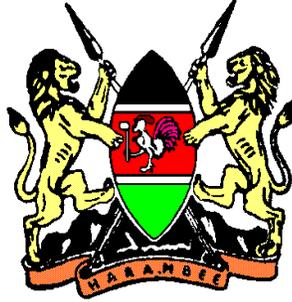


REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KERICHO

**DEPARTMENT OF FINANCE AND
ECONOMIC PLANNING**

**COUNTY BUDGET REVIEW AND
OUTLOOK PAPER (C- BROP)**

2020

FOREWORD

The County Budget Review and Outlook Paper (CBROP) 2020 has been prepared in line with Section 118 of the Public Finance Management (PFM) Act 2012 which requires the county government to prepare a budget review and outlook paper in respect for each Financial Year; and submit it to the County Executive Committee by 30th September.

The paper reviews fiscal performance of the county for the 2019/2020 Financial Year while comparing it with the budget appropriation. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2020; and how actual financial performance for the Financial Year 2019/2020 may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It further gives reasons for any deviation from the county financial objectives in the fiscal strategy paper together with proposals to address the deviations.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters for preparation of the next budget. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities outlined in Section 107 of the PFM Act 2012 that will contribute towards the realization of aspiration of the residents of Kericho County.

Hon. Patrick C. Mutai

**C.E.C – Finance and Economic Planning and Head of County Treasury & Ag.
C.E.C Public Works, Roads and Transport**

TABLE OF CONTENTS

FOREWORD 2

TABLE OF CONTENTS 3

TABLES AND DIAGRAMS **ERROR! BOOKMARK NOT DEFINED.**

DIAGRAM 1.0: CHANNELS OF POTENTIAL SOCIAL-ECONOMIC IMPACT OF COVID-19 PANDEMIC.....20
 **ERROR! BOOKMARK NOT DEFINED.**

ACRONYMS 4

1.0 BACKGROUND 5

1.1 LEGAL BASIS FOR THE PREPARATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER (C-BROP)..... 5

 1.1.1. Fiscal Responsibility Principles in the Public Financial Management Law..... 7

1.2 OBJECTIVE OF COUNTY BUDGET REVIEW AND OUTLOOK PAPER (C-BROP)..... 8

2.0 REVIEW OF FISCAL PERFORMANCE IN FINANCIAL YEAR 2019/2020 9

2.1 OVERVIEW 9

 2.1.1 Revenue..... 9

 Revenue Performance (equitable share) 9

 Revenue Performance (own source revenue) 10

 2.1.2 Expenditure performance..... 13

EXPENDITURE BY ENTITY 14

 Challenges Encountered in the FY 2019/2020 Budget Implementation 16

IMPLICATION OF 2019/2020 FISCAL PERFORMANCE ON FISCAL RESPONSIBILITY PRINCIPLES AND FINANCIAL OBJECTIVES CONTAINED IN THE 2020 CFSP 17

3.0 IMPLEMENTATION OF FY 2019/2020 BUDGET 18

3.1 RECENT ECONOMIC DEVELOPMENTS..... 18

 3.1.1 Medium Term Fiscal Framework 20

RISKS TO THE OUTLOOK..... 20

4.1.1 2021/2022 BUDGET FRAMEWORK..... 22

MEDIUM TERM FISCAL PROJECTIONS 22

 .1.3 Expenditure Forecasts 25

5.0. CONCLUSION AND WAYFORWARD 26

ANNEX 1: OSR ANALYSIS AND MTEF PROJECTION 27

ACRONYMS

CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CPI	Consumer Price Index
FIF	Facility Improvement Fund
FY	Financial /Fiscal year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information Systems
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTP	Medium Term Plan
PFM Act	Public Finance Management Act

1.0 BACKGROUND

The main objective of the County Budget Review and Outlook Paper (CBROP) is to provide a review of fiscal performance for the FY 2019/2020 and how its performance impacts on the financial objectives and fiscal responsibility principles set out in the County Fiscal Strategy Paper (CFSP) 2020. It also provides a basis for the revision of the current budget and the broad fiscal parameters that will determine the FY 2020/2021 budget and the medium term.

The CBROP 2020 is embedded on the priorities of the County Government, the National Government “Big Four” Plan and Vision 2030 Pillars, in addition to taking into account emerging macroeconomic challenges.

In this context, the CBROP 2020 is anchored on the policies as detailed in the CFSP 2020. To realize the commitments as contained in the Financial Year 2020/2021 Budget and the CIDP 2018 – 2022, the County Government will supplement the National Shareable Revenue by maximizing Own Source Revenue collection through Revenue Automation, minimizing leakages and stabilize its revenue streams. In addition, the Government will continue to gradually reduce non-priority expenditures and improve value for money spent.

However, the underperformance in fiscal parameters (revenue collection and expenditure) in the FY 2019/2020 has implications on the financial objectives outlined in the Budget Statement 2020 and the FY2019/2020 Budget, In particular, the baseline for projecting both the revenue and expenditures for the FY 2020/2021.

1.1 LEGAL BASIS FOR THE PREPARATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER (C-BROP)

Section 118 of the Public Financial Management Act, 2012 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 the 30th September of that year.
- 2) In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify-
 - a) The 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 forecast in the most recent County Fiscal Strategy Paper.
 - c. Information on –
 - (i) Any changes in the forecasts compared with County Fiscal Strategy Paper, 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 County Fiscal Strategy Paper for that Financial Year; and
 - d. Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
- 3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, 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.

Under section 137 of the PFM Act 2012, the County Budget and Economic forum purpose shall be;

- (a) Preparation of county plans, the County Fiscal Strategy Paper and the Budget Review and Outlook Paper for the county; and
- (b) Matters relating to budgeting, the economy and financial management at the county level.

1.1.1. Fiscal Responsibility Principles in the Public Financial Management Law.

1. In line with the Constitution, the Public Financial Management Act, 2012, set out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 avers that:

- 1) A County Treasury shall manage its public finances in accordance with the principle 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 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 expenditure on wages and benefits for the Public Officers 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 government's borrowings shall be used for the purpose of financing development expenditure and not for recurrent expenditure i.e. the county debt shall be maintained at a sustainable level as approved by the County Assembly.

1.2 OBJECTIVE OF COUNTY BUDGET REVIEW AND OUTLOOK PAPER (C-BROP)

2. The objective of the CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the next County Fiscal Strategy Paper.

3. The CBROP is a key document in linking policy, planning and budgeting. This year's CBROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

2.0 REVIEW OF FISCAL PERFORMANCE IN FINANCIAL YEAR 2019/202020

2.1 OVERVIEW

The fiscal performance for the FY 2019/202020 budget was generally satisfactory, despite the drawbacks with shortfall in revenues and growing expenditure pressures. The FY 2019/202020 was particularly challenging because of the Covid-19 pandemic and prolonged rainfall, which affected revenue performance and exerted pressure on expenditure.

Total cumulative revenue (Carry Forward, OSR, Grants and Equitable share) for the County was KShs. 7,795,559,000 (89% of Approved Budget). The shortfall was because of un-disbursed equitable share KShs. 462,723,000, underperformance in the OSR by KShs. 317,587,168 from a target of KShs.711,641,000, and undisbursed donor funds of KShs.185,456,786.

The significant Own Source Revenue shortfall was driven by many factors including; covid-19 pandemic, weak enforcement in revenue collection and management.

The fiscal outcome for the FY 2019/202020 budget adhered to the provisions set out in the PFM Act, 2012. The County Government development expenditure as a percent of total budget was 44 percent way above the ceiling of 30 percent.

2.1.1 Revenue

Revenue Performance (equitable share)

The budgeted equitable share for the FY 2019/2020 was KShs. 5,380,500,000 against actual exchequer transfer of KShs. 4,917,777,000 (91.4 percent). The release of equitable share is pegged on program and projects being rolled out by the county, its noted quarter 1 of the Financial Year only KShs. 936,207,000 (19%). Late release of funds impedes projects and program rollout.

Table 1: Analysis of Exchequer Releases

Month	Exchequer Inward Transfer	Cumulative Exchequer Inward Transfer
July	-	-
August	-	-
September	936,207,000	936,207,000
October	-	936,207,000
November	430,440,000	1,366,647,000
December	538,050,000	1,904,697,000
January	1,049,197,500	2,953,894,500
February	484,245,000	3,438,139,500
March	430,440,000	3,868,579,500
April	564,952,500	4,433,532,000
May	-	4,433,532,000
June	484,245,000	4,917,777,000
TOTAL CUMULATIVE		4,917,777,000
Projected Fy 2019/2020		5,380,500,000
Variance		462,723,000
% Variance		8.6%

Source: County Treasury

Revenue Performance (own source revenue)

Total OSR for the period under review amounted to KShs. 394,053,832 (See Table 2) representing 56%, against a target of KShs. 711,641,000 short of KShs. 317,587,168 (or 44%), compared to FY 2018/19 where the revenue realized was KShs. 473,000,000 against a revised target of KShs. 732,935,000 (64%). The decline in revenue for FY 2019/2020 compared to FY 2018/19 is largely attributed to Covid-19 Pandemic and weak enforcement of revenue collection.

Table 2: Total Monthly Revenue Collection for FY 2019/2020

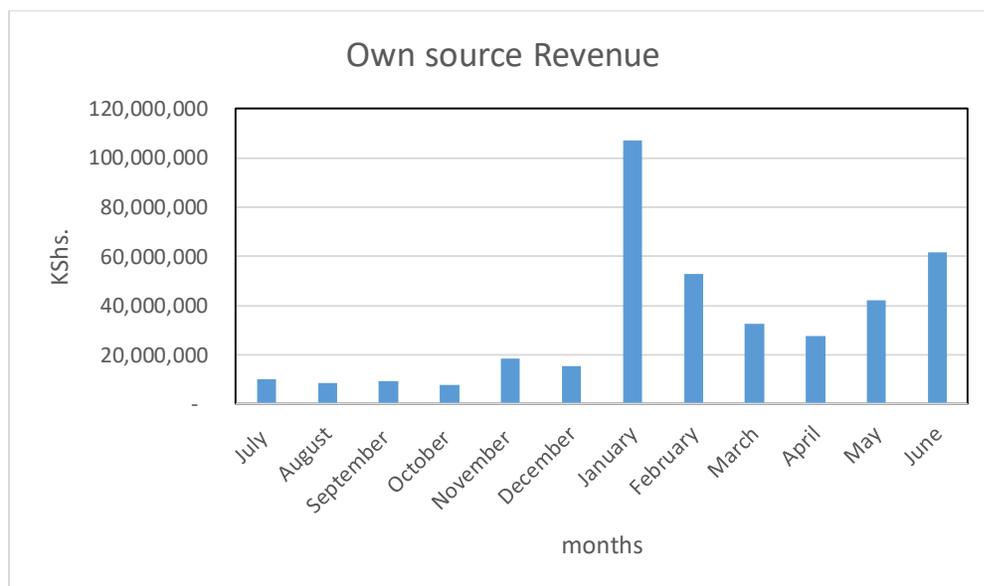
MONTH	Amount Collected In KShs.	Cumulative Collections
July	10,153,000	10,153,000
August	8,585,000	18,738,000
September	9,365,000	28,103,000
October	7,960,000	36,063,000
November	18,385,000	54,448,000

December	15,300,000	69,748,000
January	107,263,000	177,011,000
February	52,779,500	229,790,500
March	32,498,000	262,288,500
April	27,733,000	290,021,500
May	42,166,000	332,187,500
June	61,866,332	394,053,832
CUMULATIVE TOTALS		394,053,832
Projection 2019/2020		711,641,000
Variance		317,587,168
% variance		44.63%

Source: County Treasury

As depicted in bar graph below (Figure 1) there is slow pick in revenue collection in quarter 1 and 2 of the Financial Year, thereafter there is an instant increase in the month of January, which is related to collection from hospital facilities who bank occasionally into the CRF.

Figure 1: Analysis of Monthly Revenue Collection



Source: County Treasury

As depicted in Table 3 below the highest revenue generator is hospital fees while the least contributor is water lease fees.

Table 3: Analysis Own Source Revenue by Streams

REVENUE STREAM	AMOUNT	% RATIO	
Parking Fees	30,936,150	7.7%	
Rates	69,559,058	17.4%	
Single Business Permits	43,192,050	10.8%	
Plans Inspection	5,063,117	1.3%	
Advertising (Billboards)	12,313,225	3.1%	
Rent (Houses, Market Stalls)	23,947,509	7.5%	
Agricultural Produce	13,395,058	3.3%	
Water Lease Fees	4,466,200	1.1%	
Hospital Fees	175,461,989	43.8%	
Sundry Debtors (Premium For Property Allocation And Ground Rent)	5,342,356	1.3%	
Licences	10,377,120	2.6%	
TOTAL	394,053,832	100%	<i>Source: county treasury</i>

Revenue Performance (Conditional Grants)

The budgeted conditional grants were of KShs.352, 619,150 against grants disbursed to the county of KShs. 360,750,756 (102%), the excess grant of KShs. 8,131,608 was conditional grant relating to road fuel levy fund balance carried forward from Financial Year 2018/2019.

Table 4: Analysis of Receipt from Conditional Grants

Month	Routine Maintenance Fuel Levy	User Fee Reimbursement	Development Of Youth Polytechnics Fund	Covid-19 Health Allowances	Covid-19 Emergency Presidential Support	Totals
July	8,131,608	-	-	-	-	8,131,608
August	-	-	-	-	-	-
September	-	-	-	-	-	-
October	-	-	-	-	-	-
November	-	-	-	-	-	-
December	-	-	-	-	-	-
January	-	-	14,716,649	-	-	14,716,649
February	76,364,531	-	-	-	-	76,364,531
March	-	-	-	-	-	-
April	-	-	-	-	-	-
May	38,182,266	-	-	-	-	38,182,266
June	38,182,265	18,048,789	14,716,649	36,180,000	116,228,000	223,355,703

Grand Totals	160,860,669	18,048,789	29,433,298	36,180,000	116,228,000	360,750,756
Budget Fy 2019/2020	152,729,063	18,048,789	29,433,298	36,180,000	116,228,000	352,619,150
Variance	(8,131,606)	-	-	-	-	(8,131,606)

Source: County Treasury

Revenue Performance (Donor Funds)

In the Financial Year under review, the county government received KShs. 445,048,387 against expected budget of KShs. 630,635,173 thus a shortfall of kshs 185,586,786. This is occasioned by late disbursement of fund due to donor conditionality. See table 5 below

Table 5: Analysis Of Donor Funds Receipts.

Month	Danida Fund	Agricultural Sector Development Support Fund(Asds p Ii)	Kenya Devolution Support Project (World Bank)	Transformative Health System (World Bank)	Climate Smart Agriculture Project (World Bank)	Kenya Urban Support Program Udg (Sida)	Kenya Urban Support Program Uig (Sida)	Totals
July	-	-	-	-	-	-	-	-
August	-	-	-	-	-	-	-	-
September	-	-	-	-	-	-	-	-
October	-	-	-	-	76,511,087	-	-	76,511,087
November	-	-	-	-	-	-	-	-
December	-	-	-	21,812,747	-	-	-	21,812,747
January	-	2,500,000	-	30,195,787	-	-	-	32,695,787
February	-	6,957,746	-	-	-	-	-	6,957,746
March	-	-	-	-	-	-	-	-
April	17,062,500	-	-	-	-	-	-	17,062,500
May	-	1,500,000	-	-	-	-	-	1,500,000
June	6,370,000	-	30,000,000	-	60,023,533	183,314,988	8,800,000	288,508,521
GRAND TOTALS	23,432,500	10,957,746	30,000,000	52,008,534	136,534,620	183,314,988	8,800,000	445,048,387
BUDGET FY 2019/2020	23,432,500	36,100,026	30,000,000	71,544,247	204,459,400	256,299,000	8,800,000	630,635,173
VARIANCE	-	25,142,280	-	19,535,713	67,924,780	72,984,012	-	185,586,786

2.1.2 Expenditure performance

Total expenditures by end of June 2020 was KShs.7,496,188,032 against the revised budget estimates of KShs. 8,746,125,949, falling short of the revised target by KShs. 1,249,937,917 as shown in the Table 6 below.

Table 6: FY 2019/2020 Total Expenditure Analysis

Expense Category	Budget	Total Expenditure	Variance (Kes)	Absorption Rate (%)
------------------	--------	-------------------	----------------	---------------------

Recurrent	4,888,735,545	4,739,824,845	148,910,700	96.95
Development	3,857,390,404	2,756,363,187	1,101,027,217	71.46
TOTAL	8,746,125,949	7,496,188,032	1,249,937,917	85.71

Source: county treasury

The shortfall in OSR collection and non-disbursed equitable share and donor fund led to lower absorption of both recurrent (96%) and development expenditure (71%) by the County Departments. In particular, underperformance by the development vote was occasioned late releases of funds others being released.

Expenditure by Entity

The Table 7 below represents total expenditure by vote as at 30th June 2020, the total expenditure was KShs. 7,496,188,032 against total budget of KShs. 8,746,125,949 representing approximately 85.7% absorption. The Office of the Governor recorded the highest absorption rate of 99.6% while the department of Education, Youth, Children, Culture & Social Services had the lowest absorption at 54.0%.

Table 7: Expenditure Analysis by County Entity

County Entities	Budget	Actual Expenditure	Variance	% Absorption
County Assembly Services	722,825,544	702,151,381	20,674,163	97.1%
Public Service & Administration	299,249,710	267,110,340	32,139,370	89.3%
Office Of The Governor & Deputy Governor	165,729,658	165,079,415	650,243	99.6%
County Public Service Board	72,353,222	49,464,934	22,888,288	68.4%
Finance & Economic Planning	634,415,474	605,205,850	29,209,624	95.4%
Health Services	2,686,904,820	2,585,312,243	101,592,577	96.2%
Agriculture, Livestock Development & Fisheries	487,439,458	355,563,078	131,876,380	72.9%
Education, Youth, Children, Culture & Social Services	574,896,480	310,290,852	264,605,628	54.0%
Public Works, & Transport	1,335,781,922	1,143,590,459	192,191,463	85.6%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	88,594,877	76,658,532	11,936,345	86.5%
Water, Energy, Natural Resources & Environment	710,792,122	418,851,537	291,940,585	58.9%
Land, Housing & Physical Planning	715,102,919	606,081,569	109,021,350	84.8%

Information, Communication & E-Government	252,039,744	210,827,842	41,211,902	83.6%
Total Expenditure	8,746,125,949	7,496,188,032	1,249,937,917	85.7%

Source: county treasury

Expenditure by Function (Recurrent)

Table 8 below shows analysis of recurrent expenditure against budget. The aggregate budget absorption of recurrent budget stands at 93.7 % of which KShs. 4,728,499,009 was spend against a recurrent budget of KShs. 5,044,947,979. The recurrent transfer to county assembly wholly done. Further, the office of the governor had the highest absorption at 99.6% while Education department had the least absorption at 63.6%.

Table 8: Recurrent expenditure analysis

County ENTITY	Budget	Actual Expenditure	Variance	% Absorption
County Assembly Services	690,825,544	690,825,544	-	100.0%
Public Service & Administration	283,029,708	263,860,921	19,168,787	93.2%
Office Of The Governor & Deputy Governor	165,729,658	165,079,415	650,243	99.6%
County Public Service Board	72,353,222	49,464,934	22,888,288	68.4%
Finance & Economic Planning	514,691,173	508,484,806	6,206,367	98.8%
Health Services	2,192,184,104	163,739,938	28,444,166	98.7%
Agriculture, Livestock Development & Fisheries	191,880,032	162,224,546	29,655,486	84.5%
Education, Youth, Children, Culture & Social Services	405,622,618	258,117,498	147,505,120	63.6%
Public Works, Roads & Transport	85,843,521	84,104,004	1,739,517	98.0%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	67,628,131	56,190,843	11,437,288	83.1%
Water, Energy, Natural Resources & Environment	171,453,193	148,348,441	23,104,752	86.5%
Land, Housing & Physical Planning	87,051,981	82,317,386	4,734,595	94.6%
Information, Communication & E-Government	116,655,094	95,740,733	20,914,361	82.1%
TOTALS	5,044,947,979	4,728,499,009	316,448,970	93.7%

Source: Kericho County Treasury

Expenditure by Function (Development)

In the period under review, the development vote was absorbed to the tune of KShs. 2,767,689,023 against a budget of KShs. 3,715,759,549 representing 74.5 percent. The department of roads had the highest expenditure at KShs. 1,059,486,455 against a budget of KShs. 1,140,300,783 this represent 92.9% absorption, while the department of education had the least absorption having spent KShs. 52,173,354 against a budget of 283,441,156 representing 18.4 %. See table 9 below.

Table 9: Development Expenditure Analysis

Entity	Budget	Actual Expenditure	Variance	% Absorption
County Assembly Services	32,000,000	11,325,837	20,674,163	35.4%
Public Service & Administration	19,220,002	3,249,419	15,970,583	16.9%
Finance & Economic Planning	109,903,240	96,721,044	13,182,196	88.0%
Health Services	601,123,356	421,572,305	179,551,051	70.1%
Agriculture, Livestock Development & Fisheries	310,559,426	193,338,532	117,220,894	62.3%
Education, Youth, ,Culture & Social Services	283,441,156	52,173,354	231,267,802	18.4%
Public Works, Roads & Transport	1,140,300,783	1,059,486,455	80,814,328	92.9%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	34,966,746	20,467,689	14,499,057	58.5%
Water, Energy, Natural Resources & Environment	464,149,280	270,503,096	193,646,184	58.3%
Land, Housing & Physical Planning	626,050,938	523,764,183	102,286,755	83.7%
Information, Communication & E-Government	94,044,622	115,087,109	(21,042,487)	122.4%
TOTALS	3,715,759,549	2,767,689,023	948,070,526	74.5%

Source: Kericho County Treasury

Challenges Encountered in the FY 2019/2020 Budget Implementation

The implementation of the FY 2019/2020 Budget faced a number of challenges, notably, a shortfall in local revenue collections and unremitted grants. This led to some budgeted programmes/activities not being funded and therefore were not implemented.

The county missed its Own Source Revenue target majorly because of:

Cash flow challenges that had a ripple effect on the both microeconomic and macroeconomic environment. The county has set policies and programmes that will diversify the revenue sources and the economy in the county.

Lastly, there are technicalities in utilizing the Integrated Financial Management Information System (IFMIS). The technicalities arises from staff incapacities and poor connectivity. The county has since undertaken a number of IFMIS trainings on various modules targeting relevant staff and still working on enhancing connectivity.

Implication of 2019/2020 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2020 CFSP

The performance in the FY 2019/2020 has affected the financial objectives set out in the Budget for the FY 2020/2021 in the following ways:

The OSR for FY 2019/2020 did not meet the expected target of KShs. 711,641,000 affecting implementation of FY 2019/2020 Budget. This will necessitate a revision of FY 2020/2021 fiscal parameters.

Taking into account the slower pace of execution of the budget by the departments resulting from the uncertainty surrounding release of funds by the national treasury, there is need to enhance project execution by departments. The baseline ceilings for departments will be adjusted and then firmed up in the County Fiscal Strategy Paper (CFSP) 2021.

The baseline ceilings for departments will be adjusted in line with the revised resource envelope under the updated macroeconomic framework in the 2021 Budget Statement. In addition the revision will take into account the performance in project execution in the FY 2020/2021 budget by departments and any identified one-off expenditures;

Given the above deviations, the adjustment in revenues and expenditures will be based on the revised macroeconomic assumptions which will be firmed up in the context of the CFSP 2021. The County government will not deviate from the fiscal responsibility principles, but will make appropriate modification to the financial objectives to be contained in the CFSP to reflect the changed circumstances.

3.0 IMPLEMENTATION OF FY 2019/2020 BUDGET

3.1 RECENT ECONOMIC DEVELOPMENTS

Economic performance in most sectors slowed in the first quarter of 2020 compared to the corresponding quarter of 2019. Real GDP grew by 4.9 per cent during the review period compared to 5.5 per cent growth in the first quarter of 2019. Though Kenya was somewhat spared the brunt of the COVID-19 pandemic in the first quarter of 2020, the economy was affected by the resultant uncertainty that was already slowing economic activity in some of the country's major trading partners.

National Average Prices for selected commodities was affected by the COVID-19 pandemic as summarized below:

Table 10: National Average Prices

Commodity Name	Quantity	Unit of Measure	Average Price May 2019	Average Price April 2020	Average Price May 2020	% Change over last month May2020/ April2020	% Change over last Year May 2020/ May 2019
Avocado	1	Kilogram	66.80	70.89	67.69	-4.50	1.34
Potatoes (Irish)	1	Kilogram	80.02	74.29	71.63	-3.58	-10.49
Tomatoes	1	Kilogram	100.00	119.47	115.89	-3.00	15.89
Kale-Sukuma Wiki	1	Kilogram	49.93	49.88	50.86	1.96	1.86
Beans	1	Kilogram	110.25	119.89	122.28	1.99	10.91
Spinach	1	Kilogram	70.43	57.34	58.63	2.24	-16.76
Oranges	1	Kilogram	66.99	63.06	64.68	2.57	-3.45
Carrots	1	Kilogram	93.46	70.09	72.42	3.32	-22.51
Onion -Leeks and Bulbs	1	Kilogram	101.43	118.20	123.53	4.51	21.79
Kerosene/Paraffin	1	Litre	105.76	78.59	81.08	3.17	-23.33
Electricity	50	Kilowatts	839.79	782.48	771.25	-1.44	-8.16
Electricity	200	Kilowatts	4,762.74	4,533.54	4,488.61	-0.99	-5.76
House rent - single room	1	Per Month	3,596.26	3,615.89	3,614.20	-0.05	0.50
Diesel	1	Litre	105.51	98.51	79.67	-19.12	-24.48
Petrol	1	Litre	113.10	93.78	84.58	-9.81	-25.22

Source: Kenya National Bureau of Statistics

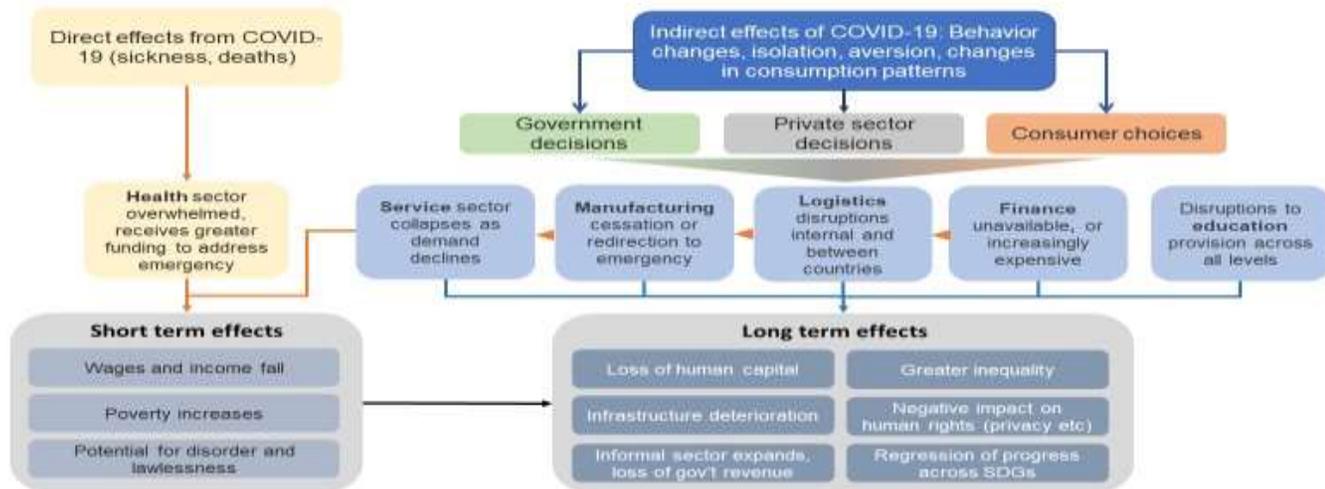
As indicated in Table 5, the rise was mainly attributed to increase in prices of some food items such as onions (leeks and bulbs), carrots,

oranges, spinach and sukuma wiki which rose by 4.51, 3.32, 2.57 2.24 and 1.96 per cent, respectively. On the other hand, prices of some food items such as avocado, potatoes (Irish) and tomatoes decreased by 4.50, 3.58 and 3.0 per cent, respectively.

During the same period, Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.84 per cent. Further, Table 10 also attributes 3.17 per cent increase in cost of kerosene. The Transport Index increased by 0.02 per cent, despite the decrease in prices of petrol and diesel by 9.81 per cent and 19.12 per cent, respectively, over the same period

Socio-Economic Impact of the COVID -19 Pandemic; the economic fallout for the continent is likely to be severe and long-lasting. Many of its countries have a high dependence on commodity exports to China, relatively weak sovereign balance sheets, high debt burdens and volatile currencies, among numerous other external fragilities. The disease's negative impact on the world economy has already translated into a decline in demand for the primary products that Africa exports, such as oil from Angola and Nigeria and rare minerals from Democratic Republic of the Congo. The UN Economic Commission for Africa estimates Africa's growth will drop by 1.4% from 3.2% to 1.8 % as a result of the coronavirus. 3 Among other things, the decline is due to disruption of global supply chains and a crash in oil prices that will cost up to US\$65 billion in export revenues.4 Furthermore, tourism has been adversely affected, as international travelers stay home, hurting the economies of South Africa and Kenya, among others. Investors, confronted with a litany of unknowns about the disease and its consequences, are fleeing from emerging markets, at least for the time being. The channels of various impacts are as shown in Diagram 1.0

Diagram 1.0 Channels of Potential Social-Economic Impact of Covid-19 Pandemic



Source: UN Policy Brief, Issue No: 4/2020

3.1.1 Medium Term Fiscal Framework

The county government will continue to pursue fiscal responsibility to ensure prudence and transparency in the management of public resources as per the Public Finance Management Act section 107.

Adjustments to the 2020/2021 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. These may include slowing down or reprioritizing development expenditures in order for the Government to live within its means. Utilization of contingencies/ emergency funds will be within the criteria specified in the new PFM law.

Risks to the Outlook

Disbursement of funds from the National Treasury to the counties poses a big risk to implementation of County policies, programmes and projects.

Disbursements are not always done on time thereby making it difficult for counties to implement their programmes according to their initial plans and budgets. This is a major risk owing to the fact not all programmes are implemented fully the way they were planned.

In addition to the above, low absorption rates by county entities also poses a big threat to implementation of county programmes and projects. This means that the entities fail to implement their budgets as planned.

Political good will is another major risk to the implementation of programmes and projects. If the two arms of government (Executive and County Assembly) are not working together in harmony then service delivery to the people will be hampered.

Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Ballooning wage bill and institutionalization of decentralized units under the devolved government may limit continued funding for development expenditure. The government will undertake appropriate measures to safe guard macroeconomic stability should these risks materialize.

Employer contribution particularly to employee pension will have a huge impact on personnel emoluments.

4.0 RESOURCE ALLOCATION FRAMEWORK FOR FY 2020/2021 FINANCIAL YEAR

4.1.1 2021/2022 Budget framework

Medium Term Fiscal Projections

In the wake of ballooning current expenditure, the County Government will continue with its policy of expenditure rationalization with a view to funding only core services and reducing costs through the elimination of duplication, inefficiencies and wasteful expenditure.

With the constrained resource envelopes and given the need to prioritize actions within the framework of the priority programmes, the following criteria will serve as a guide for allocating resources;

- i. Spending must contribute, whether directly or indirectly, to the reduction of poverty;
- ii. Spending will be targeted at those activities which the private sector cannot realistically be expected to undertake;
- iii. Spending will target those activities which can be shown to have high socioeconomic impact;
- iv. Expenditures will target the activities that communities have identified as important to them;
- v. Spending will be directed to well planned activities for which realistic and modest unit costs have been identified;
- vi. Spending that reduce future recurrent costs will be prioritized;
- vii. Spending will be targeted at those activities which can affordably be extended to the whole relevant target population, rather than those which could only be delivered to a few;
- viii. Activities that are labour intensive and create necessary infrastructure for development will be prioritized;
- ix. Activities that favor disadvantaged groups, including activities which address gender or age-based inequities and protect the rights of children, and activities that reduce economic inequality will be prioritized;

- x. Provision for mandatory expenditures such as salaries, rent, utilities, etc.;
- xi. Resources required to sustain or complete ongoing projects;
- xii. Linkage of the programmes with the Governor’s manifesto, CIDP, The “Big Four”, SDGs and with Vision 2030 Objectives;
- xiii. Degree to which the programme is addressing the core mandate of the Sector/Department; and
- xiv. Promotion of Public Private Partnership as a strategy in the delivery of infrastructure/services.

Table 11: Income Projection under MTEF 2020-2023

SOURCES OF INCOME	BASE YEAR	PROJECTED REVENUE			% RATIO	% PROJECTION		
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
I INCOME DESCRIPTION (3 Sources)								
1.CRA Equitable share	5,443,800,000	6,493,800,000	6,818,490,000	7,159,414,500	71%	79%	79%	79%
2.Local Collections	269,528,650	283,005,083	297,155,337	312,013,103	4%	3%	3%	3%
3.Facility Improvement Fund	374,530,220	393,256,731	412,919,568	433,565,546	5%	5%	5%	5%
II CONDITIONAL GRANTS (3 Sources)	-				0%	0%	0%	0%
4.Routine Maintenance Fuel Levy	273,409,756	287,080,243	301,434,255	316,505,968	4%	3%	3%	3%
5.User fee Reimbursement	18,048,789	18,951,228	19,898,790	20,893,729	0%	0%	0%	0%
6.Development of Youth polytechnics fund	22,866,170	24,009,479	25,209,952	26,470,450	0%	0%	0%	0%
III DONOR FUNDS (7 Sources)	-				0%	0%	0%	0%
7.DANIDA FUND	17,062,500	17,915,625	18,811,406	19,751,977	0%	0%	0%	0%
8.Agricultural Sector development support Fund(ASDSP)	41,557,771	43,635,660	45,817,443	48,108,315	1%	1%	1%	1%
9.Transformative health system (world bank)	82,748,619	86,886,050	91,230,352	95,791,870	1%	1%	1%	1%
10.Kenya Devolution Support Project (world bank)	132,491,953	139,116,551	146,072,378	153,375,997	2%	2%	2%	2%
11.Climate Smart Agriculture Project (world bank)	277,000,000	290,850,000	305,392,500	320,662,125	4%	4%	4%	4%
12.Kenya Urban Support Program UDG (SIDA)	103,228,166	108,389,574	113,809,053	119,499,506	1%	1%	1%	1%
13.Kenya Urban Support Program UIG (SIDA)	0	0	0	0	0%	0%	0%	0%
14. Other Donor Funds -Covid-19 Allowances	36,180,000	37,989,000	39,888,450	41,882,873	0%	0%	0%	0%
15. UNSPENT FUND	565,380,551				7%	0%	0%	0%
TOTAL	7,657,833,145	8,224,885,223	8,636,129,484	9,067,935,959	100%	100%	100%	100%

.1.3 Expenditure Forecasts

The expenditure comprises recurrent and development votes. The County Treasury will endeavor to maintain fiscal responsibility principle of 70:30 in 2021/2022 for recurrent and development expenditures as required by section 107 of the Public Finance Management Act, 2012.

Table 12: Consolidated Expenditure Forecast

Departments	BASE YEAR	PROJECTED ESTIMATE			% RATIO	% PROJECTED ESTIMATE		
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
County Assembly Services	642,004,413	689,543,962	724,021,160	760,222,218	8.38%	8.38%	8.38%	8.38%
Public Service Management	348,841,134	374,672,343	393,405,960	413,076,258	4.56%	4.56%	4.56%	4.56%
Office of the Governor & Deputy governor	98,301,145	105,580,210	110,859,221	116,402,182	1.28%	1.28%	1.28%	1.28%
County Public Service Board	54,200,321	58,213,780	61,124,469	64,180,693	0.71%	0.71%	0.71%	0.71%
Finance & Economic Planning	502,963,885	540,207,673	567,218,056	595,578,959	6.57%	6.57%	6.57%	6.57%
Health Services	2,494,680,461	2,679,408,139	2,813,378,546	2,954,047,474	32.58%	32.58%	32.58%	32.58%
Agriculture, Livestock Development & Fisheries	532,561,362	571,996,803	600,596,643	630,626,475	6.95%	6.95%	6.95%	6.95%
Education, Culture & Social Services	629,278,131	675,875,317	709,669,082	745,152,537	8.22%	8.22%	8.22%	8.22%
Public Works, Roads & Transport	1,357,268,142	1,457,771,993	1,530,660,593	1,607,193,622	17.72%	17.72%	17.72%	17.72%
Trade, Industrialization, Cooperative Management, Tourism and Wildlife	69,699,152	74,860,279	78,603,293	82,533,458	0.91%	0.91%	0.91%	0.91%
Water, Environment, Energy, Natural Resources & Forestry	550,500,296	591,264,091	620,827,295	651,868,660	7.19%	7.19%	7.19%	7.19%
Lands, Housing & Physical Planning	290,310,873	311,807,996	327,398,396	343,768,316	3.79%	3.79%	3.79%	3.79%
Information, Communication, E-Government, youth Affairs & sports	87,223,832	93,682,637	98,366,769	103,285,108	1.14%	1.14%	1.14%	1.14%
TOTAL EXPENDITURE	7,657,833,145	8,224,885,223	8,636,129,484	9,067,935,959	100%	100%	100%	100%

5.0. CONCLUSION AND WAYFORWARD

17. The FY 2021/2022 and the Medium Term budget and fiscal framework projections presented in this CBROP takes into account the expected recovery in the global economy and risks facing our economy such as public expenditure pressures which may reallocate resources from the productive sectors.

The County shall endeavor to mobilize more resources through enhanced revenue collection, private public partnership and creation of conducive environment for investor attraction.

18. The fiscal outlook presented herein will seek to achieve the objectives outlined in the PFM Act and lay ground for the next Financial Year in terms of preparing the CBROP and CFSP. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds especially on capacity building on different sectors of the county will be crucial in ensuring that the County gets to deliver on its functions.

19. Going forward the County Integrated Development Plan (CIDP 2018-2022), the Annual Development Plan (ADP 2021/2022) and the County Fiscal Strategy Paper 2021 shall continue to advise the priorities in resource allocation.

In addition, smart strategies in Resource Mobilization will have to be developed so as to achieve the said plans thus improving service delivery to the citizenry.

ANNEX 1: OSR ANALYSIS AND MTEF PROJECTION

Revenue Stream	Actuals	Estimate	Projection		
	FY 2019/ 2020	FY 2020/2021	FY 2021/2022	FY 2022/2023	FY 2023/2024
Advertisement, Branding and Billboard Fees	6,606,384	8,929,491	9,375,966	9,844,764	10,337,002
Agriculture Livestock , Veterinary Payments and Machinery Services.	3,684,098	4,236,713	4,448,548	4,670,976	4,904,525
Alcoholic Drink License Fees	0	5,128,987	5,385,436	5,654,708	5,937,443
Application/Registration Fees	972,600	1,118,490	1,174,415	1,233,135	1,294,792
Audit Fees	56,150	64,573	67,801	71,191	74,751
Boda Boda Payments	607,800	3,600,000	3,780,000	3,969,000	4,167,450
Building Plan Approvals Fees	4,703,737	5,409,298	5,679,762	5,963,751	6,261,938
Bus Park Fees	17,624,600	20,268,290	21,281,705	22,345,790	23,463,079
Business Permits Late Payment Penalties, Current Year	130,150	149,673	157,156	165,014	173,265
Car Park Fees	10,476,600	12,048,090	12,650,495	13,283,019	13,947,170
Cemetery Fees	5,000	5,750	6,038	6,339	6,656
Clamping, Fines and Impounding Fees	398,650	458,448	481,370	505,438	530,710
Coffee Fees	2,000	2,300	2,415	2,536	2,663
Education Payment Fees	12,000	13,800	14,490	15,215	15,975
Fire License Fees	3,245,600	3,732,440	3,919,062	4,115,015	4,320,766
Forest Cess/Seedling Sale Yard	539,400	620,310	651,326	683,892	718,086
Hire Of Social Hall/Park & Stadium Fees	87,000	100,050	105,053	110,305	115,820
Hospital Payments	175,461,989	374,530,220	393,256,731	412,919,568	433,565,546
House Rent Fees	7,112,330	7,904,400	8,299,620	8,714,601	9,150,331
Inspection Fees	1,761,300	2,025,495	2,126,770	2,233,108	2,344,764
Kabianga Tea Farm Payments	0	2,000,000	2,100,000	2,205,000	2,315,250
Land and Property Rates Fees	69,559,058	81,689,774	85,774,263	90,062,976	94,566,125

Land Cultivation Fees	479,600	551,540	579,117	608,073	638,476
Market Fees	20,124,355	20,124,355	21,130,573	22,187,101	23,296,456
Murram, Ballast , Sand & Scrap Metal Cess Fees	1,438,700	1,654,505	1,737,230	1,824,092	1,915,296
Nema Fees	306,500	352,475	370,099	388,604	408,034
Plot Rent	1,119,756	1,119,756	1,175,744	1,234,531	1,296,258
Produce Cess	3,075,685	5,987,441	6,286,813	6,601,153	6,931,211
Public Health Payments	2,880,720	3,312,828	3,478,469	3,652,393	3,835,013
Quarry Stone Cess	2,778,900	3,195,735	3,355,522	3,523,298	3,699,463
Refuse Fees	4,466,200	5,136,130	5,392,937	5,662,583	5,945,712
Reserved Parking Fees	1,828,500	2,102,775	2,207,914	2,318,309	2,434,225
Signages Fees	4,154,950	4,778,193	5,017,102	5,267,957	5,531,355
Single Business Permit	43,061,900	55,021,185	57,772,244	60,660,857	63,693,899
Slaughter House Operation Fees	1,926,190	2,215,119	2,325,874	2,442,168	2,564,277
Stockyard Sales Fees	1,539,800	1,770,770	1,859,309	1,952,274	2,049,888
Survey Fees	359,380	1,013,287	1,063,951	1,117,149	1,173,006
Tea Transport Cess fees	17,500	20,125	21,131	22,188	23,297
Weights and Measures Fees	1,448,750	1,666,063	1,749,366	1,836,834	1,928,676
TOTAL	394,053,832	644,058,870	676,261,814	710,074,904	745,578,648

