

VIHIGA COUNTY GOVERNMENT



COUNTY BUDGET REVIEW AND OUTLOOK

(CBROP)

SEPTEMBER 2018



Towards a Globally Competitive and Prosperous Nation

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 to prepare County Budget Review and Outlook Paper (C-BROP) for the County, in respect for each financial year; and submit it to the County Executive Committee by 30th September.

The paper reviews fiscal performance of the County for the 2017/18 financial year while comparing it with the budget appropriation. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2017; 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 further gives reasons for any deviation from the County financial objectives in the fiscal strategy paper together with proposals to address the deviations.

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

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

HON. ALFRED INDECHE
CECM - FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

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 (CECs) and the Chief Officers (CO) for their leadership and guidance.

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

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CHIEF OFFICER – FINANCE AND ECONOMIC PLANNING

ABBREVIATIONS AND ACRONYMS

CRA	:	Commission of Revenue Allocation
CBROP	:	County Budget Review and Outlook Paper
CFSP	:	County Fiscal Strategy Paper
GDP	:	Gross Domestic Product
FY	:	Financial Year
IFMIS	:	Integrated Financial Management Information System
KNBS	:	Kenya National Bureau of Statistics
MTEF	:	Medium Term Expenditure Framework
ORS	:	Own Revenue Source
PE	:	Personnel Emoluments
PFM	:	Public Finance Management

SBP : Single Business Permit

SWG : Sector Working Group

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PREAMBLE

The County Treasury is mandated by Section 118 of the Public Finance Management (PFM) Act 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the County, which 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. The section states that: In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify –
 - 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.

This 2018 C-BROP was therefore prepared by the County Treasury pursuant to provision of PFMA 2012 section 118 (1). By law, 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.

The limits in the regulations Legal notice number 35 section 25 (1) are as quoted:
....."25. (1) In addition to the fiscal responsibility principles set out in section 107 of the Act, the

following fiscal responsibility principles shall apply in the management of public finances—

- (a) the County Executive Committee Member with the approval of the County Assembly shall set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Act;
- (b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the county government's total revenue;
- (c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues that accrue from extractive natural resources including as oil and coal;
- (d) the county public debt shall never exceed twenty (20%) percent of the county governments total revenue at any one time;
- (e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);
- (f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
- (g) pursuant to section 107(5) of the Act, if the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act;

(h) if the county government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the county executive committee member for finance shall submit a responsibility statement to county assembly explaining the reasons for the deviation and

provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and

(i) the compliance plan above shall be binding and the county executive committee member for finance shall ensure implementation “

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, considering 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 highlights objectives of the paper, its significance in the budget making process and a brief description of the structure.

The County Budget Review and Outlook Paper (CBROP) is prepared in line section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the County for the financial year 2017/2018; 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 objective of the paper is to provide a review of the previous fiscal performance of the County and how this impacts the macro-economic outlook. Specifically, the CBROP provides:

- i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
- iii. Any changes in the forecasts compared with the CFSP;
- iv. 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
- 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.

1.2 Significance of CBROP

The paper is a policy document and links planning with budgeting. It is significant in

the budget making process within the Medium-Term Expenditure Framework (MTEF) as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget.

1.3 Structure of CBROP

This paper has four other sections. Section Two reviews the County's fiscal performance for the previous year. It is divided into three sub-sections, namely, The Overview, Fiscal Performance and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections of Recent Economic Developments, Economic Outlook & Policies, Medium Term Fiscal Framework and Risks to the Outlook. Section four sets out how the County Government intends to operate within its means. It establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. In addition, it has four sub-sections: adjustment to the proposed budget; the medium-term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. And lastly, section five gives a conclusion of the entire paper.

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2017/18 FY

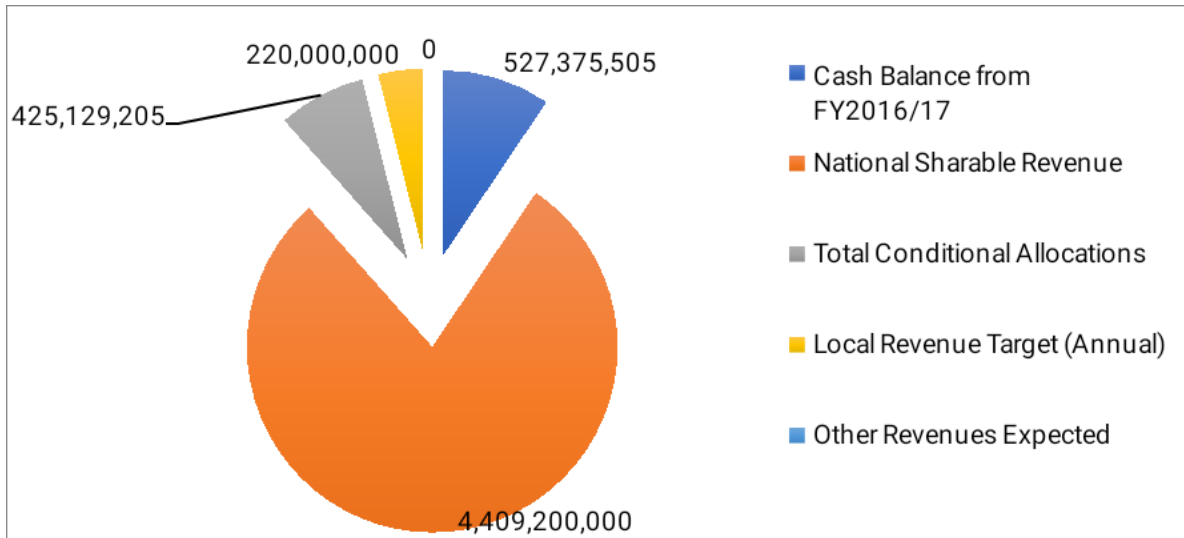
This section details the County's fiscal performance for the financial year 2017/18 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 OVERVIEW OF THE FY 2017/18 BUDGET

The County's FY 2017/18 Approved Supplementary Budget was Kshs.5.58 billion, comprising of Kshs.3.88 billion (69.6 per cent) and Kshs.1.70 billion (30.54 per cent) allocation for recurrent and development expenditure respectively.

To finance the budget, the County expects to receive Kshs.4.41 billion (79 per cent) as equitable share of revenue raised nationally, Kshs.425.13 million (7.6 per cent) as total conditional grants, generate Kshs.220 million (3.9 per cent) from own revenue sources, and Kshs.527.38 million (9.4 per cent) cash balance brought forward from FY 2016/17.

Figure 1. *.Shows the expected sources of budget financing in the FY 2017/18*



Source: Vihiga County Treasury

The conditional grants contained in the CARA, 2017 comprise of Kshs.95.74 million (18.4 per cent) for Leasing of Medical Equipment, Kshs.164.95 million (38.8 per cent) from the Road Maintenance Fuel Levy Fund, Kshs.12.66 million (3 per cent) as Compensation for User Fee Foregone, Kshs.17.33 million (4.1 per cent) from DANIDA, Kshs.50 million (11.8 per cent) as World Bank loan for National Agriculture Growth & Rural Inclusive Growth Project, Kshs.38.85 million (9.1 per cent) for the World Bank Kenya Devolution Support Programme, Kshs.50.89 million (12 per cent) for Development of Youth Polytechnics, Kshs.73.96 million (17.4 per cent) as World Bank loan for Transforming Health System for Universal Care Project and Kshs.16.5 million (3.9 per cent) as Other Loans and Grants.

During the period under review, the County Government set out in the C-FSP 2017 to attain positive growth prospects through increased activities in the County sectors. The County strengthened revenue administration to enhance efficiency in revenue collection. County expenditure was also guided by sector objectives and

priorities as outlined in the CIDP.

2.2 FISCAL PERFORMANCE

During the FY 2017/18, the County received Kshs.4.41billion as equitable share of revenue raised nationally, Kshs.329.40 million as total conditional grants, raised Kshs.143.53 million from own source revenue, and had a cash balance of Kshs.527.38 million from FY 2016/17. The total available funds amounted to Kshs.5.41billion. In overall, Own source revenues for 2017/18 FY grew by 40 per cent compared to the previous year, that is 143 million from 102 million however it also fell short of the budget target by 35 per cent as indicated in table 1 below.

Table 1: Summary of County Fiscal Performance

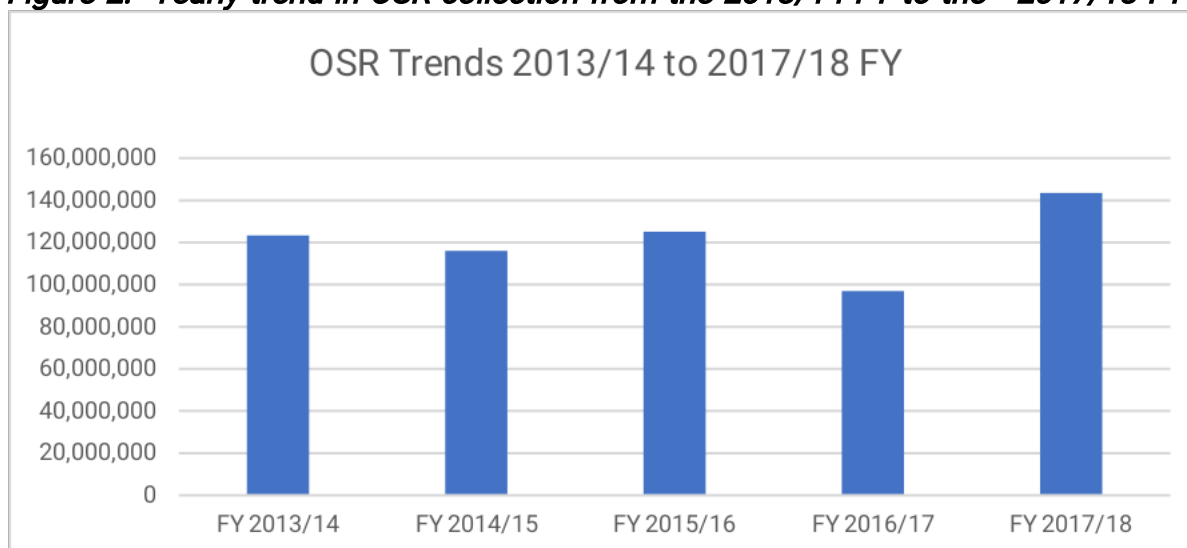
ITEM SOURCE	2016/17	2017/18	2017/2018	2017/18	(%) Change in 2016/17 and 2017/18 Actuals	(%) Realization in Budget and Actuals 2017/18	(%) Realization in Supplementary Budget and Actuals 2017/18
	Actual (Ksh)	Budgeted (Ksh)	2 nd Supplementary budget	Actual (Ksh)	%	%	%
Exchequer issue	4,389,755,291	4,570,875,477	5,362,314,565	4,738,579,196	8	104	88
Own generated revenues	102,445,789	220,000,000	220,000,000	143,533,060	40	65	65
TOTALS	4,492,201,080	4,790,875,477	5,582,314,565	4,882,112,196	9	102	87

Source: Vihiga County Treasury

2.2.1 Own Source Revenue (OSR)

In 2017/18 FY, the County received an equitable share of County revenue of Kshs. 4,409,200,000 and grants of Kshs. 329,379,196 against a target of Kshs5,362,314,565 source revenue amounted to Kshs. 143,533,060 against a target of Kshs. 220,000,000 as shown below.

Figure 2. Yearly trend in OSR collection from the 2013/14 FY to the 2017/18 FY



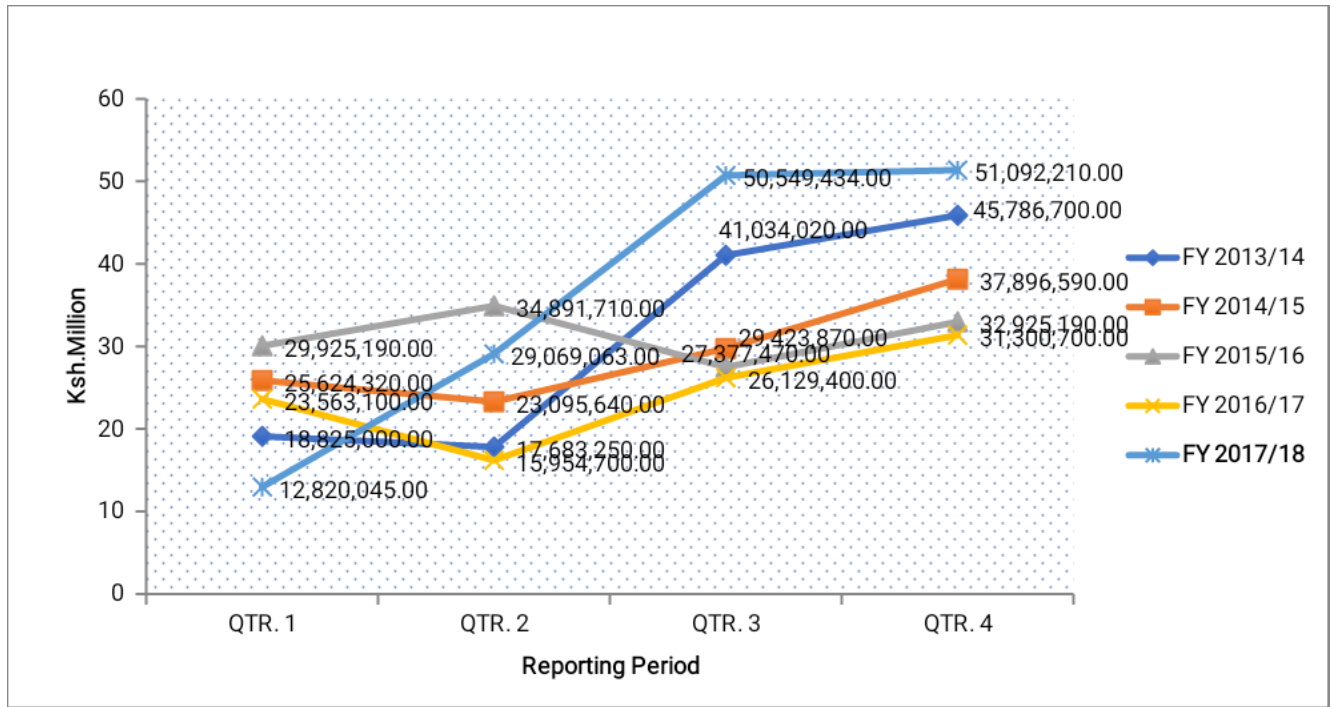
source: Vihiga County Treasury

Table 2: Vihiga County, Trend in ORS Collection by Quarter from FY 2013/14 to the FY 2017/18

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
QTR. 1	18,825,000	25,624,320	29,925,190	23,563,100	12,820,040
QTR. 2	17,683,250	23,095,640	34,891,710	15,954,700	29,069,376
QTR. 3	41,034,020	29,423,870	27,377,470	26,129,400	50,551,434
QTR. 4	45,786,700	37,896,590	32,925,190	31,300,700	51,092,210
TOTALS	123,328,970	116,040,420	125,119,560	96,947,900	143,533,060
TARGET	204,274,739	377,743,491	220,000,000	220,000,000	220,000,000

source: Vihiga County Treasury

Figure 3 Quarterly trend in OSR from the 2013/15 FY to the 2017/18 FY



source: Vihiga County Treasury

The tables and figures above show that the County started at high ORS mark, dropped the second year then started to regain in the third year. In the fourth year being an electioneering year OSR dropped tremendously to less than 100 million shillings then it picked up in FY 2017/18.

It is observed that in the years where there has been an increasing trend in collection of OSR the County has never attained its target as per the budget. There is need for the County to relook at its OSR potential against its ability to maximize the collection out of it.

Table 3 ORS Performance per stream 2017/18

		QTR 1	QTR2	QTR3	QTR4	2017/18
	STREAMS/RECEIPTS	KSHS	KSHS	KSHS	KSHS	TOTALS RECEIPTS KSHS
1	RENTAL INCOME	20,000	70,000	768,510	727,250	1,585,760
2	LAND BOUNDARY DISPUTES	100,000	143,000	185,000	200,000	628,000
3	SINGLE BUSINESS PERMITS	804,315	868,320	14,295,702	5,759,940	21,728,277
4	LIQUOR LICENSE	2,451,657	578,120	93,420	3,580,815	6,704,012
5	RATES	54,265	5,550	466,213	203,692	729,720
6	SIGN BOARDS; PROMOTIONS/ADVERTISEMENT	34,440	243,000	101,860	64,830	444,130
7	PLOT\SITE RENT	524,505	571,855	40,435	554,985	1,691,780
8	LEASE \RENTAL OF MACHINES	636,075	381,020	1,386,285	1,096,030	3,499,410
9	MARKET\TRADE	3,034,340	3,275,795	4,205,388	3,813,765	14,329,288
10	VEHICLE PARKING	7,561,840	8,220,320	9,533,875	9,383,790	34,699,825
11	PUBLIC HEALTH SERVICE	271,410	294,800	600,700	1,242,430	2,409,340
12	SLAUGHTER MANAGEMENT FEES	51,910	186,980	327,369	821,165	1,387,424
13	WATER SUPPLY admn FEE	93,800	222,250	379,340	324,520	1,019,910
14	BUILDING PLAN APPROVAL	60,500	40,800	351,300	535,620	988,220
15	SAND\MURRAM	15,900	21,200	-	51,700	88,800
16	FINES, PENALTIES AND FORFEITURE	330	56,754	87,921	40,987	185,992

17	LIVESTOCK CESS	747,268	350,880	377,883	547,370	2,023,401
18	TEA CESS	-	-	-	-	-
19	FACILITY IMPROVEMENT FUND	1,490,942	6,358,968	11,526,441	11,852,210	31,228,561
20	NOISE EMISSION	25,200	46,200	-	-	71,400
21	REGISTRATION OF GROUPS	37,750	37,500	78,050	100,250	253,550
22	APPLICATION FEES, S.B.P	-	53,500	-	-	53,500
23	MISCE INCOME	52,179	2,308,117	1,301,136	1,171,082	4,832,514
24	INSPECTION	-	4,000	54,000	124,000	182,000
25	HIRE OF HALL	-	12,000	5,000	5,000	22,000
26	PLAN APPLICATION FEES	-	17,500	13,500	-	31,000
27	SCRUTINY OF PLANS ELECTRICAL	-	-	24,000	60,000	84,000
28	SCRUITINY OF PLANS MECHANICAL	-	-	23,250	41,000	64,250
29	SALE OF FERTILIZER	-	-	6,063,455	7,333,835	13,397,290
30	PAYBILL	-	-	-	796,340	796,340
31	WEIGHTS AND MEASURES	-	-	18,500	-	18,500
32	HIRE OF GROUND	-	-	11,400	-	11,400
33	VETERINARY SERICES	-	-	-	5,930	5,930
	TOTAL SWEEPS TO CRF ACCOUNT.	12,820,040	29,069,376	50,551,434	51,092,210	143,533,060

source: Vihiga County Treasury

Table 4 ORS Comparison Table 2016/17 & 2017/18

	STREAMS	2017/18	2016/17	VARIANCE
1	RENTAL INCOME	1,585,760	252,875.00	1,332,885
2	LAND BOUNDARY DISPUTES	628,000	447,160.00	180,840
3	SINGLE BUSINESS PERMITS	21,728,277	13,585,701.00	8,142,576
4	LIQUOR LICENSE	6,704,012	1,151,500.00	5,552,512
5	RATES	729,720	553,921.00	175,799
6	SIGN BOARDS; PROMOTIONS, ADVERTISEMENT	444,130	1,201,405.00	-757,275
7	PLOT\SITE RENT	1,691,780	2,199,551.00	-507,771
8	LEASE \RENTAL OF MACHINES	3,499,410	572,411.00	2,926,999
9	MARKET\TRADE	14,329,288	13,658,968.00	670,320
10	VEHICLE PARKING	34,699,825	33,256,850.00	1,442,975
11	PUBLIC HEALTH SERVICE	2,409,340	1,842,605.00	566,735
12	SLAUGHTER MANAGEMENT FEES	1,387,424	255,980.00	1,131,444
13	WATER SUPPLY admn FEE	1,019,910	1,373,840.00	-353,930
14	BUILDING PLAN APPROVAL	988,220	356,770.00	631,450
15	SAND\MURRAM	88,800	78,900.00	9,900
16	FINES, PENALTIES AND FORFEITURE	185,992	81,198.00	104,794
17	LIVESTOCK CESS	2,023,401	1,688,104.00	335,297

18	TEA CESS	0	6,670,881.00	-6,670,881
19	FACILITY IMPROVEMENT FUND	31,228,561	14,888,169.00	16,340,392
20	NOISE EMISSION	71,400	8,800.00	62,600
21	REGISTRATION OF GROUPS	253,550		253,550
22	APPLICATION FEES, S.B.P	53,500		53,500
23	MISCE INCOME	4,832,514	105,980.00	4,726,534
24	INSPECTION	182,000		182,000
25	HIRE OF HALL	22,000		22,000
26	PLAN APPLICATION FEES	31,000		31,000
27	SCRUTINY OF PLANS ELECTRICAL	84,000		84,000
28	SCRUTINY OF PLANS MECHANICAL	64,250		64,250
29	SALE OF FERTILIZER	13,397,290	8,214,220.00	5,183,070
30	PAYBILL	796,340		796,340
31	WEIGHTS AND MEASURES	18,500		18,500
32	HIRE OF GROUND	11,400		11,400
33	VETERINARY SERVICES	5,930		5,930
	TOTAL COLLECTIONS.	145,195,524	102,445,789	42,749,735
	SWEEPS TO CRF ACCOUNT.	143,533,060	102,445,789.00	41,087,271

source: Vihiga County Treasury

2.2.1. 1 REASONS FOR IMPROVEMENT IN OWN REVENUE SOURCE 2017/18 COMPARED TO 2016/17

1. Operationalization of the Vihiga County administration Act 2015 that took collection services to the sub county level thus closer to the tax payers.
2. Conducive political environment created by consistent positive sentiments by H.E The Governor on the need by every citizen to pay tax.
3. Facilitation of the sub county revenue officers by the department of finance for office running.
4. Regular appraisal of sub county collections by the revenue management team headed by the revenue receiver and reporting to the CECM Finance and Economic Planning.
5. Provision of means of transport for supervision and enforcement to the various revenue teams.

6. Frequent and periodical publicity of revenue activities on Vihiga FM radio station which has a big audience and following in the County.
7. Prompt procurement of revenue books and other stationary.
8. Enhanced monitoring of revenue collection in the department of transport and infrastructure on usage of machines and building plans approvals. This realized an increase from Kshs. 572,411.00 to Kshs. 3,499,410 representing 511%.
9. Strengthened internal control system where duties have been segregated at sub county offices for easy detection of fraud and prevent pilferage.
- 10.** Prompt handling of indiscipline cases by the office of the CECM Finance and Economic Planning to staff suspected to have embezzled funds.

2.2.1.2 CHALLENGES

1. Inadequate revenue collectors to cover the OSR effectively e.g markets.
2. Collapse of the revenue automated system after the service provider Compulynx refused to service and maintain the system infrastructure.
3. Un inducted revenue and enforcement teams on the provisions of the Finance Act and other enabling legislations.
4. The department of lands, housing, physical planning and urban development has not operationalized the Vihiga County Rating and Valuation Act 2017 which will address land rates payments.
5. Though the positive sentiments by the executive wing of the government, the legislative wing (MCAs) on some occasions have made political statements that have negatively affected revenue collection.
6. Lack of enabling bylaws and regulations to help enforce revenue especially on defaulters and other omissions.

7. Lack of enough vehicles for supervision and collection. The revenue administration Act gave a provision for a vehicle per Sub County.
8. Despite invoicing the contractor building the Kisumu-Kakamega road with a claim of Kshs 159m, no response or payment has been received to date.
9. Lack of staff uniforms and other equipment that helps to identify the tax collector from any other member of the public.
10. Non-provision of crucial market amenities by other departments which hampers collection from some streams.

2.2.1.3 WAYFORWARD

1. Procure an effective and accountable revenue automated system that conforms to the guidelines issued by the commission on revenue allocation on automated systems.
2. Strengthen the revenue administration structure as per the provisions of the Act.
3. Ensure prompt and timely procurement of revenue books and stationary.
4. Once the finance bill has been passed into an Act, the revenue collectors and enforcement officers need to be thoroughly inducted on the changes.

2.2.2 Disbursement from Exchequer

The equitable share allocation of County revenue increased by 8 per cent compared to the previous 2016/17 FY attributed to improved revenue performance at the national level.

Table 5 Analysis of Conditional Grants Released for the FY 2017/18 FY 2017/18

S/N o	Grants	Annual CARA, 2017 Allocation (in Kshs)	Annual Budget Allocation (in Kshs)	Actual receipts in the FY 2017/18 (in Kshs.)	Actual Receipts as Percentag e of Annual Allocation (%)
1	Road Maintenance Fuel Levy Fund	164,948,954	164,948,954	135,608,730	82%
2	World Bank Loan for Transforming Health System for universal Care Project	73,956,777	73,956,777	23,111,493	31%
3	Development of Youth Polytechnique's	50,886,386	50,886,386	50,886,386	100%
4	World Bank Loan for National Agricultural & Rural Inclusive Project	50,000,000	50,000,000	50,609,855	101%
5	Kenya Devolution Support program	38,854,627	38,854,627	38,854,627	100%
6	DANIDA Grant	17,325,260	17,325,260	17,325,260	100%
7	Conditional Allocation - Other Loans & Grants	16,500,000	16,500,000	-	0%
8	Compensation for user fees foregone	12,657,201	12,657,201	13,002,761	103%
Total		425,129,205	425,129,205	329,399,112	77%

source: Vihiga County Treasury

2.2.3 Expenditure Performance

Total expenditure in the FY 2017/18, amounted to Ksh.2.71 billion against a target of Ksh. 5.58 billion as per Approved supplementary 2017/18. This representing 67.4 percent of the funds released for operations. When compared to expenditure of 2016/17 financial year, this is a decline of 27.2 percent from Kshs. 3.72 billion. In addition, a total of Ksh 2.41 billion was spent on recurrent activities while Ksh 297.47million on development expenditure. Recurrent expenditure accounts for 62 per cent of the recurrent supplementary a decrease from 82.9 per cent recorded in FY 2016/17. Development expenditure accounts for 17.5 per cent, which is a decrease from 52.5 per cent attained in a similar period of FY 2016/17. Note that the expenditure excluded pending bills which amounted to Kshs.207.33 million for development activities and Kshs.977.48 million for recurrent expenditure as at June 30, 2018.

The County recorded total expenditure of Ksh.2.71 billion which is an absorption rate of 48 percent, a decrease from 73.8 per cent attained in a similar period of FY 2016/17. The under spending in the FY 2017/18 is attributed to low absorption rates in both recurrent and development expenditures by the line County departments, under collection in revenue, delay in disbursements from national Government and being an election year there was an embargo and development releases from National Treasury.

Table6. Absorption Rates

	Actual Expenditure billion Ksh	Approved Budget billion Ksh	Absorption Rate	Overall Absorption Rate
Recurrent Expenditure	2.41	3.88	62.11	43.19

Development Expenditure	0.273	1.7	16.06	4.89
Total	2.71	5.58	48.57	48.08

source: Vihiga County Treasury

2.2.3. Recurrent Expenditure

The total recurrent expenditure of Kshs. 2.71 billion comprised of Kshs 1.62 billion (67.2 per cent) incurred on personnel emoluments and Kshs. 787.38 million (32.8%) on operations and maintenance. Expenditure on personnel emoluments represented a decrease of 12 per cent compared to the FY 2016/17 when the County spent Kshs 1.84 billion.

2.2.4 Development Expenditure

The total development expenditure of Kshs. 297.47 million represented 17.5 per cent of the annual development budget of Kshs. 1.7 billion. The low rate of absorption of development fund may attributed to delay in disbursement of funds from the exchequer to the counties during the three months that preceded the General Election.

During the period under review, development activities stalled as result of political heat, change of guard, transition and reorganization of government in the County.

Table 7: Vihiga County, Budget Performance by Department in FY 2017/18

Department	FY 2017/18 Budget Allocation (Kshs. Million)		Exchequer Issues in FY 2017/18 (Kshs. Million)		Expenditure in FY 2017/18 (Kshs. Million)		FY 2017/18 Expenditure to Exchequer Issues (%)		FY 2017/18 Absorption rate (%)	
	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
Agriculture, Livestock, Fisheries & Co-Operatives	133.83	211.31	131.2	118.26	101	57.17	77	48.3	75.5	27.1
Lands, Housing & Physical Planning	31.65	65	31.65	23.94	20.16	-	63.7	-	63.7	-
Transport & Infrastructure	141.36	436.14	141.63	139.26	51.85	112.92	36.6	81.1	36.6	25.9
Industrialization, Trade & Tourism	142.36	70.53	47.49	-	14.79	-	31.1	-	10.4	-
County Health Services	1,248.14	233.26	1,231.61	51.87	853.47	58.61	69.3	113	68.4	25.1
Education, Science & Technology	337.49	258.5	259.51	38.16	347.08	35	133.7	91.7	102.8	13.5
County Executive	364.97	54.78	330.97	-	150.53	13.14	45.5	-	41.2	24
County Assembly	530.77	40.44	530.15	13.47	445.86	12.01	84.1	89.2	84	29.7
Finance & Economic Planning	246.78	102.19	246.78	-	77.12	-	31.3	-	31.3	-
County Public Service Board	49.13	-	49.13	-	24.67	-	50.2	-	50.2	-
Public Service & Administration	365.98	53.26	365.98	-	246.76	5.62	67.4	-	67.4	10.6
Gender, Culture, Youth & Sports	222.71	51.6	196.8	-	32.98	-	16.8	-	14.8	-
Environment, Water & Forestry	66.61	123.17	66.61	3	41.64	3	62.5	100	62.5	2.4

TOTAL	3,882.0 5	1,700.1 9	3,629.5 1	387.9 6	2,407.9 1	297.4 7	66.3	76. 7	62	17.5
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The table above shows budget performance by department where the County Assembly attained the highest absorption rate of development budget at 29.7 per cent. The Department of Education, Science and Technology attained the highest percentage of recurrent expenditure to recurrent budget at 102.8 per cent while the Department of Industrialization, Trade and Tourism attained the lowest at 10.4 per cent.

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

Respective sectors absorption rates compared to their respective budget allocations in Table 7 below shows; County Public Service Board sector recorded an absorption rate of 97 percent of their ceiling followed by Public Service and Administration and County Executive at 95 per cent each. Environment, Water, Natural Resources & Forestry sector recorded the least absorption rate at 37 per cent. The slow absorption by respective sectors has been hinged mainly to a slow procurement process, delay in disbursements and challenges in department's capacity to absorb the allocated funds.

Comparison between CFSP 2017 ceilings and 2017/18 FY budget allocation showed a general growth in budget allocations occasioned by increase in equitable share of County revenue.

Table 8. Absorption rate compared to CFSP 2017/18 and FY 2017/18 Budget

Department	BUDGET 2017/18 Kshs. Million)	2017/18 Ceiling Kshs. Million)	Expenditure in The FY 2017/18 (Kshs. Million)	Absorption Per ceilings
Agriculture, Livestock, Fisheries & co-operatives	344.53	188.53	125.3	66%
Lands, Housing & Physical Planning	96.65	76.65	63.7	83%
Transport & Infrastructure	577.77	450.77	117.7	26%
Industrialization, Trade & Tourism	212.89	87.00	31.1	36%

County Services Health	1,481.40	1,342.64	182.3	14%
Education, Science & Technology	595.99	516.73	225.4	44%
County Executive	419.75	330.97	45.5	14%
County Assembly	571.21	654.99	173.3	26%
Finance & Economic Planning	348.97	441.61	31.3	7%
County Public Service Board	49.13	49.13	50.2	102%
Public Service & Administration	419.24	413.98	67.4	16%
Gender, Culture, Youth & Sports	274.31	211.31	16.8	8%
Environment, Water, Natural Resources & Forestry	189.78	147.78	162.5	110%
TOTAL	5,581.62	4,912.10	1,292.5	26%

Source: Vihiga County Treasury

2.2.5. Expenditure by economic classification

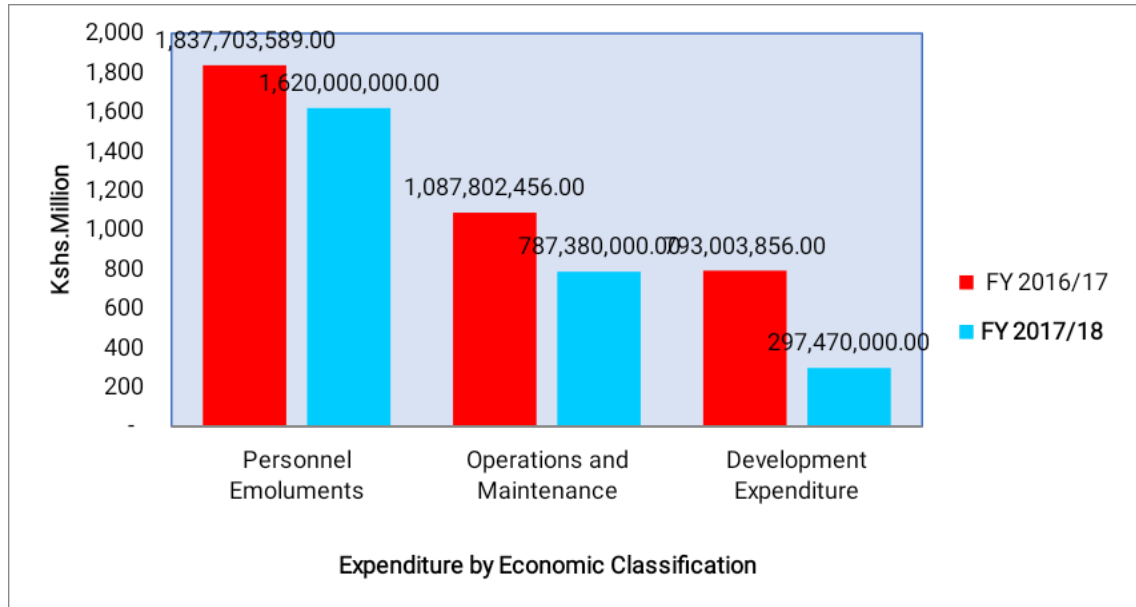
The table 9 below shows actual expenditure by economic classification; personnel emoluments at Ksh. 1,620.00 million, which is 59,9 per cent of the County Governments total revenue and has increased by 11.80 per cent from the previous year 2016/17 FY. Development expenditure fell short by 62.50 per cent from the targeted amount of Ksh.1.70 billion.

Table 9. Showing Expenditure by Economic Classification

	FY 2016/17 Ksh. million	FY 2017/18 Ksh. million	FY 2016/17 %	FY 2017/18 %	% Change
Personnel Emoluments	1,837.70	1,620.00	49.40%	59.90%	-11.80%
Operations and Maintenance	1,087.80	787.38	29.30%	29.10%	-27.60%
Development Expenditure	793.00	297.47	21.30%	11.00%	-62.50%
Total	3,718.51	2,704.85	100.00%	100.00%	-27.30%

Source: Vihiga County Treasury

Figure 4. Showing Expenditure by Economic Classification



Source: Vihiga County Treasury

2.2.6 Implication of 2017/18 FY Fiscal Performance

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

- Own Source Revenue collection improved by 40 per cent compared to the previous year, that is Ksh.143million from Ksh.102 million however it also fell short of the budget target of Ksh. 220 million by 35. This under collection in revenue has warranted adjustment to projected revenues for the budget and in the medium term since over the past three years we have been unable to meet the revenue targets.
- The under spending in the 2017/18 FY budget has implications 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 through the Supplementary for FY 2018/19 and in the County Fiscal Strategy Paper for 2019
- Expenditures on wages and benefits in 2017/18 FY accounted for 59.9 per cent (24.9 per cent above the prescribed limit). This is every big margin against the fiscal responsibility principles.

- Development expenditure also fell short of the fiscal responsibility principles of at least 30 percent of total revenue and we only attained 17.5 per cent of the development funds set aside.
- Some department recorded over absorption of their budgets on recurrent expenditures which is against the fiscal responsibility principles and has serious implication on the fiscal performance of other vote heads. Some of this departments like Education, science and Technology with 102.8 per cent.
- Delay and or non-disbursement of budgeted fund by the national treasury has serous implication on budget implementation. This affects the cashflow and the planned activities and programs remain un done or unpaid for.

These implications will also inform 2019 County Fiscal Strategy Paper projections. Over the medium term the County Government will adhere to the fiscal responsibility principles and objectives as set out in section 107 of the Public Finance Management Act of 2012.

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

This section presents Recent Economic Developments; Medium Term Fiscal Framework; and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future. In this section, the County Government discusses its assessment of the prospects for growth after analyzing the recent economic events and circumstances.

3.1 Recent Economic Developments

According the Economic Survey report 2018 by the Kenya National Bureau of Statistics, the Kenyan economy advanced 5.7 percent year-on-year in the first quarter of 2018, higher than an upwardly revised 5.3 percent growth in the previous period and a 5.8 percent estimate from the central bank. It is the strongest growth rate since the last three months of 2016, amid improved weather conditions and a boost in business and consumer confidence after the conclusion of general

elections in 2017.

Figure 5. Kenya GDP annual growth rate



Agricultural output surged 5.2 percent, the most since the second quarter of 2016 (1.4 percent in Q4 2017), with tea production climbing 11 percent. Also, manufacturing rebounded (2.3 percent compared to -0.4 percent, the most since the third quarter of 2016) and both real estate (6.8 percent compared to 6.3 percent, the most since the fourth quarter of 2016) and wholesale and retail trade (6.3 percent compared to 6.2 percent, the most since the second quarter of 2016) increased faster. On a quarterly basis, the GDP grew 1.9 percent, the most since the second quarter of 2014. GDP Annual Growth Rate in Kenya averaged 5.45 percent from 2004 until 2018, reaching an all-time high of 12.40 percent in the fourth quarter of 2010 and a record low of 0.20 percent in the fourth quarter of 2008. Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions.

Generally, key macroeconomic indicators largely remained stable and therefore

supportive of growth in 2017. Interest rates declined due to the impact of their capping that became effective in September 2016. In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. The current account deficit widened in the year under review on account of significant growth of imports against a slower growth of exports. There was a moderate build up in inflationary pressures mainly due to significant increase in oil and food prices during the year under review. Consequently, inflation rate rose from 6.3 per cent in 2016 to 8.0 per cent in 2017.

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

Employment, Earnings and Consumer Prices

A total of 897.8 thousand new jobs were created in 2017 with 787.8 thousand new jobs created in the informal sector. Employment in the informal sector accounted for 83.4 per cent of total employment in the period under review. The number of persons engaged, excluding those in rural- small scale agriculture and pastoralist activities, rose by 5.6 per cent from 16.0 million persons in 2016 to 16.9 million persons in 2017.

Inflation as measured by Consumer Price Index increased from 6.3 per cent in 2016 to 8.0 per cent in 2017.

Money, Banking and Finance

The Central Bank Rate (CBR) was retained at 10.0 per cent to continue anchoring inflation expectations in 2017. The maximum lending rate is capped at no more than 4.0 per cent above the CBR. Average interest rates on deposits increased to 8.22 per cent in December 2017 from 7.33 per cent in December 2016. Commercial banks' average lending interest rates on loans and advances remained stable at 13.64 per cent

in December 2017. The 91-day Treasury bill rate fell from 8.44 per cent in December 2016 to 8.01 per cent in December 2017.

The County is therefore in better stead to experience growth in agriculture and livestock production, building and construction, retail and wholesale, financial intermediation, public and private investments, increased consumer confidence and the ongoing initiatives to deepen regional integration.

The growing national economy is expected to lead to enhanced revenue performance. This will mean increased allocations to the County by Commission of Revenue Allocation thus having implication on the implementation of strategic interventions.

Global inflation rose to 3.1 per cent in 2017 from 2.8 per cent in 2016, partly attributable to increase in oil prices. World trade grew by 4.8 per cent in 2017 compared to 2.6 per cent in 2016 as result of recovery in global manufacturing occasioned by increased investments. Global unemployment rate stood at 5.6 per cent in 2017.

The Nairobi Securities Exchange 20-Share index rose to 3,712 points in December 2017 from 3,186 points in December 2016, with market capitalization rising to KSh 2,522 billion in December 2017.

Public Finance

National Government outlay for 2017/18 is expected to increase by 21.7 per cent to KSh 2,777.8 billion from KSh 2,283.0 billion in 2016/17. Recurrent expenditure is estimated at KSh 2,107.2 billion in 2017/18, while development expenditure is budgeted at KSh 670.6 billion. Total revenue collections by the National Government, inclusive of grants is expected to be KSh 1,710.2 billion, of which KSh 1,466.2 billion is expected to be generated from tax revenue.

Total stock of public debt as at end of June 2017 stood at KSh 3,971.4 billion, of which external debt position was KSh 2,294.2 billion, accounting for 57.8 per cent. Public debt servicing in 2017/18 is expected to amount to KSh 623.1 billion.

3.2 Medium Term Fiscal Framework

The County Government will operate within a framework of balanced budget. The

County Government's fiscal policy objective in the medium term will be to focus resources to priority and growth potential areas including water, infrastructure, agriculture and livestock production, and health.

Revenue mobilization initiatives will be strengthened to enhance own revenue performance. To realign local revenue performance to positive growth trajectory, the County Government will ensure adequate legislations to guide revenue collection and management, improve enforcement for compliance, enhance use of technology to automate all revenue sources and broaden tax base. The County Government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions. The Government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate exploitation of the vast natural resources in the County. The policy will address itself to licensing, attracting investors, taxation and sustainable use of the resources.

In the medium term the County Government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The County Government will continue to monitor expenditures closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will be expected to include personnel emoluments (P.E), development and operations. The Government will also upscale implementation of programmes targeting the vulnerable including the youth, women and people living with disabilities (PWDs) to enhance their participation in the socio-economic development of the County.

The County Government of Vihiga does not anticipate any long term borrowing in the medium term. However, the fiscal responsibility principles will remain the guiding framework for its public finance management discourse.

3.3 Risks to the Outlook

Risks to the economic outlook of the County include the following;

- The outlook is based on assumed normal rainfall. However, rainfall pattern proved erratic in some seasons in the past. Erratic rainfall pattern, if experienced, is likely to affect agricultural production.

- Expenditure pressures due to increasing wage bill thus leaving inadequate resources for development.
- Delay in the enactment of County Allocation of Revenue Bill. This has been affecting counties' budgeting process for lack of clear ceilings beforehand.
- Local revenue performance. This has been fluctuating and underperforming. But with the expected improved revenue performance at the national level due to the growth momentum of the Kenya, the total revenue of the County is expected to increase over the medium term.
- Variations of County allocation of revenue formula by the Commission on Revenue Allocation and Senate is also a potential risk as this may lead to reduced share of shareable revenue.
- Exchequer releases. This affects budget implementation.
- Conflicting priorities between the County Assembly and the County Executive thus affecting budget making process and budget execution.

4.0 RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the County expects and how it will be allocated across all the sectors for 2018/19 FY and MTEF

Medium term projections have considered performance of 2017/18 FY and macroeconomic factors expected at the national level. A rate of 5 per cent has been used (instead of 5.8 GDP growth projection) a to project the growth in County revenues.

Table 10 below shows the County Government fiscal projections in the medium term. Revenue collection will be maintained at Ksh. 153 million as indicated in CFSP 2018

considering strategies employed towards raising revenue in the medium term. This include; passing of relevant amendments on the revenue legislations, on revenue administration and collection, full automation of revenue collection and integration, strengthening and enforcing surveillance and sensitization of the public. In addition, recurrent and development expenditure will be maintained at 65 percent and 35 per cent respectively meeting the minimum 30 per cent requirement for development expenditure.

Table 10. County Government Fiscal Projections in Ksh. in the Medium Term

Sources/FY	2017/18	2018/19 CFSP Projection	2019/20 Projection	2020/21 Projection
County Equitable share per CRA	4,409,200,000	4,770,000,000	5,008,500,000	5,258,925,000
Own Source Revenue	220,000,000	153,445,800	153,445,800	153,445,800
Total	4,629,200,000	4,923,445,800	5,161,945,800	5,412,370,800

Source: Vihiga County Treasury

4.1 Adjustment to the FY 2018/19 Budget

As we even commence implementation of the FY 2018/19 Budget, there will be need to adjust it through the supplementary to address the following issues; changes in CARRA 2018, changes in personnel emolument so that it is adequately provided for in the Budget and any other matter arising from change of policy or law and or operations at the County and National government level.

These coupled with local revenue shortfalls as experienced in the 2017/18 year will further affect the current budget. Therefore, to avert these risks, revisions on local revenue projections to realistic projections.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in County Integrated Development Plan (CIDP) and other County plans; and in

accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the County Government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

4.3 The Proposed 2019/20 Budget Framework

4.3.1 Revenue Projections

The FY 2019/20 budget targets revenue (equitable share and local) collection of Kshs. 5.0 Billion up from Kshs4.77 Billion in the FY 2018/19. This revenue performance will dependent on the trend of growth of the Kenyan GDP and the ongoing automation of revenue collection and revenue administration. However, Own source revenue is projected to remain the same because for the past performance the county has never mate its target, at Kshs. 153.45 million in FY 2019/20 similar to FY 2018/19.

Table 11 Revenue Projections for FY 2019/20 and 2020/21

Sources/FY	2017/18	2018/19 CFSP Projection	2019/20 Projection	2020/21 Projection
County Equitable share per CRA	4,409,200,000	4,770,000,000	5,008,500,000	5,258,925,000
Own Source Revenue	220,000,000	153,445,800	153,445,800	153,445,800
Total	4,629,200,000	4,923,445,800	5,161,945,800	5,412,370,800

Source: Vihiga County Treasury

4.3.2 Expenditure Forecasts

In the proposed 2019/20 budget, overall expenditures are projected to increase by 5 percent same as the revenue growth in the same period as indicated in the table below. It is also assumed that total conditional grants will remain the same and the county will maintain a balanced budget.

In this regard, the County Government will over the medium term ensure compliance with

the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The County Government is expected to enhance expenditure productivity in the proposed year and manage the rising wage bill to be within the required limit.

Table 12 Summary of Expenditure Projections in KSh. Millions 2018/19 FY and MTEF

Departments	Supplementary Budget 2017/18	Approved Budget 2018/19	Projected Estimates 2019/20	Projected Estimates 2020/21
Office of The Governor	419.75	493.88	518.57	544.50
Finance & Economic Planning	348.97	631.86	663.45	696.62
Agriculture, Livestock, Fisheries & Cooperatives	344.53	397.60	417.48	438.35
Health Services	1,481.40	1,634.94	1,716.69	1,802.53
Education, Science, Technical and Vocational Training	595.99	721.48	757.55	795.43
Gender, Culture, Youth, Sports and Social Services	274.31	245.87	258.17	271.07
Trade, Industry, Tourism and Entrepreneurship.	212.89	144.99	152.24	159.85
County Public Service Board	49.13	52.57	55.20	57.96
Environment, Water, Energy & Natural Resources.	189.78	157.96	165.86	174.15
Transport, Infrastructure & Communication	577.77	754.03	791.73	831.32
Physical Planning, Land and Housing	96.65	137.93	144.82	152.07
County Assembly	571.21	654.99	687.74	722.13
Administration and Coordination of County Affairs	419.24	412.54	433.17	454.83
Total County Expenditure	5,581.62	6,440.64	6,762.67	7,100.81

Source: Vihiga County Treasury

5.0 CONCLUSION

In the period under review CBROP shows that, the County Government generally did not comply with the principles of fiscal responsibility in the minimum wage rate, development ratio and in two department there was over expenditure.

In the same period, it is observed that personnel emoluments decreased by 11.8 percent while operations and maintenance shrunk by 27.6 percent, development expenditure shrunk by 62.5 percent compared to 2016/17. This implies that though the workforce decreased, the wage bill was still higher than the fiscal responsibility. The low expenditure on maintenance means that the County assets were not adequately maintained. Shrinking development expenditure means low service delivery, stagnant development activities and questionable ability for departments to absorb their budgets.

Therefore, the County needs to utilize its resources timely and based on the strategic objectives as set out in the County integrated development plan (CIDP), adhere to fiscal responsibility principles.