REPUBLIC OF KENYA

VIHIGA COUNTY

COUNTYBUDGET REVIEW AND OUTLOOK PAPER (CBROP)

2017

KENYA VISION 2030

Towards a Globally Competitive and Prosperous Nation

FOREWORD

The Vihiga County Budget Review and Outlook Paper (CBROP) is prepared in accordance with the Public Financial Management Act, 2012. This paper shows the Budget and actual fiscal performance of the 2016/2017 Financial Year so as to inform the future planning, budgeting and how it affected the financial objectives set out in the 2017/2018County Fiscal Strategy Paper (CFSP).

The information in this paper is based on data from the approved County budget, financial reports submitted to the office of the controller of budget and the report generated from Integrated Finance Management Information System (IFMIS).

We need to appreciate the fact that we have a new government in place and this necessitates the reorganization of the approved Budget 2017/18 through a supplementary budget. This in turn will affect the County Fiscal strategy paper 2017, for instance some of the proposals and priorities will change.

The County Integrated Development Plan(CIDP) for the first five years (First generation) of the County Government has expired. The second generation CIDP is underway for future development plans.

HON. ALFRED INDECHE

Executive Committee Member – Finance and Economic Planning Vihiga County

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ABBREVIATIONS AND ACRONYMS

CBROP	County Budget Review Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
PFMA	Public Financial Management Act
SRC	Salaries Remuneration Commission
SBP	Single Business Permit

I. INTRODUCTION

1. The preparation of County Budget Review and Outlook paper is a requirement of Public Finance Management Act, 2012 section 118.The Act requires that every County prepares a CBROP by 30thSeptember of that financial year and submit the same to the County Executive Committee Member (CECM). The CECM shall in turn:

i. Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments. Not later than seven days after the CECM has the approved the paper, the County treasury shall

ii. Arrange for the paper to be laid before the County Assembly

iii. As soon as practicable after having done so, publish and publicize the Paper.

II. OBJECTIVE OF THE CBROP

The objective of the County Budget Review and Outlook Paper is to provide;

i. A review of the County Fiscal performance in the financial year 2016/17 compared to the appropriation of that year and how this had an effect on the economic performance of the County.

ii. An updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy paper.

iii. Information on any changes in the forecasts compared with the County Fiscal Strategy Paper.

iv. 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.

III.OVERVIEW OF FISCAL PERFORMANCE IN 2016/17

i. Overview of the FY 2016/17 Budget

The County's FY 2016/17 Approved Budget was Kshs.5.04 billion comprising of Kshs.3.53 billion (70 per cent) and Kshs.1.51 billion (30.0 per cent) allocation for recurrent and development expenditure respectively.

To finance the budget, the County expected to receive Kshs.4.17 billion (82.8 per cent) as equitable share of revenue raised nationally, Kshs.275.93 million (5.5 per cent) as total conditional grants, generate Kshs.220 million (4.4 per cent) from local sources, and Kshs.367.41 million (7.3 per cent) cash balance from FY 2015/16. The conditional grants comprise of Kshs.66.45 million (24.1 per cent) for Free Maternal Healthcare, Kshs.64.18 million (23.3 per cent) from the Road Maintenance Fuel Levy Fund, Kshs.13 million (4.7 per cent) for User Fees Foregone, Kshs.7.09 million (2.6 per cent) from DANIDA and Kshs.125.19 million (45.4 per cent) from Other Loans and Grants.

Table 1. VIHIGA COUNTY SUMMARY OF REVENUE FOR 2016/17

ITEM SOURCE	2016/17	2016/17	Realisation (%)
	Budgeted (Ksh)	**Actual (Ksh)**	**%**
Exchequer issue	4,820,639,564	4,389,755,291	**91**
Own generated revenues	220,00,000	102,065,000	**46**
TOTALS	**5,040,639,564**	**4,491,820,291**	**96**

The implementation of the budget FY2016/17 progressed well, though Local Revenue collection decreased affecting compliance of the Fiscal Strategy Paper. Expenditures lagged behind their respective targets expected especially development expenditures.

ii. Fiscal Responsibility

The County government observed fiscal responsibility as per the PFMA Act section15 as follows;

a) Minimum of thirty percent of County budget be allocated to County Development expenditure. In the financial year 2016/17 total budget was Ksh 5.04 billion of which Ksh 1.5 billion was allocated to the development expenditure representing thirty percent the total budget.

b) The County expenditure on wages and salaries fall short of fiscal responsibility principle of thirty-five percent of the total budget.

c) The County government adhered to fiscal responsibility on borrowing in the financial year under review (the CountyGovernment did not incur any financial debt, apart from debts accruing from pending bills).

IV. FISCAL PERFORMANCE

In financial year 2016/17, fiscal performance was faced with a number of challenges which included;

a) Under performance of the local revenue falling far below the target in the budget.

b) Delay in enactment by Commission of Revenue Allocation Act 2017

c) Hidden budget deficit resulting from previous and present under collection of local revenue and under funding by the national Government.

i. Revenues

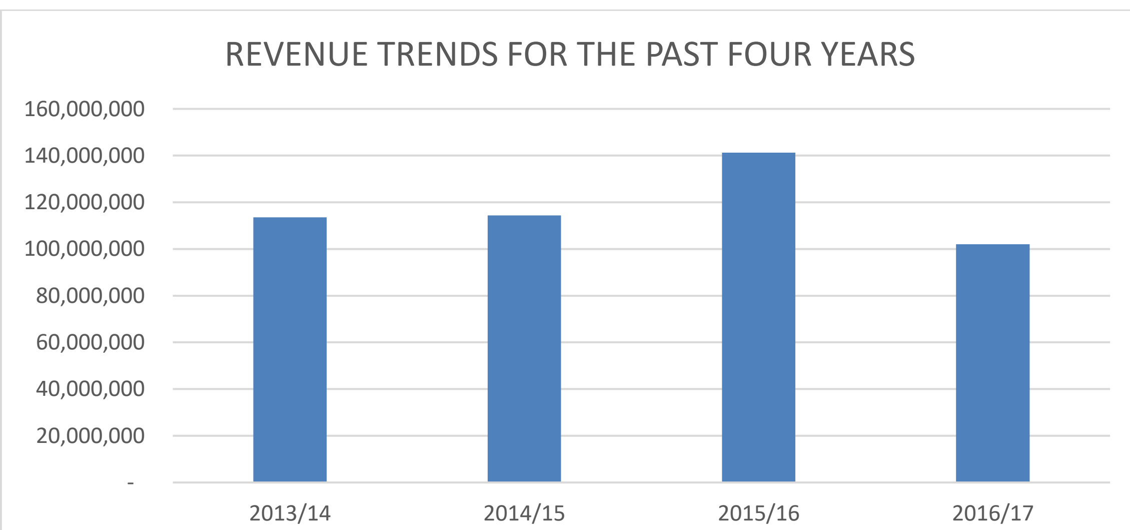
During the FY 2016/17, the County received Kshs.4.39 billion as equitable share of the revenue raised nationally and Kshs.102.07 million collected from own source of revenue against the target of Ksh. 4,820,639,564 and Ksh 220,00,000 for equitable share and local revenue respectively. This represent variance of 9% on equitable share and 54% on own sources.

The County performed extremely bad in local revenue collection for FY 2016/17 as compared to FY 2015/16, see the summary in the table below.

Table 2 SUMMARY OF REVENUE FOR FY 2015 /2016 AND FY 2016/17

	2015/16			2016/17		
ITEM SOURCE	**Budgeted**	**Actual**	**Deviation**	**Budgeted**	**Actual**	**Deviation**
Exchequer issue	4,190,825,816	3,871,411,960	319,413,856	4,820,639,564	4,389,755,233	430,884,331
Own source	277,000,000	141,321,463	135,678,537	220,000,000	102,065,000	117,935,000

Source Vihiga County Treasury



The table above shows that there has been an increasing trend in collection of local revenue as from 2013/14 until 2016/17where the trend negatively changed.

County Own Revenue collection per source (stream) 2016/17

REVENUE STREAM	TOTAL COLLECTION
RENTAL INCOME	252,875.00
LAND BOUNDARY DISPUTES	447,160.00
SINGLE BUSINESS PERMITS	13,585,701.00
LIQUOR LICENSE	1,151,500.00
SIGN BOARDS; PROMOTIONS	1,201,405.00
PLOT\SITE\STALL RENT	2,199,551.00
LAND RATES	553,921.00
MISCELLENUIOUS INCOME	105,980.00
FERTILIZER	8,214,220.00
LEASE \HIRE OF MACHINES	572,411.00
MARKET\TRADE	13,658,968.00
VEHICLE PARKING	33,256,850.00
PUBLIC HEALTH SERVICE	1,842,605.00
FACILITY IMPROVEMENT FUND	14,888,169.00
WATER SUPPLY FEE	1,373,840.00
SLAUGHTER MANAGEMENT FEES	255,980.00
BUILDING PLAN APPROVAL	356,770.00
SAND\MURRAM	78,900.00
FINES, PENALTIES AND FORFEITURE	81,198.00
TEA CESS	6,670,881.00
LIVESSTOCK CESS	1,688,104.00
NOISE EMMISSION	8,800.00
TOTAL	**102,445,789.00**

The under-collection of revenue was due to;

i. Lack of enabling legislative by-laws to be enforced incases of default or non-compliance. This will go along away in curbing evasion to pay.

ii. Non- operationalization of the Revenue Administration Act 2015. This Act has provided for an organogram that can be used in the administration and management of the revenue directorate.

iii. Delay in procuring of revenue stationary e.g. receipt books, invoice books, thermo rolls etc. .

iv. Delay in putting into operation the Rating and Valuation Act 2017 and the Licensing Act 2017. These two Acts has attempted to address remedies of non-compliance though on the two revenue streams alone.

v. Lack of a well inducted revenue enforcement team that is versed with the applicable fees and charges.

vi. Political interference especially during the period under review when the general election was being held in august. The incumbents gave political statements that distorted applicable rates of collection

vii. Resistance from the business community caused by lack of awareness and political interference

viii. Very poor collection from the Department of Transport and Infrastructure from hire of machinery. Machines were hired out but there’s very little to show when compared with machine hours on the work ticket.

ix. Inadequate collection of property and entertainment tax from dance halls, cinema, pool tables, betting and gambling.

x. Lack of vehicles for field revenue supervision. This would help to reinforce revenue teams on market days in various markets.

xi. Complete no collection from quarries and murram excavated by the contractor building Kisumu - kakamega road and other contractors. A demand letter was issued but no payment has been made yet.

xii. Weak internal control systems that result to pilferage of revenues, expenditure at source, use of fake receipts and lack of proper records.

xiii. Majority of the collectors are on temporal terms which put revenue collection at risk.

xiv. Failure to take action on staff mentioned in misappropriation of revenue. This seems to be encouraging others to do the same knowing no action will be taken.

xv. Failure to address audit observations as per the reports of the internal audit department.

Some of these challenges can be addressed through the implementation of the Vihiga Revenue Administration Act 2015 so as to establish a directorate of revenue collection. Other possible solutions would include;

i. Automation of all revenue streams through use of plat forms like Local Authority Integration Finance Management and Health Management Systems

ii. Enhance supervision and enforcement by laying down proper revenue Administration structure and a revenue enforcement unit.

iii. Ensure disciplinary action is taken against members of staff who were found to have misappropriated revenue.

iv. Motivate the revenue staff by providing uniform, transport, support them through enforcement in cases of difficulties, pay their allowances promptly and provide the necessary supervision and guidance.

v. Reduction in revenue leakages and evasions

vi. Linkages of revenues with service provision, local development and public accountability and participation

vii. Improved funding the systems improvement, capacity building, and enhanced capacity for supervision and monitoring of revenue collection and management.

viii. Expansion of own local revenue sources and ensure stable, sustainable and predictable sources to meet local needs.

Table 3. EXCHEQUER RELEASE REPORT FOR 2016/17

FY 2016/17 Vihiga County Exchequer Release Summary As at June 30th, 2017								
RECURRENT BUDGET								
All amounts are in Kenya Shillings								
Vote	**Description**	**Approved budget**	**FY 2016/17 Exchequer Release As at 31st May, 2017**	**Exchequer releases in June, 2017**	**22nd August 2016**	**Cummulative Exchequer Release As at 30th June, 2017**	**Balance of Exchequer Releases to Approved Budget**	**Cummulative Exchequer Release as a % of Approved Budget**
			B	**C**	**D**	**D=B+C**	**E=A-D**	**F=E/A*100**
R 101	Agriculture, Livestock, Vertinary & Fisheries	125,888,683	120,351,907	5,536,775	9,559,404	125,888,682	1	100.0
R 102	Lands, housing and physical planning	57,533,595	51,556,209	5,977,386	15,411,989	57,533,595	-	100.0
R103	Transport and Infrastructure	105,628,742	105,628,742		2,818,702	105,628,742	-	100.0
R 104	Industrialisation, Trade & Tourism	51,839,961	45,779,961	6,060,000	17,163,141	51,839,961	-	100.0
R 105	Health Services	1,030,057,143	911,891,656	118,165,487	109,621,845	1,030,057,143	-	100.0
R 106	Education, Science and Technology	329,770,670	136,220,670		10,166,851	136,220,670	193,550,000	41.3
R 107	County Executive	258,219,192	239,166,435	19,052,757	4,619,820	258,219,192	-	100.0
R 108	County Assembly	533,773,279	497,372,394	36,400,885	32,734,247	533,773,279	-	100.0
R 109	Finance and Economic Planning	242,616,492	223,155,534	19,460,958	17,584,662	242,616,492	-	100.0
R 110	County Public Service Board	61,991,289	55,471,201	6,520,088	5,529,423	61,991,289	-	100.0
R 111	Public Service and Administration	465,050,783	410,799,765	54,251,018	21,619,304	465,050,783	-	100.0
R 112	Gender, culture, Youth and sports	205,200,456	158,483,644		2,541,799	158,483,644	46,716,812	77.2
R 113	Environment, Water, Forestry & Natural Res.	62,020,972	61,963,371	57,601	3,291,495	62,020,972	-	100.0
					1,766,154	-	-	
					2,259,658	-	-	
					43,300,000	-	-	
Total		**3,529,591,257**	**3,017,841,489**	**271,482,955**	**299,988,494**	**3,289,324,444**	**240,266,813**	93.2

FY 2016/17 VIHIGA County Exchequer Issues Summary As at June 30th, 2017								
DEVELOPMENT BUDGET								
All amounts are in Kenya Shillings								
Vote	**Description**	**Approved budget**	**FY 2016/17 Exchequer Release As at 31st May, 2017**	**Exchequer releases in June, 2017**	**Cummulative Exchequer Release as at 31st October, 2016**	**Cummulative Exchequer Release As at 30th May, 2017**	**Balance of Exchequer Releases to Approved Budget**	**Cummulative Exchequer Release as a % of Approved Budget**
			B	**C**	**D=B+C**	**D=B+C**	**E=A-D**	**F=E/A*100**
D 101	Agriculture, Livestock, Vertinary & Fisheries	57,599,233	53,662,000		-	53,662,000	3,937,233	93.2
D 102	Lands, Housing and Physical planning	28,463,413	28,453,413		-	28,453,413	10,000	100.0
D 103	Transport and Infrastructure	490,067,261	359,147,600		-	359,147,600	130,919,661	73.3
D 104	Industrialisation, Trade and Tourism	36,200,000	32,723,758		-	32,723,758	3,476,242	90.4
D 105	County Health Services	223,650,000	148,442,958		-	148,442,958	75,207,042	66.4
D 106	Education, Science and Technology	138,920,367	107,100,868		-	107,100,868	31,819,499	77.1
D 107	County Executive	45,000,000	-		-	-	45,000,000	0.0
D 108	County Assembly	115,000,000	61,370,000		-	61,370,000	53,630,000	53.4
D 109	Finance and Ecenomic Planning	230,172,935	4,593,576	100,000,000	-	104,593,576	125,579,359	45.4
D 110	County Public Service Board		-		-	-	-	-
D 111	Public Service and Administration	15,000,000	15,000,000		-	15,000,000	-	100.0
D 112	Gender, Culture, Youth and Sports	51,050,000	44,415,177		-	44,415,177	6,634,823	87.0
D 113	Enivironment, Water, Forestry & Natural Res.	79,925,076	68,824,882		-	68,824,882	11,100,194	86.1
					-	-	-	-
					-	-	-	-
					-	-	-	-
Total		1,511,048,285	923,734,232	100,000,000	-	1,023,734,232	487,314,053	67.7

Source office of controller

From the table above show exchequer release on recurrent was 93% which is every high though some of the funds are released at almost year end making its utilization difficult.

Development Funds release was low at 67.7%. This can be attributed to factor like lack of appropriate legislation to allow access to certain funds like the elderly fund in the executive department.

ii. Expenditures

The Approved Budget for financial year 2016/17 was Ksh 5,040,636,544 billion, out of which Ksh 3,529,591,259 and Ksh 1,511,048,285 allocated to recurrent and development expenditure respectively. The actual recurrent expenditure was Ksh. 2,925,554,952 this represents a variance of 17.11 percent. Actual Capital expenditure was Ksh. 793,121,616giving a variance of 47.51 percent. The overall budget absorption was Ksh. 3,718,676,568, representing an overall variance of 26.23 percent.

TABLE 4. APPROVED RECURRENT BUDGET AND ACTUAL RECURRENT EXPENDITURE PER DEPARTMENT ANALYSIS FOR FY 2016/17

PROGRAMME	APPROVED BUDGET	ACTUAL EXPENDITURE	DIFFERENCE	ABSORPTION %
Agriculture, Livestock, Fisheries & Cooperatives	125,888,683	101,612,090	24,276,593	80.72
Lands, Housing & Physical Planning	57,533,595	40,746,268	16,787,327	70.82
Transport & Infrastructure	105,628,742	69,484,782	36,143,960	65.78
Industriliazation, Trade & Tourism	51,839,961	32,703,446	19,136,515	63.90
Health Services	1,030,057,143	782,879,760	247,177,383	76
Education, Science & Technology	329,770,670	328,763,815	1,006,855	99.69
County Executive	258,219,192	252,481,209	5,737,983	97.78
County Assembly	533,773,279	512,076,019	21,697,260	95.94
County Treasury	242,616,494	209,758,403	32,858,091	86.46
Public Service Board	61,991,289	43,319,104	18,672,185	69.98
Public Service & Administration	465,050,783	380,116,273	84,934,510	81.74
Gender, Culture Youth & Sports Gender	205,200,456	124,420,220	80,780,236	66.63
Environment, Natural Resource, Water & Forestry	62,020,972	47,193,563	14,827,409	76.09
TOTALS	**3,529,591,259**	**2,925,554,952**	**604,036,307**	**82.89**

Analysis of recurrent expenditure

Total recurrent expenditure of Ksh 2,925,554,952 consisted of Ksh 1,657,005,914 spend on personnel emoluments and Ksh 1,268,549,038 on operations and maintenance.

Absorption rate on recurrent budget in the year 2015/16 was 81 percent and the year under review is 82 percent which represents an increase in absorption. Notably department of Education Science and Technology which had the highest absorption rate of 99.96 percent compared to the pre4vious year which had absorption rate of 79 percent. This can be attributed to the increase in the bursary fund allocation.

Increase in absorption can also be attributed to the restructured disbursements from Nation Treasury to County Government. For instance, disbursements for County assembly are released directly to their exchequer account.

However, the County government has not been able to absorb 100 percent due to the following reasons;

a) Underfunding of budget due to late disbursement from national treasury and under collection of local revenue.
b) Lack of the required regulations to enable access to funds that are put aside for activities like elderly fund.
c) Challenges related to system for instance; delay in approving the budget and uploading in the system, delay in approving work plans and procurement plans.

Table 5 APPROVED DEVELOPMENT BUDGET AND ACTUAL DEVELOPMENT EXPENDITURE PER DEPARTMENT ANALYSIS FOR FY 2016/17

PROGRAMME	APPROVED BUDGET	ACTUAL EXPENDITURES	DIVIATION	ABSORPTION %
Agriculture, Livestock, Fisheries & Cooperatives	57,599,233	3,232,000	54,367,233	5.61
Lands, Housing & Physical Planning	28,463,413	1,650,000	26,813,413	5.8
Transport & Infrastructure	490,067,261	344,785,547	145,281,714	70.35
Industriliazation, Trade & Tourism	36,200,000	18,895,150	17,304,850	52.2
Health Services	223,650,000	103,748,705	119,901,295	46.39
Education, Science & Technology	138,920,367	36,789,345	102,131,022	26.48
County Executive	45,000,000	0	45,000,000	0
County Assembly	115,000,000	89,417,288	25,582,712	77.75
County Treasury	230,172,935	139,836,050	90,336,885	60.75
Public Service & Administration	15,000,000	15,151,652	-151,652	101.1
Gender, Culture Youth & Sports	51,050,000	13,492,997	37,557,003	26.43
Environment, Natural Resource, Water & Forestry	79,925,076	26,122,882	53,802,194	32.68
TOTALS	**1,511,048,285**	**793,121,616**	**717,926,669**	**52.49**

The total development expenditure of Ksh. 793,121,616represents 52.49 percent of annual development budget of Ksh 1.51 billion. The table above provides summarized development expenditure per department. This analysis indicates that there was low absorption of funds in financial year 2016/17 and at 47.51 percent as compared to the previous financial year 2015/16 which was at 59 percent.

Reasons for lower absorption;

a) Challenges in adapting to the new procurement system that requires all procurement to be done online (e-procurement system.)
b) Delay in providing system requirements e.g. uploading of budgets, work plans and procurement plans.
c) Delay in disbursement of funds from national treasury e.g free maternity health care fund.
d) Delay in verification and audit of pending bills which led to decline in absorption of funds.
e) Being an electioneering year, the national treasury had to freeze development expenditures during the last quarter.

During the year the development expenditure was Ksh. 973,576,390against the target of Ksh. 1,641,579,806, this represents an absorption rate of 59%. This means the County was unable to fully implement the budget and was mainly due to late disbursement of funds from the national government and the underperformance of the own County revenue.

Recurrent expenditure incurred amounted to Ksh. 2,197,172,096 against a target of Ksh. 2,726,176,961 representing 81% absorption rate.

As indicated in Table above the department of Health Services was allocated the highest recurrent budget of Ksh. 738,666,435. This is because the department has a huge workforce and large amount of allocation of drugs

V. IMPLICATION OF 20116/17 FISCAL PERFORMANCE OF THE FISCAL RESPONSIBILITIES AND FINANCIAL OBJECTIVES CONTAINED IN THE CFSP OF 2017.

The financial year 2016/2017 fiscal outturn has necessitated revision of the financial objectives to be set out in the next CFSP and the Budget for fiscal year 2018/2019 in the following ways:

- Low absorption of development funds has created a huge backlog of unimplemented projects which will require to be re-budgeted in the next fiscal year hence need for review of the development expenditure projections in the medium term. This huge surplus at the end of financial year is impacting negatively on our development index.
.
- Under-performance in County own revenues means the budget was not fully funded and hence creation of a budget deficit thus necessitating adjustments in the fiscal aggregates for the current budget and in the MTEF period.
- The approved 2016/17 budget was not realistic, leading to a fall in the projections for revenue and expenditure in CBROP 2016 therefore the need to have realistic budgets in future.

These implications will inform the CFSP projections and objectives to enable adjustments to be made in light of the above analysis.

The county shall continue to focus policies on the following priorities so as to enhance social service delivery and support growth of the economy:

- Maintaining a prudent fiscal stance and improving the quality and efficiency of public spending remains priorities to create fiscal space for well-targeted social programs and increasing infrastructure investment.
- Investing in social welfare services and county infrastructure to improve competitiveness and unlock the county’s potential.
- Enhancing efforts to mobilize local revenues.
- Strengthening capacity-building in public financial management to ensure that the high expectations linked to devolution are met.
- Entrenching program budget and enforce execution of the development budget as planned

VI . RECENT ECONOMIC DEVELOPMENTS AND FISCAL OUTLOOK

The economic performance of the county is dependent on the Country's economic performance as well as formulation and implementation of prudent policies by the County Government.

Kenya's macroeconomic performance remains broadly stable despite the global economic slowdown. The economy's growth momentum has been strong supported by significant investment in infrastructure, construction and mining sectors, strong recovery in tourism lower energy prices and improved agricultural production following improved weather conditions. Inflation is within the target band due to prudent monetary policy management while interest rates are low and stable despite global financial pressures following the enactment of the Banking (Amendment) Act, 2015.

Improved export earnings from tea and horticulture, reduced import bill of petroleum products due to lower oil prices, resilient diaspora remittances and improved tourism performance led to a narrower current account deficit. The narrowing of the current account deficit together with strong capital inflows led to a stabilization of the shilling in the foreign exchange market, and also allowed the accumulation of international reserves.

Going forward, the economy is projected to expand further by 6.0 percent in 2016 and above 6.5 percent in the medium term supported by strong output in agriculture with a stable weather outlook, continued recovery of tourism and completion of key public projects in roads, rail and energy generation. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

i. **Recent Development**

Recent Economic Developments

Global Economic developments

The global economic growth outlook remains subdued in 2016, though expected to recover gradually in 2017 and beyond. The new shocks to the outlook include: Britain's referendum result in favor of leaving the European Union; ongoing realignments among emerging and developing economies, such as adjustment of commodity exporters to a protracted decline in the terms of trade; slow-moving trends, such as demographics and the evolution of productivity growth; as well as noneconomic factors, such as geopolitical and political uncertainty.

Global growth is estimated at 2.9 percent in the first half of 2016, slightly weaker than in the second half of 2015 and lower than the projected growth in the April 2016 WEO. The forecast for 2016 and 2017 is 3.1 percent and 3.4 percent, respectively.

Domestic Economic Developments

The Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. The economy further improved and grew at 6.2 percent in quarter two of 2016 up from 5.9 percent growth registered in quarter one of 2016 (Table 2.1). This strong growth was supported by improved performance in agriculture, forestry and fishing (5.5 percent), mining and quarrying (11.5 percent), transport and storage (8.8 percent) wholesale and retail trade (6.1 percent), accommodation and restaurant (15.3 percent) and information and communication (8.6 percent). Growth in other sectors, particularly manufacturing, construction, financial and insurance and real estate, though slightly lower compared to quarter two of 2015, remained robust.

Table 2.1: Economic Performance by Sectors (Percent Growth Rate)

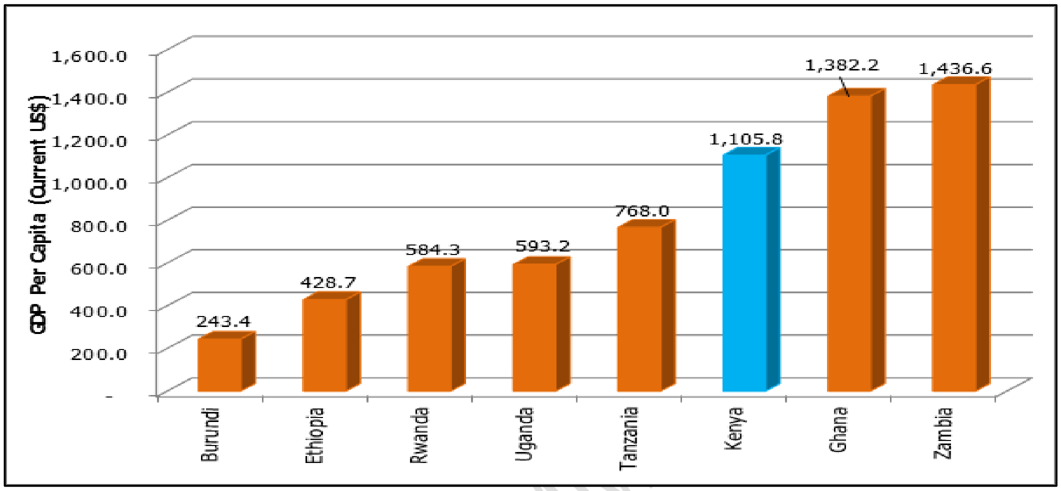
Percentage Changes (growth)							
Gross Domestic Product by Activity	**2011**	**2012**	**2013**	**2014**	**2015**	**2015 Q2**	**2016 Q2**
Agriculture, forestry and fishing	2.4	2.9	5.4	3.5	5.6	4.0	5.5
Mining and quarrying	19.0	19.0	-4.3	14.5	11.0	8.6	11.5
Manufacturing	7.2	-0.6	5.6	3.2	3.5	5.1	3.2
Electricity and water supply	9.4	9.5	6.6	6.2	7.1	9.2	10.8
Construction	4.0	11.3	6.0	13.1	13.6	11.2	8.2
Wholesale and retail trade; repairs	8.3	7.0	7.8	7.5	6.0	5.2	6.1
Accommodation and restaurants	4.1	3.1	-4.6	-16.7	-1.3	-5.0	15.3
Transport and storage	7.1	2.7	1.5	4.6	7.1	6.8	8.8
Information and communication	22.1	2.4	12.6	14.6	7.3	7.0	8.6
Financial and insurance activities	4.6	6.0	8.2	8.3	8.7	7.7	7.5
Public administration	2.4	4.0	2.8	5.3	5.4	6.3	6.7
Professional, admin and support services	2.0	4.0	3.6	3.0	2.6	5.1	4.8
Real estate	5.1	4.0	4.1	5.6	6.2	10.2	8.7

Education	7.5	11.1	6.4	6.3	4.7	4.5	4.1
Human health and social work activities	-2.6	-2.8	7.7	8.1	6.6	6.4	5.3
Other service activities	1.5	2.3	4.6	4.2	3.8	2.8	3.3
FISIM	9.1	10.1	5.2	11.3	15.0	9.6	8.6
All economic activities	**5.3**	**4.1**	**5.4**	**5.3**	**5.8**	**5.9**	**6.3**
Taxes on products	12.6	7.7	8.1	5.3	4.2	5.8	5.1
GDP at market prices	**6.1**	**4.6**	**5.7**	**5.3**	**5.6**	**5.9**	**6.2**

The favourable weather conditions experienced during the second quarter enhanced agriculture production, as such the sector expanded by 5.5 percent compared to 4.0 percent growth in quarter two of 2015. Similarly, electricity and water sector remained strong recording a growth of 10.8 percent compared to 9.2 percent in same quarter in 2015 owing to continued substitution of thermal electricity generation with relatively cheaper sources.

The advantageous oil prices and continued improvement in the road network buoyed the transport and storage sector to a growth of 8.8 percent in the second quarter of 2016 compared to 6.8 percent during the same quarter of 2015. The accommodation and restaurants sector recorded an impressive growth of 15.3 percent in quarter two of 2016 from a contraction of 5 percent in the same quarter of 2015. The growth was on account of improved security and rigorous marketing initiatives that boosted conference tourism as well as the general tourism.

87. On average, GDP per capita per for Kenya at US$ 1,105.8 is the highest in the East African Community sub region **(Chart 1).** The high and resilient GDP per capita is due to the diversified nature of the Kenyan economy.

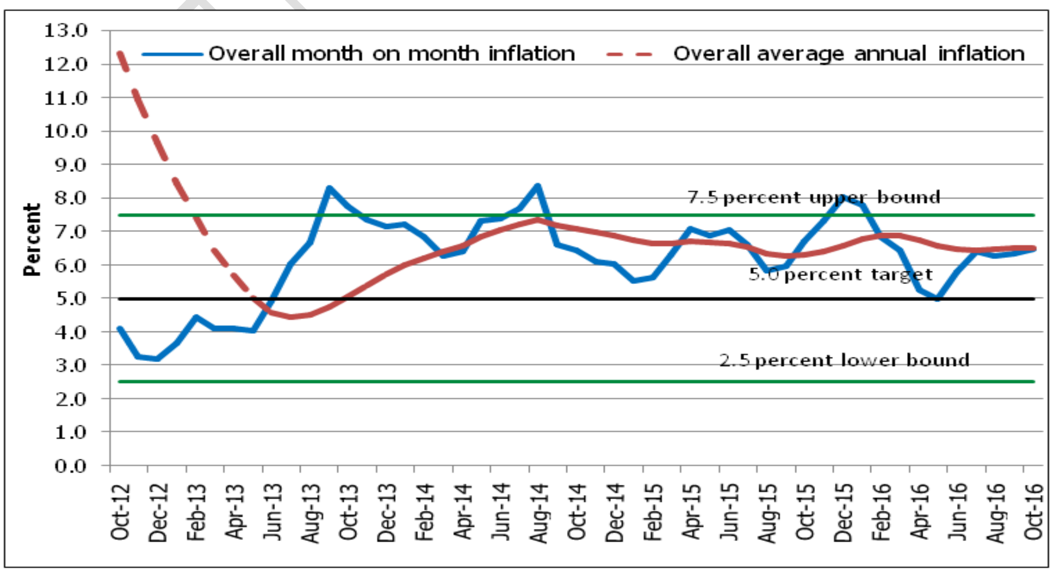


Source of data: International Monetary Fund

Inflation Rate

90. Overall month on month inflation rose slightly to 6.47 percent in October 2016 from 6.34 percent in September 2016 due to increase in food prices. The annual average inflation rate at 6.5 percent in the year to October 2016 was within the target range of 2.5 percent on either side of the 5.0 percent target **(Chart 2).**

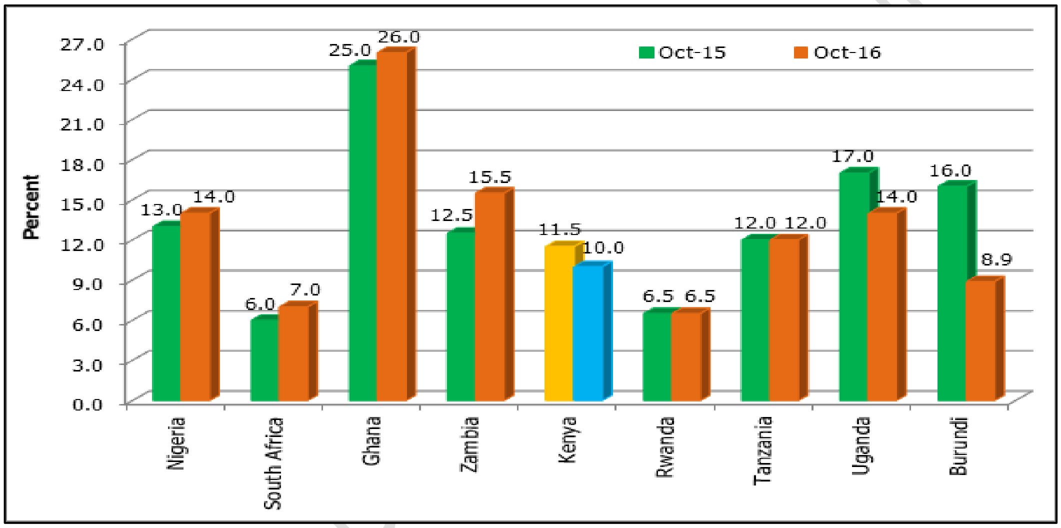
Chart 2: Inflation Rate



Source of data: Kenya National Bureau of Statistics

Inflation rates within the EAC region have remained low due to prudent monetary and fiscal policy management and lower oil and commodity prices **(Chart 3).** High inflation rates in Ghana, Nigeria and Zambia reflects difficult economic conditions as a result of foreign currency shortages resulting from lower commodity revenues and slow policy adjustment.

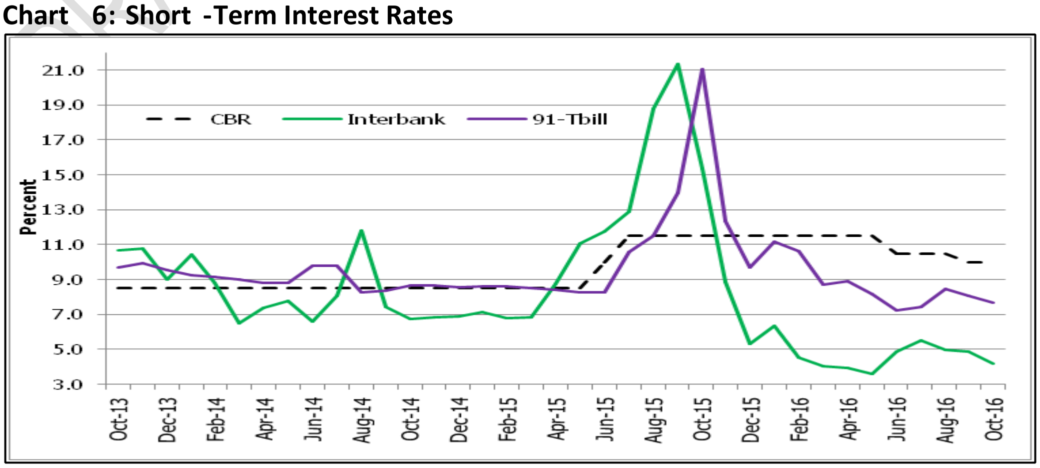
The moderate demand pressures on the overall inflation in the recent months, have led to the easing of the monetary policy stance in the East African countries, conversely, tight monetary policy has been adopted in commodity-expo



Source of data: National Central Banks

In Kenya, s hort term interest rates remained low due to the improvement of liquidity conditions in the money market. The interbank rate declined to 4.1 percent in October 2016 from 4.9 percent in September 2016 and 21.3 percent in September 2015 , while the 91-day Treasury bill rate declined to 7.8 percent from 8. 1 percent and 14.0 percent over the same period **(Chart 6)**.

Chart 6: Short -Term Interest Rates



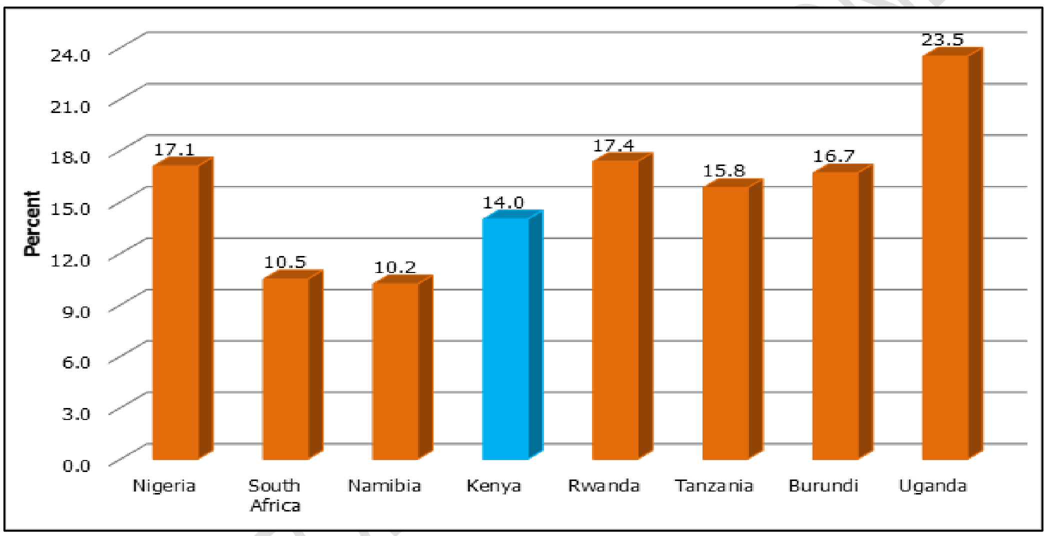
Source of data: Central Bank of Kenya

rting countries due to the substantial depreciation of the currency experienced that has translated into high inflation **(Chart 5).**

The implementation of the Banking (Amendment) Act, 2015 effective September 14, 2016, that cap interest rates on banks' loans at 4.0 percent above the base rate (currently at 10.0 percent) and sets the minimum interest paid for a saving product at 70.0 percent of the same base rate has led to the narrowing of the interest rate spread from 11.3 percent in August 2016 to 7.0 percent by September 14, 2016 **(Chart 7).** As a result of the new Act, Kenya has the lowest lending rate among the East African Countries.

Economic Risks

Chart 7: Commercial Banks Lending Rates of Selected Countries (Sept 2016)



Source of data National Central Banks

Money and Credit

. Growth of broad money supply, M3, slowed to 8.1 percent in the year to September 2016 compared to a growth of 13.5 percent in the year to September 2015 (**Table 2.2**). The slowdown in the growth was largely on account of a decline

. Net Foreign Assets (NFA) of the banking system grew by 52.0 percent in

Although the growth of Vihiga County economy is promising, it is still prone to risks both macro and micro economic environment.

The risk that affect the country's economy that will have an impact on the performance of the County's economy include;

i. Although agriculture is the main driver of the county economy it is faced with unreliable weather patterns and exposure to pest and disease, therefore greater attention need to be taken and structures put in place to address overreliance of rain fed production.

ii. Public expenditure pressures especially recurrent expenditures pose fiscal risks. The wage bill in particular limited the funds available to development, curtailing the ability of the county to expand its infrastructure and fulfil other development initiatives as outlined in the budget.

iii. Constrained physical space/land may limit expansion on investments, as the county possesses very little land for public utilities and setting up of industries or new social amenities through Public Private Partnerships.

iv. Delays in approval of development plans has also been cited as one of the derailment to attracting investments.

v. Litigations by the business community and legal tussles between the County Governments and National government on Public Finance requirements instituted may distort revenues and expenditure sides of the budget.

vi. The general uncertainty at the National scene on the stalemate of the health workers' salary demands may affect negatively the future transfers of revenue to County Governments.

VII. GOING FORWARD: FISCAL POLICY AND PROJECTION

i. Adjustments to 2016/17 budget

The County fiscal framework supporting the FY 2016/2017 was anchored on the County priorities and goals outlined in the County Integrated Development Plan with focus on: Provision of quality water and improved sanitation services, Accessible Health Care, Improvement of land services, Quality Education and Transport Infrastructure. However, the first County Integrated Development Plan has lapped and the second generation one in place. Faced with this and in light of a new government, priorities have to change and hence adjustments to be done on the current budget and the next MTEF framework.

The anticipated settlement of the Health workers demands and the new directive on implantation of job evolution results and salary review from the Salaries and Remuneration Commission (Ref. No. SRC /TS/JE/CG/3/33/6 VOLII (135)) Will impact on personnel emoluments hence the need for adjustments on the budget.

The County Government will also bank on smooth implementation of the Finance Acts, enact the necessary revenue collection laws and regulations, streamline, automate and structure revenue collection process and put in place a new valuation roll will significantly improve revenue collection.

ii. Ceilings

CEILINGS FOR THE DEPARTMENTS OVER THE MEDIUM TERM 2017/18

Programme Title	Approved Estimates 2017/18	Ceiling	VARIANCE	%
County Executive	330,973,093	330,973,093	-	-
County Assembly	612,773,279	533,773,279	79,000,000	12.9
County Treasury	434,612,673	441,612,673	(7,000,000)	(1.6)
Agriculture, Livestock, Fisheries & Co-operatives	188,528,218	188,528,218	(0)	(0.0)

County health Services	1,342,642,500	1,342,642,500	-	-
Education, science & Technology	516,725,524	516,725,524	-	-
Gender, Culture, Youth & Sports	211,312,979	211,312,979	(0)	(0.0)
Industrialization Trade and Tourism	86,998,765	86,998,764	1	0.0
Environment, Natural Resources, Water and Forestry	147,781,149	147,781,149	(0)	(0.0)
Transport and infrastructure	450,769,091	450,769,091	0	0.0
County Public Service board	49,131,769	49,131,769	-	-
Land, Housing physical Planning	76,646,879	76,646,879	-	-
Public Service and Administration	341,979,559	413,979,559	(72,000,000)	(21.1)
Total	**4,790,875,477**	**4,790,875,477**	**-**	**-**

Source: County Treasury

It is noted from the figure above that department of Public Service and Administration ceiling was extensively varied beyond the PFMA (2012) that is 21.1% and County Assembly's lightly at 12.9%. The above can be draw backs can be eliminated if the two arms of County Government can follow the law strictly and also engage in pre-budget consultations. Citing the law, the Public Finance Management (County Governments Regulations, 2015).

.... 37. (1) Where a County assembly approves any changes in the annual estimates of budget under section 131 of the Act, any increase or reduction in expenditure of a Vote, shall not exceed one (1%) percent of the Vote's ceilings'.

iii. Revenue projection/outlook

ITEM SOURCE	2015/16	2016/17	2017/18	2018/19
	Budget	Budget	Budget	Projection at 5%
County Revenue Allocation (CRA)	4,190,825,816	4,252,745,786	5,054,329,205	5,307,045,665
Departmental revenue(others)	277,000,000	220,000,000	220,000,000	220,000,000

The 2015/16 budget targeted local revenue receipt of Ksh. 277Million and receipt from national equalization fund of Ksh 4.19 Billion. The performance will be underpinned by the measures that have been put in place to enhance revenue collection.

The 2016/17 budget targeted local revenue receipt of Ksh. 220Million and receipt from national equalization fund of Ksh 4.25Billion. The performance will be underpinned by the measures that have been put in place to enhance revenue collection.

For FY. 2017/18 budget targeted local revenue receipt of Ksh. 220Million and receipt from national equalization fund of Ksh 5.054 Billion.

Projections for 2018/19 is based on progressive growth in revenues in previous years ie at 5% for equitable share Kshs. 5,307,045,665 and local revenue Kshs 220,000,000

VII. CONCLUSION AND WAY FORWARD

The Fiscal outlook presented herein will seek to achieve the objectives outlined in the PFMA, 2012. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds by the various departments will be crucial in ensuring the county delivers her functions. Plans and programme are strictly adhered to achieve the objectives of the County government.

ANNEX I: Approved Summary Budget 2016/17

VOTE TITLE	Compensation to Employees	Other Recurrent	Development	Totals
County Executive	112,340,077	181,407,198	0	293,747,275
County Assembly	458,897,737	74,875,542	80,000,000	613,773,279
County Health	635,049,549	396,257,594	247,400,000	1,278,707,143
Department of Agriculture, Livestock, Fisheries and Cooperatives	100,175,279	25,713,404	53,662,000	179,550,683
Department of Education, Science and Technology	103,361,180	29,838,000	358,920,367	492,119,547
Department of Gender, Culture, Youth and Sports	9,290,912	62,409,544	129,550,000	201,250,456
Department of Industrialization, Trade and Tourism	8,500,000	38,155,965	36,200,000	82,855,965
Department of Environment, Natural Resources, Water and Forestry	16,542,636	39,276,239	84,925,076	140,743,951
County Treasury	72,505,016	209,811,478	200,738,597	483,055,091
Department of Transport and Infrastructure	41,276,064	116,789,804	292,703,224	450,769,091
County Public Service Board	31,606,688	15,185,473	0	46,792,161
Department of Lands, Housing and Physical Planning	10,730,286	35,403,329	26,863,413	72,997,028
Department of Public Service and Administration	273,339,141	95,927,106	25,000,000	394,266,247
TOTAL	**1,873,614,564**	**1,321,050,676**	**1,535,962,677**	**4,730,627,917**

ANNEX I: Approved Summary Budget 2017/18

VOTE TITLE	Compensation to Employees	Other Recurrent	Development	Totals
County Executive	107,608,680	182,364,413	41,000,000	330,973,093
County Treasury	99,060,032	160,061,478	175,491,163	434,612,673
Agriculture, Livestock, Fisheries &Co- operatives	102,584,764	19,243,454	66,700,000	188,528,218
County Health Services	705,357,901	380,910,000	256,374,599	1,342,642,500
Education, Science, &Technology	88,361,180	226,743,977	201,620,367	516,725,524
Gender, Culture, Youth &Sports	26,740,912	44,572,067	140,000,000	211,312,979
Industrialization, Trade, &Tourism	10,000,000	32,214,501	44,784,264	86,998,765
County Public Service Board	29,500,000	19,631,769	0	49,131,769
County Environment, Natural Resources, water and forestry	18,823,644	49,483,360	79,474,145	147,781,149
Transport &Infrastructure	41,276,064	63,352,678	346,140,350	450,769,091
Land, Housing &Physical Planning	10,313,346	24,333,483	42,000,050	76,646,879
County Assembly	390,779,464	211,993,815	10,000,000	612,773,279
Public Service, Administration and Special programmmes	198,339,141	102,640,418	41,000,000	341,979,559
TOTAL	**1,828,745,127**	**1,517,545,412**	**1,444,584,938**	**4,790,875,477**