



KISII COUNTY GOVERNMENT

FINANCE AND ECONOMIC PLANNING DEPARTMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER FOR FINANCIAL YEAR 2018/2019

SEPTEMBER, 2019

FOREWORD

The County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. It captures updated economic forecasts with sufficient information that will inform the budget proposals for following financial year. It further reviews the previous year's budget and provides an outlook for the following year's budget.

In reviewing the County's fiscal performance for the Financial Year 2018/2019, this paper analyses the performance of the County own revenue in the period. It is included the total revenue realized in relation to the projected revenue for the same year. Causes for underperformance in revenue collection are also highlighted. The analysis also includes performance of County departments' expenditures for the period under review.

This paper provides an overview of how the actual performance of the FY 2018/19 affected the financial objectives as outlined in the CFSP of 2018. Through the analysis of the of FY 2018/19 budget performance, it laid the basis for adjusting the FY 2019/20 budget. 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 of the county residents.

Moses Onderi
County Executive Committee Member
Finance and Economic Planning

ACKNOWLEDGEMENT

The preparation of the County Budget Review and Outlook Paper (CBROP) was a concerted and consultative effort among various departments and stakeholders that provided useful information required in developing this document.

Special gratitude goes to His Excellency the Governor and Deputy Governor for their leadership roles; providing direction and guiding the preparation of this policy document. I also wish to thank the County Executive Committee Members, their Chief Officers and Directors for their valuable contributions in terms of providing information to the technical team working on this document.

Immense appreciation goes to the Executive Member for Finance and Economic Planning Mr. Moses Onderi for his goodwill and guidance throughout the entire period of the preparation of this paper. I am particularly grateful to Dr. Onchari Kenani (Economic Advisor) for advice and guidance throughout the preparation of this Paper. I also thank a team from the Department of Finance and Economic Planning comprising of Mr. Chrispinus Ibalai, Peterson Nyakeri, Jeremiah Onchieku, Penuel.N. Ondieng'a, Edward Mayogi, Cyrus Momanyi, Alfred Keter, Wycliffe Nyaundi Joshua Simba, Steve Siso, Rebecca Matunda, Richard Anunda, Allan Zablon and Emma Ongwancho for their tireless efforts towards ensuring that this document was completed in time.

Finally, I thank the County Budget and Economic Forum (CBEF) members for their immense contributions in the development of this Paper.

Zablon Ongori
Chief Officer
Economic Planning and Development

LEGAL BASIS FOR THE PUBLICATION 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 macroeconomic 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 fiscal 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.

FISCAL RESPONSIBILITY PRINCIPLES

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.

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ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
ASDSP	Agricultural Sector Development Support Programme
CBROP	County Budget Review and Outlook Paper
CBK	Central Bank of Kenya
CBR	Central Bank rate
CEC	County Executive Committee
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission of Revenue Allocation
CRF	County Revenue Fund
DANIDA	Danish Development Agency
ICT	Information and Communications Technology
IDEAS	Instruments for Devolution Advice and Support
IFMIS	Integrated Financial Management and Information System
FY	Financial Year
KATC	Kisii Agricultural Training Centre
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
KShs.	Kenya Shilling
LREB	Lake Region Economic Block
NAGRIP	National Agricultural Growth Program
NG-CDF	National Government Constituency Development Fund
MTEF	Medium Term Expenditure Framework
MTF	Mechanical Transport Fund
PFM	Public Finance Management

SACCO	Savings and Credit Co-operative
SIDA	Swedish International Development Agency
SWGs	Sector Working Groups

CHAPTER ONE

GENERAL BACKGROUND

1.1 Introduction

Budgets are aimed at providing a realistic estimate of income and expenses for a period and of the financial position at the close of the period. At the same time, the budget is aimed at providing a coordinated plan of action which is designed to achieve the estimates reflected in the budget. In achieving this, Section 118 of the Public Finance Management (PFM) Act, 2012 requires counties to prepare County Budget Review and Outlook Paper (CBROP) which reviews the fiscal performance in line with the fiscal responsibility principles and submit it to the County Executive Committee (CEC) for approval by 30th September each year and thereafter to the County Assembly.

1.2 Objectives of the Paper

The objectives of this County Budget Review and Outlook Paper (CBROP) are to:

- i. Review the fiscal performance for the FY 2018/2019 and give reasons of divergence.
- ii. Provide the basis for revision of the current FY's budget;
- iii. Provide indicative budget ceilings for the medium term.

1.3 Significance of the Paper

The CROP is a policy document that links planning and budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF) as it provides a review of the fiscal performance of the previous year and identifies any deviations from the budget with the aim of providing realistic forecasts for the following year. It further assesses how fiscal responsibility principles were adhered to as provided for in Section 107 of the Public Finance Management (PFM) Act, 2012. In addition, it provides an updated macroeconomic and financial outlook as a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the Paper provides indicative sector ceilings for the FY 2019/2020 budget and over the medium term to guide Sector Working Groups (SWGs) before the figures are affirmed in the County Fiscal Strategy Paper.

1.4 Structure of the Paper

The Paper is structured into four chapters. Chapter one provides the introduction, objectives, and significance of the Paper. Chapter two presents the recent economic developments and Outlook

while chapter three provides a review of the fiscal performance in FY 2018/2019 and its implications on the financial forecasts set out in the County Fiscal Strategy Paper 2019 and lastly, chapter provides the resource allocation framework.

CHAPTER TWO

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Introduction

Performance of macroeconomic factors leads to inception of policies that affect economic performance in the devolved units.

2.2 Recent Economic Development

The Kenyan economy remained strong and resilient supported by ongoing public and private sector investments and stable macroeconomic environment. The economy expanded by 6.3 percent in 2018 up from the 4.9 percent registered in 2017. This growth continued in the first quarter of 2019, with the economy expanding by 5.6 percent due to the stable political environment and continued improvement in the service sector in areas such as wholesale and retail trade, transportation, accommodation and food services, financial and insurance. The growth rate is projected to gain momentum to a record of 6.0 percent in 2019, supported by the robust services sector, private sector investments in diverse sectors and continued public expenditure on infrastructure programmed under the “Big Four” Agenda.

According to the KNBS Economic report of 2018, the growth in 2018 effected revenue collection by the Kenya Revenue Authority (KRA) to rise from Ksh. 1.56 Trillion in 2017 to Ksh. 1.83 Trillion in 2018.

Nationally, the contribution of Agricultural sector to the overall GDP growth was at 1.4 percentage in the first quarter of 2019, a drop from 2.0 percentage in the same quarter of 2018. Agriculture sector is key to the County economy supporting about 70 percent of the households in Kisii as a source of livelihood. This decline in production was attributed rise of prices of Agriculture inputs causing withdrawal of investors from the sector.

Key macroeconomic indicators continue to perform dismally in 2019. According to KNBS 2019 Economic indicator report in the month of May 2019, average inflation was 4.94 percent compared to 4.78 percent in the same period of 2018. The rise in prices led to a reduction in the purchasing power of many households resulting to fall in demand and consequently, reduction in production in key sectors due to reduced effective demand.

Short-term interest rates remained low and stable. The Monetary Policy capping in July 2019 retained the Central Bank Rate at 9.0 percent. The interbank rate remained at 3.6 percent in August 2019 from 6.52 percent in August 2018 due to liquidity in the money market. The average lending rate declined from 13.2 percent in August 2018 to 12.5 percent in August 2019 according to the Central Bank of Kenya (CBK) Report in 2019. The reduction in the interest rate was as a result of interest rate capping introduced by CBK in September 2016 which compelled commercial banks to lend to the public at an interest of 4 points above the CBR (Central Bank Rate). The monetary policy has maintained the CBR at 9 percent for 12 months straight since July 2018 to July 2019.

The unmet revenue target in the FY 2018/19, coupled with a delay in disbursement of funds by the National Treasury affected the implementation of planned projects and programmes leading to accumulation of pending bills.

2.3 National Economic outlook and policies

Nationally, economic growth in 2019 is projected to slow down as a result of the erratic weather conditions which will weigh down agricultural output and consequently constrain private consumption growth. This slowed growth will be supported by public expenditure especially in large-scale public infrastructure projects under the “Big Four” Plan. The economic outlook takes into account the subdued performance in the agriculture and manufacturing sectors following the unfavorable weather conditions experienced in the first quarter of 2019 and depressed credit to the private sector. Over the medium term, growth is expected to rise supported by interventions to improve production in agriculture, expected growth in tourism, resilient exports and benefits from ongoing regional integration efforts. Further, the Government is accelerating infrastructure development to support manufacturing and expand intra-regional trade by deliberately targeting new markets for our products. Enhanced domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and debt accumulation thus creating fiscal space necessary for economic sustainability.

2.4 County Economic Outlook and Policies

The growing economy with inflation that is within target, low interest rates and stable and strengthening Kenyan shilling exchange rate reflects good prospects for both national and county economies. The County is expected to experience increased demand leading to increased economic activities. More investments as a result of favorable macro-economic conditions are expected to yield more job opportunities that will benefit especially the youth, women and people with disabilities. The county government will also continue to provide necessary environment to attract investments by investing in infrastructure expansion and ensuring better environment for doing business.

The county is therefore, in a better position to experience growth in agriculture and livestock production and construction, retail and wholesale, financial intermediation, public and private investments, increased consumer confidence and thus the on-going initiatives to deepen regional integration through the Lake Region Economic Block (LREB).

2.5 Economic Risks

Nationally, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and payment of debts. The erratic weather related shocks could impact adversely on agricultural output, leading to increase in food prices and hence putting pressure on households' expenditure leading to inflation.

- i. Erratic weather conditions and dynamic climatic change affects the implementation of most development projects at National and County levels.
- ii. The increasing discretionary expenditures of wages and debt servicing leaving the National Government and Counties with insufficient resources for development.
- iii. Late Exchequer releases due budgetary bottlenecks between the National and Senate assemblies affects implementation of projects.
- iv. Local revenue performance. This has been fluctuating and underperforming. However, the total revenue is expected to increase over the medium term

CHAPTER THREE

RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustments to 2019/2020 Budget and Over the Medium Term

In view of the issues that were noted in the implementation of FY 2018/2019 budget, adjustments have been undertaken in the FY 2019/2020 budget which are key to the County performance in the Medium-Term Expenditure Framework (MTEF) period.

- a) In the FY 2018/2019, the County Government allocated resources for on-going programmes and projects including pending bills in a bid to address debt issues in line with the fiscal responsibility principles. However, there is need to ensure that all the audited pending bills and ongoing projects are accommodated in the budget.
- b) Over the years, the County Government has had challenges in meeting its own revenue targets and this has continuously affected the implementation of projects. To mitigate this, there is a need to revise the own revenue targets in FY 2019/2020 to realistic figures. This implies that some of the projects will have to be dropped or allocations revised in the budget by preparing a supplementary budget.
- c) In the medium term, the county will continue to strictly follow the fiscal responsibility principle of maintaining at least 30 percent of the total budget focused on development. Currently, 35% of the budget is for development. In the medium term the county will strive to allocate at least 35% of the total budget to Development.

4.2 Medium-Term Expenditure Framework

The County Government will direct resources to the following County priority areas in FY 2019/2020 and over the Medium-Term period;

- i. Water reticulation;
- ii. Health Care;
- iii. Roads development;
- iv. Food security; and
- v. Trade and enterprise development.

4.2.1 Water Reticulation

The County is committed to provide equitable access to safe and affordable drinking water for the County residents through water reticulation, improving water quality by reducing pollution and elimination of dumping, protecting and restoring water-related ecosystems and increasing afforestation and re-afforestation in the County. To realize these, sufficient resources will be allocated, and partnerships with stakeholders such as Lake Victoria South Water Services Board will be fostered to speed up implementation of the on-going programmes and projects.

4.2.2 Healthcare

In Healthcare, the County Government will continue investing in quality healthcare services to promote a healthy population with higher productivity for sustained economic growth. In partnership with the development partners and the National Government, a program of upgrading healthcare infrastructure and modernizing equipment will be enhanced.

For early diagnostic and treatment of Cancer in the region, the County Government with other development partners will establish a treatment center at Kisii Teaching and Referral Hospital (KTRH). In addition, the County Government will also operationalize health facilities built by the National Government Constituency Development Fund (NG-CDF) and other agencies by installing core medical equipment, providing pharmaceutical and non-pharmaceutical products and deploying of health staff.

4.2.3 Roads Development

To ensure an efficient and effective transportation system, the County will focus on construction and maintenance of roads, bus parks, and footbridges. The County will also collaborate with National Government through the Department of Mechanical Transport Fund (MTF) in the opening and maintaining roads in order to reduce costs. Moreover, the labour based strategy for road construction and maintenance will also be employed. Roads development is an enabler towards achieving the "Big Four Agenda", especially supporting the manufacturing sector.

4.2.4 Food Security

Over 70 % of the County's population depends on agriculture for their livelihood both as a source of food as well as income (CIDP, 2018-2022). However, it is dogged with challenges of

high population density, poor farming practices, dwindling farm sizes among others, thus resulting in food insecurity.

To increase food production and boost farmers' earnings, the County will continue to sustain the availability of farm inputs (certified seeds and fertilizers). It will also distribute early maturing and disease resistant tissue culture bananas to farmers. Agricultural extension services will also be scaled up with the aim of reaching out to as many farmers as possible at the grassroots on the best farming practices.

To improve livestock productivity, the County Government will continue to put more resources in artificial insemination services; formulate dry feeds; control zoonotic and animal diseases; promote local poultry and dairy goat farming and beekeeping among others. Additionally, SACCOs will be revitalized to assist in marketing and value addition.

Further, the County Government will collaborate with other development partners to construct a banana processing factory at Kisii Agricultural Training Centre (KATC) for not only achieving one of the "*Big Four Agenda*" but also for value addition and job creation.

4.2.5 Trade & Enterprise Development

To promote enterprise and spur growth in the business sector in Kisii, the County Government will continue to provide an enabling business environment to investors and traders. To achieve this, it will construct retail markets and sheds, washrooms, and access roads. To enhance the security of traders and extend trading hours, the County will extend the street lighting program to other centres and markets that have not been covered. The county will also provide Cheaper credit through the Kisii County Credit Scheme.

4.3 Indicative Ceilings

The County priorities will be implemented through the Programme Based Budgeting approach. For effective utilization of finances for enhanced expenditure productivity, the County will use the existing structures. Table 4.1 presents indicative ceilings over the medium Term. The projections are comprised of transfers from National Government and grants and loans from development partners.

Table 4. 1: Total Sector Estimates for MTEF FY 2019/2020 – 2021/2022

DEPARTMENT	Approved 2019/2020		Projections 2020/2021		Projections 2021/2022	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
County Assembly	958,150,705	180,000,000	970,000,000	135,000,000	1,008,800,000	140,400,000
Executive	496,753,288	48,500,000	520,000,000	0	540,800,000	0
Administration and Stakeholder Management	637,100,808	68,564,165	800,000,000	346,400,000	832,000,000	360,256,000
Finance and Economic Planning	1,152,222,878	90,400,076	1,350,000,000	294,000,000	1,404,000,000	305,760,000
Agriculture, Livestock Fisheries & Co-operative Development	359,332,422	802,980,248	480,000,000	938,000,000	499,200,000	975,520,000
Energy, Water, Environment and Natural Resources	183,456,579	238,000,000	330,000,000	465,000,000	343,200,000	483,600,000
Lands, Physical Planning and Development	99,985,904	121,756,610	180,000,000	367,000,000	187,200,000	381,680,000
Education, Labour and Manpower Development	613,439,043	206,827,739	780,000,000	425,000,000	811,200,000	442,000,000
Health Services	3,009,932,308	1,083,948,133	3,300,000,000	1,302,700,000	3,432,000,000	1,354,808,000
Roads, Public Works and Housing	163,785,000	898,152,456	200,000,000	1,065,000,000	208,000,000	1,107,600,000
Trade, Industry and Tourism Development	97,480,323	128,748,983	130,000,000	217,000,000	135,200,000	225,680,000
Culture, Sports, Youth and Social Services	71,150,855	102,200,001	130,000,000	178,500,000	135,200,000	185,640,000
Kisii Municipality	139,174,275	286,748,163	150,000,000	250,000,000	156,000,000	260,000,000
Total	7,981,964,388	4,256,826,574	9,320,000,000	5,983,600,000	9,692,800,000	6,222,944,000

The development budget for FY 2019/2020 stands at **KShs.4.256 billion** and is projected to increase in the FY2020/2021 to **KShs. 5.983 billion** in the FY 2021/2022. On the other hand, the recurrent budget for the FY 2019/2020 stands at **KShs. 7.981 billion** and is projected to increase to **KShs. 9.320 billion** in the FY 2020/2021 and to **KShs. 9.692 billion** in the FY 2021/2022.

4.4 Revenue Projections

The proposed budget for the medium term is balanced and will be financed by transfers from National Government, own-source revenue, loans and grants from development partners as shown in Table 4.2. However, any shortfall in revenues will be addressed accordingly.

Table 4. 2: Revenue projections

Revenue Source	Approved Budget	Projected FY	
	2019/20	2020/21	2021/22
Equitable Share	7,626,000,000	9,500,000,000	10,600,000,000
Loans and Grants	887,274,755	2,000,000,000	2,100,000,000
Conditional Share	915,884,282	1,500,000,000	1,500,000,000
Own Revenue Sources	500,000,000	800,000,000	1,00,000,000

Unspent balances	2,309,631,924	1,503,600,000	1,800,000,000
Total	12,238,790,961	15,303,600,000	16,000,000,010

The County Government's revenue is expected to grow from **KShs. 12.238 Billion** in 2019/2020 FY to **KShs15.303 billion** and **KShs 16 billion** in FY 2020/2021 and FY 2021/2022 respectively.

4.5 Challenges experienced in the Implementation of FY 2018/2019

The implementation of FY 2018/2019 budget experienced many challenges among them:

- i. Shortfall in domestic revenue collection.
- ii. Delay of release of funds by the National Treasury
- iii. Delay in procurement processes