REPUBLIC OF KENYA

COUNTY GOVERNMENT OF UASIN GISHU

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER 2018 (CBROP)

SEPTEMBER 2018

A Prosperous and Attractive County in Kenya and Beyond

The County Treasury P. O. Box 40-30100 ELDORET, KENYA

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FOREWARD

The County Budget Review and Outlook Paper (CBROP) 2018 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012.

The paper details the actual fiscal performance for the 2017/18 financial year compared to budget appropriation for the year. It further provides information on changes in forecasts as indicated in the most recent County Fiscal Strategy Paper (CFSP 2018); and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the County financial objectives for that year. It also gives reasons for any deviation from the County financial objectives in the CFSP together with proposals to address the deviations.

In addition, the paper presents an updated economic and financial outlook that will set out the broad fiscal parameters for preparation of the next budget (2019/20). This include provisional ceilings that will guide the sector working groups in preparing their budgets that will support the attainment of the six County goals outlined in the CIDP II and the Big 4 Agenda of the National Government. We will therefore safeguard expenditures that contributes to these goals and at the same time carry out measures that will enhance our fiscal discipline.

The proposed 2019/20 fiscal framework targets total revenue of KSh. 8,406 million (KSh. 6,112 million equitable share, KSh. 1,293 million grants and KSh. 1,000 million local revenue) to be spent on recurrent (61 percent) and development (39 percent) expenditures. This achievement will however be dependent on improved macroeconomic performance at both the County and national.

I am therefore hopeful that the positive prospects anticipated in this paper will be realized so as to promote our economic growth and deepen our transformation.

CPA JULIUS RUTTO

CECM – FINANCE & ECONOMIC PLANNING

ACKNOWLEDGEMENT

This County Budget Review and Outlook Paper (CBROP) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012. It provides a review of the recent economic developments and actual fiscal performance of the FY 2017/2018 in comparison to the budget appropriations for the same year. In addition, it provides an overview of how the actual performance of the FY 2017/2018 affected the County compliance with the principles of fiscal responsibility and the financial objectives as provided for in the PFM Act 2012 section (118) as well as information showing changes from the projections outlined in the County Fiscal Strategy Paper (CFSP 2017) and reasons for such deviations.

The preparation of the 2018 CBROP was a concerted and consultative effort among various departments and stakeholders which provided useful information required in preparing this document. We are indebted to them. We owe special thanks to our respective County Executive Committee Members (CECMs) and the Chief Officers (COs) for their leadership and guidance.

We are particularly appreciative to the team from the Economic Planning for their tireless efforts towards ensuring that this document was completed in good time.

CPA MILLICENT OKONJO

<u>Ag. CHIEF OFFICER - ECONOMIC PLANNING</u>

ABBREVIATIONS AND ACRONYMS

ARD	:	Agriculture and Rural development
BPS	:	Budget Policy Statement
CECM	:	County Executive Committee Member
CRA	:	Commission of Revenue Allocation
CBROP	:	County Budget Review and Outlook Paper
CFSP	:	County Fiscal Strategy Paper
CIDP	:	County Integrated Development Plan
CO	:	Chief Officer
FY	:	Financial Year
GDP	:	Gross Domestic Product
IBEC	:	Inter-Governmental Budget and Economic Council
ICT	:	Information and Communication Technology
IFMIS	:	Integrated Financial Management Information System
MTEF	:	Medium Term Expenditure Framework
NOREB	:	North Rift Economic Block
PE	:	Personnel Emoluments
PFM	:	Public Finance Management
PPP	:	Public Private Partnership
RRI	:	Rapid Result Initiative
VAT	:	Value Added Tax

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PREAMBLE

Section 118 of the Public Finance Management (PFM) Act 2012 requires the County Treasury to prepare County Budget Review and Outlook Paper (C-BROP) for the County, that is to be submitted to the County Executive Committee by 30th September of the year. Section 118 (1) of the PFMA 2012 states that the County Treasury shall;

- Prepare a County Budget Review and Outlook Paper in respect of the County for each financial year; and

- Submit the paper to the County Executive Committee by 30th September of that year.

Section 118 (2) of the Act provides details of issues presented in the County Budget Review and Outlook Paper, thus:

i. The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
ii. The updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
iii. Any changes in the forecasts compared with the CFSP;
iv. How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

The County government is required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility. The section states that:

1) The County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
2) In managing the County government's public finances, the County Treasury shall adhere to the following fiscal responsibility principles - (a) the County government's recurrent expenditure shall not exceed the County government's total revenue; (b) over the medium term plan 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 its 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 only for the purpose of financing development expenditure and not for recurrent expenditure; (e) the County debt shall be maintained at a sustainable level as approved by County assembly; (f) the fiscal risks shall be managed prudently; and (g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited County government revenue.
4) Every County government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County assembly.
5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

1.0 INTRODUCTION

This section presents objectives of the County Budget Review and Outlook Paper (CBROP), its significance in the budget making process and a brief description of the structure of the paper.

The CBROP reviews the 2017/2018 fiscal performance of the County; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2017 and reasons for such deviations.

1.1 Objectives of CBROP

The CBROP seeks to provide a review of County's fiscal performance in 2017/2018 financial year and how the performance impacts on the financial objectives and fiscal responsibility principles set out in the CFSP 2018. It specifically provides:

- Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
- Any changes in the forecasts compared with the CFSP;
- Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

CBROP is a key policy document that links policy, planning with budgeting. The fiscal performance review of the previous financial year, together with the updated macroeconomic developments and outlook present the basis for revision of the current budget in the context of supplementary estimates and the broad fiscal considerations defining the next budget and over the medium term. In addition, the paper presents indicative sector ceilings informed by macroeconomic and fiscal outlook to guide FY 2019/2020 budget and in the medium term, with fiscal framework and medium term priorities being affirmed in the 2019 CFSP.

1.3 Structure of CBROP

The CBROP has four other sections. Section Two reviews the County's fiscal performance for the previous year, and divided into three sub-sections, namely, The Overview, Fiscal Performance and Implications of Fiscal Performance. Section Three reviews recent economic developments and has subsections, Recent Economic Developments, Economic Outlook & Policies, Medium Term Fiscal Framework and Risks to the Outlook. Section Four presents resource allocation framework where expenditure ceilings are set for each department. It has four sub-sections; Adjustment to the Proposed Budget, the Medium Term Expenditure Framework, Proposed Budget Framework, and Projected Fiscal Balance. Section Five finalizes with a conclusion of the entire paper, capturing the purpose and value of the CBROP.

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2017/18 FY

This section provides the County's fiscal performance for the financial year 2017/18 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 Overview

During the period under review, the financial objectives set out in the CFSP 2017 sought to support growth prospects in the County through increased activities in the productive sectors. To achieve this, measures aimed at expanding revenue inflows were pursued and expenditures guided by sector objectives and priorities as outlined in the CIDP. The revenue administration was strengthened to enhance efficiency in collection and areas that may attract Public Private Partnerships (PPP) explored. The capacity of staff on e-procurement was also built to enhance budget absorption and further the fiscal responsibilities principles stipulated in section 107 of Public Finance Management (PFM) Act 2012 was observed for prudent use and management of public resources.

In FY 2017/18 budget, actual development expenditure stood at KSh. 1,557,039,796 against an approved budget of KSh. 3,041,309,845 translating into 23 percent absorption rate while recurrent expenditure was at KSh. 4,725,604,817 against an approved budget of KSh. 5,020,834,202 translating into 69 percent absorption. All fiscal risks to the budget that arose such as shortfall in revenues and expenditure pressures were taken into account and managed prudently.

2.2 Fiscal Performance

There was tremendous improvement in fiscal performance for the year under review compared to the previous year. Total local revenue grew by 20 percent to KSh. 801,540,123 in 2017/18 from the previous year but below the years' target of KSh. 850,000,000; while actual expenditure dropped by 11 percent from KSh. 7,091,833,647 to KSh. 6,332,463,012 in similar period as indicated in Table 2.1

Table 2.1 Summary of County Fiscal Performance

	2016/17 FY	2017/18FY			
	Actual	Approved	Actual	% Deviation	Growth %
TOTAL REVENUE & GRANTS	**7,200,726,926**	**8,062,144,047**	**6,828,248,920**	**-15%**	**-5%**
Unspent Bal from Previous FY	672,847,174	958,252,203		**-100%**	**-100%**
Revenue (Total)	**6,527,879,752**	**7,103,891,844**	**6,828,248,920**	**-4%**	**5%**
Equitable Share Allocation	5,698,009,717	5,707,800,000	5,707,800,000	**0%**	**0%**
Local Revenue	668,516,746	850,000,000	801,540,123	**-6%**	**20%**
Grants (Total)	161,353,289	546,091,844	318,908,797	**-42%**	**98%**
Total Expenditure	**7,091,833,647**	**8,062,144,047**	**6,282,644,613**	**-21%**	**-11%**
Recurrent	5,403,897,408	5,020,834,202	4,725,604,817	**-6%**	**-13%**
Development	1,687,936,239	3,041,309,845	1,606,858,195	**-47%**	**-5%**
Unspent Bal Current FY	108,893,279		495,785,909		

2.2.1 Revenue Performance

During the period under review the County’s allocation of equitable share of revenue was KSh. 5,707,800,000 and grants of KSh. 318,908,797; while local revenue amounted to KSh. 801,540,123 against a target of KSh. 850,000,000, representing a negative variance of KSh. 48,459,877 or a 6 percent shortfall. In addition, the County received a total of KSh. 318,908,797 in form of grants under the Free Maternal Health Care, Donor Funds (HSSF) and Road Maintenance Fuel Levy Fund.

The increase in equitable shareable revenue was as a result of increased allocations to Counties by Commission of Revenue Allocation (CRA) credited to improved revenue performance and stable economic conditions at the national level. On the other hand, the underperformance in local revenue collection was because of prolonged electioneering period, insufficient revenue legislations to guide revenue collection and management, over-optimistic projections, automation challenges, amongst others.

On revenue performance per department, Agriculture and Trade were the leading revenue earners for the County with 50 and 13 percent respectively, while Education and Cooperatives were the least with 0.01 and 0.12 percent as indicated in Table 2.2.

Table 2.2 Summary of Own Source Revenue performance for FY 2017/2018

Cost Centre	Account Description	Revised Estimate 2017/2018 FY	Actual 2016/17FY	Actual 2017/18FY
Public Service Management				
Law court	Court Fines	20,000,000.00	9,325,646.00	8,760,734.00
Total		**20,000,000.00**	**9,325,646.00**	**8,760,734.00**
Department Finance				
Financial Management Unit	All Admin/ miscellaneous fees	6,000,000.00	10,828,710.00	7,031,779.00
Street Parking	Street Parking Fee	85,000,000.00	56,715,238.00	66,992,665.00
	Enclosed Bus Parks	125,000,000.00	96,732,758.00	98,139,158.00
	Clamping Fee/Impounding	2,000,000.00	4,416,080.00	6,529,898.00
	Motor Bike Stickers	15,000,000.00	1,942,738.00	6,541,500.00
Cess Management Unit	Sand, Quarry, Ballast and Tree	2,000,000.00	1,859,610.00	5,944,931.10
	Sugarcane Cess	5,000,000.00	5,205,334.55	2,485,718.85
	Wheat Maize, Milk and other Produce fees	45,000,000.00	30,653,922.40	36,968,873.47
	Log/Bark Cess	600,000.00	2,148,040.00	107,437.00
Slaughter House Management Unit	Slaughtering Fee	10,000,000.00	10,792,973.00	14,165,166.00
	Market Fees	36,000,000.00	23,802,502.00	17,892,863.00
Total		**331,600,000.00**	**245,097,905.95**	**262,799,989.42**
Department of Trade, Investment and Industrialization				
Business Permit Management Unit	Business Permits Current Year & Penalties	180,000,000.00	175,004,322.00	197,729,378.39
Coop societies Audit and supervision	Betting Control	2,500,000.00	1,811,250.00	2,534,310.00
	Weight and measures	2,000,000.00	1,123,710.00	1,654,840.00
Total		**184,500,000.00**	**177,939,282.00**	**201,018,528.39**
Department of Co-operative & Enterprise Development				
Coop societies Audit and supervision	Coop societies Audit and supervision	1,000,000.00	1,947,200.00	1,906,040.00
Total		**1,000,000.00**	**1,947,200.00**	**1,906,040.00**
Department of Roads, Transport, Energy and Public Works				
Engineering & Urban Planning Management	Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	5,000,000.00	4,397,142.50	1,462,823.00

Cost Centre	Account Description	Revised Estimate 2017/2018 FY	Actual 2016/17FY	Actual 2017/18FY
Unit				
Engineering & Urban Planning Management Unit	Sign Boards & Advertisement Fee	70,000,000.00	35,698,469.00	59,088,617.00
Fire-Fighting & Ambulance Management Unit	Fire-Fighting Services	1,000,000.00	554,800.00	4,707,050.00
Total		**76,000,000.00**	**40,650,411.50**	**65,258,490.00**
Department of Lands Housing and Physical Planning				
Land Rates Management Unit	Land Rates Current Year & Penalties	100,000,000.00	96,790,918.19	104,995,903.64
Housing Management Unit	Housing Estates Monthly Rent	20,000,000.00	22,617,924.00	28,798,762.20
Engineering & Urban Planning Management Unit	Buildings Plan Approval Fee	20,000,000.00	6,978,837.00	8,364,562.00
Engineering & Urban Planning Management Unit	Buildings Inspection Fee	5,000,000.00	-	-
	Document search Fees	300,000.00	5,500.00	27,500.00
	Transfer Fees	200,000.00	-	565,400.00
	Upgrading fees	600,000.00	-	
Total		**146,100,000.00**	**126,393,179.19**	**142,752,127.84**
Department of Education, Culture and Social Services				
Education Management Unit	Council Premises Occasional Hire (Offices, etc.)	500,000.00	442,500.00	147,300.00
Uasin Gishu Assessment Centre	Nursery Schools Fee/Training/Learning Fee	500,000.00	-	-
Total		**1,000,000.00**	**442,500.00**	**147,300.00**
Department of Health Services				
Epidemic Control & Inspection Unit	Innoculation Fee	6,000,000.00	4,759,780.00	4,722,102.00
Epidemic Control & Inspection Unit	Medical Examination (public health)	5,000,000.00	7,060,390.00	8,107,595.00

Cost Centre	Account Description	Revised Estimate 2017/2018 FY	Actual 2016/17FY	Actual 2017/18FY
Cemetery Unit	Burial Fees	1,000,000.00	615,900.00	510,000.00
Pest Control Unit	Food Quality Inspection Fee	3,000,000.00	-	4,855,858.00
County Health Facilities	Health Centers Services Fee	30,000,000.00	28,611,977.00	35,285,599.00
Total		**45,000,000.00**	**41,048,047.00**	**53,481,154.00**
Department of Water, Environment, Natural Resource, Tourism and Wildlife Management				
Refuse Collection Unit	Refuse Collection Fee	30,000,000.00	13,750,960.00	21,287,105.00
	Public Toilets	1,200,000.00	725,000.00	1,671,100.00
Environment	Cleansing Fees (Eldowas)	5,600,000.00	-	25,700,000.00
	Water Kiosks sales	1,000,000.00	607,150.00	1,055,100.00
Total		**37,800,000.00**	**15,083,110.00**	**49,713,305.00**
Department of Agriculture, Fisheries and Livestock				
	Veterinary Services	5,000,000.00	5,795,641.00	6,381,960.00
	AMS	2,000,000.00	2,406,963.00	1,049,340.00
Total		**7,000,000.00**	**8,202,604.00**	**7,431,300.00**
Direct Banking			2,386,861.80	7,371,154.67
Total Local Revenue		**850,000,000.00**	**668,516,747.44**	**801,540,123.32**

As illustrated in Table 2.2 above the department of Finance was leading having collected KSh. 262,799,989.42 followed by Trade, Investment and Industrialization which collected KSh. 201,018,528.39; while Education, Culture and Social Services lagged behind with a total collection of KSh. 147,300. In general, unmet revenue collection targets were as a result of prolonged electioneering periods and lack of sufficient legislations to guide in revenue collection and management among others.

2.2.2 Expenditure Performance

During the period under review, actual expenditure stood at KSh. 6,282,644,613 against projected amount of KSh. 8,062,144,047 reflecting an absorption rate of 77 percent. This under-spending can be attributed to low absorption of both recurrent and development expenditures by the line departments partly due to delays in release of funds by National Treasury and slow procurement processes in finalizing awarding of tenders for development projects attributed to e-procurement.

On budget implementation for 2017/18 financial year, expenditure item on personnel emoluments was the highest accounting for 48 percent of total expenditure while development stood at 38 percent.

2.2.2.1 Budget Absorption and Comparison between CFSP 2017 ceilings and FY 2017/18 budget

Table 2.3 shows that in the period under review, Health sector recorded the highest absorption rate of 90 percent followed by Public Administration 88 percent, Education 84 percent and Infrastructure 70 percent in that order; while Agriculture and Rural Development sector recorded the lowest at 52 percent. The slow absorption by respective sectors has been hinged mainly to a slow procurement process, delay in disbursements and staff capacity challenges.

Table 2.1 Showing Absorption rates by sectors and Comparison with CFSP 2017

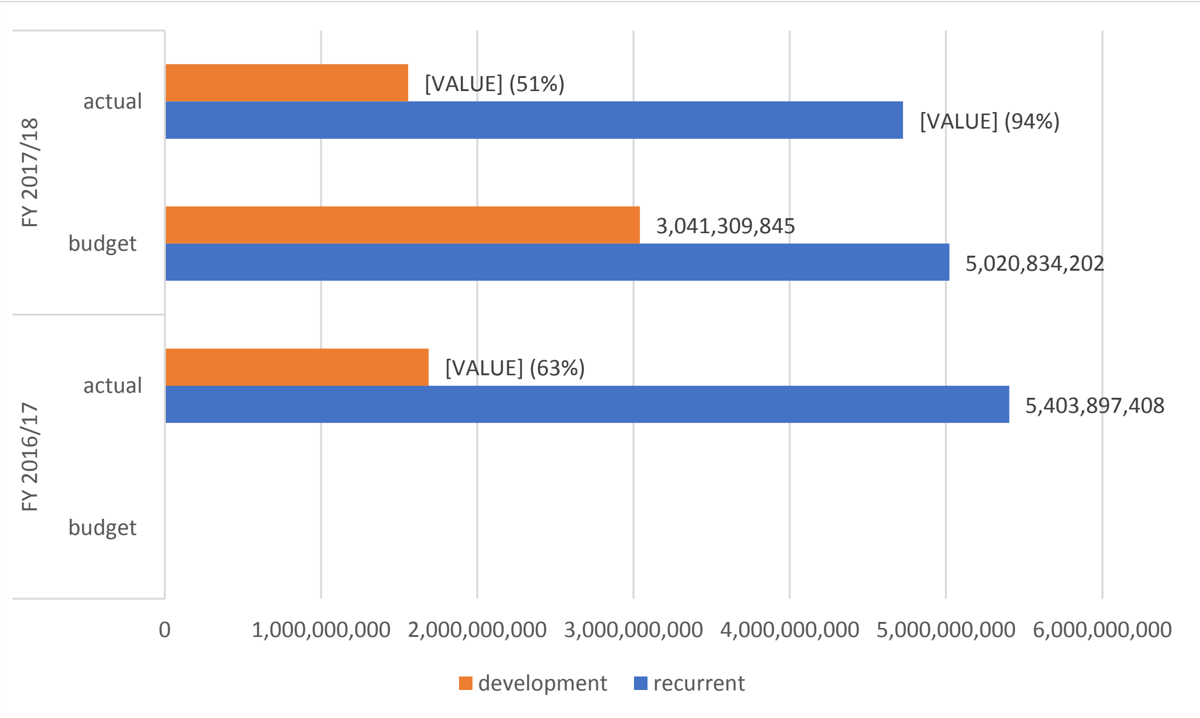
Sector	Department	C-FSP 2017 Ceilings			Budget Allocation FY 2017/18			Cumulative Expenditure FY 2017/18			Absorption	Deviation (%)
		Rec	Dev	Total	Rec	Dev	Total	Dev	Recurrent	Total	Total	
Public Admin	Office of the Governor	143,549,472	0	143,549,472	158,036,456	0	**158,036,456**		156,740,135	**156,740,135**	**99%**	10
	Finance	391,902,817	0	391,902,817	321,535,122		**321,535,122**		270,667,526	**270,667,526**	**84%**	-18
	County Public Service Board	67,426,580	0	67,426,580	50,381,039	0	**50,381,039**	0	47,882,531	**47,882,531**	**95%**	-25
	Public Administration	182,630,284	162,224,890	344,855,175	184,736,905	69,897,030	**254,633,935**	1,988,726	182,085,266	**184,073,992**	**72%**	-26
	Economic Planning	103,496,507	0	103,496,507	97,205,427	0	**97,205,427**	0	91,060,468	**91,060,468**	**94%**	-6
	Public Service Management	312,383,916	32,444,978	344,828,894	401,119,407	22,444,978	**423,564,385**	3,464,244	390,137,313	**393,601,557**	**93%**	23
	County Assebmly	572,000,000	100,000,000	672,000,000	568,547,182	50,000,000	**618,547,182**	49,109,389	561,549,191	**610,658,580**	**99%**	-8
	Sub-total	**1,773,389,576**	**294,669,868**	**2,068,059,445**	**1,781,561,538**	**142,342,008**	**1,923,903,546**	**54,562,359**	**1,700,122,430**	**1,754,684,789**	**91**	
ARD	ICT & E-Government	54,247,698	38,933,974	93,181,672	39,871,886	28,933,974	**68,805,860**	22,315,223	39,351,873	**61,667,096**	**90%**	-26
	Agriculture	258,361,619	410,969,723	669,331,342	249,969,937	187,428,739	**437,398,676**	57,732,116	228,403,430	**286,135,546**	**65%**	-35
	Livestock Devt and Fisheries	0	0	0	30,247,502	58,258,611	**88,506,113**	53,563,521	1,242,660	**54,806,181**	**62%**	#DIV/0!
	Trade, Investment and Ind.	116,503,944	183,854,876	300,358,820	87,952,612	175,796,174	**263,748,786**	40,863,836	91,566,192	**126,799,347**	**48%**	-12
	Lands & Housing	105,395,722	173,039,883	278,435,605	38,647,130	279,296,191	**317,943,321**	18,692,215	34,392,774	**53,084,989**	**17%**	14
	Physical Planning	0	0	0	9,767,660	195,204,635	**204,972,295**	23,978,826	1,242,600	**25,221,426**	**12%**	#DIV/0!
	Co-op & Enterprise Devt	0	0	0	14,862,660	242,068,456	**256,931,116**	236,397,919	10,359,960	**246,757,879**	**96%**	#DIV/0!
	Sub-total	**534,508,983**	**806,798,456**	**1,341,307,439**	**471,319,387**	**1,166,986,780**	**1,638,306,167**	**453,543,656**	**406,559,489**	**854,472,464**	**52%**	
Infrastructure	Roads & Public Works	440,943,153	410,570,829	851,513,983	336,697,558	724,418,255	**1,061,115,813**	437,209,060	332,807,324	**770,016,384**	**73%**	25
	Water, Environ & Natural Resources, Tourism & Wildlife	132,938,353	346,079,766	479,018,120	131,586,664	488,265,761	**619,852,425**	286,303,853	120,620,577	**406,924,430**	**66%**	29
	Sub-total	**573,881,506**	**756,650,595**	**1,330,532,103**	**468,284,222**	**1,212,684,016**	**1,680,968,238**	**723,512,913**	**453,427,901**	**1,176,940,814**	**70%**	
Health Services	Health Services	1,664,809,906	205,484,861	1,870,294,767	1,800,511,811	218,284,861	**2,018,796,672**	146,991,302	1,671,392,546	**1,818,383,847**	**90%**	8
Education	Education, Social & Culture	390,008,166	118,964,920	508,973,085	386,695,054	116,164,919	**502,859,973**	71,057,350	382,998,044	**454,055,394**	**90%**	-1
	Youth and Sports	142,687,071	237,929,839	380,616,911	112,262,190	184,847,261	**297,109,451**	107,372,217	111,104,409	**218,476,626**	**74%**	-22
	Sub-total	**532,695,237**	**356,894,759**	**889,589,996**	**498,957,244**	**301,012,180**	**799,969,424**	**178,429,567**	**494,102,453**	**672,532,020**	**84%**	-10
	Total	**5,079,285,208**	**2,420,498,539**	**7,499,783,750**	**5,020,634,202**	**3,041,309,845**	**8,061,944,047**	**1,557,039,797**	**4,725,604,819**	**6,277,013,934**	**78%**	7

Comparison between CFSP 2017 ceilings and 2017/18 FY budget allocation showed a general fall in budget allocations occasioned by decrease in equitable share of County revenue approved in CARA 2017 compared to projections provided in the BPS 2017. Sector ceilings for the following sectors were revised downwards, Public Administration (6 percent), Infrastructure (22 percent), Health (10 percent) and Education (10 percent) while that of Agriculture and Rural Development was revised upwards by 26 percent. The increase in allocation in the ARD sector could be attributed to enhanced Co-operative Enterprise Fund and other key strategic interventions in the sector.

2.2.2.2 Recurrent and Development Expenditure

As shown in Figure 2.2, absorption rates for recurrent and developments votes for the period under review was at 94 and 51 percent respectively. The absorption rate for development in the period under review was lower by 12 percent compared to the previous period (2016/17) attributed to unspent balances of KSh. 958,252,203 brought forward.

Figure 2.2: Showing Absorption Levels by Recurrent and Development Votes

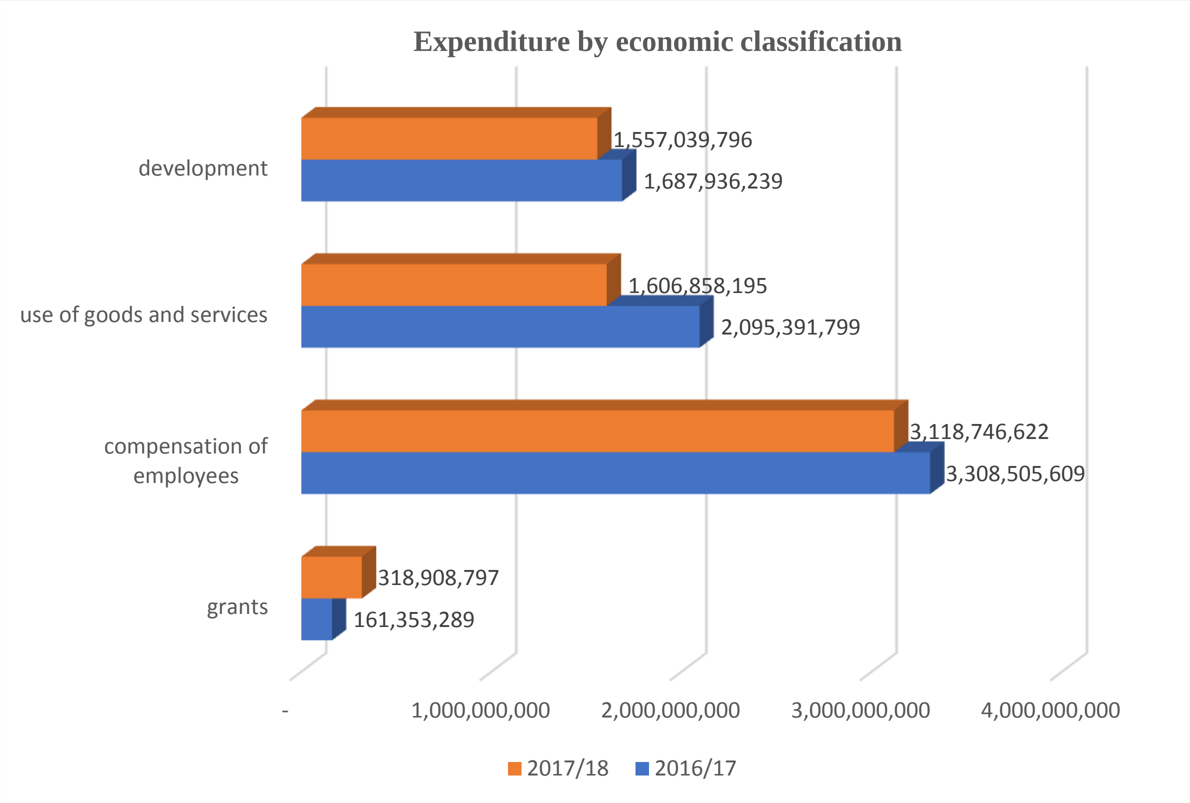


2.2.2.3 Expenditure by Economic Classification

The figure 2.3 shows actual expenditure by economic classification where personnel emoluments stood at KSh. 3,118,746,622 translating into 48 percent of the County governments total revenue and it had reduced by 3 per cent from the previous year 2016/17

FY. Development expenditure stood at KSh. 1,557,039,796 against a target of KSh. 3,041,309,845 translating into 23 percent absorption rate

Figure 2.1 Showing Expenditure by Economic Classification



2.3 Implication of 2016/17 FY Fiscal Performance

The fiscal performance in the FY 2017/18 has affected financial objectives set out in the 2018 County Fiscal Strategy Paper and the Budget 2018/19 in the following ways;

- Revenue collection lagged behind from a target of KSh. 850,000,000 to KSh. 801,540,123 translating into 6 percent shortfall. This unmet target led to adjustments to projected revenues for the budget and in the medium-term plan.
- Expenditures on personnel emoluments (PE) as a percent of County government revenue stood at 40 percent (5 percent above the recommended limit) while development was at 38 percent meeting threshold as prescribed by PFM Act 2012. In the medium term the County government expects to maintain wages and benefits expenditures within the prescribed limit.

The under spending in the 2017/18 FY budget has consequences on the total County government revenue used to base expenditures for the 2018/19 FY. Appropriate revisions will be undertaken considering the fiscal performance of 2017/18 FY.

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The section gives an overview of Recent Economic Developments, Medium Term Fiscal Framework, Risks to the Outlook and Proposed Interventions to the Risks. It gives an opportunity for the County to review and analyze recent economic performance for the purposes of positioning its outlook in the next financial year and over the medium term.

3.1 Recent Economic Developments

Uasin Gishu County's economy functions within the national, regional and international economic frameworks with dynamics in these spheres affecting the County's economic performance. The CBROP has been prepared against a backdrop of a recovering national economy in the equally recovering global and regional economies. The Kenyan economy is projected to recover and grow by 6.0 percent in 2018 up from 4.9 percent in 2017. This strong growth momentum is reflected in the strong growth of 5.7 percent in the first quarter of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. It was supported by the pickup in agricultural and manufacturing activities due to improved weather conditions, stable macroeconomic environment, ongoing infrastructure investments and regain in business and consumer confidence as a result of political stability. The economy also enjoys favorable ranking in ease of doing business and as a top investment destination.

The economy continued to radiate macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall month on month inflation fell to 4.0 percent in August 2018 from 8.0 percent in the same month 2017, which figure was within the 5.0 percent target set by the government. The reduction reflected a decrease in food prices which outweighed the rise in international oil prices. The energy prices continued to exert upward pressure on overall inflation due to higher fuel and electricity prices. In the twelve month to August 2018, the average annual inflation rate was at 4.7 percent compared to 8.3 percent in the same period in 2017.

The foreign exchange market remained broadly stable and competitive against major international currencies. Against the dollar, Euro and Sterling pound, the exchange rate strengthened to KSh. 100.6, KSh. 116.2 and KSh. 129.7 in August 2018 from KSh. 103.6, KSh. 122.2 and KSh. 134.2 in August 2017 respectively. This was supported by a narrowing current account deficit which stood at 5.8 percent of GDP in the 12 months to June 2018 from 6.4 percent over the same period in 2017, as a result of strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts. Strong capital inflows also contributed to the stabilization of the shilling in the foreign exchange market, hence allowing for accumulation of international reserves. The usable official reserves stood at US$ 8,652 billion or 5.8 months of imports by end August 2018.

The growth in the Kenya's gross domestic product (GDP) facilitated the release of enhanced equitable share allocation to the County during the FY 2017/18. Further, with the recovery and positive growth prospect of the Country, the County is expected to receive even more National Government transfers in the medium term leading to more developments and enhanced service delivery. The County's economy is also expected to benefit from the recovery of the regional and global economies and a broadly stable and competitive foreign exchange market in terms exports of agricultural produce, among others.

The macroeconomic stability with low and stable interest rates and within target inflation rate contributed to the national GDP growth through increased aggregate demand. This is also expected to increase the County's aggregate demand in the medium term, reflected in increased investments and economic activities in the County leading to creation of job opportunities especially for the youth, and increased incomes. All these are expected to translate to increased local revenue performance. However, the introduction of eight percent VAT on fuel and fuel products and increase in other taxes may act as damper in the realization of the aforementioned.

During the FY 2017/18, local revenue performance was at KSh. 801,540,123 against a target of KSh. 850,000,000, giving a percentage shortfall of about six percent. The slight shortfall was as a result of prolonged electioneering period and inadequate legislative framework to improve revenue administration and management. However, this was a 20 percent improvement in own revenue collection compared to 2016/17. In the same period, the County government received KSh. 5,707,800,000 equitable share allocation from National Government and a grant of KSh. 318,908,797, giving total County revenue of KSh. 6,828,248,920.

In FY 2017/18, the total expenditure was KSh. 6,282,644,613 against budget of KSh. 8,062,144,047, giving absorption rate of 77.9 percent. Recurrent expenditure took KSh. 4,725,604,817 (69% of total revenue) and development expenditure accounted for KSh. 1,557,039,796 (23% of total revenue). The absorption challenge was attributed to delays in exchequer releases, procurement challenges and below target own-revenue collection.

In the medium term, the County intends to maintain fiscal balance with no anticipated long term borrowing. However, should there be any compelling need, then long term borrowing will be done within the framework for Sub-Nationals approved by the Inter-Governmental Budget and Economic Council (IBEC) and the guidelines issued by Commission for Revenue Allocation (CRA). The borrowed funds will be entirely channeled towards financing development programs and projects, with the debts maintained at a sustainable level.

3.2 County Economic Outlook and Policies

The County's transformational agenda will focus on growth potential areas for maximum impact to the economy and residents of the County. Being largely agricultural, the County will focus on increasing agricultural production and productivity, supporting value addition and agro processing, and strengthening cooperative movement in the County. The County will also address development needs in water, health, infrastructure, and trade and investment. The County will strengthen collaboration, partnerships and networks with regional counties, National Government, private sector and development partners in alleviating development challenges affecting residents of Uasin Gishu County. In particular, the County will harness synergies arising from collaboration and partnerships to accelerate implementation of flagship programmes and projects identified in the CIDP, Vision 2030 and The Big Four plan. The County will also engage in trans-County collaboration and build capacities to strengthen revenue collection to increase resource base for enhanced delivery of development outcomes.

3.3 Medium Term Fiscal Framework

The County will continue to pursue fiscal balance in the next financial year and over the medium term, with need basis short term borrowings for cash flow management purposes. This will be in the face of scarce resources against increasingly high developmental demands in County's priority areas including water services, agriculture, infrastructure, social services (health, education and social protection), cooperatives development and trade development.

The County's fiscal policy objective will focus on expenditure productivity and prioritize spending in the next financial year and over the medium term on growth potential areas of agriculture and infrastructure to capitalize on the recovering national, regional and global economic environment for exports and job creation. The other sectors will also receive their allocations at appropriate levels to augment development process in the County.

Own revenue performance has been fluctuating over the years with the FY 2017/18 registering about 20 percent increase compared to 2016/17. Equitable share allocation to the County slightly increased by about 0.2 percent in the same period. Appropriate measures will be implemented over the medium term to realize growth in the revenue levels of the County. This will include engaging the National Government and development partners for increased financing of development programmes and projects, especially in form of conditional and unconditional grants. The County will prioritize broadening of tax base to bring on board more uncovered tax payers as opposed to increasing taxes and levies. Enforcement for compliance and use of ICT in revenue collection will also be strengthened. Adequate legislation framework will be developed to bolster revenue administration and management.

The County government will closely monitor expenditures with a view to controlling or rationalizing the same to reflect fiscal realities, while focusing on expenditure productivity. In the medium term, the recurrent expenditure is anticipated to exert pressure on County resources due to increasing personnel emoluments, thus affecting development process; operations will also be a major expenditure line in the medium term. However, with the positive growth prospects and stable macroeconomic environment anticipated in the medium term, the recurrent expenditure is projected to oscillate at around 61 percent of the total County government expenditure while development expenditure at around 39 percent. To improve absorption capacity of the County, the government will engage the National Government over the full roll out of Integrated Financial Management Information System (IFMIS) and simplification of procurement legislation.

3.4 Risks to the Outlook

The macroeconomic outlook may face the following risks.

- Adverse weather conditions resulting to reduced agricultural productions and destruction of basic infrastructure like roads, bridges etc.
- Inadequate equitable share allocation to the County.
- Delay in exchequer releases hence affecting absorption levels
- Public expenditure pressure as a result of recurrent expenditures.
- Conflicting priorities between the County Assembly and the County Executive thus affecting budget absorption.
- Below target own revenue performance due to inadequate capacity.

3.5 Proposed Interventions to the Risks

The County will pursue the following to reduce on the risks to County' economic outlook.

- Full roll out of IFMIS and simplification of procurement legislation.
- Full automation and integration of revenue collection, while strengthening partnership with local banks to realize increased revenue collection.
- Implementation of Rapid Results Initiative (RRI) for revenue collection.
- Observe the County's financial objectives and fiscal responsibility principles.
- Improve dialogue between the County Executive and the Assembly in the budget making process.
- Develop adequate legislative framework to bolster revenue administration and management.

4.0 RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the County expects to raise in the FY 2019/20 and then allocates them across the County departments by setting expenditure ceilings.

4.1 Adjustment to the FY 2017/18 Budget

The 2017/18 Budget was adjusted downwards to take into account the lower than expected revenues owing to poor fiscal performance at the national level due to repeat elections that saw allocations to counties reduced.

Implementation of the current budget (2018/19) is running smoothly even though the revisions on VAT on fuel (Finance Act 2018) by the National Assembly may dampen downwards national revenue projections and thus allocations to the counties. Therefore, in view of this constrained fiscal development, together with local revenue shortfalls as experienced in the previous year, the County is expected to review downwards the projections for the FY 2018/19 Budget. In addition, measures aimed at reducing unnecessary expenses and strict adherence to the approved budget allocations will be pursued.

4.2 Medium Term Expenditure Framework

The FY 2019/20 Budget makes provisional allocations of about KSh. 8,406,113,519 for several programs that will support attainment of County goals outlined in the CIDP II. Table 4.1 therefore provides indicative sector ceilings for the 2019/20 – 2021/22 MTEF period. The projections are inclusive of conditional allocations and grants.

Table 4.1 Summary of Indicative Sector Ceilings for FY 2019/20 MTEF

Sector	MDAs		Total Expenditure KShs.				% Share of Total Expenditure			
			Estimates 2018/19	C-BROP Ceiling 2019/2020	Projections		Estimates	Ceilings	Projections	
					2020/2020	2021/2022	2018/19	2019/2020	2020/2021	2021/2022
Public Admin.	Governor's Office	Sub-Totals	115,936,611	151,841,452	155,757,335	159,789,604	1.38%	1.81%	1.81%	1.82%
	Finance	Sub-Totals	374,140,457	447,484,510	457,816,527	468,458,566	4.44%	5.32%	5.33%	5.34%
	Economic Planning	Sub-Totals	59,794,443	87,461,843	89,716,785	92,039,388	0.71%	1.04%	1.04%	1.05%
	Public Service Management	Sub-Totals	734,564,192	619,914,852	635,897,496	652,359,717	8.72%	7.37%	7.40%	7.43%
	Devolution & Public Administration	Sub-Totals	162,574,963	230,200,581	236,135,613	242,248,731	1.93%	2.74%	2.75%	2.76%
	County Public Service Board	Sub-Totals	32,850,007	55,722,842	57,159,489	58,639,243	0.39%	0.66%	0.67%	0.67%
	County Assembly	Sub-Totals	781,771,448	679,754,091	697,279,511	715,330,801	9.28%	8.09%	8.12%	8.15%
ARD	Agriculture	Sub-Totals	456,319,515	402,098,059	409,448,457	417,019,412	5.41%	4.78%	4.77%	4.75%
	Livestock Development & Fisheries	Sub-Totals	63,590,550	113,665,461	116,595,984	119,614,441	0.75%	1.35%	1.36%	1.36%
	Trade,Investment & Industrialisation	Sub-Totals	143,400,286	246,018,650	251,201,313	256,539,487	1.70%	2.93%	2.92%	2.92%
	Co-op & Enterprise Dev	Sub-Totals	77,123,337	165,086,078	169,342,327	173,726,289	0.92%	1.96%	1.97%	1.98%
	ICT & e-govt.	Sub-Totals	75,478,597	83,698,045	85,855,948	88,078,602	0.90%	1.00%	1.00%	1.00%
	Physical Planning & Urban Dev	Sub-Totals	741,023,439	830,513,752	835,679,587	841,000,428	8.79%	9.88%	9.73%	9.58%
	Lands and Housing	Sub-Totals	435,195,080	367,270,684	376,739,657	386,492,757	5.16%	4.37%	4.39%	4.40%
Infrastructure	Roads,Transport,Energy & Public Works	Sub-Totals	679,029,358	559,300,635	569,692,013	580,395,195	8.06%	6.65%	6.63%	6.61%
	Water, Environment,Natural |Resources,Tourism &Wildlife	Sub-Totals	816,936,459	720,430,616	735,524,189	751,070,660	9.69%	8.57%	8.56%	8.56%
Health	Health Services	Sub-Totals	2,099,476,595	1,941,880,109	1,988,591,792	2,036,705,110	24.91%	23.10%	23.15%	23.20%
Education	Education, Culture,& Social Services	Sub-Totals	402,222,066	420,444,034	431,283,922	442,449,072	4.77%	5.00%	5.02%	5.04%
	Youth Affairs, Gender and Sports	Sub-Totals	176,648,118	283,327,226	289,774,717	296,415,672	2.10%	3.37%	3.37%	3.38%
		Grand Total	**8,428,075,521**	**8,406,113,521**	**8,589,492,661**	**8,778,373,175**	**100%**	**100%**	**100%**	**100%**

4.3 The Proposed 2019/20 Budget Framework

4.3.1 Revenue Projections

The FY 2019/20 budget targets total revenue (equitable share and local) collection of KSh. 7,112 million down from KSh. 7,134 million in the FY 2018/19. The decline is attributed to reduction in projection of local revenue for the coming year to KSh. 1 billion from the KSh. 1.2 billion in the current year. Achievement of this will be reliant on revenue raising measures put in place such as automation, expansion of revenue streams, enforcement and legislation on revenue administration. An additional KSh. 1,293 million is expected in terms of grants.

4.3.2 Expenditure Forecasts

In the proposed 2019/20 budget, overall expenditures are projected to decrease by 0.3 percent to KSh. 8,406,113,516 from KSh. 8,428,075,519 in the FY 2018/19. Recurrent expenditure is projected to decrease by 1 percent to KSh. 5,086,012,596 while development expenditure is expected to grow by 1 percent to KSh. 3,320,100,923. This accounts for 61 and 39 percent of total budget respectively for recurrent and development expenditures and thus within the recommended level of 30 percent. In addition, personnel emolument is projected to reduce to 46 percent of total revenue (exclusive grants) from 47 percent in FY 2018/19 and which is above the required limit of 35 percent. This slight decrease of 1 percent is attributed to staff retiring from the service amongst others.

Therefore, the County government will in the medium term ensure compliance of section 107 of the PFM Act 2012 on the fiscal responsibility principles by enhancing expenditure productivity, managing the rising wage bill, amongst other measures.

Table 4.2 below indicates the projections for expenditure in the medium term period.

Table 4.2: Summary of Expenditure Projections for FY 2019/20 and MTEF

Expenditure Type	Actual	Approved Budget	Projections		
	2017/18 FY	2018/19 FY	2019/20 FY	2020/21 FY	2021/22FY
Total Expenditure	6,282,644,613	8,428,075,519	8,406,113,519	8,589,492,659	8,778,373,173
Recurrent	**4,725,604,817**	**5,220,310,175**	**5,086,012,596**	**5,258,641,839**	**5,394,977,412**
Recurrent as % of CG Total Revenue	*69%*	*62%*	*61%*	*61%*	*61%*
Personnel Emoluments	3,118,746,622	3,349,932,171	3,281,121,554	3,346,743,985	3,413,678,865
Operations & Maintenance	1,606,858,195	1,870,378,004	1,804,891,042	1,911,897,854	1,981,298,547
P E as % of CG Revenue	*48%*	*47%*	*46%*	*46%*	*46%*
Development	**1,557,039,796**	**3,207,765,345**	**3,320,100,923**	**3,330,850,820**	**3,383,395,761**
Development as % of CG Total Revenue	*23%*	*38%*	*39%*	*39%*	*39%*

4.4 Projected Fiscal Balance

The County anticipates a balanced budget in the proposed 2019/20 financial plan. However, any shortfall in revenue that may occur within the year will be addressed through supplementary or borrowing within the borrowing framework for sub nationals.

5.0 CONCLUSION

CBROP reviews the County's fiscal performance of the previous financial year with a view to establishing how this impacts on the financial objectives and fiscal responsibility principles set out in the latest approved CFSP. This together with the updated macroeconomic developments and outlook informs revision of the current budget in the context of supplementary estimates and the broad fiscal considerations defining the next budget and over the medium term. The paper also presents indicative sector ceilings that will guide FY 2019/2020 budget and in the medium term.

The County experienced underperformance in own revenue collection by six percent against the revenue target for the FY 2017/18, but this was a 20 percent increase in own revenue collection compared to 2016/17. There was a slight increase in equitable share allocation to the County in the same period. Budget execution was at 77.9 percent.

Review of the macroeconomic developments in the country revealed a recovering economy with stable macroeconomic environment, which conditions portend enhanced resources for the actualization of the transformational agenda of the County. Amid the inherent scarcity of resources, the County will pursue expenditure productivity and prioritize spending on growth potential areas including agriculture, infrastructure, social services (health, education and social protection), cooperatives movement and trade development. The government resolves to pursue fiscal balance, with need basis short term borrowing for cash flow management. However, the amendments to the Finance Act 2018 may lead to budget cuts in the current financial year, thus affecting development process of the County.

The County projects KSh. 8,406 million budget to be financed by equitable share allocation of KSh. 7,112 million and local revenue KSh. 1 billion and grants of KSh. 1,293 million.

The policies outlined in this CBROP reflect the changed circumstance, are in line with the fiscal responsibility principles set out in the PFMA 2012, and are consistent with the County's strategic objectives as a basis for resource allocation.