REPUBLIC OF KENYA

THE COUNTY TREASURY

GARISSA COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

SEPTEMBER 2018

To obtain Copies of the document, Please contact;
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FOREWORD

The Garissa County Budget review and Outlook Paper (CBROP 2018), Is the fifth to be prepared under the new governance structure. The document has been prepared pursuant to section 118 of the public finance management (PFM) Act 2012 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.

The CBROP provides an analysis of the details of the actual fiscal performance of the county for the financial year 2017/2018 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 2018/2019 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 2017/2018 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 Garissa County Budget Review and Outlook Paper was prepared in accordance with section 118 of the Public Finance Management Act, 2012 which states that the county shall:

- Prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
- Submit the paper to County executive committee for approval by 30th September of that year.

The CBROP shall include;

a) The details of actual fiscal performance in the previous financial 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 (CFSP);

c) Information on any changes in the forecasts compared with the CFSP or 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 year; and

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

2. The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments within fourteen days after its submission.

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

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

b) Publish and publicize the paper as soon as practicable.

Fiscal Responsibility Principles in the Public Financial Management Act

Section 107 of the Public Finance Management (PFM) Act 2012 sets out the fiscal responsibility principles to ensure prudent and transparent management of county resources. The PFM Act states that:

i. The county government's recurrent expenditure shall not exceed the county government's total revenue;

ii. Over the medium term a minimum of thirty per cent of the county government's budget shall be allocated to the development expenditure;

iii. The county government's expenditures on wages and benefits shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for finance in regulations approved by the County Assembly;

iv. 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;

v. The county debt shall be maintained at a sustainable level as approved by the County Assembly (CA);

vi. Fiscal risks shall be managed prudently; and

vii. A reasonable degree of the 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 2018 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 2017/2018; 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 2017/2018 was fairly well despite declined in both revenue collection and expenditures compared to their respective targets**.** Cumulative County revenue received amounted to Ksh.7.62 billion against revised target of Ksh.7.96 billion. Total receipt from national equitable share of revenue comprised of Ksh.6.6 billion (87 per cent of total receipts).Others national transfers included Ksh.245 million being conditional allocation for fuel levy fund,344 million being conditional allocation to level hospital,.

Other are grants which include: 82.8 million being World bank grant for health support, Ksh.55.8 million being Kenya devolution support programme,Ksh.27.9 million being Kenya youth support programme,Ksh.28.8 million being DANIDA support to county health facilities and Ksh.13.1 million being conditional allocation for foregone user fees.

During the period under review, the county spent Ksh.6.52 billion against a target of Ksh.7.9 billion representing an absorption rate of 82 per cent. Of the amount spent during the period, recurrent expenditure for the period represents 89.9 per cent of the annual recurrent budget while development expenditure represents 48 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 2017/18, the total exchequer release, other transfers and local revenue collection amounted to Ksh.7.62 billion against a target of Ksh.7.9 billion representing a deviation of 0.34 billion from planned target. In addition the revenue received for the year, there were unspent balances brought forward from the FY 2016/17 amounting to Ksh. 76,115,233.The table below demonstrates the total county receipts by source.

Table 2.1 Summary of County Fiscal Performance

	Budgeted	Actual Performance	Deviations	%
REVENUE	**2017/18**	**2017/18**	**2017/18**	
Equitable Share	6,659,100,000	6,659,100,000	0	100%
Local Collections	250,000,000	86,687,562	163,312,438	34.6%
Grants and loans	256,565,428	192,459,530	110,459,530	75%
Conditional Allocations	727,272,975	603,780,736	123,492,239	83%
Balance B/F	76,115,233	76,115,233	0	100%
Total Revenue	7,969,053,636	7,618,143,061	350,910,575	95.5%
EXPENDITURE				
Executive				
Compensation of employees	2,983,492,218	3,159,371,416	(175,879,198)	105.8%
Operation & Maintenance	1,940,563,027	1,604,062,779	336,500,248	82.6%
Development	2,291,675,920	1,059,776,614	1,231,899,306	46.2%

Assembly				
..				
Compensation of employees	395,786,612	393,606,281	2,180,331	99.4%
Operation and maintenance	278,135,859	233,953,661	44,182,198	84.1%
Development	80,000,000	30,000,000	50,000,000	37.5%
Total Expenditure	**7,969,053,636**	**6,480,770,751**		**81.3%**
Unspent balance	**0**	**1,137,372,310**		

Source: County Treasury

The total revenue collected during the FY 2017/2018 amounted to Ksh. 86,687,562 compared to Ksh. 80,723,998 collected during the FY 2016/2017 representing 7.4 per cent increase.

Table 2.2 Revenue Performance per Stream

REVENUE STREAM	Quarter 1	Quarter 2	Quarter 3	Quarter 4	TOTAL
Stock Auction fees (Cattle/Donkey)	630,920	1,503,160	1,935,415	1,690,500	5,759,995
Stock Auction fees (Camel)	53,900	110,000	259,800	184,000	607,700
Stock Auction fees (Goats)	107,400	141,900	179,770	225,680	654,750
Stock Export fee (Goats)	14,100	105,700	122,300	81,140	323,240
Stock Export fees (Cattle/Donkey)	347,900	702,100	1,385,600	938,290	3,373,890
Slaughter House Rent	100,000	200,000	300,000	300,000	900,000
Daily Market fees	94,880	136,360	116,980	131,900	480,120
Market stalls rent	26,600	-	-	180,000	206,600
Miraa Cess	928,200	920,300	616,000	1,202,300	3,666,800
Single Business Permit(SBP)	279,100	36,700	5,723,470	2,252,610	8,291,880
loading fees	68,400	150,010	208,930	184,280	611,620
Entry/Exit fees	408,340	435,200	776,700	861,520	2,481,760
Land Rent	1,510,784	607,050	539,220	26,000	2,683,054
House Rent (county houses)	-	-	-	47,000	47,000
Water Charges	-	-	-	-	-
Building Materials	1,780,200	1,595,400	2,544,400	1,697,600	7,617,600
Market gate fees(fresh produce)	828,800	662,300	705,500	634,250	2,830,850

Miscellaneous Income	-	34,250	440,818	12,000	487,068
Cereals	-	-	-	91,700	91,700
Development permission	-	69,000	-	-	69,000
Parking fees	311,620	482,850	549,335	236,820	1,580,625
Fines	-	-	-	-	-
Allotment(for schools)	-	-	-	-	-
Charcoal/Other forms of fuel	-	-	-	-	-
Weights and Measures	-	25,200	18,680	239,800	283,680
Hire of County Plant and Machinery	-	-	-	-	-
Clearance certificate	-	-	-	-	-
Other department revenue: Urban Planning	-	-	-	463,600	463,600
School registration	-	-	-	-	-
Approval of Building Plan	-	-	-	93,800	93,800
Supply of firewood	-	-	-	-	-
Advertisement	-	-	-	65,000	65,000
PGH Revenue	1,350,980	6,276,330	7,848,150	8,601,550	24,077,010
Referral	-	-	-	-	-
Iftin Health	40,300	46,750	138,950	149,910	375,910
Bura Hospital	65,250	64,350	103,700	173,900	407,200
Dadaab Hospital	88,790	158,080	144,020	272,300	663,190
Modogashe Hospital	28,550	115,350	72,600	228,950	445,450
Hulugho hospital	-	141,750	79,910	68,650	290,310
Balambala Hospital	-	87,310	-	76,810	164,120
Ijara hospital	-	-	314,050	525,010	839,060
Public Health Township	337,950	27,500	1,101,200	424,000	1,890,650
Township Vet Services	88,335	74,360	224,775	363,405	750,875
Dadaab Vet Services	-	-	-	61,900	61,900

A.M.S	313,100	330,530	170,000	-	813,630
ATC	69,550	86,250	97,900	-	253,700
Conservancy	-	-	-	-	-
Direct Banking-MPESA 209118	-	242,920	8,155,395	2,213,020	10,611,335
Direct Banking-Closure of A/Cs	-	-	-	1,220,891	1,220,891
Sale of tender documents	-	-	151,000	-	151,000
TOTAL REVENUE COLLECTION	**9,873,949**	**15,568,960**	**35,024,568**	**26,220,086**	**86,687,562.95**

Source: County Revenue Management Department

In the FY 2017/18, observation on revenue performance per stream shows that revenue from PGH as the leading earner cumulatively followed by direct bank deposit and single business permit. The lowest source of revenue during the period under review were rent from county houses, development permit fees and advertisements

The trend shows that revenue collections increased sharply during the third and fourth quarter attributed to payment of stock auction fees and renewal of single business permit by traders.

Figure 2.1 Quarterly revenue collection for the FY 2017/18 compared to FY 2016/17

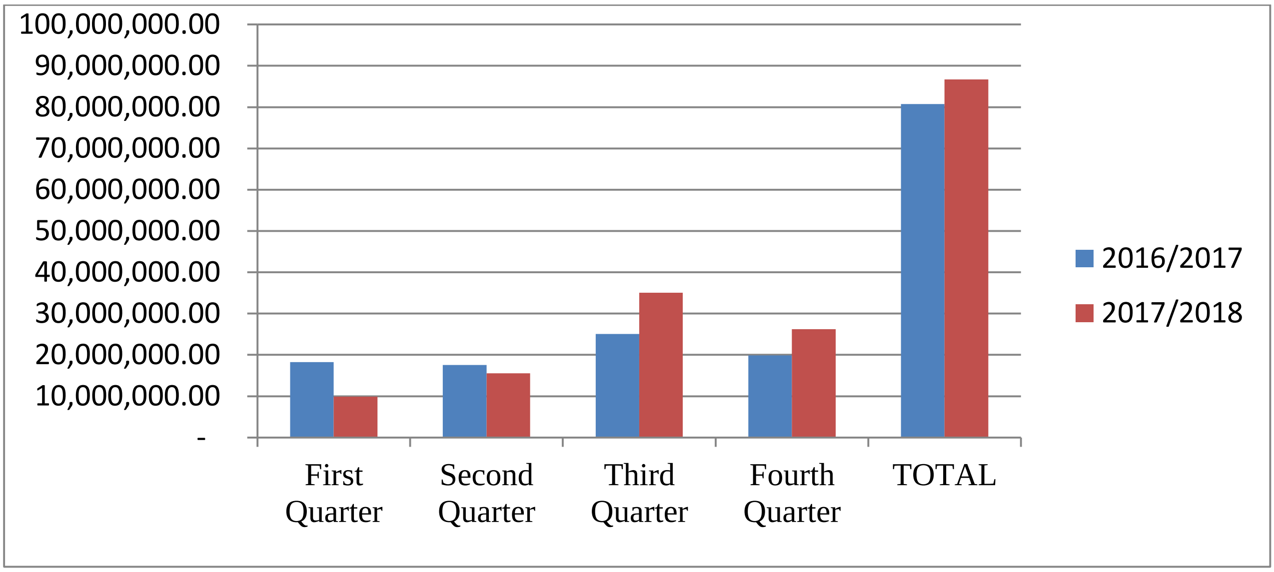


Table 2.3 Comparison of Budgeted and Actual Revenue Collections for FY 2017/2018

No	Revenue Stream	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)	% performance
1	Slaughter house rent	**1,200,000**	**900,000**	75%

2	Stock Auction fees	**24,000,000**	**13,812,955**	58%
3	License & fees	**10,700,000**	**2,459,650**	23%
4	Outdoor Advertisement	**3,000,000**	**565,000**	19%
5	Traffic and Parking	3,000,000	1,580,625	53%
6	Market Entry/Stall fees	5,940,000	686,720	12%
7	Single Business Permit (Once in a year)	30,000,000	10,291,880	34%
8	PGH ,County hospitals cost sharing	28,360,000	27,545,930	97%
9	Royalties	13,000,000	4,000,000	31%
10	Registration and Inspection of educational facilities	4,700,000	3,183,054	68%
11	Land Registration and Rates	91,580,000	3,892,854	4%
12	Cess	17,160,000	10,540,150	61%
13	Other miscellaneous income	17,360,000	7,228,745	42%
	Total	**250,000,000**	**86,687,563**	**35%**

The county own source of revenue realized was 35%of what was budgeted. Notably the biggest loser in the actual revenue collected was land registration and rates which recorded only 4%.

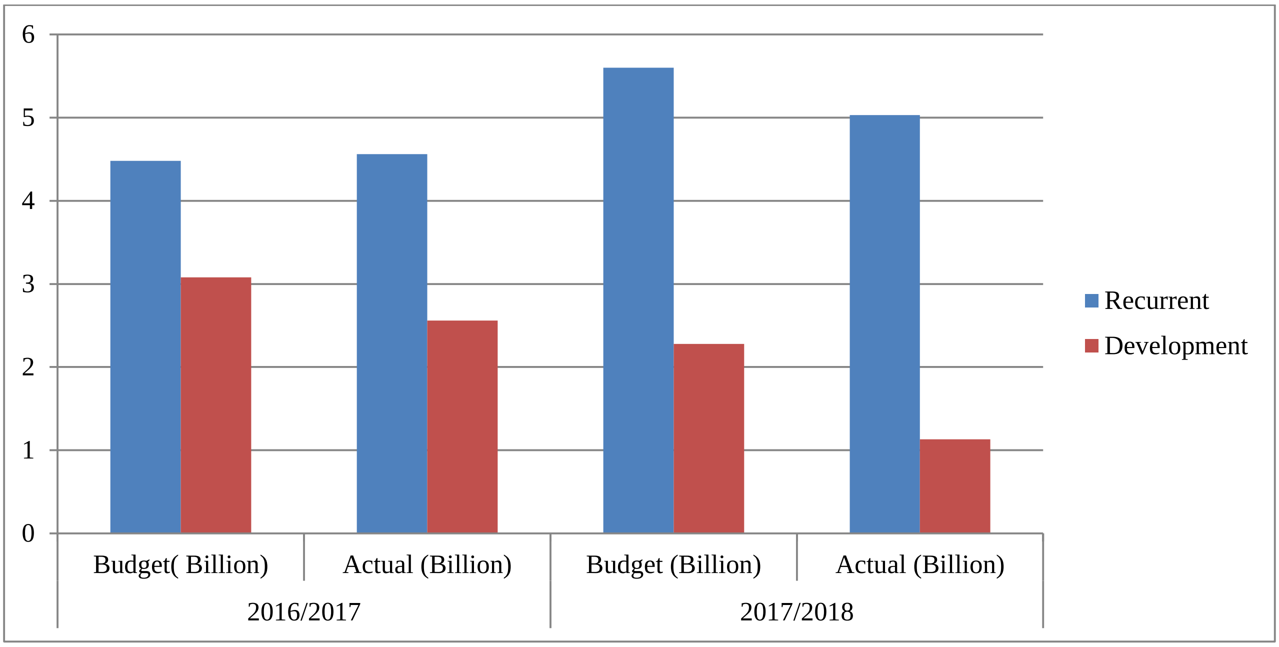
2.2.2 Expenditure Performance

During the Financial Year 2017/2018, the total expenditure amounted to Ksh. 6.52 billion against a budgeted amount of Ksh.7.96 billion which represents an under absorption of Ksh.1.44 billion and 18.1 per cent deviation from appropriated budget.

Recurrent expenditure amounted to Ksh.5.03 billion compared to the budgeted estimate of Ksh. 5.60 billion representing a good absorption rate of 90 per cent.

Expenditure on development amounted to Ksh.1.13 billion compared to the budgeted amount of Ksh2.28 billion which represents an under absorption of Ksh.2.37 billion and 52 per cent deviation.

Figure 2.2 Recurrent and Development Expenditure Analysis for the FY 2016/2017-FY 2017/2018

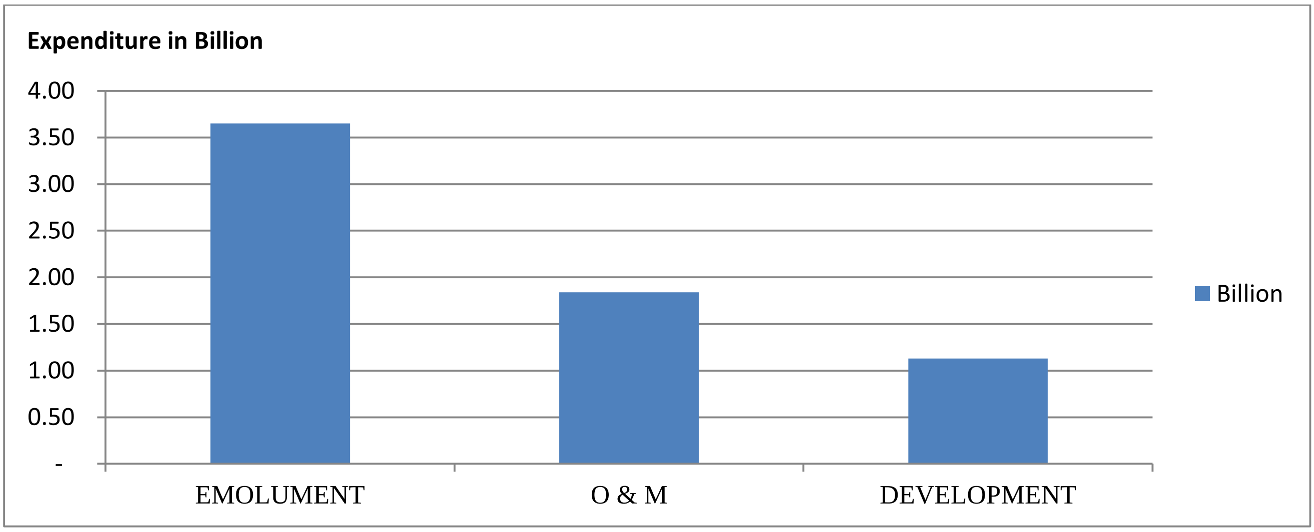


During the FY 2017/2018, the absorption rate for recurrent and development votes was at 52 per cent and 90 per cent respectively.

The county spent Ksh. 3.65 billion on personnel emoluments and Ksh. 1.84 billion on operation and maintenance representing 46 per cent and 23 per cent respectively of the cumulative total revenue.

On other hand, the other expenditure on development amounted to Ksh.1.13 billion which represents 14 per cent of the cumulative revenue.

Figure 2.3 Shows Expenditure by Economic Classification



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

The fiscal performance in the FY 2017/2018 has affected the financial objectives set out in the county fiscal strategy paper and the 2017/2018 budget in the following ways;

- The revenue collections for the financial year fell short of Ksh.250, 000,000 targets by 65 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 30 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.5.03 billion did not exceed the county government's total budget of Ksh.7.96 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 2017/2018 has implications on the base to be used to project expenditure in the FY 2018/2019 and in the medium term. Therefore, appropriate adjustments have to been effected in the context of this policy document.

These implications will also inform 2018 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 pickup in global activity that started in 2016 gathered steam in 2017 and is expected to continue in 2018 supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. As such global growth is projected to increase to 3.9 per cent in 2018 from 3.7 per cent in 2017 and 3.2 per cent in 2016 primarily driven by improving domestic demand in advanced economies and China and improved performance in other emerging market economies.

In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 per cent in 2016 and 2017, a slowdown from a 6.1 Per cent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan. In 2018, economic growth is projected to increase to 5.9 per cent supported by a stable macroeconomic environment, on going infrastructure investments, and strong private consumption.

3.1.2 Domestic Economic Developments

Growth of the Kenyan economy remained resilient, broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies. The economy, specifically, grew at an average of 5.5 per cent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 per cent in the period 2008 to 2012.

However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy is estimated to grow by 4.8 per cent in 2017, which is a Slowdown from the estimated growth of 5.1 per cent in the 2017 Budget Review and Outlook Paper (BROP).

In 2017, the economy grew by 4.4 per cent in Quarter 3, 5.0 per cent in Quarter 2, and 4.7 per cent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate; and information and communication. The growth was somewhat constrained by subdued performances in agriculture, forestry and fishing; manufacturing; electricity; and financial intermediation sectors

3.1.3 Inflation Rate

Inflation rate has been low, stable and within the Government target range of 5+/-2.5 per cent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation averaged 6.7 per cent during the period 2013-2017compared with 7.4 per cent during 2002-2007 and 10.6 per cent during 2008-2012. Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses.

However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.8 per cent in January 2018 from 7.0 per cent in January 2017, and was within the Government's target range.

3.1.4 Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at January 2018, the shilling exchange rate against the Dollar was at Ksh 102.9 compared with Ksh 103.7 in January 2017. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 125.4 and Ksh 141.9 in January 2018 from Ksh 110.2 and Ksh 128.0 in January 2017, respectively.

The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies, has continued to display relatively less volatility. This stability reflected resilient export receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

3.1.5 Interest Rates

Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The rate is currently (January 2018) at 10.0 per cent since August 2016. The interbank rate has remained low at 6.1 per cent in January 2018 from 7.7 per cent in January 2017 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 per cent from 8.6 per cent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 per cent and 11.2 per cent in January 2018 from 10.5 per cent and 11.0 per cent in January 2017, respectively.

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 2018/19 financial year, the county expects to receive ksh.7.6 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 2016/17 collections decreasing by 24 per cent compared to FY 2015/2016.However in the financial 2017/2018, the local collection steadily increased by 7.5 per cent to Ksh.86,687,562. 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. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome.

The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

4 RESOURCE ALLOCATION FRAMEWORK

4.1 Amendment to the 2018/2019 MTEF Budget

Adjustments to the FY 2018/19 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	2019/2020	2020/2021
Education and Labour	653,144,870.00	718,459,357.00	790,305,292.70
Agriculture, Livestock and Cooperatives	210,258,299.00	231,284,128.90	254,412,541.79
Water and Irrigation Services	171,610,755.00	188,771,830.50	207,649,013.55
Finance and Economic Planning	979,724,710.00	1,077,697,181.00	1,185,466,899.10
Trade, Enterprise Development and Tourism	88,939,255.00	97,833,180.50	107,616,498.55
Roads, Transport and Public Works	83,363,376.00	91,699,713.60	100,869,684.96
County Public Service Board	51,048,530.00	56,153,383.00	61,768,721.30
Executive Services	276,328,645.00	303,961,509.50	334,357,660.45
Environment, Energy and Natural Resource	52,493,988.00	57,743,386.80	63,517,725.48
Lands, Housing and Urban Development	244,185,512.00	268,604,063.20	295,464,469.52
Gender, Social Services and Sport	76,595,728.00	84,255,300.80	92,680,830.88
Health and Sanitation Services	2,161,472,229.00	2,377,619,451.90	2,615,381,397.09
Assembly	711,000,000.00	782,100,000.00	860,310,000.00
TOTAL	**5,760,165,897.00**	**6,336,182,486.70**	**6,969,800,735.37**

Development Ceiling

Departments	Current Year	Projections	
	2018/2019	2019/2020	2020/2021
Education and Labour	75,355,000.00	82,890,500.00	91,179,550.00
Agriculture, Livestock and Cooperatives	370,000,000.00	407,000,000.00	447,700,000.00
Water and Irrigation Services	1,680,000,000.00	1,848,000,000.00	2,032,800,000.00
Finance and Economic Planning	300,000,000.00	330,000,000.00	363,000,000.00
Trade, Enterprise Development and Tourism	170,000,000.00	187,000,000.00	205,700,000.00
Roads, Transport and Public Works	282,708,358.00	310,979,193.80	342,077,113.18
Executive Services	180,000,000.00	198,000,000.00	217,800,000.00
Environment, Energy and Natural Resource	30,000,000.00	33,000,000.00	36,300,000.00
Lands, Housing and Urban Development	443,506,000.00	487,856,600.00	536,642,260.00
Gender, Social Services and Sport	281,000,000.00	309,100,000.00	340,010,000.00
Health and Sanitation Services	520,000,000.00	572,000,000.00	629,200,000.00
Assembly	70,000,000.00	77,000,000.00	84,700,000.00
TOTAL	**4,402,569,358.00**	**4,842,826,293.80**	**5,327,108,923.18**

Source: County Treasury

4.3 Proposed 2019/2020 Budget Framework

The 2019/2020 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, departmental Strategic 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. 11.2 billion up from Kshs. 10.2 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 2019 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.