78,203,502.00	10,875,000.00	67,328,502.00
Gender, Youth Culture	Recurrent	139,789,643.00	132,108,811.00	7,680,832.00
	Development	78,207,863.00	9,195,700.00	69,012,163.00
Governance, PSM,CPSB	Recurrent	416,564,851.00	416,006,805.76	558,045.24
	Development	45,841,250.00	15,287,032.00	30,554,218.00
Education & ICT	Recurrent	400,290,613.00	395,956,036.65	4,334,576.35
	Development	154,509,877.00	68,912,697.00	85,597,180.00
Finance & Economic Planning	Recurrent	706,611,223.00	956,806,565.47	(250,195,342.47)
	Development	29,495,051.00	15,013,668.00	14,481,383.00
County Assembly	Recurrent	530,452,425.00	530,452,425.00	-
	Development	73,986,544.00	-	73,986,544.00
<b>Total</b>	<b>Recurrent</b>	<b>4,632,197,963.00</b>	<b>4,888,529,960.00</b>	<b>(256,331,997.00)</b>
	<b>Development</b>	<b>1,996,330,257.00</b>	<b>950,855,795.00</b>	<b>1,045,474,462.00</b>

Source- Ifmis Returns

Table 4 above provides an analysis of expenditures by Sectors for the financial year 2017/18. The absorption rate especially for the development funds in the financial year was quite low. Recurrent expenditure over performed by kshs. 256,331,997.

### 2.1.3 Departmental milestones achieved during the FY 2017/18

#### 2.1.3.1 Agriculture, Livestock, Fisheries and Cooperative Development

The sector programmes in 2017/18 included; - post harvest management, land and soil management, extension support services, crop development and management, livestock productivity improvement and fisheries development and management. Notable achievements of the previous plan in the sector includes;- adoption of Mavuno fertilizer to reduce soil acidity, acquisition and distribution of subsidized coffee seedlings, tea seedlings, TC banana seedlings, Avocados and mangoes under the crop diversification, construction of grain stores, and procured driers and metal silos to enhance produce quality. Other notable achievements were the provision of subsidized AI services and distribution of acaricide to community dips.

### **2.1.3.2 Health Services**

The County Health sector implemented various projects under its key programmes of medical supplies, preventive and promotive health care services, curative, and rehabilitative health care services. Key notable achievements in the sector during the period under review were; ongoing construction of Trans Nzoia county Teaching and Referral Hospital, Expansion and renovation of existing health facilities including Kitale County Hospital, Purchase of Medical Equipment and other medical supplies.

### **2.1.3.3 Public Works, Transport and Energy**

The key sector achievements during the year under review include rehabilitation and upgrading of 1.2 km of back streets in Kitale town to bitumen surface, construction of a modern bus park, maintenance of 420 km of county roads, expansion of fire station, streamline, design and the approval of building plans, construction of mechanical workshop, installation and maintenance of 114 mini- highmast floodlights 300 street lighting fittings and installation and maintenance of culverts and footbridges,

### **2.1.3.4 Water, Environment Natural Resources**

In the period under review, the department managed to plant 60,000 tree seedlings, acquired 1 skip truck, procured and installed 8 bulk bins, 39 street litter bins and 5 medium sized litter bins and this has improved solid waste collection, storage and disposal, 24.8Km of water pipelines were laid, 3 boreholes drilled and equipped, 3 springs protected and 1 shallow well protected leading to increased access to safe water.

### **2.1.3.5 Education**

Notable achievements in the review period include the construction of 120 ECDE and VTC classrooms, disbursed bursary to 8,341 needy students under the elimu bursary fund, constructed 14 ECDE centres and trained 16 ECDE care givers.

### **2.1.3.6 Trade, Commerce and Industry**

In the period under review construction of one fresh produce market was completed and 50 traders allocated stalls therein, four markets were constructed to finishing level, one market had its superstructure done and the contractor for the renovation of the Kapsara ESP market identified. Traders from the county were sponsored to participate at three local and international exhibition and trade fair. Potential trader trainees in the sector were identified for capacity building and training materials prepared. Seven market committees were formed and the members trained.

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

Lands, Housing, Physical Planning and Urban Development sector initiated process of preparation of physical development plans to enhance orderly development in the county. At the same time,

preparation of the County Spatial Plan was initiated as well completion of Integrated Urban Development Plans for Kitale and Kiminini. In order to enhance the security of land tenure, the sub sector facilitated the National titling program and a total of 15,000 titles were processed and issued. Kapkoi physical development plan was also prepared.

#### **2.1.3.8 Gender, Youths, Sports, Culture and Tourism**

The key achievements include the ongoing works on Elgon Hub youth empowerment centre, completion of Bahati children's home for the street children and provision of Welfare services for the disabled and elderly.

In the sports sub sector, the department, constructed perimeter walls in ward sports grounds, and coordinated the county participation in KICOSCA Games. In addition, the department procured and distributed assorted sports equipment to 10 teams, and availed financial grants to 25 sport teams. The department also identified and mapped 10 cultural sites and 19 tourism niche products.

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

Key Sector achievements in the period under review include; - drafting policy on Disaster Management, organization and coordination of the County Public service week, procurement and installation of a modern records management system and trained 5 members of staff on management of the system. Others are the rollout of process of modernization of the County Enforcement Unit and preparation of a draft policy on Civic Education and Public Participation

#### **2.1.3.10 Finance and Economic Planning**

The key milestones achieved during the year under review include the development of CIDp 2018-2022 and other county plans, Annual Development Plan 2018/2019, coordinated the preparation of draft agriculture sector policy, automation of the County Revenue collection and other systems, participated in the development of ward strategic plan for Nabiswa, Matumbei and Motosiet ward strategic plans. In addition, the sector prepared and submitted the Annual program based budget and other budget documents such as CBROP, CFSP and PBE for 2018/19. The end of the year financial reports for 2017/18 were also prepared and submitted.



## SECTION THREE

### 3. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

#### 3.1. Recent Economic Developments and Growth Prospects

The Kenyan economy has been stable and is expected to maintain this trend growing steadily in 2019 and in the medium term given the recovery from economic slowdown over the long electioneering period in 2017/18 financial year. This growth will be boosted by the recovery of the global economy from 3.7% in 2019 and projected at 3.9% in 2020 and 2021. Growth of the Kenyan economy has remained robust in the past 5 years supported by appropriate economic and financial policies. The Kenyan economy registered a growth of 4.9 percent in 2017, it's estimated to rise to 6 percent and 6.2 percent in 2018 and 2019 respectively. This is well above the 3.8 percent projected growth for sub-Saharan Africa over the same period.

In the first quarter of 2018, the Kenyan economy grew by 6 percent a slight decline from a growth of 6.4 percent registered in the same period in 2017. The growth in the first quarter of 2017 was largely driven by non-agricultural sector. Growth in the 1<sup>st</sup> quarter of 2018 has been anchored on favorable weather conditions and regaining business and consumer confidence supported by growing political stability after protracted elections. Other factors boosting this growth include; low and stable inflation, low and stable interest rate, less volatile and competitive exchange rate, growth of agricultural exports particularly tea and horticulture and resilient diaspora remittances.

Agriculture, Forestry and Fishing sector grew by 5.2 per cent compared to 1.0 per cent in a similar period of 2017. The major crops driving the sector's growth were tea, cane, coffee and the horticulture industry. In the dairy sub-sector, the volume of milk delivered to processors rose significantly (22.8%) compared to a depressed performance reported in the corresponding quarter of 2017.

The manufacturing sector grew by 2.3 per cent in the quarter under review compared to a growth of 1.3 per cent in a similar quarter in 2017. The improved growth was mainly supported by increased production in the manufacture of food sub-sector including processing of canned fruits, processing of wheat flour and maize meal, manufacture of bakery products, manufacture of sugar and soft drinks. In the non-food sub-sector, growth was buoyed by manufacture of leather products galvanized sheet. Credit advanced to the sector grew by 11.3 per cent in the first quarter of 2018 compared to a decline of 7.8 per cent in the corresponding quarter of 2017.

The Construction sector grew by 7.2 per cent in the quarter under review compared to 8.2 per cent growth realized in the first quarter of 2017. The deceleration was reflected in the decline in consumption of cement from 1.5 million tonnes in the first Similarly, the volume of imports of construction materials such as iron and steel bars, and rods declined by 4.9 per cent during the quarter in review. The sector's growth albeit slower than that of the corresponding quarter of 2017 was driven by the ongoing public infrastructural projects such as roads and phase two of the

standard Gauge Railway (SGR) as well as the continued development of buildings. During the review period, credit to the construction sector increased by 7.5 per cent compared to a growth of 2.6 per cent realized in the first quarter of 2017.

Growing by 5.1 percent, the electricity supply sub-sector was vibrant during the first quarter of 2018 mainly owing to increased initiatives under alternative sources of energy such as geothermal power generation coupled with a slowdown in growth of thermal generation while hydro generation grew markedly in March 2018 supported by heavy rains that prevailed during that month and consequently led to scaling down of thermal generation.

The Transport and Storage sector registered a slower growth of 7.1 per cent compared to a 9.4 per cent growth recorded in the same quarter in 2017. The slowed growth was also manifested in the consumption of light diesel that declined by 1.9 per cent in the first quarter of 2018. The growth was driven by improved performance of the various sub-sectors especially transportation of passenger and freight through rail and water. The sector's performance was enhanced by a significant growth in the volume of cargo throughput (7.8%) and containers handled (8.1%) at the port of Mombasa. In addition, the sector benefited from the robust performance of the agricultural sector during the quarter under review.

**Accommodation and Food Service Activities** Growth in Accommodation and Food Service Activities was robust in the quarter under review but comparably slower than level realized in the corresponding quarter of 2017. During the quarter, the sector is estimated to have expanded by 13.5 per cent as evidenced by the increase in the hotel occupancy level.

The Financial and Insurance sector grew by 2.6 per cent in the review quarter compared to 5.3 per cent in the first quarter 2017. Total domestic credit rose by 7.1 per cent, to stand at KSh 3,356.7 billion in March 2018. Net Foreign Assets increased to KSh 104.1 billion in March 2018 from KSh 94.8 billion in March 2017. Broad money supply (M3) expanded to KSh 3,015.7 billion in the first quarter 2018 from KSh 2,846.6 billion in the first quarter 2017.

The interest rate for commercial banks loans and advances dropped marginally from 13.61 per cent in March 2017 to 13.49 per cent in March 2018. The savings rate increased from 5.89 per cent in March 2017 to 6.85 per cent in March 2018. The 91-Day Treasury bill rate dropped to 8.02 per cent in March 2018 from 8.68 per cent in March 2017 while the interbank rate increased to 4.90 per cent in March 2018 from 4.46 per cent in March 2017.

Overall month on month inflation was within the single digit. The rate 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.

In fiscal performance, by the end of June 2018, total cumulative revenue including A-i-A collected amounted to Ksh 1,487.2 billion against a revised target of Ksh 1,659.6 billion. This represented a revenue shortfall of Ksh 172.4 billion (or 10.4 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 1,365.1 billion against the target of Ksh 1,489.6 billion. On the other hand, total expenditure and net lending in the FY 2017/18 amounted to Ksh 2,111.5 billion against a target of Ksh 2,330.0 billion, representing an under spending of Ksh 218.5 billion (or 9.3 percent deviation from the revised budget). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the national government.

At the county level, the government purposely targeted poverty reduction, enhanced access to quality education and health care, increased youth employment and increased land productivity during the plan period 2013-2017. As a result Key projects and programmes were funded in the financial year 2017/18. These includes the provision of the non-acidic subsidized Mavuno fertilizer, crop diversification and adoption of conservation agriculture.

The County Government also implemented other programmes including the modern bus park and business centre in Kitale town, the County referral Hospital, construction of fresh produce markets in the Entire County, and street lighting programme among others.

This CBROP aims to build on the growth momentum arising from the ongoing programmes and projects while taking advantage of any new growth opportunities including projects under the National Big four Agenda. 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.

### **3.2. Budget Performance for FY 2018/19 (July and August 2018)**

The 2018/19 fiscal 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.

#### **3.2.1. Revenue Performance**

The estimated local annual Revenue for the current financial year 2018/19 is Ksh. 500,000,000. The revenue collected during the two months period is Ksh. 15,562,755 a paltry 3.1% of the target revenue for the year.

**Table 4: July and August Revenue Report by Sector Fy 2018/19**

Sector	Approved Revenues (Ksh.) 2018/19	Target for July-Aug. (Ksh)	Actual (Ksh.)	Variance
Agriculture, Livestock and Fisheries	13,200,000	2,200,000	215,270	1,984,730
Trade Commerce and Industry	17,500,000	2,916,667	2,243,836	672,831
Environment, Water and Natural Resources	18,250,000	3,041,667	112,540	2,929,127
Health	150,250,000	25,041,667	3,469,455	21,572,212
Works, Transport and Infrastructure	14,000,000	2,333,333	5,450	2,327,883
Physical Planning, Lands and Housing	26,000,000	4,333,333	494,755	3,838,578
Gender, Youth, Sports, Culture and Tourism	1,550,000	258,333	-	258,333
Education	750,000	125,000	-	125,000
Finance and Economic Planning	258,500,000	43,083,333	9,019,551	34,063,782
<b>Total Revenue Raised</b>	<b>500,000,000</b>	<b>83,333,333</b>	<b>15,562,755</b>	<b>67,770,578</b>

Source: Monthly revenue report FY 2018/19

In overall, the revenue collection for the months of July and August is Ksh. 15,562,755 an under collection of Ksh. 67,770,578 against the quarterly target and 3.1% as percentage of the total targeted revenue to be raised from local sources. Many of the sectors have recorded zero collection on some items for the two months period.

### 3.2.2. Expenditure Performance

The expenditure during the two months' period is Ksh 63,441,179 under the recurrent vote. There was no expenditure on development vote during the two months period. The summarized expenditure is as per Table 6 below; .

**Table 5: July and August expenditure Analysis by Economic Classification FY 2018/19**

DESCRIPTION	BUDGETED	ACTUAL	% PERFORMANCE
Personnel	629,518,240	2,806,566	0.4
Operations & Maintenance	855,252,615	60,634,613	7.1
Development	1,176,429,672		
<b>TOTAL</b>	<b>2,661,200,527</b>	<b>63,441,179</b>	<b>2.4</b>

Source IFMIS Expenditure report FY 2018/19

### **3.3. Implication of 2018/19 Fiscal Performance on Financial Objectives.**

The budget performance in the FY 2017/18 and the first two months of the 2018/19 budget has a great bearing on the implementation of the current budget as well the envisaged 2019/20 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 delay in loading of the County budget in the IFMIS system normally captured at the national level. This is likely to erode the base upon which the Income and Expenditure Projections for 2019/20 and the medium term is based. This means that revenue projection needs to be cautious and in line with the revised national budget framework. Consequently, the MTP Ceilings will need to change reflecting the updated revenue and expenditure forecast. In this regard, the ceilings in the 2018 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.

### **3.4. 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 previous CIDP 2013-2017 and the current approved CIDP for the plan period 2018-2022. The overall County Government objective is to maintain a balanced budget during the year and in the medium term while confirming with the Fiscal Responsibility Principles as spelled out in the Public Financial Management Act, 2012. 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 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.

### **3.5. Risks to the outlook**

The risk to the outlook for 2019 and medium term include the uncertainties of weather patterns thus affecting agricultural production and food security, 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 and the low prices, 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.

## SECTION FOUR

### 4. RESOURCE ALLOCATION FRAMEWORK

#### 4.1. Adjustment to 2018/19 Budget

Given the performance in 2017/18 and the updated budget framework, the risks to the FY 2018/19 budget include;

- weaker revenue performance in 2018/19 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 various sectors

Adjustments to the 2018/19 budget will take into account actual performance of expenditure in the last two months of July and August and absorption capacity in the remainder of the financial year. Because of the resource constraints, the County Government will rationalize expenditures by cutting down on 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 and the automation of all the revenue collection operations is in place. Revenue collectors will be closely monitored in addition, to placing them on performance contracts to ensure that agreed target levels are met.

#### 4.2. 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 County Medium Term development road map (CIDP 2018-2022) will guide resource allocation in the short term and medium term. The 2019/20 annual development plan has been finalized and the sectors have outlined key strategies for implementation in the financial year 2019/20 which will guide the resource allocation. The proposed sector ceilings as given during the Budget Circular been annexed, but due to the recent economic changes resulting from financing National Budget deficit, it is prudent to revise the ceilings downwards. This will come soon in a separate circular to the spending sectors.

### 4.3. FY 2019/20 Budget Framework

The FY 2019/20 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 2019/20 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 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. The capital investments will be aligned to the national development agenda, “the big Four”.

#### 4.3.1. Revenue Projections

The FY 2019/20 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 and grants are expected to be approximately Ksh. 6.9 billion.

#### 4.3.2. Expenditure Forecasts

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

- Personal emoluments, and Capacity development
- Creating enabling environment for agricultural productivity and value addition.
- Creating an enabling environment for business partners and other investors
- Ensuring easy access to basic social services including water, education, housing and health care.
- Environmental management
- And infrastructural development

**Table 6: Summary of proposed Expenditure by Economic Classification**

Expenditure Category	Amount in Ksh. B
Personnel	2.3
Operations & Maintenance	2.1
Development	2.5
Total	6.9



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 2019/20 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.

**TABLE 8: DEPARTMENTAL REVENUE AGAINST TOTAL (RECURRENT AND DEVELOPMENT) EXPENDITURE CEILINGS**

Sector	Revenue 2018/19	Proposed Departmental Resource envelope 2019/20	Projected Expenditure Ksh.	
			2020/21	2021/22
Agriculture, Livestock, Fisheries and Cooperative Development	13,200,000	613,358,823	674,358,823	735,358,823
Trade, Commerce & Industry	17,500,000	89,940,206	97,940,206	106,780,324
Water Environment and Natural Resources	18,250,000	373,560,750	410,572,898	448,569,654
Works, Transport & Infrastructure	60,000,000	823,728,004	896,728,720	984,600,468
Education, ICT and Vocational Training	750,000	639,668,217	699,675,348	764,789,680
Health Services	200,250,000	1,900,262,730	2,198,468,967	2,324,367,876
Lands, Housing and Urban Development	26,000,000	406,494,919	448,347,980	486,780,986
Gender, Youth, Culture, Sports, Women & Tourism	5,550,000	215,119,912	238,987,098	279,986,654
Governance , Public Service Management	0	448,662,233	489,986,456	524,568,864
CPSB	0	64,122,202	69,678,834	75,876,542
Finance and Economic Planning	258,500,000	679,536,466	735,536,634	802,768,345
County assembly	0	694,078,431	756,834,234	825,873,432
<b>Total</b>	<b>600,000,000</b>	<b>6,948,532,893</b>	<b>7,717,116,198</b>	<b>8,360,321,648</b>

Source Budget Circular 2018