REPUBLIC OF KENYA
COUNTY GOVERNMENT OF KILIFI

COUNTY TREASURY

PAMOJA TUJENGE

COUNTY BUDGET REVIEW & OUTLOOK PAPER

SEPTEMBER 2018

FOREWORD

The 2018 Kilifi County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. The 2018 CBROP presents updated economic and financial forecasts with sufficient information that will inform the budget proposals for the next financial year. It also reviews previous year's budget and provides an outlook for the forthcoming budget year.

The paper examines recent economic developments and fiscal performance in FY 2017/18 against corresponding appropriations. This entails analysis of total revenue collected versus projected revenue and highlighting the causes for deviations. The analysis also includes expenditure performance of county departments with highlights on actual performance of FY 2017/18 and its compliance with the fiscal responsibility principles in the PFM Act of 2012. Additionally, the paper provides an overview of how the actual performance of the FY 2017/18 affected the financial objectives as detailed in the 2017 County Fiscal Strategy Paper (CFSP).

The FY 2017/18 budget was prepared in an election year that resulted to subdued economic performance. The electioneering period leading to the 2017 general elections was prolonged by repeat presidential election which together with a subdued credit growth caused by interest rates capping exerted pressure on Kenya's economic outlook. There was panic and investors pulled out of the country thereby affecting the country's Gross Domestic Product. However, Kenya's economy is on a rebound in 2018. This reflects easing of political uncertainty, improved rains and better business sentiments. Risks to growth prospects are subdued growth of private sector credit, recurrence of adverse drought shocks, unanticipated spikes in oil prices and uncertainty and rising external trade tensions.

HON. SAMUEL KOMBE NZAI
COUNTY EXECUTIVE COMMITTEE MEMBER FINANCE AND ECONOMIC PLANNING

Legal Basis For The Publication Of The County Budget Review And Outlook Paper

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

1) A County Treasury shall;

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

2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify-

   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- i) any changes in the forecasts compared with the CFSP or; ii) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP for that year; and
   d) Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

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

4) Not later than seven days after the CBROP is approved by County Executive Committee, the County Treasury shall:

   (a) Arrange for the CBROP 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 In The Public Finance Management Act, 2012

Section 107(2) of the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

(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 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 and approved by the County Assembly

(d) Over the medium term, the county government's borrowings shall be used only for the purpose for financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by the 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.

CONTENTS

CHAPTER ONE: INTRODUCTION

Overview

1. This 2018 County Budget Review and Outlook Paper (CBROP) is a key document that links policy, planning and budgeting. The County's policies are spelled in, among other documents, the 2018 County Fiscal Strategy Paper (CFSP) and undergirds this 2018 CBROP. The policy goals and strategic priorities stated in the 2018 CFSP will be updated with development aspirations presented in the County Integrated Development Plan (CIDP) 2018-2022 and taken up for implementation under successive Annual Development Plans to provide the linkage between policy and planning. The efforts to link planning and budgeting are on track, with the County having prepared the 2018 Annual Development Plan (ADP) which upon approval by the County Assembly will guide budgeting for FY 2019/20. The 2018 ADP shifted focus by referring to programmes and projects in 2016 ADP when reviewing implementation of previous ADP as opposed to all programmes and projects that received funding in FY 2017/18. By emphasizing uptake of programmes and projects in the ADP, the County will fund programmes and projects derived from plans. This way, the County will achieve policy, planning and budgeting coherence to reflect efficiency and effectiveness in use of public resources.

Objective of 2018 CBROP

2. The objective of the 2018 CBROP is to review the fiscal performance for FY 2017/18 and how this performance impacts on financial objectives and fiscal responsibility principles set out in the 2018 County Fiscal Strategy Paper (CFSP). Specifically, this review sets into motion revision of FY 2018/19 Budget in the context of Supplementary Budget and preparation of FY 2019/20 and medium term budget. To do this, economic developments and outlook presented in the 2018 CFSP are updated as part of the basis for adjustment of FY 2018/19 budget and medium term fiscal framework is set to provide indicative resource envelope and expenditure estimates for FY 2019/20 and medium term. Essentially, the underlying assumptions used in projecting revenue and expenditure for FY 2018/19 are updated and fiscal outturn for FY 2017/18 together with that of quarter one of FY 2018/19 are taken into account to detail appropriate revisions that will maintain the pursuit of the financial objectives and adhere to the fiscal responsibility principles set in CFSP 2018. This is in addition to taking up, for implementation, the strategic interventions and flagship projects in the County Integrated Development Plan (CIDP) 2018-2022 as part of the emerging issues during this period.

Organization of CBROP, 2018

3. In response to these objectives, the rest of 2018 CBROP is organized as follows:

   i. Chapter 2 provides fiscal outturn for FY 2017/18 and its implication on the financial objectives set in 2018 CFSP.

   ii. Chapter 3 provides recent economic developments and outlook

   iii. Chapter 4 provides indicative resource allocation framework

   iv. Chapter 5 concludes.

CHAPTER TWO: FISCAL OUTTURN FOR FY 2017/18 AND ITS IMPLICATION ON 2018 FINANCIAL OBJECTIVES

Overview

4. This chapter presents the fiscal outturn for FY 2017/18 and how this affects the financial objectives and compliance with the fiscal responsibility principles in the 2018 CFSP. The basis for analyzing the fiscal outturn for FY 2017/18 is the 2017 CFSP together with appropriations and actual expenditure for FY 2017/18. While the focus in this analysis is on deviations between appropriations and actual expenditure, it should not be lost that this was targeted towards realizing the financial objectives and complying with the fiscal responsibility principles in the 2017 CFSP.

Overall Fiscal Performance

5. The preparation as well as implementation of FY 2017/18 budget was replete with political undertones largely due to the general election coupled with repeat presidential elections and subsequent resistance to the repeat election results by a section of politicians. This situation eased in the final quarter. As a result, there was witnessed;

   i) The revision of the budget preparation calendar to avoid its impending collision with the electioneering period;

   ii) Two revisions of FY 2017/18 budget in the context of supplementary estimates largely to allocate funds for completion of ongoing projects and increasing allocations to flagship projects while incorporating the Governor's manifesto.

   iii) There were delays in disbursement of funds occasioned by mismatch between the disbursement schedule approved by the Senate and that of the National Treasury.

   iv) There was introduced additional set of requirements for withdrawal of funds from the Controller of Budget.

   These developments, some challenging, led to revenue and expenditure underperformance much as they did not overly withhold the County from realizing revenue and expenditure growth from that of FY 2016/17.

6. On the revenue side, the County total revenue was Ksh. 11,129,099,244 in FY 2017/18 representing a 20 percent growth from FY 2016/17. This was below target by Ksh. 997,805,861.

   This revenue shortfall was contributed by missed targets on conditional grants and Own Source Revenue (OSR). Conditional grants fell below target by Ksh. 590,474,584 followed by OSR and Health Services Improvement Fund (HSIF) that fell below target by Ksh. 257,974,456 and 149,356,821 respectively. The performance of these revenue categories also declined from that of FY 2016/17, an indication of the adverse effects of political uncertainty during general elections in the country. As such, there was a 16 percent decline in OSR, 10 percent decline in HSIF and 9 percent decline in conditional grants in FY 2017/18 from FY 2016/17. On the other hand, an increase in equitable share of revenue raised nationally more than offset declining revenue performance of these three revenue categories. The equitable share of revenue raised nationally allocated to the County increased by 24 percent to Kshs. 9,950,900,000 in FY 2017/18 from Kshs. 8,029,167,703 in FY 2016/17.

7. On the expenditure side, the County Government spent a total of Kshs. 10,426,865,174 in FY 2017/18 falling short of the target by Ksh. 1,700,039,931. However, this was a 15 percent increase from Kshs. 9,104,289,030 in FY 2016/17. The shortfall in expenditure is due to under-absorption

of recurrent and development budget by Ksh. 876,226,839 and Ksh. 823,813,092 respectively. The growth of 69 percent in recurrent expenditure from FY 2016/17 and drop of 31 percent in the development expenditure indicate the tendency of spending available funds on recurrent against development outlays. The other reason for declining development expenditure is the wait and see attitude that contractors took to minimize probable effects of delayed payments occasioned by political uncertainty before, during and after the August 2017 general elections. This analysis is provided in table 1 on overall fiscal performance for FY 2015/16-FY 2017/18.

Table 1: **Overall Fiscal Performance for FY 2015/16 - FY 2017/18**

ITEM DESCRIPTION	ACTUAL (REVENUE/EXPENDITURE)		FY 2017/18			
	FY 2015/16 (a)	FY 2016/17 (b)	APPROVED ESTIMATES (c)	ACTUAL (REVENUE/ EXPENDITURE) (d)	VARIANCE (e=(d-c))	% GROWTH FROM FY 2016/17 (f=(d-b)/b))
Revenue						
Equitable share	7,441,216,645	8,029,167,703	9,950,900,000	9,950,900,000	-	24%
Conditional Grants	475,525,125	638,321,809	1,173,598,301	583,123,717	(590,474,584)	-9%
Own Source Revenue	519,075,625	554,484,876	721,250,205	463,275,749	(257,974,456)	-16%
Health Service Improvement Fund (HSIF)	127,795,931	65,608,701	208,413,052	59,056,231	(149,356,821)	-10%
Unspent County Revenue Fund (CRF)	-	-	72,743,547	72,743,547	-	-
TOTAL	**8,563,613,326**	**9,287,583,089**	**12,126,905,105**	**11,129,099,244**	**(997,805,861)**	**20%**
Expenditure						
Recurrent	5,001,516,786	4,125,076,495	7,858,069,197	6,981,842,358	(876,226,839)	69%
Development	3,585,865,230	4,979,212,535	4,268,835,908	3,445,022,816	(823,813,092)	-31%
TOTAL	**8,587,382,016**	**9,104,289,030**	**12,126,905,105**	**10,426,865,174**	**(1,700,039,931)**	**15%**

8. The overall fiscal outturn for FY 2017/18 adhered to the fiscal responsibility principles set in Section 107 of the PFM Act, 2012 and PFM (County Government) Regulations, 2015. In particular, the proportion of funds spent on development was 34 percent which was above 30 percent set in the Public Finance Management (PFM) Act, 2012. The Department of Roads, Transport and Public Works had the highest proportion of development expenditure at 78 percent followed by Water, Environment and Solid Waste Management and Trade, Cooperatives, Industrialization, Tourism and Wildlife at 73 percent and 62 percent respectively. The County Executive and County Public Service Board do not have development outlays which explains their highest recurrent expenditure proportion at 100 percent each. Table 2 analyses FY 2017/18 recurrent and development expenditure as a percentage of total expenditure for each department.

Table 2: Analysis of Recurrent and Development Expenditure FY 2017/18 (%)

Department	Recurrent Expenditure (%)	Development Expenditure (%)
COUNTY ASSEMBLY	84%	16%
COUNTY EXECUTIVE	100%	0%
FINANCE & ECON. PLANNING	97%	3%
AGRICULTURE, LIVESTOCK AND FISHERIES	57%	43%
WATER, ENVIRONMENT AND SOLID WASTE MANAGEMENT	27%	73%
EDUCATION, YOUTH AFFAIRS AND SPORTS	67%	33%
HEALTH SERVICES	85%	15%
ROADS, TRANSPORT AND PUBLIC WORKS	22%	78%
LANDS, ENERGY, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	75%	25%
ICT, CULTURE AND SOCIAL SERVICES	53%	47%
TRADE, COOPERATIVES, INDUSTRIALIZATION, TOURISM AND WILDLIFE	38%	62%
COUNTY PUBLIC SERVICE BOARD	100%	0%
DEVOLUTION, PUBLIC SERVICE AND DISASTER MANAGEMENT	96%	4%
TOTAL	**66%**	**34%**

9. The County's expenditure on wages and benefits was at 32 percent which is below 35 percent set in the PFM (County Government) Regulations, 2015. The County spent 59 percent of the Health budget on compensation to employees making it the highest followed by County Public Service Board at 55 percent and Agriculture, Livestock and Fisheries at 37 percent. The County Executive spent 36 percent of its budget on compensation to employees before the department of Finance closing at 35 percent. Table 3 analyses departmental salaries as a percentage of total expenditure to provide the basis for reflecting on the contribution of compensation to employees on service delivery.

Table 3: FY 2017/18 Expenditure on Compensation to Employees

DEPARTMENT	APPROVED ESTIMATES ON COMPENSATION TO EMPLOYEES FY 2017/18	EXPENDITURE		
		COMPENSATION TO EMPLOYEES FY 2017/18	TOTAL EXPENDITURE	EXPENDITURE ON COMPENSATION TO EMPLOYEES (%)
COUNTY ASSEMBLY	267,925,240	290,761,711	880,923,148	33%
COUNTY EXECUTIVE	217,051,584	150,926,061	414,538,993	36%
FINANCE AND ECONOMIC PLANNING	204,619,874	172,550,265	486,170,011	35%
AGRICULTURE, LIVESTOCK AND FISHERIES	117,619,505	114,736,411	313,787,614	37%
WATER, ENVIRONMENT AND SOLID WASTE MANAGEMENT	166,205,051	165,574,056	1,002,900,180	17%
EDUCATION, SPORTS AND YOUTH AFFAIRS	238,974,240	238,758,343	1,047,261,650	23%
HEALTH SERVICES	1,697,103,469	1,730,579,363	2,916,279,430	59%
ROAD, TRANSPORT AND PUBLIC WORKS	99,461,592	52,624,377	1,683,523,738	3%
LANDS, ENERGY, HOUSING AND PHYSICAL PLANNING	40,467,025	37,065,182	292,134,994	13%
ICT, CULTURE AND SOCIAL SERVICES	34,174,727	28,413,489	149,831,331	19%
TRADE, COOPERATIVES, INDUSTRIALIZATION, TOURISM AND WILDLIFE	41,964,688	41,839,069	212,295,544	20%
COUNTY PUBLIC SERVICE BOARD	33,858,822	29,873,130	54,720,017	55%
DEVOLUTION, PUBLIC SERVICE AND DISASTER MANAGEMENT	248,697,844	244,366,909	768,202,746	32%
TOTAL	**3,408,123,661**	**3,298,068,368**	**10,222,569,395**	**32%**

County Own Source Revenue (OSR) Performance

10. In FY 2017/18, Own Source Revenue collection, including Health Service Improvement Fund (HSIF) stood at Kshs. 522,331,980 compared with a target of Kshs. 929,663,257, representing a 44 percent deviation from the target. This was also lower than Kshs. 620,093,577 collected in FY 2016/17. The decline in OSR collection is largely attributed to under collection in major revenue streams. Political uncertainty before, during and after the August 2017 general election contributed to this under collection. The effect was more pronounced in OSR streams such as Betting, Devolved Revenue, HSIF, Public Health and Parking Fees where the target was missed by more than 50 percentage point margin. OSR collection from Land/Property rates was at Ksh. 175,589,367 representing a 19 percent deviation from target, Advertisement was Ksh.17,844,177 which was 22 percent deviation from target, Cess was Ksh.142,379,325, a 44 percent deviation from target while Business Permit was Ksh.82,000,128 which deviated from the target by 48 percent. There were impressive collections which signify immense potential in Agricultural Fees and Cess where Ksh. 13, 205, 212 was collected which was 113 percent more than target, Liquor Licensing at Ksh. 11,431,500, a 99 percent more than target and Fines and Penalties at Ksh.1,645,504, which was 58 percent more than target. This analysis is presented in table 4.

11. The County Government has remained consistent to the policy stance of increasing revenue collection by improving efficiency and accountability and not raising applicable rates, charges, fees or taxes. This is done with a view to improve the environment for doing business in the County while at the same time remain within the precincts of the PFM Act 2012. In order to optimize OSR collection, the County has invested in automation of revenue including adopting cashless transactions to eliminate loss of revenue and improve efficiency and accountability.

Table 4: County Own Revenue Collection FY 2017/18

REVENUE STREAM	APPROVED REVENUE ESTIMATES FY 2017/18	ACTUAL REVENUE COLLECTION FY 2017-2018	DEVIATION FROM TARGET (%)
Health Services Improvement Fund (HSIF)	208,413,052	59,064,031	-72%
Cess	255,086,204	142,379,325	-44%
Land/Property Rates	217,815,688	175,589,367	-19%
Business Permits & Market Fees	157,974,770	82,000,128	-48%
Parking Fees	41,747,093	17,832,833	-57%
Advertisement	22,917,678	17,844,177	-22%
Devolved Revenue	7,349,685	154,400	-98%
Agricultural Fees & Cess	6,194,987	13,205,212	113%
Liquor Licensing	5,751,834	11,431,500	99%
Public Health	4,779,771	1,101,203	-77%
Betting	593,864	-	-100%
Fines & Penalties	1,038,631	1,645,504	58%
TOTAL	**929,663,257**	**522,247,680**	**-44%**

County Expenditure Performance, FY 2017/18

12. In FY 2017/18, the County's actual expenditure amounted to Kshs. 10,426,865,174 against a target of Kshs. 12,126,905,105 representing an absorption rate 86 percent of the approved budget. Specifically, the department of Roads, Transport & Public Works as well as department of Health Services had the highest absorption rate of 97 percent and 95 percent having spent Kshs. 1,686,116,237 and Kshs. 2,965,201,721 respectively. The other departments to record higher absorption rates are Devolution, Public Service and Disaster Management and Water,

Environment and Solid Waste Management recorded an absorption rate of 91 and 86 percent having spent Kshs. 768,202,747 and Kshs. 993,746,537 respectively. The County Assembly also recorded an absorption rate of 84 percent, this being equivalent to the overall absorption rate having spent Ksh. 880,923,148. County Public Service Board absorbed 60 percent of its total budget marking the lowest absorption rate.

13. In FY 2017/18, recurrent expenditure was Kshs. 6,981,842,358 representing 89 percent uptake of the total recurrent budget of Kshs. 7,858,069,197. Departments with highest recurrent outlays were Health Services with an absorption rate of 98 percent, Water, Environment and Solid Waste Management, 93 percent and Devolution, Public Service and Disaster Management 92 percent. County Public Service Board absorbed the least at 60 percent.

14. In FY 2017/18, development expenditure was Kshs. 3,445,022,816 representing 81 percent of the development budget out of Kshs. 4,268,835,908. The department of Roads, Transport & Public works had the highest absorption rate of 100 percent having spent Kshs. 1,317,369,044 out of Kshs. 1,321,119,565; followed by the County Assembly and Department of Lands, Energy, Housing, Physical Planning and Urban Development with equivalent absorption rates of 95 percent having spent Ksh. 142,500,000 out of Ksh. 149,800,000 and Kshs. 72,216,788 out of Kshs. 76,017,000 respectively. The department of Finance and Economic Planning absorbed 43 percent of the development budget, this being the lowest. This analysis is presented in table 5.

Table 5: County Expenditure Performance for FY 2017/18

DEPARTMENT	RECCURENT			DEVELOPMENT			TOTAL		
	BUDGET	ACTUAL	AR	BUDGET	ACTUAL	AR	BUDGET	ACTUAL	AR
COUNTY ASSEMBLY	900,423,148	738,423,148	82%	149,800,000	142,500,000	95%	1,050,223,148	880,923,148	84%
COUNTY EXECUTIVE	557,003,377	414,538,993	74%	-	-	-	557,003,377	414,538,993	74%
FINANCE & ECON. PLANNING	590,091,399	497,832,488	84%	38,000,000	16,403,228	43%	628,091,399	514,235,716	82%
AGRICULTURE, LIVESTOCK AND FISHERIES	332,052,378	287,188,078	86%	364,978,396	161,911,019	44%	697,030,774	449,099,097	64%
WATER, ENVIRONMENT AND SOLID WASTE MANAGEMENT	285,855,852	264,835,053	93%	868,585,455	728,911,484	84%	1,154,441,307	993,746,537	86%
EDUCATION, YOUTH AFFAIRS AND SPORTS	791,972,887	718,030,124	91%	532,882,209	327,691,526	61%	1,324,855,096	1,045,721,650	79%
HEALTH SERVICES	2,560,196,826	2,518,870,239	98%	563,915,127	446,331,482	79%	3,124,111,953	2,965,201,721	95%
ROADS, TRANSPORT AND PUBLIC WORKS	418,625,934	368,747,193	88%	1,321,119,565	1,317,369,044	100%	1,739,745,499	1,686,116,237	97%
LANDS, ENERGY, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	287,580,684	219,918,206	76%	76,017,000	72,216,788	95%	363,597,684	292,134,994	80%
ICT, CULTURE AND SOCIAL SERVICES	129,929,347	80,068,345	62%	120,629,269	69,762,986	58%	250,558,616	149,831,331	60%
TRADE, COOPERATIVES, INDUSTRIALIZATION, TOURISM AND WILDLIFE	113,698,158	80,022,197	70%	189,550,937	132,273,349	70%	303,249,095	212,295,546	70%
COUNTY PUBLIC SERVICE BOARD	90,720,443	54,817,457	60%	-	-	-	90,720,443	54,817,457	60%

DEPARTMENT	RECCURENT			DEVELOPMENT			TOTAL		
	BUDGET	ACTUAL	AR	BUDGET	ACTUAL	AR	BUDGET	ACTUAL	AR
DEVOLUTION, PUBLIC SERVICE AND DISASTER MANAGEMENT	799,918,764	738,550,837	92%	43,357,950	29,651,910	68%	843,276,714	768,202,747	91%
TOTAL	**7,858,069,197**	**6,981,842,358**	**89%**	**4,268,835,908**	**3,445,022,816**	**81%**	**12,126,905,105**	**10,426,865,174**	**86%**

Overall Balance and Financing

15. In FY 2017/18, the overall fiscal balance on a commitment basis was a narrower fiscal deficit of Kshs. 508,419,716 compared with Ksh. 889,382,485 during FY 2016/17.

Table 6: Fiscal Balance FY 2015/16 to 2017/18

Item Description	Actual Performance FY 2015/16	Actual Performance FY 2016/17	Performance FY 2017/18	
			Budget	Actual
Total Revenue	**8,563,613,326**	**9,287,583,089**	**11,054,564,296**	**11,063,706,564**
Equitable Share	7,441,216,645	8,029,167,703	10,023,643,547	9,950,900,000
Conditional Grants	475,525,125	638,321,809		590,474,584
Local Revenue	519,075,625	554,484,876	929,663,257	463,275,749
Health Services Improvement Fund (HSIF)	127,795,931	65,608,701	101,257,492	59,056,231
Unspent CRF	-	-		
Total Expenditure	**10,196,810,162**	**10,843,121,165**	**11,943,946,781**	**11,572,126,280**
Recurrent	5,436,684,743	5,863,908,630	7,477,020,683	7,501,194,742
Development	4,760,125,419	4,979,212,535	4,466,926,098	4,070,931,539
Fiscal Balance	**(1,633,196,836)**	**(1,555,538,076)**	**(889,382,485)**	**(508,419,716)**

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Overview

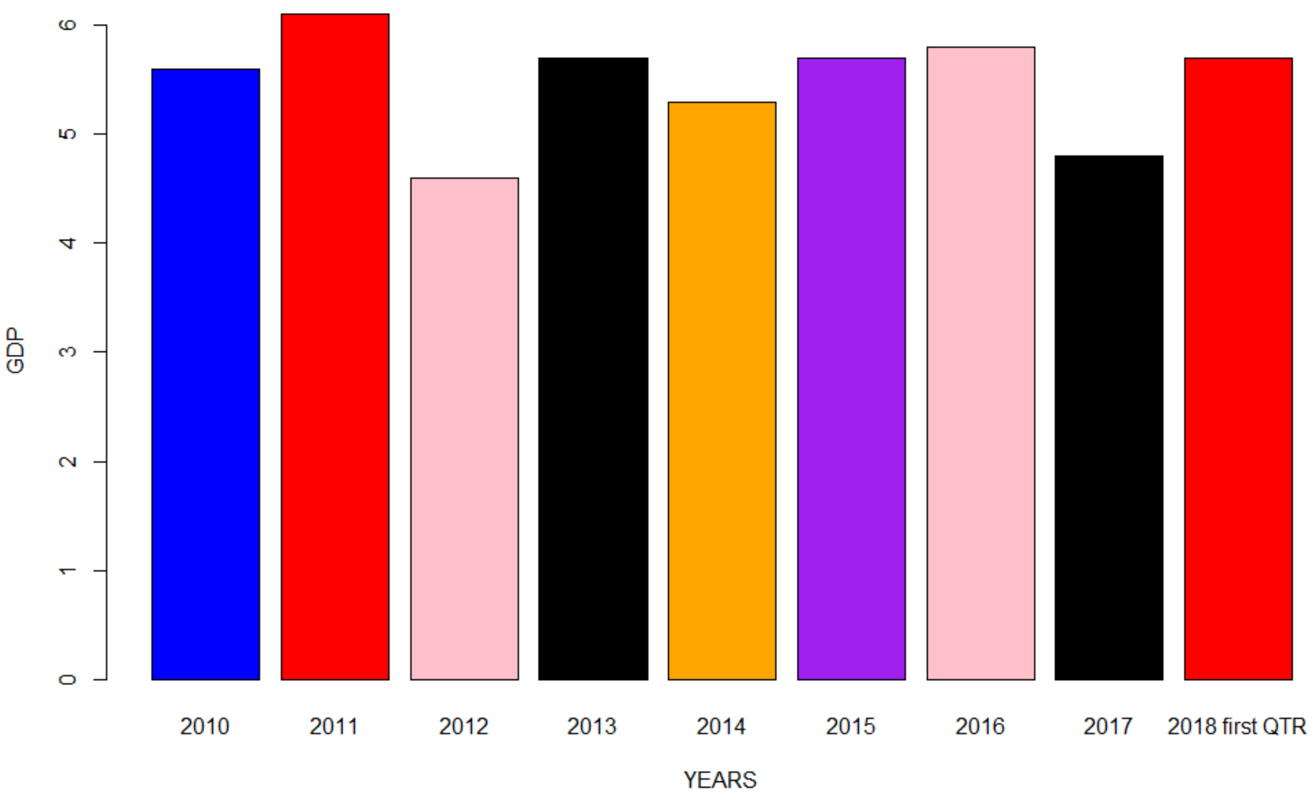
16. This chapter updates economic developments and provides an outlook, which, together with the fiscal outlook in the next chapter, informs the overall resource envelope and sectoral expenditure projections. The chapter reflects recent economic developments and outlook at the national level and draw their implication on the County.

Domestic Output and Outlook

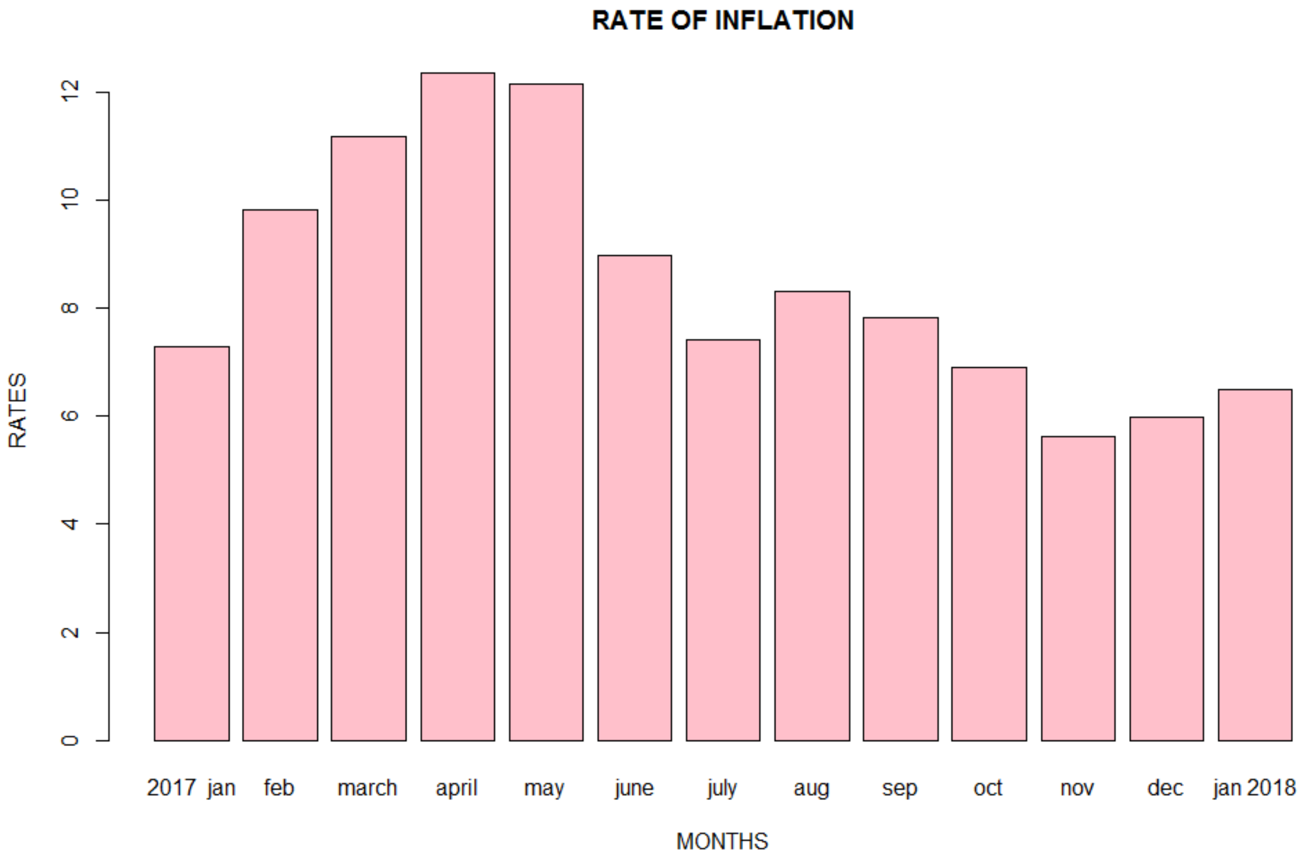
17. The global output is projected to grow from 3.7 percent in 2017 to 3.9 percent both in 2018 and 2019. This expansion is less even, with underlying fundamentals presenting differing prospects across economies. With regards to sub-Saharan Africa, prospects for growth continue from 2.8 percent in 2017 to 3.4 percent in 2018 and rising further to 3.8 percent in 2019 largely supported by rise in commodity prices. On the domestic front, economic growth is projected to recover from the growth of 4.9 percent in 2017 to 6.0 percent in 2018 and 6.2 percent in the FY 2019/20 and 6.9 percent over the medium term. The stimulus for this outlook is continued strengthening of the global economy indicated above, improved weather conditions resulting to increased agricultural output and manufacturing activities, a boost in business and consumer confidence due to political stability following conclusion of the general elections in 2017.

18. A reflection on leading economic indicators in 2018 point to an upward growth of the economy. In particular, there was strong growth of 5.7 percent in quarter one of 2018 compared with a growth of 4.8 percent in quarter one of 2017. Analysis of sectoral contribution shows this growth was mainly driven by recovery in activities of Agriculture as well as improved output in Wholesale and Retail Trade, Manufacturing, and Real Estate sectors while Financial and Insurance; Transportation and Storage; Construction, Electricity Supply; Mining and Quarrying recorded slow growth. Growth of activities in the Information and Communication sector was robust while Accommodation and Restaurants slowed significantly but remained relatively strong. The figure below displays the GDP growth rates since 2010.

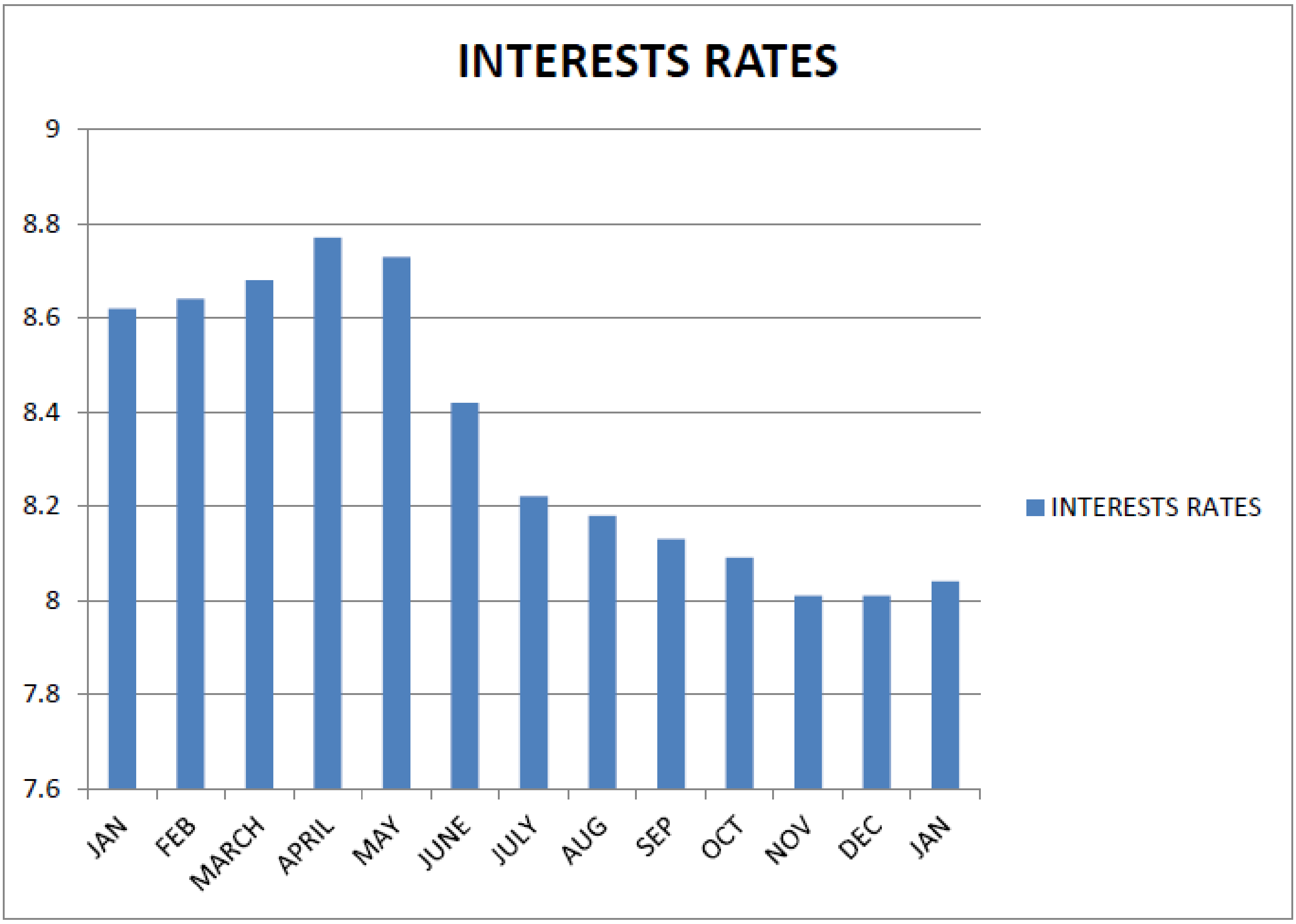
Figure 1 GDP Growth Rates for 2010-2018



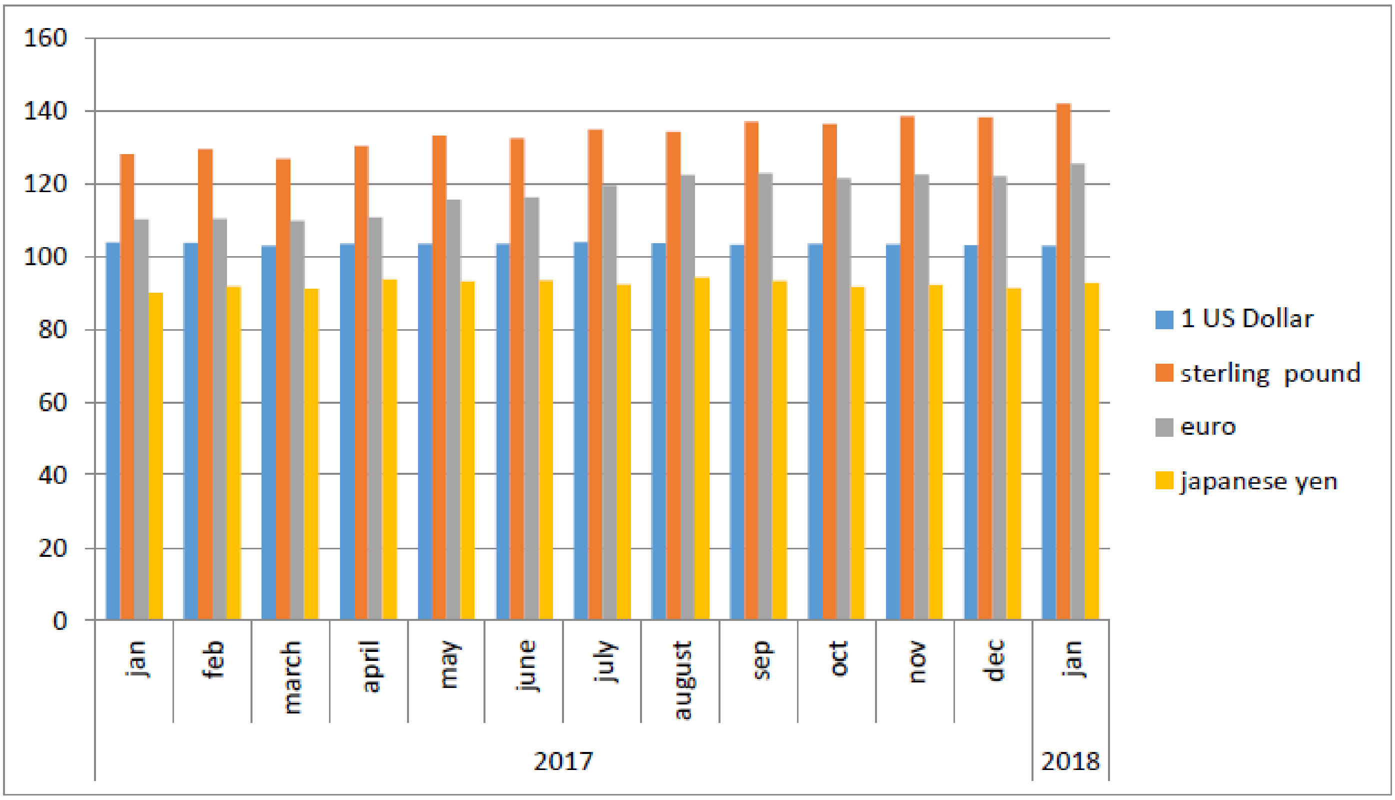
19. In addition, key macroeconomic indicators such as inflation, interest rates and exchange rates remain largely favorable to growth in 2018 and over the medium term. The annual inflation rate decreased to 4.04 percent in August of 2018 from 4.35 percent in the previous month and above market expectations of a 4.35 percent gain. It was the lowest inflation rate since March, mainly due to a fall in prices of food and non-alcoholic beverages. Inflation Rate in Kenya averaged 9.80 percent from 2005 until 2018, reaching an all-time high of 31.50 percent in May of 2008 and a record low of 3.18 percent in October of 2010. During the same review period; Housing, Water, Electricity, Gas and Other Fuels' Index, decreased by 0.16 per cent. This was mainly due to notable decrease in the cost of electricity which outweighed observed marginal increases in the cost of house rents and cooking fuels. It is expected that inflation will decline and fall within the target range in FY 2018/19, a projection that spells fortune for the consumer economy hence positive economic growth.



20. In FY 2018/19, the average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, took a downward fluctuating from 8.42 percent in June 2017 to 8.04 percent in January 2018. A preliminary assessment of the impact of the lowering of the Central Bank Rate (CBR) in March 2018 showed that the change under the interest rate capping regime had a smaller and slower impact on key macroeconomic variables such as credit and economic growth. The lending rates for commercial banks loans are at an interest of 13 percent from 13.5 percent in line with the interest rate capping rule that limits lending rates to 4 percentage points above the CBR. Kenyans will now borrow at a lower interest rate after the Central Bank of Kenya Monetary Policy Committee cut the determining bank rate from 9.5 percent to 9 percent. While the interest rates are low and favorable, it is expected to increase the uptake of credit which will translate into more investment opportunities, increasing economic activities leading to growth. This ease of doing business translates to better economic outturns and a push towards achieving development objectives.



21. The exchange rate of the Kenyan shilling to US dollar remained fairly stable. The Kenya Shilling exchanged at a high of Kshs.103.40 to the US dollar in September 2017 and a low of Kshs.102.92 in January 2018. The Kenya Shilling to Sterling pound fluctuated from a low of Kshs.138.80 in November 2017 and high of Kshs.141.95 in January of 2018. The Kenya Shilling to the Euro exchanged at a low of Kshs.122.86 in September 2017 and a high of Kshs.125.37 in January 2018. The Kenya Shilling to Japanese Yen slopped downwards in the period under review having exchanged at a high of Kshs.94.30 in August 2017 and a low of Kshs.92.73 in January 2018. With the strong projected growth in other macroeconomic indicators, it is anticipated that the exchange rate in the major currencies will be within the acceptable limits, which will aid the balance of payments in the export markets and encourage foreign investment. Figure 4 presents the exchange rates of these major currencies for FY 2017 and 2018.



Risk to the Outlook

22. The possibility of a robust domestic growth is not without risks especially on high-frequency economic indicators such as inflation, interest rates and exchange rates which plugs Kenyan economy to the global economy. Uncertainties, such as import tariffs and imminent sanctions on a variety of products imposed by the United States of America (USA) is rising trading tensions due to retaliatory measures taken by trading partners and wanes support for global economic integration to exacerbate the frequency of variations on these indicators at the domestic scene. The other risk that has to be monitored closely for taking appropriate measures to safeguard macroeconomic stability is adverse weather conditions that may have negative effects on agricultural output, subdued growth in private sector credit and unanticipated spikes in oil prices.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

Adjustments to the FY 2018/19 Budget

23. Adjustments to the FY 2018/19 budget is necessitated by consideration of FY 2017/18 fiscal outturn, implementation progress for FY 2018/19 and preconditioning preparation of forthcoming FY 2019/20 budget. The fiscal outturn for FY 2017/18 budget is satisfactory but budget implementation was riddled by lower than expected Own Source Revenue (OSR) collections and delays in disbursement of funds by the national government. This resulted to contrasting financial and non-financial positions such as payment-lags, pending bills, delayed completion of projects and unfunded ongoing projects in the midst of increased unspent funds. Therefore, in reviewing FY 2018/19 budget, the County will incorporate unspent funds as part of additional revenue and take up pending bills and ongoing projects emanating from FY 2017/18 into the revised estimates for FY 2018/19. This will secure funds for pending bills and ongoing projects first before new ones commence and avoid dotting the County with incomplete projects. 24. The implementation of FY 2018/19 budget in the County started after August 3, 2018 but a lot of preliminary activities have been ongoing from the commencement of the fiscal year in July, 2018. The activities include updating of user privileges in the Integrated Financial Management Information System (IFMIS) and initiating measures to adopt the Executive Order No. 2 on Procurement of Public Goods, Works and Services by Public Entities issued in June, 2018. There has also been efforts towards complete roll out of the revenue automation system and finalizing the approval of the Kilifi County Finance Bill, 2018. Other activities on the expenditure side of budget implementation have since been uploading of procurement plans and minimal payments for non-procurement goods and services mainly personnel emoluments, operational expenses and facilitation for undertaking programmed activities in and outside the country. At the national level, this period has been marked by intense public debate on the Finance Bill 2018 together with the need for each level of Government to broadly support fiscal consolidation efforts in the midst of ordinary revenue collection challenges and elevated expenditure pressure. While the debate on the Finance Act 2018 continues, because it was approved, and now under implementation, the proposal to slash County Allocation in FY 2018/19 through revision of the Division of Revenue Act, 2018 heralds an unprecedented move and continued uncertainty in the disbursement of funds especially that the disbursement schedule of the equitable share is not finalized. These developments have to be considered as the FY 2018/19 budget is being revised. 25. The revision of FY 2018/19 budget forms the first precondition for the preparation of FY 2019/20 budget especially that it forms the base year for revenue projection and spending options. The spending options for FY 2019/20 will revolve implementation of County Integrated Development Plan (CIDP) 2018-2022 flagship projects and other programmes taking into account ongoing projects that will have been affected during the adjustment of FY 2018/19 budget.

Budget Framework FY 2019/20

26. The Budget Framework FY 2019/20 is intended to improve the fiscal space for the County to take up flagship projects and programmes from the CIDP 2018-2022 by improving efficiency and effectiveness in OSR collection and continued alignment of revenue and expenditure to also address delays in payments for goods, works and services that affects timely completion of projects. Bold policy measures will be taken towards recurrent expenditure containment in order to release resources for development spending. Specific areas under consideration include restricting recruitment to critical staff and pursuing frugality in operation and maintenance expenses.

27. Revenue projection for FY 2019/20 provided excludes conditional grants because they will be allocated to the recipient departments when they are determined. What has been provided here is OSR projections and equitable share. The projections are not only conservative but provisional because of the assumption that the County's proportionate allocation shall remain constant.

There should be room for probable revisions during Division of Revenue between national and county governments and the third revenue sharing formula which is being developed by the Commission on Revenue Allocation (CRA). Table presents these projections for equitable share and OSR FY 2019/20-2021/22.

Table 7: Actual, Approved and Revenue Projections FY 2017/18-FY 2021/22

DESCRIPTION	ACTUAL REVENUE FY 2017/18	APPROVED ESTIMATES FY	Projection		
			2019/20	2020/21	2021/22
Equitable Share	9,950,900,000	10,833,000,000	10,370,781,080	10,694,334,324	10,791,400,297
Health Service Improvement Fund (HSIF)	59,056,231	445,535,172	249,311,340	294,522,237	337,380,253
Land Rates and other Land Revenue	126,238,602	313,677,194	63,258,462	55,936,520	49,889,625
Cess on natural resources	141,702,601	341,052,835	340,128,239	388,157,670	434,610,120
Business Permits	70,150,392	114,623,556	92,232,604	97,632,095	102,910,526
Parking Fees	17,832,833	21,488,039	18,159,971	18,038,932	17,715,071
Market Fees	11,744,236	15,258,534	16,582,028	17,557,447	18,298,837
Bill Boards and Signage	17,844,177	16,604,823	8,339,839	6,089,771	3,965,720
Building Plan approval and Inspection	2,119,318	8,102,161	5,790,044	6,392,490	6,679,701
Rent/Stall rents	5,306,499	6,896,158	3,683,013	3,212,725	2,678,020
Survey fees and plot rents	1,742,540	2,307,628	31,305	31,132	31,126
Sale of Tender Documents	23,000	625,010	1,064,813	1,286,594	1,469,703
Plot ground rent	2,558,333	6,198,608	4,904,381	5,295,481	5,491,170
House rent	37,614,075	1,963,043	1,129,762	1,126,113	1,126,040
Refuse Collection	505,803	563,781	1,363,204	1,564,655	1,753,208
Food Hygiene Fees	679,700	1,143,701	3,049,011	3,593,264	4,089,443
Slaughter House and Livestock sale Yards	743,839	2,088,733	921,400	921,416	921,415
Others	26,469,802	46,937,545	59,815,305	66,811,200	72,466,614
TOTAL	**10,473,231,980**	**12,178,066,521**	**11,240,545,799**	**11,662,504,066**	**11,852,876,888**

28. Expenditure projections FY 2019/20 budget comprise recurrent and development projections and corresponding projections for strategic interventions. Recurrent expenditure is projected at 67.39 percent in FY 2019/20, and 68.23 percent in FY 2020/21 and 68.53 percent in FY 2021/22. The projected growth is intended to operationalize development projects that continue to be completed. The development expenditure forecast is 32.61 percent 2019/20, 31.77 percent in 2020/21 and 31.47 percent in 2021/22. On recurrent strategic interventions, the County projects to spend Ksh. 1,375,950,575 in 2019/20, Ksh. 1,415,498,104 in 2020/21 and Ksh. 1,465,752,066 in 2021/22. Expenditure on strategic development interventions is projected at Ksh. 1,375,000,000 in FY 2019/20, Ksh. 1,280,000,000 in FY 2020/21 and Ksh. 1,242,100,000 in FY 2021/22.

29. In allocating resources, the County will continue with its policy of expenditure prioritization in

order to fund core services, ensure equity and minimize cost through elimination of duplication and inefficiencies. Allocation of resources will be guided by the following criteria:

i. Programme Performance Review findings will be used to determine allocation of resources to on-going programmes.
ii. Ongoing activities of the county government flagship projects and programmes will be accorded priority.
iii. There should be linkage of the programme with the objectives of Vision 2030.
iv. There should be linkage of the programme with the objectives of the CIDP 2018-2022.
v. The degree to which a programme addresses wealth and employment creation will be paramount
vi. The degree to which the programme is addressing the core mandate of the County department will be given appropriate consideration
vii. The expected outputs and outcomes from a programme should be provided explicitly.
viii. Cost effectiveness and sustainability of the programme is key to programme funding
ix. Immediate response to the requirements of the implementation of the Constitution.

30. Other key considerations during review of budget proposals FY 2019/20 will be:

i. Analysis of the baseline expenditure and remove all the “one-off” expenditure for the previous years;
ii. Identification and pending of activities of low priority in order to realize savings that should be directed to high priority programmes;
iii. Allocation of resources to projects that have been fully processed including feasibility studies done, with detailed designs, necessary approvals and land secured as well as pay attention to the estimated requirements for each of the stages of the project cycle;
iv. Requirements for innovation/inventions to ensure efficiency savings in departmental Budgets through reduction of operating costs and elimination of non-core service delivery activities
v. Detailed explanation for the rescheduling of projects which should include savings and financial implications.

31. Going forward, County Department and Divisions will bid for resources in their respective sectors. This will entail convening sector working group meetings where programme and project objectives and outcomes will be the basis for bidding for resources. The sector composition and expenditure projections are provided below. Sectors must remain within expenditure projections as they prepare and submit their budget proposals.

Table 8: Sectoral Expenditure Projections FY 2019/20-2021/22

Sector	Departments/ Divisions		FY 2019/20	FY 2020/21	FY 2021/22
Agriculture, Rural and Urban Development		**Total**	**1,136,455,071**	**1,177,913,274**	**1,095,159,886**
	County Division for Agriculture	Recurrent	571,166,927	594,013,604	603,517,822
	County Division for Livestock	Development	465,288,144	483,899,670	491,642,064
	County Division for Fisheries	Strategic Interventions	100,000,000	100,000,000	
	County Division for Lands and Energy				
	"County Division for Physical Planning, Urban Development & Housing"				
Environment Protection, Water and Natural Resources		**Total**	**684,759,721**	**712,150,110**	**723,544,512**
	Water and Sanitation	Recurrent	296,651,033	308,517,074	313,453,348
	Environment, Natural Resources and Wildlife	Development	388,108,688	403,633,036	410,091,164
Energy, Infrastructure and ICT		**Total**	**660,819,577**	**687,252,360**	**702,000,398**
	Roads, Transport and Public Works	Recurrent	249,657,498	259,643,798	263,798,099
		Strategic Interventions	75,000,000	78,000,000	83,000,000
		Development	336,162,079	349,608,562	355,202,299
Health		**Total**	**2,914,249,194**	**3,059,961,654**	**3,121,160,887**
	Medical Services	Recurrent	2,357,125,160	2,474,981,418	2,524,481,046
	Public Health	Strategic Interventions	250,950,575	263,498,104	268,768,066
		Development	206,173,459	216,482,132	220,811,775
		Strategic Interventions	100,000,000	105,000,000	107,100,000
Education		**Total**	**1,282,150,733**	**1,315,436,762**	**1,359,283,751**
	County Division for Education	Recurrent	587,754,784	611,264,975	621,045,215
	County Division for ICT	Strategic Interventions	450,000,000	450,000,000	480,000,000
		Development	244,395,949	254,171,787	258,238,536
General Economic and Commercial Affairs		**Total**	**369,956,361**	**380,754,615**	**384,309,847**
	Trade and Tourism	Recurrent	119,821,457	124,614,315	126,608,144
	Cooperative Development	Development	150,134,904	156,140,300	157,701,703
		Strategic Interventions	100,000,000	100,000,000	100,000,000

Social Protection, Culture and Recreation		**Total**	**501,717,455**	**413,786,153**	**478,806,732**
	Gender, Culture, Social Services and Sports	Recurrent	121,379,932	126,235,129	128,254,891
		Development	180,337,523	187,551,024	190,551,840
		Strategic Interventions	200,000,000	100,000,000	160,000,000
Public Relations and Intergovernmental Relations		**Total**	**3,690,437,687**	**3,811,249,137**	**3,882,946,876**
	Devolution, Public Service and Disaster Managem	Recurrent	1,896,025,328	1,971,866,341	2,003,416,203
	Finance	Strategic Interventions	600,000,000	624,000,000	633,984,000
	Economic Planning	Development	319,412,359	340,382,796	370,546,673
	Office of the Governor	Strategic Interventions	875,000,000	875,000,000	875,000,000
	County Attorney				
	County Assembly				
	County Public Service Board				
	Gross Total	**Total**	**11,240,545,799**	**11,558,504,066**	**11,747,212,888**
		Recurrent	6,199,582,119	6,471,136,655	6,584,574,768
		Strategic Interventions	1,375,950,575	1,415,498,104	1,465,752,066
		Development	2,290,013,105	2,391,869,307	2,454,786,054
		Strategic Interventions	1,375,000,000	1,280,000,000	1,242,100,000
		Recurrent	**67.39%**	**68.23%**	**68.53%**
		Development	**32.61%**	**31.77%**	**31.47%**

CONCLUSION:

32. The FY 2019/20 expenditure framework has been covered in this 2018 County Budget Review and Outlook Paper (CBROP). It has taken into account key issues surrounding overall expenditure patterns, revenue collection and the need for fiscal discipline as expressed in the PFM Act of 2012. 33. Allocation of resources as set out in this paper are meant to ensure completion of ongoing projects and programmes as well as addressing critical priority areas that are important to the development of the County. These priorities resonate with those in the CIDP 2018-2022 as well as the Annual Development Plan of 2018. This paper is also consistent with the Big 4 Agenda of the government that aims at fast tracking the pace of the country's development by investing in four main areas. 34. The set of policies outlined in this 2018 CBROP and the Annual Development Plan, 2018 will guide departments in their Sector Working Groups in their bid for resources and preparation of the FY 2019/20 budget. The sector ceilings will be firmed up in the next County Fiscal Strategy Paper by the February 2019 deadline.

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