COUNTY GOVERNMENT OF SIAYA

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

BUDGET REVIEW AND OUTLOOK PAPER FOR FY 2017/2018

SEPTEMBER 2018

'Transforming the county economy through infrastructure and socio-economic development"

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Acronyms and Abbreviations

BROP	Budget Review and Outlook Paper
OSR	Own Source Revenue
MTEF	Medium Term Expenditure Framework
FSP	Fiscal Strategy Paper
KDSP	Kenya Devolution Support Project
CRF	County Revenue Fund
PLDW	People Living with Disabilities
GDP	Gross Domestic Product
CBR	Central Bank Rate
SGR	Standard Gauge Railway
RMLF	Road Maintenance Levy Fund
ASDSP	Agriculture Sector Development Support Project
FY	Financial Year
ICT	Information Communication Technology
DANIDA	Danish Development Agency
PFMA	Public Finance Management Act
CECM	County Executive Committee Member

Foreword

A review of organizational performance at the end of an operating year is a critical managerial concept. It provides an opportunity to reflect on the successes, failures and challenges experienced during the year as well as draw lessons from the challenges to inform future programming and project implementation. The BROP affords such an opportunity to government entities of which the County Government of Siaya is one.

This BROP gives a detailed analysis of actual fiscal performance of the County Government of Siaya for FY 2017/18 against the approved budgetary allocations for the said FY. From the analysis, overall absorption rate for FY 2017/18 was 66.8 percent a declined by 12.2 percent from the previous fiscal year which had an absorption rate of 89 percent. Absorption rate of development budget was 11 percent of the total budget a decline from 62.7 percent for FY 2016/17. For recurrent expenditure absorption rate was 55.4 percent a decline from FY 2016/17 which was 110 percent. Local revenue collection realized 47 percent performance compared to 64 percent performance in the FY 2016/17 The low rate of absorption both for recurrent and development expenditure was attributed to the prolonged political tension after the 2017 general elections which caused disruption of business activities, inadequacy in county legislations hindered collection of revenue from other potential streams of revenue especially liquor licensing. Besides, stringent conditionalities imposed by the national treasury to access funds slowed down implementation of key programmes and projects.

Going forward the county government will focus on revenue enhancement measures, fast-track implementation of development projects to minimize on project roll-overs, scale down on micro green field projects in favour of macro- projects which have high impact on the citizenry and are transformative in nature. Focus will also be directed towards operationalization of already completed facilities in all sectors.

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Joseph O. Warega

CECM-Finance and Economic Planning

Acknowledgement

The BROP not only presents government entities with an opportunity to review performance of a fiscal year but also sets in motion the process of preparing the budget for the following year by providing an outlook for the coming year and setting departmental MTEF ceilings to guide budget making.

Overall performance in OSR for FY 2017/18 significantly declined from Kshs. 172,822,681 to Kshs. 127,729,540 representing 26.1 percent drop from the previous fiscal year 2016/17. This drop was attributed to prolonged political tension after the 2017 general elections caused disruption of business activities, high charges leading to low levels of compliance, weak enforcement capacity, poor infrastructure limiting provision of utility services in some markets and inadequacy in county legislations hindered collection of revenue from liquor licensing.

The preparation and subsequent submission of this document was made possible by a team of dedicated officers who traded off their invaluable time to ensure a quality production. I wish to salute all of them for a job well done.

It is my hope that lessons drawn from implementation of the 2017/18 budget will inform future programming and project implementation as we endeavor to '*Transform the county economy through infrastructure and socio-economic development"*.

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Hezbon Kadullo Mariwa
Chief Officer – Finance and Economic Planning

Legal Basis for Budget Review and Outlook Paper

The preparation of the Budget Review and Outlook Paper is provided for under section 118 of the Public Finance Management Act, 2012 which states that:

(1) A County Treasury shall —

a) Prepare a County Budget Review and Outlook Paper 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 forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on—

(i) Any changes in the forecasts compared with the 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 publicise the Paper

Chapter One

Introduction

Objective of the 2018 County Budget Review and Outlook Paper (CBROP)

The BROP is one among the various documents prepared by the county government in any fiscal year. These documents are outlined in the PFM Act and are instrumental in linking policy, planning, budget making and execution in respective fiscal years and the medium term.

The objective of the 2018 (CBROP) is to provide a review of fiscal performance for the FY 2017/18 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2018 Fiscal Strategy Paper (FSP). This together with updated macroeconomic developments and outlook provides a basis for revision of the 2018/19 budget in the context of Supplementary Estimates. Further, the document provides highlights of recent economic developments and outlook and sets sectoral ceilings for FY 2019/20 and the medium term.

Fiscal Responsibility Principles

Fiscal responsibility principles governing management of public finances are provided for under Section 107 of the Public Finance Management (PFM) Act, 2012. These principles are as listed below:

1. The County government's recurrent expenditure shall not exceed the county government's total revenue.
2. Over the medium term a minimum of thirty per cent of the County government's budget shall be allocated to the development expenditure.
3. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member Finance regulations and approved by the County Assembly.
4. Over the medium term, the County government's borrowings shall be used only for

the purpose of financing development expenditure and not for recurrent expenditure

5. The County debt shall be maintained at a sustainable level as approved by county assembly
6. Fiscal risks shall be managed prudently
7. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, considering any tax reforms that may be made in the future

Review of FY 2017/18 Fiscal Performance

Revenue

The total resource envelope for FY 2017/18 was Ksh 6,845,341,860 comprising Ksh 270,000,000 OSR, Ksh 5,526,600,000 equitable share, Ksh 499,123,042 value of projects brought forward from 2016/17 FY and Ks h 549,618,818 conditional allocations. Conditional allocations consisted of Ksh 18,194,808 Compensation for User Fee Forgone, Ksh 95,744,681 Leasing of Medical Equipment, Ksh 212,834,314 Road Maintenance Levy Fund, Ksh 39,021,230 Universal Health Care Project, Ksh 23,075,979 DANIDA, Ksh 43,031,378 Kenya Devolution Support Project (KDSP), other loans and grants Ksh 63,669,291, Agricultural Sector Development Support Project (ASDSP) Ksh 13,400,000 and development of youth polytechnics Ksh 40,647,137

Supplementary Budgets

During the period, one supplementary budget was prepared in December 2017. This was necessitated by the need to bring down the equitable share from Ksh 5,777,164,456 to Ksh 5,526,600,000 in line with County Allocation of Revenue Act (CARA) 2017, roll over projects equivalent to Ksh 499,123,042 which had not been concluded by the close of FY 2016/17, reverse Ksh 128,080,400 from the budget in line with the CARA 2017, provide for Ksh 40,647,137 for development of youth polytechnics, increase Allocations for Road Maintenance Levy Fund (RMLF), Universal Health Care Project (UHCP), loans and grants and DANIDA by Ksh 61,634,314, Ksh 21,284,308, Ksh 11,156,260 and Ksh 7,211,243 respectively in line with CARA 2017 and reduce Allocations for compensation for user fee foregone and Kenya Devolution Support Project (KDSP) by Ksh 1,439,269 and Ksh 14,078,826 respectively. The net effect of the supplementary budget was therefore an increase in the resource envelope from Ksh 6,598,448,507 to Ksh 6,845,341,860 as tabulated below:

Table 1: Approved Original Budget and Supplementary

Vote Details	Supplementary estimates (A)	Original estimates (B)	Deviation (A-B)
County Assembly	893,344,218	**868,619,878**	24,724,340
County Executive	556,875,343	**552,102,186**	4,773,157
Finance, Planning and Vision 2030	692,905,643	**734,332,267**	- 41,426,624
Agriculture, Livestock & Fisheries	415,172,583	**397,625,222**	17,547,361
Water, Environment & Natural Resources	312,940,581	**290,304,111**	22,636,470
Education, Youth Affairs, Sports & Social Services	792,394,093	**582,599,677**	209,794,416
Health Services	1,914,333,565	**2,070,006,772**	- 155,673,207
Lands, Housing, Physical Planning & Survey	81,916,108	**98,966,260**	- 17,050,152
Trade, Industry and Cooperative Development	202,245,619	**110,780,764**	91,464,855
Tourism and ICT	108,016,464	**125,339,878**	- 17,323,414
Roads, Transport & Public Works	875,197,643	**767,771,492**	107,426,151
Total	**6,845,341,860**	**6,598,448,507**	**246,893,353**

Source: 2017/18 Budget

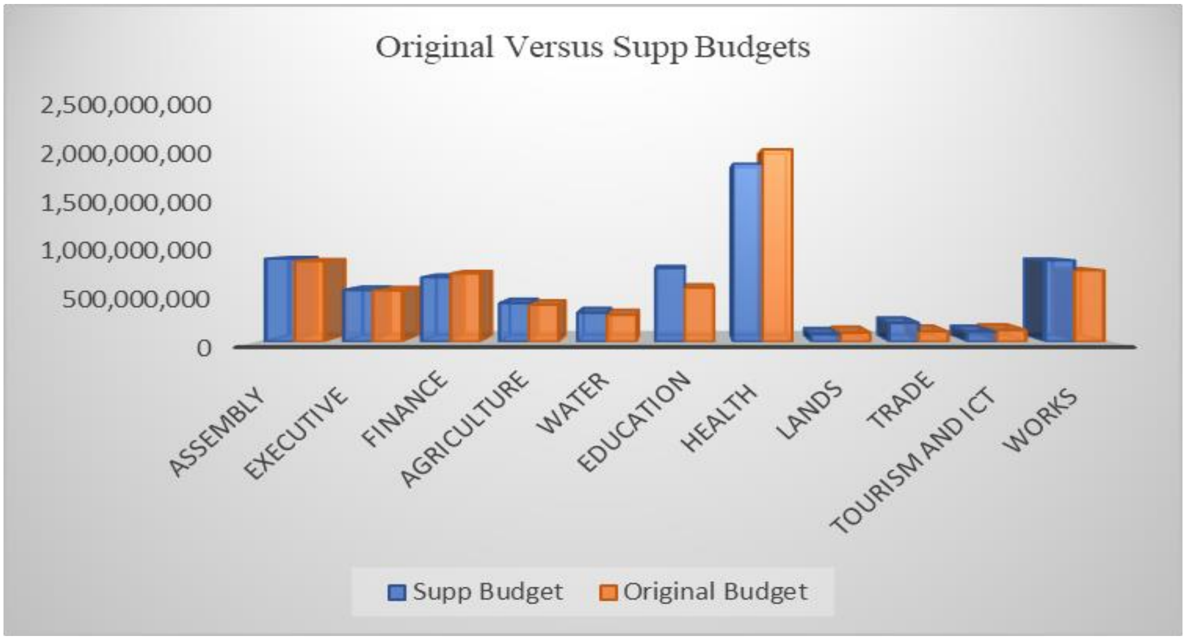

Figure 1: Total Budget and Supplementary Analysis

Recurrent budget reduced by Ksh 319,860,763 as a result of the supplementary budget as tabulated below:

Table 2: Approved Recurrent Expenditure after Supplementary

Vote Details	Supplementary Estimates (A)	Original Estimates (B)	Deviation (A-B)
County Assembly	592,664,559	692,664,559	- 100,000,000
County Executive	552,102,186	552,102,186	-
Finance, Planning and Vision 2030	669,433,003	699,332,267	- 29,899,264
Agriculture, Livestock & Fisheries	267,560,107	282,451,455	- 14,891,348

Vote Details	Supplementary Estimates (A)	Original Estimates (B)	Deviation (A-B)
Water, Environment & Natural Resources	98,588,805	104,605,966	- 6,017,161
Education, Youth Affairs, Sports & Social Services	328,172,190	333,262,188	- 5,089,998
Health Services	1,549,709,955	1,687,394,083	- 137,684,128
Lands, Housing, Physical Planning & Survey	50,568,108	60,125,118	- 9,557,010
Trade, Industry and Cooperative Development	48,161,096	51,822,382	- 3,661,286
Tourism and ICT	52,244,424	59,339,878	- 7,095,454
Roads, Transport & Public Works	89,848,759	95,813,873	- 5,965,114
Total	**4,299,053,192**	**4,618,913,955**	**- 319,860,763**

Source: 2017/18 Budget

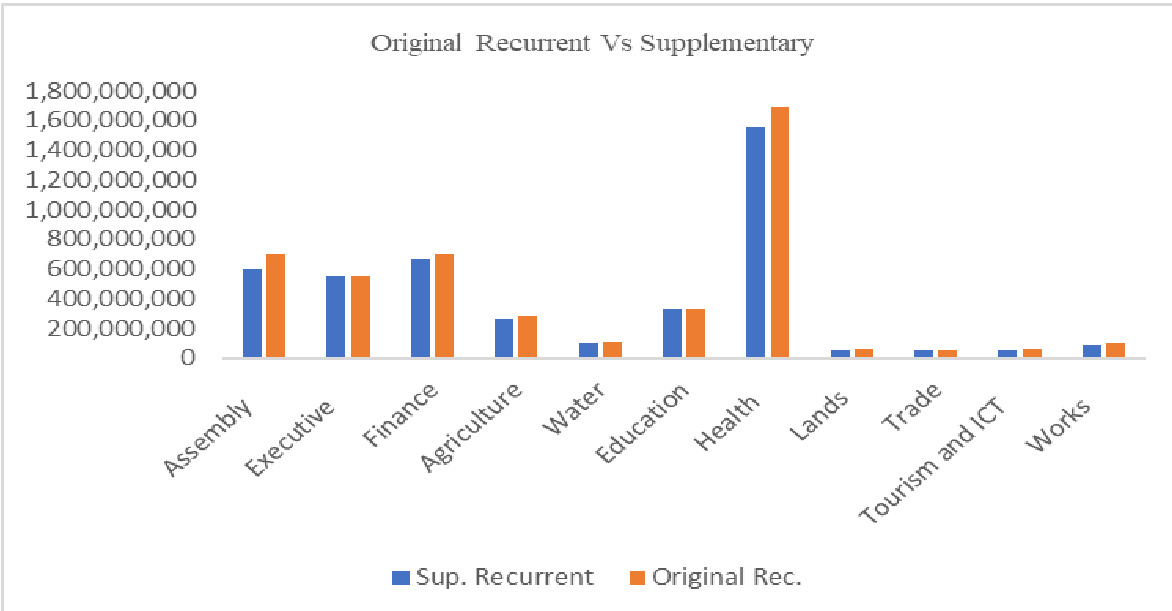

Figure 2: Recurrent Expenditure after Supplementary

The supplementary budget increased the allocation to development projects by Ksh 566,754,116 as shown in the table and graphical illustration below:

Table 3:Approved Development Expenditure after Supplementary

Vote Details	Total Supp Estimates (A)	Original Estimates (B)	Deviation (A-B)
County Assembly	300,679,659	175,955,319	124,724,340
County Executive	4,773,157		4,773,157
Finance, Planning and Vision 2030	23,472,640	35,000,000	-11,527,360
Agriculture, Livestock & Fisheries	153,112,476	115,173,767	37,938,709
Water, Environment & Natural Resources	218,951,776	185,698,145	33,253,631
Education, Youth Affairs, Sports & Social Services	415,721,903	249,337,489	166,384,414
Health Services	364,623,610	382,612,689	-17,989,079
Lands, Housing, Physical Planning & Survey	31,348,000	38,841,142	-7,493,142
Trade, Industry and Cooperative Development	154,084,523	58,958,382	95,126,141
Tourism and ICT	55,772,040	66,000,000	-10,227,960
Roads, Transport & Public Works	823,748,884	671,957,619	151,791,265
Total	**2,546,288,668**	**1,979,534,552**	**566,754,116**

Source: 2017/18 Budget

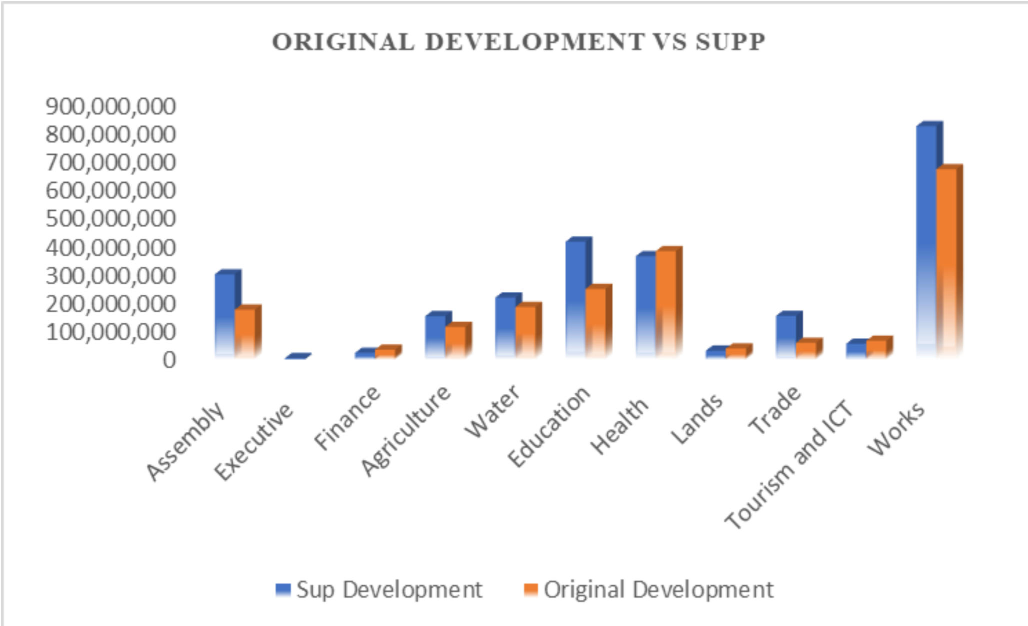

Figure 3: Development Expenditure after Supplementary

Receipts

During the FY 2017/18, the County Government operations were funded from County Allocation of Revenue Act (CARA 2017) and OSR. The CARA constituted equitable share and conditional grants. The receipt from CARA was 97 percent of the total projection while the performance of OSR was 47 percent.

Table 4 below shows the performance of the revenue sources

Table 4: Performance of revenue sources

Item	Budget (Kshs.)	Received (Kshs.)	Deviation (Kshs.)
CARA	6,076,218,818	5,874,329,546	201,889,272
Own Source Revenue (OSR)	270,000,000	127,729,540	142,270,460
Total	**6,346,218,818**	**6,002,059,086**	**344,159,732**

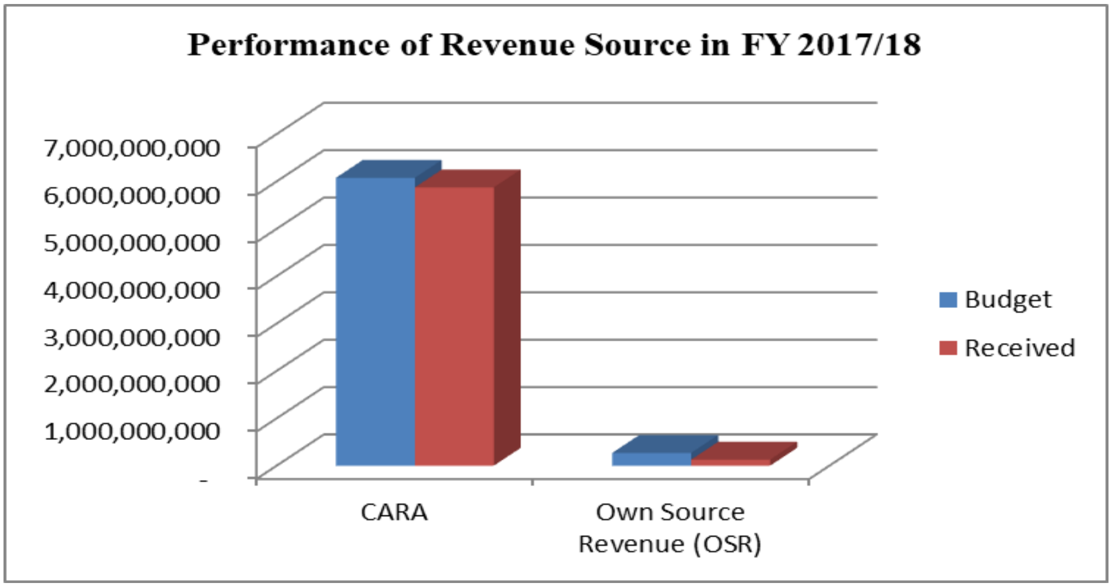

Figure 4: Performance of Revenue sources

Table 5 below shows the cumulative budgeted and received figures in FY 2017/18. The cumulative figures comprise CARA (equitable share and conditional grants), OSR and roll over projects from FY 2016/17 worth Kshs. 499,123,042

Table 5: Analysis of Revenue Performance in FY 2017/18

Item	Budget	Received	Deviation
Equitable Share	5,526,600,000	5,526,600,000	-
Conditional Grant	549,618,818	347,729,546	201,889,272
Own Source Revenue (OSR)	270,000,000	127,729,540	142,270,460
Sub-Total	**6,346,218,818**	**6,002,059,086**	**344,159,732**
Roll over from FY 2016/17	499,123,042	499,123,042	-
Total	**6,845,341,860**	**6,501,182,128**	**344,159,732**

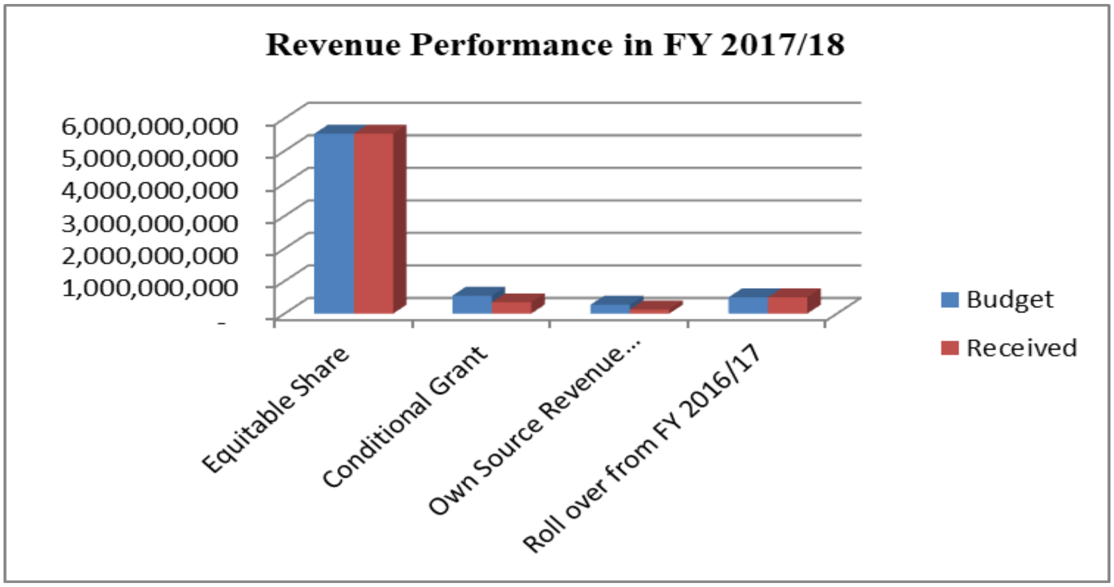

Figure 5: Revenue performance

Equitable Share

In the FY 2017/18 the County projected a total receipt of Kshs. 5,526,600,000 from National government as equitable share and at the end of the fiscal year the total amount was received

Table 6: Performance of Equitable Share

Item	Budget	Received
Equitable Share	5,526,600,000	5,526,600,000

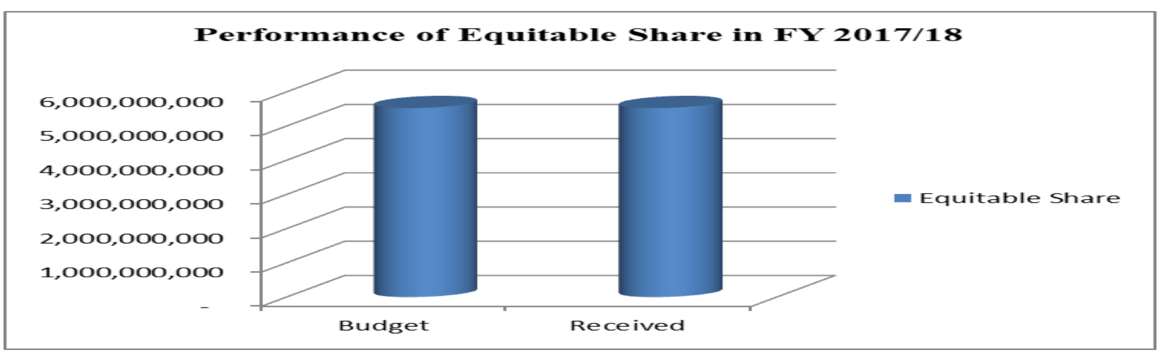

Figure 6: Performance of Equitable share

Conditional Grant

The County expected a total of Kshs. 549,618,818 as conditional grants, however the actual receipts was Kshs. 347,729,546 representing 63.3 percent of the total expected receipt with a deviation of Kshs. 201, 889,273.

The table 5 below shows budgeted and actual receipts of the grants

Table 7: Approved Grants and Receipts

Item	Budget	Receipt	Deviation
Compensation for User Fee Forgone,	18,194,808	19,057,306	-862,498
Leasing of Medical Equipment	95,744,681	-	95,744,681
Road Maintenance Levy Fund	212,834,314	212,834,315	-
Universal Health Care Project	39,021,230	17,736,923	21,284,307
DANIDA	23,075,979	14,422,487	8,653,492
Kenya Devolution Support Project	43,031,378	43,031,378	-
Other loans and grants	63,669,291	-	63,669,291
ASDSP	13,400,000	-	13,400,000
Development of youth polytechnics	40,647,137	40,647,137	-
Total	**549,618,818**	**347,729,546**	**201,889,273**

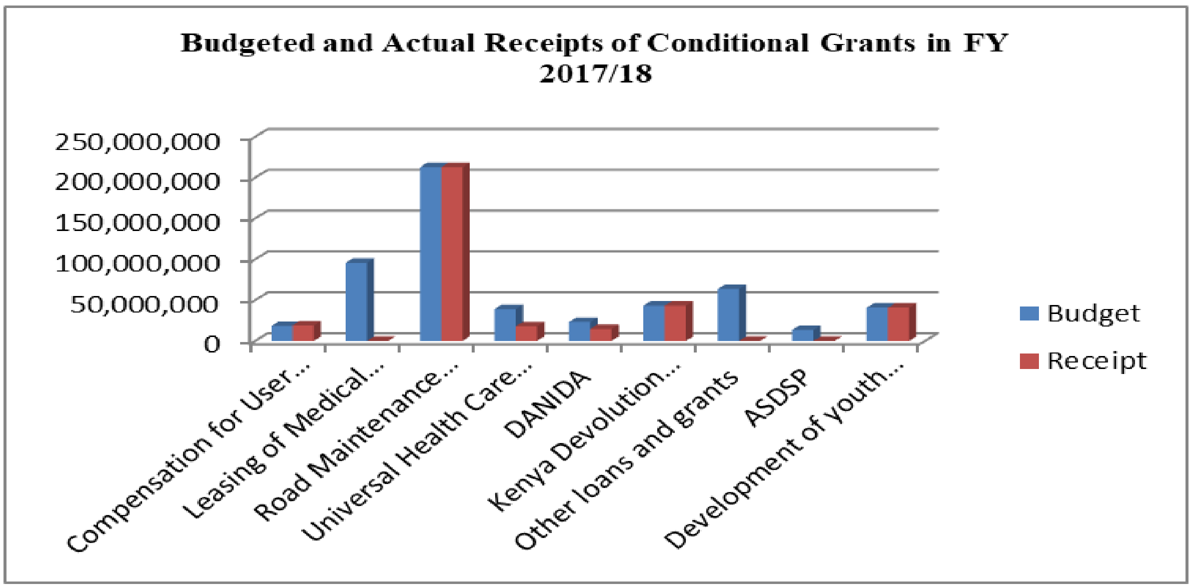

Figure 7: Performance of Conditional grants

Own Source Revenue (OSR)

The County government targeted to collect Ksh 270,000,000 as OSR; however the actual collection stood at Kshs.127, 729,540 representing 47 percent performance.

Table 5 below shows the breakdown of the local revenue performance

Table 8: Local Revenue Projections and Actual Performance

Revenue Item	Budgeted Estimates FY 2017-18	Actual Collections FY 2017-18	Deviation	% Deviation
Parking Fees	22,950,000	12,548,515	10,401,485	45%
Rates	21,802,500	1,694,295	20,108,205	92%
Single Business Permits	40,500,000	32,326,603	8,173,397	20%
Fish Cess& quarry	8,775,000	4,003,024	4,771,976	54%
Plans Inspection	3,375,000	3,050,009	324,991	10%
Advertising (Billboards)			-	
Rent (County Houses, Market stalls, County commercial buildings)	15,038,730	3,374,214	11,664,516	78%
Tenant Purchase Scheme (TPS)			-	
Market Fees	54,000,000	22,787,579	31,212,421	58%
Mortuary Charges			-	
Water Lease Fees			-	
Hospital Fees	61,425,000	34,115,960	27,309,040	44%
Other receipt not classified anywhere	32,008,770	4,323,204	27,685,566	86%
Sundry debtors (Premium for property allocation and ground rent)			-	
Licences	10,125,000	9,506,137	618,863	6%
TOTAL	**270,000,000**	**127,729,540**	**142,270,460**	**53%**

Source: County Treasury

Table 6 below shows the comparative figures of various revenue streams for FY 2016-17 and FY 2017-18 and the deviation

Table 9: Local Revenue Comparative Analysis

Revenue Item	Actual 2016-17(A)	Actual 2017-18 (B)	Deviation (B-A)	% Deviation
SBP	32,899,734	32,326,603	- 573,131	- 0.3
Market Fee	25,212,879	22,787,579	- 2,425,300	- 1.4
Bus Park/ parking Fee	15,713,913	12,548,515	- 3,165,398	- 1.8
Fish Cess and Quarry Fee	4,916,775	4,003,024	- 913,751	- 0.5
Tender Fee			-	-
Plan Approval Fee	4,239,840	3,050,009	- 1,189,831	- 0.7
Transfer Fees	93,700		- 93,700	- 0.1
Miscellaneous Fee (Including other receipts not classified anywhere)	1,366,965	4,323,204	2,956,239	1.7
Plot Rates	3,533,177	1,694,295	- 1,838,882	- 1.1
Plot Rents	6,808,691	3,374,214	- 3,434,477	- 2.0
School Fees	50,100		- 50,100	- 0.0
Slaughter Fees	456,072		- 456,072	- 0.3
Ground/Stall Rent	4,470,832		- 4,470,832	- 2.6
Burial Fees	13,200		- 13,200	- 0.0
Sand Cess	511,192		- 511,192	- 0.3
CILOR			-	-
Sugar Cess	100,000		- 100,000	- 0.1
Boda Boda Fee			-	-
Health Department	60,547,082	34,115,960	- 26,431,122	- 15.3
Lands Department			-	-
Agriculture	9,602,356		- 9,602,356	- 5.6
Trade	362,060		- 362,060	- 0.2
Roads, Public Works	1,924,113		- 1,924,113	- 1.1

Revenue Item	Actual 2016-17(A)	Actual 2017-18 (B)	Deviation (B-A)	% Deviation
Liquor license			-	-
Education, Youth Affairs			-	-
Licenses		9,506,137	9,506,137	5.5
Total	**172,822,681**	**127,729,540**	**- 45,093,141**	**- 26.1**

Source: County Treasury

From the table 6 above the local revenue performance for FY 2017/18 declined by 26.1 from the previous fiscal year. This downward trend in revenue collection was attributed to the following factors:

1. Prolonged political tension after the 2017 general elections caused disruption of business activities.
2. High charges in Finance Act 2017 leading to low levels of compliance
3. Inadequacy in county legislations hindered collection of revenue from liquor licensing
4. Weak enforcement capacity
5. Poor infrastructure in some trading centres limiting provision of utility services

Roll over from FY 2016/17-Unspent Funds in FY 2016/17

At the end of FY 2016/17 a total amount of Kshs. 499,123,042 was unspent and was rolled over to FY 2017/18 where the total amount was received by the County Government in the fiscal year under review

Expenditure

Total projected expenditure for the period under review was Ksh 6,845,341,860 which was to be incurred by all sectors towards implementation of their programmes and sub programmes.

Departmental Budgeted Expenditure

The table below shows programmes and sub-programmes planned for implementation by various sectors in FY 2017/18

Table 10: Sectoral Programmes and Allocations

Sector	Programme	Estimates
County assembly	P. 1 Legislation and Representation	259,400,110
	P. 2 Legislative Oversight	53,586,760
	P. 3 General Administration,	580,357,348
Governance and public service	Programme 1: County Executive Administration	192,860,485
	Programme 2: Office of the Governor and Deputy	145,760,248

Sector	Programme	Estimates
	Governor	
	Programme 3: County Public Service Board	101,790,220
	Programme 4: Coordination of devolved units	62,018,813
	Programme 5: Human Capital Management	54,445,577
	Programme 6: Disaster Management (Fire fight)	-
Finance, Planning and vision 2030	P1: Financial services	173,288,961
	P2: Economic planning services	26,675,987
	General Administration	492,940,695
Agriculture, livestock and fisheries	Cp.1 General Administration, Planning and Support Services	53,483,115
	Cp 2: Livestock Development and Management	74,978,169
	Cp 3: Crop Management	197,320,458
	Cp 4: Fisheries Management & Development	56,022,302
	Cp 5: Veterinary Services	33,368,539
Water, environment and natural resources	Water Resources Development and Management	298,183,717
	Environmental and Natural Resources Conservation and Management	7,625,182
	General Administration, planning and support services	7,131,682
Education, youth affairs, gender and social services	CP 1: General Administration, planning and support services	108,115,656
	CP 2: County pre-primary education	390,435,281
	CP 3: Vocational Education and Training development	123,897,500
	CP 4: County social security and services	37,716,476
	CP 5: Sports and Talents Development	132,229,181
Health services	Programme 1: General Administration	849,481,035
	Programme 2: Curative Services	655,808,376
	Programme Preventive and Promotive	376,806,154
	Programme 4: waste Management	32,238,000
Lands, physical planning and housing	C P 1: General Administration, Planning and Support Services	44,264,169
	CP 2: Physical planning	21,966,872
	CP. 3. Land surveying and mapping	13,523,986
	Cp 4. Housing Development	2,161,082
Trade, industry and cooperative development	Programme 1: - Trade Development and Promotion	114,581,669
	Programme 2: - Fair Trade Practices and Consumer Protection Services	3,521,088
	Programme 3: - Co-Operative Development & Management	46,252,816
	Programme:4: - General Administration, Planning and Support Services	37,890,046
ICT and Tourism	Programme 1: General Administration, planning and support services	41,690,018
	Programme 2: Information & Communication Services	27,395,540
	Programme 3: Tourism development and promotion	38,930,906
Works	Programme 1: Transport Infrastructure Development	834,941,955
	Programme 2: Fire Fighting	-
	Programme 3: Street Lighting	2,550,000

Sector	Programme	Estimates
	Programme 4: County Government Buildings Services	24,989,036
	Programme 5: General Administration, Planning & Support Service	12,716,650
Total		**6,845,341,860**

Actual Expenditure

Total expenditure for the period under review amounted to Ksh 4,573,191,295 comprising Kshs. 782,049,003 as development expenditure and Kshs. 3,791,142,292 as recurrent expenditure against a planned budget of Ksh 6,845,341,860 translating to an absorption rate of 66.8 percent of the total budget and 70.3 percent absorption of total funds received in the fiscal year.

Table 11: Absorption rates based on Budget and Total Receipts

Budget (Kshs.)	Actual Expenditure (Kshs.)	Absorption rate (%)	Total Receipts (Kshs.)	Actual Expenditure (Kshs.)	Absorption rate (%)
6,845,341,860	4,573,191,295	66.8	6,501,182,128	4,573,191,295	70.3

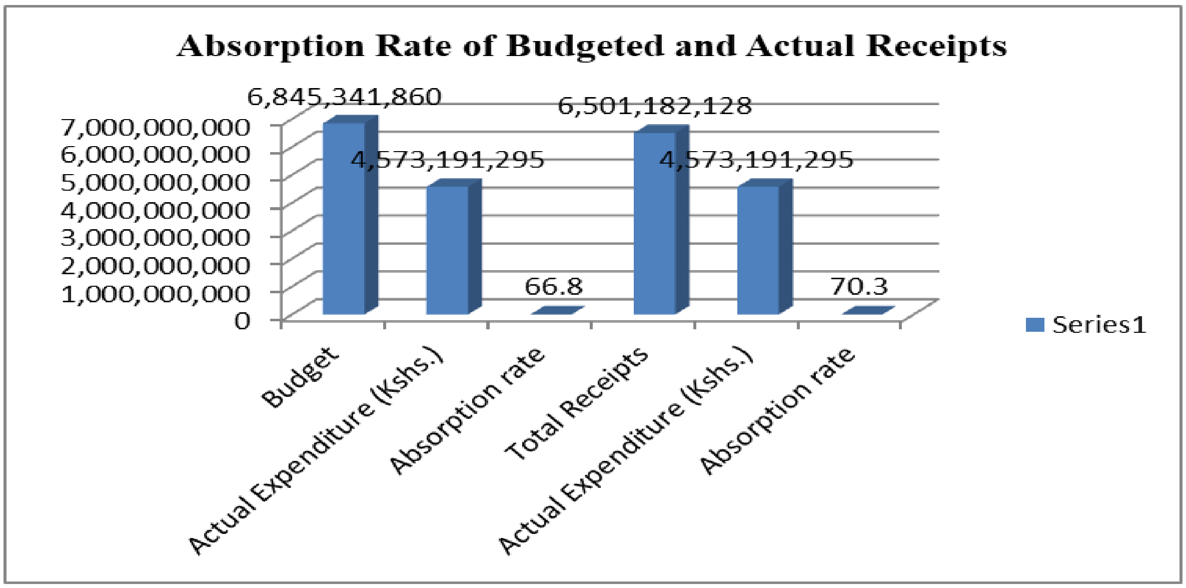

Figure 8:Absorption rates

Table 12: Absorption based on Economic classification

Economic Classification	Budgeted Estimates	Total Receipts	Actual Expenditure	Deviations	% Absorption based on total Budget	% Absorption based on total Receipts
Compensation to employees	2,863,614,848	2,563,339,256	2,408,285,749	455,329,099	35.2	37.0

Operations and maintenance	1,435,438,344	1,501,197,645	1,382,856,543	52,581,801	20.2	21.3
Total Recurrent	**4,299,053,192**	**4,064,536,901**	**3,791,142,292**	**507,910,900**	**55.4**	**58.3**
Development	2,546,288,668	2,436,645,227	782,049,003	1,764,239,665	11.4	12.0
Total	**6,845,341,860**	**6,501,182,128**	**4,573,191,295**	**2,272,150,565**	**66.8**	**70.3**

Source: County Treasury

Recurrent Expenditure Analysis

Total recurrent expenditure for the period under review was Ksh. 3,791,142,292 against a budget of Kshs. 4,299,053,192. This translating into absorption rate of 88.2 percent and 55.4 percent of allocation to the recurrent vote and total budget against an anticipated rate of 62.8 percent in the budget

Personnel Emolument (PE) Expenditure Analysis

Personnel Emoluments (PE) expenditure was Kshs. 2,408,285,749 against an allocation of Kshs. 2,863,614,848 translating to an absorption rate of 84.1 percent and 56 percent of budget allocated to PE item and total recurrent expenditure respectively. In addition based on total budget, the absorption rate for PE was 35.2 percent against an anticipated rate of 41.8 percent in the budget.

Operations and Maintainance (O&M) Expenditure Analysis

Operation and Maintainance expenditure for the period under review was Kshs.1,382,856,543 against a budget of Kshs. 1,435,438,344 translating to an absorption rate of 96.3 percent and 32.2 percent of the budget allocated to O&M item and total recurrent expenditure respectively. Besides an absorption rate of 20.2 percent was realized based on total budget against the anticipated rate of 20.9 percent in the budget.

Development Expenditure Analysis

Total development expenditure for the period under review was Ksh 782,049,003 against a planned budget of Ksh2,546,288,668 translating to an absorption rate of 30.7 percent and 12 percent of the total budget allocated to development expenditure and total receipts for the vote respectively in the said fiscal year. In addition 11.4 percent absorption rate of the total budget was realized against an anticipated rate of 37.2 percent in the budget of the fiscal year under review. The low absorption of funds was as a result of the following factors;

1. Delayed release of funds by the National Treasury
2. Systemic bottlenecks resulting from end to end procurement process and internet banking
3. Limited capacity of contracted service providers

Chapter Two

Recent Economic Developments and Outlook

Introduction

The chapter outlines recent economic development focusing on the international and domestic scenes. Additionally, the chapter gives a summary of macroeconomic outlook expected to positively or negatively affect national and county socio-economic performance in the foreseeable future.

Recent Economic Development

International Scene

The global economy expanded by 3.6 per cent in 2017 compared to a growth of 3.1 per cent in 2016. The United States of America registered a growth of 2.2 per cent in 2017 compared to a growth of 1.5 per cent in 2016, largely due to increase in household income that supported private consumption and investments. The growth in United Kingdom decelerated to 1.5 percent in 2017 due to a weaker aggregate demand and uncertainty surrounding the Brexit negotiations. In China, real Growth Domestic Product (GDP) was boosted by fiscal support and recovery in exports to grow by 6.8 per cent in 2017 compared to 6.7 per cent in 2016.

Real GDP in Sub Saharan Africa expanded by 2.6 per cent in 2017, mainly due to higher commodity prices and favourable external environment. Global inflation rose to 3.1 per cent in 2017 from 2.8 per cent in 2016, partly attributable to increase in oil prices. World trade grew by 4.8 per cent in 2017 compared to 2.6 per cent in 2016 as a result of recovery in global manufacturing occasioned by increased investments. Global unemployment rate stood at 5.6 per cent in 2017. ***(Economic Survey 2018)***

Domestic Economy

Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the county and national economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions.

Generally, key macroeconomic indicators largely remained stable and therefore supportive of growth in 2017. Interest rates declined due to the impact of capping that became effective in September 2016. In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. There was a moderate build up in inflationary pressures mainly due to significant increase in oil and food prices during the year under review. Despite the stable and supportive macroeconomic environment, inflation rate rose from 6.3 per cent in 2016 to 8.0 per cent in 2017.

Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, Forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

Sectorally, agricultural sector continued to be the major contributor of national economic growth. The sector recorded mixed performance in 2017 which led to a decelerated growth of 1.6 per cent compared to 5.1 per cent growth in 2016. This reduced growth is mainly attributed to drought coupled with pests such as the fall army worms and disease which led to the overall decline in agricultural production and threatened food security in the country and by extension the county.

In order to achieve food security and improved nutrition, the National Government shall invest in three broad areas starting 2018, namely: enhancing large-scale production; boosting smallholder productivity; and reducing the cost of food. The national government will also collaborate with County governments in ensuring that each county has at least one value addition processing plant. These measures will go a long way in scaling up agriculture value chain.

Manufacturing sector which is also a key sector in national economy has shown a slowed growth recording a 0.2 per cent GDP contribution in 2017. The sector was negatively affected by uncertainties relating to General Elections, high production costs and competition from imported goods. The manufacturing sector is expected to benefit from BIG Four initiative which targets contribution of the sector share to GDP at 15 per cent by 2022. In order to realize these objectives, the Government will focus on areas where we have comparative advantage including leather, textiles and construction materials. To support this, various initiatives will be implemented that include: cutting the cost of off-peak power to heavy industry by half; reviewing work permit regime and encouraging expatriates whose skills support manufacturing sector; protecting local manufacturers from counterfeits goods; and creating an additional 1000 small and medium size enterprises (SMEs) focused on manufacturing which will have access to affordable capital, skills and markets. Other programmes lined up by the national Government include expansion of the infrastructure by extension of the SGR; building new roads and ports; and investing in health, education and housing in the medium term. These interventions will result in enhancing our human capital, creating employment for our youth; ensuring all citizens enjoy food security and proper nutrition; guarantee access to quality and affordable housing and health care to all Kenyans.

With these interventions coupled with continuing political stability and favourable macroeconomic environment the national and county economy is expected to perform better in 2018. The on-going investments in infrastructure, improved business confidence, and strong private consumption are expected to support growth in 2018.

Whereas there are no official statistics on county specific economic performance, the year 2017 witnessed increased investment in infrastructure projects by both national and county governments as well as private investors. The national government was active in improvement of major highways traversing the county. The county government was engaged in improvement of rural access roads, construction of new and upgrading of existing health facilities, development of early childhood education infrastructure among other projects. Increased demand for accommodation resulted in an upsurge in construction of commercial and residential houses across the various sub counties.

On the demand side, increased inflow of resources into the county coupled with decision to award most county government projects to local contractors has improved the purchasing power of the citizenry. This is evidenced by the many retail outlets setting up shop in various parts of the county.

Persistent drought during the end of 2017 and heightened political environment surrounding the 2017 general elections made the county government to refocus its priorities towards mitigating the adverse impacts of the drought while the private sector slowed down investment awaiting the outcome of the general elections.

Fiscal Outlook

Over the medium term, growth is projected to increase by more than 7.0 per cent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and delivering at least five hundred thousand (500,000) affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth. Going forward, the county government shall champion inclusion of strategic initiatives in her development agenda that are Big Four compliant.

County economy is likely to be influenced more by the domestic factors than external ones. These factors include dividends as a result of handshake between HE.Uhuru

Kenyatta and Hon Raila A. Odinga; Investment in Lake Region Economic Block and Implementation of proposed PFM Reforms by the Finance Department. All these factors coupled with the radical cabinet changes and fresh blood in the County Assembly is expected to positively shape the county's image in the medium term.

Weather forecasts indicate that short rains are likely to delay and to be depressed in 2018, which is likely to have a direct negative impact on crops, production of livestock and its products, electricity generation and water supply. Due to the marginally high share of agricultural contribution to the GDP, there will be a lower rural demand for goods and services. The impacts could further be experienced in sectors that have strong inter-linkages with the agriculture industries. In addition increase in fuel prices as a result of introduction of 8 % VAT on petroleum products is likely to slow down growth in transport sector and subsequently lead to rise in inflation.

Persistent delay in release of funds from the exchequer affected absorption rate and slowed down service delivery to the public. In the unlikely event of continued delay in release of funds, county's fiscal environment is expected to remain unstable. In conclusion therefore economic activities will be influenced by increased private sector activity arising from the county governments continued investment in opening up of otherwise inaccessible areas and creating a conducive environment for private enterprise to thrive.

Chapter Three

Review of Fiscal Performance against Fiscal Strategy Paper 2017

Preparation of the 2017/18 budget was informed by the fiscal strategy paper of the said year. As such, programmes and projects captured in the budget were drawn from the fiscal strategy paper with minimal variations across all the sectors. The fiscal strategy paper was based on four broad pillars that guided allocation of resources to various sectors. These pillars and the various sectors that constitute them as well as priority programmes and projects in each sector are discussed below:

Pillar1: Improved governance and administration through investment in devolution structures for effective service delivery. This pillar comprised the County Assembly, Governance and Administration, Finance and Economic Planning, Lands, Physical Planning Urban Development and Housing as well as Enterprise and Industrial Development sectors.

This pillar had a proposed budget of Kshs. 2,501,395,298 in FSP while the revised budgetary allocation was Kshs. 2,427,286,931. This deviation was attributed to reduction in equitable share as captured in CARA 2017

County Assembly was allocated Ksh 704,914,472 for recurrent and development expenditures in the FSP. The revised budgetary allocation for this sector was however Ksh 893,344,218 for recurrent and development expenditure. The deviation in allocation was occasioned by inclusion of roll over expenditures which were not in the FSP. Priority in the fiscal year was on strengthening legislative, representative and oversight functions of the County Assembly members and capacity building of the staff.

Governance and Administration sector was allocated Kshs. 551,294,743 in the FSP. Revised budgetary allocation was however Ksh 556,875,343 for both recurrent and development expenditure. The deviation in allocation was occasioned by inclusion of roll over expenditures of Kshs. 5,580,600 which was not in the FSP. Priority projects in the FSP included; implementation of Lake Region Economic Bloc (LREB), phased construction of Sub-County Offices, civic education and public participation, however due to lack of proper legislation LREB and construction of sub-county offices were suspended and resources which were meant for these projects were redistributed in other key priority areas.

Finance and Economic Planning was allocated Ksh 979,995,745 in the FSP. Final allocation in the budget was Ksh 692,905,643. The deviation was occasioned by transfer of some grants which were initially recorded in Finance to respective sectors during supplementary budget. Priority in the FSP was given to improvement of public financial management, project cycle management and construction of modern bus parks and parking bays. Funds for construction of bus parks and parking bays were however re-allocated during the supplementary budget to complete phase one of OSR automation which had been under budgeted for in the previous FY.

Land, Physical Planning, Urban Development and Housing sector was allocated Ksh 103,642,694 in the FSP. This allocation was however reduced to Ksh 81,916,108 in the revised budget in line with reduction of equitable share. Priority projects were construction of housing units through public private partnership, maintainance of existing governmental buildings and building and equipping ABT centres in the 3 sub counties, spatial development planning, public land banking and preparation of valuation rolls.

Enterprise and Industrial Development Sector was allocated Ksh 161,547,644 in FSP. This allocation was increased to Ksh 202,245,619 on account of rolled over projects. Flagship projects were; construction of modern markets at Ramba (Siaya), Yala and Bondo, establish a cooperative revolving fund and small and micro enterprise fund.

PillarII: Social Transformation through investment in healthcare services, education, youth, culture and social services. This pillar consisted of Health, Education, Youth Affairs, Gender and Social Services and Water, Environment and Natural Resources sectors.

This pillar had a proposed budget of Kshs. 2,537,150,308 in FSP while the revised budgetary allocation was Kshs. 3,019,668,239. This deviation was attributed to roll-over projects from the previous fiscal year.

Education, Youth Affairs, Gender and Social Services Sector was allocated Ksh 562,468,458 in the FSP. The allocation was increased in the revised budget to Ksh 792,394,093. The increase is attributed to inclusion of funds for projects rolled over from the previous fiscal year. Flagship projects for the sector were: construction of Siaya and Migwena stadia, establishment of funds for the special groups (Youths, Women and PLWDs) and improvement of ECDE infrastructure.

Health and Sanitation sector was allocated Ksh 1,774,994,186 in the FSP. This allocation was increased to Ksh 1,914,333,565 in the revised budget on account of rolled over projects and other conditional allocations that were initially included in Finance budget. The sector focused on the completion of the Siaya County Referral Hospital, operationalization of existing health facilities by equipping, posting health officers to such facilities and procurement of drugs as well as non-pharmaceuticals.

Water, Environment and Natural Resources sector was allocated Ksh 199,687,664 in the FSP. This allocation was increased to Ksh 312,940,581 in the final budget on account of rolled over projects. Projects of high priority were rehabilitation and augmentation of existing water supplies, irrigation infrastructure development, afforestation and beautification of Siaya and Bondo towns.

Pillar III: Transforming Agricultural activities towards improved food security through Irrigation, mechanization and agro-inputs

This pillar had a proposed budget of Kshs. 343,954,059 in FSP while the budgetary allocation was Kshs. 415,172,583. This deviation was attributed to roll-over projects from the previous fiscal year**.** This pillar comprised only one sector of Agriculture, Livestock, Fisheries and Veterinary services sector. The sector prioritized crop, livestock and fisheries production and management. In addition animal health improvement was also a priority.

Pillar IV: Transforming County Infrastructure and Communication through Investment in road network and ICT services. This sector consisted of two sectors: Roads, Public Works and Transport and ICT and tourism sectors**.**

This pillar had a proposed budget of Kshs. 1,102,735,716 in FSP while the revised budgetary allocation was Kshs. 983,214,107. The deviation was attributed to reduction in equitable share as captured in CARA 2017

Roads, Public Works, Energy and Transport sector was allocated Ksh 926,792,258 in FSP. This revised allocation was however reduced to Ksh 875,197,643 to bridge the budget deficit due to reduction in equitable share in CARA 2017. The sector prioritized Transport Infrastructure Development, Transport Management & Safety and Street Lighting with flagship projects being street lighting and construction of bridges.

Tourism, Culture, Sports and Arts sector was allocated Ksh 175,943,458 in the FSP. The revised budgetary allocation was Ksh 108,016,464. The deviation was attributed to reduction in equitable share as captured in CARA 2017. Priority areas included Information & Communication Services, sports infrastructure development and Tourism development and promotion with flagship projects being software management policies; mass media services; and tourism product development and diversification.

Chapter Four

Resource Allocation Framework

3.1 Adjustments to the FY 2018/19 Budget

The Medium Term Fiscal Framework (MTFF) for the FY2018/19 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure full budgetary funding, support rapid and inclusive economic growth and continued fiscal discipline.

As preparations for the FY 2019/20 medium-term budget commence, it is worth noting that the implementation of the FY 2018/19 budget is experiencing challenges particularly on revenue collection and elevated expenditure pressures. The outturn for the FY 2017/18 indicates the need to review the projected revenues in FY2018/19 in order to take into account the lower than expected revenue performance in the base year

As such the revenue forecasts for FY 2018/19 have been reviewed downwards to reflect outcome in FY 2017/18 and also taking into account the fiscal developments through end August 2018. Expenditure projections for FY2018/19 will be revised through a supplementary budget to accommodate some of these challenges through trade-offs and reallocations of the existing budgetary provisions supported by austerity measures instituted on less productive areas of spending across the sectors and development component of 2017/2018 budget that remained unabsorbed at the close of the financial year.

4.2 Medium Term Fiscal Projections

Over the medium term, driven by continued reforms, OSR collection is expected to rise towards the targeted 275 million. Overall development expenditure as percentage of total expenditure is expected to rise as the government undertakes expenditure rationalization to improve productivity.

4.3 Budget Framework for FY 2019/20

4.3.1 Revenue Projections:

The FY 2019/20 budget will be financed by revenue from equitable share, OSR and conditional allocations from the national treasury and/or development partners. Equitable share is expected to increase from Kshs 6.03 billion in 2018/2019 to 6,70 and 7.44 in 2019/2020 and 2020/2021 respectively. OSR is expected to move from Kshs 275,000,000 in 2018/2019 to Kshs 302,500,000 and Kshs 332,750,000 in 2019/2020 and 2020/2021 respectively. However, conditional allocations are projected to stabilize at the 2018/19 allocations. The 2018/19 base year revenue streams and projections for FY 2019/20 are as summarised in the table below:

Table 13: Revenue projections

Department	Source	Estimates 2018/2019	2019/2020	2020/2021
Enterprise and Industrial Development	Single Business Permit	40,500,000	44,550,000	49,005,000
	Market Fees	54,000,000	59,400,000	65,340,000
	Boda Boda Fees	4,725,000	5,197,500	5,717,250
	Trade Income	749,250	824,175	906,593
	Liquor License	15,125,000	16,637,500	18,301,250
Sub-Total		115,099,250	126,609,175	139,270,093
Roads, Public Works, Energy and Transport	Bus Park	16,200,000	17,820,000	19,602,000
	Plan Approval	675,000	742,500	816,750
	Grader Hire		-	-
	Parking Fees	6,750,000	7,425,000	8,167,500
Sub-Total		**23,625,000**	**25,987,500**	**28,586,250**
Agriculture, Food, Livestock and Fisheries	Fish Cess	8,775,000	9,652,500	10,617,750
	Slaughter Fees		-	-
	CILOR	51,165	56,282	61,910
	Sugar Cess	6,075,000	6,682,500	7,350,750
	Agriculture Income	11,475,000	12,622,500	13,884,750
Sub-Total		**26,376,165**	**29,013,782**	**31,915,160**
Lands, Physical Planning, Urban Development and Housing	Plan Approval	2,025,000	2,227,500	2,450,250
	Transfer Fees	1,350,000	1,485,000	1,633,500
	Plot Rates	21,802,500	23,982,750	26,381,025
	Plot Rents	7,965,000	8,761,500	9,637,650
	Ground/Stall Rent	7,073,730	7,781,103	8,559,213
	Burial Fees	41,580	45,738	50,312
	Sand Cess	1,620,000	1,782,000	1,960,200
Sub-Total		**41,877,810**	**46,065,591**	**50,672,150**
Health and Sanitation	Plan Approval	675,000	742,500	816,750
	Slaughter Fees	1,210,275	1,331,303	1,464,433
	Hospital Fees	61,425,000	67,567,500	74,324,250
Sub-Total		**63,310,275**	**69,641,303**	**76,605,433**
Finance and Economic Planning	Miscellaneous	4,374,000	4,811,400	5,292,540
Sub-Total		**4,374,000**	**4,811,400**	**5,292,540**

Education, Youth Affairs, Gender and Social Services	School Fees	337,500	371,250	408,375
Sub-Total		**337,500**	**371,250**	**408,375**
Total for Local Revenue		**275,000,000**	**302,500,000**	**332,750,000**
Equitable Share		6,028,800,000	6,702,059,119	7,442,644,151
Conditional Grants		703,791,194	703,791,194	703,791,194
Total Revenue		**7,007,591,194**	**7,708,350,313**	**8,479,185,345**

4.3.2 Medium-Term Expenditure Framework

The budget plays a central role in transformation by promoting redistribution and directing scarce resources towards catalytic investments in human and physical capital. But the budget depends on the economy to generate the resources to finance these investments.

Resources will be channelled to priority areas through programme based budgeting underpinned with transparency and efficient county government institutions. Resources will continue to be aligned to sectors in 2019/2020 as indicated in table 13.

Table 14: Baseline Ceilings for the MTEF Period

Vote Details	**Approved Estimates**	**Projected Estimates**	
	2018/19	**2019/2020**	**2020/2021**
County Assembly	907,556,207	998,311,828	1,098,143,010
Governance and Administration	706,227,275	776,850,003	854,535,003
Finance and Economic Planning	566,996,155	623,695,771	686,065,348
Agriculture, Food, Livestock & Fisheries	433,745,401	477,119,941	524,831,935
Water, Irrigation, Environment & Natural Resources	390,474,126	429,521,539	472,473,692
Education, Youth Affairs, Gender & Social Services	489,409,781	538,350,759	592,185,835
County Health Services	2,067,822,799	2,274,605,079	2,502,065,587
Lands, Physical Planning, Urban Development and Housing	176,750,647	194,425,712	213,868,283
Enterprise and Industrial Development	242,125,315	266,337,847	292,971,631
Tourism, Culture, Sports and Arts	245,763,036	270,339,340	297,373,274
Roads, Public Works, Energy and Transport	780,720,452	858,792,497	944,671,747
Total	**7,007,591,194**	**7,708,350,313**	**8,479,185,345**

From table 13 above, total resource envelop is expected to move from Kshs 7.0 billion in 2018/2019 to Kshs 7.7 and 8.5 in the subsequent financial years.

Expenditure

Budgetary projections indicates that in the financial years 2019/2020 and 2020/2021, total resource envelop will be Kshs 7,708,350,313 and Kshs 8,479,185,345 respectively. The expenditures will be allocated to recurrent and development categories. For the financial year 2019/2020, recurrent expenditure projection is Kshs 5,395,845,219 rising to Kshs 5,935,429,741 in the financial year 2020/20/21. Similarly, development projections at 30 per cent of the total resource envelop will be Kshs 2,312,505,094 in the financial year 2019/2020 rising to Kshs 2,543,755,603 in the financial year 2020/2021.