



KISII COUNTY GOVERNMENT

FINANCE AND ECONOMIC PLANNING DEPARTMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER FOR FINANCIAL YEAR 2017/2018

SEPTEMBER, 2018

FOREWORD

The County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. This CBROP reviews the actual fiscal performance of the financial year 2017/18 in comparison with 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, 2017. In reviewing the fiscal performance, this paper further provides analysis of the local revenue performance during the period.

This paper provides an overview of how the actual performance of the FY 2017/18 affected the financial objectives as outlined in the CFSP of 2017. Through the analysis of the of FY 2017/18 budget performance, it laid the basis for adjusting the FY 2018/19 budget. It is then anticipated that, the targeted revenue and expenditure for FY 2018/19 budget will be realized with strict expenditure controls and enhanced revenue raising measures. This will be achieved through fiscal discipline to ensure proper management of public resources and delivery of expected outputs.

Moses Onderi
County Executive Committee Member
Finance and Economic Planning

ACKNOWLEDGEMENT

The preparation of the County Budget Review and Outlook Paper (CBROP) was a concerted and consultative effort among various departments and stakeholders that provided useful information required in developing this document.

Special gratitude goes to His Excellency the Governor and Deputy Governor for their leadership roles; providing direction and guiding the preparation of this policy document. I also wish to thank the County Executive Committee Members, their Chief Officers and Directors for their valuable contributions in terms of providing information to the technical team working on this document.

Immense appreciation goes to the Executive Member for Finance and Economic Planning Mr. Moses Onderi for his goodwill and guidance throughout the entire period of the preparation of this paper. I am particularly grateful to Dr. Onchari Kenani (Economic Advisor) for advice and guidance throughout the preparation of this Paper. I also thank a team from the Department of Finance and Economic Planning comprising of Mr. Chrispinus Ibalai, Peterson Nyakeri, Jeremiah Onchieku, Penuel .N. Ondieng'a, Lucas Arasa, Edward Mayogi, Alfred Keter, Wycliffe Nyaundi, Joshua Simba, Steve Siso, Douglas Siocha and Vincent Aming'a for working tirelessly in the development of this document.

Finally, I thank the County Budget and Economic Forum (CBEF) members for their immense contributions in the development of this Paper.

Wilfred O. Auma
Chief Officer
Economic Planning and Development

LEGAL BASIS FOR THE PUBLICATION 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 macroeconomic 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 fiscal 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.

FISCAL RESPONSIBILITY PRINCIPLES

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

TABLE OF CONTENTS

FOREWORD	ii
ACKNOWLEDGEMENT	iii
LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER	iv
FISCAL RESPONSIBILITY PRINCIPLES	v
LIST OF TABLES	viii
ABBREVIATIONS AND ACRONYMS	ix
CHAPTER ONE	1
GENERAL BACKGROUND	1
1.0 Introduction	1
1.1 Objectives of the Paper	1
1.2 Significance of the Paper	1
1.3 Structure of the Paper	1
CHAPTER TWO	3
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK	3
2.0 Introduction	3
2.1 Recent Economic Development	3
2.2 County Economic Outlook and Policies	4
2.3 Economic Risks	5
REVIEW OF FISCAL PERFORMANCE IN 2017/2018	Error! Bookmark not defined.
3.0 Overview	Error! Bookmark not defined.
3.1 Fiscal Performance	Error! Bookmark not defined.
3.1.1 Revenues	Error! Bookmark not defined.
3.1.2 Exchequer Releases for FY 2017/18	Error! Bookmark not defined.
3.1.3 Local Revenue Outturns	Error! Bookmark not defined.
3.1.2 Recurrent and Development Expenditure	Error! Bookmark not defined.
3.1.2.1 Recurrent Expenditure	Error! Bookmark not defined.
3.1.2.2 Development Expenditure	Error! Bookmark not defined.
3.1.3 Implication of 2017/18 Fiscal Performance on 2018/19 and the Medium Term	Error! Bookmark not defined.
CHAPTER FOUR	7
RESOURCE ALLOCATION FRAMEWORK	7
4.0 Adjustments to 2018/2019 Budget and Over the Medium Term	7

4.1	Medium-Term Expenditure Framework	8
4.1.1	Water, Sanitation & Environmental Management	8
4.1.2	Roads Development	8
4.1.3	Healthcare	8
4.1.4	Food Security	9
4.1.5	Trade & Enterprise Development	9
4.2	Indicative Ceilings	10
4.3	Revenue Projections	10

LIST OF TABLES

	page
Table 3. 1: Revenue Analysis for 2017/18.....	Error! Bookmark not defined.
Table 3. 2: Exchequer Releases to CRF Account for the FY 2017/18.....	Error! Bookmark not defined.
Table 3. 3: Requisitions from CRF Account to Operations Account	Error! Bookmark not defined.
Table 3. 4: Local Revenue Outturns for FY 2017/18.....	Error! Bookmark not defined.
Table 3. 5: Recurrent Expenditure Analysis FY 2017/18	Error! Bookmark not defined.
Table 3.6: Analysis of Expenditure on Personnel Emolument FY 2017/18.....	12
Table 3.7: Analysis of Expenditure on Operations and Maintenance FY 2017/18.....	13
Table 3. 8: Development Expenditure Analysis FY 2017/18	Error! Bookmark not defined.
Table 4. 1: Total Sector Estimates for MTEF FY 2018/19 – 2020/2021	Error! Bookmark not defined.
Table 4. 2: Revenue projections.....	10

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
CARA	County Allocation of Revenue Act
CBROP	County Budget Review and Outlook Paper
CBK	Central Bank of Kenya
CEC	County Executive Committee
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission of Revenue Allocation
DANIDA	Danish Development Agency
ICT	Information and Communications Technology
IDEAS	Instruments for Devolution Advice and Support
IFMIS	Integrated Financial Management and Information System
FY	Financial Year
GDP	Gross Domestic Product
KDSP	Kenta Devolution Support Program
KNBS	Kenya National Bureau of Statistics
KShs.	Kenya Shilling
NAGRIP	National Agricultural Growth Program
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management
SACCO	Savings and Credit Co-operative
SDGs	Sustainable Development Goals
SWGs	Sector Working Groups
USD	United State of America Dollar
VAT	Value Added Tax

CHAPTER ONE

GENERAL BACKGROUND

1.0 Introduction

Using up-to-date budgets helps to manage cash flow effectively and identify what needs to be achieved in the next budgeting period. In achieving this, Section 118 of the Public Finance Management (PFM) Act, 2012 requires counties to prepare County Budget Review and Outlook Paper (CBROP) and submit it to the County Executive Committee (CEC) for approval by 30th September each year and thereafter to the County Assembly.

1.1 Objectives of the Paper

The objectives of this County Budget Review and Outlook Paper (CBROP) are to:

- i. Review the fiscal performance for the FY 2017/2018 and give reasons of divergence;
- ii. Provide the basis for revision of the current FY's budget;
- iii. Provide indicative budget ceilings for the medium term.

1.2 Significance of the Paper

The Paper is important in the budget-making process as it reviews the fiscal performance of the previous year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered to as provided for in Section 107 of the Public Finance Management (PFM) Act, 2012.

In addition, it provides an updated macroeconomic and financial outlook as a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the Paper provides indicative sector ceilings for the FY 2019/2020 budget and over the medium term to guide Sector Working Groups (SWGs) before the figured are affirmed in the County Fiscal Strategy Paper (CFSP), 2019.

1.3 Structure of the Paper

The Paper is structured into four chapters. Chapter one provides the introduction, objectives, and significance of the Paper. Chapter two presents the recent economic developments and Outlook while chapter three provides a review of the fiscal performance in FY 2017/2018 and its

implications on the financial forecasts set out in the County Fiscal Strategy Paper, 2018. The last chapter provides the resource allocation framework.

CHAPTER TWO

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.0 Introduction

Macroeconomic development in the national economy affects economic activities in the County thus, affecting the operation of the County Government.

2.1 Recent Economic Development

The Kenyan economy slowed down in 2017 by registering a GDP growth of 4.9 percent compared to 5.9 percent in 2016 (KNBS, 2018). The slowdown in the performance of the economy was partly attributed to uncertainty associated with a prolonged electioneering period coupled with effects of adverse weather conditions. The slowed growth in 2017 affected revenue collection by the Kenya Revenue Authority (KRA) and counties in general, consequently resulting in either delay or non-disbursement of funds to the counties. Kisii County did not receive a total of KShs. 1.2 billion by the closure of the financial year 2017/18.

The agriculture sector is important to the Kisii economy. It is estimated that about 70 percent of the households in Kisii depend on the sector as a source of livelihood. Nationally, the sector recorded decelerated growth to 3.5 percent in 2017 from 5.1 percent registered in 2016 (KNBS, 2018). This decline in production was attributed to drought coupled with effects of pests such as the fall armyworms, crop and livestock diseases that led to crop failure and dying of livestock respectively thus causing increased food insecurity which also affected the County.

Key macroeconomic indicators performed dismally in 2017. Overall annual inflation according to KNBS, Report (2018) averaged 7.67 percent in 2017 compared to 6.58 percent registered in 2016. The rise in prices led to a reduction in the purchasing power of many households resulting to fall in demand and consequently, reduction in production in key sectors due to reduced effective demand.

The commercial lending interest rates averaged at 13.66 percent in 2017 compared to 16.58 percent in 2016 according to the Central Bank of Kenya (CBK) Report in 2018. The reduction in the interest rate was as a result of interest rate capping introduced by CBK in September, 2016 which compelled commercial banks to lend to the public at an interest of a maximum of 14

percent (or within 4 percent of the Central Bank Rate-CBR). The reduction in the interest rates resulted in commercial banks opting to lend more to Government than to the private sector since Government Securities (treasury bills and bonds) are seen as safe and stable than lending to individuals and SMEs that look less lucrative and riskier. In 2017, commercial banks lent the National treasury KShs. 625.1 billion compared to KShs. 541.2 billion in 2016, reducing capital access for the local investors. The crowding out effect adversely affected the operations of many contractors, resulting in low level of completion and in some cases, stalling of projects. Most contractors rely on bank loans and overdrafts as a form of capital and, therefore, inability to access these hampered their operations.

2.2 County Economic Outlook and Policies

The County Government will operate within a framework of a balanced budget in the medium term, with occasional short-term borrowing as may be necessary for cash flow management purposes. The government's fiscal policy objective in the medium term will be to channel resources to priority and growth potential areas including water; health care; roads development; food security, and trade and enterprise development.

Revenue allocation to the County by Commission of Revenue Allocation (CRA) has never been adequate since the inception of devolution. This situation has always been compounded by an inability to get development partners and underperformance in own-source revenues leaving the County government largely dependent on transfers from National Government. This has hampered project and programme implementation across various sectors at the County level.

To boost local revenue to a positive growth trajectory, the County Government will put in place Regulations to guide revenue collection and management, improve enforcement for compliance, enhance residents' ICT literacy levels and broaden the revenue base. It will also engage KRA and development partners for support to realize revenue targets.

Additionally, the County Government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate sectors that have been largely unregulated in the past but have potential to raise additional revenue, including ballast, murram and soapstone mining. The revenue policy will address itself to licensing, attracting investors, revenue raising and revenue sharing measures and sustainable use of resources.

In addressing the resource gap, the County Government will engage the National Government and development partners for additional resources to support the implementation of targeted development interventions. Furthermore, the County will work with other counties in the Lake Region Economic Block in addressing development challenges facing residents of the County especially in water, agriculture, health, and roads.

In the medium term, the County Government will strengthen expenditure management, focusing on expenditure on the five priority areas identified in the ADP 2018, namely: Water reticulation; roads development; Health Care Services; Food security; and Trade and Enterprise Development. These areas are aligned to the “Big Four” agenda of the National Government and the Sustainable Development Goals (SDGs). Further, the County Government will upscale implementation of programmes targeting the vulnerable groups including the youth, women, and people living with disabilities (PWDs) to enhance their participation in the socio-economic development of the County.

The County Government does not anticipate for any long-term borrowing in the medium term except on a need basis. This will however be done within the framework of the fiscal responsibility principles as provided for in Section 107 of the PFM Act, 2012.

2.3 Economic Risks

Although the Kenyan economy has continued to exhibit resilience and promising growth, it is still prone to risks that affect the National Government’s operations and whose ramifications can be felt across the country, Kisii County included. Some of the expected risks include;

- i. Introduction of 8 percent VAT on petroleum products will increase oil prices. These increases are generally thought to increase inflation and reduce economic growth. In terms of inflation, oil prices directly affect the prices of goods made from petroleum products. In addition, increases in oil prices can depress the supply of other goods because they increase the costs of producing them.
- ii. An increasing National Debt Ratio also poses a risk to the economy. Kenya's public debt to GDP is estimated at 56.2% (IMF, 2018). The rising debt levels could result in a debt crisis, and possible liquidity pressure. It is estimated that Kenya will use about 50% of her

revenue raised from tax collection to finance debt payments in the fiscal year 2018/19 and over the medium term thus impeding operations both at National and county levels.

- iii. The perception of corruption in the Country poses a great risk as it could easily scare away potential investors, particularly foreign investors.
- iv. The anticipated revenue deficits both at the National and County levels will adversely affect the implementation of most development projects and programmes.
- v. The increasing wage bill also causes expenditure pressures, leaving the National Government and Counties with insufficient resources for development.
- vi. Untimely Exchequer releases affects implementation of projects. For instance, the County is yet to receive disbursements for July, August and September 2018.

CHAPTER FOUR

RESOURCE ALLOCATION FRAMEWORK

3.0 Adjustments to 2018/2019 Budget and Over the Medium Term

The 2018/19 budget sought to consolidate the gains made by the County government in the last five years as it continues to pursue the transformative agenda it started for inclusive economic growth. As we execute the budget for the FY 2018/19, adjustments will be done in light of the issues that were noted in the implementation of the FY 2017/18 budget and changes in CARA, 2018. This Paper proposes the following adjustments in the Medium Term Period:-

- a) In order to realize development over the medium term, allocation of resources should be based on County priorities and enablers.
- b) Over the medium term, the County Government will prioritize allocation of resources to complete on-going and stalled programmes/projects; and payment of pending bills in a bid to address debt sustainability issues.
- c) When the FY 2018/19 estimates were submitted to the County Assembly for approval, the CARA, 2018 had not been passed by the National Assembly. As a result, the budget approved by the County Assembly did not include correct figures for the Grants from European Union (EU) and World Bank which now appear in the Act. The information relating to the Grants was not provided to the macro working group during the budget making process. There is need, therefore, to make provisions of **KShs. 70 million** for Instrument for Devolution Advice and Support (IDEAS) and **KShs. 126,446,545** for Kenya Devolution Support Programme in the current budget (FY 2018/19) to facilitate utilization of the funds.
- d) The FY 2018/19 budget estimates were presented to the Assembly in April, 2018 as required by law. During this period, it was not clear how much of the equitable share, conditional allocations and grants shall not have been disbursed to the County by the end of June. As a result, the budgeting team projected a figure of **KShs 1.8 billion** as unreleased balances. However, the correct figure for both unreleased and unspent balances as at 30th June, 2018 is **KShs 1.67 billion**. There is need, therefore, to revise this figure and reduce the departmental ceilings accordingly.

3.1 Medium-Term Expenditure Framework

The allocation of resources over the medium term will be guided by the priorities outlined in the ADP, 2018 and will be in accordance with Section 107 of the PFM Act, 2012 on Fiscal Responsibility Principles.

3.1.1 Water, Sanitation & Environmental Management

The County is committed to provide equitable access to safe and affordable drinking water for the County residents through water reticulation, improving water quality by reducing pollution and elimination of dumping, protecting and restoring water-related ecosystems and increasing afforestation and re-afforestation in the County. To realize these, sufficient resources will be allocated, and partnerships with stakeholders such as Lake Victoria South Water Services Board will be fostered to speed up implementation of the on-going programmes and projects.

3.1.2 Roads Development

To ensure an efficient and effective transportation system, the County will focus on construction and maintenance of roads, bus parks, and footbridges. The County will also collaborate with National Government through the Department of Mechanical Transport Fund (MTF) in the opening and maintaining roads in order to reduce costs. Moreover, the labour based strategy for road construction and maintenance will also be employed. Roads development is an enabler towards achieving the "Big Four Agenda", especially supporting the manufacturing sector.

3.1.3 Healthcare

In Healthcare, the County Government will continue investing in quality healthcare services to promote a healthy population with higher productivity for sustained economic growth. In partnership with the development partners and the National Government, a program of upgrading healthcare infrastructure and modernizing equipment will be enhanced.

For early diagnostic and treatment of Cancer in the region, the County Government with other development partners will establish a treatment centre at Kisii Teaching and Referral Hospital (KTRH). In addition, the County Government will also operationalize health facilities built by the National Government Constituency Development Fund (NG-CDF) and other agencies by

installing core medical equipment, providing pharmaceutical and non-pharmaceutical products and deploying of health staff.

3.1.4 Food Security

Over 70 percent of the County's population depends on agriculture for their livelihood both as a source of food as well as income (CIDP, 2018-2022). However, it is dogged with challenges of high population density, poor farming practices, dwindling farm sizes among others, thus resulting in food insecurity.

To increase food production and boost farmers' earnings, the County will continue to sustain the availability of farm inputs (certified seeds and fertilizers). It will also distribute early maturing and disease resistant tissue culture bananas to farmers. 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 improve livestock productivity, the County Government will continue to put more resources in artificial insemination services; formulate dry feeds; control zoonotic and animal diseases; promote local poultry and dairy goat farming and beekeeping among others. Additionally, SACCOs will be revitalized to assist in marketing and value addition.

Further, the County Government will collaborate with other development partners to construct a banana processing factory at Kisii Agricultural Training Centre (KATC) for not only achieving one of the *Big Four Agenda* but also for value addition and job creation.

3.1.5 Trade & Enterprise Development

To promote enterprise and spur growth in the business sector in Kisii, the County Government will continue to provide an enabling business environment to investors and traders. To achieve this, it will construct retail markets and sheds, washrooms, and access roads. To enhance the security of traders and extend trading hours, the County will extend the street lighting program to other centres and markets that have not been covered.

3.2 Indicative Ceilings

The County priorities will be implemented through the programme based budgeting approach. For effective utilization of finances for enhanced expenditure productivity, the County will use the existing structures. Table 4.1 presents indicative ceilings over the medium Term. The projections are comprised of transfers from National Government and grants and loans from development partners.

3.3 Revenue Projections

The proposed budget for the medium term is balanced and will be financed by transfers from National Government, own-source revenue, loans and grants from development partners as shown in Table 4.2. However, any shortfall in revenues will be addressed accordingly.

Table 4. 1: Revenue projections

Revenue Source	Approved Budget FY2018/19	Projections	
		FY2019/20	FY2020/21
Equitable Share	7,693,000,000	8,000,720,000	8,320,748,800
Conditional Share for Kisii Level 5	417,572,254	434,275,144	451,646,150
Road Maintenance Fuel Levy Fund	203,376,725	211,511,794	219,972,266
Leasing of Medical Equipment	200,000,000	208,000,000	216,320,000
Conditional Allocation for Compensation for User Fee Foregone	26,138,997	27,184,557	28,271,939
Kenya Devolution Support Program 'Starter Pack'	53,938,093	56,095,617	58,339,441
Allocation for Development of Youth Polytechnics	70,090,000	72,893,600	75,809,344
National Agricultural and Rural Inclusive Project	140,435,163	146,052,570	151,894,672
Conditional Allocation-Health Systems for Universal Healthcare	74,159,514	77,125,895	80,210,930
Loans and Grants- DANIDA	36,171,944	37,618,822	39,123,575
ASDSP – SIDA	8,455,986	8,794,225	9,145,994
EU Instruments for Devolution Advice and Support	110,000,000	114,400,000	118,976,000
Urban Development Grants	164,053,800	170,615,952	177,440,590
Urban Institutional Grant	40,000,000	41,600,000	43,264,000
Unreleased Balances for FY 2017/18	1,809,407,914	1,881,784,231	1,957,055,599

Revenue Source	Approved Budget FY2018/19	Projections	
		FY2019/20	FY2020/21
Local Revenues	950,000,000	988,000,000	1,027,520,000
TOTAL	11,996,800,390	12,476,672,407	12,975,739,300

Source: Kisii County Treasury, September 2018