



THE COUNTY GOVERNMENT OF
VIHIGA



THE REPUBLIC OF KENYA

THE COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK (CBROP)

SEPTEMBER, 2019

Towards a Globally Competitive and Prosperous Nation

**COUNTY BUDGET REVIEW AND
OUTLOOK
(CBROP)**

SEPTEMBER, 2019

Towards a Globally Competitive and Prosperous Nation

© County Budget Review and Outlook Paper (CBROP) 2019

To obtain copies of the document, please contact;

County Executive Committee Member, Finance and Economic
Planning

The Vihiga County Treasury

P. O. Box 344-30500.

MARAGOLI,

KENYA

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS.....	iv
LIST OF TABLES	v
LIST OF FIGURES.....	vi
FOREWORD.....	vi
ACKNOWLEDGEMENT.....	viii
PREAMBLE.....	ix
1.0 INTRODUCTION	1
1.1 Objectives of CBROP	1
1.2 Significance of CBROP	1
1.3 Structure of CBROP	2
2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2018/19 FY	3
2.1 Overview of 2018/19 Budget.....	3
2.2 Fiscal Performance	5
2.2.1 Own Source Revenue.....	6
2.2.2 Disbursement from Exchequer	12
2.2.3 Expenditure Performance.....	13
2.2.4 Recurrent Expenditure.....	14
2.2.5 Development Expenditure.....	14
2.2.6 Budget Absorption Comparison between CFSP 2017 ceilings and FY 2018/19 budget	16
2.2.7 Expenditure by economic classification.....	17
2.2.8 Implication of 2018/19 FY Fiscal Performance	17
3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK ..20	
3.1 Recent Economic Developments.....	20
3.4 Risks to the Outlook	28
4.0 RESOURCE ALLOCATION FRAMEWORK.....31	
4.1 Adjustment to the FY 2019/20 Budget	31
4.2 Medium Term Expenditure Framework.....	31
4.3 The Proposed 2020/21 Budget Framework.....	32
4.3.1 Revenue Projections.....	32
4.3.2 Expenditure Forecasts.....	32
5.0 CONCLUSION	33
Appendix 1 Resource Envelop 2018 Supplementary Three	34
Appendix 2 2018/19 Supplementary three Budget Summary	35

ABBREVIATIONS AND ACRONYMS

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

LIST OF TABLES

Table 1: Summary of Third Supplementary Budget 2018/19.....	3
Table 2: Conditional grants contained in the CARA, 2018.....	4
Table 3: Comparison of expenditures in financial year 2017/18 and 2018/19 in Billions.....	6
Table 4: Vihiga County, Trend in ORS by Quarter from FY 2013/14 to the FY 2018/19.....	7
Table 5: ORS Performance per stream 2018/19.....	7
Table 6: ORS Comparison Table 2017/18 & 2018/19.....	8
Table 7: ORS Comparison Table 2018/19& FY 2018/19 Budget.....	9
Table 8: Analysis of Equitable share and Conditional Grants Released for the FY 2018/19 FY 2018/19.....	12
Table 9: Absorption rates of FY2018/19 and 2017/18 compared in KSh. Billion.....	13
Table10: FY2018/19 & FY2017/18 Expenditure by Economic Classification	14
Table 11: Vihiga County, Budget Performance by Department in FY 2018/19.....	14
Table 12: Absorption rate compared to CFSP 2018/19 and FY 2018/19 Budget.....	16
Table 13: Showing Expenditure by Economic Classification	17
Table 14: Gross Domestic Product by Activity, Current Prices (KSh. Million)	24
Table 15: Gross Domestic Product by Activity, Growth Rates	25
Table 16: Overall year on year inflation rate.....	26
Table 17: Risk Analysis.....	29
Table 18: County Government Fiscal Projections in KSh. in the Medium Term.....	31
Table 19: Summary of Expenditure Projections in KSh. Millions 2020/21 FY and MTEF.....	32

LIST OF FIGURES

Figure 1. Shows the expected sources of budget financing in the FY 2018/19.....	4
Figure 2. Yearly trend in OSR collection from the 2013/14 FY to 2018/19 FY.....	6
Figure 3. Showing Expenditure by Economic Classification.....	7
Figure 4: First Quarter GDP Growth Rates.....	21
Figure 5: Trends in Interest Rates, January 2018 to March 2019.....	22
Figure 6: NSE 20-Share Index & Value of Shares Traded, January 2018 to March 2019.....	33

FOREWORD

The Vihiga County Budget Review and Outlook Paper (CBROP 2019) is prepared pursuant to Section 118 of the Public Financial Management Act, 2012 and in accordance with the County budget calendar for the MTEF 2018/2019-2020/2021. This review document focused on the fiscal year ending June 2019 compared with the previous year (2017/18) focusing on the next MTEF years outlook.

During the period under review the County Government continued with the programme based approach linking the financial resources directly to defined policy goals and objectives.

The total County receipts amounted to Kshs 5.67 billion (approximately 81 percent of the total projected receipts) against a target of Kshs 7.00 billion.

Receipts from County Own Source of Revenue (OSR) increased substantially by approximately 24 percent from Kshs 143.45 million collected in FY 2017/18 to Kshs 178.18 million in FY 2018/19. Overall County OSR surpassed its targeted forecast by Kshs 24.50 million or approximately 16 percent.

Total county expenditure amounted to Kshs 5.75 billion against a target of Kshs 7.00 billion. Further the County expenditure performance revealed a steady increase budget absorption rate from approximately 48.5 percent in FY 2017/2018 to about 82.0 percent in FY 2018/2019.

Going forward, the cumulative revenue forecast for FY 2019/20 amounts to 7.35 billion. County own source of revenues at Kshs 222.5 million which is increase by 25 percent.

The County Government remains committed to maintaining the trend of economic growth and development in line with the needs and commitments made to the people of Vihiga.

The County Government remains committed to maintaining the trend of economic growth and development in line with the needs and commitments made to the people of Vihiga County. The Government will ensure that there is transparency and accountability by engaging stakeholders in development planning, implementation, and monitoring as required by the Constitution and the Public Finance Management Act, 2012.

HON. ALFRED INDECHE

County Executive Member, Finance and Economic Planning

ACKNOWLEDGEMENT

The successful preparation of the CROP, 2019 was achieved through collaborative effort comprising of the County Treasury team and the respective departmental Sector Working Groups (SWGs) respective.

I take this opportunity to thank H.E the governor and the Deputy Governor for their overall steadfast leadership and guidance to the County Treasury to performing its mandate. I wish to acknowledge all the budget implementing units for their supply of the inputs that qualified the finalization of this document.

May I express my gratitude to the County Executive Committee member for Finance and Economic Planning for his continued provision of technical guidance and leadership as head of the County Treasury.

The attainment of this document was made possible with the inputs from the departmental SWGs. May I take this early chance to thank each member of the departmental SWGs through their respective Chief officers who provided valuable inputs and comments on the performance for the year under review. Further I wish to acknowledge the continuous submission of view and suggestion from stakeholders and the public in the course of various stages of the County Budget Preparations process.

LIVINGSTONE IMBAYI

Chief Officer, Finance and Economic Planning.

PREAMBLE

The County Treasury is mandated by Section 118 of the Public Finance Management (PFM) Act, 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the County, which is to be submitted to the County Executive Committee by 30th September of the year. Section 118 (1) of the PFMA, 2012 states that; the County treasury shall:

- (a) prepare a County Budget Review and Outlook Paper in respect of the County for each financial year; and
- (b) submit the paper to the County Executive Committee by 30th September of that year. Section 118 (2) of the Act provides details of issues presented in the County Budget Review and Outlook Paper. The section states that: In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify –
 - (i) the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
 - (ii) the updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
 - (iii) any changes in the forecasts compared with the CFSP;
 - (iv) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
 - (v) reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

This 2019 C-BROP was therefore prepared by the County Treasury pursuant to provision of PFMA 2012 section 118 (1). By law, the County Government is required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility. The section states that:

(1) The County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

The limits in the regulations Legal notice number 35 section 25 (1) are as quoted:

.....”25. (1) In addition to the fiscal responsibility principles set out in section 107 of the Act, the following fiscal responsibility principles shall apply in the management of public finances—

- (a) the County Executive Committee Member with the approval of the County Assembly shall set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Act;
- (b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the county government's total revenue;
- (c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues that accrue from extractive natural resources including as oil and coal;
- (d) the county public debt shall never exceed twenty (20%) percent of the county governments total revenue at any one time;
- (e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);
- (f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
- (g) pursuant to section 107(5) of the Act, if the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act;
- (h) if the county government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the county executive committee member for finance shall submit a responsibility statement to county assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and
- (i) the compliance plan above shall be binding and the county executive committee member for finance shall ensure implementation “

(2) In managing the County Government's public finances, the County Treasury shall adhere to the following fiscal responsibility principles –

- (a) the County Government's recurrent expenditure shall not exceed the County Government's total revenue;
- (b) over the medium term plan a minimum of Thirty percent of the County Government's budget shall be allocated to the development expenditure;

- (c) the County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly;
 - (d) over the medium term, the Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
 - (e) the County debt shall be maintained at a sustainable level as approved by County assembly;
 - (f) the fiscal risks shall be managed prudently; and
 - (g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, considering any tax reforms that may be made in the future.
- (3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited County Government revenue.
- (4) Every County Government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County assembly.
- (5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

1.0 INTRODUCTION

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

The County Budget Review and Outlook Paper (CBROP) is prepared in line section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the County for the financial year 2018/2019; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2018 and reasons for such deviations.

1.1 Objectives of CBROP

The objective of the paper is to provide a review of the previous fiscal performance of the County and how this impacts the macro-economic outlook. Specifically, the CBROP provides:

- (i) Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- (ii) Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
- (iii) Any changes in the forecasts compared with the CFSP;
- (iv) Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- (v) Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

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

1.3 Structure of CBROP

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

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2018/19 FY

This section details the County's fiscal performance for the financial year 2018/19 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 OVERVIEW OF THE FY 2018/19 BUDGET

The County's FY 2018/19 Approved Supplementary three Budget was Kshs.7.0 billion, comprising of Kshs.4.52 billion (64.5 per cent) and Kshs.2.89 billion (35.5 per cent) allocation for recurrent and development expenditure respectively.

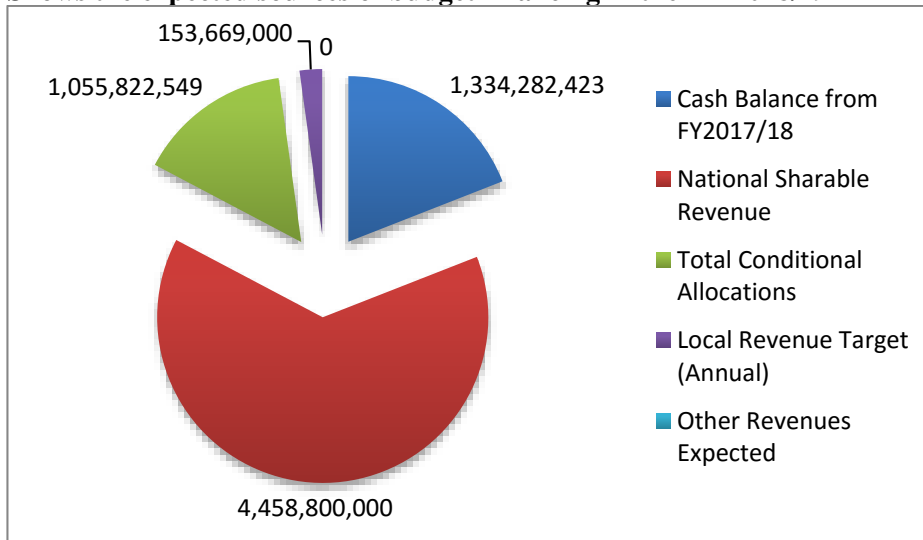
To finance the budget, the County expected to receive Kshs.4.46 billion (63.68 per cent) as equitable share of revenue raised nationally, Kshs.1.06 billion (15.08 per cent) as total conditional grants, generate Kshs.153.6 million (2.2 per cent) from own revenue sources, and Kshs.1.33 billion (19.10 per cent) cash balance brought forward from FY 2017/18.

Table 1: Summary of Third Supplementary Budget 2018/19

VOTE	VOTE TITLE	Compensation to Employees Ksh	Other Recurrent Ksh	Development Ksh	Totals Kshs
1	Office of The Governor	119,856,071	307,723,728	22,500,000	450,079,799
2	Finance & Economic Planning	109,610,032	379,631,798	100,000,000	589,241,830
3	Agriculture, Livestock, Fisheries & Cooperatives	109,991,384	55,360,926	380,160,889	545,513,199
4	Health Services	961,830,356	333,561,840	314,164,415	1,609,556,611
5	Education, Science, Technical and Vocational Training	245,457,930	187,877,141	282,191,386	715,526,457
6	Gender, Culture, Youth, Sports and Social Services	40,940,912	128,439,637	52,000,000	221,380,549
7	Trade, Industry, Tourism and Entrepreneurship.	12,600,000	98,807,406	56,903,743	168,311,149
8	County Public Service Board	14,591,758	36,330,681	-	50,922,439
9	Environment, Water, Energy & Natural Resources.	26,542,648	63,707,613	172,314,910	262,565,171

VOTE	VOTE TITLE	Compensation to Employees Ksh	Other Recurrent Ksh	Development Ksh	Totals Kshs
10	Transport, Infrastructure & Communication	49,487,134	114,248,659	671,456,083	835,191,876
11	Physical Planning, Land and Housing	38,313,346	87,099,085	327,950,700	453,363,131
12	County Assembly	322,392,239	284,861,552	94,032,014	701,285,805
13	Administration and Coordination of County Affairs	249,702,555	138,477,953	11,455,447	399,635,955
	TOTAL COUNTY BUDGET EXPENDITURE	2,301,316,365	2,216,128,019	2,485,129,587	7,002,573,971

Shows the expected sources of budget financing in the FY 2018/19



Source: Vihiga County Treasury

Table 2: Conditional grants contained in the CARA, 2018 as a percentage of total 2018/19 budget

	Grants Contained in the CARA, 2018	Kshs.	% of Total Budget
1	Road Maintenance Fuel Levy Fund	212,686,815	3.04
2	World Bank Loan for Transforming Health System for universal Care Project	73,172,815	1.04
3	Development of Youth Polytechnics	70,891,386	1.01

	Grants Contained in the CARA, 2018	Kshs.	% of Total Budget
4	World Bank Loan for National Agricultural & Rural Inclusive Project	193,368,318	2.76
5	Kenya Devolution Support program	75,302,439	1.08
6	DANIDA Grant	20,930,173	0.3
7	Compensation for user fees foregone	19,158,582	0.27
8	Agricultural Sector Development Support Program (ASDSP)	18,161,321	0.26
9	EU-Water Tower project Grants	80,000,000	1.14
10	Urban Industrial Grant	41,200,000	0.59
11	Kenya Urban Support Programme	250,950,700	3.58
Sub Total		1,055,822,549	15.08

Source: Vihiga County Treasury

The conditional grants contained in the CARA, 2018 comprise of Kshs.73.17 million (1.04 per cent) for World Bank Loan for Transforming Health System for universal Care Project, Kshs.212.69 million (3.04 per cent) from the Road Maintenance Fuel Levy Fund, Kshs.19.16 million (0.27 per cent) as Compensation for User Fee Foregone, Kshs.20.93 million (0.30 per cent) from DANIDA, Kshs.193.37 million (2.76 per cent) as World Bank loan for National Agriculture Growth & Rural Inclusive Growth Project, Kshs.75.30 million (1.08 per cent) for the World Bank Kenya Devolution Support Programme, Kshs.70.89 million (1.01 per cent) for Development of Youth Polytechnics, Kshs.18.16 million (0.26 per cent) as World Bank loan for Agricultural Sector Development Support Program (ASDSP), Kshs.80.00 million (1.14 per cent) as EU-Water Tower project Grants, Kshs.41.20 million (0.59 per cent) as Urban Industrial Grant and Kshs.250.95 million (3.58 per cent) as Kenya Urban Support Programme.

2.2 FISCAL PERFORMANCE

During the FY 2018/19, the County received Kshs.5.22 billion as equitable share of revenue raised nationally, Kshs.581.39 million as total conditional grants, raised Kshs.178.18 million from own source revenue, and had a cash balance of Kshs.429.29 million from FY 2017/18. In overall, Own source revenues for 2018/19 FY grew by 24.00 per cent compared to the previous year.

Total expenditure amounted to Kshs5.75 billion comprising of Kshs4.11 and Kshs1.64 billion for recurrent and development expenditure respectively compared to previous year 2017/18 with a total of Kshs2.74 billion comprising of Kshs2.45 billion and Kshs291.19 million for recurrent and development expenditure respectively.

Table 3: Comparison of expenditures in financial year 2017/18 and 2018/19 in Billions

	2017/18 Kshs.	2018/19 Kshs.	% Variance
Recurrent expenditure	2.45	4.11	69.17
Development expenditure	0.29	1.64	465.52
Total	2.74	5.75	109.8

Source: Vihiga County Treasury

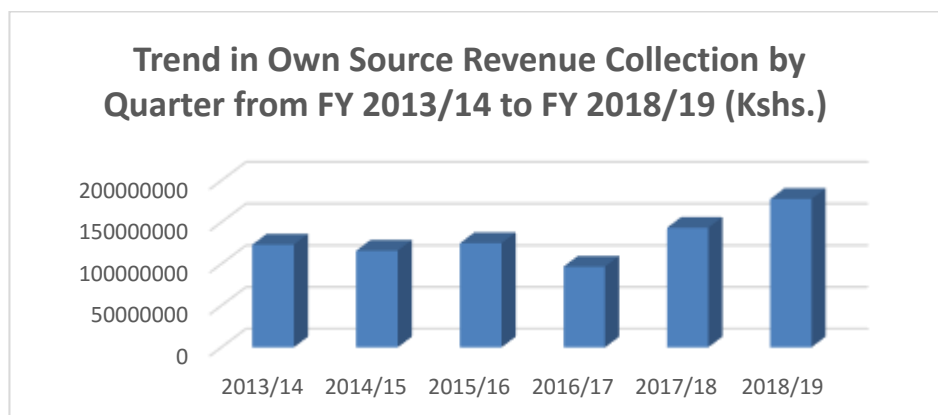
From the table above, there was a marked improvement in expenditure both in recurrent and development attributed to adoption of *e*-procurement and streamlining financial management across all sectors.

2.2.1 Own Source Revenue (OSR)

In 2018/19 FY, the County collected own source revenue amounting to Kshs 178,176,420 against a target of Kshs.153,669,000 which is about 16 percent above target.

Trends in the OSR since 2013/14 has been on an increasing rate except in 2016/17 which was an electioneering year as shown in the figures below.

Figure 2. Yearly trend in OSR collection from the 2013/14 FY to 2018/19 FY



Source: Vihiga County Treasury

Table 4: Vihiga County, Trend in ORS by Quarter from FY 2013/14 to the FY 2018/19

Trend in Local Revenue Collection by Quarter from FY 2013/14 to FY 2018/19 (Kshs.)						
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
QTR. 1	18,825,000	25,624,320	29,925,190	23,563,100	12,820,045	32,673,478
QTR. 2	17,683,250	23,095,640	34,891,710	15,954,700	29,069,063	30,214,350
QTR. 3	41,034,020	29,423,870	27,377,470	26,129,400	50,549,434	59,145,673
QTR. 4	45,786,700	37,896,590	32,925,190	31,300,700	51,092,210	56,137,646
	123,328,970	116,040,420	125,119,560	96,947,900	143,530,752	178,171,146.58

Source: Vihiga County Treasury

Table 5: ORS Performance per stream 2018/19

No.	STREAM	1ST QT	2NDQT	3RD QT	4TH QT	TOTAL
1	Parking Fee	8,597,180	6,761,840	8,802,130	10,512,310	34,673,460
2	Market	2,778,260	2,965,090	3,380,510	4,543,600	13,667,460
3	SBP	1,253,175	828,300	14,997,875	12,023,990	29,103,340
4	SBP Application	183,330	-	88,000	209,275	480,605
5	Plot Rent	60,545	-	115,703	230,497	406,745
6	Plot Rate	63,595	73,665	171,964	158,645	467,869
7	Stall Rent	631,900	419,300	718,610	643,750	2,413,560
8	House Rent	-	-	25,000	710,630	735,630
9	Group Registration	39,500	22,500	66,750	70,650	199,400
10	Fines& Penalties	-	34,800	60,840	209,099	304,739
11	Tender Documents	-	-	13,000		13,000
12	Physical Planning	-	-	118,900	84,000	202,900
13	Unclamping	-	-	45,000	1,000	46,000
14	Miscellaneous Inc.	110,800	33,300	11,716,714	3,439,262	15,300,076
15	Facility Imp. Fund	9,829,936	9,709,190	10,374,725	10,801,333	40,715,184
16	Public Health	988,995	559,080	1,440,560	1,144,850	4,133,485
17	Liquor	23,000	3,000	22,000	36,000	84,000
18	Water &Admin.	479,130	338,410	905,890	248,200	1,971,630
19	Hire Of Machines	1,393,300	107,450	486,290	1,046,360	3,033,400
20	Plan App.& Approval	363,800	373,940	471,410	370,230	1,579,380
21	Inspection	97,000	48,000	123,500	146,500	415,000

No.	STREAM	1ST QT	2NDQT	3RD QT	4TH QT	TOTAL
22	Electrical Scrutiny	44,000	99,000	72,540	116,500	332,040
23	Mechanical Scrutiny	44,500	18,000	111,100	45,000	218,600
24	Adverts	154,000	1,506,850	105,900	3,531,305	5,298,055
25	Land Boundary	202,000	156,400	197,000	175,000	730,400
26	Weights & Measures	-	-	88,850	85,050	173,900
27	Obstruction	88,000	100,100	7,500	36,000	231,600
28	Ground Rent	24,010	8,000	168,647	240,665	441,322
29	slaughter Mgmnt	646,260	287,840	81,350	88,450	1,103,900
30	Conservancy	-	4,000	1,877,700	1,878,900	3,760,600
31	Veterinary	498,908	-	355,550	461,880	1,316,338
32	Search Fee	-	-	1,040	2,600	3,640
33	Fertilizer	8,000	-	1,358,150	233,040	1,599,190
34	Way Leave	-	-	10,100	590,800	600,900
35	Stock Sale	303,040	325,020	508,740	441,540	1,578,340
36	Renovation	-	5,500	12,500	7,000	25,000
37	Hire of Hall	7,400	-	-	-	7,400
38	Sand & Murrum	35,200	16,100	21,650	68,900	141,850
39	Other MI	239,792	3,686,574	1,803,565	945,957	6,675,888
	TOTAL	29,188,556	28,491,249	60,927,253	55,578,768	174,185,826
	TRANSFER TO CRF	32,668,197	30,214,349	59,150,954	56,137,646	178,171,146

Source: Vihiga County Treasury

Table 6: ORS Comparison Table 2018/19 Budget & 2018/19 Actuals

No.	Stream	Budget 2018/19	Actuals 2018/19 Fy	Variance	%Variance
1	PARKING FEE	49,885,275	34,673,460	(15,211,815)	-30.5
2	MARKET	20,488,452	13,667,460	(6,820,992)	-33.3
3	SBP	20,378,552	29,103,340	8,724,788	42.8
4	SBP APPLICATION		480,605	480,605	100.0
5	PLOT RENT	3,299,327	406,745	(2,892,582)	-87.7
6	PLOT RATE	830,882	467,869	(363,013)	-43.7
7	STALL RENT	379,313	2,413,560	2,034,247	100.0
8	HOUSE RENT		735,630	735,630	100.0
9	GROUP REGISTRATION		199,400	199,400	100.0
10	FINES& PENALTIES	121,797	304,739	182,942	150.2
11	TENDER DOCUMENTS		13,000	13,000	100.0
12	PHYSICAL PLANNING		202,900	202,900	100.0
13	UNCLUMPING		46,000	46,000	100.0

No.	Stream	Budget 2018/19	Actuals 2018/19 Fy	Variance	%Variance
14	MISCELLANEOUS INC.	158,970	15,300,076	15,141,106	9524.5
15	FACILITY IMP.FUND	22,332,254	40,715,184	18,382,930	82.3
16	PUBLIC HEALTH	2,763,908	4,133,485	1,369,577	49.6
17	LIQOUR	1,727,250	84,000	(1,643,250)	-95.1
18	WATER & ADMIN.	2,060,760	1,971,630	(89,130)	-4.3
19	HIRE OF MACHINES	858,617	3,033,400	2,174,783	253.3
20	PLANN APP.& APPROVAL	535,155	1,579,380	1,044,225	195.1
21	INSPECTION		415,000	415,000	100.0
22	ELECTRICAL SCRUTINY		332,040	332,040	100.0
23	MECHANICAL SCRUTINY		218,600	218,600	100.0
24	ADVERTS	1,802,108	5,298,055	3,495,947	194.0
25	LAND BOUNDARY	670,740	730,400	59,660	8.9
26	WEIGHTS & MEASURES		173,900	173,900	100.0
27	OBSTRUCTION		231,600	231,600	100.0
28	GROUND RENT		441,322	441,322	100.0
29	SLAGHTER MGMNT	383,970	1,103,900	719,930	187.5
30	CONSERVANCY		3,760,600	3,760,600	100.0
31	VETERINARY		1,316,338	1,316,338	100.0
32	SEARCH FEE		3,640	3,640	100.0
33	FERTERLIZER	12,321,330	1,599,190	(10,722,140)	-87.0
34	WAY LEAVE		600,900	600,900	100.0
35	STOCK SALE	2,532,156	1,578,340	(953,816)	-37.7
36	RENOVATION		25,000	25,000	100.0
37	HIRE OF HALL		7,400	7,400	100.0
38	SAND & MURRAM	118,350	141,850	23,500	19.9
39	OTHER MI		6,675,888	6,675,888	100.0
40	TEA CESS	10,006,322		(10,006,322)	-100.0
41	NOICE EMISSION	13,200	-	(13,200)	-100.0
	TOTAL	153,668,688	174,185,826	20,517,138	13.4
	TRANSFER TO CRF	153,668,684	178,171,146	24,502,462	15.9

Source: Vihiga County Treasury

Table 7: ORS Comparison Table 2017/18 Actuals and FY 2018/19 Actuals

No.	Streams	Actuals 2017/18	Actuals 2018/19	Variance	%Variance
1	Parking Fee	34,699,825	34,673,460	(26,365)	-0.1
2	Market	14,329,288	13,667,460	(661,828)	-4.6
3	SBP	21,728,277	29,103,340	7,375,063	33.9
4	SBP Application	53,500	480,605	427,105	798.3
5	Plot Rent		406,745	406,745	100.0
6	Plot Rate	729,720	467,869	(261,851)	-35.9
7	Stall Rent	1,585,760	2,413,560	827,800	52.2
8	House Rent		735,630	735,630	100.0
9	Group Registration	253,550	199,400	(54,150)	-21.4
10	Fines & Penalties	185,992	304,739	118,747	63.8

No.	Streams	Actuals 2017/18	Actuals 2018/19	Variance	%Variance
11	Tender Documents		13,000	13,000	100.0
12	Physical Planning		202,900	202,900	100.0
13	Unclamping		46,000	46,000	100.0
14	Miscellaneous Inc.	4,832,514	15,300,076	10,467,562	216.6
15	Facility Imp. Fund	31,228,561	40,715,184	9,486,623	30.4
16	Public Health	2,409,340	4,133,485	1,724,145	71.6
17	Liquor	6,704,012	84,000	(6,620,012)	-98.7
18	Water & Admin.	1,019,910	1,971,630	951,720	93.3
19	Hire Of Machines	3,499,410	3,033,400	(466,010)	-13.3
20	Plan App.& Approval	1,019,220	1,579,380	560,160	55.0
21	Inspection	182,000	415,000	233,000	128.0
22	Electrical Scrutiny	84,000	332,040	248,040	295.3
23	Mechanical Scrutiny	64,250	218,600	154,350	240.2
24	Adverts	444,130	5,298,055	4,853,925	1092.9
25	Land Boundary	628,000	730,400	102,400	16.3
26	Weights & Measures	18,500	173,900	155,400	840.0
27	Obstruction		231,600	231,600	100.0
28	Ground Rent	1,703,180	441,322	(1,261,858)	-74.1
29	slaughter Mgmt	1,387,424	1,103,900	(283,524)	-20.4
30	Conservancy		3,760,600	3,760,600	100.0
31	Veterinary	5,930	1,316,338	1,310,408	22097.9
32	Search Fee		3,640	3,640	100.0
33	Fertilizer	13,397,290	1,599,190	(11,798,100)	-88.1
34	Way Leave		600,900	600,900	100.0
35	Stock Sale	2,023,401	1,578,340	(445,061)	-22.0
36	Renovation		25,000	25,000	100.0
37	Hire of Hall	22,000	7,400	(14,600)	-66.4
38	Sand & Murrum	88,800	141,850	53,050	59.7
39	Other MI		6,675,888	6,675,888	100.0
40	Tea Cess	71,400		(71,400)	-100.0
41	Noise Emission			-	100.0
42	Pay bill	796,340		(796,340)	-100.0
	TOTAL	145,195,524	174,185,826	28,990,302	20.0
	TRANSFER TO CRF	143533060	178,171,146	34,638,086	24.1

Source: Vihiga County Treasury

2.2.1. 1 REASONS FOR IMPROVED REVENUE COLLECTION IN 2018/19 COMPARED TO 2017/18.

- (i) Employment of 153 revenue clerks and 9 revenue inspectors on contract in March 2019. This saw a steady collection in SBP from Kshs.21,728,277 in 2017/18 to Kshs.29,149,355 in 2018/19 giving a positive deviation of Kshs.7,421,078 (34%).
- (ii) Strengthened sub-county offices. The sub-county offices were facilitated on time and adequately enabling closer supervision of field revenue collections.
- (iii) Engagement of 40 revenue enforcement officers in March 2019. This also saw compliance rate go high resulting in high penalties payments. For instance, impounds of Kshs.73, 500 were realized and penalties grew from Kshs.185, 992 in 2017/18 to Kshs.604, 974 in 2018/19.
- (iv) Reactivation of previously dormant streams e.g Conservancy Fee was not being collected despite it being in the previous Finance Acts. Conservancy collected was Kshs.3, 655, 600, way leave Kshs.600, 900 and also approval of electrical and mechanical plans.
- (v) The health department did not experience disruptive industrial strikes. This led to growth of facility improvement funds from Kshs.31, 228,561 in 2017/18 to Kshs.41, 051,877 in 2018/19.
- (vi) The County Treasury is now remitting house rent deducted from employees residing in government quarters. This saw a collection of Kshs.735, 630 in 2018/19 compared to nil in previous years.

2.2.1.2 CHALLENGES

- (1) Delay in appointment and gazzement of liquor licensing board members causing delayed collection of liquor licenses fees.
- (2) Partial automation of revenue streams. Hospital facility improvement fund is partially automated, at county referral hospital where Kshs. 41,051,877 was collected representing 23% of total revenue collection.
- (3) Delay in approval of bylaws submitted to the County Assembly. Lack of the bylaws hampers enforcement and prosecution of defaulters.
- (4) Lack of understanding of Finance Act by residents. This makes it difficult for members of the public to willingly pay taxes.

- (5) Sub-county revenue offices lack sufficient office space and equipment thus affecting service delivery.
- (6) Lack of a valid valuation roll that informs collection of land rates.
- (7) Lack of baseline survey on revenue streams and mapping which informs revenue forecasting and targeting.

2.2.1.3 WAYFORWARD

- (a) The county is in the process of automating structured revenue streams, address emerging challenges and later roll out to unstructured revenue streams in 2019/20FY.
- (b) The county assembly to hasten the approval of the bylaws.
- (c) Sensitization of the public on provisions of the Finance Act to be included in civic education programs.
- (d) There's need to provide adequate working space and equipment to sub-county officers.

2.2.2 Disbursement from Exchequer

During the period under review, the Controller of Budget authorized withdrawal of Kshs.6.57 billion from the CRF account, which was 93.87 per cent of the Approved third Supplementary Budget 2018/19. This amount represented an increase of 63.34 per cent from Kshs.4.02 billion authorized in a similar period FY 2017/18.

Table 8. Analysis of Equitable Share and Conditional Grants Released for the FY 2018/19

	Grants	FY 2018/19 BUDGET Kshs.	DISBURSEMEN TS 2018/19 Kshs.	PERCENTAG E DISBURSED
1	Exchequer Issue	5,514,622,549	5,063,603,775	91.82
1	Road Maintenance Fuel Levy Fund	212,686,815	146,949,295.00	69.91
2	World Bank Loan for Transforming Health System for universal Care Project	73,172,815	40,048,468.00	54.73
3	Development of Youth Polytechnics	70,891,386	41,525,000.00	58.58
4	World Bank Loan for National Agricultural & Rural Inclusive Project	193,368,318	50,078,480.00	25.98
5	Kenya Devolution Support program	75,302,439	-	0

	Grants	FY 2018/19 BUDGET Kshs.	DISBURSEMENTS 2018/19 Kshs.	PERCENTAGE DISBURSED
6	DANIDA Grant	20,930,173	14,782,500.00	70.63
7	Compensation for user fees foregone	19,158,582	12,657,201.00	66.07
8	Agricultural Sector Development Support Program (ASDSP) and Co-funding	18,161,321	6,612,131.00	36.41
9	EU-Water Tower project Grants	80,000,000	-	0
10	Urban Industrial Grant	41,200,000	41,200,000.00	100
11	Kenya Urban Support Programme	250,950,700	250,950,700.00	100
Total		6,570,445,098	5,668,407,550	86.21

Source: Vihiga County Treasury

Note that, no funds were received on Kenya Devolution Support Programme. However, the programme had a balance of Kshs33, 698,327 brought forward from FY 2017-18

2.2.3 Expenditure Performance

Total expenditure in the FY 2018/19, amounted to Kshs 5.75 billion against a target of Kshs. 7.0 billion as per Approved third supplementary Budget 2018/19, this representing 82.0 percent. When compared to expenditure of 2017/18 financial year, this is an increase of 33.9 percent. In addition, a total of Kshs 4.11 billion was spent on recurrent activities while Kshs 1.64 billion on development expenditure. Recurrent expenditure accounts for 91 per cent of the recurrent supplementary budget an increase of 29 percent from 62 per cent recorded in FY 2017/18. Development expenditure accounts for 66 per cent, which is an increase of 50 percent from 16 per cent attained in a similar period of FY 2017/18.

Table 9: Absorption rates of FY2018/19 and 2017/18 compared in Kshs billion

Expenditure	Budget 2017/18	Actuals 2017/18	Budget 2018/19	Actuals 2018/19	Absorption % 2017/18	Absorption % 2018/19	% Change
Recurrent	3.88	2.41	4.52	4.11	62	91	29
Development	1.7	0.273	2.49	1.64	16	66	50

Source: Vihiga County Treasury

From the table above, there was a marked improvement in expenditure both in recurrent and development attributed to adoption of e-procurement and streamlining financial management and systems across all sectors.

2.2.4. Recurrent Expenditure

The total recurrent expenditure amounted to Kshs5.75 billion comprised of Kshs 2.40 billion (41.72 per cent) incurred on personnel emoluments and Kshs1.71 billion (29.78.%) on operations and maintenance and Kshs1.64 billion (28.51%) on development.

Table 10: FY 2018/19 and FY 2017/18 Expenditure by Economic Classification compared

	FY 2017/18	FY 2018/19	% of Actual expenditure
	Kshs.	Kshs.	
Personnel Emoluments	2,166,991,882	2,399,907,476	41.72
Operations and Maintenance	1,344,321,900	1,713,218,646	29.78
Development Expenditure	232,772,583	1,639,936,810	28.51
Total	3,744,086,365.00	5,753,062,932.00	100.00

Source: Vihiga County Treasury

2.2.5 Development Expenditure

The total development expenditure of Kshs1,64 billion represented 65.86 per cent of the annual development budget and 23.43 of the total budget of Kshs7.0 billion.

Table 11: Vihiga County, Budget Performance by Department in FY 2018/19

BUDGET ABSORPTION RATES									
Department	Budget Allocation (Kshs Million)			Expenditure in The FY 2018/19 (Kshs Million)			FY 2018/19 Absorption rate (%)		
	Rec	Dev	Totals	Rec	Dev	Totals	Rec	Dev	Overall
Agriculture, Livestock, Fisheries & co-operatives	165.35	380.16	545.51	141.37	176.19	317.56	85.5	46.35	58.21
Lands, Housing & Physical Planning	125.41	327.95	453.36	80.6	121.98	202.58	64.27	37.19	44.68
Transport & Infrastructure	163.74	671.46	835.2	133.63	620.3	753.93	81.61	92.38	90.27
Industrialization, Trade & Tourism	111.41	56.9	168.31	99.34	18.06	117.4	89.17	31.74	69.75
County Health Services	1,295.39	314.16	1609.55	1,276.94	252.04	1528.98	98.58	80.23	94.99
Education, Science & Technology	433.33	282.19	715.52	425.68	219.25	644.93	98.23	77.7	90.13

BUDGET ABSORPTION RATES									
Department	Budget Allocation (Kshs Million)			Expenditure in The FY 2018/19 (Kshs Million)			FY 2018/19 Absorption rate (%)		
	Rec	Dev	Totals	Rec	Dev	Totals	Rec	Dev	Overall
County Executive	427.58	22.5	450.08	327.78	19.1	346.88	76.66	84.89	77.07
County Assembly	607.25	94.03	701.28	543.8	18.32	562.12	89.55	19.48	80.16
Finance & Economic Planning	489.24	100	589.24	422.07	57.37	479.44	86.27	57.37	81.37
County Public Service Board	50.92	-	50.92	47.02	-	47.02	92.34	-	92.34
Public Service & Administration	388.18	11.46	399.64	367.72	10	377.72	94.73	87.26	94.52
Gender, Culture, Youth & Sports	169.38	52	221.38	162.58	37.75	200.33	95.99	72.6	90.49
Environment, Water, Natural Resources & Forestry	90.26	172.31	262.57	84.59	89.58	174.17	93.72	51.99	66.33
TOTAL	4,517.44	2,485.12	7,002.56	4,113.12	1,639.94	5,753.06	91.05	65.99	82.16

Source: Vihiga County Treasury

The table 11 above shows budget performance by department and the following observations can be made:

1. The Department of County Health Services attained the highest percentage of absorption rate of recurrent expenditure to recurrent budget at 98.58 per cent.
2. the department of Lands, housing and physical planning attained the lowest absorption rate at 64.27 per cent of its recurrent budget.
3. The department of Transport and Infrastructure attained the highest absorption rate of its development budget at 92.38 per cent.
4. The County Assembly attained the lowest at 19.48 percentage absorption rate of its development budget. While the department of Industrialization, Trade & Tourism attained lowest absorption rate at 31.74 under the executive arm of county government.
5. Highest absorption rate of the overall budget was attained by Public Service and Administration at 94.52 percent.
6. Lowest absorption rate of the overall budget was attained by department of Lands, housing and physical planning at 44.68 percent.

2.2.6 Budget Absorption Comparison between CFSP 2017 ceilings and FY 2018/19 budget

In Table 12 below shows that there was great variance between CFSP forecasted ceilings, budget and the actual expenditures in respective budget allocations. There is negative variance between Ceilings and actual expenditures in all the departments. This means that ceilings are lower than the actual expenditures of the departments. The overall Approved budget (third supplementary budget) allocations per department are higher than the ceiling allocation. Comparison between CFSP 2017 ceilings and 2018/19 FY budget allocation showed a general growth in budget allocations occasioned by increase in equitable share and the conditional grants.

Table 12: Absorption rate compared to CFSP 2017/18 and FY 2018/19 Budget

<i>Department</i>	<i>BUDGET 2018/19 Kshs Million</i>	<i>2017/18 CFSP Kshs Million</i>	<i>Actual Expenditure in The FY 2018/19 (Kshs Million)</i>	<i>Variance between ceiling and expenditure</i>	<i>Variance between ceiling and Budget</i>
Agriculture, Livestock, Fisheries & co-operatives	545.51	201.52	317.56	(116.04)	343.99
Lands, Housing & Physical Planning	453.36	81.93	202.58	(120.65)	371.43
Transport & Infrastructure	835.19	409.79	753.93	(344.14)	425.40
Industrialization, Trade & Tourism	168.31	92.99	117.40	(24.41)	75.32
County Health Services	1,609.56	1,338.38	1,528.98	(190.60)	271.18
Education, Science & Technology	715.53	552.33	644.93	(92.60)	163.20
County Executive	450.08	353.78	346.88	6.90	96.30
County Assembly	701.29	654.99	562.12	92.87	46.30
Finance & Economic Planning	589.24	436.07	479.44	(43.37)	153.17
County Public Service Board	50.92	52.52	47.02	5.50	(1.60)
Public Service & Administration	399.63	365.54	377.72	(12.18)	34.09
Gender, Culture, Youth & Sports	221.38	225.87	200.33	25.54	(4.49)
Environment, Water, Natural Resources & Forestry	262.57	157.96	174.17	(16.21)	104.61
TOTAL	7,002.57	4,923.67	5,753.06	(829.39)	2,078.90

Source: Vihiga County Treasury

2.2.7. Expenditure by economic classification

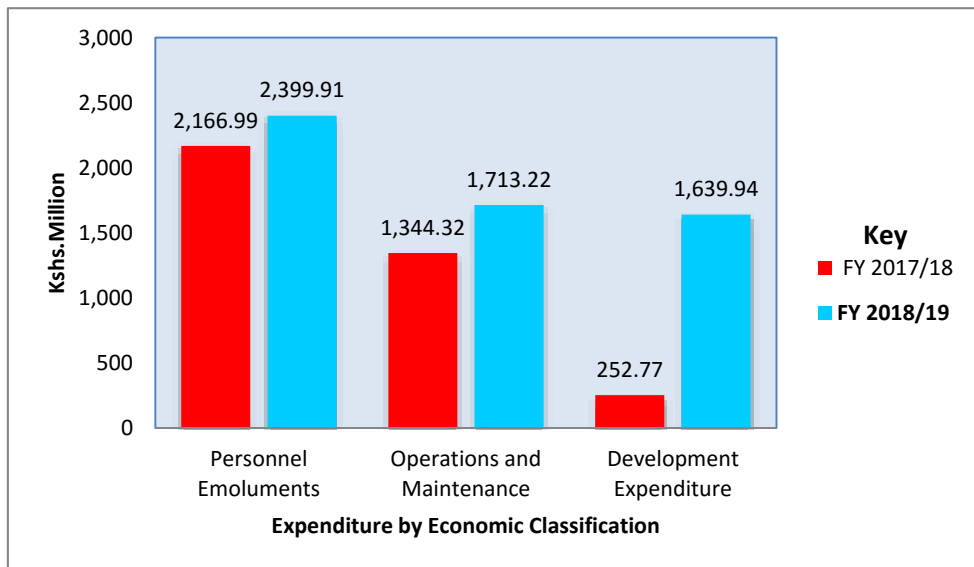
The table 13 below shows actual expenditure by economic classification; personnel emoluments at Kshs. 1,620.00 million, which is 59,9 per cent of the County Governments total revenue and has increased by 11.80 per cent from the previous year 2016/17 FY. Development expenditure fell short by 62.50 per cent from the targeted amount of Kshs.1.70 billion.

Table 13: Showing Expenditure by Economic Classification

Economic Class	FY 2017/18	FY 2018/19	Change	% Change
	Kshs. billion	Kshs. billion		
Personnel Emoluments	2.17	2.40	0.23	10.60
Operations and Maintenance	1.34	1.71	0.37	27.61
Development Expenditure	0.233	1.64	1.407	603.86

Source: Vihiga County Treasury

Figure 3. Showing Expenditure by Economic Classification



2.2.8 Implication of 2018/19 FY Fiscal Performance

- There was an improvement in own source revenue collection by 24 per cent compared to the previous financial year 2017/18.
- Personnel emoluments increased from Kshs 2.17 billion in 2017/18 to Kshs 2.4 billion in 2018/19 with a total expenditure of Kshs.5.75

billion which represents 41.72 percent of total expenditure. The implication of this means that the County was unable to meet one of the fiscal responsibility principles on personnel cost which requires it to be at 35 percent. The county is required to broaden its revenue base and check on human resource issues and employment.

- The personnel budget in 2018/19 was at Kshs 2.3 billion and the actual expenditure on personnel emoluments was Kshs. 2.4 billion this means that the county spent over and above the budget. The county therefore needs to budget adequately for personnel emoluments, the need to pay June salaries within the month of June since when it is paid in July that expenditure is captured in the new financial year which begins in July yet the said expenditure is for the previous year ending in June.
- Budget absorption improved across all departments with recurrent and development expenditure having a performance of 91 per cent and 65.7 per cent respectively compared to previous financial year where recurrent and development expenditure was 63.1 and 17.1 per cent.
- All departments spend within their budgets.

The County should implement the following recommendations in order to improve budget execution;

- The county treasury should liaise with the National treasury to ensure that funds allocated to the county are released in a timely manner in line with CARA2018 disbursement schedule
- Despite improvement in own source revenue, there is need to automate more revenue streams to improve on the collections. There is need to improve on some revenue streams that experienced a reduction in collection.

The fiscal performance in the FY 2018/19 has affected financial objectives and fiscal responsibility principles set out in the 2018 County Fiscal Strategy Paper and the Budget 2018/19 in the following ways:

- Expenditures on wages and benefits in 2018/19 FY accounted for 41.72 per cent (6.72 per cent above the prescribed limit). This is every big margin against the fiscal responsibility principles.
- Development expenditure also fell short of the fiscal responsibility principles of at least 30 percent of total revenue.

- Delay and or non-disbursement of budgeted fund by the national treasury has serous implication on budget implementation. This affects the cashflow and the planned activities and programs remain un done or unpaid for.

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

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

3.1 Recent Economic Developments

As per the 2019 Budget Review and Outlook Paper, the global economic growth slowed down to 3.6 percent in 2018 compared to 3.8 percent in 2017 owing to increased trade tensions and tariff hikes between China and United States, weakening of consumer and business confidence in the Euro area and tightening of financial conditions for emerging markets. These conditions are expected to ease as markets became more optimistic about trade tensions following the G20 Summit in June. Growth in Sub-Saharan Africa region remained strong at 3.1 percent in 2018 up from 2.9 percent in 2017

Despite the global economic challenges, Kenya's economy continues to register strong economic performance. The economy expanded by 6.3 percent in 2018 up from a growth of 4.9 percent in 2017. This growth was supported by strong agricultural and manufacturing activities, vibrant service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business confidence. The outlook for Kenya's economy is strong, projected at 6.0 percent in 2019. In the first quarter of 2019, the economy expanded by 5.6 percent compared to a growth of 6.5 percent in the same quarter of 2018 supported by strong growth in the service sector industries despite contraction in agricultural activities due to delayed rains.

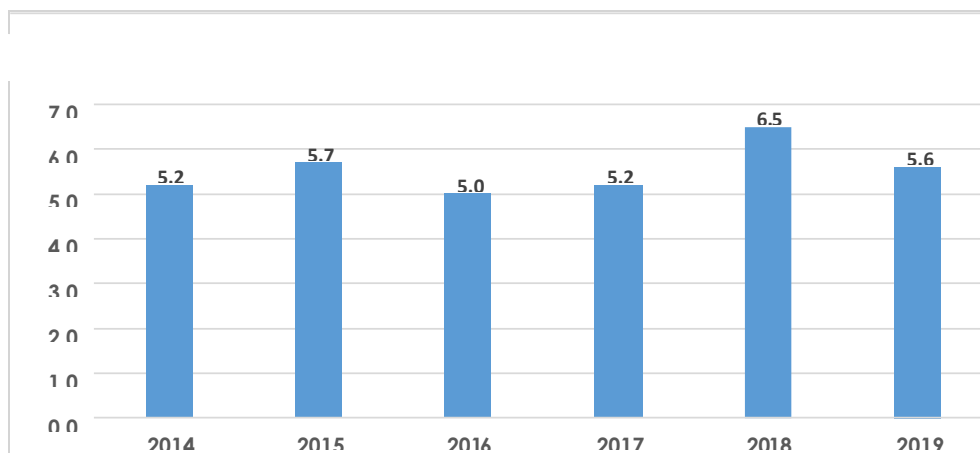
The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall year on year inflation remained within target at 5.0 percent in August 2019 compared to 4.0 percent in August 2018.

The foreign exchange market remains stable supported by a narrower current account deficit. The current account deficit narrowed to 3.8 percent of GDP in June 2019, from 5.4 percent in June 2018, reflecting strong growth of agricultural exports particularly horticulture and coffee, resilient diaspora remittances, and improved tourism receipts. The international reserves accumulation stood at US\$ 9,656 million equivalent to 6.0 months of import cover.

According to the Economic Survey report the Economic activity was notably subdued in the first quarter of 2019 relative to the performance recorded in the same quarter of 2018. During the period, the economy expanded by 5.6 per cent. The growth, albeit significantly slower than that of the first quarter of 2018, was mostly supported by growths in the service sector industries such as wholesale and retail trade, transportation, accommodation and food services, financial and insurance activities.

The quarter was characterized by slowdown in agricultural activities following delay in the onset of long rains. The agriculture, forestry and fishing sector grew by 5.3 per cent compared to a growth of 7.5 per cent in the first quarter of 2018. The slowdown in agricultural growth somewhat affected agro-processing and consequently led to slowed manufacturing activities during the review period.

Figure 4: First Quarter GDP Growth Rates

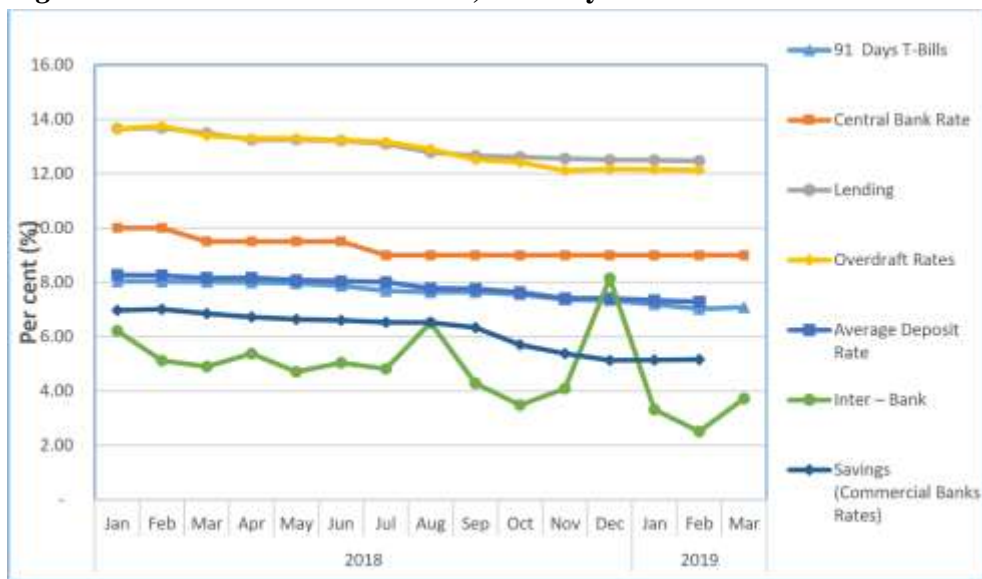


Source: KNBS

In general, the macroeconomic factors were favorable to growth during the quarter under review. The average inflation in the period under review eased to 4.40 per cent from 4.49 per cent in the first quarter of 2018. The Kenya Shilling strengthened against all its major trading currencies during the quarter under review compared to the same quarter of 2018. The Shilling gained strongly against the South African Rand, Euro and Pound Sterling. The Kenyan currency also strengthened against the Japanese Yen, Ugandan and Tanzanian Shillings and marginally against the US Dollar. Weighted interest rates on commercial banks' loans and deposits averaged at 12.49 per cent in the period under review compared to 13.61 per cent in the first

quarter of 2018. This was as a consequence of a downward review of the Central Bank Rate to 9.00 per cent during the period under review. The value of total exports declined to Kshs.156.9 billion in the quarter under review from Kshs.161.7 billion during the same quarter of 2018 mainly due to a reduction in value of exports to Far East Asia. Similarly, value of imports declined by 3.9 per cent to Kshs.421.2 billion from Kshs.438.5 billion in the first quarter of 2018. The deficit in the current account balance narrowed to Kshs.78.8 billion during the quarter under review from Kshs.117.1 billion in a similar quarter of 2018.

Figure 5: Trends in Interest Rates, January 2018 to March 2019



The figure above presents the trends in interest rates for the period January 2018 to March 2019. The Central Bank Rate (CBR) was reviewed downwards to 9.0 per cent in March 2019 from 9.5 per cent in March 2018. The 91 days Treasury bill rates decreased from 8.02 per cent in March 2018 to 7.08 per cent in March 2019. Similarly, interbank rates declined from 4.09 per cent in March 2018 to 3.72 per cent in March 2019.

Figure 6: NSE 20-Share Index and Value of Shares Traded, January 2018 to March 2019

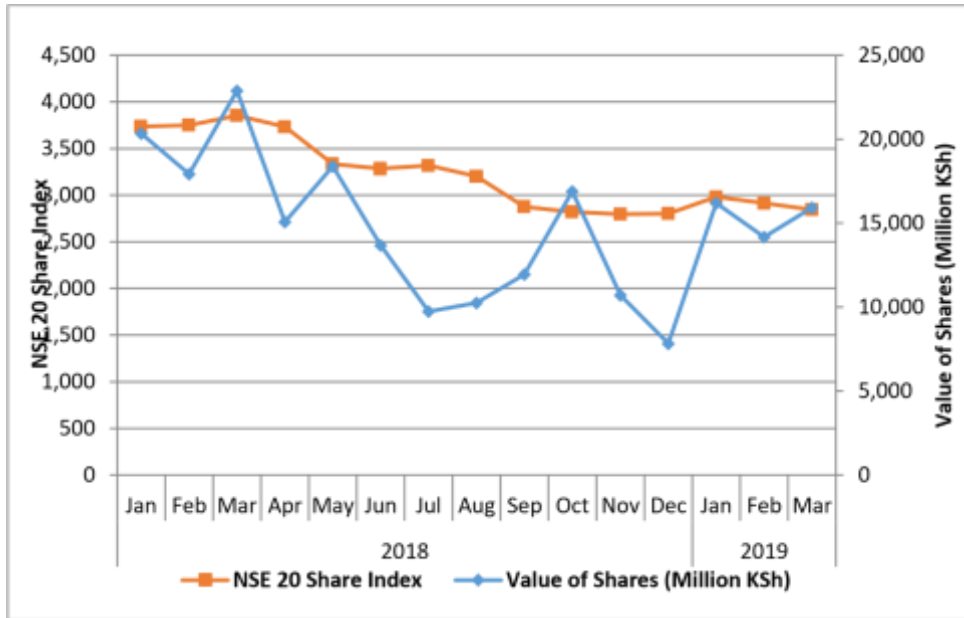


Figure above shows the value of shares traded and the Nairobi Stock Exchange (NSE) 20 share index from January 2018 to March 2019. The NSE 20 share index recorded 2,846 points in March 2019 which was a drop from 3,854 points in the same month of 2018. The total value of shares traded reduced from Kshs.22.9 billion in the first quarter of 2018 to Kshs.15.9 billion during the first quarter of 2019.

The Nairobi Securities Exchange (NSE) 20 Share Index averaged at 2,915 points in the quarter under review compared to an average of 3,780 points during the same quarter in 2018.

Table 14: Gross Domestic Product by Activity, Current Prices (Kshs. Million)

Year	Quarter	Agriculture	Mining and quarrying	Manufacturing	Electricity & water supply	Construction	Wholesale and retail trade	Accommodation & restaurant	Transport and storage	Information and communication
2018	1	871,471	17,932	178,918	50,174	99,727	146,073	17,574	146,237	29,134
	2	865,475	16,887	179,275	62,396	118,906	158,662	12,330	173,992	26,083
	3	739,231	17,547	177,910	54,580	125,022	190,013	17,447	180,289	25,909
	4	568,853	14,909	153,239	52,178	139,881	167,537	19,278	210,833	36,119
2019	1	1,001,412	17,299	187,252	53,117	117,036	157,036	18,188	164,637	31,299

Year	Quarter	Financial & insurance	Public administration	Professional, admin and support services	Real estate	Education	Health	Other services	FISIM	All industrial basic prices	Taxes on products	GDP at market prices	GDP, seasonally adjusted
2018	1	139,603	69,320	34,371	152,249	96,570	29,925	24,982	(41,856)	2,062,405	176,554	2,238,959	2,154,056
	2	122,431	81,194	40,796	154,706	95,788	34,159	25,151	(35,082)	2,133,150	184,885	2,318,035	2,201,365
	3	143,236	76,958	36,557	158,408	95,381	35,210	26,152	(48,147)	2,051,701	207,470	2,259,172	2,253,170
	4	129,613	83,046	38,616	160,349	95,442	35,467	26,340	(44,500)	1,887,199	201,619	2,088,818	2,307,984
2019	1	149,564	76,931	37,269	165,359	103,828	32,164	26,539	(43,665)	2,295,265	194,064	2,489,329	2,375,542

Table 15: Gross Domestic Product by Activity, Growth Rates

Year	Quarter	Agriculture	Mining and quarrying	Manufacturing	Electricity and water supply	Construction	Wholesale and retail trade	Accommodation & restaurant	Transport and storage	Information and communication
2018	1	7.5	2.4	3.8	6.5	6.6	5.9	13.1	8.5	12.5
	2	6.5	2.9	4.7	8.4	5.4	6.3	15.4	8.4	11.0
	3	6.9	3.3	4.6	7.8	7.0	6.6	15.7	9.0	9.8
	4	3.9	2.7	3.7	8.7	7.3	6.5	21.3	9.3	11.8
2019	1	5.3	2.2	3.2	6.1	5.6	5.3	10.1	6.7	10.5

Year	Quarter	Financial & insurance	Public administration	Professional, admin and support services	Real estate	Education	Health	Other services	FISIM	All industry basic prices	Taxes on products	GDP at market prices	GDP, seasonally adjusted
2018	1	5.2	6.2	4.0	5.3	4.9	4.5	4.2	0.2	6.6	5.7	6.5	1.8
	2	4.6	5.9	15.8	4.6	5.6	4.1	5.1	0.1	6.6	5.5	6.4	1.1
	3	5.4	6.1	3.2	3.8	5.8	5.5	4.9	1.7	6.5	5.6	6.3	1.3
	4	7.0	6.4	0.9	2.8	7.0	4.0	5.3	2.2	6.2	4.3	6.0	1.5
2019	1	5.0	6.5	4.8	4.2	5.4	4.0	3.2	-3.5	5.6	5.3	5.6	1.6

Employment, Earnings and Consumer Prices

A total of 84,200 new jobs were created in 2018 with 76,200 new jobs created in the in formal sector. Employment in the informal sector accounted for 69.5 percent of total employment in the period under review. Wage employment in modern sector increased from 269,900 people in 2017 to 276,500 people in 2018. The number of self-employed and unpaid family workers within the modern sector rose from 13,900 people in 2017 to 15,200 people 2018. Inflation as measured by Consumer Price Index decreased by 0.90 percent from 203.61 in July 2019 to 201.78 in August 2019. The overall year to year in august 2019 stood at 5.00 percent

Money, Banking and Finance

Inflation has remained within the CBK target range of 2.5-7.5 percent 2018, reaching a 5-year low of 3.7 percent in April 2018 and then increasing moderately in the second half of 2018 to an average of 5 percent. During 2018, CBK decreased its policy rate two times from 10 percent in January 2018 to 9.5 percent in March then to 9 percent in July 2018, and was retained at that level for the rest of the year. Following the introduction of interest rate controls in 2016, the Finance Act 2018 in September 2018 amended the Banking Act to remove the minimum interest on savings, which was previously set at 70 percent of the Central Bank Rate (CBR). The cap on lending rates was however retained at a maximum of 4 percentage points above CBR, restricting commercial banks' lending rate to a maximum of 13 percent.

Table 16 Overall year on year inflation rate

Year	Month	12-Month Inflation
2019	August	5
2019	July	6.27
2019	June	5.7
2019	May	4.49
2019	April	6.58
2019	April	6.58
2019	March	4.35
2019	February	4.14
2019	January	4.7
2018	December	5.71
2018	November	5.58
2018	October	5.53
2018	September	5.7
2018	August	4.04
2018	July	4.35
2018	June	4.28

Year	Month	12-Month Inflation
2018	May	3.95
2018	April	3.73
2018	March	4.18
2018	February	4.46
2018	January	4.83

The average annual inflation rate for 2018 amounted to 4.69%. It reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services which may be fixed or changed at specified intervals.

Public Finance

The government plans to spend Kshs.2.53 trillion – an increase of 8.75% from 2017/18 fiscal year. Revenue collection is projected at Kshs.1.92 trillion. Fiscal deficit is expected to reduce by 10.21% to Kshs.562.75 billion despite the increase in spending. The deficit will be financed through domestic and external borrowing. Development expenditure has increased by 12.77% to Kshs.657.29 billion compared with 2017/18. This amount is equivalent to 25.95% of the budget, which is less than the minimum threshold of 30% provided for by the Public Finance Management Act, 2012. And transfers to county governments have increased by 15.13% to Kshs.372 billion.

The County Government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions. The Government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate exploitation of the vast natural resources in the County. The policy will address itself to licensing, attracting investors, taxation and sustainable use of the resources.

In the medium term the County Government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The County Government will continue to monitor expenditures closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will be expected to include personnel emoluments (P.E), development and operations. The Government will also upscale implementation of programmes targeting the vulnerable including the youth, women and people living with disabilities (PWDs) to enhance their participation in the socioeconomic development of the County. The County Government of Vihiga does not anticipate any long term borrowing in the medium term. However, the fiscal responsibility

principles will remain the guiding framework for its public finance management discourse

3.4 Risks to the Outlook

Various risks impact on the county economic performance. These may include adverse changes in macro- economic factors such as increase in inflation and interest rates, low growth in investments and failure of the National Government to meet its revenue targets.

At the county government level risks arise out of uncertainty both from internal and external factors as shown in table 3 below. Managing such risks by recognizing and preparing for possible eventualities is an integral part of planning. The county government and other agencies will pursue various mitigation measures to avert such risks.

Table 17: Risk Analysis

Type of Risk	Inherent Risk	Likelihood	Impact	Mitigation	Responsibility Center
Strategic risks	Change in National Policies	Medium	Inability to adjust to the changes in the short run leading to inefficiencies	Capacity building and institutionalizing reforms	National Treasury
	Noncompliance with PFMA and other government regulations	Low	Increased audit issues and inefficiencies	Capacity building, adherence to regulations and strengthening of institutions	County Treasury
Organizational /Administrative risks	Communication Failure & reporting framework	MEDIUM	Weak coordination and collaboration	Strengthen the county communication strategy	County Public Service & Administration
	Delayed in enactment of the county Allocation Revenue Bill	HIGH	Inability of the county to timely implement its mandate and objectives	Enhanced PPPs to abridge the resource gaps	Senate/National Assembly
	Variation of county allocation formula	HIGH	Inability of the county to receive sufficient funds to implement planned programmes	Improves OSR and enhanced PPPs	CRA
	Mismanagement/Misappropriation of Public Finances	MEDIUM	Curtail effective provision of services	Adherence to PFMA and other regulation	County Departments , entities and staff

Type of Risk	Inherent Risk	Likelihood	Impact	Mitigation	Responsibility Center
	Expenditure pressure due expanded programs and increasing wage bills	HIGH	Diminishing proportion of development expenditure	Cuts in recurrent expenditure and sustainable planning	County Departments and entities
Financial Risks	Low Own Source Revenue collected	MEDIUM	Low Liquidity levels	Enhanced OSR	County Directorate of Revenue
	Delay in exchequer releases	HIGH			National Treasury
Technological risks	Failure/ Network challenges with IFMIS	Low	Delayed transactions on IFMIS	Upgrading of systems	National Treasury/ County ICT Department
	Technology failure and Cyber attacks	Medium	Possible interference with county operations	Improved security of systems	County ICT
	Changes of technology	Medium	Inability to efficiently perform tasks	Enhanced capacity building and upgrading	County ICT & all Departments

4.0 RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the County expects and how it will be allocated across all the sectors for 2020/21 FY and MTEF

Medium term projections have considered performance of 2018/19 FY, the estimates of 2019/20 and macroeconomic factors expected at the national level. A rate of 5 per cent has been used (instead of 5.8 GDP growth projection) to project the growth in County revenues.

Table 10 below shows the County Government fiscal projections in the medium term. OSR (Revenue) collection will grow at 25% at of actuals of 2018/19 Kshs, 178.17 million which is Kshs. 222.71, as indicated in the CFSP 2019.

Projection for equitable share is based on the economic growth projection of 5.6 percent according to the Economic Survey report 2019, we have therefor taken 5.0 percent to be our growth factor.

Table 18: County Government Fiscal Projections in Kshs. in the Medium Term

Sources/FY	2018/19 Actuals	2019/20 CFSP Projection	2020/21 Projection	2021/22 Projection
County Equitable share	4,458,800,000	4,402,000,000	4,681,740,000	5,852,175,000
Own Source Revenue	178,171,147	192,086,250	222,713,933	233,849,630
Total	4,636,971,147	4,594,086,250	4,904,453,933	6,086,024,630

Source: Vihiga County Treasury

4.1 Adjustment to the FY 2019/20 Budget

As we even commence implementation of the FY 2019/20 Budget, there will be need to adjust it through the supplementary to address the following issues; changes that will be realised in CARA 2019 and changes in personnel emolument so that it is adequately provided for in the Budget and any other matter arising from change of policy or law and or operations at the County and National government level.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in County Integrated Development Plan (CIDP) and other County plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the County Government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

4.3 The Proposed 2020/21 Budget Framework

4.3.1 Revenue Projections

The FY 2020/21 budget targets for revenue (equitable share and local) collection of Kshs 4.90 billion as per table 11. This revenue performance will depend on the trend of growth of the Kenyan GDP and the ongoing reforms in OSR collection and revenue administration.

4.3.2 Expenditure Forecasts

In the proposed 2020/21 budget, overall expenditures are projected to increase by 5 percent same as the revenue growth in the same period as indicated in the table below. It is also assumed that total conditional grants will grow the same rate as the economy at 5 percent and the county will maintain a balanced budget.

In this regard, the County Government will over the medium term ensure compliance with the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The County Government is expected to enhance expenditure productivity in the proposed year and manage the rising wage bill to be within the required limit.

Table 19: Summary of Expenditure Projections in Kshs. Millions 2020/21 FY and MTEF

Department	BUDGET (Supplementary 3) 2018/19 Kshs. Million)	Projected Estimates 2020/21	Projected Estimates 2020/21
Agriculture, Livestock, Fisheries & co-operatives	545.51	572.79	601.42
Lands, Housing & Physical Planning	453.36	476.03	499.83
Transport & Infrastructure	835.19	876.95	920.80
Industrialization, Trade & Tourism	168.31	176.73	185.56
County Health Services	1,609.56	1,690.04	1,774.54
Education, Science & Technology	715.53	751.31	788.87
County Executive	450.08	472.58	496.21
County Assembly	701.29	736.35	773.17
Finance & Economic Planning	589.24	618.70	649.64
County Public Service Board	50.92	53.47	56.14
Public Service & Administration	399.63	419.61	440.59
Gender, Culture, Youth & Sports	221.38	232.45	244.07
Environment, Water, Natural Resources & Forestry	262.57	275.70	289.48
TOTAL	7,002.57	7,352.70	7,720.33

Source: Vihiga County Treasury

5.0 CONCLUSION

From the analysis in this paper, it is evident that the County has improved tremendously in budget absorption by posting 82.0 percent of the approved budget and 93.87 percent of the funds disbursed. The County Government generally complied with the principles of fiscal responsibility apart from the minimum wage rate. The County will endeavor to budget for personnel emoluments adequately and encourage the departments to first truck its operations so that they much the personnel costs in the required ratios.

The county will also strengthen its revenue collection and management systems with the goal of generating more revenues to strive towards budgetary self-reliance.

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.

APPENDIX 1

RESOURCE ENVELOP 2018 SUPPLEMENTARY THREE

Vote and Programme	<i>Appropriation Act, 2018</i>	<i>CARA, 2018 (JULY)</i>	<i>Resource Envelop 2018 Supplementary</i>
Equitable Share	4,770,000,000	4,458,800,000	4,458,800,000
Compensation for User fees Foregone	12,928,219	12,657,201	19,158,582
Free maternity Health care	67,908,400	-	-
Road Maintenance Levy	117,237,500	117,396,321	212,686,815
Conditional Allocation other loans and grants	43,635,292	-	-
Loans and Grants (DANIDA)	14,782,500	14,782,500	20,930,173
Own Sources	153,669,000	153,669,000	153,669,000
Conditional for Youth Polytechnics	54,148,936	55,000,000	70,891,386
World Bank for Health Systems	49,370,571	73,956,778	73,172,815
World Bank loan for Agriculture and Rural inclusive Growth project	50,000,000	140,435,163	193,368,318
Kenya Devolution Support programme	26,782,785	41,604,112	75,302,439
Kenya Urban Support Programme	-	250,950,700	250,950,700
EU-Water Tower project Grants	-	80,000,000	80,000,000
ASDSP	-	18,161,321	18,161,321
CRF Account	1,080,254,000	-	1,334,282,423
Urban Industrial Grant	-	41,200,000	41,200,000
TOTALS	6,440,717,203	5,458,613,096	7,002,573,972

APPENDIX 2

**SUMMARY OF COMPENSATION OF EMPLOYEES, OTHER
RECURRENT EXPENDITURE & DEVELOPMENT**

VOTE	VOTE TITLE	Compensation to Employees	Other Recurrent	Development	Totals
1	Office of The Governor	119,856,071	307,723,728	22,500,000	450,079,799
2	Finance & Economic Planning	109,610,032	379,631,798	100,000,000	589,241,830
3	Agriculture, Livestock, Fisheries & Cooperatives	109,991,384	55,360,926	380,160,889	545,513,199
4	Health Services	961,830,356	333,561,840	314,164,415	1,609,556,611
5	Education, Science, Technical and Vocational Training	245,457,930	187,877,141	282,191,386	715,526,457
6	Gender, Culture, Youth, Sports and Social Services	40,940,912	128,439,637	52,000,000	221,380,549
7	Trade, Industry, Tourism and Entrepreneurship.	12,600,000	98,807,406	56,903,743	168,311,149
8	County Public Service Board	14,591,758	36,330,681	-	50,922,439
9	Environment, Water, Energy & Natural Resources.	26,542,648	63,707,613	172,314,910	262,565,171
10	Transport, Infrastructure & Communication	49,487,134	114,248,659	671,456,083	835,191,876
11	Physical Planning, Land and Housing	38,313,346	87,099,085	327,950,700	453,363,131
12	County Assembly	322,392,239	284,861,552	94,032,014	701,285,805
13	Administration and Coordination of County Affairs	249,702,555	138,477,953	11,455,447	399,635,955
	TOTAL COUNTY EXPENDITURE	2,301,316,365	2,216,128,019	2,485,129,587	7,002,573,971