

COUNTY GOVERNMENT OF SIAYA



DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

BUDGET REVIEW AND OUTLOOK PAPER FOR FY 2018/2019

SEPTEMBER 2019

‘Transforming Siaya County through service and development’

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Acronyms and Abbreviations

BROP	Budget Review and Outlook Paper
OSR	Own Source Revenue
MTEF	Medium Term Expenditure Framework
FSP	Fiscal Strategy Paper
KDSP	Kenya Devolution Support Project
CRF	County Revenue Fund
PLDW	People Living with Disabilities
GDP	Gross Domestic Product
CBR	Central Bank Rate
SGR	Standard Gauge Railway
RMLF	Road Maintenance Levy Fund
ASDSP	Agriculture Sector Development Support Project
FY	Financial Year
ICT	Information Communication Technology
DANIDA	Danish Development Agency
PFMA	Public Finance Management Act
CECM	County Executive Committee Member

Foreword

Review of organizational performance at the end of an operating year is a critical managerial concept. It provides an opportunity to reflect on the successes, failures and challenges experienced during the year as well as draw lessons to inform future programming and project implementation. The BROP affords such an opportunity to government entities of which the County Government of Siaya (CGS) is one.

This document analyses the actual fiscal performance of the CGS for FY 2018/19 against the approved budgetary allocations. From the analysis, overall absorption rate for FY 2018/19 was 71.6 percent. Absorption rate of development budget was 45 percent of the total budget. For recurrent expenditure absorption rate was 98.2 percent. Own source revenue collection stood at Kshs.189, 668,022 against a target of Kshs. 325,000,000 translating to 58.4 percent performance. The low rate of absorption for development expenditure was attributed to the delay in approval of the first supplementary Budget that occasioned delays in procurement of works, goods and services and requisition of funds.

Going forward the county government will focus on revenue enhancement measures, fast-track implementation of development projects to minimize on project roll-overs, scale down on micro green field projects in favour of macro- projects which have high impact on the citizenry and are transformative in nature. Focus will also be directed towards operationalization of already completed facilities in all sectors.

Richard A. Mungla

CECM-Finance and Economic Planning

Acknowledgement

The BROP not only presents government entities with an opportunity to review performance of a fiscal year but also sets in motion the process of preparing the budget for the following year by providing an outlook for the coming year and setting provisional departmental MTEF ceilings which are firmed by CFSP to guide budget making.

The preparation and subsequent submission of this document was made possible by a team of dedicated officers who traded off their invaluable time to ensure a quality production. I wish to salute all of them for a job well done.

It is my hope that lessons drawn from implementation of the 2018/19 budget will inform future programming and project implementation as we endeavor to *‘Transform Siaya County through service and development’*.

Hezbon K. Mariwa
Chief Officer – Finance and Economic Planning



Legal Basis for Budget Review and Outlook Paper

The preparation of the Budget Review and Outlook Paper is provided for under section 118 of the Public Finance Management Act, 2012 which states that:

(1) A 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 the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify—

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on—

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

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

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall—

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) as soon as practicable after having done so, publish and publicise the Paper

Chapter One

Introduction

The Budget Review and Outlook Paper is one of the many policy documents prepared by the County Treasury in a fiscal year. These documents are outlined in the PFM Act and are instrumental in linking policy, planning, budget making and execution in respective fiscal years and the medium term.

The object of this document is to provide a snapshot of fiscal performance of the county government for the period under review and how this impacted on the financial objectives and fiscal responsibility principles set out in the 2018 Fiscal Strategy Paper (FSP). Review of fiscal performance together with outlook on macroeconomic environment for the coming FY provides justification for the revision of the 2019/20 budget through a supplementary Budget to accommodate emerging issues. Further, the document highlights recent economic developments and sets provisional sectoral ceilings for FY 2020/21 and the medium term.

Fiscal Responsibility Principles

Fiscal responsibility principles governing management of public finances are provided for under Section 107 of the Public Finance Management (PFM) Act, 2012 and are as listed below:

1. The County government's recurrent expenditure shall not exceed the county government's total revenue.
2. Over the medium term a minimum of thirty per cent of the County government's budget shall be allocated to the development expenditure.
3. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member Finance regulations and approved by the County Assembly.
4. Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
5. The County debt shall be maintained at a sustainable level as approved by county assembly
6. Fiscal risks shall be managed prudently
7. 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

Review of FY 2018/19 Fiscal Performance

Revenue Projections

The total resource basket for the period under review was Ksh 8,443,589,612 comprising Ksh 325,000,000 OSR, Ksh 6,028,800,000 equitable share, Kshs 1,245,486,825 value of projects brought forward from 2017/18 FY (including Kshs. 103,582,093 for Kenya Devolution Support Program) and Kshs 844,302,787 conditional allocations. Equitable share and conditional allocations are guided by the County Allocation of Revenue Acts (CARA) for respective years while OSR is determined by the county government.

Conditional allocations comprised Ksh 18,194,808 User Fees Foregone, Ksh 200,000,000 for Leasing of Medical Equipment, Ksh 158,733,053 for Road Maintenance Levy Fund, Ksh 149,658,522 for Kenya Devolution Support Project (KDSP), Ksh 117,000,000 for Kenya Climate Smart Agriculture Project (KCSAP), Ksh 56,758,154 for Transforming Health Systems for Universal Health Care Project, Ksh 18,528,750 for DANIDA, Ksh 38,500,000 for Rehabilitation of Village Polytechnics, Ksh 50,000,000 for Kenya Urban Support Program, Kshs 19,311,593 for Agricultural Sector Development Support Programme (ASDSP), Kshs. 41,200,000 for Urban Institutional Grant (UIG) and Kshs. 80,000,000 for Water Tower Protection Programme

Supplementary Budgets

During the period, two supplementary budgets were prepared in December 2018 and March 2019 to align original estimates with allocations in CARA 2018, address deficit in OSR collections and roll over unspent funds at the end of FY 2017/18. The December 2018 supplementary increased the original budget by Ksh 1,295,486,825 while the March 2019 supplementary increased the December one by Kshs 140,511,593 (this included Kshs. 19,311,593 for ASDSP, Kshs. 80,000,000 for Water Tower Protection programme and Kshs. 41,200,000 for Urban Institutional Grant)

Detailed sectoral supplementary adjustments are as tabulated below;

Table 1: Adjusted 2018/19 Supplementary Budget

Vote Details	Original Total	DEC. Supp.	March supp
County Assembly	907,556,207	1,151,527,437	1,151,527,437
Governance and Administration	706,227,275	610,851,133	610,851,133

Finance and Economic Planning	566,996,155	614,234,997	654,234,997
Agriculture, Food, Livestock & Fisheries	433,745,401	529,041,512	546,353,105
Water, Irrigation, Environment & Natural Resources	390,474,126	415,387,179	494,987,179
Education, Youth Affairs, Gender & Social Services	489,409,781	746,268,465	738,268,465
County Health Services	2,067,822,799	2,277,489,966	2,273,489,966
Lands, Physical Planning, Urban Development and Housing	176,750,647	188,772,327	234,072,327
Enterprise and Industrial Development	242,125,315	275,226,124	252,926,124
Tourism, Culture, Sports and Arts	245,763,036	343,635,075	346,435,075
Roads, Public Works, Energy and Transport	780,720,452	1,150,643,804	1,140,443,804
Total	7,007,591,194	8,303,078,019	8,443,589,612

Source: 2018/19 Budget

Recurrent budget for the period under review increased from Ksh 4.4 billion to Ksh 4.7 billion in the March 2019 supplementary budget. Details of sectoral adjustments are as shown in the table below:

Table 2: Approved Recurrent Expenditure after Supplementary

Vote Details	Original Total	DEC. Supp.	March supp
County Assembly	648,656,207	648,656,207	688,656,207
Governance and Administration	571,077,976	571,077,976	571,077,976
Finance and Economic Planning	564,996,155	600,299,881	640,299,881
Agriculture, Food, Livestock & Fisheries	266,745,401	262,745,401	282,056,994
Water, Irrigation, Environment & Natural Resources	84,424,126	84,424,126	84,424,126
Education, Youth Affairs, Gender & Social Services	264,959,781	297,459,781	297,459,781
County Health Services	1,691,222,799	1,699,155,167	1,725,155,167
Lands, Physical Planning, Urban Development and Housing	71,450,647	71,450,647	120,950,647
Enterprise and Industrial Development	90,140,683	98,799,968	98,799,968
Tourism, Culture, Sports and Arts	107,613,036	122,613,036	122,613,036
Roads, Public Works, Energy and Transport	81,133,254	99,133,254	81,133,254
Total	4,442,420,065	4,555,815,444	4,712,627,037

Source: 2018/19 Budget

Development expenditure for the period under review rose from Ksh 2.56 billion in the June 2018 budget to Ksh 3.7 billion in the March 2019 supplementary budget. Sectoral adjustments for the period are as tabulated below:

Table 3: Approved Development Expenditure after supplementary

Vote Details	Original Total	DEC. Supp.	March supp
County Assembly	258,900,000	502,871,230	462,871,230
Governance and Administration	135,149,299	39,773,157	39,773,157
Finance and Economic Planning	2,000,000	13,935,116	13,935,116
Agriculture, Food, Livestock & Fisheries	167,000,000	266,296,111	264,296,111
Water, Irrigation, Environment & Natural Resources	306,050,000	330,963,053	410,563,053
Education, Youth Affairs, Gender & Social Services	224,450,000	448,808,684	440,808,684
County Health Services	376,600,000	578,334,799	548,334,799
Lands, Physical Planning, Urban Development and Housing	105,300,000	117,321,680	113,121,680
Enterprise and Industrial Development	151,984,632	176,426,156	154,126,156
Tourism, Culture, Sports and Arts	138,150,000	221,022,039	223,822,039
Roads, Public Works, Energy and Transport	699,587,198	1,051,510,550	1,059,310,550
Total	2,565,171,129	3,747,262,575	3,730,962,575

Source: 2018/19 Budget

Receipts

During the period under review, the county government received Ksh 6,028,800,000 as equitable share which was the budgeted figure. Conditional allocations received were Kshs. 392,985,072 against a budget of Ksh 947,884,880 creating a deficit of Kshs 554,899,808. OSR target was Ksh 325,000,000 against an actual performance of Ksh 189,668,022 creating a deficit of Kshs 135,331,978. Analysis of performance of the various streams is as per the table 4 below;

Table 4: Performance of revenue sources

Item	Budget	Actual	Deviation
Total for Local Revenue	325,000,000	189,668,022	-135,331,978
Equitable Share	6,028,800,000	6,028,800,000	0
Conditional Grants	947,884,880	392,985,072	-554,899,808
Total	7,301,684,880	6,611,453,094	-690,231,786

Conditional Grants

Budgetary allocation for conditional grants was Ksh 947,884,880 comprising of Ksh 215,427,861 transfers from national government ministries and Ksh 732,457,019 funds from development partners. Receipts for the period stood at Ksh 504,499,529 consisting of Ksh 205,995,358 and Ksh 298,504,171 transfers from national government and funds from development partners respectively as shown below;

Table 5: Performance of conditional grants

Item	Budgeted (A)	Receipt (B)	Deviation (A-B)
Transfers from National Government			
Compensation for User Fees Foregone	18,194,808	18,194,808	0
Rehabilitation of Village polytechnics	38,500,000	29,067,500	9,432,500
Road Maintenance Levy Fund	158,733,053	158,733,053	0
Sub Total	215,427,861	205,995,358	9,432,503
Funds from Development Partners			
(World Bank)-Kenya Urban Support Project(KUSP)	50,000,000	50,000,000	0
DANIDA-Universal Healthcare for Devolved Systems program	18,528,750	26,461,118	-7,932,368
(World Bank)-Kenya Devolution Support Project (KDSP)-Level 1	149,658,522	103,582,093	46,076,429
(World Bank)-Transforming Health Systems for Universal Care Project	56,758,154	31,951,816	24,806,338
(World Bank)-Kenya Climate Smart Agriculture Project	117,000,000	38,278,224	78,721,776
Leasing of medical equipment	200,000,000		200,000,000
Sweden-Agricultural Sector Development Support Program (ASDSP)	19,311,593	7,030,920	12,280,673
EU-Water Tower and Protection Climate Change Mitigation and Adaptive Programme (WaTER)	80,000,000		80,000,000
IDA (World Bank)-Kenya Urban Support Project (KUSP) Urban Institution	41,200,000	41,200,000	0
Sub-Total	732,457,019	298,504,171	433,952,848
Total	947,884,880	504,499,529	443,385,351

Own Source Revenue (OSR)

OSR target for the period under review was Ksh 325,000,000 while actual collection stood at Kshs. 173,996,994 creating a deficit of Ksh. 151,003,006. Performance of individual streams is as tabulated below;

Table 6: Performance of Own Source Revenue

Department	Source	Budgeted(A)	Actual(B)	Deviation(B-A)
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Enterprise and Industrial Development	Single Business Permit/sugar, fish and sand cess	65,470,000	41,126,182	-24,343,818
	Market Fees	60,000,000	37,157,787	-22,842,213
	Boda Boda Fees	8,725,000		-8,725,000
	Trade Income	749,250		-749,250
	Liquor License	20,125,000		-20,125,000
Sub-Total		155,069,250	78,283,969	-76,785,281
Roads, Public Works, Energy and Transport	Bus Park/parking fees	22,950,000	16,375,824	-6,574,176
Sub-Total		22,950,000	16,375,824	-6,574,176
Agriculture, Food, Livestock and Fisheries	Slaughter Fees	2,500,000	1,385,830	-1,114,170
	CILOR	51,165		-51,165
	Agriculture Income	11,475,000		-11,475,000
Sub-Total		14,026,165	1,385,830	-12,640,335
Lands, Physical Planning, Urban Development and Housing	Plan Approval (lands, health, works)	13,375,000	6,148,364	-7,226,636
	Transfer Fees	1,350,000		-1,350,000
	Plot Rates	21,802,500		-21,802,500
	Plot Rents	7,965,000	6,198,230	-1,766,770
	Ground/Stall Rent	17,073,730	3,220,353	-13,853,377
	Burial Fees	41,580		-41,580
Sub-Total		61,607,810	18,181,905	-43,425,905
Health and Sanitation				0
	Slaughter Fees	1,210,275	3,717,810	2,507,535
	Hospital Fees	61,425,000	61,773,880	348,880
Sub-Total		62,635,275	65,491,690	2,856,415
Finance and Economic Planning	Miscellaneous	8,374,000	9,102,285	728,285
	Transfer from reserve fund		536,519	536,519
Sub-Total		8,374,000	9,638,804	1,264,804
Education, Youth Affairs, Gender and Social Services	School Fees	337,500	310,000	-27,500
Sub-Total		337,500	310,000	-27,500
Total for Local Revenue		325,000,000	189,668,022	-135,331,978

From the above table, actual OSR collection amounted to Kshs 189,668,978 million against a target of Ksh 325 million. This created a deficit of Ksh. 135,331,978 million. Failure to meet the target is attributed to the following challenges;

1. Inadequate revenue related infrastructural services
2. Inadequate requisite legal framework
3. Weak enforcement and compliance mechanisms
4. Incomplete database of potential revenue streams
5. Administrative challenges arising from inadequate resources
6. Inadequate awareness on revenue obligations and responsibilities for both the public and departments

The above challenges will be addressed through a revenue enhancement policy which has set out strategies such as;

1. Prioritization of projects that address infrastructural development in the budget e.g market shades, pit latrines, storm water management, solid waste management

2. Mapping and development of and/or domestication of all relevant revenue collection legislations
3. Strengthening of enforcement and compliance
4. Updating database of potential revenue streams
5. Providing adequate resources to address administrative challenges
6. Enhancing sensitization for both the public and departments on revenue obligations and responsibilities

Comparative analysis of OSR performance for FYs 17/18 and 18/19 show improvements in performance by Ksh 61,938,482 as analysed in the table below;

Table 7: Comparison analysis of OSR for FY 2018/19 and FY 2017/18

Revenue Item	Actual 17-18 (A)	Actual 18-19 (B)	Deviation (B-A)
SBP/sugar, fish and sand cess	36,329,627	41,126,182	4,796,555
Market Fee	22,787,579	37,157,787	14,370,208
Bus Park/ parking Fee	12,548,515	16,375,824	3,827,309
Tender Fee			0
Plan Approval Fee	3,050,009	6,148,364	3,098,355
Transfer Fees		536,519	536,519
Miscellaneous Fee	4,323,204	9,102,285	4,779,081
Plot Rates/rent	5,068,509	6,198,230	1,129,721
School Fees		310,000	310,000
Slaughter Fees		1,385,830	1,385,830
Ground/Stall Rent		2,549,325	2,549,325
Health Department	34,115,960	65,491,690	31,375,730
Lands Department			0
Agriculture			0
Trade			0
Roads, Public Works			0
Liquor license			0
Education, Youth Affairs		671,028	671,028
House rent		2,614,958	2,614,958
Licenses	9,506,137		-9,506,137
Total	127,729,540	189,668,022	61,938,482

Source: County Treasury

Implications of Revenue Performance on FY 2019/20 Budget

From the analysis of performance of equitable share, OSR and conditional allocations in the period under review, there is a deficit of Kshs 578,717,329 resulting from under collection of OSR by Ksh 135,331,978 and non-disbursement of some conditional grants by Kshs 443,385,351 of which grants such as Lease of medical equipment, Water Tower Protection and KDSP amounting to Kshs. 233,923,571 were never released to County Revenue Fund Account (CRF). Other

conditional grants amounting to Kshs.209, 461,780 are balances of grants released partially to the County. The implication of the above is that the budget for FY 2019/20 needs to be adjusted to reflect the prevailing fiscal environment.

Expenditure

Total Budgeted expenditure for the period under review was Ksh 8,443,589,612 comprising Ksh 4,712,627,037 and Ksh 3,730,962,575 for recurrent and development expenditure respectively. This allocation was appropriated to all sectors to implement diverse programmes as tabulated below:

Departmental Budgeted Expenditure

The table below shows programmes and sub-programmes planned for implementation by various sectors in FY 2018/19.

Table 8: Sectoral Programmes and Allocations

Sector	Programme	Estimates
County assembly	Legislation and Representation	320,980,069
	Legislative Oversight	46,383,391
	General Administration, Planning and Support Services	784,163,977
Governance and Administration	County Executive Administration	326,002,863
	Office of the Governor and Deputy Governor	98,802,188
	County Public Service Board	85,394,287
	Coordination of devolved units	52,790,368
	Human Capital Management	47,861,427
Finance and Economic Planning	Financial services	207,824,828
	Economic planning services	32,008,895
	General Administration	374,401,274
Agriculture, Food, livestock and fisheries	General Administration, Planning and Support Services	54,545,845
	Livestock Development and Management	44,446,034
	Crop management	346,440,308
	Fisheries Management and Development	54,719,121
	Veterinary services	28,890,204
Water, environment and natural resources	Water resources development	391,127,503
	Environmental and natural resources	6,410,241
	General Administration, planning	17,849,435
Education, youth affairs, gender and social services	General Administration, planning and support	189,426,717
	Pre-primary School Education	360,382,968
	Vocational Education and Training Development	134,060,590
	County Social Security & Services	62,398,190
County Health services	General Administration	830,280,473
	Curative Services	921,280,928
	Waste Management	17,744,000
	preventive and Promotive	648,075,428
Lands, physical planning, Urban Development and housing	General Administration, Planning and Support Services	62,015,957
	Physical Planning	90,313,485

	Land Surveying and Mapping	33,628,090
	Housing Development.	2,814,795
Enterprise and Industrial Development	Trade Development and Promotion	155,905,009
	Fair Trade and Consumer Protection Services	3,655,740
	Cooperative Development and Management	25,079,247
	Administration, planning and support services	88,487,233
	Alcohol Drinks Control	2,719,427
Tourism, Culture, Sports and Arts	General Administration, planning and support services	90,852,706
	Information & Communication Services	27,488,450
	Tourism development and promotion	35,196,681
	Sports development	190,097,238
Roads, Public Works, Energy and Transport	Transport Infrastructure Development	1,129,024,207
	County Government Buildings Services	11,860,000
	General Administration Services	9,759,795
Total		8,443,589,612

Actual Expenditure

Total expenditure for the period under review amounted to Kshs 6,309,709,682 against a planned budget of Ksh 8,443,589,612. This expenditure comprises Ksh 2,700,075,765 for personnel emoluments, Ksh 1,933,732,454 for operations and Kshs 1,675,901,463 for development expenditure. Comparative analysis between planned and actual expenditure is as tabulated below;

Table 9: Expenditures in FY 2018/19 by economic classification

Economic Classification	Budgeted Estimates	Actual Expenditure	Deviations	% Absorption per economic classification
Compensation to employees	2,719,767,122	2,700,075,765	19,691,357	99.3
Operations and maintenance	1,992,859,915	1,933,732,454	59,127,461	97.0
Total Recurrent	4,712,627,037	4,633,808,219	78,818,818	98.2
Development	3,730,962,575	1,675,901,463	2,055,061,112	45.0
Total	8,443,589,612	6,309,709,682	2,133,879,930	71.6

Source: County Treasury

Recurrent Expenditure

Total appropriated recurrent expenditure for the period under review amounted to Ksh 4,712,627,037 while actual expenditure was Ksh 4,633,808,219 translating to an absorption rate of 98.2 percent.

Expenditure for compensation to employees was appropriated at Ksh 2,719,767,122. Actual expenditure for the period was Kshs. 2,700,075,765 translating to an absorption rate of Ksh 99.3 percent. Actual expenditure for operation was Ksh 1,933,732,454 against a planned allocation of Ksh 1,992,859,915 translating 97.0 percent.

Development Expenditure Analysis

Development funds were expended to the tune of Ksh 1,675,901,463 against a planned allocation of Ksh 3,730,962,575 translating to an absorption rate of Ksh of 45 percent. Low absorption of development funds is attributed to the following implementation challenges

1. Delay in disbursement of equitable share of revenue raised nationally by National Treasury
2. Systemic bottlenecks resulting from end to end procurement process and internet banking
3. IFMIS connectivity challenges, which slowed down approval of procurement requests and payment to suppliers

Departmental Expenditure analysis is as shown in the tables below;

Table 10: Total Expenditure

Departments	2018/19 Total Budget	Actual Expenditure	Variance	% absorption
County Assembly	1,151,527,437	698,370,722	453,156,715	61
Governance and Administration	610,851,133	583,072,998	27,778,135	95
Finance and Economic Planning	654,234,997	640,350,104	13,884,893	90
Agriculture, Food, Livestock & Fisheries	546,353,105	373,007,998	173,345,107	68
Water, Irrigation, Environment & Natural Resources	494,987,179	411,797,425	83,189,754	80
Education, Youth Affairs, Gender & Social Services	738,268,465	489,269,729	248,998,736	66
County Health Services	2,273,489,966	1,822,382,479	451,107,487	78

Lands, Physical Planning, Urban Development and Housing	234,072,327	190,725,154	43,347,173	78
Roads, Public Works, Energy and Transport	1,140,443,804	767,844,691	372,599,113	67
Enterprise and Industrial Development	252,926,124	120,153,006	132,773,118	48
Tourism, Culture, Sports and Arts	346,435,075	212,735,376	133,699,699	61
Total	8,443,589,612	6,309,709,682	2,133,879,930	72

Table 11: Recurrent Expenditure

Departments	2018/19Total Budget	Actual Expenditure	Variance	% absorption
County Assembly	688,656,207	639,535,173	49,121,034	95
Governance and Administration	571,077,976	571,077,976	0	100
Finance and Economic Planning	640,299,881	632,446,794	7,853,087	99
Agriculture, Food, Livestock & Fisheries	282,056,994	282,056,994	0	100
Water, Irrigation, Environment & Natural Resources	84,424,126	81,300,556	3,123,570	96
Education, Youth Affairs, Gender & Social Services	297,459,781	297,459,781	0	100
County Health Services	1,725,155,167	1,725,155,167	0	100
Lands, Physical Planning, Urban Development and Housing	120,950,647	120,950,647	0	100
Roads, Public Works, Energy and Transport	81,133,254	81,133,254	0	100
Enterprise and Industrial Development	98,799,968	98,452,337	347,631	99
Tourism, Culture, Sports and Arts	122,613,036	104,239,540	18,373,496	85
Total	4,712,627,037	4,633,808,219	78,818,818	98

Table 12: Development Expenditure

Departments	2018/19Total Budget	Actual Expenditure	Variance	% absorption
County Assembly	462,871,230	58,835,549	404,035,681	14
Governance and Administration	39,773,157	11,995,022	27,778,135	35
Finance and Economic Planning	13,935,116	7,903,310	6,031,806	57
Agriculture, Food, Livestock & Fisheries	264,296,111	90,951,004	173,345,107	36

Water, Irrigation, Environment & Natural Resources	410,563,053	330,496,869	80,066,184	82
Education, Youth Affairs, Gender & Social Services	440,808,684	191,809,948	248,998,736	48
County Health Services	548,334,799	97,227,312	451,107,487	20
Lands, Physical Planning, Urban Development and Housing	113,121,680	69,774,507	43,347,173	65
Roads, Public Works, Energy and Transport	1,059,310,550	686,711,437	372,599,113	68
Enterprise and Industrial Development	154,126,156	21,700,669	132,425,487	16
Tourism, Culture, Sports and Arts	223,822,039	108,495,836	115,326,203	48
Total	3,730,962,575	1,675,901,463	2,055,061,112	45

Expenditure Analysis for the First Quarter of FY 2019/20

The County managed to generate Kshs. 44,315, 107 as own source revenue against a target of 105,000,000 in the period June to September 2019 translating to 42 percent performance. The expenditure during the same period is estimated at Kshs. 804,674,059 comprising of Kshs. 215,686,988 and Kshs. 588,987,071 as operations and compensation to employees respectively.

Implication of Expenditure Trends on FY 2019/20 Budget

From the analysis of expenditure trends for the period under review and first quarter of FY 2019/20, the following is implied:

1. The balance at the end of the operating year is Kshs 2,133,879,930. This balance needs to be brought forward to FY 2019/20.
2. The balance will be rolled over to finance development expenditure. Continued rolling over of large development funds without rolling over of corresponding operational funds exerts undue pressure on operational funds allocated for the year ahead.

Chapter Two

Recent Economic Developments and Outlook

Introduction

The chapter outlines recent economic developments focusing on the international and domestic scenes. Additionally, the chapter gives a summary of macroeconomic outlook expected to positively or negatively affect national and county socio-economic performance in the foreseeable future. The chapter concludes by giving a review of fiscal performance against the recent economic environment as contemplated in the County Fiscal Strategy Paper 2018.

Recent Economic Development

International Scene

The global economy experienced decelerated growth of 3.6 per cent in 2018 compared to a 3.8 per cent growth in 2017, albeit with marked varying performances across countries and regions. This was in contrast to the broad based growth reported in 2017. Policy support and strong job growth continued to underpin demand for goods and services thus supporting the growth. The growth was however dampened by uncertainties associated with the political and geopolitical tensions experienced in some countries. Further, trade tensions, tighter financial conditions in some regions, and higher energy prices in the latter part of the review period affected the growth. Advanced economies are estimated to have expanded by 2.4 per cent in 2018 compared to a growth of 2.5 per cent in 2017. The growth was notable in the United States of America (USA) as a result of a fiscal stimulus that boosted domestic demand. Growth in emerging markets and developing economies decelerated from 4.7 per cent in 2017 to 4.6 per cent in 2018. The slowed growth was partly on account of strengthening of the US Dollar which led to weakened capital flows, depreciation of currencies and foreign reserve losses.

Sub-Saharan Africa region remained on a recovery path though at a relatively slower pace. The region grew by 3.0 per cent during the review period compared to a growth of 2.9 per cent in 2017. The growth was mainly supported by favourable weather conditions that led to increased agricultural production, robust growths in several non-resource intensive countries as well as high infrastructural investments. However, the growth was slowed by the performance of some of the large economies in the region such as Nigeria, South Africa, and Angola. (*Economic Survey 2018*)

In 2018, the overall global inflation rose to 3.6 per cent compared to a revised rate of 3.2 per cent in 2017. This was mainly attributable to a robust global oil demand coupled with disruptions of the supply side as a result of political and geopolitical tensions in the Middle East and Venezuela. The oil prices remained volatile but stabilised towards the end of the year as a result of increased supply by Organisation of Petroleum Exporting Countries (OPEC), USA and Russia to offset the short fall from Iran sanctions and the drop in Venezuelan production. Prices of agricultural produce remained broadly stable but declined slightly in the second half of the year. The Murban ADNOC crude oil prices averaged at US Dollar 71.5 per barrel in the period under review compared to an average price of US Dollar 54.9 per barrel in 2017. The world trade volume rose by 3.9 per cent in 2018 compared to a growth of 5.2 per cent in 2017. The slowed trade was echoed by decelerating export orders and softening global industrial activity after the strong momentum reported in 2017. Further, growth in trade was affected by the ongoing trade tensions involving major economies and elevated trade policy uncertainty that dampened the global investment and trade. Increased cost of borrowing that resulted from a broad based appreciation of the dollar also contributed to the slowed growth. The volume of exports in advanced economies grew by 3.4 per cent in 2018 compared to a growth of 4.4 per cent in 2017. Similarly, the volume of exports in the emerging markets and developing economies grew by 4.7 per cent in the review period compared to a growth of 6.9 per cent in 2017.

The most notable driver of current account changes in 2018 was the increase in oil prices which resulted in an improvement of the current account balances of the oil exporters. The overall fiscal deficit as a percentage of GDP stood at 2.9 per cent in 2018 compared to 2.3 per cent in 2017.

Sub-Saharan Africa

Real GDP growth in Sub-Saharan Africa (SSA) stood at 3.0 per cent in 2018 compared to a growth of 2.9 per cent in 2017. The growth was supported by favourable external environment, adjustment of domestic policies and higher commodity prices. In addition, increased agricultural activity in the wake of easing drought conditions impacted positively on the region's economic performance. Inflationary pressures eased to 8.5 per cent in 2018 from 11.0 per cent in 2017 mainly due to low food prices and tight monetary stance. Current account deficit as a percentage of GDP widened to 2.6 per cent during the review period compared to 2.1 per cent in 2017.

East African Community

Real GDP in the East African Community (EAC) grew by 5.9 per cent in 2018 compared to 5.3 per cent growth in 2017. The growth was underpinned by a strong rebound of agriculture in Kenya, Uganda and Rwanda following the drought experienced in 2017. Rwanda's real GDP growth stood at 8.6 per cent, the highest growth in the region. This was supported by strong growth in the services and industrial sectors. Low cost of food and non-alcoholic beverages resulted to a decrease in inflation rate from 4.8 per cent in 2017 to 1.4 per cent in 2018. The current account deficit as a percentage of GDP increased to 7.8 per cent in 2018 from 6.8 per cent in 2017 partly attributed to a deterioration in terms of trade. In Uganda, real GDP grew by 6.2 percent in 2018 compared to a growth of 5.0 per cent in 2017. The growth was fueled by increased investment in public infrastructure as well as the vibrance in services and industry sectors. Importation of capital goods resulted to widening of the current account deficit to GDP ratio to 6.8 per cent in 2018.

The economy of Tanzania is estimated to have expanded by 6.6 per cent in 2018 compared to a growth of 6.8 per cent in 2017, supported by private investment and services sector. The current account deficit as a percentage of GDP increased to 3.7 per cent in 2018 from 3.3 per cent in 2017 due to higher volumes of imports in 2018. The increase in volume of imports was due to importation of transport equipment, building and construction materials for infrastructure projects. Burundi's real GDP growth stood at 0.1 per cent in 2018 while current account deficit as a percentage of GDP widened to 13.4 per cent in the review period.

Domestic Economy

Kenya's economy recovered from the effects of the persistent drought experienced in 2017 coupled with uncertainties associated with general elections held in the same period. Real Gross Domestic Product (GDP) is estimated to have expanded by 6.3 per cent in 2018 compared to 4.9 per cent in 2017. The growth was principally attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. Agricultural activities benefited from sufficient rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favourable to growth during the review period.

During the period under review, the growth realized was anchored on a relatively stable macroeconomic environment with the various macroeconomic fundamentals remaining supportive of growth for the better of the year. Inflation remained low at 4.7 per cent in 2018 compared to 8.0 per cent in 2017 majorly as a result of considerable declines in prices of food after the shortage experienced in 2017. The current account deficit narrowed to stand at KSh 441.8 billion in 2018 compared to KSh 503.4 billion in 2017 mainly due to a faster growth of imports of goods and services. The Nairobi Securities Exchange (NSE) 20-Share index dropped to 2,834 points in December 2018 from 3,712 points in December 2017. The performance was also manifested in the increased uptake of credit facilities across most sectors of the economy during the year under review. International crude oil prices increased significantly for the better part of the year under review, peaking during the third quarter before dropping significantly in December 2018. The average price of crude oil increased from US Dollars 54.91 per barrel in 2017 to US Dollars 71.48 per barrel in 2018 mainly as a result of supply cuts by major oil producing nations as well as geo-political tensions involving some oil rich nations.

Fiscal Outlook

Performance of Kenya's economy looks less optimistic in 2019 on account of a number of factors. The 2019 long rains have delayed and weather forecast indicate that most parts of the country will experience depressed rainfall, while a number of others may record almost long rains failure. If this materializes, direct negative impacts will be felt within the activities of agriculture, electricity and water supply sectors. Further impacts could be experienced in industries that have strong inter linkages with these sectors. However, activities of the tourism sector are likely to remain vibrant

supported by strong expansion in tourists' arrivals. The construction industry is expected to follow the current trend given the ongoing infrastructural development by the government as well as the prevailing private sector confidence.

A gradual increase in international oil prices in the course of the year is anticipated, especially if an agreement on production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and their partners is implemented. There are prospects of production cuts being partly offset by an increase in shale output from the USA, as well as slowed demand emanating from effects of a deterioration in global economic expansion. All in all, it is more probable that the international oil prices will rise and lead to higher domestic pump prices. Inflation is likely to rise significantly, largely driven by increase in food prices as a result of constrained domestic production in 2019. This could worsen if the magnitude of the expected rise in fuel prices ends up being substantial. The Kenyan Shilling exchange rate against major trading currencies is expected to remain stable supported by diaspora remittances and a significant level of reserves.

On the demand side, growth is likely to be driven by both the public consumption as well as private sector investment. Public consumption is projected to be underpinned by the ongoing development in infrastructure. Private consumption might not expand as rapidly as that of public, but is likely to remain robust in 2019 and therefore supportive of growth, while business confidence should remain strong enough to back up expansion in investment. Exports are likely to be constrained by a subdued external demand against a background of a slowdown in global trade. Overall, the economic growth is likely to slow down, but key macroeconomic indicators are likely to remain within desirable ranges throughout 2019.

Chapter Three

Resource Allocation Framework

3.1 Adjustments to the FY 2019/20 Budget

The Medium-Term Fiscal Framework (MTFF) for the FY2019/20 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure full budgetary funding, support rapid and inclusive economic growth and continued fiscal discipline.

As preparations for the FY 2020/21 medium-term budget commence, it is worth noting that the implementation of the FY 2019/20 budget is experiencing challenges particularly on revenue collection and elevated expenditure pressures. The outturn for the FY 2018/19 indicates the need to review the revenue enhancement strategies in FY2019/20 in order to bridge the gap that was experienced in revenue performance in the base year

As such the revenue forecasts for FY 2019/20 have been reviewed upwards in anticipation for full implementation of new revenue enhancement strategies capture in the revenue enhancement policy 2019/20 and to plug the deficit realized in FY 2018/19. Expenditure estimates for FY2019/20 will be revised through a supplementary budget to accommodate additional resources as equitable share from National Treasury and reallocations of the existing budgetary provisions supported by austerity measures instituted on less productive areas of spending across the sectors and development component of 2018/19 budget that remained unabsorbed at the close of the financial year.

3.2 Medium Term Fiscal Projections

Over the medium term, driven by continued reforms, OSR collection is expected to rise towards the targeted 420 million. Overall development expenditure as percentage of total expenditure is expected to rise as the government undertakes expenditure rationalization to improve productivity.

3.3 Budget Framework for FY 2020/21

3.3.1 Revenue Projections:

The FY 2020/21 budget will be financed by revenue from equitable share, OSR and conditional allocations from the national treasury and/or development partners. Equitable share is expected to increase from Kshs 5,673,000,000 in 2019/20 to Kshs. 6,240,300,000 and Kshs. 6,864,330,000 in 2020/21 and 2021/22 respectively. OSR is expected to move from Kshs 420,000,000 in 2019/20 to Kshs 462,000,000 and Kshs 508,200,000 in 2020/21 and 2021/22 respectively. However, conditional allocations are projected to stabilize at the 2018/19 allocations. The 2018/19 base year revenue streams and projections for FY 2019/20 are as summarised in the table 13 below:

Table 13: Revenue projections

Revenue Stream	2019/20 Estimates	Projected 2020/21	Projected 2021/22
Single Business Permit	45,000,000	49,500,000	54,450,000
Market Fees	31,864,980	35,051,478	38,556,626
Boda Boda	7,500,000	8,250,000	9,075,000
Weight & Measures	2,800,260	3,080,286	3,388,315
Trade Income (Audit Fee)	1,700,000	1,870,000	2,057,000
Advertisement Charges	9,628,000	10,590,800	11,649,880
Liquor Charges	9,000,000	9,900,000	10,890,000
Bus Park	21,345,320	23,479,852	25,827,837
Grader	9,900,000	10,890,000	11,979,000
County Hall Hire	140,000	154,000	169,400
Cess	7,835,530	8,619,083	9,480,991
Slaughter Fees	450,625	495,688	545,256
Agricultural Subsidies Fees	5,380,290	5,918,319	6,510,151
Veterinary Services	2,520,200	2,772,220	3,049,442
Stock-Sales Fees	2,825,630	3,108,193	3,419,012
Plan Approval	8,426,410	9,269,051	10,195,956
Plots/Kiosks Related Fees	54,760,230	60,236,253	66,259,878
Survey Fee	6,000	6,600	7,260
Hospital Revenue	61,425,000	67,567,500	74,324,250
Public Health	4,160,909	4,577,000	5,034,700
Linda Mama	82,272,500	90,499,750	99,549,725
NHIF/Capitation	50,158,116	55,173,928	60,691,320
NEMA	300,000	330,000	363,000
School Fees	600,000	660,000	726,000
Sub-Total-Local Revenue (OSR)	420,000,000	462,000,000	508,200,000
Equitable Share	5,673,000,000	6,240,300,000	6,864,330,000
Sub-Total-Equitable Share	5,673,000,000	6,240,300,000	6,864,330,000
User Fee	18,194,808	18,194,808	18,194,808
Lease of Medical Equipment	131,914,894	131,914,894	131,914,894
Road Maintenance Fuel Levy	164,408,344	164,408,344	164,408,344
Rehabilitation of Youth Polytechnic	40,278,298	40,278,298	40,278,298
Kenya Climate Smart Agriculture Project (KCSAP)	142,126,290	142,126,290	142,126,290
Transformation of Health Systems-Universal Health Care	42,327,625	42,327,625	42,327,625

Kenya Devolution Support Project (KDSP)	30,000,000	30,000,000	30,000,000
Agricultural Sector Development Support Project (ASDSP)	16,561,840	16,561,840	16,561,840
DANIDA	25,932,368	25,932,368	25,932,368
Water Tower Protection	45,000,000	45,000,000	45,000,000
Urban Institutional Grant (UIG)	8,800,000	8,800,000	8,800,000
Kenya Urban Support Project (KUSP)	50,000,000	50,000,000	50,000,000
Sub-Total-Conditional Grants	715,544,467	715,544,467	715,544,467
Total	6,808,544,467	7,417,844,467	8,088,074,467

3.3.2 Medium-Term Expenditure Framework

The budget plays a central role in transformation by promoting redistribution and directing scarce resources towards catalytic investments in human and physical capital. But the budget depends on the economy to generate the resources to finance these investments.

Resources will be channelled to priority areas through programme based budgeting underpinned with transparency and efficient county government institutions. Resources will continue to be aligned to sectors in 2020/21 as indicated in table 14.

Table 14: Baseline Ceilings for the MTEF Period

Vote Details	Approved Estimates	Projected Estimates	
	2019/2020	2020/2021	2021/22
County Assembly	886,308,584	974,939,442	1,000,878,941
Governance and Administration	645,467,610	710,014,371	781,015,808
Finance and Economic Planning	469,752,109	516,727,317	568,400,049
Agriculture, Food, Livestock & Fisheries	449,165,919	478,213,698	526,035,068
Water, Irrigation, Environment & Natural Resources	292,442,717	317,186,989	348,905,688
Education, Youth Affairs, Gender & Social Services	488,263,088	533,061,567	586,367,723
County Health Services	2,137,143,877	2,329,021,295	2,561,923,424
Lands, Physical Planning, Urban Development and Housing	163,675,374	174,162,911	191,579,203
Roads, Public Works, Energy and Transport	720,493,898	776,102,453	853,712,698
Enterprise and Industrial Development	209,102,729	230,013,002	253,014,302
Tourism, Culture, Sports and Arts	346,728,562	378,401,422	416,241,564
Total	6,808,544,467	7,417,844,467	8,088,074,467

From table 14 above, total resource envelop is expected to move from Kshs 6,808,544,467 in 2019/20 to Kshs 7,417,844,467 and 8,088,074,467 in 2020/21 and 2021/22 financial years respectively.

Expenditure

Budgetary projections indicate that in the financial years 2020/21 and 2021/22, total resource envelop will be Kshs 7,417,844,467 and Kshs 8,088,074,467 respectively. The expenditures will be allocated to recurrent and development categories. For the financial year 2020/21, recurrent expenditure projection at 69 percent will be Kshs 5,118,312,682 and Kshs 5,580,771,382 in the financial year 2020/21 and 2021/22 respectively. Similarly, development projections at 31 per cent of the total resource envelop will be Kshs 2,299,531,785 in the financial year 2019/2020 rising to Kshs 2,507,303,085 in the financial year 2021/22.