



KISII COUNTY GOVERNMENT

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

FINANCIAL YEAR 2015/2016

August, 2016

FOREWORD

The County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 (1) of the Public Finance Management Act, 2012. It reviews the actual fiscal performance of the financial year 2015/16 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP), February, 2016.

In reviewing the fiscal performance, this paper analyzes the performance of the County's own revenue in the FY 2015/16. It has included the total revenue collected and made comparison to projected revenue for the same year. In addition, causes of the underperformance of revenue are also highlighted. Included in the analysis is also performance of departmental expenditures for the period under review.

In this paper, we intend to provide an overview of how the actual performance of the FY affected our compliance with the fiscal responsibility principles and the financial objectives as outlined in the 2016 County Fiscal Strategy Paper (CFSP).

The CBROP intends to continue to play a critical role in the preparation of budgets and management of public resources in the County Government. To strengthen the budget preparation process, the County government intends to continue to embrace performance budgeting and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money.

We are committed to maintain the trend of development in line with the expectations and commitments we have made to the Kisii County residents. Towards this end, we shall ensure there is transparency and accountability by relaying our performance indicators to the public as well as publicizing other publications as required by the Constitution and the Public Finance Management Act, 2012.

DR. KODEK MIGIRO OMWANCHA

COUNTY EXECUTIVE COMMITTEE MEMBER FOR FINANCE AND PLANNING

ACKNOWLEDGEMENTS

The Kisii County Budget Review and Outlook Paper (CBROP) for the FY 2015/2016 is a result of contribution and concerted efforts of many people. The paper is informed by the Public Finance Management Act 2012 Section 118 (1) which stipulates that the County Treasury shall prepare the Budget Review and Outlook Paper of the County for each financial year and submit the paper to the County Executive Committee by the 30th September of that year.

The contents of this CBROP has benefited from an array of expertise of technical officers from the County Planning Unit, County Treasury and Strategy, Delivery and Project Management and in the County. Their tireless efforts have informed the four chapters of this CBROP. We sincerely express our gratitude to all those persons that participated in the drafting and printing of this paper.

We are particularly grateful to His Excellency the Governor for his lead role, direction and guidance in developing this document; His Excellency the Deputy Governor, County Executive Member for Finance and Economic Planning and other County Executive Committee Members, Chief Officers and directors of various departments for their input in providing much needed information to the team working on the second County Budget Review and Outlook Paper for Kisii County Government.

We specifically appreciate the tireless efforts of the technical team comprising of Mr. Onchari Kenani, (Economic Advisor); Mr. John Nyamiobo, (Political and Budget Advisor); County Economists, Mr. Edward Mayogi, Mr. Julius Kitunda, Mr. Penuel Nyaanga Ondieng'a, Mr. Peterson Nyakeri, Mr. Steve Siso and Mr. Alfred Keter, County Treasury representatives comprising of Mr. Chrispinus Ibalai, Mr. Johnes Chacha and Ms. Rebecca Matunda for working tirelessly in the development of this document.

For the County Treasury staff who worked so tirelessly with the drafting team in the provision of the much needed information for this document, we say thank you.

Finally, we cannot forget the role played by the County Budget and Economic Forum (CBEF) members for their immense contributions to this CBROP.

WILFRED AUMA

CHIEF OFFICER,

FINANCE AND ECONOMIC PLANNING

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Fiscal Responsibility Principles in the Public Financial Management Act 2012.

The public Financial Management Act 2012, Section 107 states that 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.

In managing the county government's public finances, the County Treasury shall enforce 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 a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
- (d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- (e) The county debt shall be maintained at a sustainable level as approved by county assembly;
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

Legal Basis for Preparation of the County Budget Review and Outlook Paper.

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

1) The County Treasury shall prepare and submit to the County Executive for approval, by 30th September in each financial year, a Budget Review and Outlook Paper which shall include:

- a. Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
- b. Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent CFSP.
- c. Information 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 latest CFSP; and
- d. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall— (a) arrange for the Paper to be laid before the County Assembly; and (b) as soon as practicable after having done so, publish and publicize the Paper.

ABBREVIATIONS

ADP	Annual Development Plan
CBEF	County Budget Economic Forum
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
DANIDA	Danish Development Agency
EAC	East Africa Community
ECD	Early Childhood Development
FY	Financial Year
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management
PPP	Public Private Partnership
SACCO	Savings and Credit Co-operative
SDGs	Sustainable Development Goals
COB	Controller of the Budget
PPOA	Public Procurement Oversight Authority

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CHAPTER ONE

1.0 INTRODUCTION

1. The County Budget Review Outlook Paper(CBROP) is prepared in line with Section 118 of the PFM Act, 2012 which stipulates that the County Treasury shall prepare and submit a CBROP to the County Executive Committee for approval, by 30th September in each Financial Year.
2. This CBROP sets out the background and broad fiscal parameters for the revision of FY 2016/17 and FY 2017/18 budget consistent with the County Government priorities and strategies. To strengthen the budget process, the County Government intends to continue to embracing performance budgeting and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money.
3. The CBROP provides a linkage between policy, planning and budgeting. This year's CBROP is embedded on the priorities and strategies outlined in the Annual Development Plan (ADP) 2016, County Integrated Development Plan (CIDP 2013-2017) and Vision 2030.
4. The PFM Act, 2012 has set high standards for compliance with the Medium Term Expenditure Framework (MTEF) budgeting process. It is, therefore, expected that the sector ceilings for the next budget of 2017/18 intends to be realigned to the County strategies outlined in the ADP.

1.1 Objectives of the County Budget Review and Outlook Paper

5. The objectives of the County Budget Review and Outlook Paper is to:-
 - i. Carry out a review of the previous fiscal performance in the County and its impact on the financial objectives and fiscal responsibility principles as set out in Section 107 of the PFM Act, 2012.
 - ii. Provide a basis for revision of the current financial year's budget in the context of the Revised Estimates as provided in Section 135 of the PFM Act, 2012 and the broad fiscal parameters underpinning the next budget.
 - iii. Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.
 - iv. Update economic development outlook to be firmed in the CFSP to reflect any changes in economic and financial conditions.

1.2 Structure of the CBROP

6. The CBROP is organized in four chapters. Chapter one provides the introduction and objectives. Chapter Two details the recent economic developments while Chapter Three provides a review of the fiscal performance in FY 2015/2016 and its implications on the financial objectives as set out in the CIDP. Chapter Four provides the resources allocation framework and the way forward.

CHAPTER TWO

2.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

7. The performance of the County mainly depends on the country's economic performance. The economy in the last few months registered improved growth; however, it continued to operate under unstable macroeconomic environment occasioned by the depreciation of the Kenyan shilling against the dollar which is one of the major trading currencies, insecurity threats from Al-shabaab and corruption.
8. The 2015 corruption perception index released by Transparency International (TI) ranked Kenya among the most corrupt countries at 139 out of 168 countries. Corruption is a major impediment to doing business in Kenya according to Kenya Economic Outlook, 2016 as it scares away investors.
9. The unstable conditions are expected to prevail in the next few months and the economy is likely to be hit further by the impact of United Kingdom withdrawal from European Union. The 2015 Economic Survey shows that United Kingdom was the second biggest export market for Kenya in Europe.
10. Kenya earned 40.6 billion last year according to KNBS Statistical Releases May 2016. If the British exit plunges it into recession, then trade volumes between Kenya and Britain will be badly affected. In addition, Kenya will have to develop new trade agreements with Britain, Europe and the rest of the world. This will make exporting to the European markets difficult as farmers may face different sets of regulations and standards to meet.

2.1 Recent Economic Developments

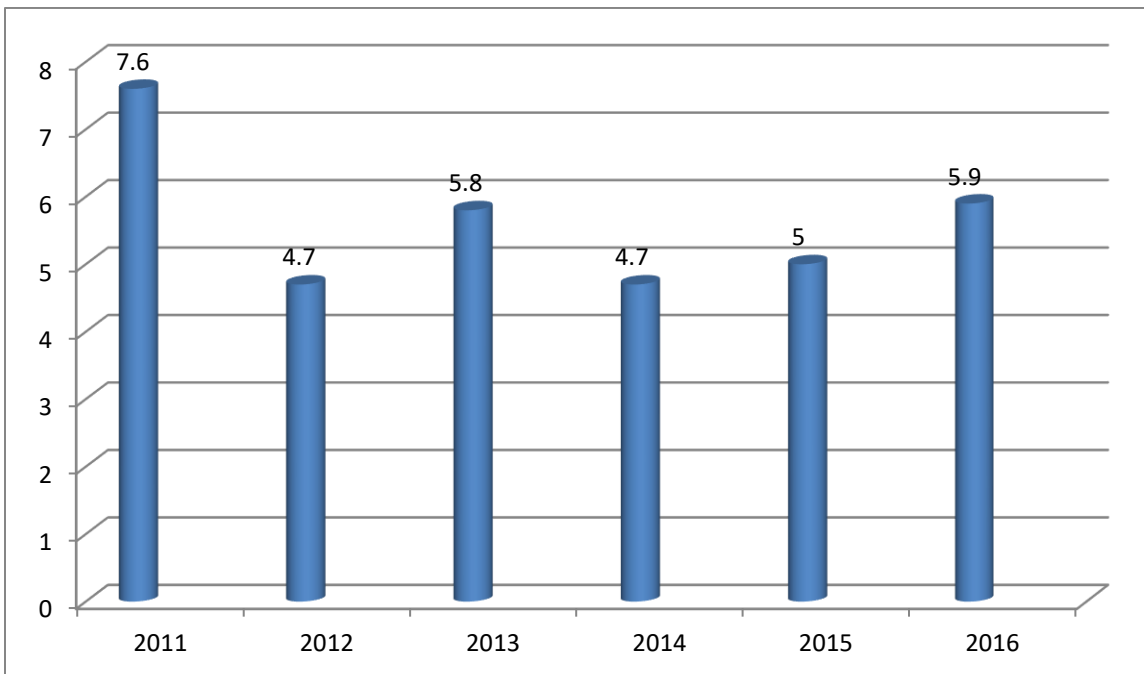
2.1.1 GDP

11. According to KNBS Statistical Releases December 2015, the economy grew by 5.8 percent during the period between July-September, 2015 as compared to 5.2 percent recorded during the same period in 2014. The growth was mainly supported by strong expansion in Agriculture, Construction, Financial and Insurance, Wholesale and Retail trade. In Kisii County, these sectors registered remarkable growth as well.

12. The economy maintained the growth momentum that started during the third quarter of 2015 into the first quarter of 2016, (KNBS Statistical Releases June 2016). All sectors of the economy posted positive growths resulting to an expansion of 5.9 per cent in real Gross Domestic Product (GDP) during the first quarter of 2016 compared to 5.0 per cent in a similar quarter of 2015 as shown in figure 1.

13. The most notable improvement was a rebound in activities of accommodation and food services which expanded by 12.1 per cent in the period under review compared to a contraction of 11.4 per cent during the same quarter in 2015. This performance was replicated in the County. The hospitality industry is among the fastest growing sectors in the County. Over the period under review, the County witnessed emerging of new joints and restaurants across the County. In addition, Nyakoe hotel and Dados hotel acquired new status to three and two star hotels respectively.

Figure 2.1: First Quarter GDP Growth Rates in percentages



Source: KNBS June 2016

14. According to KNBS Statistical Releases June, 2016, the Agricultural, Forestry and Fishing sector showed marked improvement in the first quarter of 2016 mainly buoyed by considerable growth in value added of key crops such as tea and horticultural crops. Overall, the sector is estimated to have expanded by 4.8 per cent in the first quarter of 2016 compared to a 2.9 per cent growth

realized in the same quarter in 2015. Tea production recovered from a contraction of 27.2 per cent experienced in the first quarter of 2015 to record a substantial growth of 71.1 per cent owing to favourable weather conditions experienced in the first three months of 2016.

15. Value of exports of coffee and tea increased by 7.6 per cent and 24.5 per cent, respectively over the same period. These developments were primarily on account of improved international prices during the review period. The horticulture registered notable growths both in quantity and values. The quantity of cane deliveries rebounded from a decline of 4.2 per cent in first quarter of 2015 to a growth of 1.8 per cent during the first quarter of 2016. Production of some food crops was somewhat subdued in the first quarter of 2016. Specifically, production of maize in the key growing zones was largely constrained in the first quarter mainly due to a slight delay in the onset of long rains.
16. However, the horticulture sub-sector in Kisii County is underperforming due to low adoption of modern farming practices like green house farming. For instance, most fruits consumed in the County are all imported. With the growing population in the County, there is need to upscale the adoption of the sub-sector. Farmers should be encouraged to invest in green houses and stop practicing rain fed agriculture to irrigation to ensure steady supply of horticulture produce.
17. The construction industry is estimated to have expanded by 9.9 per cent during the first quarter of 2016 which was a slowdown when measured against an expansion of 12.6 per cent in a similar period of 2015. The deceleration in the growth of this sector was reflected in the production and consumption of cement whose growths slowed to 5.2 per cent and 8.3 per cent during the quarter compared to expansions of 11.0 and 17.0 per cent, respectively over a similar period in 2015.
18. The Financial Intermediation sector recorded a growth of 8.0 per cent in the first quarter of 2016 compared to a growth of 10.6 per cent registered in a similar period of 2015. This growth may partly be explained by the continued vibrancy of the financial sector evidenced by impressive financial results posted by most financial institutions.
19. Total domestic credit grew by 15.5 per cent to Kshs 2,823.7 billion during the first quarter of 2016 with credit to the National Government increasing by 15.7 per cent. Broad money supply (M3) expanded by 11.0 per cent in the first quarter of 2016 compared to an increase of 16.4 per cent recorded in a similar period in 2015. Net foreign assets of the banking sector declined by 1.1

per cent over the first quarter of 2016 compared to an increase 24.7 per cent recorded over a similar period in 2015.

20. The financial sector is one of the leading industries in the County as evidenced by the presence of 18 major banks out of 42 banks in the country. Some of the banks have opened more than one outlet like KCB, Cooperative and NIC bank.
21. Agriculture, financial and the construction sectors are the major drivers of the Kisii County economy. In the first quarter of 2016, the County has witnessed many activities in construction sector especially in the real estate and in the banking sector.

2.1.2 Inflation

22. Inflation rose to average of 7.0 per cent during the first quarter of 2016, compared to 5.8 per cent in the first quarter of 2015. Weighted average commercial banks loans and advances rates also edged upwards to average at 18.4 per cent during the quarter compared to 15.6 per cent in the first quarter of 2015. The Kenya Shilling depreciated significantly against the US Dollar, Japanese Yen, the Euro and the Sterling Pound by 11.6, 15.5, 10.5 and 5.6, per cent, respectively. Regionally, the Kenya Shilling depreciated against the Tanzanian Shilling but appreciated against the Uganda and South Africa Rand by 20.6 and 16.4 per cent, respectively.

2.1.3 Interest rates

23. Over the first quarter of 2016, the average interest rate on 91-day treasury bills stood at 10.24 per cent, compared to an average of 8.56 per cent recorded in a similar period in 2015. Over the same period, the overdraft and lending interest rates rose to 18.12 per cent and 17.87 per cent, respectively.
24. The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) in May 2016 lowered its benchmark interest rate to 10.5% from 11.5% due the trends of reducing inflation rates and stabilization of the Kenyan shillings (KES). Following this move, the MPC is also expected to revise the base lending rate. This will reduce the cost of credit in the country in the second half of 2016 (Kenya Economic Outlook 2016).

2.1.4 Exchange Rate

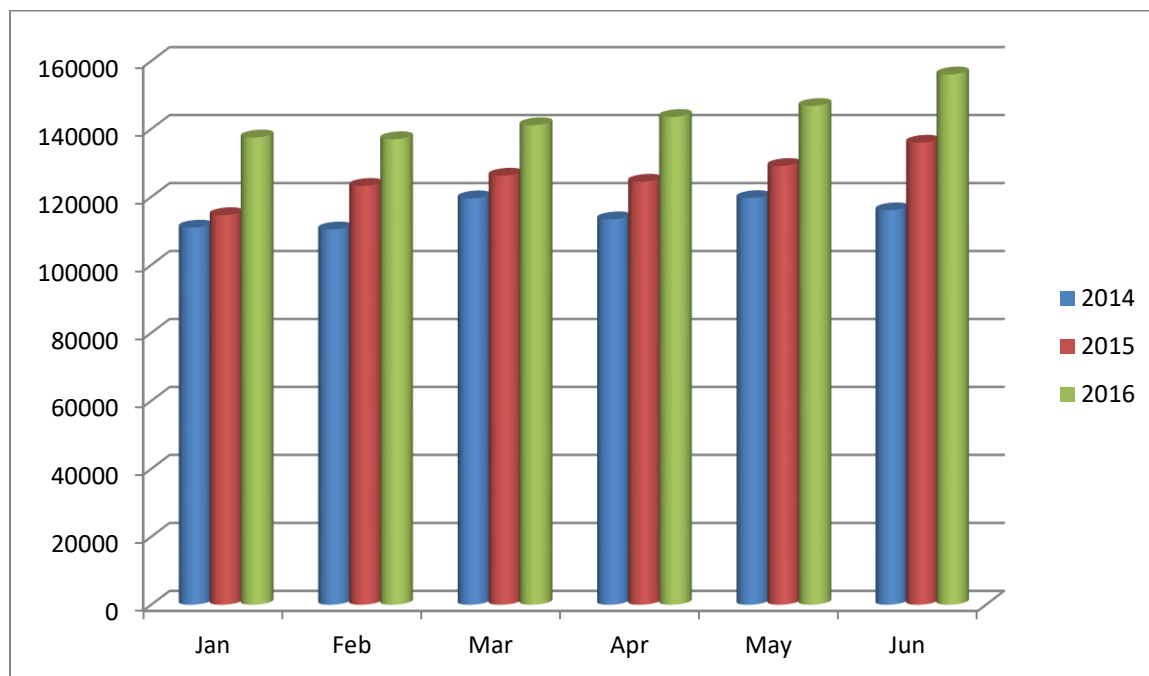
25. The KES depreciated by 8 percent against the USD, by 4 percent against the British pound (GBP) and by 14 percent against the Euro (EUR) between April 2015 and April 2016 according to

KNBS. The International Monetary Fund (IMF) attributes the weakening of the KES to reduction in foreign currency, denominated capital inflows, declining of tourism receipts and interventions by the CBK to smooth the foreign exchange market. Despite the KES depreciation; KES is resilient compared to other emerging market currencies due to the country's stringent monetary tightening and also due to the country's slow level of dependence on hydrocarbons and mineral export. However, Kenya, according to Deloitte (2016), will KES will remain vulnerable to global development such as further rises in US rates and uncertainties surrounding the state of the Chinese economy.

2.1.5 Remittances

26. Remittances has become one of the largest sources of external funding in Kenya and by extension in the County due to many Kisii's in the Diaspora and their good culture of remitting to support the families they leave behind and to invest in the local market. This is evidenced by the money development witnessed in the County especially in the construction industry. According to CBK records, Kisii County is controlling over 50% of the money in circulation in the Western Part of Kenya. This is evidenced by the presence of all major banks and insurance companies in Kisii Town. The source of the money is attributed to the remittances since the County does not have major industries.
27. Cumulative inflows in the 12 months to June 2016 increased by 11 percent to USD 1.7 billion from USD 1.5 billion in the year to June 2015. The 12 month average flow, therefore, increased to USD 138 million from USD 124.3 million over the same period. The sustained upward trend in part reflects the entry of additional money remittance providers into the market.
28. The first half of 2016 registered the highest remittances in the recent past as shown in figure 2. The steady increase is partly attributed to the many Kenyans in the diaspora and the Kenyan Constitution 2010 which provides dual citizenship. This has encouraged the diaspora to invest in the Country as they are assured of ownership.

Figure 2.2: Remittance inflow in USD in millions in first half of 2014, 2015 and 2016



Source: CBK website

29. To encourage remittances in the County, the Diaspora has been advised to form a SACCO (Kisii County Diaspora SACCO) whose membership intends to be the Diaspora. The SACCO intends to manage their properties and investments. Some of the Diasporas have been swindled by their kinsmen in the past. This because the family members they often engage in managing their properties do not have adequate skills and necessary expertise required in managing investments. The formation of the SACCO intends to not only benefit the Diasporas but the County Government as well. The SACCO intends to create a forum for the government to engage the diaspora in development activities through the platform for PPP.

2.2 Economic Risks

30. Although the growth of Kisii County economy is promising, it is still prone to risks both macro and micro. The macroeconomic management and performance of the sectors under the National Government has an effect on how the sectors of the County perform. The risks that affect the country's economy that intends to have an impact on the performance county economy include;

- i. Britain's exit from the European will add onto piling uncertainties in the global market that may spill into Kenya.
- ii. Uncertainties in the global financial markets have increased due to risks posed by slower growth in China and the timing of the US Fed's next increase in interest rates.
- iii. The capping of the lending rates by the Government is likely to bring instability in the financial market. This will affect the residents of the County as well.
- iv. The earlier and anticipated rigorous campaigns for 2017 general elections are likely to slow down investments and subsequently growth.
- v. The depreciation of the shilling against the major trading currencies like the Dollar is likely to affect imports of major industrial materials, motor vehicles, machineries and other accessories and medicine which are likely to impact the economy negatively.

31. Public expenditure pressures especially recurrent expenditures pose fiscal risks. It affects both the National and County Governments. In Kisii County for instance, personnel emolument takes 40 percent of the FY 2016/2017 budget against the recommended 35 percent. The County Government should, therefore, restrain from further employment except in technical areas like health. The high wage bill is attributed to many staff inherited from the defunct local authorities. The current total recurrent budget, though, takes 61 percent of the budget which is within the recommended threshold of 70 percent.

32. In the first nine months of the FY 2015/2016 according to the Controller of Budget (CoB) May 2016 releases, the County did not deposit all locally collected revenue into the County Revenue Fund account maintained at Central Bank of Kenya (CBK) in line with Article 207 of the Constitution. Revenue collected by Health Services Department and revenue from Liquor licensing was not deposited into the CRF account but spent at source.

33. Although agriculture is the main driver of the county economy it is faced with unreliable weather patterns and, therefore, greater attention needs to be given and structures put in place

to address overreliance of rain fed production. To address the issue of food insecurity in the county, funds have been allocated in the following areas: greenhouse promotion, dry feeds promotion, AI promotion, local chicken promotion, fish production and tissue culture bananas promotion.

34. To counter the effects of disaster, the National Government has already set aside funds to take care of damages and the County government is expected to do the same to supplement the National Government through the emergency fund. This intends to ensure a smooth operation

CHAPTER THREE

3.0 REVIEW OF FISCAL PERFORMANCE IN 2015/2016

3.1 Overview

35. The fiscal performance in the FY 2015/16 was mainly affected by challenges of not realizing the projected revenues and mounting expenditure pressures. The County Government anticipated to receive KShs.7,093,627,514 as equitable share, KShs. 338,616,571 as conditional share for Kisii Teaching and Referral Hospital, KShs.194,699,400 as conditional share for Free Maternal Healthcare, KShs. 95,744,681 for leasing of medical equipment, KShs. 26,859,653 as Conditional allocation for compensation for user fee forgone from National Government, KShs. 700,000,000 from own sources and KShs 22,950,000 from DANIDA totaling to KShs. 9.1 billion, but received only KShs. 7.9 billion.

3.2 Fiscal Performance for 2015/16 Financial Year

3.2.1 Revenue

36. In the FY 2015/2016, the County estimated revenue was KShs 9.1 billion comprising of revenue from local sources, equitable share from the National Government, DANIDA, leasing of medical equipments, grants for maternal healthcare, Road Maintenance Fuel Levy Fund and conditional share for Kisii Teaching and Referral Hospital as analyzed in Table 3.1.

Table 3.1: Revenue Analysis for 2015/16

Revenue Source	2015/2016		Deviation	Deviation
	Budget(KShs)	Actual Receipts (KShs)	(Actual less Budget)	%
Receipts from National Government(Equitable Share)	7,093,627,514	6,456,174,308	637,453,206	9.0

Conditional Share Kisii Level Five	338,616,571	338,616,571	0	0.0
DANIDA Health Sector Services Fund (HSSF)	22,950,000	22,950,000	0	0.0
Leasing of medical equipment	95,744,681	0	95,744,681	100.0
Conditional allocation free maternal healthcare	194,699,400	134,452,500	60,246,900	30.9
Unspent balances FY 2014/2015	617,468,835	617,468,835	0	0.0
Road Maintenance Fuel Levy Fund	90,112,658	45,506,893	44,605,765	49.5
Conditional allocation for compensation for user fee forgone	26,859,653	26,859,653	0	0.0
Receipts from Local Sources	700,000,000	306,129,638	393,870,362	56.3
TOTAL	9,180,079,312	7,948,158,398	1,231,920,914	

Source: Kisii County Treasury June 2016

37. Revenue collected from local sources amounted to **KShs.306, 129,638** against the revised estimates of **KShs.700, 000,000** reflecting a short fall of **KShs. 393,870,362**. This represents 56.3 percent of the projected revenue.

38. In terms of financing County operations, total Exchequer releases from the National Government from 1st July 2015 to 30th June 2016 amounted to **KShs.7,948,158,398** comprising of **KShs.5,399,928,385** and **KShs.2,548,230,013** for recurrent and development expenditure respectively. Table 3.2 presents total Exchequer releases from the National Government.

Table 3.2: Recurrent and Development Exchequer releases for the FY 2015/2016

DATE	RECURRENT	DEVELOPMENT	TOTALS
10-08-15		0	568,000,000.00
19-08-15	568,000,000.00		72,000,000.00
28-08-15	0	72,000,000.00	27,089,326.00
28-08-15		27,089,326.00	377,864,281.00
28-08-15	377,864,281.00	0	191,178,893.00
28-08-15	0	191,178,893.00	30,475,491.00
28-09-15	0	30,475,491.00	183,200,000.00
28-09-15	0	183,200,000.00	

28-09-15		0	474,500,000.00
	474,500,000.00		
03-11-15	0		28,782,409.00
		28,782,409.00	
03-11-15	0		122,000,000.00
		122,000,000.00	
03-11-15	0		468,217,591.00
	468,217,591.00		
16-11-15	0		40,000,000.00
		40,000,000.00	
01-12-15	0		30,475,491.00
		30,475,491.00	
01-12-15	0		168,500,000.00
		168,500,000.00	
01-12-15	0		354,219,799.00
	354,219,799.00		
02-12-15	61,804,710.00	0	61,804,710.00
23-12-15	0		28,782,409.00
		28,782,409.00	
23-12-15	0		183,000,000.00
		183,000,000.00	
23-12-15	0		385,806,643.00
	385,806,643.00		
24-12-15			62,493,357.00
	62,493,357.00		
22-01-16	0		27,089,326.00
		27,089,326.00	
22-01-16	0		151,310,674.00
		151,310,674.00	
22-01-16	0		58,000,000.00
	58,000,000.00		
26-01-16	0		359,600,000.00
	359,600,000.00		
12-02-16	0		67,965,000.00
		67,965,000.00	
03-03-16	0		27,089,326.00
		27,089,326.00	
03-03-16	0		45,000,000.00
		45,000,000.00	
03-03-16	0		58,523,189.00
	58,523,189.00		
03-03-16	0		127,000,000.00
		127,000,000.00	
03-03-16	0		371,387,485.00
	371,387,485.00		
05-04-16	0		27,089,326.00
		27,089,326.00	
05-04-16	0		57,764,191.00
	57,764,191.00		
05-04-16	0		166,000,000.00
		166,000,000.00	
05-04-16	0		392,146,483.00

	392,146,483.00		
06-05-16		0	22,950,000.00
	22,950,000.00		
06-05-16		0	58,000,000.00
	58,000,000.00		
06-05-16		0	307,636,834.00
	307,636,834.00		
06-05-16	0		30,475,491.00
		30,475,491.00	
06-05-16	0		202,437,675.00
		202,437,675.00	
27-05-16		0	41,895,697.00
	41,895,697.00		
27-05-16		0	241,104,303.00
	241,104,303.00		
08-06-16	0	27,089,326.00	27,089,326.00
08-06-16		0	143,650,600.00
	143,650,600.00		
08-06-16	0		190,260,674.00
		190,260,674.00	
28-06-16	0		27,089,326.00
		27,089,326.00	
28-06-16		0	50,682,277.00
	50,682,277.00		
28-06-16			204,946,515.00
		204,946,515.00	
28-06-16		0	243,180,945.00
	243,180,945.00		
29-06-16	0		9,000,000.00
		9,000,000.00	
29-06-16	0		21,750,835.00
		21,750,835.00	
29-06-16	0		90,542,500.00
		90,542,500.00	
29-06-16		0	240,500,000.00
	240,500,000.00		
TOTAL			7,948,158,398.00
	5,399,928,385.00	2,548,230,013.00	

Source: Kisii County Treasury, June 2016.

39. The deviations between the budget estimates and actual collections in the local revenue are illustrated in Table 3.3.

Table 3.3: Local Revenue Outturns for FY2015/16

ITEM	REVISED BUDGET	ACTUAL RECEIPTS	REVENUE PERFORMANCE %
1-2101 Property rates	40,000,000	14,576,359.00	36.44

Property rates arrears	70,000,000		~
1-2104 Other Property Charges	500,000		~
1-2201 Business Permits Current Year	95,000,000	65,123,165.00	68.55
1-2202 Business Permits Penalties	17,000,000	3,241,159.00	19.07
1-2301 Tea Cess	8,000,000		~
1-2302 Coffee Cess	4,000,000		~
1-2311 Fruits & Vegetables / Produce Cess	3,000,000	8,148,750.00	271.63
1-2314 Log Cess	5,000,000		~
1-2501 Ground Rent - Current Year	3,000,000	3,612,633.00	120.42
1-3103 Plot Transfer Fee	4,500,000	118,120.00	2.62
1-3105 Miscellenous income	30,300,000	125,448.00	0.41
1-3106 Isolation Fee (Surcharge on Business Permit)	6,000,000		~
1-3201 Ambulant Hawkers Licences (Other than BSS Permits)	1,000,000	1,560,540.00	156.05
1-3203 Impounding Charges	5,500,000	1,213,300.00	22.06
1-3301 Sand, Gravel, and Ballast Extraction Fees	2,000,000		~
1-3302 Quarry Extraction Fees	2,000,000		~
1-3501 County Premises Monthly Rent (Offices, etc.)	2,000,000		~
1-5101 Market Entrance / Gate Fee	54,100,000	61,433,913.00	113.56
1-5102 Market Plots Rent	6,000,000	4,523,705.00	75.40
1-5103 Market Shops Rent	5,000,000	1,000.00	0.02
1-5104 Market Kiosks Rent	4,000,000	484,500.00	12.11
1-5105 Market Stalls Rent	4,500,000	4,700,000.00	104.44
1-5201 Enclosed Bus Park Fee	33,000,000	43,500,050.00	131.82
1-5211 Other Vehicles Enclosed Park Fees (Cars, Lorries, etc.)	6,500,000	5,075,000.00	78.08
Motorcycle parking stickers	23,000,000	16,508,820.00	71.78
1-5221 Street Parking Fee	11,000,000	18,071,345.00	164.28

1-5225 Clamping Fine	2,500,000	1,213,330.00	48.53
1-5226 Towing Fine	600,000	479,426.00	79.90
1-5227 Storage Fee	2,300,000	86,940.00	3.78
1-5228 Clamping Tampering Fee	2,500,000	-	-
1-6301 Social Hall Hire	2,000,000	50,500.00	2.53
1-6311 Stadium Hire	6,000,000	-	-
1-8301 Refuse Collection Fee	1,500,000	-	-
1-8401 Slaughtering Fee	7,000,000	720,700.00	10.30
1-8402 Hides & Skins Fee	600,000	-	-
1-9101 Beacon Search Pointing Fee	200,000	-	-
1-9102 Survey Fee	1,000,000	-	-
1-9112 Buildings Plan Approval Fee	30,000,000	14,487,267.00	48.29
1-9113 Buildings Inspection Fee	2,000,000	-	-
1-9132 Sign Boards & Advertisement Fee	25,000,000	22,020,944.00	88.08
1-9201 Fire-Compliance Fee	8,500,000	8,091,750.00	95.20
Revenue from Agricultural Training Centre	20,000,000	2,053,399.00	10.27
Hire of plant and machinery and equipment	30,000,000	2,295,200.00	7.65
Devolved function revenues	112,400,000	2,612,735.00	2.32
TOTAL	700,000,000	306,129,638.00	43.7

Source: Kisii County Treasury June 2016

3.2.2 Recurrent/Development Expenditures

Table 3.4: Recurrent Expenditure Analysis FY 2015/16

Sector	Budget Estimates	Exchequer Releases	Actual Expenditure	Deviation	Absorption rate %
	(a)	(b)	(c)	(b-c)	
County Assembly	713,649,293	685,649,293	685,649,293	0	100
County Executive	379,285,884	374,123,197	374,123,197	0	100
County Administration	475,829,404	454,455,035	448,002,735	6,452,300	98.58
Public Service Board	54,545,000	48,462,120	48,462,120	0	100
Finance and Planning	726,158,904	669,039,812	679,668,957	-10,629,145	101.59
Agriculture	267,372,760	260,611,136	260,611,137	-1	100
Health Services	1,862,902,100	1,847,526,660	1,843,181,660	4,345,000	99.78
Environment	136,090,592	130,805,592	130,805,592	0	100
Education and Youth	551,930,804	549,037,164	549,037,164	0	100
Lands	84,540,088	75,200,072	75,200,072	0	100
Trade Development	60,551,862	57,511,325	57,491,325	20,000	99.97
Public Works	138,578,036	132,028,764	132,027,964	800	99.9
Culture	64,908,840	52,947,278	52,947,278	0	100
Kisii Town	62,580,937	62,530,937	62,530,937	0	100
Totals	5,578,924,504	5,399,928,385	5,399,739,431	188,954	100

Source: Kisii County Treasury June 2016.

40. Recurrent expenditure amounted to KShs.5,399,739,431 against exchequer releases of KShs.5,399,928,385 representing an overall absorption rate of 100 percent from the released recurrent expenditure.

Table 3.5: Development Expenditure Analysis FY 2015/16

Item	Budget Estimates	Exchequer Releases	Actual Expenditure (KShs)	Deviation	Absorption rate %
	(a)	(b)	(c)	(b-c)	
County Assembly	35,000,000	0	0	-	0
County Administration	142,800,000	62,825,949	57,630,975	5,194,974	91.7
Finance and Planning	142,500,000	131,239,019	131,239,019	-	100
Agriculture	138,500,000	87,653,650	97,020,340	(11,109,190)	112.9
Health Services	968,392,150	696,949,926	690,702,750	6,247,176	99.1
Environment	358,500,000	172,280,321	172,199,453	80,868	99.95
Education and Youth	218,750,000	145,460,674	145,460,674	-	100
Lands	201,000,000	116,453,052	110,914,442	5,538,610	95.2
Public Works	1,012,212,658	965,527,422	965,798,622	(271,200)	100
Trade Development	165,000,000	108,240,000	108,240,000	-	100
Culture	208,500,000	61,600,000	61,503,342	96,658	99.8
Kisii Town	10,000,000	~	~	~	0
Totals	3,601,154,808	2,548,230,013	2,540,709,617	5,777,896	100

Source: Kisii County Treasury June 2016

41. Development expenditure incurred amounted to KShs.2, 540,709,617 compared to exchequer releases of KShs.2, 548,230,013. This represented an absorption rate of 100 per cent from the released development expenditure

3.3 Implications of 2015/16 Fiscal Performance on 2016/17 and the Medium Term

42. The fiscal performance in the FY 2015/16 has affected the financial objectives set out in the February 2015 CFSP and the Budget for FY 2016/17, in that we were unable to realize our projected local revenue. This has led to existence of pending bills for some works that had been contracted based on the projections. The County Government intends to continue to put

mechanisms of enhancing local revenue to bridge the gap both in the short and long term. The County Government intends to also give priorities to payment of pending bills.

43. In the FY 2016/17 and over the medium term the County Government will strive to embrace prudent financial management where spending units should take responsibility and account for resources allocated to them and exercise fiscal discipline.

CHAPTER FOUR

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustment to 2016/2017 Budget

44. In view of the issues that were noted in the implementation of FY 2015/16 budget, several adjustments have been undertaken in the FY 2016/17 budget. These adjustments are key to the County performance in the MTF period.
45. In FY 2016/17, the County Government will continue to address debt sustainability issues by putting emphasis on efficiency and effectiveness of public spending. For example, resources have been set aside for ongoing Programmes and projects and for pending bills accrued over the years.
46. Given the fiscal performance in FY 2015/16, there are some inherent risks to the FY 2016/17 budget framework. Expenditure pressures, irregular and delay in disbursement of funds by the National Treasury continue to pose a challenge to implementation of the budget. In view of this, the County Government will continue to adhere to the budget for proper implementation and petition the National Government to disburse funds to Counties on a timely basis.
47. In addition, there are risks associated with the huge wage bill, for instance, the department of Health Services accounts for 44 percent of the total County wage bill. The County Government has already taken measures to contain the wage bill by freezing employment except on a need basis.
48. The County failed to meet the domestic revenue targets due to many reasons among them use of manual system in revenue collection, to address this challenge, KShs. 65 million has been allocated in the FY 2016/17 budget for automation of revenue collection. This is expected to enhance efficiency in revenue mobilization and management. It will also provide the Enforcement directorate with the necessary equipment and support to enhance its efficiency and effectiveness.
49. To reduce wastages in stationaries, a total of Kshs.52 million has been allocated to the directorate of Information Communication Technology (ICT) to develop monitoring and evaluation system and to improve on internet connectivity across the County. This is expected to enhance access and sharing of information among County departments.

50. The County experienced destructions associated with heavy downfalls and other disasters across the County, to cushion this, the County Government has allocated KShs. 15 million for County Emergency.

51. The County experienced high number of pending bill cases due to unstructured procurement processes, to address this shortfall, financial management has been strengthened through the use of Integrated Financial Management Information System (IFMIS) and e procurement platform. This will ensure that all procurement will conduct through IFMIS to ensure that all contracts awarded have budgetary allocation.

4.2 Medium-Term Expenditure Framework

52. The County Government will direct resources to the following County strategic priority areas in FY 2017/2018 and over the Medium Term period as shown in figure 4.1

a) Infrastructure Development

53. The County strategic priority of Infrastructure development is the driver of the County economy and as such the County Government is committed to improving infrastructure. Sufficient resources will be channeled to the construction and maintenance of County and village roads, ECDE classrooms, stadia, libraries, town halls, village polytechnic workshops and bus parks, market development and ICT projects.

b) Health Care

54. In the FY 2016/17, The Health Sector has been allocated a total of **KShs.3,072,668,288** which is 30 percent of the total budget. This demonstrates the County Government's commitment to provide a high quality health care system that is accessible, equitable and affordable for every person within and without the County. In the MTF period, to ensure smooth operation, the sector will be allocated sufficient funds.

c) Water Reticulation and Environmental Preservation

55. The strategic priority of Water Reticulation and Environmental Preservation overall goal is to provide sustainable access to clean and safe drinking water and preservation of the environment as set out in the Sustainable Development Goals (SDGS) and the Kenya Vision, 2030. The County Government will strive to achieve this through protection of water springs, drilling of

boreholes, rehabilitation and construction of water schemes, cleaning of rivers and planting of trees. The key emphasis will be on water reticulation.

d) Social protection

56. The Programmes under this priority will continue to receive adequate resources. Specifically, the main areas of interventions will cover women and youth empowerment, provision of safety nets and cheap credit to the needy and vulnerable in the society.

57. In the Education Sector, the County Government will strive to recruit sufficient staff and equip the youth polytechnics and ECDE centers with learning and education materials.

e) Economic Development

58. This strategic priority has Programmes in crop production, livestock development and fisheries, agribusiness and value addition, veterinary services, agricultural engineering services, trade and tourism development. To realize the County vision of ‘Prosperity for All’, promotion of food security, generation of farm income and creation of farm and off farm rural employment will be a priority of the agricultural sector ingoing forward.

59. Agricultural extension services will be enhanced through integrated efforts to improve both crop and animal husbandry. To improve farm produce marketing, the County will strive to mobilize resources and create an enabling environment for nurturing potential informal sector entrepreneurship, provide technical assistance to farmers within the County.

Table 4.1: Total Sector Estimates for MTEF FY 2016/17 – 2018/2019

SECTOR	ESTIMATES 2016/17		PROJECTIONS 2017/18		PROJECTIONS 2018/19	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
County Assembly	883,788,862	195,000,000	919,140,416	102,800,000	955,906,033	110,912,000
County Executive	340,180,152	20,000,000	353,787,358	20,800,000	367,938,852	21,632,000
County Administration	511,976,001	143,500,000	532,455,041	149,240,000	553,753,243	155,209,600
Public Service Board	45,324,280	0	47,137,251	0	49,022,741	0
Finance and Planning	595,615,284	144,490,630	619,439,895	150,270,255	644,217,491	156,281,065
Agriculture	296,376,120	238,500,000	308,231,165	248,040,000	320,560,411	257,961,600
Health Services	2,296,072,666	776,595,622	2,387,915,573	807,659,447	2,483,432,196	839,965,825
Environment	151,999,029	399,947,834	158,078,990	415,945,747	164,402,150	432,583,577
Education	545,757,158	327,500,000	567,587,444	340,600,000	590,290,942	354,224,000
Lands	85,244,712	169,700,000	88,654,500	176,488,000	92,200,680	183,547,520
Trade Development	68,919,585	256,000,000	71,676,368	366,240,000	74,543,423	376,889,600
Public Works	130,583,663	983,806,154	135,807,010	1,023,158,400	141,239,290	1,064,084,736
Culture and Social Services	82,742,198	253,000,000	86,051,886	263,120,000	89,493,961	273,644,800
Kisii Town	69,387,714	44,000,000	72,163,223	45,760,000	75,049,751	47,590,400
Total	6,103,967,424	3,952,040,240	6,348,126,121	4,110,121,850	6,602,051,166	4,274,526,724

Source: County Treasury, 2016

60. Table 4.1 shows that the development budget for FY 2016/2017 stands at KShs.3.95 billion and is projected to be KShs.4.27 billion by the FY 2017/2018. On the other hand, recurrent budget estimates for the FY 2016/2017 stands at KShs.6.1 billion and is projected to increase to KShs.6.6 billion by the FY 2017/2018.

4.3 Revenue Projections

61. The County Government targets to raise **KShs. 750 million** from local sources and is set to receive a total of **KShs. 9.1 billion** from the National Government in FY 2016/17. It also expects to receive **KShs. 11.5 million** from DANIDA to support the health sector, KShs. 110 million from the European Union to support the department of Agriculture, Livestock, Fisheries and Co-operative Development and **KShs. 34 million** for capacity building from the World Bank. The total revenue budget is therefore **KShs. 10.06 billion**.

4.4 Expenditure Forecasts

62. In FY 2016/2017, the overall expenditures are estimated at **KShs. 10,056,007,665** up from **KShs. 9, 180,079,312** in the FY 2015/2016 budget representing 9.5 percent increase.

63. Recurrent expenditure has increased to **KShs. 6,103,967,425** in FY 2016/2017 up from **KShs. 5,578,924,504** in FY2015/2016; this translates to an increase of 9.4 percent. Additionally, development expenditure has also increased to **KShs. 3,952,040,240** in FY2016/2017 up from **KShs. 3,601,154,808** in FY 2015/2016 translating to an increase of 9.7 percent.

64. The wage bill for the County Government in the FY 2016/2017 is estimated to be **KShs.3, 916, 907, 681** as compared to **KShs.3, 448, 623, 481**in FY 2015/2016. This represents an increase of 13.6 percent.

65. Operations and Maintenance expenditure is estimated to be **KShs. 2,187,059,744** in FY 2016/2017 up from **KShs. 2,112,673,509** in the FY 2015/2016. This represents an increase of 3.5 percent.

4.5 Challenges experienced in the Implementation of FY 2015/16

66. The implementation of FY2015/16 experienced many challenges among them.

1. Shortfall in domestic revenue collection.
2. Delay of release of funds by the exchequer
3. Unstructured procurement processes
4. Unsatisfactory service delivery in some departments

4.6 Conclusion and Way Forward

1. To enhance revenue collection the County Government should map out all the potential revenue streams and fast track the automation of revenue collection.
2. Going forward, there should be strict adherence to the budget and the County Government should form the Budget and implementation Committee whose role is to monitor and evaluate the implementation of budget. Also, to improve on the absorption of funds, the exchequer releases must be adequate and timely. The application of funds from the exchequer should be based strictly on the annual work plans
3. The county Government should fully adopt e-procurement in all departments and each department be fully incharge of their respective budget implementation. . All contracts should be awarded subject to availability of funds, and variations of contracts should be in line with rules and

regulations as provided by the Public Procurement Oversight Authority (PPOA),2005. The County Government should also consider embracing a labour based approach in the implementation of some of the projects in the current budget.

4. Going forward, the County Treasury will continue to put in place appropriate measures to improve service delivery. These includes continuous training and capacity building of staff to enhance their reporting capability, developing and enforcing cost effective benchmarks for the procurement of goods and services, carrying out regular value for money audits and allocation of scarce resources to the County strategic priorities.
5. The County Government will also continue investing in information technology in a bid to improve access to information and timely decision making.