



KISII COUNTY GOVERNMENT

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER
FINANCIAL YEAR 2016/2017

August, 2017

FOREWORD

The County Budget Review and Outlook Paper (CBROP) is prepared in line with section 118 (1) of the Public Finance Management Act, 2012. It reviews the actual fiscal performance of the financial year 2016/17 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP), February, 2016.

In reviewing the fiscal performance, this Paper analyzes the performance of the County's revenue and departmental expenditures for the 2016/17 FY and causes for any deviations are also highlighted.

This Paper provides an overview of how the actual performance of the FY affected our compliance with the Fiscal Responsibility Principles and the financial objectives as outlined in the County Fiscal Strategy Paper, 2016 (CFSP).

The CBROP will play a critical role in the preparation of the 2018/19 FY budget and management of public resources in the County Government. To strengthen the budget preparation process, the County Government will continue to embrace performance budgeting, stakeholder involvement and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money.

The County Government is committed to implementation of its development agenda by allocating resources to priority areas in a transparent and accountable manner and by improving service delivery to the satisfaction of its residents.

J B MOMANYI

COUNTY EXECUTIVE COMMITTEE MEMBER FOR FINANCE AND PLANNING

ACKNOWLEDGEMENTS

The Kisii County Budget Review and Outlook Paper (CBROP) August, 2017 is as a result of wide consultations. This Paper is prepared in accordance with Section 118 (1) of the Public Finance Management Act, 2012 which stipulates that the County Treasury shall prepare the Budget Review and Outlook Paper of the County for each financial year and submit the Paper to the County Executive Committee by the 30th September of that year.

We are particularly grateful to His Excellency the Governor for his lead role, direction and guidance in developing this document; His Excellency the Deputy Governor, County Executive Member for Finance and Economic Planning and other County Executive Committee Members, Chief Officers and directors of various departments for their input in providing much needed information to the team working on the third County Budget Review and Outlook Paper for Kisii County Government.

The contents of this CBROP has benefited from an array of expertise of technical officers drawn from the County Treasury and Strategy, Delivery and Project Management Unit. We sincerely express our gratitude to all those persons that participated in the drafting and printing of this Paper.

We specifically appreciate the tireless efforts of the technical team comprising of Mr. Onchari Kenani, (Economic Advisor); Mr. John Karori Nyamiobo, (Political and Budget Advisor), Mr. Edward Nyaberi Mayogi, Mr. Penuel Nyaanga Ondieng'a, Mr. Peterson Nyakeri Nyameta, Mr. Steve Otieno Siso and Mr. Alfred Kipkorir Keter, Mr. Chrispinus Ibalai, Ezekiel Apima, Mr Wycliffe Nyaundi , Ms. Edith Manoti, Mr. Lucas Arasa, Mr. Joshua Simba Oseko and Ms. Rebecca Matunda for working tirelessly in the development of this document.

Finally, we cannot forget the role played by the County Budget and Economic Forum (CBEF) members for their immense contributions to this CBROP.

WILFRED O. AUMA

CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

Table of Contents

FOREWORD	ii
ACKNOWLEDGEMENTS	iii
Fiscal Responsibility Principles in the Public Financial Management Act, 2012.....	vi
Legal Basis for Preparation of the County Budget Review and Outlook Paper	vii
ABBREVIATIONS	viii
<i>List of Figures</i>	x
<i>List of Tables</i>	xi
1.0 INTRODUCTION	12
1.1. Objectives of the County Budget Review and Outlook Paper.....	12
1.2. Structure of the CBROP	13
2.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK	14
2.1 Overview.....	14
2.2 Recent Economic Developments	14
2.2.1 GROSS DOMESTIC PRODUCT	14
2.2.2 Inflation.....	14
2.2.3 Financial Intermediation.....	14
2.2.4 Interest rates.....	15
2.2.5 Agriculture.....	15
2.2.6 Energy.....	16
2.2.7 Infrastructure Development	16
2.2.8 Remittances.....	16
2.3 Economic Risks	17
3.0 REVIEW OF FISCAL PERFORMANCE IN 2016/2017	19
3.1 Overview	19
3.1.1 Recurrent and Development Expenditures	23
3.2 Implications of 2016/17 Fiscal Performance on 2017/18 and the Medium Term.....	24
4.0 RESOURCE ALLOCATION FRAMEWORK	26
4.1 Adjustment to 2017/2018 Budget and Over the Medium Term	26
4.2 Medium-Term Expenditure Framework	27
4.3 Revenue Projections	31
<i>Source: Kisii County Treasury, 2017</i>	32
4.4 Expenditure Forecasts	32
4.5 Challenges experienced in the Implementation of FY 2016/17	32

5.0 CONCLUSION AND WAY FORWARD..... 32

Fiscal Responsibility Principles in the Public Financial Management Act, 2012.

The public Financial Management Act, 2012 Section 107 states that the County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:

- (a) The County Government's recurrent expenditure shall not exceed the county government's total revenue;
- (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) The County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
- (d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- (e) The County debt shall be maintained at a sustainable level as approved by county assembly;
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

Legal Basis for Preparation of the County Budget Review and Outlook Paper

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

1) The County Treasury shall prepare and submit to the County Executive for approval, by 30th September in each financial year, a 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 macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent CFSP.

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 CFSP; 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) 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.

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 publicize the Paper.

ABBREVIATIONS

ADP	Annual Development Plan
CBEF	County Budget Economic Forum
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
CPI	Consumer Price Index
CoB	Controller of Budget
CRF	County Revenue Fund
DANIDA	Danish Development Agency
ECD	Early Childhood Development
FY	Financial Year
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IDEAS	Instrument for Devolution Advice and Support
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
KTDA	Kenya Tea Development Agency
MLND	Maize Lethal Necrotic Disease
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management
PPP	Public Private Partnership
PPOA	Public Procurement Oversight Authority

SACCO	Savings and Credit Co-operative
SDGs	Sustainable Development Goals
USA	United States of America

List of Figures

Figure 1.1 Remittance inflow in USD millions from May, 2016 to May, 2017 17

List of Tables

Table 3.1: Revenue Analysis for FY 2016/17	16
Table 3.2: Recurrent and Development Exchequer releases for the FY 2015/16	18
Table 3.3: Local Revenue Outturn for FY2016/17	19
Table 3.4: Recurrent Expenditure Analysis FY 2016/17	21
Table 3.5: Development Expenditure Analysis FY 2016/17	22
Table 4.1: Total Sector Estimates for MTEF FY2017/18 to FY2019/20	2

CHAPTER ONE

1.0 INTRODUCTION

1. The County Budget Review and Outlook Paper (CBROP) is prepared in line with Section 118 (1) of the PFM Act, 2012 which stipulates that the County Treasury shall prepare and submit a CBROP to the County Executive Committee for approval, by 30th September in each Financial Year.
2. This CBROP sets out the background and broad fiscal parameters for the revision of FY 2017/18 and preparation of FY 2018/19 budget consistent with the County Government priorities and strategies. To strengthen the budget process, the County Government will continue to embrace performance budgeting, stakeholder involvement and deepen public financial reforms to increase efficiency and effectiveness in service delivery.
3. The PFM Act, 2012 has set high standards for compliance with the Medium Term Expenditure Framework (MTEF) budgeting process. The CBROP, therefore, provides a linkage between policy, planning and budgeting. It is expected that the sector ceilings for the budget of FY 2018/19 will be realigned to the County strategies outlined in the County Fiscal Strategy Paper, 2017 (CFSP).

1.1. Objectives of the County Budget Review and Outlook Paper

4. The objectives of the County Budget Review and Outlook Paper is to:-
 - i. Carry out a review of the previous fiscal performance in the County and its impact on the financial objectives and fiscal responsibility principles as set out in Section 107 of the PFM Act, 2012.
 - ii. Provide a basis for revision of the current financial year's budget in the context of the Revised Estimates as provided in Section 135 of the PFM Act, 2012 and the broad fiscal parameters underpinning the next budget.
 - iii. Provide reasons for any deviations from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.
 - iv. Provide an update on economic development outlook to be firmed up in the CFSP, to reflect any changes in macro-economic and financial conditions.

1.2. Structure of the CBROP

5. The Paper is organized into four chapters. Chapter One provides the introduction and objectives of the CBROP. Chapter Two details the recent economic developments while Chapter Three provides a review of the fiscal performance in FY 2016/2017 and its implications on the financial objectives as set out in the CIDP. Chapter Four provides the resources allocation framework and the way forward.

CHAPTER TWO

2.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Overview

6. According to Kenya National Bureau of Statistics (KNBS), Statistical Releases, December 2017, the country's real Gross Domestic Product (GDP) is estimated to have maintained a growth momentum for the third consecutive year to expand to 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015.
7. Factors that affect economic development include but not limited to inflation, interest rates, exchange rates, diaspora remittances, agriculture, transport and storage services.

2.2 Recent Economic Developments

2.2.1 GROSS DOMESTIC PRODUCT

8. Real Quarterly Gross Domestic Product (QGDP) is estimated to have slowed down to 5.0 percent in the second quarter of 2017 compared to 6.3 percent in the corresponding quarter of 2016. The second quarter of 2017, was characterized by increases in food prices as a result of adverse weather conditions and a notable rise in international oil prices according to Kenya National Bureau of Statistics (KNBS) QGDP Report second quarter of 2017. However, the economy is expected to expand by 5.5 percent in 2017 which is lower than that of 2016 which was at 5.8%.

2.2.2 Inflation

9. According to KNBS, Economic Survey Report of 2017, the inflation rate increased to 8.3 percent in August 2017 compared to 6.5 percent in the same period of 2016. The rise in oil prices pushed up the cost of manufacturing in industries as well as transport costs. This affected Kisii County households' consumption, savings and investment patterns.

2.2.3 Financial Intermediation

10. According to Central Bank of Kenya, Monthly bulletin Releases of May, 2017, this sector recorded a growth rate of 6.9 percent in 2016 compared to 9.4 per cent in 2015. The relatively depressed performance was mainly as a result of a decelerated growth of 6.7 percent in earnings from banking institutions partly due to uncertainty associated with the capping of interest rate at 4 percent points above the CBR by CBK in September, 2016.

Growth of credit to the private sector plummeted from 24.5 percent to 9.1 percent in 2015 and 2016 respectively and this is because banks are opting to lend to safer borrowers such as the Government and large corporations rather than small riskier borrowers. On the other hand, borrowers have resorted to other means of accessing credit such as shy-locking and thus negatively impacting on investment.

11. Financial innovations such as electronic and mobile banking have transformed the way financial institutions conduct their business and thus giving some a competitive advantage over the rest. Additionally, CBK took action against Chase Bank of Kenya, Dubai Bank and Imperial Bank due to mismanagement and financial improprieties. In a bid to remain competitive and as a cost cutting measure, some banks such as Standard Chartered ceased operations in Kisii Town.

2.2.4 Interest rates

12. According to Central Bank of Kenya, Monthly bulletin Releases of July, 2017, the Central Bank Rate (CBR) dropped to 10.0 percent in the second quarter of 2017 compared to 10.5 percent over the same period in 2016. During this period, interest rates for commercial banks loans and advances were recorded at 13.65 percent in June, 2017 compared to 18.18 percent in June, 2016. The interest rate on savings increased to 5.66 percent in June, 2017 compared to 1.6 percent in June, 2016. Despite the capping of interest rates, growth of credit to the private sector plummeted from 24.5 percent to 9.1 percent in 2015 and 2016 respectively and this is because banks are opting to lend to safer borrowers such as the Government and large corporations rather than small riskier borrowers. This has, therefore, limited access to credit by Kisii proprietors for trade and investment.

2.2.5 Agriculture

13. According to the Kenya National Bureau of Statistics (KNBS), Economic Survey of 2017, this sector expanded by 4.0 percent in 2016 down from a growth of 5.5 percent in 2015. Performance of the agriculture sector was adversely affected by widespread drought experienced during the fourth quarter of 2016, the armyworm invasion in some parts of the country and the Maize Lethal Necrotic Disease (MLND) that considerably affected crop production and rearing of animals. This led to a notable slowdown in the manufacture of food as agro-processing was negatively affected by constrained supply of

raw products. Agricultural production and consumption needs of Kisii residents were also adversely affected.

14. According to Deloitte, Kenya Economic Outlook Report of 2017, there was a slight improvement in tea production which increased marginally from 109.7 thousand metric tonnes in the second quarter of 2016 to 110.8 metric tonnes in the same period in 2017. In addition the value of exports of horticultural produce improved from KShs. 26.6 billion to KShs. 28.7 billion in the same period under review. This led to increased earnings to farmers including those ones from Kisii County.

2.2.6 Energy

15. According to the Kenya National Bureau of Statistics (KNBS), Economic Survey of 2017, this sector recorded a decelerated growth of 9.1 percent in 2016 down from a revised growth rate of 11.5 percent in 2015. The slowed growth is partly attributed to substitution of geothermal generation with relatively more costly thermal generation. Additionally, generation of hydroelectric power was immensely constrained in the fourth quarter of 2016 as a result of erratic rains. This increased the cost of production of goods which in turn led to higher prices of commodities and thus affecting consumption needs of Kisii residents.

2.2.7 Infrastructure Development

16. According to the Kenya National Bureau of Statistics (KNBS), Economic Survey of 2017, the construction sector is estimated to have expanded by 9.2 percent in 2016 compared to a growth rate of 13.9 percent recorded in 2015. The slower growth was due to a considerable reduction in the activity of the construction of the Standard Gauge Railway as it neared completion and a slow uptake of loans in the construction and building sector from KShs. 106.3 billion in 2015 to KShs. 104.8 billion in 2016. However, consumption of cement increased from 5.7 million tonnes in 2015 to 6.3 million tonnes in 2016, an indication of a robust growth despite the slow- down. This is evidenced in Kisii County as residential and commercial buildings are coming up.

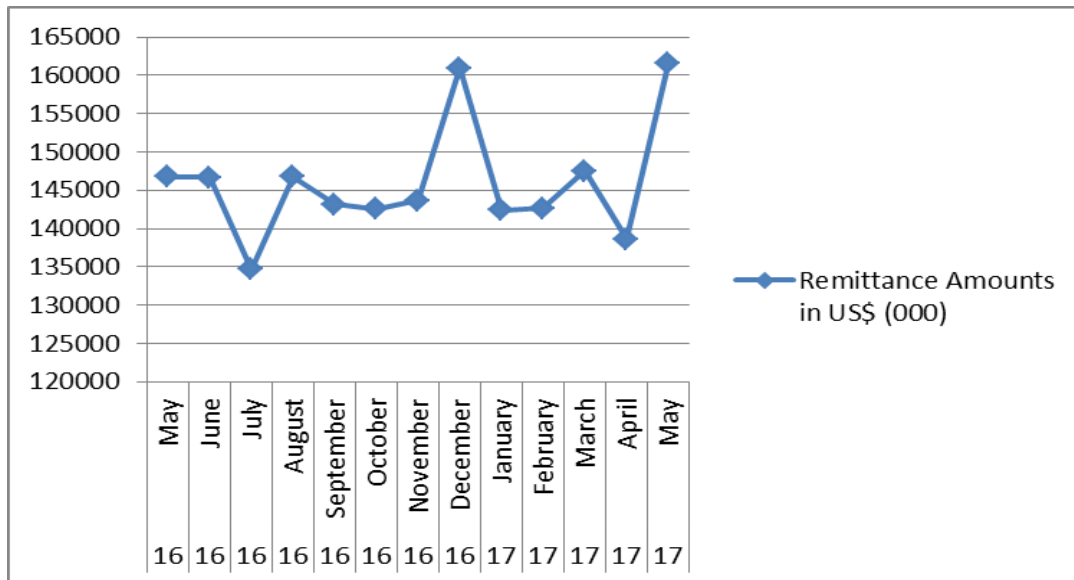
2.2.8 Remittances

17. Remittances have become the country's largest source of foreign exchange insulating the domestic economy from external shocks by ensuring the steady supply of dollars in the

system. According to CBK Monthly Bulletin Releases of June, 2017, diaspora remittances reached \$161.5 million in May, a growth of 10.04 percent compared to \$146.76 million the same month last year. The May, 2017 improvement reflects higher inflows from North America and Europe with the former accounting for 48 percent of total inflows and the latter accounting for 52 percent.

18. The 12 month- average inflows also sustained an upward trend to \$145.9 million in May from \$136.3 million over the same period in 2016. Diaspora remittances have become a key support of the Shilling which is under pressure due to low export earnings. This, therefore, remains a key source of earning for county residents who in turn invest in the local economy.

Figure 1.1 Remittance inflow in USD millions from May, 2016 to May, 2017



Source: CBK website

2.3 Economic Risks

19. Although the growth of Kisii County economy is promising, it is still prone to risks. The macroeconomic management and performance of the sectors under the National Government has an effect on how the sectors of the County perform. Some of the risks include;

- i. Political uncertainty due to the 2017 general elections and the pending repeat presidential elections has affected investors' confidence hence reduced economic growth.

- ii. The emerging USA foreign policy of ‘America First’ coupled with Britain’s exit (BREXIT) from the European Union are likely to translate to reduced foreign investments to emerging economies like Kenya.
- iii. Continued borrowing from the domestic market by the Government has limited access to credit as lenders prefer to invest in safer government securities rather to small and micro-sized enterprises. This has led to contraction of the economy as businesses and individuals find it hard to access credit making them unable to participate in economic activities.
- iv. Corruption in the public sector reduces investor confidence and increases cost of doing business and, therefore, discourage investment.
- v. Public expenditure pressures especially recurrent expenditures pose fiscal risks. The wage bill currently stands at 43 percent of the total budget against the recommended 35 percent. Additionally, deficits realized in revenue collection limits resources available for implementation of planned development projects.

CHAPTER THREE

3.0 REVIEW OF FISCAL PERFORMANCE IN 2016/2017

3.1 Overview

In the 2016/17 FY, the County Government anticipated to receive KShs. 10 billion but received KShs. 9.3 billion. The underperformance was attributed to the County not fully realizing its projected domestic revenues and delayed disbursement of funds from the National Treasury as shown in Table 3.1.

Table 3.1 Revenue Analysis for 2016/17

Revenue Source	2016/2017		Deviation	Deviation
	Budget(KShs)	Actual Receipts (KShs)	(Budget less Actual)	%
Receipts from National Government(Equitable Share)	7,654,114,596	7,654,114,596	0	0
Conditional Share Kisii Level Five	397,687,861	397,687,861	0	0
DANIDA Health Sector Services Fund (HSSF)	11,475,000	11,475,000	0	0
Leasing of Medical Equipment	95,744,681	0	95,744,681	0
Conditional Allocation Free Maternal Healthcare	168,133,301	145,550,000	22,583,301	13
Unspent balances FY 2015/2016	690,047,826	690,047,826	0	0
Road Maintenance Fuel Levy Fund	117,605,419	117,605,419	0	0
Conditional Allocation for Compensation for User Fee Forgone	26,947,170	26,947,170	0	0
Receipts from Local Sources	725,000,000	273,316,074	451,683,926	62
Health systems for universal care	23,174,846	0	23,174,846	100
EU Instruments for Devolution Advice and Support	110,000,000	0	110,000,000	100
Tea Cess (KTDA)	16,349,403	16,349,403	0	0
Kenya Devolution Support Program "starter pack"- World Bank	34,251,811	0	34,251,811	100
Total	10,070,531,914	9,333,093,349	737,438,565	93

Source: Kisii County Treasury

20. Local revenue collected amounted to **KShs. 273,316,074** against a projected estimate of **KShs. 725,000,000** reflecting a shortfall of **KShs. 451,683,926**. This underperformance affected the execution of planned programmes and projects.
21. The County received the whole amount of equitable share of **KShs. 7,654,114,596**. However, out of this amount; **KShs. 1,224,658,336** was released into the County Revenue Fund Account on 30th June, 2017 and thus it was not possible for the County to spend these funds because of stringent timelines and financial guidelines on expenditure which require that Counties should cease expenditure and close books of accounts by close of business on 30th June, each year.
22. The County received the whole amount of Conditional Allocation for Kisii Level Five Hospital of **KShs. 397,687,861**. However, out of this amount; **KShs. 63,630,058** was released into the County Revenue Fund Account on 30th June 2017 and thus it was not possible for the County to spend these funds because of stringent timelines and financial guidelines on expenditure which require that Counties should cease expenditure and close their books of accounts by close of business on 30th June, each year.
23. A grant of **KShs. 11,475,000** from DANIDA meant to support Level 2 and 3 hospitals was entirely received by the County.
24. The County had anticipated to receive **KShs. 95,744,681** for leasing of medical equipment but these funds were never released as the National Government spends the money at source and only releases medical equipment to County Governments.
25. The County received **KShs. 145,550,000** being a Conditional Allocation for Free Maternal Healthcare against a projected amount of **KShs. 168,133,301** representing a shortfall of 13 percent.
26. Allocations for Compensation for User Fee Foregone, Road Maintenance Fuel Levy Fund and Tea Cess of **KShs. 26,947,170**, **KShs. 117,605,419** and **KShs. 16,349,403** respectively were all received by the County.
27. Allocations for Health Systems for Universal Healthcare, EU Instruments for Devolution Advise and Support and Kenya Devolution Support Program of **KShs. 23,174,846**, **KShs. 110,000,000** and **KShs. 34,251,811** respectively were not received.
28. Total Exchequer releases into the CRF Account from the National Treasury from 1st July 2016 to 30th June 2017 amounted to **KShs.9,333,093,349**. Out of this, only **KShs. 8,022,663,183** comprising of **KShs. 5,982,064,738** and **KShs. 2,040,598,444** for recurrent and development expenditure respectively had been transferred to the operations account to allow the County to incur expenditure as illustrated in Table 3.2.

Table 3.2: Recurrent and Development Exchequer releases to Operations Account in the FY 2016/17

DATE	RECURRENT (KShs)	DEVELOPMENT (KShs.)	TOTALS (KShs)
10-Aug-16	546,856,906	-	546,856,906
25-Aug-16	518,511,823	190,000,000	708,511,823
13-Sep-16	-	48,707,808	48,707,808
27-Sep-16	463,081,172	-	463,081,172
29-Sep-16	5,108,818	306,731,233	311,840,051
2-Nov-16	535,736,061	187,803,468	723,539,529
1-Dec-16	486,270,498	204,429,502	690,700,000
23-Dec-16	499,968,681	-	499,968,681
17-Jan-17	34,267,500	303,193,262	337,460,762
2-Feb-17	409,085,000	-	409,085,000
21-Feb-17		182,000,000	182,000,000
22-Feb-17	-	53,803,468	53,803,468
8-Mar-17	496,866,781	-	496,866,781
21-Mar-17	-	155,815,029	155,815,029
11-Apr-17	546,001,399	-	546,001,399
26-Apr-17	28,010,000	132,705,029	160,715,029
8-May-17	270,525,900	-	270,525,900
22-May-17	284,432,733	-	284,432,733
8-Jun-17	312,476,982	-	312,476,982
15-Jun-17	182,721,991	126,409,645	309,131,636
16-Jun-17	50,000,000	-	50,000,000
20-Jun-17	-	149,000,000	149,000,000
29-Jun-17	312,142,494	-	312,142,494
TOTAL	5,982,064,675	2,040,598,444	8,022,663,183

Source: Kisii County Treasury

29. The local revenue outturns indicate that the County Government collected **KShs. 273 million** against a projection of **KShs. 725 million** representing a shortfall of **KShs. 452 million**. This is shown in Table 3.3

Table 3.3: Local Revenue Outturns for FY 2016/17

	Budget Estimates (KShs.)	Actual Receipts(KShs.)	Revenue Performance %
1-2101 Property rates	20,000,000	7,189,993	36
Property rates arrears	23,000,000	2,075,973	9
1-2104 Other Property Charges	500,000	398,210	80
1-2201 Business Permits Current Year	140,000,000	48,253,533	34
1-2301 Tea Cess	5,000,000	16,350,003	327
1-2302 Coffee Cess	4,000,000	24,190	1

1-2311 Fruits & Vegetables / Produce Cess	5,000,000	7,606,722	152
1-2314 Log Cess	8,000,000	10,560	0
1-2501 Ground Rent - Current Year	7,000,000	942,515	13
1-3103 Plot Transfer Fee	5,000,000	15,000	0
1-3105 Miscellaneous income	75,000,000	1,747,284	2
1-3106 Isolation Fee (Surcharge on Business Permit)	6,000,000	326,700	5
1-3201 Ambulant Hawkers Licences (Other than BSS Permits)	1,000,000	-	0
1-3203 Impounding Charges	5,950,000	359,080	6
1-3301 Sand, Gravel, and Ballast Extraction Fees	2,000,000	-	0
1-3302 Quarry Extraction Fees	2,000,000	-	0
1-3501 County Premises Monthly Rent (Offices, etc.)	2,000,000	493,104	25
1-5101 Market Entrance / Gate Fee	60,000,000	59,065,218	98
1-5102 Market Plots Rent	12,000,000	1,800,752	15
1-5103 Market Shops Rent	15,000,000	250,100	2
1-5104 Market Kiosks Rent	10,000,000	26,500	0
1-5105 Market Stalls Rent	9,000,000	4,218,250	47
1-5201 Enclosed Bus Park Fee	33,000,000	31,552,560	96
1-5211 Other Vehicles Enclosed Park Fees (Cars, Lorries, etc.)	6,500,000	5,508,660	85
Motorcycle parking stickers	11,700,000	15,868,820	136
1-5221 Street Parking Fee	67,000,000	3,639,365	35
1-5225 Clamping Fine	3,000,000	297,290	10
1-5226 Towing Fine	3,000,000	240,741	8
1-5227 Storage Fee	4,000,000	46,800	1
1-5228 Clamping Tampering Fee	3,000,000	-	0
1-6301 Social Hall Hire	5,000,000	-	0
1-6311 Stadium Hire	1,500,000	-	0
1-8301 Refuse Collection Fee	1,500,000	-	0
1-8401 Slaughtering Fee	11,000,000	646,750	6
1-8402 Hides & Skins Fee	1,600,000	-	0
1-9101 Beacon Search Pointing Fee	1,250,000	-	0
1-9102 Survey Fee	1,500,000	-	0
1-9112 Buildings Plan Approval Fee	25,000,000	11,990,666	48
1-9113 Buildings Inspection Fee	2,500,000	116,750	5
1-9132 Sign Boards & Advertisement Fee	35,000,000	24,107,360	69
1-9201 Fire-Compliance Fee	8,500,000	6,475,265	76

Revenue from Agricultural Training Centre	22,000,000	-	0
Hire of plant and machinery and equipment	32,000,000	-	0
Devolved function revenues	28,000,000	1,671,360	6
TOTAL	725,000,000	273,316,074	38

Source: Kisii County Treasury

3.1.1 Recurrent and Development Expenditures

Table 3.4 - Recurrent Expenditure Analysis FY 2016/17

Department	Budget Estimates(KShs) a	Exchequer Releases (KShs.) b	Actual Expenditure(KShs) c	Deviation (a-c)	Absorption rate %
County Assembly	883,788,862	791,067,391	790,098,228	93,690,634	89
County Executive	364,680,153	364,193,153	363,466,353	1,213,800	100
County Administration	527,626,001	512,626,001	508,126,001	19,500,000	96
Public Service Board	41,504,480	41,524,280	41,220,679	283,801	99
Finance and Planning	704,468,278	655,131,461	658,209,404	46,258,874	93
Agriculture	285,925,126	284,149,913	284,149,913	1,775,213	99
Health Services	2,387,940,512	2,291,641,418	2,291,061,334	96,879,178	96
Environment	146,234,029	145,361,028	140,211,028	6,023,001	96
Education and Youth	576,777,158	458,292,158	457,467,188	119,309,970	79
Lands	84,404,712	81,548,712	85,315,407	-910,695	101
Trade Development	66,129,585	66,121,585	60,740,667	5,388,918	92
Public Works	128,863,663	129,351,663	129,351,663	-488,000	100
Culture	83,592,198	81,668,198	81,913,737	1,678,461	98
Kisii Town	79,387,714	79,387,714	79,387,714	0	100
Totals	6,361,322,471	5,982,064,675	5,970,719,316	390,603,155	94

Source: Kisii County Treasury

30. Recurrent expenditure amounted to **KShs. 5,970,719,311** against exchequer releases of **KShs. 5,982,064,739** representing an overall absorption rate of **99.8 Percent** From the released recurrent expenditure.

Table 3.5 - Development Expenditure Analysis FY 2016/17

Item	Budget Estimates (KShs)	Exchequer Releases (KShs)	Actual Expenditure (KShs)	Deviation (KShs)	Absorption rate %
	(a)	(b)	(c)	(a-c)	
County Assembly	195,000,000	113,000,000	72,572,152	122,427,848	37
County Administration	173,500,000	48,800,000	61,846,198	111,653,802	36
Finance and Planning	119,490,630	70,414,242	102,943,931	16,546,699	86
Agriculture	235,319,800	74,652,937	102,488,234	132,831,566	44
Health Services	741,595,622	452,560,113	435,208,004	306,387,618	59
Environment	365,447,834	187,345,897	157,347,494	208,100,340	43
Education and Youth	271,000,000	95,761,446	52,749,326	218,250,674	19
Lands	179,700,000	55,010,032	69,246,795	110,453,205	29
Public Works	972,155,557	807,770,701	851,229,235	120,926,322	88
Trade Development	186,000,000	59,214,441	52,227,379	133,772,621	18
Culture	213,000,000	71,068,635	50,449,143	162,550,857	24
Kisii Town	57,000,000	5,000,000	6,581,368	50,418,632	12
Totals	3,709,209,443	2,040,598,444	2,014,889,259	1,694,320,184	54

Source: Kisii County Treasury

31. Development expenditure incurred amounted to **KShs. 2,014,889,259** compared to exchequer releases of **KShs. 2,040,598,444** which represents an absorption rate of **99 percent**.

3.2 Implications of 2016/17 Fiscal Performance on 2017/18 and the Medium Term

32. The fiscal performance in the FY 2016/17 has affected the objectives set out in the ADP, 2016, CFSP, 2017 and the budget for FY 2017/18. The County Government did not realize the projected local revenue and, therefore, some of the planned programmes and projects were not implemented. In order to boost collection of local revenue and deal with leakages the County is in the process of automating its revenue collection system and bolster the capacity of enforcement personnel through trainings and skills development.

33. Late disbursement of funds to Counties by the National Treasury has also hampered the implementation of programmes and projects and thus Counties have accumulated huge pending bills.

CHAPTER FOUR

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustment to 2017/2018 Budget and Over the Medium Term

34. In view of the issues that were noted in the implementation of FY 2016/17 budget, several adjustments have been undertaken in the FY 2017/18 budget. These adjustments are key to the County performance in the MTF period.
- a) In order to enhance service delivery, the County Government has created additional 6 divisions bringing it to a total of 16 divisions to be headed by Chief Officers. The departments of Health Services, Public Works, Roads and transport, Environment, Energy, Water And Natural Resources, Agriculture, Livestock, Fisheries And Cooperative Development, Finance and Economic Planning, Administration, Corporate Services and Stakeholder Management have been split into Health Services and Public Health, into Roads and public Works And Housing, into Water Services and Energy, into Environment and Natural Resources, into Agriculture and Cooperative Development and Fisheries, Livestock and Veterinary Services, into Finance and Accounting Services and Planning and Economic Planning and into Administration, Enforcement and Devolved Units and Stakeholder Management, Public Participation and Disaster Management respectively. Moreover, Allocation of resources has been based on this and spending will be decentralized to the devolved units.
 - b) The establishment of the **KShs. 2 billion** modern cancer diagnostic and treatment centre at Kisii Teaching and Referral Hospital is expected to start soon and as such the County Government is to allocate **KShs. 30 million** as counterpart funds to initiate the process and cater for other incidental costs.
 - c) In the FY 2017/18, the County Government has allocated resources for on-going programmes and projects including pending bills in a bid to address debt sustainability issues and bring sanity in public spending. This can be partly attributed to irregular and delay in disbursement of funds by the National Treasury, challenges in the procurement processes and lack of strict adherence to the budget guidelines.
 - d) The County's wage bill accounts for 43 percent of the total budget against the recommended 35 percent which is largely attributed to a high number of personnel inherited from the local authorities and National Government. Sufficient resources

have been allocated to cater for staff pensions and gratuity in the 2017/2018 FY budget.

- e) The County did not realize domestic revenue targets due to the inherent risks associated with the manual revenue collection system. To address this challenge, funds have been set aside in the FY 2017/18 budget for automation of revenue collection and enhancing the capacity of the enforcement and revenue personnel through training and skills development.
- f) The County is set to get a conditional allocation of KShs. 30 million and KShs. 50 million for development of youth polytechnics and transforming health systems for universal care respectively. It will also receive KShs. 50 million being a loan from World Bank for National Agricultural and Rural Inclusive Growth Project.

4.2 Medium-Term Expenditure Framework

- 35. The County Government will direct resources to the following County priority areas in FY 2017/2018 and over the Medium Term period;

a) Water, Sanitation & Environmental Management

- 36. Management of water resources and environment still remains a serious challenge in Kisii County today. To ensure residents have improved access to safe and clean drinking water, the County will continue to invest in spring protection, drilling of boreholes, construction of water schemes while at the same time rehabilitating existing ones. Going forward, the focus will be water reticulation.
- 37. In the 2017/2018 FY budget, funds have been set aside to acquire drilling equipment (rigs) to sink more boreholes across the county as well as focus on completing the on-going ones. This will enhance access to safe and clean water by residents and support agriculture.
- 38. The County Government will also work closely with stakeholders and other sister institutions like Lake Victoria South Water Services Board to speed up implementation of the on-going KShs.1.5billion water and sanitation project. This programme includes the construction of a 35km of new pipeline that will supply water to Nyamataro, Nyangena, Gesonso, Jogoo, and Botori and improve the supply to Kisii Town and its environs.
- 39. Environmental degradation has adverse effects on County development. There is need, therefore, to protect riparian land, enact laws on solid waste management, promote civic

environmental education and awareness campaigns, planting of trees and encourage farmers to adopt soil conservation practices.

40. Over the medium term, the County Government also intends to hold a Water and Environmental Management Conference that will bring together various stakeholders to discuss and chart the way forward so that we have a lasting solution to the current challenges.

b) Roads

41. The County Government has opened, gravelled and compacted 1,800 km of roads throughout the County in the last 4 years. Construction of additional roads, culverts, bus parks and footbridges will continue over the medium term.
42. The County will purchase additional road construction equipment which will also be available for hire by contractors. This is expected to lower the cost and speed up road construction works and expand use of labour based strategy for road construction and maintenance.

c) Healthcare

43. The department of Health's budget accounts for 31 percent of the County's total budget and over the years, it has focussed majorly on curative healthcare. To ensure preventive healthcare is accorded the attention it deserves, the department has been split into two divisions, namely; Health Services and Public Health. To promote the latter, the County Government will partner with other stakeholders to educate residents at the grassroots on health seeking behaviour and lifestyle change to combat non-communicable diseases.
44. The establishment of a KShs.2 billion cancer diagnostic and treatment centre at KTRH funded by Arab Bank for Economic Development in Africa (BADEA) and the Saudi Fund for Development (SFD) is expected to commence soon. The Centre will facilitate early diagnostic and treatment of Cancer in the region.
45. The County Government will also operationalize health facilities built by the Constituency Development Fund and other agencies by installing core medical equipment, providing drugs and non-pharmaceuticals and deploying staff.

d) Agriculture

46. Agriculture remains the backbone of the County economy; the County Government will continue to invest resources in this sector in a bid to improve the livelihoods of farmers.
47. To improve the livestock productivity, the County Government will continue to subsidize artificial insemination services, formulate dry feeds, control zoonotic and animal diseases, promote local poultry farming, dairy goat farming and bee keeping among others.
48. Agricultural extension services will also be scaled up with the aim of reaching out to as many farmers as possible at the grassroots on the best farming practices. To do this, the County Government will purchase and distribute motorcycles to improve mobility of extension officers.
49. The County Government is in partnership with an investor to set up a 5,000 tonne -sugar factory at South Mugirango by providing land and enabling environment. It is expected to produce 172,500 metric tonnes of sugar; 10 megawatts of electricity; 7.5 million litres of ethanol annually and create over 10,000 direct and indirect jobs.
50. Resources will be set aside to complete the construction of hostels and other facilities at the Kisii Agricultural Training Centre (KATC) over the medium term. This will provide accommodation to farmers and staff from neighbouring counties during training and hence increase revenues. Additionally, the County Government will construct a multipurpose value addition site that will be used as a demonstration site for the farmers.
51. The European Union has given a grant of KShs. 132 million to the County to construct a banana processing factory at KATC. The completion and operationalization of this project is expected in 2 years and it will be key for value addition and creation of jobs.
52. To increase food production and boost farmers' earnings, the County will continue to implement subsidized farm inputs programme where farmers will receive certified maize seeds and fertilizer. It will also distribute early maturing and disease resistant tissue culture bananas to farmers.

e) Urban Planning & Market Development

53. The County Government will continue to provide an enabling environment to investors and traders. To achieve this, it will construct market sheds and washrooms, access roads, and provide street lighting. It will also purchase a waste disposal site, construct and rehabilitate markets. This will provide the necessary market infrastructure, attract

investment, enhance existing entrepreneurial ability as well as reinforce the position of the County as a regional hub.

54. An investor has set up a private processing factory in South Mugirango dealing with soapstone. It will produce fine soapstone powder to be used as an additive in the manufacture of kaolin and, therefore, the County Government will continue to provide an enabling environment to owners of soapstone so that they can benefit and avoid exploitation from middlemen.

f) Early Childhood Development (ECD) and Vocational Training

55. The County Government will continue to disburse bursaries to needy students and support vocational training to ensure the youth acquire skills for self-reliance while supporting industrialization.
56. Construction of ECD classrooms and vocational training centers will continue over the medium term. Going forward, completion, equipping and staffing of these centers will be given a priority.

g) Social Protection

57. Social protection remains a function of the National Government, but the existing programmes, for example; transfers to persons with severe disabilities; transfers to older persons; transfers to orphans and vulnerable children among others do not reach all people in the County. This, therefore, has necessitated the County Government to step in and will pay NHIF annual subscriptions for the elderly provide affordable credit to entrepreneurs and support the disabled, women and youth.

h) Culture & Sports

58. The County Government will continue improving sports facilities by developing and modernizing Gusii Stadium and other stadia within the County. It will also construct and equip a museum in Kisii Town to conserve and showcase the rich Omogusii cultural heritage, community libraries to boost literacy and promote a reading culture, social halls and County theatre.

Table 4.1 - Total Sector Estimates for MTEF FY 2017/18 – 2019/2020

SECTOR	ESTIMATES 2017/18		PROJECTIONS 2018/19		PROJECTIONS 2019/20	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
County Assembly	1,137,573,693	152,778,035	1,183,076,641	158,889,156	1,230,399,706	165,244,723
County Executive	449,369,259	5,000,000	467,344,029	5,200,000	486,037,791	5,408,000
County Administration	591,162,700	93,030,961	614,809,208	96,752,199	639,401,576	100,622,287
Public Service Board	44,818,400	0	46,611,136	0	48,475,581	0
Finance and Planning	1,249,835,052	116,197,500	1,299,828,454	120,845,400	1,351,821,592	125,679,216
Agriculture	386,044,123	228,182,173	401,485,888	237,309,460	417,545,323	246,801,838
Health Services	2,652,252,037	744,625,860	2,758,342,118	774,410,894	2,868,675,803	805,387,330
Environment	134,739,029	304,401,162	140,128,590	316,577,208	145,733,734	329,240,297
Education	538,197,158	180,617,690	559,725,044	187,842,398	582,114,046	195,356,094
Lands	80,744,712	239,757,453	83,974,500	249,347,751	87,333,480	259,321,661
Trade Development	67,889,205	105,923,697	70,604,773	110,160,645	73,428,964	114,567,071
Public Works	143,889,981	929,600,465	149,645,580	966,784,484	155,631,403	1,005,455,863
Culture and Social Services	68,578,848	146,693,323	71,322,002	152,561,056	74,174,882	158,663,498
Kisii Town	102,781,414	90,411,250	106,892,671	94,027,700	111,168,377	97,788,808
Total	7,647,875,611	3,337,219,569	7,953,790,635	3,470,708,352	8,271,942,261	3,609,536,686

Source: County Treasury

59. The development budget for FY 2017/2018 stands at KShs.3.3 billion and is projected to be KShs.3.5 in 2018/2019 and KShs. 3.6 billion in the FY 2019/2020. On the other hand, recurrent budget for the FY 2017/2018 stands at KShs.7.4 billion and is projected to increase to KShs.7.9 billion in the FY 2018/2019 and to KShs. 8.3 in the FY 2019/2020 as shown in Table 4.1.

4.3 Revenue Projections

Table 4.2 - Revenue projections

Item	2017/18	2018/19	2019/20
Equitable Share	7,429,200,000	7,726,368,000	8,035,422,720
Conditional Share for Kisii Level Five	417,572,254	434,275,144	451,646,150
Road Maintenance Fuel Levy Fund	302,237,646	314,327,152	326,900,238
Leasing of Medical Equipment	95,744,681	99,574,468	103,557,447
Conditional Allocation for Free Maternal Health Care	141,013,965	146,654,524	152,520,705
Conditional Allocation for Compensation for User Fee Foregone	26,138,997	27,184,557	28,271,939
Kenya Devolution Support Program 'Starter Pack'	50,373,489	52,388,429	54,483,966

Allocation for Development of Youth Polytechnics	29,817,690	31,010,398	32,250,814
National Agricultural and Rural Inclusive Project	50,000,000	52,000,000	54,080,000
Conditional Allocation-Health systems for universal care	50,984,665	53,024,052	55,145,014
Loans and Grants- DANIDA	20,480,807	21,300,039	22,152,041
EU Instruments for Devolution Advice and Support	66,000,000	68,640,000	71,385,600
Other Loans and Grants	34,439,292	35,816,864	37,249,538
Local Revenues	850,000,000	884,000,000	919,360,000
TOTAL	9,564,003,486	9,946,563,625	10,344,426,170

Source: Kisii County Treasury, 2017

60. The County Government's revenue is expected to grow from **KShs. 9.6 billion** in 2017/18 FY to **KShs. 9.9 billion** and **KShs 10.3 billion** in FY 2018/19 and FY 2019/20 respectively.

4.4 Expenditure Forecasts

61. In FY 2017/2018, the overall expenditures are estimated at **KShs. 10,985 billion** up from **KShs. 10.07 billion** in the FY 2016/2017 budget representing 8.7 percent increase.
62. Recurrent expenditure has increased to **KShs. 7.6 billion** in FY 2017/2018 up from **KShs. 6.36 billion** in FY 2016/2017; this translates to an increase of 19.5 percent. Additionally, development expenditure has reduced from **KShs. 3.7 billion** in FY 2016/2017 to **KShs. 3.3 billion** in FY 2015/2016 translating to an a decrease of 12.1 percent.
63. The wage bill for the County Government in the FY 2017/2018 is estimated to be **KShs. 4.5 billion** as compared to **KShs.3.9 billion** in FY 2016/2017. This represents an increase of 15.4 percent.

4.5 Challenges experienced in the Implementation of FY 2016/17

64. The implementation of FY2016/17 experienced many challenges among them:
- I. Shortfall in domestic revenue collection.
 - II. Delay of release of funds by the National Treasury
 - III. Delay in procurement processes

5.0 CONCLUSION AND WAY FORWARD

65. To enhance revenue collection, the County Government should map out and automate all the potential revenue streams and bolster the capacity of the enforcement personnel.

66. Going forward, there should be strict adherence to the budget and the County Government should establish the Budget Implementation Committee to monitor the budget.
67. The County Government should fully adopt e-procurement and ensure that contracts are awarded subject to availability of funds. It should also continue using a labour based approach in the implementation of some of the projects and programmes.
68. The County Treasury will continue to put in place appropriate measures to improve service delivery. These includes continuous training and capacity building of staff to enhance their reporting capability, developing and enforcing cost effective benchmarks for the procurement of goods and services, carrying out regular value for money audits.
69. The County Government will implement a Geographical Information System (GIS) technology to assist in urban and sectoral planning, natural resources management and agricultural applications among others.
70. The County Government will also continue investing in information technology in a bid to improve access to information and timely decision making.