

COUNTY GOVERNMENT OF KAKAMEGA



FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

(FY 2018/2019)

SEPTEMBER 2019

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Foreword

The County Budget addresses key roles in attaining and maintaining a desired level of economic growth by ensuring a balanced distribution of resources and wealth through development projects and programmes. During the FY 2018/2019 Kakamega County witnessed significant improvement in socio-economic and fiscal development. To sustain this momentum, the County has put measures to track its expenditure and project status continuously through developing monitoring and evaluation system and performance contracting infrastructure. Through these initiatives, the county has implemented many development projects in various sectors which have stimulated economic growth being witnessed so far.

Despite the growth prospects, poverty and unemployment still remain the major challenges. However, with decisive and firm action being implemented in accountable and transparent manner, the County shall speed up the pace of economic growth and accelerate massive transformation which will expand job market and wealth creation.

The implementation of the FY 2018/19budget faced some challenges. Among the notable challenges was the delay in the disbursement of funds from the National Treasury. Consequently, this delayed project implementation during the first quarter of the year.

Despite the challenges encountered, the County achieved tremendous development milestones that include, upgrading of gravel roads to bitumen standards to improve accessibility, the on-going construction of state-of-art County Teaching and Referral Hospital to improve accessibility to quality health services, upgrading of market infrastructure to create an enabling environment for business to thrive, improved education infrastructure that has improved learning and training environment, provision of subsidized agricultural inputs to improve food security and initiation of water projects to cover every home over the medium term.

This County Budget Review and Outlook Paper (CBROP)is prepared in accordance with the Public Financial Management Act, 2012 section 118.It presents the recent economic developments, actual fiscal performance of the FY2018/2019 and makes comparisons to the budget appropriations for the same financial year.

CPA Geoffrey N. Omulayi
Executive Committee Member
Finance and Economic Planning

Acknowledgement

The preparation of the FY 2018/19 CBROP was a collaborative and consultative effort among various departments. Special thanks goes to H.E, the Governor for providing a clear development vision for the county. This is clearly articulated in his manifesto and the development plans.

We are also grateful for the valuable inputs from the County Executive Committee Members spearheaded by the CEC Finance and Economic Planning and all the Chief officers for their leadership and guidance.

Lastly, I particularly appreciate the County Budget department, the team from the Economic Planning and investment for their tireless efforts towards ensuring that this document was completed in good time. Special thanks go to the officers from accounts, reporting and revenue department for providing information and in the preparation of various sections of this document.

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TABLE OF CONTENTS

Foreword	iii
Acknowledgement	iv
1.0 INTRODUCTION	1
1.1 Background	1
1.2 Objectives of CBROP	1
1.3 Organization of the document	1
II. REVIEW OF FISCAL PERFORMANCE IN FY 2018/2019	2
A. Overview	2
B. Fiscal Performance for F/Y 2018/2019.....	2
C. Implication of 2018/19 fiscal performance on fiscal responsibility principles and financial objectives for FY 2019/2020	29
Fiscal Responsibility Principles	29
III. RECENT ECONOMIC DEVELOPEMNT AND OUTLOOK.....	31
A. Recent Economic Developments	31
IV. MEDIUM- TERM EXPENDITURE FRAMEWORK	37
A. Implementation of 2019/20 budget	38
C. Adjustment to FY 2019/20 Budget.....	39
D. FY 2020/21 Budget framework	43
V. CONCLUSION AND WAY FORWARD	45

List of Tables

Table 1: Summary of Transfers from the National Government.....	2
Table 2: Summary of Revenue performance	4
Table 3: Detailed Revenue performance for FY 2018/2019	5
Table 4: Expenditure by Category	7
Table 5: Departmental Expenditure for the period ending 30th June 2019.....	9
Table 6: Macroeconomic Indicators for the FY 2020/21- 2023/24 Period	32
Table 7: Average Foreign Exchange Rates of Kenya Shilling for Selected Currencies, 2014-2018.....	34
Table 8: Medium Term Sector Ceilings, FY 2020/21-2022/23	40
Table 9: Summary of Revenue Projections over the medium term	43

List of Figures

Figure 1: Trend in Kenya's GDP growth rates from 2013-2019	32
Figure 2: Kenya's inflation rates from 2013-2018.....	33
Figure 3: Kakamega GCP % contribution to national GDP, 2013-2017	35
Figure 4: County Share of GDP, 2017	36
Figure 5: Main sectors as a % of GCP, 2017	37

List of Abbreviations

ADP	Annual Development Plan
ASDSP	Agricultural Sector Development Support Programme
BPS	Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DANIDA	Danish International Development Agency
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
HSSF	Health Sector Service Fund
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PFM	Public Financial Management
SWGs	Sector Working Groups
V 2030	Vision 2030

Legal Basis for the preparation of the County Budget Review and Outlook Paper

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

1. A County Treasury shall-
 - a) prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
 - b) Submit the paper to the County Executive Committee by 30th September of that year.
2. In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify-
 - a. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
 - b. The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Fiscal Strategy Paper;
 - c. Information on-
 - i. Any changes in the forecast compared with the County Fiscal Strategy Paper; or
 - ii. How actual financial performance for the previous financial year may have affected compliance with fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
 - d. The reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviations and the time estimated to do so.
3. 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 CBROP is approved by 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 having done so, publish and publicize the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the Public Financial Management (PFM) Act, 2012,

Sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law (Section 107) states that:

- 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 percent (30%) of the county government budget shall be allocated to development expenditure
- 2) The county government's expenditure on wages and benefits for public officers shall not exceed 35 percent (35%) of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
- 3) 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
- 4) County debt shall be maintained at a sustainable level as approved by County Assembly.
- 5) Fiscal risks shall be managed prudently.
- 6) 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.

1.0 INTRODUCTION

1.1 Background

1. This budget review has been prepared through a collaborative and consultative process in line with the Public Finance Management Act, 2012 section 118. The County Budget Review and Outlook Paper (CBROP) contains a review of the fiscal performance of the financial year 2018/2019 and updated macroeconomic forecasts.

1.2 Objectives of CBROP

2. To provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the latest County Fiscal Strategy Paper (CFSP) which is prepared in line with the most recent Budget Policy Statement (BPS). This together with an updated macro-economic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term expenditure framework.

The CBROP is also a key document in linking policy, planning and budgeting. The emerging issues and county changing priorities that arose from the fiscal performance in FY 2018/19 will be reviewed and addressed through The County Integrated Development Plan (CIDP 2018-2022).

1.3 Organization of the document

Section I provides an introduction and the legal basis for the preparation of the CBROP 2019.

3. Section II provides a review of the fiscal performance in FY2018/19 and its implications on the financial objectives set out in the last Medium Term Expenditure Framework (MTEF) submitted to the County Assembly in June 2019. Section III provides brief highlights of the recent economic developments and updated macroeconomic outlook in the country.

Section IV provides the resource allocation framework, while Section V gives the conclusion and recommendations.

II. REVIEW OF FISCAL PERFORMANCE IN FY 2018/2019

A. Overview

4. The fiscal performance and absorption of approved budget of 2018/19 was satisfactory at 85.25%. Despite improved performance, there were still challenges related to disbursement of funds from the National Treasury.
5. The county revenue collection performance improved as compared to the previous year (2017/18). This performance surpassed the original approved target by 6%. Local revenue collection was KES 896.66 Million against revised budget estimates target of KES 1 Billion.
6. On the other hand, the revenue received from the National Government consisted of an equitable share of KES 10.330 Billion, and total Conditional grants of KES 1.644 Billion. The summary of transfers from the National Government including conditional grants is highlighted in table 1 below;

Table 1: Summary of Transfers from the National Government

Date	Amount disbursed
2018/2019 Equitable shareable revenue	10,330,600,000
Level 5 Hospital Grant	427,283,241
World Bank-THSUCP	67,018,603
DANIDA-UHDSP	33,311,250
World Bank-KCSAP	41,643,182
World Bank-KUSP(DEV)	389,118,800
World Bank-KUSP(REC)	41,200,000
Roads Maintenance Levy Fund	271,995,701
Dev of Youth Polytechnics	52,782,050
User Fee	37,789,290
KDSP Level 2	262,583,677
ASDSP(Agricultural Sector Development Support Programme)	19,655,858
Grant Total	11,974,981,652

B. Fiscal Performance for F/Y 2018/2019

Revenue Performance

7. The total local revenue collection was KES 896.6 million compared to the target in the revised budget to KES1 Billion. This represents revenue shortfall of KES 103.3 million or 10.3%. The National Government disbursements amounted to KES 11.974 Billion. This amount consisted of conditional grants amounting to KES 1.644 Billion and equitable shareable revenue of KES10.330 Billion as provided in table1.The total revenue available for spending was **14,279,632,581**after the incorporation of transfers from the National Government besides the balance from the previous FY 2017/18 of KES. 1.293 Billion.

Table 2: Summary of Revenue performance

Revenue	Actual Receipts		Approved Budget	Revised Budget	Actual Receipts
	2016/17	2017/2018	2018/2019		
Equitable shareable	9,612,093,312	9,935,800,000	10,330,000,000	10,330,600,000	10,330,600,000
Conditional grants	810,543,312	1,022,691,107	1,524,350,260	1,664,833,419	1,644,381,649
Receipts from Sugar Fund	-	-	200,000,000	200,000,000	113,999,967
Own sources	449,487,475	682,269,542	843,624,284	1,000,000,000	896,660,752
Balance carried	938,094,443	1,054,095,324	1,609,175,958	1,293,990,068	1,293,990,068
Total	11,810,218,542	12,694,855,973	14,507,150,502	14,489,423,487	14,279,632,649

Table 3: Detailed Revenue performance for FY 2018/2019

Total Revenue And Grants	Actual Receipts		Approved Budget	Revised Budget	Actual Receipts	Deviation
	2016/2017	2017/2018				
Own sources	449,487,475	682,269,542	1,043,624,284	1,200,000,000	1,010,660,719	(189,339,281)
Single Business Permit	59,469,151	68,649,690	104,372,988	104,372,988	79,968,601	(24,404,387)
Barter Market	41,988,843	25,824,915	60,329,969	60,329,969	33,397,604	(26,932,365)
Property Rates	16,898,047	30,774,822	42,581,829	42,581,829	18,555,615	(24,026,214)
CESS	41,996,730	27,155,400	56,154,787	56,154,787	49,245,668	(6,909,119)
Housing/Stall	7,562,670	6,745,045	12,092,535	12,092,535	3,028,776	(9,063,759)
Kiosk Fee	4,691,450	1,686,040	3,913,679	3,913,679	3,385,980	(527,699)
Slaughter	3,549,615	1,840,475	7,594,160	7,594,160	2,094,795	(5,499,365)
Bus Park	50,541,615	47,579,674	64,565,653	64,565,653	40,742,790	(23,822,863)
Parking Fee	9,259,360	6,960,280	17,850,134	17,850,134	11,667,960	(6,182,174)
Hire of Machinery	1,719,600	1,529,700	13,005,022	13,005,022	3,913,200	(9,091,822)
Other Revenues/devolved government functions/miscellaneous	61,340,662	40,396,621	-	-	42,329,472	42,329,472
Stock Sales			15,106,905	15,106,905	11,985,875	(3,121,030)
Service fee charges			7,762,608	7,762,608	9,434,445	1,671,837
Liquor license	13,972,281	26,667,711	30,107,930	30,107,930	17,886,326	(12,221,604)
Health facilities & Others	135,737,451	187,867,271	356,387,604	512,763,320	333,420,554	(179,342,766)
Public Health			15,167,050	15,167,050	15,367,433	200,383
Dividend and interest	760,000	12,508,664	2,624,860	2,624,860	450,000	(2,174,860)
Plans inspection		8,250,495	10,229,260	10,229,260	16,531,643	6,302,383

Total Revenue And Grants	Actual Receipts		Approved Budget	Revised Budget	Actual Receipts	Deviation
	2016/2017	2017/2018				
Advertising(Billboard)		7,548,007	12,195,558	12,195,558	17,535,426	5,339,868
Farm mechanization		2,776,000		-	1,495,033	1,495,033
ATDC			11,581,753	11,581,753	5,295,121	(6,286,632)
Sugar fund proceeds			200,000,000	200,000,000	113,999,967	(86,000,033)
Farm Input Proceeds		177,508,732	-	-	178,928,435	178,928,435
Exchequer balance brought forward	938,094,443	1,054,095,324	1,609,175,958	1,293,990,068	1,293,990,068	-
Total Allocation from the National Government	10,595,875,624	10,958,491,107	11,854,350,261	11,995,433,420	11,974,981,649	(20,451,771)
Equitable share of revenue	9,612,093,312	9,935,800,000	10,330,000,000	10,330,600,000	10,330,600,000	-
Conditional Grants	983,782,312	1,022,691,107	1,524,350,261	1,664,833,420	1,644,381,649	(20,451,771)
Level 5 Hospital	406,936,416	427,283,238	427,283,238	427,283,238	427,283,238	-
Roads Maintenance Levy Fund	147,689,749	379,552,259	271,995,701	271,995,701	271,995,701	-
HSSF -DANIDA		39,865,919	33,311,250	33,311,250	33,311,250	-
Free Medical Maternal Health Care	205,550,000	-				-
User Fees forgone	38,617,147	38,617,145	37,789,290	37,789,290	37,789,290	-
ASDSP		-	14,433,152	33,716,311	19,655,858	(14,060,453)
Youth polytechnics		28,060,821	69,910,000	69,910,000	52,782,050	(17,127,950)
Kenya Devolution support program-Level 1	-	59,311,725	63,508,830	63,508,830	-	(63,508,830)
Kenya Devolution support program-Level 2					262,583,677	262,583,677
World bank-Universal Health Care Fund		50,000,000	100,000,000	100,000,000	67,018,603	(32,981,397)

Total Revenue And Grants	Actual Receipts		Approved Budget	Revised Budget	Actual Receipts	Deviation
	2016/2017	2017/2018				
World bank-Kenya Climate Smart Agriculture)			117,000,000	117,000,000	41,643,182	(75,356,818)
Kenya Urban Support Programme-Capital			389,118,800	389,118,800	389,118,800	-
Kenya Urban Support Programme-Recurrent			-	41,200,000	41,200,000	-
EU-Water Tower Protection and Climate Change Mitigation and Adaptation Programme(WaTER)			-	80,000,000	-	(80,000,000)
Other transfers	184,989,000	-				-
Total Revenue And Grants	11,983,457,542	12,694,855,973	14,507,150,503	14,489,423,488	14,279,632,436	(209,791,436)

Notes on table 3:

A. Other Revenues/devolved government functions/miscellaneous :(Kshs. 42,329,472)

1. Miscellaneous- Kshs. 35,681,412
2. Motor Bikes-Kshs. 5,933,010
3. Noise control-Kshs. 715,050

B. Service Fee charges-Kshs. 9,434,445

1. Impounding Fee- Kshs. 1,144,295
2. Veterinary- Kshs. 4,820,570
3. Public Toilet- Kshs. 1,113,330
4. Reg' Group- Kshs. 226,420

5. Bukhungu Stad- Kshs. 1,412,430
6. Nursery fees- Kshs. 20,700
7. Weights and Measures- Kshs. 696,700

Challenges in local revenue collection

8. The local revenue target was exceeded by 6% in relation to the approved original budget. However, in comparison to the revised revenue target, this was not met.
9. Inadequate capacity of revenue collection in terms of staff, facilitation and ineffective enforcement are the main challenges in local revenue collection. Another challenge is pilferage or loss of revenue due to use of manual system of collection. The challenges mentioned here are being addressed through:
 - Recruitment of revenue clerks.
 - Automation of revenue collection system.
 - Strengthening enforcement of revenue collection.
 - Improvement of legal framework on revenue collection and administration law

Expenditure Performance

10. Total expenditure was KES 12.352 Billion against revised expenditure estimates of KES14.489 Billion, representing an under-spending of KES 2.137 billion (14.75%). Overall absorption rate was 85.25% of which 95% was recurrent and 74% development. As indicated above, the performance for FY 2018/2019 remained the same compared to that of FY2017/2018 which was 85%.
11. Total recurrent expenditure for FY 2018/2019 amounted to KES.7.299 Billion; representing an under-spending of KES. 385.927million (5%) deviation from the revised expenditure estimates. The under-spending was generally in respect to delayed disbursements for May and June 2019 equitable shareable revenue and the unmet target of revised local revenue.
12. The total recurrent expenditure consists of 23% for Operations and Maintenance, 62%for Salaries& wages and 15% transfer to County Assembly.

13. Total development expenditure was KES 5.053 Billion compared to a revised budget of KES 6.804 Billion. This represented an under-spending of KES 1.751Billion (26%) which is attributed to late disbursements for May and June2019 equitable shareable revenue and the unmet revised target of domestic revenue.

Table 4: Expenditure by Category

PAYMENTS	2017/2018	2018/2019			
	Actual	Approved budget	Revised budget	Actual	Deviation
1. RECURRENT	6,915,058,972	7,499,284,319	7,685,242,963	7,299,315,002	385,927,961
Compensation of Employees	4,576,715,972	4,726,622,183	4,546,356,117	4,469,521,710	76,834,407
Operations and Maintenance	1,444,826,262	1,773,944,746	2,077,522,256	1,778,487,462	299,034,794
County Assembly	893,516,738	998,717,390	1,061,364,590	1,051,305,830	10,058,760
2. DEVELOPMENT	4,238,969,011	7,008,466,183	6,804,180,524	5,053,002,551	1,751,177,973
Development projects	4,238,969,011	7,008,466,183	6,804,180,524	5,053,002,551	1,751,177,973
TOTAL EXPENDITURE	11,154,027,983	14,507,750,502	14,489,423,487	12,352,317,553	2,137,105,934

Source: County Treasury

14. In general, it should be noted that the expenditure outturn for the FY2018/19 in this document is against the appropriated account by the County Assembly. The statement of financial position of the government will be provided by the audited financial statement as per Public Finance Management Act 2012 section 163.

Departmental Fiscal performance

15. The overall departmental expenditure was satisfactory. Most departments performed fairly well with the Department of Public Service and Administration being the highest at 96% while the Department of Lands, Urban Areas, Housing and Physical Planning was lowest at 39%

Causes of Departmental under absorptions

16. Recurrent expenditure performance was satisfactory in all the departments. For developments expenditure absorption rates were varying with the highest absorption rate being the department of Roads, Transport and Infrastructure Development at 92% and the least absorption rate being department of Lands, Housing, Urban Areas and Physical Planning at 21%.

- i. Non absorption of Kenya Urban Support Programme due to delay in procurement process as a result of Grants conditions in the department of Lands, Housing, Urban Areas and Physical Planning
- ii. Legal challenges related to Formation of Regional Bank led to reallocation of KES. 100 M to Car loans for the senior management in the Department of Finance and Economic Planning. Further Delay due to time to implement the Car loan scheme leading none spending of reallocated amount.
- iii. Non disbursement of KDSP Funds from the National Government for spending in the department of Public Service and Administration
- iv. Non disbursement of EU-Water Tower Protection and Climate Change Mitigation and Adaptation Programme(WaTER) Fund from the National Government in the Department of Water, Environment and Natural Resources
- v. Non utilization of shelter improvement funds and Bukhungu stadium due procurement delays and challenges in the department of Youth, Culture and Sports
- vi. Non absorption of funds for tea and dairy industries due to due procurement delays and challenges in the department of Trade, Industrialization and Tourism

Table 5: Departmental Expenditure for the period ending 30th June 2019

	Actual Expenditures			Budget	Revised Budget	Actual	Absorption rate
	2015/2016	2016/2017	2017/2018	2018/2019			
EXPENDITURES	9,925,729,621	10,850,616,953	11,154,027,983	14,507,750,502	14,489,423,487	12,352,317,553	85.25
Office of the Governor	214,060,850	195,791,392	269,222,770	293,576,985	283,576,985	212,498,784	74.94
Current	203,489,248	182,315,545	239,222,770	200,576,985	200,576,985	178,009,734	88.75
Development	10,571,602	13,475,847	30,000,000	93,000,000	83,000,000	34,489,050	41.55
Public Service and Administration	2,431,874,721	3,874,085,249	4,904,586,912	5,368,519,945	5,186,924,325	4,970,638,300	95.83
Current	2,358,766,817	3,781,851,579	4,798,713,628	5,209,011,415	5,030,705,349	4,910,587,561	97.61
Development	73,107,904	92,233,670	105,873,284	159,508,530	156,218,976	60,050,739	38.44
County Treasury	341,277,820	190,236,242	304,780,353	438,186,115	488,071,310	301,614,031	61.80
Current	224,978,947	112,748,043	179,780,353	233,186,115	233,071,310	220,033,703	94.41
Development	116,298,873	77,488,199	125,000,000	205,000,000	255,000,000	81,580,328	31.99
Water, Environment and Natural Resource	167,493,726	129,442,205	157,915,053	402,560,408	370,380,408	224,708,216	60.67
Current	25,499,612	12,509,456	30,728,948	41,560,408	41,560,408	39,372,086	94.73
Development	141,994,114	116,932,749	127,186,105	361,000,000	328,820,000	185,336,130	56.36
Social Services, Youth & Sports	246,525,453	268,439,451	298,436,204	556,310,217	274,610,217	176,046,659	64.11
Current	19,792,330	13,851,972	26,641,572	45,310,217	49,110,217	37,149,341	75.64
Development	226,733,123	254,587,479	271,794,632	511,000,000	225,500,000	138,897,318	61.60
Transport, Infrastructure & Public Works	1,715,129,443	2,086,199,967	1,539,262,134	1,642,921,263	1,997,598,376	1,817,139,333	90.97
Current	12,164,412	8,072,567	10,911,433	44,925,562	44,925,562	26,040,410	57.96
Development	1,702,965,031	2,078,127,400	1,528,350,701	1,597,995,701	1,952,672,814	1,791,098,923	91.73
Lands, Housing, Urban Areas and Physical Planning	133,496,438	134,091,728	178,594,564	702,690,293	732,936,875	288,525,232	39.37
Current	36,086,547	25,083,991	92,961,647	136,071,493	205,471,493	173,526,755	84.45

	Actual Expenditures			Budget	Revised Budget	Actual	Absorption rate
	2015/2016	2016/2017	2017/2018	2018/2019			
Development	97,409,891	109,007,737	85,632,917	566,618,800	527,465,382	114,998,477	21.80
Health Services	2,737,056,025	1,853,700,917	1,673,577,719	1,852,948,526	1,858,889,865	1,477,247,946	79.47
Current	1,931,858,297	517,119,015	488,744,742	382,948,526	519,885,865	389,103,216	74.84
Development	805,197,728	1,336,581,902	1,184,832,977	1,470,000,000	1,339,004,000	1,088,144,730	81.27
Agriculture, Livestock, Fisheries and Co-operatives	448,361,570	395,284,577	355,855,298	762,816,807	902,937,007	789,696,278	87.46
Current	53,696,431	28,809,817	57,962,757	61,383,655	61,383,655	51,585,066	84.04
Development	394,665,139	366,474,760	297,892,541	701,433,152	841,553,352	738,111,212	87.71
Trade, Tourism & Industrialization	243,317,395	312,261,875	162,885,933	392,423,951	300,473,951	141,850,444	47.21
Current	17,477,277	17,604,339	29,501,573	27,423,951	40,473,951	37,428,247	92.47
Development	225,840,118	294,657,536	133,384,360	365,000,000	260,000,000	104,422,197	40.16
Education, Science & Technology	467,844,702	478,798,315	379,798,444	817,059,502	750,059,502	688,699,202	91.82
Current	16,094,079	9,601,437	30,776,950	34,149,502	114,149,502	112,661,111	98.70
Development	451,750,623	469,196,878	349,021,494	782,910,000	635,910,000	576,038,091	90.58
County Public Service Board	38,949,465	33,767,471	35,595,861	29,817,224	29,817,224	29,732,599	99.72
Current	38,949,465	33,767,471	35,595,861	29,817,224	29,817,224	29,732,599	99.72
County Assembly	740,342,013	898,517,564	893,516,738	1,048,717,390	1,061,364,590	1,051,305,830	99.05
Current	740,342,013	898,517,564	893,516,738	998,717,390	1,061,364,590	1,051,305,830	99.05
Development	-	-	-	50,000,000	-	-	-
ICT, E-government & Communication	-	-	-	199,201,876	251,782,852	182,614,699	72.53
Current	-	-	-	54,201,876	52,746,852	42,779,342	81.10
Development	-	-	-	145,000,000	199,036,000	139,835,357	70.26

Source: The County Treasury

C. Implication of 2018/19 fiscal performance on fiscal responsibility principles and financial objectives for FY 2019/2020

17. The performance in the FY2018/19 has affected the financial objectives set out in the

County Fiscal Strategy Paper and the budget for FY 2019/2020 in the following ways:

- i. Revenue and expenditure projections have been affected by payment of outstanding bills that the County expected to be carried forward to FY 2019/2020, implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term. The County anticipated that the equitable shareable revenue for two months of May and June were impracticable to be used taking into consideration of the rate of disbursement. The disbursement was behind by two months
- ii. The baseline for setting the revenue forecast and expenditure ceilings will be affected. This will prompt the need to adjust the MTEF revenue forecast and expenditure ceiling.

18. The overall local revenue performance in FY 2018/19 of KES896.6 Million was an improvement from the previous FY 2017/2018 which was KES504 Million. Despite improved performance the County has put measures to make sure that this performance is sustained continually. These measures include:

- i. Automation of revenue systems;
- ii. Employment of additional revenue clerks;
- iii. Capacity building on revenue administration;
- iv. Putting mechanism for enforcing revenue collection.

Fiscal Responsibility Principles

19. The fiscal responsibility principle on wages and remuneration as per the section 107 of PFM Act of 2012 provides for utmost 35 percent of the total County budget. The proportion of actual salaries and remuneration expenditure on the overall expenditure was 36.7%.

This computation excludes the salaries from the County Assembly which has been treated as transfers. The actual performance on this fiscal principle was higher than the stipulated maximum percentage of 35 of the overall county budget by 1.7%

20. On the development expenditure, the proportion of the actual expenditure was 40.92%. This is above the stipulated percent of at least 30 on the overall county budget in compliance with the PFM Act, 2012.

III. RECENT ECONOMIC DEVELOPEMNT AND OUTLOOK

A. Recent Economic Developments

21. The Country's Gross Domestic Product (GDP) is estimated to have grown by 6.3% in 2018 compared to 4.9% in 2017 (Economic Survey, 2019) and it is projected to grow by 6.2% in 2019(National Treasury). This growth was attributed to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. The growth realized was anchored on relatively stable macroeconomic indicators in 2018. Inflation remained low at 4.7% in 2018 compared to 8.0% in 2017 majorly as a result of considerable declines in prices of food after the shortage experienced in 2017(Economic Survey, 2019).

22. Going forward in terms of fiscal years, the economic growth is projected at 7.0 percent over the medium term due to investments in strategic areas under the "Big Four" Plan that aim to increase job creation through the manufacturing sector, ensure food security and improved nutrition, expand universal health coverage and provide affordable houses to Kenyans. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

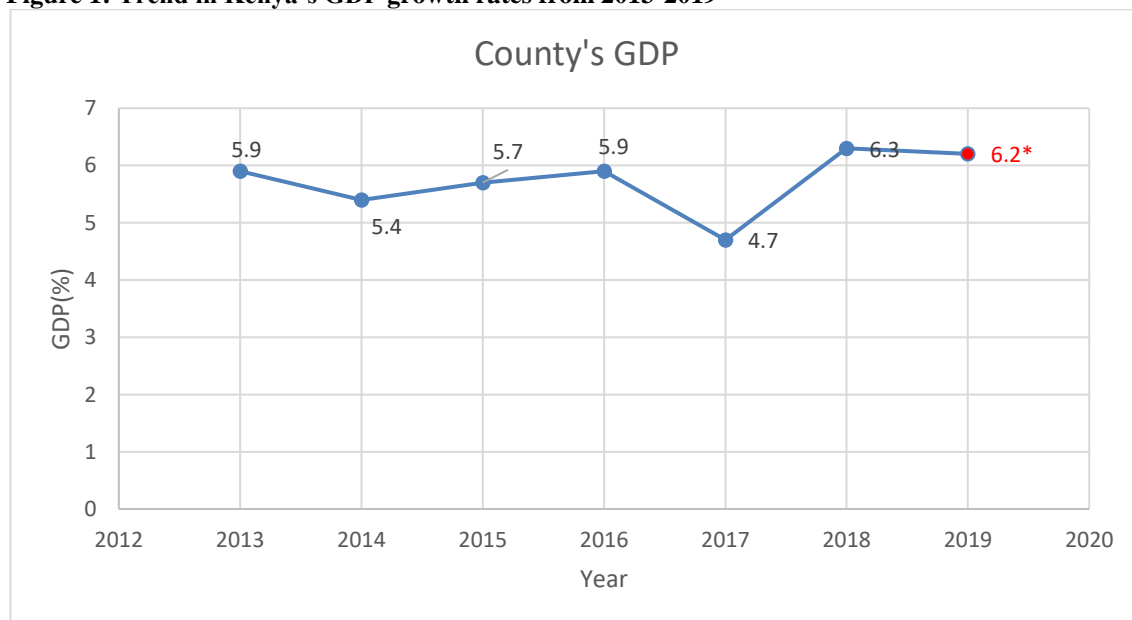
Table 6: Macroeconomic Indicators for the FY 2020/21- 2023/24 Period

	2016/17	2017/18	2018/19		2019/20			2020/21		2021/22		2022/23		2023/24
	Act	Prel. Act	Rev. Budget II	Prel. Act	Budget Estimates	Printed Estimates	BR OP'19	BR OP'19	BR OP'19	BR OP'19	BR OP'19	BR OP'19	BR OP'19	BR OP'19
<i>Annual percentage change, unless otherwise indicated</i>														
National Account and Prices														
Real GDP	5.4	5.6	6.3	6.2	6.2	6.2	6.1	6.4	6.3	6.7	6.5	7.0	6.8	7.0
GDP deflator	8.1	6.7	4.9	5.0	6.5	6.5	6.7	6.0	6.4	6.0	6.3	5.8	6.1	6.0
CPI Index (eop)	6.7	5.2	5.3	5.3	5.2	5.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	8.1	5.2	5.2	5.2	5.3	5.3	5.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: National Treasury

Economic Performance

Figure 1: Trend in Kenya’s GDP growth rates from 2013-2019

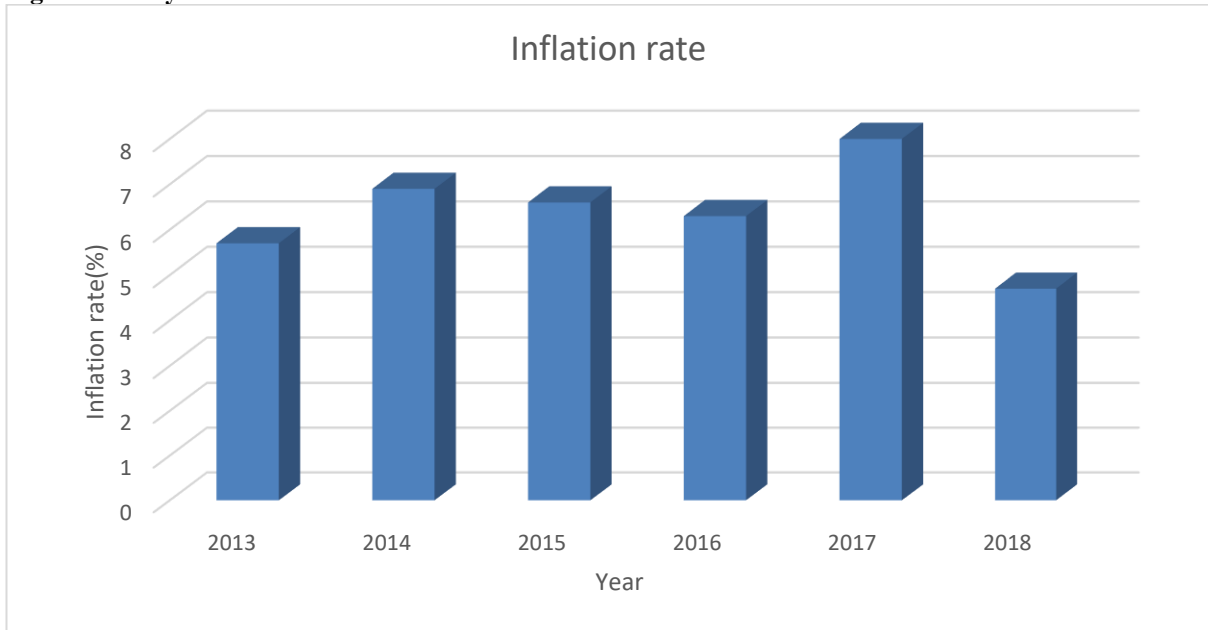


Source: KNBS Economic Survey, 2019 Report

Inflation Rate

23. The annual inflation as measured by the Consumer Price Index (CPI) decreased from 8.0% in 2017 to 4.7% in 2018 (Economic Survey, 2019). The decline was on account of favorable weather conditions and prudent macroeconomic policies.

Figure 2: Kenya's inflation rates from 2013-2018



Source: KNBS Economic Survey, 2019 Report

Interest Rate

24. The Central Bank of Kenya adopted an accommodative monetary policy by reviewing the Central Bank Rate (CBR) from 10%, to 9.5% in March 2018 and 9% in July 2018. The easing of monetary policy aimed at reducing cost of borrowing particularly for the private sector to stimulate production and boost economic growth. Overall, interest rates dropped during the review period except for the interbank rate.

Exchange Rate

25. In the East Africa Community (EAC) region, the Kenyan Shilling gained against the Ugandan Shilling, Rwandese Francs and Tanzanian Shilling by 5.4%, 4.8% and

3.8% respectively. It strengthened against Indian Rupee, the US Dollar, Saudi Riyal and UAE Dirham by 6.9%, 2.1%, 2% and 2% respectively in 2018. However, the Kenyan Shilling weakened against the Euro and Sterling Pound by 2.5% and 1.5% respectively in 2018.

Table 7: Average Foreign Exchange Rates of Kenya Shilling for Selected Currencies, 2014-2018

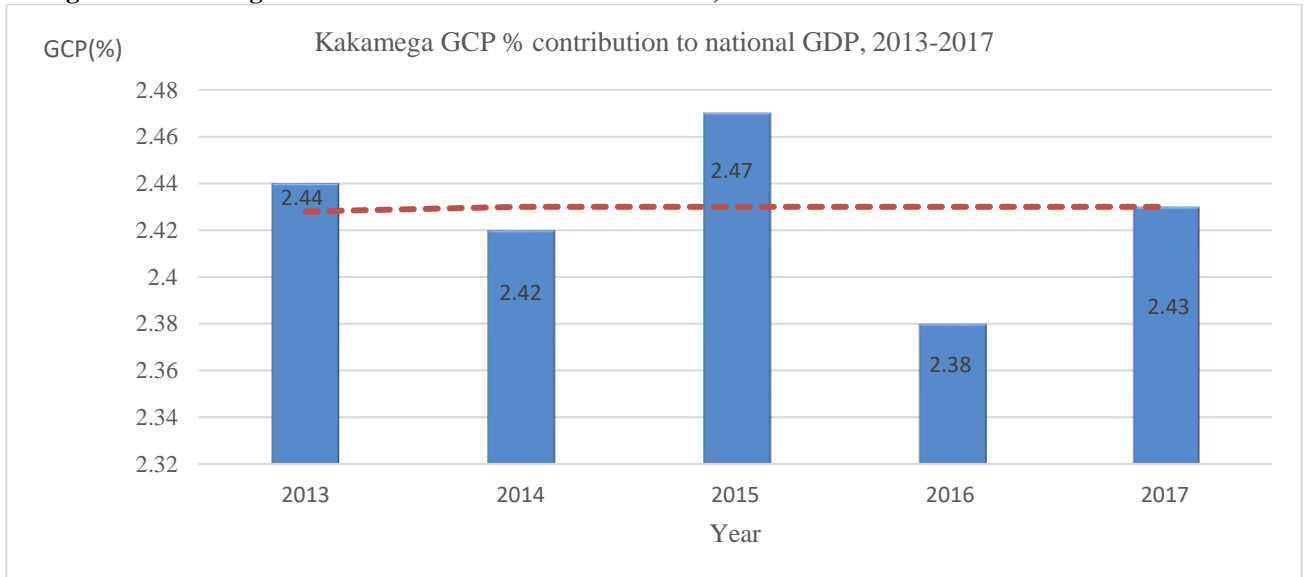
Currency	Exchange Rate against KES				
	2014	2015	2016	2017	2018
1 US Dollar	87.92	98.18	101.5	103.41	101.29
1 Euro	116.84	108.96	112.33	116.73	119.63
1 Sterling Pound	144.88	150.17	137.66	133.20	135.25
1 Swiss Franc	96.18	102.04	103.04	105.04	103.58
1 UAE Dirham	23.94	26.73	27.64	28.15	27.58
1 Indian Rupee	1.44	1.53	1.51	1.59	1.48
1 Chinese Yuan	14.27	15.62	15.29	15.30	15.33
100 Japanese Yen	83.26	81.12	93.55	92.22	91.74
1 SA Rand	8.10	7.72	6.93	7.77	7.69
1 Egyptian Pound	12.41	12.77	10.14	5.80	5.69
TSh/KSh	18.93	20.73	21.54	21.63	22.48
US\$KSh	29.55	32.94	33.68	34.92	36.81
100 Rwanda Francs	7.79	7.09	7.53	8.11	8.50

Source: KNBS, Economic Survey 2018 Report

County Economic Performance

26. According to KNBS, Gross County Product Report 2019, the county's GDP was estimated at KES 182.563 Billion which is 2.4% of the national GDP in 2017 (KES 7.524 Trillion). The average GCP contribution of the counties to the national GDP in current prices is estimated at 2.43% in the five year period. Figure 3 shows the county's GCP estimates over the period 2013-2017.

Figure 3: Kakamega GCP % contribution to national GDP, 2013-2017



Source: KNBS, GCP report 2019

27. The increase in GCP from 2016 to 2017 was principally attributed to increased agricultural production, accelerated sustained growth in transportation and vibrant service sector activities. The average GCP across all counties is approximately 2.8%. However, Kakamega County GCP growth was slower than the average growth across the 47 counties due to high poverty levels (35.8%). Figure 4 compares the GCP of the counties neighbouring Kakamega County.

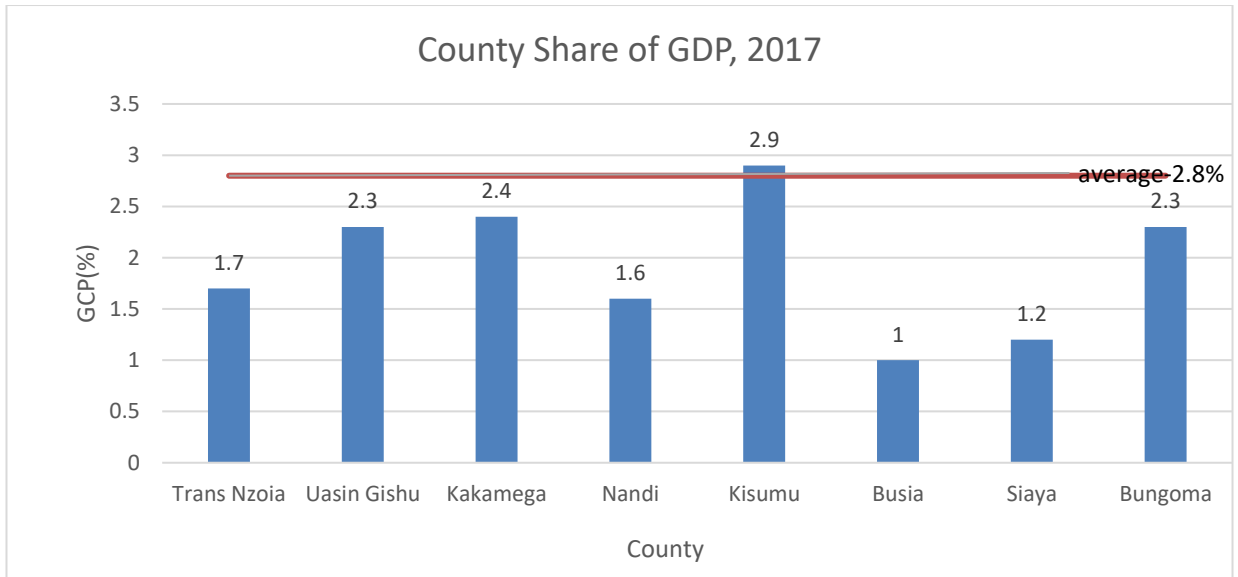


Figure 4: County Share of GDP, 2017

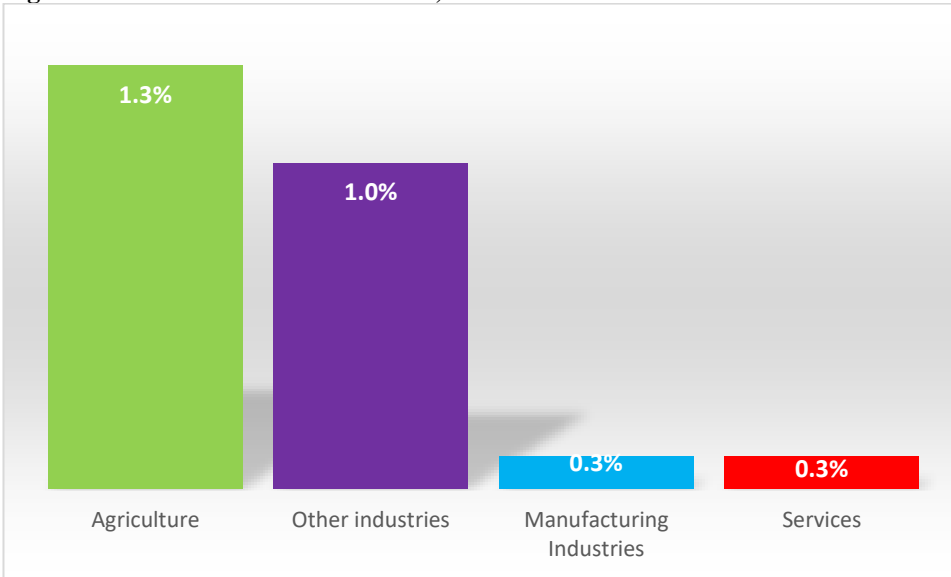
Source: KNBS, GCP report 2019

All counties in the western region have their contribution to the national GDP below the average of the 47 counties' contribution as shown in the figure 4 above at 2.8%.

Contribution of main sectors to GCP, 2017

28. Kakamega County was ranked ninth in agricultural activities among the 47 counties, hence, the sector significantly contributed to the Kakamega GCP. Other sectors that contributed to growth include; other industries, manufacturing industries and service sector as shown in figure 5.

Figure 5: Main sectors as a % of GCP, 2017



Source: KNBS, GCP report 2019 (KIPPRA report 2019)

B. Risks to the outlook

29. The risks to the outlook over the medium-term include weak internal control systems within the revenue collection and challenges in enforcing revenue laws.

30. Political factors affect project selection, siting and funding which in turn affect project implementation and value for money. In addition it also affects local revenue collection.

31. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage bill pressures and the need to hire more personnel limit funding for development expenditure.

32. Variation in project costs which arise after the budget approval affects project cost and implementation.

33. The county government will undertake appropriate measures to mitigate against these risks through automation of revenue collection systems, expanding revenue collection base and capacity building of revenue and Human Resource staff.

IV. MEDIUM- TERM EXPENDITURE FRAMEWORK

a. Implementation of 2019/20 budget

34. Implementation of 2019/20 budget started at a slow pace with delays in exchequer disbursements for close to three months after the start of the financial year. This was occasioned by the stand-off between the Senate and the National Assembly on Division of Revenue Bill.

35. Efforts to increase revenue collection remain a priority. The County Revenue Agency is currently working on finding the best strategies to ensure local revenue collection is increased to match the County revenue potential. The enactment of the Kakamega Revenue Management and Administration Act, 2017 and its full implementation will enhance achievement of the revenue targets. Some of the strategies to be adopted include and not limited to the automation of revenue collection and legislation of relevant laws. This will be done along with the necessary rules and regulations to operationalize the laws once passed by the county assembly.

36. The county pursues prudent fiscal policies aimed at achieving macroeconomic stability in collaboration with the Ministry of National Treasury and Planning. The County fiscal policy objectives provide an avenue to support economic activities while allowing for the implementation of the CIDP 2018 – 2022. In addition, the county will improve efficiency through capacity building to effectively deliver public services and ensure departments receive resources to undertake their priorities sustainably.

37. The County Government is committed to achieve its full budgetary targets in the Medium Term. This will help to improve the budget absorption rate.

38. With respect to revenues, the County Government will continue to improve on revenue collection mechanisms to collect more than 10% of the total approved budget over the medium term. In addition, the County Government will explore new revenue collection strategies by even expanding the current revenue base.

C. Adjustment to FY 2019/20 Budget

39. The performance in FY 2018/19 has affected budget estimates for FY 2019/20 in two ways. First the projected balance brought forward in the current budget was partly utilized in the previous year. This will result in reduction of the projected overall revenue of the current financial year. Secondly, the utilization of the balance brought forward has minimized the possibility of pending bills hence has positive impact on the expenditure estimates of the current year.

40. Adjustments to the FY 2019/20 budget will also take into account actual performance of expenditures and absorption capacity in the remainder of the financial year across all the County sectors. Amid expenditure pressures, the County Government will endeavor to rationalize expenditures by focusing on priority projects and programmes.

41. Though local revenue collection has been below target in the previous financial years, there was a slight improvement in the FY 2018/19. If the trend continues, it will ease expenditure pressure and improve budget absorption in the FY 2019/20 budget.

42. In view of the macroeconomic outlook, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The MTEF priorities will guide resource allocation as follows:

- The priority areas are the “Big Four Agenda” sectors(Agriculture, Health,Manufacturing and Housing) whichwill receive substantialresources. In addition, Road infrastructure and Education will continuereceive substantial allocation.

- **The following criteria guides resource allocation to the sectors**
 - i. Ongoing projects and programmes
 - ii. Linkage of the programme to the Objectives of Medium Term Plan III of Vision 2030.
 - iii. Linkage of the programme with the Objectives of the County Integrated development plans.
 - iv. Degree to which a programme addresses core poverty interventions
 - v. The extent to which the programme is addressing the core mandate of the County as an entity
 - vi. Cost effectiveness and sustainability of the programme

- 43. Reflecting the above Medium-Term Expenditure Frame Work, table 7 below provides the tentative projected baseline ceilings for the 2018/19 MTEF, classified by departments.

Table 8: Medium Term Sector Ceilings, FY 2020/21-2022/23

Department	Approved	Projected Estimates		
	2019/2020	2020/2021	2021/2022	2022/2023
Office of the Governor	258,065,271	299,808,535	272,138,961	291,885,909
Recurrent	234,865,271	246,608,535	258,938,961	271,885,909
Development	23,200,000	53,200,000	13,200,000	20,000,000
Public Service and Administration	1,287,681,743	1,286,696,881	1,285,531,725	1,315,808,312
Recurrent	1,124,173,213	1,176,696,881	1,205,531,725	1,235,808,312
Development	163,508,530	110,000,000	80,000,000	80,000,000
Finance and Economic Planning	596,032,171	678,525,522	627,201,798	657,311,888
Recurrent	491,032,171	573,525,522	602,201,798	632,311,888
Development	105,000,000	105,000,000	25,000,000	25,000,000
Water, Environment and Natural Resources	638,474,837	700,985,400	980,755,486	605,180,400
Recurrent	87,891,160	95,401,723	100,171,809	105,180,400
Development	550,583,677	605,583,677	880,583,677	500,000,000
Social Services, Youth & Sports	933,726,153	988,589,065	1,268,268,518	955,181,944
Recurrent	118,726,153	138,589,065	148,268,518	155,181,944
Development	815,000,000	850,000,000	1,120,000,000	800,000,000
Transport, Infrastructure, Public Works and Energy	1,914,798,980	2,024,879,751	2,031,094,955	2,137,045,264
Recurrent	96,223,324	124,304,095	130,519,299	137,045,264
Development	1,818,575,656	1,900,575,656	1,900,575,656	2,000,000,000
Lands, Housing, Urban Areas and Physical Planning	770,263,076	789,000,322	790,939,398	903,256,628
Recurrent	260,044,276	288,781,522	290,720,598	303,256,628
Development	510,218,800	500,218,800	500,218,800	600,000,000
Health Services	4,535,606,497	4,649,970,480	5,112,469,003	5,493,092,454
Recurrent	3,161,606,497	3,249,970,480	3,612,469,003	3,993,092,454
Development	1,374,000,000	1,400,000,000	1,500,000,000	1,500,000,000
Agriculture, Livestock, Fisheries and Co-operatives	958,411,274	1,075,624,935	1,146,970,366	1,273,166,758
Recurrent	339,694,963	426,908,624	498,254,055	573,166,758
Development	618,716,311	648,716,311	648,716,311	700,000,000
Trade, Industrialization & Tourism	390,666,276	495,604,056	543,884,258	602,328,471
Recurrent	85,666,276	95,604,056	98,884,258	102,328,471
Development	305,000,000	400,000,000	445,000,000	500,000,000
Education , Science & Technology	1,151,245,899	1,304,189,400	1,620,552,705	1,681,310,877
Recurrent	624,322,601	727,266,102	753,629,407	781,310,877
Development	526,923,298	576,923,298	866,923,298	900,000,000
Public Service Board	66,622,938	86,959,520	90,807,496	95,807,496
County Assembly	1,111,364,590	1,111,364,590	1,111,364,590	1,111,364,590
Recurrent	1,061,364,590	1,061,364,590	1,061,364,590	1,061,364,590
Development	50,000,000	50,000,000	50,000,000	50,000,000
ICT, E-Government & Communication	259,085,674	284,703,614	443,913,795	442,834,484

Department	Approved	Projected Estimates		
	2019/2020	2020/2021	2021/2022	2022/2023
Recurrent	68,735,674	84,203,614	88,413,795	92,834,484
Development	190,350,000	200,500,000	355,500,000	350,000,000
Total for the County	14,872,045,379	15,776,902,071	17,325,893,054	17,565,575,475

D. FY 2020/21 Budget framework

Revenue projections

44. The county targets revenue of KES 15.026 Billion in the FY2020/21 budget excluding the balance brought forward from FY 2019/20. The assumption is that revenue received will be absorbed 100 percent which is a conservative approach that helps in accurate prediction. As indicated above, this performance will be realized through the reforms in the County revenue administration. As such, total local revenue projection is expected to increase from KES1.157 Billion in the FY 2019/2020 to KES 1.498 Billion in the FY 2020/21. Revenue projection from the National Government is KES 12.04 Billion which includes conditional grant of KES 1.509 Billion. The expenditure estimates for the medium period is higher than the revenue projections which imply a budget deficit. The Department of Finance and Economic Planning will come up with ways to fund the deficit through partnership with development partners and taking short term loan from Central Bank as required under the legal framework. Table 8 below presents the County revenue projections over the MTEF period.

Table 9: Summary of Revenue Projections over the medium term

Revenue	Actual Receipts	Approved Budget	Projections		
	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Equitable shareable	10,330,000,000	10,199,000,000	11,609,319,237	12,305,878,391	13,044,231,095
Conditional grants	1,644,381,794	1,918,604,947	1,918,604,947	1,918,604,947	1,918,604,947
Receipts from Sugar Fund		-	-	-	-
Own sources	896,660,752	1,157,455,491	1,498,977,887	1,648,875,676	1,813,763,243
Balance carried forward from 2017/18 - equitable share	1,293,990,068	1,596,984,941	750,000,000	1,452,534,040	788,976,190
Total	14,165,032,614	14,872,045,379	15,776,902,071	17,325,893,054	17,565,575,475

Expenditure Forecasts

45. In FY 2020/21, overall expenditure is projected to be KES 15.776 Billion, up from the approved estimate of KES14.872 Billion in the FY 2019/2020 budget. This increment is attributed to;

- Increase in recurrent expenditure due to increase in salaries and wages as a result of yearly increment, new hiring and promotions of personnel in the County government.
- Out of the total budget estimates of KES15.776 billion, development budget proportion is 47 percent. To maintain this percentage, more funds will be allocated to development.

V. CONCLUSION AND WAY FORWARD

46. The fiscal outcome for FY 2018/19 does not affect the County objectives as laid out in the last County Fiscal Strategy Paper of February 2019 over the medium term but has implication on the current budget because of the pending bills and balance brought forward from the FY 2018/19 budget. In this regard, policies outlined in this Paper reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law as well as the National and County Government strategic objectives.

47. The next County Fiscal Strategy Paper (CFSP) will be finalized by February 2020 as provided in section 117 of PFM Act, 2012.

Annex 1: Budget Calendar for 2020/2021 Financial Year

	Activity	Responsibility	Deadline
1	Develop and issue MTEF guidelines	County Treasury	30-Aug19
2	Preparation of annual plan	Economic Planning	01-Sep-19
3	Draft County Budget Review and Outlook Paper (C-BROP)	County Treasury	15-Sep-19
	Submission and approval C-BROP by County Cabinet		30-Sep-19
	Submit approved C-BROP to County Assembly		15-Oct-19
4	The 2019/20 Supplementary Budget		
	Develop and issue guidelines on the 2019/20 revised budget	County Treasury	15-Oct-19
	Submission of Supplementary Budget Proposals	MDAs	22-Oct-19
	Review of Supplementary Budget Proposals	County Treasury	29-Oct-19
	Submission of Supplementary Budget Proposals to County Executive Committee	County Treasury	29-Nov-19
	Submission of Supplementary Budget Proposals to County Assembly	County Treasury	19-Dec-19
5	Determination of Fiscal Framework	Finance and Economic Planning	4-Jan-20
	Estimation of Resource Envelope		
	Determination of policy priorities		
	Preliminary resource allocation to sectors and County Assembly		
6	County Fiscal Strategy Paper	County Treasury	28-Feb-20
	Draft C-FSP	County Treasury	7-Jan -20
	Public participation on the Draft CFSP	County Treasury	21-Jan-20
	Submission & approval of the C-FSP by CEC	County Treasury	15-Feb-20
	Submit approved C-FSP to County Assembly	County Treasury	28-Feb-20
	Passing the C-FSP by the County Assembly	Assembly	14-Mar-20
	Publishing and publicizing the C-FSP	County Treasury	21-Mar-20
7	Preparation and approval of Final MDAs Programme Budgets	Treasury	28-Feb-20
	Develop and issue final guidelines on preparation of 2020-21 MTEF Budget	County Treasury	28-Feb-20
	Submission of Budget Proposals to Treasury	Line ministries	15-Mar-20
	Consolidation of Draft Budget Estimates	County Treasury	1-Apr-20
	Submission of Budget Estimates to the County Assembly	County Treasury	30-Apr-20
	Review of Draft Budget Estimates by County Assembly	County Assembly	15-May-20
	Report on Draft Budget Estimates from County Assembly	County Assembly	30-May-20

	Activity	Responsibility	Deadline
	Consolidation of Final Budget Estimates and Cash flows	County Treasury	15-Jun-20
	Submission of Appropriation Bill to County Assembly	County Treasury	15-Jun-20
	Submission of Vote on Account to County Assembly	Treasury	30-Jun-20
8	Budget Speech	Treasury	30-Jun-20
9	Appropriation Bill passed	County Assembly	30-Jun-20
10	Finance Bill passed	County Assembly	30-Sep-20