REPUBLIC OF KENYA

THE COUNTY TREASURY

GARISSA COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

SEPTEMBER 2019

To obtain Copies of the document, Please contact;

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The Garissa County Treasury
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Garissa, Kenya

The document will also be available at **www.garissa.go.ke**

FOREWORD

The Garissa County Budget review and Outlook Paper (CBROP 2019), Is the sixth to be prepared under the new governance structure. CBROP 2019 was prepared pursuant to Section 118 of the Public Financial Management Act, 2012 and in accordance with the County budget calendar for the MTEF 2019/2020-2021/2022 which requires the county government to prepare a budget review and outlook paper each financial year, and Submit to the County executive committee by 30th September. This review document focused on the fiscal year ending June 2020 compared with the year on growth for similar period in previous years.

The CBROP provides an analysis of the details of the actual fiscal performance of the county for the financial year 2018/2019 while comparing it with the budget appropriation for that year, the updated economic and financial forecasts with adequate information to show changes from projections outlined in the latest county fiscal strategy paper. Further, it set provisional ceilings for the coming financial and thereby permitting the department to prepare their budget proposal for the coming the next financial year.

The CBROP being a key document that links up policy, planning and budgeting, will continue to play a critical role in the preparation of budgets and management of public resources in a devolved system and as such this paper will set out the broad fiscal parameters for the preparation next financial year's budget.

It is therefore my anticipation that this paper enhances financial discipline and fiscal responsibilities within the county financial management framework as provided in the public finance management (PFM) Act 2012.

Hon. CPA Roble Said Nuno
County Executive Committee Member
Finance, Economic Planning and Revenue Management

ACKNOWLEDGEMENT

The County Budget review and Outlook Paper (CBROP), marks the beginning of journey of preparing the 2019/2020 budget. The policy prepared in accordance with the Public Finance Management Act, 2012 Article 118(1) (a). It provides a reviews of the recent economic developments and actual fiscal performance of the FY 2018/2019 in comparison to budget appropriations for the same year.

The preparation of this document was a concerted and Collaborative effort by staff of the directorate of Finance, Economic Planning and Revenue Management under the leadership and guidance of the County Executive member.

A core team from the budget unit spent significant amount of time beyond official working hours to consolidate and fine tune this document. During the preparation of this paper, we received inputs from the following units; County Revenue management, Human Resources and Accounts. I take this opportunity to sincerely thank all for their dedication, sacrifice and commitment to public service.

Mr. Ibrahim Malow

Chief Officer Finance

ABBREVIATIONS AND ACRONYMS

ATC Agricultural Training Centre

CA County Assembly

CBROP County Budget Review and Outlook Paper

CFSP County Fiscal Strategy Paper

CIDP County Integrated Development Plan

CPI Consumer Price Index

FY Financial Year

GDP Gross Domestic Product

IFMIS Integrated Financial Management Information System

MTEF Medium Term Expenditure Framework

PGH Provincial General Hospital

PFMA Public Finance Management Act

PREAMBLE

Legal Background

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

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

a) Actual fiscal performance in the previous financial year compared to the budget

Appropriation for that year;

b) Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal strategy paper

c) Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest County Fiscal strategy paper; and

d) The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2. County Executive committee shall consider the County Budget Review and outlook Paper with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the CBROP has been approved by Executive committee, the County Treasury shall:

a) Submit the paper to the Budget and appropriation Committee of the County Assembly to be laid before the County assembly; and

b) Publish and publicise the paper not later than fifteen days after laying the Paper before County Assembly.

Fiscal Responsibility Principles in the Public Financial Management Act

In line with chapter 12 of the Constitution of Kenya, Section 107 of the Public Financial Management (PFM) Act, 2012

1) The county government's recurrent expenditure shall not exceed the county government's total revenue

2) Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure

3) The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations.

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) Public debt and obligations shall be maintained at a sustainable level asapproved by County Government (CG)

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, taking into account any tax reforms that may be made in the future

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1 INTRODUCTION

1.1 Background

The 2019 Garissa County Budget Review and Outlook Paper (CBROP) is prepared under the provisions of the Public Financial Management Act, 2012. The CBROP contains a review of the fiscal performance of the FY 2018/2019; the updated macro-economic and financial forecasts; and deviations from the approved most recent CFSP and reasons for deviations.

1.2 Objectives of CBROP

The objective of this paper is to provide a review of the previous year's 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 changes from the projections in the most recent CFSP;
ii. Details of the actual fiscal performance in the previous year compared to appropriation for that particular year;
iii. Any changes in the forecasts compared with the CFSP
iv. Indication on how the actual fiscal performance for the previous FY may have affected compliance with fiscal responsibility principles or the financial objectives in the CFSP for that FY;and
v. Reasons for any deviations from financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.3 Significance of CBROP

The CBROP is a key document which links up policy, planning and budgeting. It is embedded on the Kenya's Vision 2030 through the third Medium Term Plan (MTP) and the second Garissa County Integrated Development Plan (CIDP).

The CBROP is significant document in the budget making process within the MTEF as it reviews previous FY fiscal performance and identifies any deviations from the budget within the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered to as enshrined in section 107 of The PFM Act 2012. Further, the paper is anticipated to provide indicative sector ceilings for the FY 2019/2020 budget and in the medium term to guide sector working groups (SWGs) before being affirmed in the CFSP 2019.

2 REVIEW OF FISCAL PERFORMANCE IN THE FY 2017/2018

2.1 Overview

The implementation of the budget for FY 2018/2019 was fairly well despite declined in both revenue collection and expenditures compared to their respective targets**.** Cumulative County revenue received amounted to Ksh.8.16 billion against revised target of Ksh.10.72 billion.

To finance the budget, the county, expect to receive ksh 6.64 billion representing (65.3%) as equitable share of the revenue raised nationally, ksh 2.31 billion representing (21.7%) as the total conditional grants, generated ksh 250 million representing (2.4%) from own source revenue and ksh 1.13 billion representing (10.6%) cash from FY 2017/2018

During the period under review, the county spent Ksh.8.16 billion against a target of Ksh.10.72 billion representing an absorption rate of 76 percent. Of the amount spent during the period, recurrent expenditure for the period represents 75 per cent of the annual recurrent budget while development expenditure represents 25 per cent of the annual development budget. Under absorption of budget attributed to erratic disbursement by the national treasury.

2.2 FY 2017/18 Fiscal Performance

2.2.1 Revenue Performance

By the end of the FY 2018/19, the total exchequer release, other transfers and local revenue collection amounted to Ksh.8.16 billion against a target of Ksh.10.72 billion representing a deviation of 2.26 billion from planned target. In addition, during the 2018/19 county had a total of ksh 9.13 billion available for budget implementation this amount consists of ksh 6.94 billion received as equitable share of the revenue raised nationally, ksh 980 million as the conditional allocations and grants, ksh 118 million as generated from own source revenue and cash balance brought forward ksh 1.13 billion from the FY 2017/2018.

Table 2.1 Summary of County Fiscal Performance

	Budgeted	**Actual Performance**	**Deviations**	**%**
REVENUE	**2018/19 (Ksh. Million)**	**2018/19 (Ksh. Million**	**(Ksh. Million**	
Equitable Share	6,939.40	6,939.40	0	100
Local Collections	250.00	118.21	131.79	47
Grants and loans	1,628.28	361.89	1,266.39	22
Conditional Allocations	775.77	618.58	157.19	80
Balance B/F	1,128.79	1,128.79	0	100
Total Revenue	**10,722.24**	**9,166.87**	**1,555,37**	**85**

SOURCE: GARISSA COUNTY TREASURY

The total revenue collected during the FY 2017/2018 amounted to Ksh. 118.21 compared to Ksh. 86.69 collected during the FY 2017/2018 representing 26.67% increase

Table 2.2 Revenue Performance per Stream

ACTUAL LOCAL REVENUE COLLECTION FOR FY 2018/2019	
Land Rates Current Year	**7,043,376**
Business Permits, Current Year	**15,069,480**
Wheat & Maize Cess	**192,200**
Fruits & Vegetables / Produce Cess	**2,063,050**
Log Cess - (Timber)	**65,000**
Ground/Plot Rent - Current Year	**859,950**
Ground Rent - Other Years	**1,436,235**
Customers Deposits (Other than Water & Sewerage)	**552,000**
Tender Documents Sale	**615,600**
Sand, Gravel, and Ballast Extraction Fees	**73,000**
Mineral Extraction Royalties (Cement, Gypsum,etc.)	**2,171,850**
Sales of Flowers, Plants, Firewood, Produce, etc.	**686,000**
Council Vehicles Hire – AMS	**2,621,594**
Other Miscellaneous Revenues	**30,200**
Funds Transferred from Mpesa Business No. 209118	**1,968,462**
Market Entrance / Gate Fee	**8,539,210**
Market Stalls Rent	**1,343,600**
Market Shelters Fee	**499,000**
Produce Inspection Fee	**76,250**
Street Parking/ motorbike/tuktuk/cars etc.	**4,541,945**
Housing Estates Monthly Rent	**534,500**
Training/Learning Centre Fee	**122,150**
Food Quality Inspection Fee	**2,770,780**
Health Centres Services Fee/Hospital tranfer	**36,459,669**
Sale of Trees-Seedlings-Firewood-Flowers-Produce, etc. Miraa	**2,873,800**
Slaughtering Fee	**2,618,950**
Exhauster Services Charge	**14,000**
Other Health & Sanitation Revenues (DVO)	**861,845**
Survey Fee	**212,100**
Buildings Plan Approval Fee	**226,100**
Sign Boards & Advertisement/promotion Fee	**807,500**
TOTAL	**112,446,781**

Source: County Revenue Management Department

In the FY 2017/18, observation on revenue performance per stream shows that revenue from health centres/hospital transfers as the leading earner cumulatively followed by single business permit and livestock cess. The lowest source of revenue during the period under review were exhauster service charge, other miscleanous revenue and sand, gravel and ballast extraction.

Table 2.3 Comparison of Budgeted and Actual Revenue Collections for FY 2018/2019

No	Revenue Stream	Annual Targeted Revenue (Ksh. Million	Actual Revenue (Ksh. Million	% performance
1	Slaughter house rent	**1.20**	**2.62**	
5	Traffic and Parking	3.00	4.54	
6	Market Entry/Stall fees	5.94	10.46	
7	Single Business Permit (Once in a year)	30.00	15.07	
8	PGH , public health, County hospitals cost sharing	28.36	39.46	
9	Royalties	13.00	2.93	
11	Land Registration and Rates	91.58	9.89	
12	Cess	17.16	2.32	
13	Other Revenues	59.76	28.16	
Total		**250.00**	**112.45**	**45%**

The county own source of revenue realized was 45%of what was budgeted. Notably the biggest loser in the actual revenue collected was Market Cess which recorded only 4%.

2.2.2 Expenditure Performance

During the Financial Year 2018/2019, the total expenditure amounted to Ksh. 8.16 billion against a budgeted amount of Ksh.10.72 billion which represents an under absorption of Ksh.2.56 billion and 23.86 per cent deviation from appropriated budget.

Recurrent expenditure amounted to Ksh.5.42 billion compared to the budgeted estimate of Ksh. 5.78 billion representing a good absorption rate of 93.69 per cent.

Expenditure on development amounted to Ksh.1.99 billion compared to the budgeted amount of Ksh 4.40 billion which represents an under absorption of Ksh.2.4 billion and 55 per cent deviation.

Table 2.4: Comparison of Departmental Approved Recurrent Budget Against Actual Performance Expenditure for FY 2018/19

DEPARTMENTS	APPROVED BUDGET (Ksh. Million	ACTUAL PERFORMANCE (Ksh. Million	DEVIATION (Ksh. Million
Agriculture, Livestock & Cooperatives	220.02	192.48	27.55
Gender ,Social Services & Sports	70.40	64.20	6.20
Roads and Transport	81.36	81.36	-
Education & Labour	838.74	744.45	94.30
Environment, Energy & Natural Resources	51.49	50.50	1.00
Lands ,Housing and Urban Development	408.89	358.45	50.44
Finance & Economic Planning	1,058.72	933.51	125.22
Health & Sanitation	2,456.77	2,446.72	10.05
Trade, Enterprise Development and Tourism	108.94	68.64	40.30
Water & Irrigation Services	167.61	162.61	5.00
Executive Services	272.33	268.33	4.00
County Public Service Board	46.05	45.55	0.50
Assembly		-	-
TOTAL	**5,781.33**	**5,416.80**	**364.56**

SOURCE: Garissa County Treasury

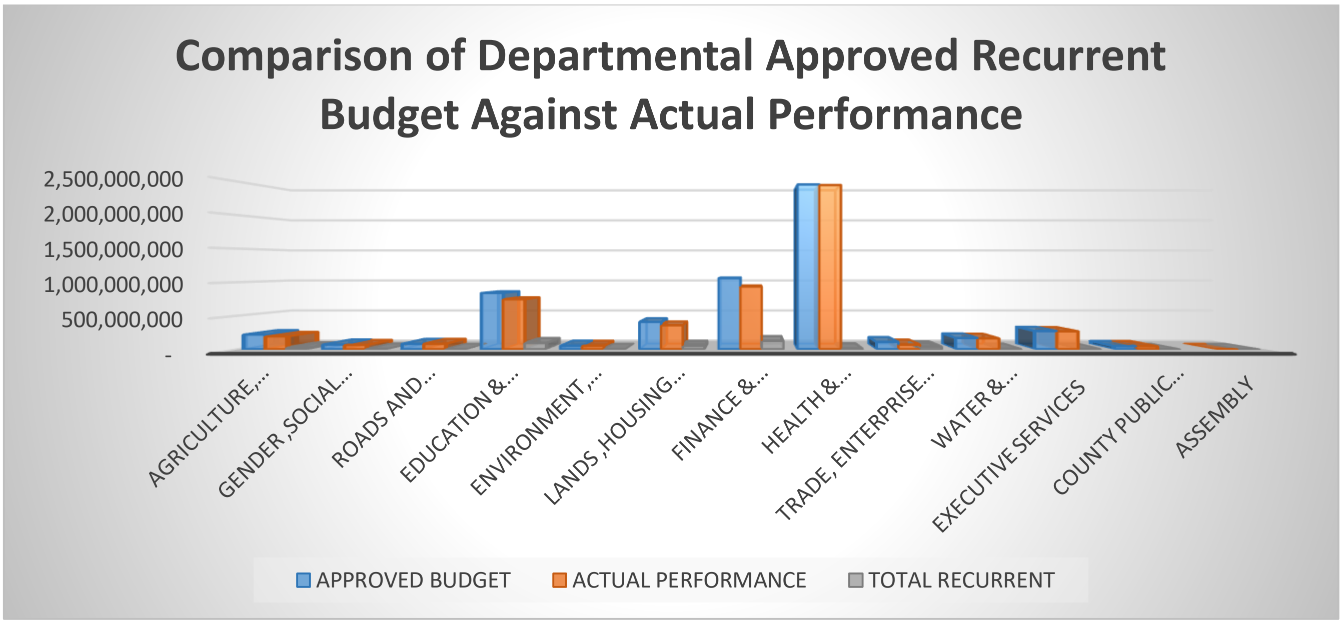

Figure 2.1 Comparison of Departmental Approved Recurrent Budget Against Actual Performance Expenditure for FY 2018/19

Table 2.5: Comparison of Departmental Approved Salary Budget Against Actual Performance Expenditure for FY 2018/19

DEPARTMENTS	APPROVED BUDGET (Ksh. Million	ACTUAL PERFORMANCE (Ksh. Million	DEVIATION (Ksh. Million
Agriculture, Livestock & Cooperatives	163.30	163.30	-
Gender ,Social Services & Sports	32.80	32.80	-
Roads and Transport	60.26	60.26	-
Education & Labour	713.50	713.50	-
Environment, Energy & Natural Resources	29.53	29.53	-
Lands ,Housing and Urban Development	286.22	286.22	-
Finance & Economic Planning	460.29	460.29	-
Health & Sanitation	1,791.71	1,791.71	-
Trade, Enterprise Development and Tourism	65.44	65.44	-
Water & Irrigation Services	79.29	79.29	-
Executive Services	179.76	179.76	-
County Public Service Board	19.20	19.20	-
Assembly	-	-	-
TOTAL	**3,882.30**	**3,882.30**	-

SOURCE: Garissa County Treasury

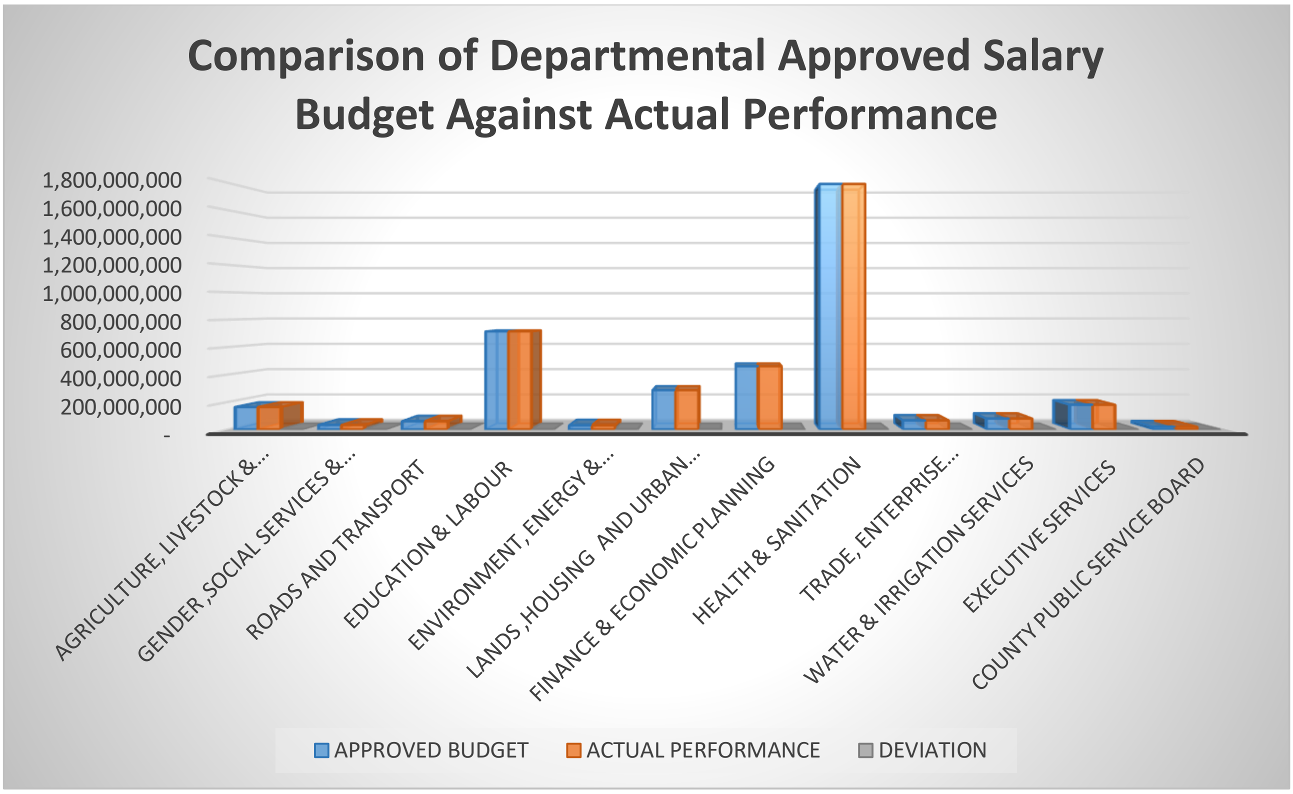

Figure 2.2 Comparison of Departmental Approved Salary Budget Against Actual Performance Expenditure for FY 2018/19

Table 2.6: Comparison of Departmental Approved Operations and maintenance Budget Against Actual Performance Expenditure for FY 2018/19

DEPARTMENTS	APPROVED BUDGET (Ksh. Million	ACTUAL PERFORMANCE (Ksh. Million	DEVAITION (Ksh. Million
Agriculture, Livestock & Cooperatives	56.72	29.17	27.55
Gender ,Social Services & Sports	37.59	31.39	6.20
Roads and Transport	21.20	21.10	-
Education & Labour	125.25	30.95	94.30
Environment, Energy & Natural Resources	21.96	20.96	1.00
Lands ,Housing and Urban Development	122.66	72.22	50.44
Finance & Economic Planning	598.44	473.22	125.22
Health & Sanitation	665.06	655.01	10.05
Trade, Enterprise Development and Tourism	43.50	3.20	40.30

Water & Irrigation Services	88.32	83.32	5.00
Executive Services	92.57	88.57	4.00
County Public Service Board	26.05	25.55	0.500
Assembly	0		-
TOTAL	**1,899.23**	**1,534.67**	**364.56**

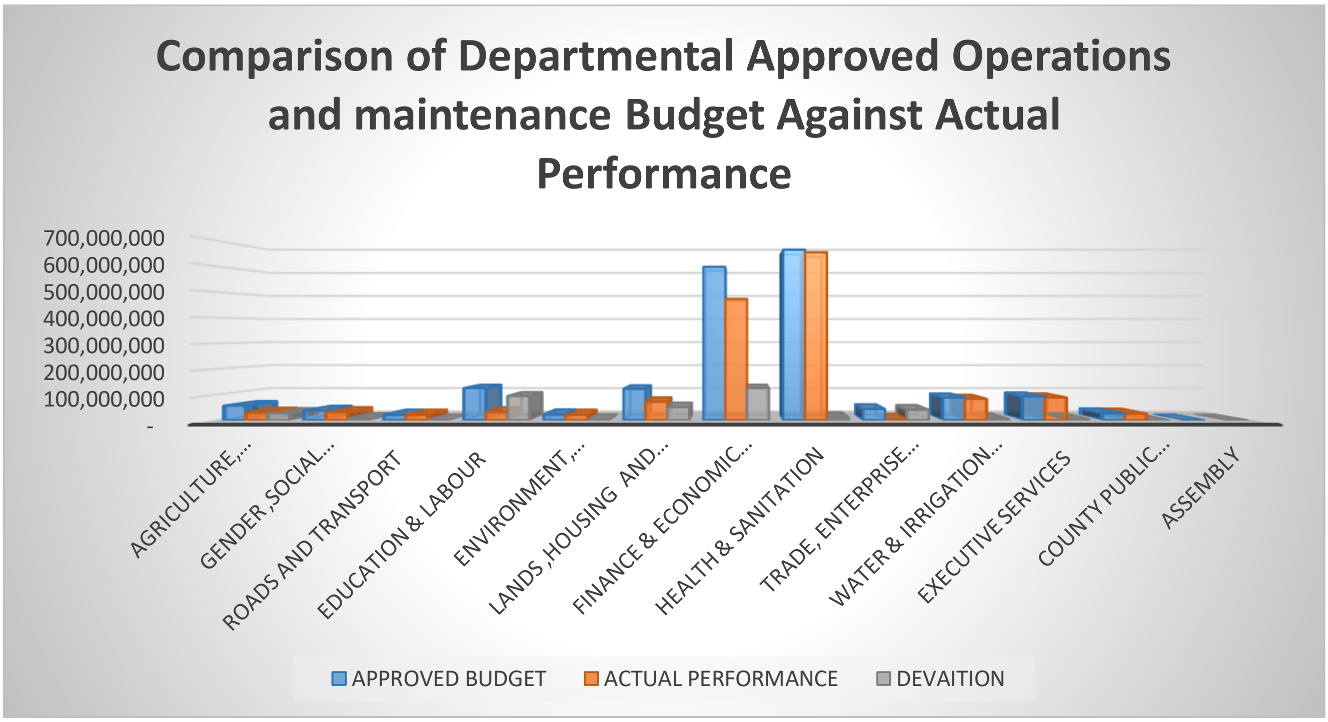

Figure 2.3 Comparison of Departmental Approved Operations and maintenance Budget Against Actual Performance Expenditure for FY 2018/19

Table 2.7: Comparison of Departmental Approved Development Budget Against Actual Performance Expenditure for FY 2018/19

DEPARTMENTS	APPROVED BUDGET **(Ksh. Million**	ACTUAL PERFORMANCE **(Ksh. Million**	DEVIATION **(Ksh. Million**
Agriculture, Livestock & Cooperatives	469.20	189.40	279.80
Gender ,Social Services & Sports	203.60	78.26	125.34

Roads and Transport	327.71	125.22	202.49
Education & Labour	106.63	95.49	11.14
Environment, Energy & Natural Resources	54.70	11.32	43.38
Lands ,Housing and Urban Development	480.71	443.16	37.55
Finance & Economic Planning	245.00	228.71	16.29
Health & Sanitation	549.93	126.79	423.14
Trade, Enterprise Development and Tourism	121.33	56.60	64.73
Water & Irrigation Services	1,676.02	544.10	1,131.92
Executive Services	175.08	94.05	81.03
Assembly		-	-
TOTAL	4,409.91	1,993.10	2,416.81

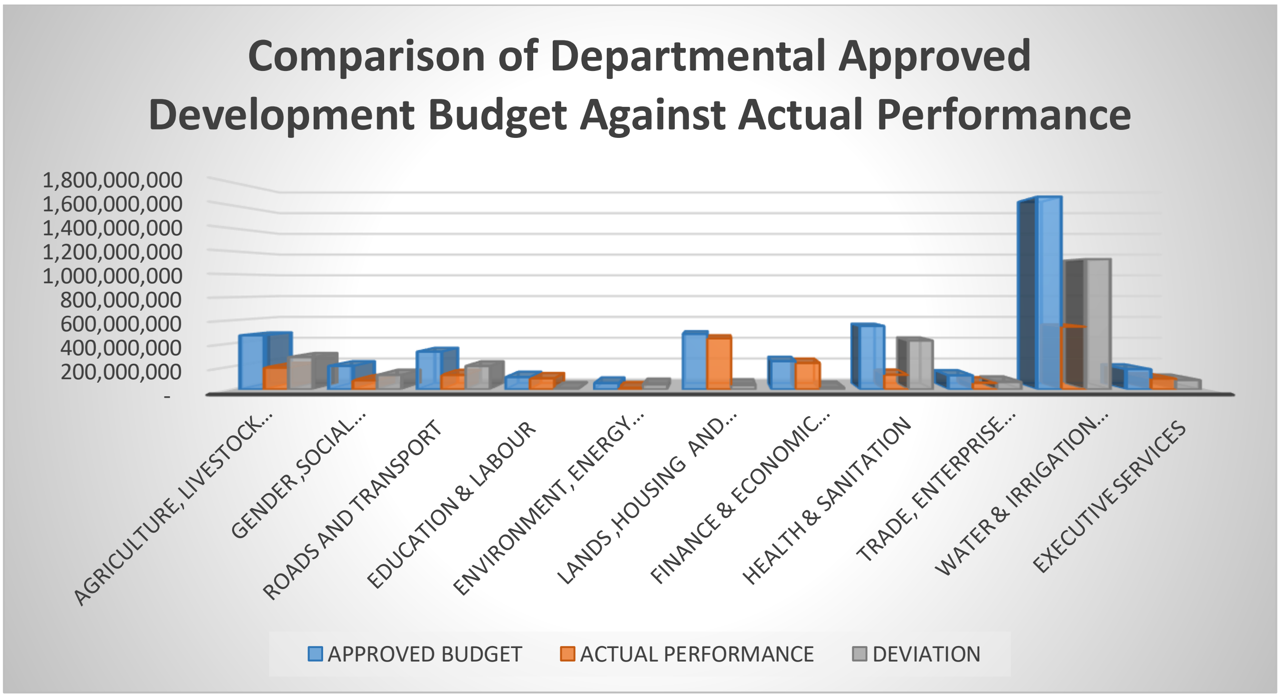

Figure 2.4 Comparison of Departmental Approved Development Budget Against Actual Performance Expenditure for FY 2018/19

During the FY 2018/2019, the absorption rate for recurrent and development votes was at 93.69 per cent and 45 per cent respectively.

The county spent Ksh. 3.88 billion on personnel emoluments and Ksh. 1.53 billion on operation and maintenance representing 36 per cent and 14 per cent respectively of the cumulative total revenue.

On other hand, the other expenditure on development amounted to Ksh.1.99 billion which represents 19 per cent of the cumulative revenue.

Table 2.8 Shows Expenditure by Economic Classification

DEPARTMENTS	SALARY (Ksh. Million	O & M (Ksh. Million	DEVELOPMENT (Ksh. Million
Agriculture, Livestock & Cooperatives	163.30	29.17	189.40
Gender ,Social Services & Sports	32.80	31.39	78.26
Roads and Transport	60.26	21.10	125.22
Education & Labour	713.49	30.95	95.49
Environment, Energy & Natural Resources	29.53	20.96	11.32
Lands ,Housing and Urban Development	286.22	72.22	443.16
Finance & Economic Planning	460.29	473.22	228.71
Health & Sanitation	1,791.71	655.01	126.79
Trade, Enterprise Development and Tourism	65.44	3.20	56.60
Water & Irrigation Services	79.29	83.32	544.10

Executive Services	179.76	88.57	94.05
County Public Service Board	20.00	25.55	-
Assembly	-		
TOTAL	**3,882.10**	**1,534.67**	**1,993.10**

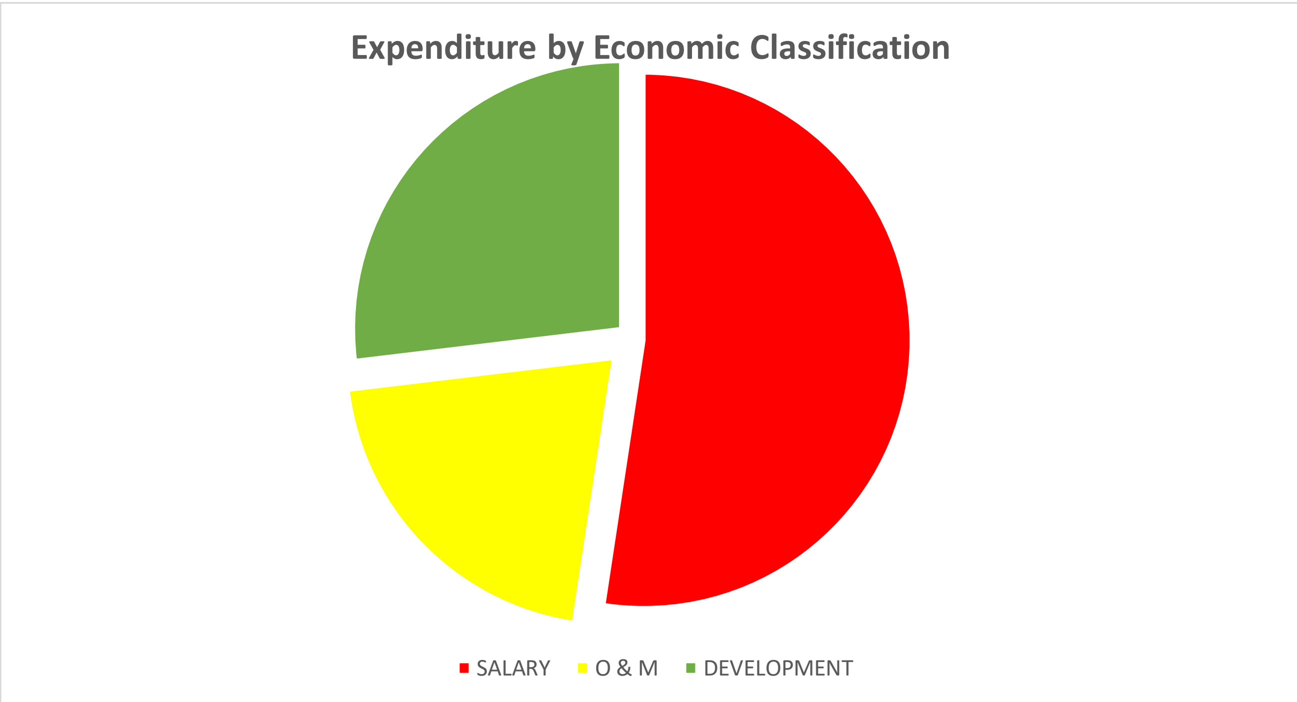

Figure 2.5 Shows Expenditure by Economic Classification

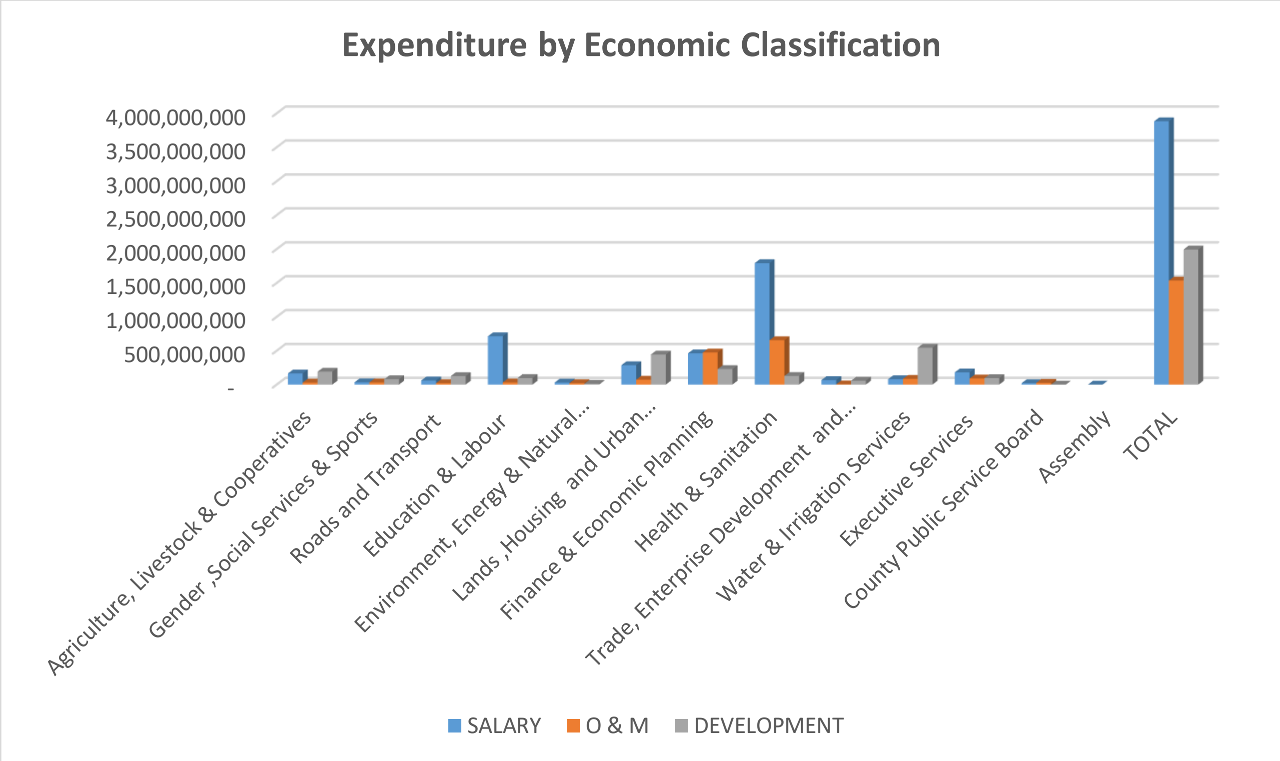

Figure 2.6 Shows Expenditure by Economic Classification FY 2018/19

Implications of FY 2017/2018 Fiscal Performance on Fiscal Responsibility Principles and Financial Objectives

The fiscal performance in the FY 2018/2019 has affected the financial objectives set out in the county fiscal strategy paper and the 2018/2019 budget in the following ways;

- The revenue collections for the financial year fell short of Ksh.250, 000,000 targets by 55 per cent. The under collection in revenue necessitated alteration of forecasted revenue and budget estimates for the FY 2018/2019 and in the medium term. The county government will institute measures to increase revenue collections so as to enhance spending on development projects thus ensuring achievement of balanced budgets
- Over the medium term, the county allocation for development was 43 per cent of the total budget an indication of adherence to the minimum of 30 per cent requirement stipulated by PFM Act 2012. However, during implementation, the county development expenditure fell to 19 per cent of the county total expenditure for the period. This attributed to uncertainty relating to release of funds by the national treasury coupled with slow absorption of the development budget by departments. Moving forward and in the medium term, the county will focus on ensuring that the requirements set out in PFM Act 2012 will be achieved.
- The County government’s actual recurrent expenditure which was Ksh.5.8 billion did not exceed the county government’s total budget of Ksh.10.72 billion an indication of County government’s compliance with the fiscal responsibility principles

- The under-spending in both recurrent and development votes for the FY 2018/2019 has implications on the base to be used to project expenditure in the FY 2019/2020 and in the medium term. Therefore, appropriate adjustments have to been effected in the context of this policy document.

These implications will also inform 2020 CFSP projections. Over the medium term, the county government will stick to fiscal responsibility principles and objectives as specified in section 107 of PFM Act of 2012.

3 RECENT ECONOMIC DEVELOPMENT

3.1 Overview

The performance of the county was largely dependent on the National economic performance as well as sound formulation of sound economic policies by the county.

3.1.1 Global and Regional Economic Developments

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.

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.

3.1.2 Domestic Economic Developments

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.

3.1.3 Inflation Rate

Year-on-year overall inflation remained within the government target range at 5.0 percent in August 2019 up from 4.0 percent in August 2018. This increase reflected higher prices of key food items such as carrots, potatoes, sifted maize flour, cabbages, and fresh packed milk, due to delayed long rain. Electricity cost, kerosene price and house rent also increased during the same period.

Core inflation (Non-Food-Non-Fuel) has remained below 5 percent in the period under review reflecting muted demand pressures in the economy arising from prudent monetary policies. Fuel inflation rose gradually beginning August 2018 on account on the ban of charcoal

and imposition of Value Added tax on petroleum products. The effect of these measures on fuel inflation coupled with declining oil prices has led to a decline in fuel inflation.

The delay in the onset of rains resulted in lower agricultural activities and rising food inflation from March 2018. However, food inflation declined from 7.9 percent in July 2019 to 6.7 percent in August 2019 reflecting declining prices of key food items such as Sukuma wiki, Irish potatoes, Cabbages, Carrots and Tomatoes

The contribution of core inflation to overall inflation has been low and stable reflecting muted demand pressures in the economy on account of prudent monetary policies. The major driver of overall inflation from August 2018 to March 2019 has been fuel inflation. However, beginning March 2019 the major driver of inflation has been food inflation on account of factors mentioned above.

3.1.4 Kenya Shilling Exchange Rate

The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate reserve buffer. The Shilling appreciated against the Euro and the Sterling pound exchanging at Ksh 114.9 and Ksh 125.5 in August 2019 from Ksh 116.2 and Ksh 129.7 in August 2018, respectively. However, against the US Dollar, the Shilling weakened in August 2019 exchanging at 103.3 compared to the same period in 2018 where Ksh 100.6 were required to buy one Dollar. The depreciation of shilling is attributed to increased demand for import and excess liquidity in the money market

The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most sub-Saharan African currencies. This stability reflected strong inflows from tea and horticulture exports, strong diaspora remittances and tourism receipts.

3.1.5 Interest Rates

Short-term interest rates have remained fairly low and stable. The Monetary Policy Committee in July 2019 retained the Central Bank Rate at 9.0 percent. The interbank rate remained low at 3.6 percent in August 2019 from 6.52 percent in August 2018 due to ample liquidity in the money market . The 91-day Treasury bill rate declined to 6.4 percent in August 2019 compared to 7.6 percent over the same period in August 2018.

The improved liquidity in the money market has resulted in stable commercial bank rates. The average lending rate declined from 13.2 percent in august 2018 to 12.5 percent in August 2019. However, the average interest rates spread increased from 5.2 to 5.3 percent in the same period on account of a decline in the average deposit rates from 8.0 to 7.2 percent over the review period.

3.2 Medium Term Fiscal Framework

Over the medium term, the county cognisant of incessant local revenue collections shortfall will be keen on operating within a framework of balanced budget so as to ensure achievement of financial and economic objectives with a view of meeting its set priorities.

The government's fiscal policy objectives in the medium term will focus on directing resources to key priority and potential growth areas including Infrastructure, Agriculture, Health, Water and Education while also ensuring sustainable resource usage to appropriate level.

In the 2020/21 financial year, the county expects to receive ksh.8.3 billion from the National Government, comprising of both equitable share and conditional allocations, 1.5 billion grants from World Bank and 22.3 million from DANIDA and Ksh. 250 million from local revenue sources.

Revenue mobilization measures will be strengthened to enhance local revenue performance. Over the last couple of years, the county's own revenue has been fluctuating with the FY 2017/18 collections decreasing by 24 per cent compared to FY 2016/2017.However in the financial 2018/2019, the local collection steadily increased by 27 per cent to Ksh. 118,213,530. Over the medium term, the county wishes to continue with this positive momentum by enhancing revenue raising measures:

- Automation-which includes making use of ICT for collection and monitoring cash receipts.
- Mapping of county revenue resources in order to identify untapped and under collected revenue sources in the County.
- Digitization of all the county mutations to allow prompt management of property liable to property tax.
- Physical mapping of business premises for monitoring of billed premises to ensure increased processing rate; and
- Automation of parking fee collection to enhance revenue collection and administration efficiency amongst other measures.

On the expenditure, the county shall adopt prudent rationalization to improve efficiency and effective utilization of resource. The top three expenditure items include development; salaries and wages; and operations and maintenance. In the medium term, the government expects to carry out austerity measures to maintain the recurrent expenditure, especially the ballooning wage bill, to manageable level in a bid to ensure adherence to fiscal responsibility principles set out in the PFM Act 2012.

3.3 Risks to the Economic Outlook

This macroeconomic outlook is not without risks from both external and domestic sources. Risks from the global economies relate to increased volatility in the global financial markets due to tensions between the U.S. and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies. Further, the uncertainty of trade agreements including between the United Kingdom and the European Union and the free trade area encompassing Canada, Mexico, and the United States as well as uneven and sluggish growth in advanced and emerging market economies could also hamper the forecasted growth. The low commodity prices and the risk of energy prices taking an upward climb if the rising geopolitical tensions are not subdued could impact on our exports.

Domestically, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather related shocks that could impact on agricultural output, until the mitigating measures of food security under "The Big Four" Plan are put in place, energy generation and lead to higher inflation affecting growth.

The Government is continually monitoring these risks and taking appropriate monetary and fiscal policy measures to maintain macroeconomic stability, strengthen the economy's resilience and address constraints to potential economic growth.

4 RESOURCE ALLOCATION FRAMEWORK

4.1 Amendment to the 2019/2020 MTEF Budget

Adjustments to the FY 2019/20 budget will generally take into account the updated economic and financial forecasts that will impact the revenue especially those to be remitted by the National government as well as any other unforeseen expenditure and emerging priorities. The county will also be conscious of the actual performance of expenditure and absorption capacity in the remainder of the financial year as this will certainly inform the necessary change in the annual budget. Measures including but not limited to expansion of tax base and sealing of loopholes for financial leakages will also be put in place to enhanced local revenue collection which has remained relatively low over the last couple of years. Resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

In order to ensure adequate usage of public resources, resource allocation and utilization in the coming financial years in the medium term will be guided by;

i. On-going projects;
ii. County Integrated Development Plan (CIDP 2018-2022);
iii. PFMA, 2012;
iv. Medium Term Plan III (2018-2022)

4.2 Medium-Term Expenditure Framework (MTEF)

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and attainment of set out objectives. In particular, expenditure pressures specifically those relating to recurrent expenditure: high wage bills and operation and maintenance will closely be monitored over the medium term. Continued compliance with PFM Act, 2012 and the PFM (County Governments) Regulations 2015, is expected to accelerate reforms in expenditure management.

Specifically, the county government has prioritized key strategic interventions across all the sectors as a way of accelerating economic and social transformation to improve quality of life of its residents. The main areas of interventions cover food security, improved access to quality health care, access to clean water and engagement of additional ECD teacher and construction of a model ECD canters for provision of basic quality education to improve mobility by opening up of rural access roads, empowering youth and women through provision of start-up capital for the youth and mothers in initiatives such as the revolving funds project as well as enhancing efficiency in revenue collection and administration.

Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2018/19-2020/2021 MTEF budget.

Table 4.1 Total Sector Ceilings for the MTEF Period 2018/19-2020/2021

Recurrent Ceiling

Department	Current Budget	Projections	
	2018/2019 (Ksh. Million	2019/2020 (Ksh. Million	2020/2021 (Ksh. Million
Agriculture, Livestock & Cooperatives	220.02	242.02	254.12
Gender ,Social Services & Sports	70.4	77.44	81.31
Roads and Transport	81.36	89.50	93.97
Education & Labour	838.74	922.61	968.74
Environment, Energy & Natural Resources	51.49	56.64	59.47
Lands ,Housing and Urban Development	408.89	449.78	472.27
Finance & Economic Planning	1,058.72	1,164.59	1,222.82
Health & Sanitation	2,456.77	2,702.45	2,837.57
Trade, Enterprise Development and Tourism	108.94	119.83	125.83
Water & Irrigation Services	167.61	184.37	193.59
Executive Services	272.33	299.56	314.54
County Public Service Board	46.05	50.66	53.19
Assembly		-	-
Municipal Board			
TOTAL	**5,781.33**	**6,359.46**	**6,677.44**

Development ceiling

Department	Current Budget	Projections	
	2018/2019 (Ksh. Million	2019/2020 (Ksh. Million	2020/2021
Agriculture, Livestock & Cooperatives	469.2	516.12	567.73
Gender ,Social Services & Sports	203.6	223.96	246.36
Roads and Transport	327.71	360.48	396.53
Education & Labour	106.63	117.29	129.02
Environment, Energy & Natural Resources	54.7	60.17	66.19
Lands ,Housing and Urban Development	480.71	528.78	581.66
Finance & Economic Planning	245	269.50	296.45
Health & Sanitation	549.93	604.92	665.42
Trade, Enterprise Development and Tourism	121.33	133.46	146.81
Water & Irrigation Services	1,676.02	1,843.62	2,027.98
Executive Services	175.08	192.59	211.85
County Public Service Board		-	-
Assembly			
Municipal Board			
TOTAL	**4,409.91**	**4,850.90**	**5,335.99**

Source: County Treasury

4.3 Proposed 2020/2021 Budget Framework

The 2020/2021 budget framework is set against the background of the updated medium-term macro-fiscal framework as set out in the constitution 2010, the PFM Act 2012 and the County Government Act 2012.

Therefore, preparation of the 2019/2020 budget is informed by the second County Integrated Development Plan, Annual Development Plan, departmentalStrategic plans, County Fiscal Strategy Paper and other circulars originating from the controller of budget, Commission on Revenue Allocation and the County Assembly.

4.3.1 Revenue Projections

In the FY 2019/2020, The County government aims to maintain its current FY target of Ksh.250 million local collections amid dwindling collections in the last few years. To achieve this target, the county intends build staff capacity and move towards sealing revenue leakages. Further, the county anticipate a receipt of Ksh7.6 billion and Ksh.850 million from National government in form of equitable share and Conditional allocation, respectively. These figures, however, are indicative of the next of the FY resource envelope and will be affirmed in the 201 9 CFSP.

4.3.2 Expenditure Forecasts

In the proposed 2019/20 budget, overall expenditures are projected to increase by 10 per cent to Kshs. 11.8 billion up from Kshs. 10.72 billion in the FY 2018/2019. Recurrent expenditure is projected to increase by 10 per cent to Kshs. 6.3 billion in FY 2019/20 up from Kshs.5.7 billion in FY 2018/19, accounting for 57 per cent of total budget. Similarly, development expenditure is projected to increase by 10 per cent to Kshs.4.8 billion in FY 2019/20 up from Kshs 4.4 billion in the FY 2018/19.This represent 43 per cent of the total budget, and this is within the level recommended by section 107 of PFM Act, 2012.

In this regard, the county government will over the medium term ensure compliance with the fiscal responsibility principles as outlined in the PFM Act 2012. The county government is expected to enhance expenditure productivity in the proposed budget and manage the runaway wage bill to be within the required limit.

4.4 Projected Fiscal Balance (Deficit)

The overall budget for FY 2019/20 is balanced and hence expected to be fully financed, though it should be highlighted that this can fluctuate depending on the performance of local revenue collections as well as the grants pledged by development partners. In view of this fluctuations and subsequent revenue shortfalls, any changes in cumulative expected revenue that may impact anticipated expenditure will be addressed through supplementary budget(s) accordingly.

5 CONCLUSION AND WAY FORWARD

The County budget review and outlook being a key policy documents meant to instil financial discipline and fiscal responsibilities within the county government's financial management framework will guide the county in the budget making process within the Medium Term expenditure framework. The document details the previous year's actual fiscal performance compared to appropriation for the same year and the updated economic and financial forecast. It also details how actual financial performance for the previous financial year may have affected compliance with the responsibility principles. Further, the document set indicative sectorial ceiling for FY 2019/2020 in line with key sector strategic objectives and priorities as set out in the second county integrated development plan and governor's manifesto.

Going forward, all the sector working groups are therefore required to make reference to tentative sector ceiling provided herein. The next County Fiscal Strategy Paper due by 28th February 2020 shall firm up the baseline expenditure ceilings proposed in this CBROP document. The proposed recurrent and development expenditure the coming financial year will also be aligned to county transformative agenda and priorities set out in the CIDP, ADP and sector strategic objectives and also ensure compliance with the fiscal responsibility principles as entailed in PFM Act 2012.