COUNTY GOVERNMENT OF BUNGOMA

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

September, 2018

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FOREWORD

The 2018 Budget Review and Outlook Paper (BROP) is prepared at a time when our national economy is projected to recover and grow by 6.0 percent in 2018 from 4.9 percent in 2017. The economy expanded by 5.7 percent in the first quarter of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. This strong growth was supported mainly by the pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments.

The fiscal performance for the FY 2017/18 budget was generally satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures. The FY 2017/18 was particularly challenging because of the prolonged elections in 2017 and the transition processes to the new County Executive. There were expenditure pressures to cover the accumulated pending bills, mitigate low agricultural productivity and implement the Collective Bargaining Agreements (CBAs), especially for Health workers and the ECDE teachers.

In preparation of the FY 2018/19 budget, emphasis will be put on high priority and strategic service delivery programmes that will continue to build on the strong desire to transform the county. More specifically, County Departments and Agencies (CDAs) are advised to observe strict adherence to H.E The President's directive to freeze all new projects until completion of ongoing ones. This will improve efficiency of our public investment, streamline spending and reduce waste.

As provided for in the CIDP 2018 -2022, CDA programming will be anchored on the four thematic sectors covered under The Big Four as prioritized in the Third Medium Term Plan (MTP 2018-2022). Therefore, Sector Working Groups are called upon to adhere to the hard sector expenditure ceilings and to rationalize all programs to ensure that only those projects that are aligned to the Big Four are given consideration in resource allocation. Particular emphasis should be put on high priority and strategic service delivery programmes that provide value for money.

ESTHER WAMALWA
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENTS

The 2018 County Budget Review and Outlook Paper (C-BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its regulations. The document provides actual fiscal performance of the FY 2017/2018 in comparison to the budget appropriations for the same year as well as a review of the recent economic developments in all the sectors of the National/County economy. It further provides an overview of how the actual performance of the FY 2017/2018 affected our compliance with the fiscal responsibility principles and the financial objectives spelt in the PFM Act as well as information showing changes from the projections outlined in the 2016 C-BROP.

The preparation of the 2018 Budget Review and Outlook Paper was a collaborative effort among various National and County Government Agencies. We thank all the spending units, the Ministries, Government Departments and Agencies for timely provision of useful data and information through their budget execution for the FY 2017/18. We are also grateful to the Budget Working Group, a sector that reviewed this document to ensure it satisfies the PFM Act, 2012 and set out the sector ceilings contained therein to guide the rest of the sectors in the preparation of their 2019/20 budget.

A core team in the County Finance and Economic Planning Office spent a significant amount of time putting together this CBROP. We are particularly grateful to the Secretariat headed by the Director Economic Planning/Budget. I would like to take this opportunity to thank the entire staff of the County treasury for their dedication, sacrifice and commitment to public service.

CHRISPINUS BARASA
CHIEF OFFICER
FINANCE AND ECONOMIC PLANNING

LEGAL BASIS FOR THE PUBLICATION OF THE BUDGET REVIEW AND OUTLOOK PAPER

1. The Public Finance Management Act 2012, Section 118 (1) requires the County Government to prepare the County Budget Review and Outlook Paper (CBROP).
    a. It specifies the details of the actual fiscal performance in the previous 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. reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
2. The County Executive Committee (CEC) shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, not later than fourteen days after its submission.
3. Not later than seven days after the C-BROP has been approved by CEC, the County Treasury shall:
    a. Submit the paper to the County Assembly and
    b. Publish and publicize the paper not later than fifteen days after laying the Paper before Parliament.

Fiscal Responsibility Principles in the Public Finance Management Act

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 15) states that:

1. Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure.
2. The county government’s expenditure on wages and benefits for public officers shall not exceed a percentage of the county government revenue as prescribed by the regulations, in this case 35%.
3. Over the medium term, the county government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure, provided that the National Treasury guarantees the borrowings.
4. Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
5. Fiscal risks shall be managed prudently
6. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

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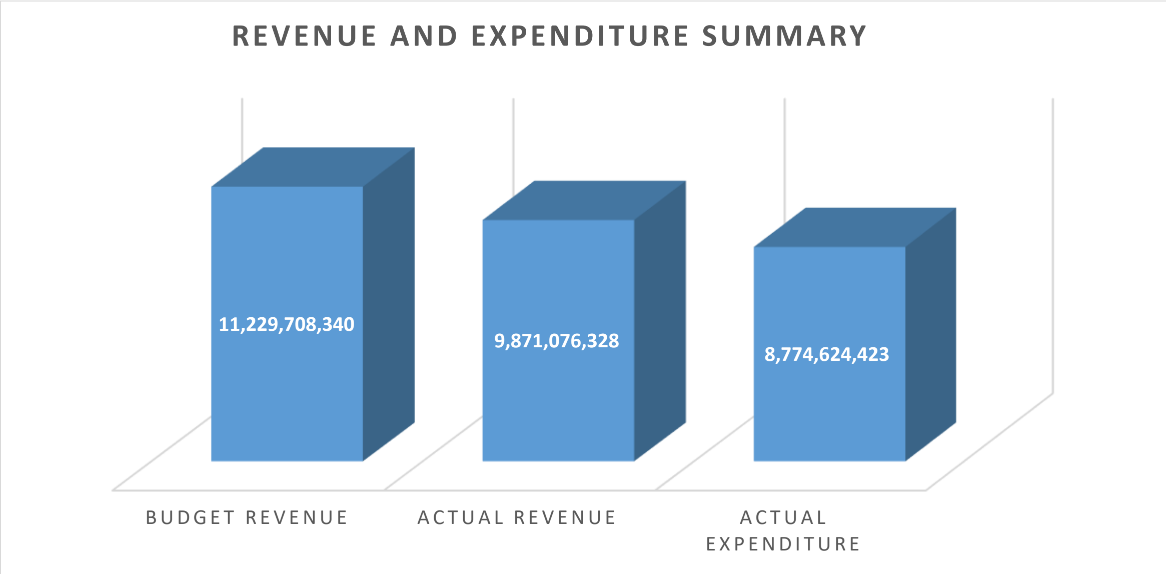
Preliminary outcome for the FY 2017/18 indicate that the cumulative revenue collection including AIA was Kshs 545,226,040. This revenue was Kshs. 320,328,953 below the target of Kshs 865,554,993. The total expenditure amounted to Kshs 8,774,624,423, against a target of Kshs 11,229,708,340. The variance of 21.86% (Kshs. 2,455,083,911) was attributed to lower absorption recorded in both recurrent expenditure (Kshs. 7,210,056,682) and development expenditures (Kshs. 1,564,567,741) by the County Government.



Analysis of CDAs Revenues for FY 2016/17 and FY 2017/18

	2016/17	2017/18			
	Actual	Target	Actual	Deviation	% Deviation
Total Revenue	**9,268,558,058**	**11,229,708,340**	**9,871,076,328**	**1,358,632,012**	**12.1**
Equitable Share (Plus b/f)	8,282,207,063	9,341,647,539	8,758,000,000	583,647,539	6.2
Conditional Grants-National Government (Plus b/f)	440,027,252	723,681,055	378,415,680	345,265,375	47.7
Conditional Grants-Development Partners (Plus b/f)	55,228,000	298,824,753	189,434,608	109,390,145	36.6
AIA	171,702,656	365,886,830	235,061,681	130,825,149	35.8
Local revenue	319,393,087	499,668,163	310,164,359	189,503,804	37.9

Analysis of CDAs expenditure for FY 2017/18

	2016/17	2017/18			
	Actual	**Target**	**Actual**	**Deviation**	**% Deviation**
	Kshs. Millions				
(a) Recurrent Expenditure	6,374.1	7,746.7	7,210.1	536.60	6.9
(b) Development Expenditure	2,904.4	3,483.0	1,564.6	1,918.40	55.1
Total Expenditure (a + b)	9,278.5	11,229.7	8,774.6	2,455.10	21.9

Figure 1: Expenditure for Financial Year 2016/17

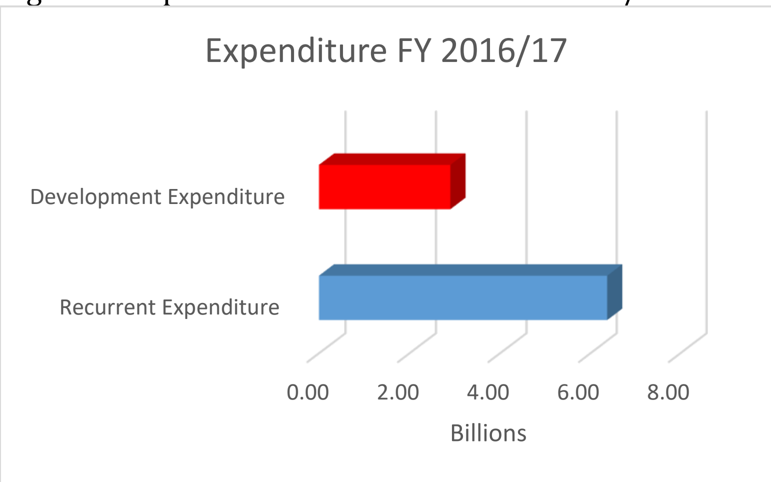
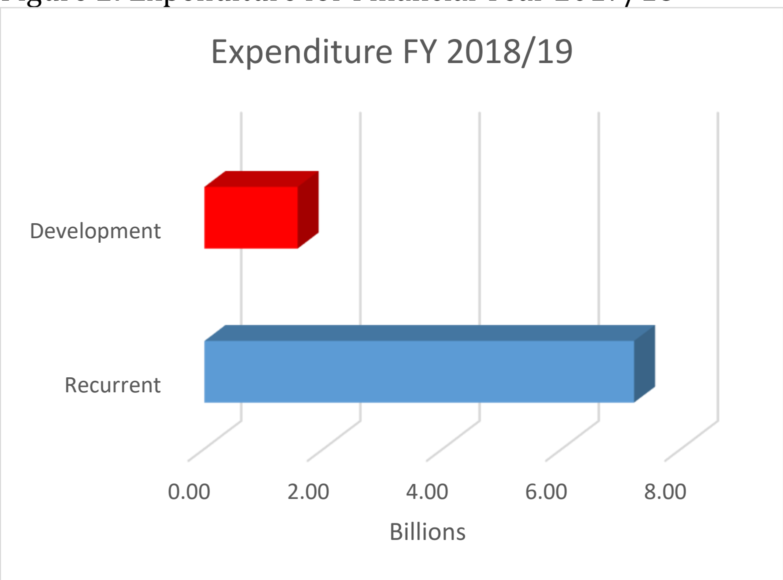


Figure 2: Expenditure for Financial Year 2017/18

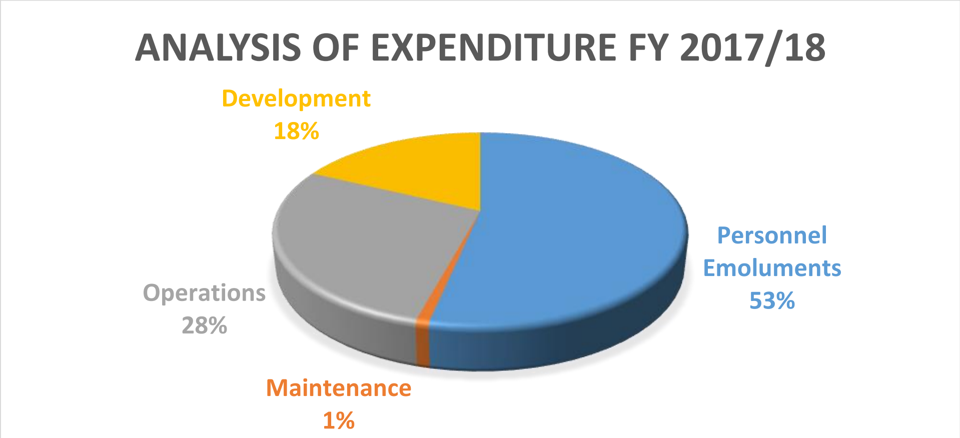


Analysis of total revenues compared to budgeted shows a fiscal deficit of Kshs 1,358,632,012 (12.1%) for FY 2017/18. Analysis of expenditure by economic classification for FY 2017/18.

Department	Personnel Emoluments	Maintenance	Operations	Development	Total
Agriculture, Livestock, Fisheries and Cooperative Development	274,481,850	2,748,592	108,158,718	255,526,827	640,915,987
Tourism and Environment	17,639,397	466,155	11,579,582	81,402,627	111,087,761
Water and Natural Resource	34,553,574	29,500	11,483,404	68,476,634	114,543,112
Trade, Energy and Industrialization	14,758,417	705,797	23,830,762	101,414,968	140,709,944
Education	818,499,392	0	403,408,125	0	1,221,907,517
Health	2,016,037,579	22,582,571	352,750,163	66,834,589	2,458,204,902
Roads and Public Works	73,515,966	6,780,421	67,829,238	619,191,673	767,317,298
Lands, Urban and Physical planning	23,508,399	1,024,609	23,885,478	16,144,128	64,562,614
Gender and Culture	38,225,286	104,032	31,598,053	0	69,927,371
Finance and Economic planning	460,316,649	31,809,532	831,178,668	123,597,423	1,446,902,272
County Public Service Board	16,291,601	0	35,408,463	0	51,700,064
Governor/ DG	236,789,302	4,058,705	107,809,052	0	348,657,059
Public Administration	224,476,503	366,720	103,318,501	8,563,289	336,725,013
Office of the CS	37,472	1,280,667	12,739,999	18,493,567	32,551,705
Housing	12,495,315	2,239,029	11,878,718	48,067,285	74,680,347
County Assembly	417,904,649	2,345,492	317,126,585	156,854,731	894,231,457
Total	**4,679,531,351**	**76,541,822**	**2,453,983,509**	**1,564,567,741**	**8,774,624,423**

Analysis of expenditure for FY 2017/18 has been summarized in figure 3. Personnel emoluments accounted for 53% of expenditure while development projects accounted for 18%.

Figure 3: Analysis of Expenditure FY 2017/18



Fiscal outcomes for the FY 2018/19 are projected to improve supported by the fiscal consolidation policies. Local revenues are projected to increase to 8.5 percent of 2018/19 budget from 5.5 percent in FY 2017/18 buoyed by the revenue enhancement initiatives put in place and improvement in the revenue administration. Moreover, the recovery of the agricultural sector necessitated by the improved weather conditions and the resilient growth in the non-agricultural sectors is expected to support a strong revenue growth.

The outcome of the FY 2017/18 budget did not adhere to the Fiscal Responsibility Principles and financial objectives set out in the PFM Act, 2012. These include: County Government development expenditure was at 18 percent of total expenditure; this was mainly attributed to change of regime that delayed implementation of development projects. The share of County Government wages and benefits to County Government revenues was 53 percent.

The budget for the FY 2018/19 and the medium term is premised on the favourable macroeconomic environment and transformational leadership at the county level, despite the risks emanating from the uncertainty in the global financial market. The macroeconomic environment remains favourable, with the narrowing of the current account deficit due to lower import bill, strong diaspora remittances, stable Kenya shilling exchange rate against the dollar, the increase in the foreign exchange reserves and the stability of the foreign exchange market. The Budget will also implement the third medium term plan of vision 2030 that is currently under preparation. In the FY 2019/20, driven by continued reforms, revenue collection is expected to rise to 8.5 percent of total budget while overall expenditure is projected at 95% percent.

The medium term revenue projections are as indicated

Revenue Projections

Type of Revenue	18/19	19/20	20/21	21/22
(a) Balance B/F -Equitable share	1,255,948,826	-	-	-
-Balance B/F Conditional grant	400,512,252	-	-	-
(b) Equitable share	8,949,000,000	9,396,450,000	9,866,272,500	10,359,586,125
(c) Local Revenue	745,168,045	782,426,447	821,547,770	862,625,158
(d) AIA	355,831,956	373,623,554	392,304,731	411,919,968
(e) Conditional grants	1,303,060,701	1,368,213,736	1,436,624,423	1,508,455,644
Total	**13,009,521,780**	**11,920,713,737**	**12,516,749,424**	**13,142,586,895**

There are risks to the medium term outlook that include among others; the tightening of financial conditions, waning support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under “The Big Four” Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures. The County will work with the national government to monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

ABBREVIATIONS AND ACRONYMS

CBROP	County Budget Review and Outlook Paper
BMI	Business Monitoring Intelligence
CFSP	County Fiscal Strategy Paper
EAC	East African Community
EIU	Economic Intelligence Unit
ERS	Economic Recovery Strategy
GDP	Gross Domestic Product
GOK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MDG	Millennium Development Goals
MPERs	Ministerial Public Expenditure Review
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PIM	Public Investment Management
SWGs	Sector Working Groups
V-2030	Vision 2030

I. INTRODUCTION

Objective of the Budget Review and Outlook Paper

1. The objective of the 2018 County Budget Review and Outlook Paper (C-BROP) is to provide a review of fiscal performance for the FY 2017/18 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2017 County Fiscal Strategy Paper (CFSP).

2. The review findings together with updated macroeconomic developments and outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the FY 2019/20 budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the 2019 CFSP.

3. This 2018 BROP is a key document in linking policy, planning and budgeting. The County Government has finalized the preparation of the County Integrated Development Plan (CIDP - covering 2018-2022) - the successor document of the CIDP I (that covered 2013-2017) — that will guide budgetary preparation and programming from 2018 onwards. In the interim, the 2018 BROP is embedded on the priorities of the County and National Government under the “Big Four” Plan and the binding development agreements, in addition to taking into account emerging macroeconomic challenges.

4. Further, the document provides highlights of recent economic developments and outlook and sector ceilings for the FY 2019/20 budget and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in section III and IV of this document. The sector ceilings set in motion the budget preparation for the FY 2019/20 and the medium term and also makes provision for the inclusion of the National Government Big Four agenda.

5. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources, based on evidence and rational deliberation. To achieve this, the County Government remains committed to a measured, prudent course of fiscal consolidation to narrow the budget deficit and while at the same time enhancing the absorption capacity of CDAs.

6. In this context, the 2018 C-BROP outlines broad policies and legal frameworks, including proposals to aligned to the “Big Four” Plan in order to create jobs, support manufacturing activities, enhance universal health coverage, improve food security and enhance living conditions through affordable housing. To meet the commitments as contained in the 2018/19 Budget and the medium term budget, the County Government will continue to implement measures aimed at raising the tax revenue and providing incentives for manufacturing, food security, provision of universal

health coverage and affordable housing. In addition, the County Government will continue to gradually reduce non-priority expenditures, improve value for money spent and stabilize the public finances.

7. To meet the current commitments as contained in the FY 2017/18 Budget, the County Government proposed tax measures through the Finance Act, 2018, aimed at expanding the local revenue base and providing incentives for businesses to thrive and create employment opportunities, improve value for money spent, stabilize expenditure on personal emoluments consistent with the County Integrated Development Plan, County strategic plan, and the overall strategies and policies outlined in the Vision 2030's and the third Medium-Term Plan (MTP III) - 2018-2022.

8. However, the underperformance in both revenue collection and expenditure in the FY 2017/18 has implications on the financial objectives outlined in the 2018 MTEF circulars and the 2018/19 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2018/19 and the medium term has changed given the end FY 2017/18 and quarter one FY 2018/19.

9. To remedy these deviations, the 2018 BROP details appropriate revisions taking into account the budget outturn for the FY 2017/18. In addition, the fiscal outlook contained in this BROP focuses on reforming the tax and revenue administration systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the CIDP II.

10. Further, the County Treasury has issued guidelines on how capital projects and development funded programmes should be planned, appraised and evaluated before funds are committed in the budget. Regard shall also be placed on the Public Investment Management (PIM) Guidelines being developed by the National Treasury in formulation of our development programmes and projects.

11. With this background, the rest of the paper is organized as follows: Section II provides a review of the fiscal performance for the FY 2017/18 and its implications on the financial objectives set out in the 2017 BPS. This is followed by Section III that provides highlights of the recent economic developments and outlook. The proposed Resource Allocation Framework is provided in Section IV while conclusion is in Section V.

II. REVIEW OF FISCAL PERFORMANCE FOR FY 2017/18

A. Overview

12. The fiscal performance for the FY 2017/18 budget was generally satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures. The FY 2017/18 was particularly challenging because of the general elections and repeat presidential elections which affected approval processes of budgets and subsequently slowed exchequer releases.

13. Total cumulative revenue collection including appropriation in aid (A-I-A) was Kshs 545,226,040 (4.9 percent of 2017/18 budget) which is Kshs 320,328,953 below the target of Kshs 865,554,993 (7.71 percent of 2017/18 budget). The shortfall was as a result of underperformance in both the ordinary revenues and the departmental A-I-A by Kshs 189,503,804 and Kshs 130,825,149, respectively.

14. The significant ordinary revenue shortfall was driven by underperformance of land rates and general boycott of tax payments by market actors complaining of poor facilities particularly at open air markets and auction rings.

15. As a result, the fiscal deficit as at end of June 2018 was Kshs 1,358,632,012 (equivalent to 12.1 percent of 2017/18 budget). Exclusive of grants, the fiscal deficit was 8.86 percent of 2017/18 budget.

16. The fiscal outcome for the FY 2017/18 budget did not adhere to the fiscal responsibility principles and financial objectives set out in the PFM Act, 2012. The County Government development expenditure as a percent of total expenditure was 18 percent; the expenditure on wages and benefits to county staff was 53 percent, well above the 35% threshold. This was attributed to remuneration increases resulting from the Collective Bargaining Agreements (CBAs) for Health workers and the conversion of ECDE teachers to Permanent and Pensionable (P&P) basis. The reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.

FY 2017/18 FISCAL PERFORMANCE

B. Performance of Revenues

17. By the end of June 2018, total cumulative revenue including A-i-A collected amounted to Kshs 545,226,040 against a target of Kshs 865,554,993. This represented a revenue shortfall of Kshs 320,328,953 (or 37.0 percent deviation from the target). Ordinary revenue collection amounted to Kshs 310,164,359 against the target of Kshs 499,668,163.

18. Tax revenues were largely below the revised target in all the broad categories except Bus Park and Single Business Permits (SBP). Bus park taxes increased on account of the introduction of monthly PSV stickers that simplified tax collection and administration. Revenues from SBPs were higher than the previous FY by Kshs 6.49 million.

19. As already mentioned, the appropriation in aid shortfall of Kshs. 130,825,149 is explained in part by spending at source and delayed reporting by the collecting CDAs, it is expected that this shortfall will narrow significantly when the CDAs present their final financial statements.

Table 1: Government Revenue and External Grants, FY 2017/18

	2016/17	2017/18			
	Actual	Target	Actual	Deviation	% Deviation
Total Revenue	**9,268,558,058**	**11,229,708,340**	**9,871,076,328**	**1,358,632,012**	**12.1**
Equitable Share (Plus b/f)	8,282,207,063	9,341,647,539	8,758,000,000	583,647,539	6.2
Conditional Grants- National Government (Plus b/f)	440,027,252	723,681,055	378,415,680	345,265,375	47.7
Conditional Grants- Development Partners (Plus b/f)	55,228,000	298,824,753	189,434,608	109,390,145	36.6
AIA	171,702,656	365,886,830	235,061,681	130,825,149	35.8
Local revenue	319,393,087	499,668,163	310,164,359	189,503,804	37.9

Expenditure Performance

20. Total expenditure in the FY 2017/18 amounted to Kshs 8,774,624,423 against a target of Kshs 11,229,708,340, representing an under spending of Kshs 2,455,083,917 (or 21.86 percent deviation from the revised 2017/18 budget). This shortfall was attributed to lower absorption in both recurrent and development

expenditures by the county government.

21. The recurrent expenditure amounted to Kshs 7.21 billion against a target of Kshs 7.74 billion, representing an under-spending of Kshs 536.6 million (or 6.9 percent deviation from the approved recurrent expenditure).

Table 2: County Government Expenditure Performance for FY 2017/18

	2016/17	2017/18			
	Actual	Target	Actual	Deviation	% Deviation
	Kshs. Millions				
(a) Recurrent Expenditure	6,374.1	7,746.7	7,210.1	536.60	6.9
(b) Development Expenditure	2,904.4	3,483.0	1,564.6	1,918.40	55.1
Total Expenditure (a + b)	9,278.5	11,229.7	8,774.6	2,455.10	21.9

22. Development expenditures were below target by Kshs 1.9 billion (or 55.1 deviation from target expenditure) on account of lower absorption as a result of delayed projects implementation due to change of regime.

County Departments Expenditure

23. The total cumulative departmental and other public agencies expenditure was Kshs 8,774,624,423 (78.1 percent absorption) against a target of Kshs 11,229,708,340. Recurrent expenditure was Kshs 7,210,056,682 (93.1 percent absorption) against a target of Kshs 7,746,659,101, while development expenditure was Kshs 1,564,567,741 (44.9 percent absorption) against a target of Kshs 3,483,049,238.

24. As at the end of period ending 30th June 2018, expenditures by the Departments of Education and Health (Social Sector) accounted for 41.94 percent of total expenditure, while the Department Agriculture and Public Administration accounted for 7.3 percent and 3.8 percent respectively.

25. Analysis of development outlay indicates that the Department of Roads accounted for the largest share of the total development expenditures (39.6 percent), followed by Agriculture (16.3 percent), County Assembly (10.0 percent) and Water (9.6 percent). The development expenditures in large departments were below the target because of low absorption of the resources including grants and delayed reporting of direct payments executed by the development partners. Details of various Departmental and Agency expenditures for the FY 2017/18 are provided in Table 3.

Table 3: Departments Expenditure for the Period Ending 30th June, 2018

Department	June-30 Recurrent		Variance	June-30 Development		Variance	June-30 Totals		Variance	% total expenditure to total target
	Actual	Target		Actual	Target		Actual	Target		
Agriculture, Livestock, Fisheries and Cooperative Development	385,389,160	404,253,214	18,864,054	255,526,827	440,655,456	185,128,629	640,915,987	844,908,671	203,992,684	24.14
Tourism, Environment, Water and Natural Resource	75,751,612	145,672,517	69,920,905	149,879,261	410,988,964	261,109,703	225,630,873	556,661,481	331,030,608	59.47
Trade, Energy and Industrialization	39,294,976	49,555,801	10,260,825	101,414,968	157,728,284	56,313,316	140,709,944	207,284,085	66,574,141	32.12
Education	1,221,907,517	1,243,426,214	21,518,697	0	250,444,288	250,444,288	1,221,907,517	1,493,870,502	271,962,985	18.21
Health	2,391,370,313	2,519,862,109	128,491,796	66,834,589	182,859,753	116,025,164	2,458,204,902	2,702,721,863	244,516,961	9.05
Roads and Public Works	148,125,625	168,672,552	20,546,927	619,191,673	1,200,287,706	581,096,033	767,317,298	1,368,960,258	601,642,960	43.95
Lands, Urban and Physical planning	48,418,486	72,146,405	23,727,919	16,144,128	182,631,796	166,487,668	64,562,614	254,778,201	190,215,587	74.66
Gender and Culture	69,927,371	104,130,398	34,203,027	0	33,844,644	33,844,644	69,927,371	137,975,042	68,047,671	49.32
Finance and Economic planning	1,323,304,849	1,305,443,188	-17,861,661	123,597,423	323,042,936	199,445,513	1,446,902,272	1,628,486,124	181,583,852	11.15
County Public Service Board	51,700,064	60,456,350	8,756,286	0	0	0	51,700,064	60,456,350	8,756,286	14.48
Governor/ DG	348,657,059	409,012,755	60,355,696	0	2,598,078	2,598,078	348,657,059	411,610,833	62,953,774	15.29
Public Administration	328,161,724	438,298,343	110,136,619	8,563,289	15,133,818	6,570,529	336,725,013	453,432,161	116,707,148	25.74

Department	June-30		Variance	June-30		Variance	June-30		Variance	% total expenditure to total target
	Recurrent			Development			Totals			
	Actual	Target		Actual	Target		Actual	Target		
Office of the CS	14,058,138	40,467,000	26,408,862	18,493,567	45,590,000	27,096,433	32,551,705	86,057,000	53,505,295	62.17
Housing	26,613,062	30,012,925	3,399,863	48,067,285	73,480,807	25,413,522	74,680,347	103,493,732	28,813,385	27.84
County Assembly	737,376,726	755,249,331	17,872,605	156,854,731	163,762,706	6,907,975	894,231,457	919,012,037	24,780,580	2.70
Total	**7,210,056,682**	**7,746,659,102**	**536,602,420**	**1,564,567,741**	**3,483,049,236**	**1,918,481,495**	**8,774,624,423**	**11,229,708,340**	**2,455,083,917**	**21.86**

Overall Balance and Financing

26. Reflecting the performance in revenue and expenditure, deficit amounted to Kshs 2,455,083,917 (equivalent to 21.86 percent of 2017/18 budget).

C. Fiscal Performance for the FY 2017/18 in Relation to Financial Objectives

27. The fiscal performance in the FY 2017/18 has affected the financial objectives set out in the 2018 CFSP and the Budget for FY 2018/19 in the following ways:

i. The base for local revenue projections is higher than the actual outcome by about Kshs 320,328,953; as such there will be a downward base effect adjustment in ordinary revenues for FY 2018/19 and the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and upward adjustment in financing for the FY 2018/19. In addition, adjustments will be made to fiscal aggregates to reflect revisions in the macroeconomic projections as well as revenue performance for the first quarter of FY 2018/19;

ii. The baseline ceilings for spending departments/agencies will be adjusted in line with the revised resource envelope under the updated budget framework in the 2018 CFSP. In addition the revisions will take into account the performance in project execution in the FY 2018/19 budget by CDAs and any identified one-off expenditures;

iii. The budget ceilings for CDAs implementing flagship projects will be reviewed to ensure proper financing of the project components and,

iv. The under-spending in both recurrent and development budget for the FY 2017/18 additionally has implications on the base used to project expenditures in the FY 2018/19 and the medium term. Appropriate revisions have been undertaken in the context of this CBROP taking into account the budget outturn for the FY 2017/18.

28. As highlighted above, the reasons for the deviations from the financial objectives include: lower than projected revenue collection; under-spending in both recurrent and development; under-reporting on A-in-A expenditures by CDAs; and slow uptake of external resources in the FY 2017/18.

29. To remedy these deviations, the fiscal outlook will focus on completing the tax and revenue administration reforms contained in the 2018 Finance Bill. Further, the County Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are committed in the budget. Resources will be allocated to the capital projects which will have been fully appraised and reviewed to avoid delay in implementation. Further, ongoing projects will be prioritized and any

new projects will be evaluated in the context of their furtherance of the Big Four plan, importance in line with the medium and long term development agenda; their impact on poverty; promotion of growth and job creation; and the viability and sustainability of the project.

D. Fiscal Responsibility Principles

30. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the County PFM regulations, and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statute as follows:

31. The County Government's development allocation as a percent of total budget was 31 percent (Though actual development expenditure was at 18% of total expenditure) in FY 2017/18 and is set to remain above the 30 percent minimum threshold set out in the PFM law over the medium term. It is however, projected to increase to 37.7 percent in the FY 2018/19 and remain above the 30 percent benchmark over the medium term.

32. The law requires that the county government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the county government's equitable share of the revenue raised nationally plus other revenues generated by the county. The County Government share of wages and benefits to revenues was 53 percent in the FY 2017/18, and is projected at 43 percent in the FY 2018/19, declining to 37 percent by FY 2021/22. This is attributed to continuous growth in the county revenue and managing staff recruitment.

33. To manage fiscal risks prudently as required, the County Government has improved its revenue forecasts and regularly reviews the impact of these projections and their implications on the budget. Potential fiscal risks arising from contingent liabilities, including from Public Private Partnership projects among others are taken into account and a contingency provision made to cushion the county economy from unforeseeable shocks.

34. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the County Government continues to carry out tax reforms through modernizing and simplifying tax administrative laws. In order to lock in predictability and enhance compliance with tax system, the government through the Finance Act, 2017, introduced stickers for Public Service Vehicles amid other changes to simplify tax administration and management.

35. The county fiscal projections provide comparisons between the updated projections in the BROP 2018 and the 2018 CFSP for the financial year 2019/20 and in the medium term. The deviations, in the revision in revenues and expenditures are due to the base effect on revenue forecast and macroeconomic assumptions

contained in this BROP, which will be firmed up in the context of the 2019 CFSP. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest CFSP to reflect the changed circumstances.

Table 4: County Government Fiscal Projections for FY 2018/19 – 2020/21

	2016/17	2017/18	2018/19	Projections	
	Actual	Actual	Budget	2019/20	2020/21
Budget Estimates	10,469,990,770	11,229,708,339	11,253,060,757	11,920,713,737	12,516,749,424
Total Revenue(TR)	9,278,478,084	9,871,076,328	11,253,060,757	11,920,713,737	12,516,749,424
TR as % of Total Budget	88.61	87.9	100.0	100.0	100.0
Local Revenue (LR)	319,393,087	310,164,359	745,168,045	782,426,447	821,547,770
LR as % of Total Budget	3.1	2.8	6.6	6.6	6.6
AIA	171,702,656	235,061,681	355,831,956	373,623,554	392,304,731
AIA as % of Total Budget	1.6	2.1	3.2	3.2	3.2
Expenditure	9,114,502,269	8,774,624,423	11,253,060,757	11,920,713,737	12,516,749,424
Expenditure as % of Total Budget	87.1	78.1	100.0	100.0	100.0
Expenditure as % of total revenue	98.2	88.9	100.0	100.0	100.0

Challenges encountered by the County in Public Finance Management

36. There are some notable challenges in the management of county public finances that have persisted. First is irregular public procurement, such as, lack of proper documentation of the contracts awarded; variation of materials used in construction; engagement of service providers without proper contracts, un-procedural procurement of goods and services; awarding of contracts without performance bonds as required by the procurement law and awarding of same works to more than one contractor among others.

37. Second is the weak management of assets and liabilities characterised by incomplete fixed assets register leading to under estimation of the assets held by the County Government. This has been made worse by the delay in the completion of the formal transfer of assets and liabilities.

38. Third, weak human resource management framework characterised by irregular recruitment of staff of both the Executive and the County Assembly; lack of human resource policy that would guide the staffing needs and irregular leasing of official residences for senior county officials. Weak human resource management limits the ability of the counties to manage their wage bill which has posed a major challenge.

39. Fourth is the escalation of pending bills which is attributed to non-payment of contractors and suppliers of goods and services, and of salaries. In some instances, the county has failed to remit statutory deductions (including employee pension contributions and loan deductions) to respective institutions.

40. Fifth, the establishment and management of Public Funds without the requisite legal and administrative frameworks which affects the administration, accounting and reporting of these Funds.

41. Sixth, there are misalignment between financial reports prepared by the County Government and the financial records as captured in the Government's Integrated Financial Management Information System (IFMIS).

Measures to address some of the challenges faced by County Governments

42. To address the above challenges, the County Treasury has been undertaking extensive capacity building initiatives targeting county staff. In addition, the National Treasury has been supportive in developing the capacity of our staff on various aspects of public finance management will continue in order to ensure compliance with the legal requirements as contained in the PFM Act and Regulations.

43. In addition, through the National Government and in partnership with the World Bank, the County will continue implementing the Kenya Devolution Support Program (KDSP) which seeks to incentivise better PFM performance by providing additional

resources for capacity development that achieve pre-agreed results in core PFM key result areas.

44. The County will embrace efforts to enhance own source revenue, by implementing the County Governments' OSR enhancement policy and bill which has already been approved by the National Executive (Cabinet) and the bill will be submitted to Parliament for enactment into law.

45. The county will implement the findings of the county revenue potential study commissioned by the National Treasury. According to the study's draft report, almost all counties could dramatically increase OSR contributions to their budgets by refocusing enhancement efforts on key streams, broadening the base for collections and simplifying rate structures. The study also recommends strategies for strengthening the linkage between revenue collection and policy objectives, improving efficiency of revenue administration arrangements (e.g. through collaboration with Kenya Revenue Authority) and fixing legal weaknesses. In addition to the revenue potential study, the National Treasury is planning to train Counties on OSR revenue forecasting and tax analysis.

46. Implementation of the World Bank/ National Treasury funded Kenya Urban Support Programme will be strengthened to establish and appropriate specific budgets for urban areas and Towns. Through the KUSP the National Government provides conditional grants to the county to incentivise and support the establishment of charters as well as administrative structures for urban areas and Towns. Additional resources will be provided to support the development of the necessary urban infrastructure, such as street lighting, water supply infrastructure, urban roads and drainage systems, etc.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

47. The Kenyan economy is on a recovery path and is projected to recover to 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent in the 2018 Budget Policy Statement. This strong growth momentum is reflected in the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The outlook is supported by a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country. Indeed, Kenya continues to be ranked favourably in the ease of doing business and as a top investment destination.

48. The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall year on year inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by Government. This decline reflected a decrease in food prices which outweighed the rise in international oil prices.

49. The foreign exchange market remains stable supported by a narrower current account deficit. The current account deficit narrowed to 5.8 percent of GDP in the 12 months to June 2018 from 6.4 percent over the same period in 2017 reflecting strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts. The strong capital inflows has also led to the stabilization of the shilling in the foreign exchange market and also allowed accumulation of international reserves. The usable official reserves stood at US$ 8,652 billion or 5.8 months of imports by end August 2018.

B. Recent Developments

Real Sector Developments

50. Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions.

51. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter in 2017. This growth was mainly attributed to improved weather conditions and regain in business and consumer confidence following political stability in the country and is reflected in the increased activities in both the agricultural and non-agricultural sectors of the economy as well as the crackdown on corruption.

Energy Sector

52. The energy sector witnessed increased international crude oil prices in 2017 following supply cuts by top producers under Organization of Petroleum Exporting Countries (OPEC).

53. Total installed and effective electricity capacity was 2,339.9 MW and 2,264.4 MW, respectively, in 2017. The number of customers connected under the rural electrification program expanded by 30.6 per cent from 972,018 in 2016/17 to 1,269,510 in 2015/16. Connection of electricity to county markets in Bungoma is on-going in 2018 through KPLC.

Transport

54. The value of transport and storage sector output expanded by 8.8 per cent from Kshs 1,025.8 billion in 2016 to Kshs 1,115.7 billion in 2017. During the same period, the value of output from road transport increased by 5.7 per cent to Kshs 702.1 billion, accounting for 62.9 per cent of the total output in the sector. The County has invested in the upgrading of Misikhu – Brigadier road. This will enable it handle the increased traffic, reduce losses to businesses, reduce accidents and open up the corridor for additional investments. Once completed, the network will play a critical role in improving the county's transportation logistics and trade competitiveness in line with our County Integrated Development Plan (CIDP) spatial development plan.

The National Government is focusing on The Big Four Agenda:

55. Manufacturing sector targets at least five million square feet of industrial sheds established to improve cotton production and raising the share of the manufacturing sector from nine per cent to fifteen per cent of the GDP by 2022. SMEs will be established as the clothing industry creates jobs for Kenyans.

56. The performance of Industry improved to a growth of 4.1 percent in the first quarter of 2018 compared to a growth of 3.9 percent in the same quarter in 2017 following increased activities in the manufacturing sector. The improvement in the manufacturing sector was as a result of the recovery of the Agricultural sector. Activities in electricity and water supply and construction slowed down compared to the same quarter in 2017. For the County, the proposed industrial park is on course. Its concept note has been deliberated on by the County Executive Committee and forwarded to the County Assembly for approval. When approved, feasibility studies will then follow before the roll out of phase one by the end of the FY 2018/19.

57. Universal health care; increasing the number of people with health cover from 16 million to 25 million in 2018

58. Housing; the plan is to have at least 500,000 affordable homes in all major cities by 2022. This will create jobs for Kenyans in the building and construction industry.

59. Food security; the National Government estimates to produce 2.76 million bags of maize by the end of 2018 alone. Agricultural sector improved to a growth of 5.2 percent in the first quarter of 2018 compared to a growth of 1.0 percent in a similar quarter in 2017. The improved growth was as a result of favourable weather conditions that increased production of key food crops and livestock products especially in the dairy subsector.

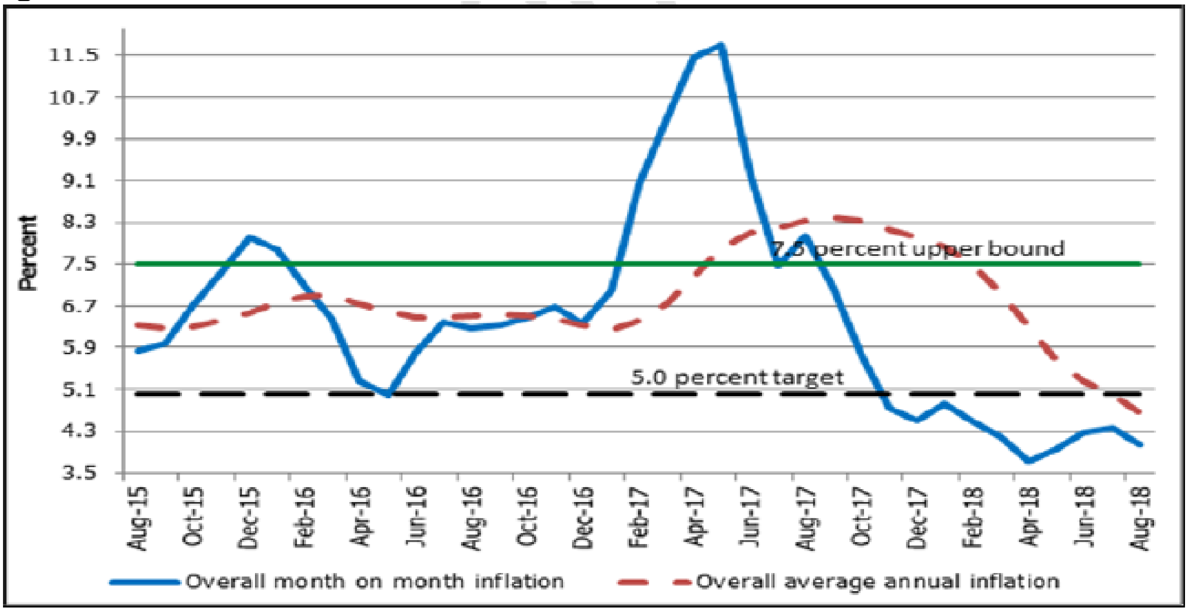
60. By the expiry of the plan period, an ordinary Kenyan will wake up in his own home, have nutritious meals and go to a satisfying job. In the event of an illness, one should be able to walk into a well-equipped public hospital and access treatment. The Big Four Agenda will create an environment where every Kenyan is productive and thus able to put food on the table, put their children through school and live in their own home.

61. Services remain the main source of growth. It grew by 6.5 percent in the first quarter of 2018 compared to a growth of 6.9 percent in the same quarter in 2017. The slowdown of services sector in the first quarter of 2018 was mainly reflected in the subdued performance of the financial and insurance sector on account of significantly constrained growth in financial activities. Transportation and storage sector also had a subdued performance due to a rise in the prices of petroleum products. This will be aggravated further by the recently introduced 8% tax on petroleum products in the Finance Act 2018.

Inflation Rate

62. Month-on-month overall inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by Government. This decline reflected lower prices of key food items such as carrots, loose maize grain, loose maize flour, tomatoes, cabbages, and beans. However, energy prices continued to exert upward pressure on overall inflation due to higher fuel and electricity prices. In the twelve month to August 2018, the average annual inflation rate was at 4.7 percent compared to 8.3 percent in the same period in 2017.

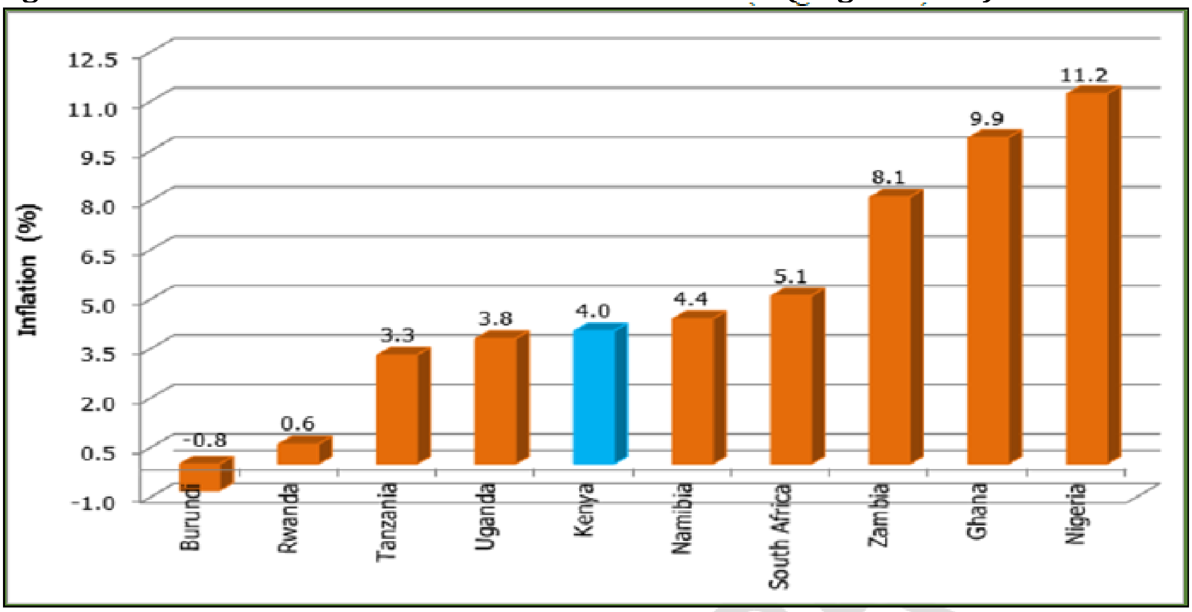
Figure 4: Inflation Rate



Statistics Source: National Treasury; Data: Kenya National Bureau of Statistics

63. Kenya's rate of inflation compares favourably with the rest of sub-Saharan African countries and especially its peers such as Nigeria and Ghana whose inflation rates were 11.2 percent and 9.9 percent, respectively in August 2018.

Figure 5: Inflation Rates in selected African Countries (August 2018)



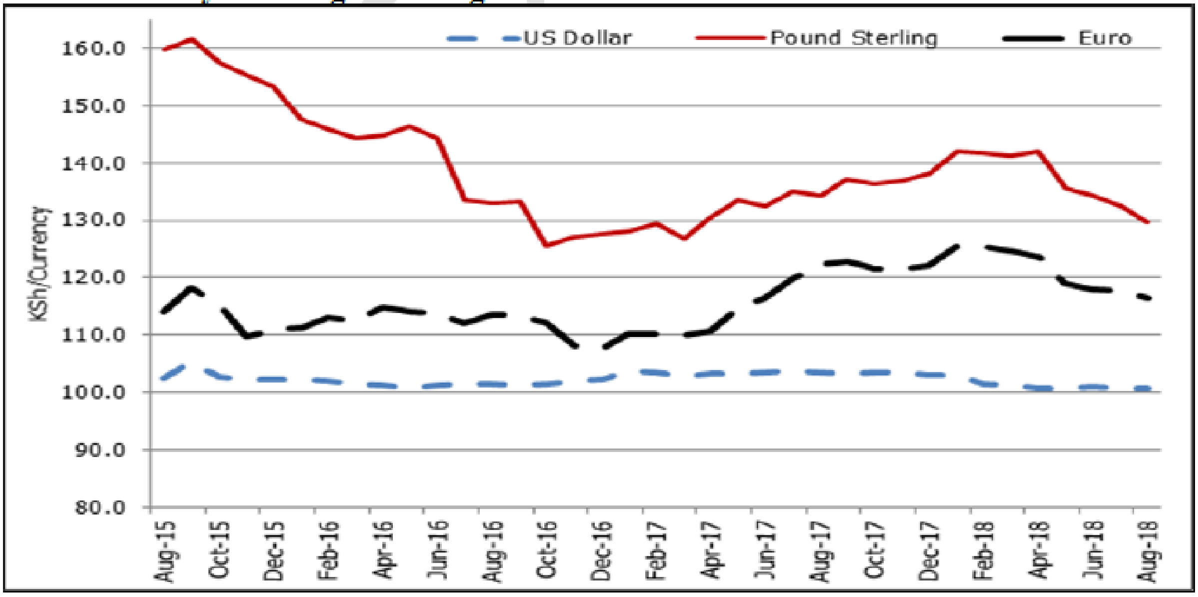
Statistics Source: National Treasury; Data: National Central Banks

Kenya Shilling Exchange Rate

64. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate strengthened to Kshs 100.6 in August 2018 from Kshs 103.6 in August 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Kshs 116.2 and Kshs

129.7 in August 2018 from Kshs 122.2 and Kshs 134.2 in August 2017, respectively.

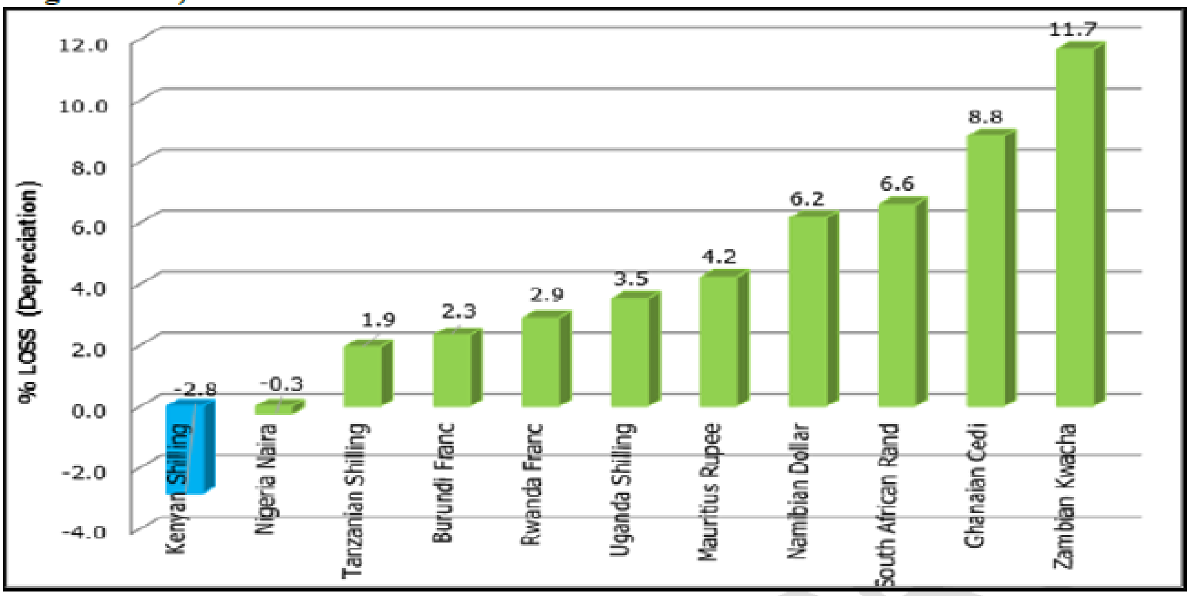
Figure 6: Kenya Shillings Exchange Rate



Statistics Source: National Treasury; Data: Central Bank of Kenya.

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

Figure 7: Performance of selected currencies against the US Dollar (August 2017 to August 2018)

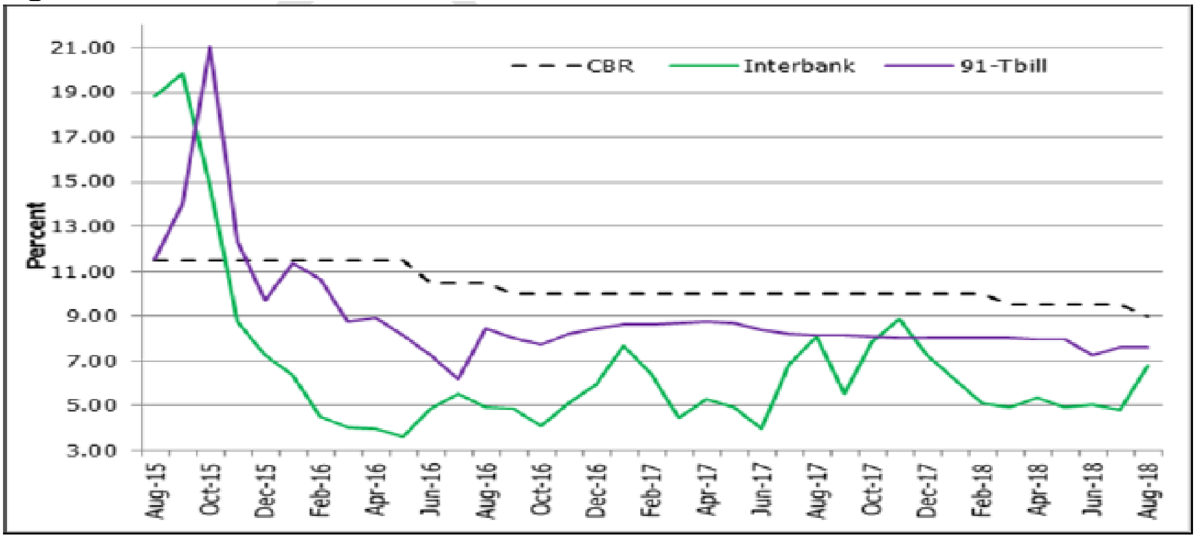


Source of data: National Central Banks

Interest Rates

66. Short term interest rates have remained fairly low and stable. The Central Bank Rate was reduced to 9.0 percent on 30th July 2018 from 9.5 percent in March 2018 in order to support economic activity. The interbank rate remained low at 6.8 percent in August 2018 from 8.1 percent in August 2017 due to ample liquidity in the money market. The 91-day Treasury bill rate declined to 7.6 percent in August 2018 compared to 8.2 percent in August 2017 while over the same period, the 182 day and the 364 day Treasury bills averaged 9.0 percent and 10.0 percent from 10.3 percent and 10.9 percent, respectively.

Figure 8: Short Term Interest Rates



Statistics Source: National Treasury; Data: Central Bank of Kenya

67. The lending rates declined to 13.3 percent in May 2018 from 13.7 percent in May 2017 while the average commercial banks' deposit rate increased to 8.1 percent in May 2018 from 7.4 percent in May 2017. As a result the interest rate spread narrowed to 5.2 percent from 6.3 percent over the same period.

C. Medium Term Economic Outlook

Regional Growth Outlook

68. Growth in Sub-Saharan Africa is projected to pick up to 3.4 percent in 2018 from 2.8 percent in 2017, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption.

Domestic Growth Outlook

69. On the domestic scene, the economy is on a recovery path as reflected by the leading economic indicators for the second quarter of 2018 and the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The economic outlook is supported by continued strengthening of the global economy, a pickup in agricultural and manufacturing activities due to

improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country. Given the above developments the growth outlook for 2018 has been revised upward to 6.0 percent from the 5.8 percent.

70. Going forward in terms of fiscal years, the economic growth is projected at 6.2 percent in the FY 2019/20 and 6.9 percent over the medium term due to investments in strategic areas under the "Big Four" plan, namely: increasing the share of manufacturing sector to GDP to 15 percent by 2022; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units by 2022. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

County Government Growth Outlook

71. The growth projections over the medium term are aligned to those of the CIDP II (2018-2022) that are implementing Vision 2030. The focus of the CIDP II will be to promote provision of quality public services, modernise and expand the county road transport and enhance opportunities for businesses and vulnerable groups.

72. The County Flagship projects set to commence in FY 2018/19 and which include Modernizing Masinde Muliro Stadium, The Webuye Industrial Park and the County Dairy Industry will contribute to laying a strong foundation for increased productivity along the value-chain of the related sectors.

73. The on-going road infrastructure programmes funded by the National Government namely: The Chwele – Lwakhakha road; the Musikoma – Buyofu – Mungatsi road and the Sang'alo –Nambacha - Lurambi Road as well as the county roads programme led by the Misikhu – Brigadier road will contribute to enhanced connectivity for people, businesses and communities and unleash the power of road network as an enabler of further transformation in the county.

74. In the medium term, the county will seek to focus on implementing programmes with high impact on community transformation, including modernizing agriculture, adequately resourcing health facilities, enhancing the business and commercial environment by reviewing the licencing and taxation framework and establishing Micro-Small-Medium Scale parks to spur business expansion and job creation.

Fiscal Policy Outlook

75. Fiscal policy over the medium-term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position by narrowing the budget deficit and at the same time supporting the devolved system of Government for effective delivery of services.

76. Over the medium term, driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is expected to rise to about 18.6 percent of GDP by FY 2021/22 from 16.5 percent of GDP in FY 2017/18. The Bungoma county Finance Bill 2018 was subjected to public participation and has been forwarded to the County Assembly for approval.

77. Expenditures will decline gradually from 24.2 percent of GDP in FY 2017/18 to 22.0 percent of GDP in FY 2021/22 due to continued austerity measures instituted on less productive areas of spending across the Government.

78. The lower deficit reflects the projected completion of key infrastructural projects by the County Government, enhanced revenue collection and prudent public spending. This will reinforce policy of consistency and predictability of government spending and will be achieved through the following strategies:

- Increasing efficiency, effectiveness and accountability of public spending;
- Containing the growth of recurrent expenditure in favour of capital investment; and
- Ensuring that capital expenditure proposals have been thoroughly scrutinized and prioritized in line with the CIDP and other county policy documents.

79. In the medium term, the county government will implement the following flagship projects which will boost economic growth and create jobs.

Sector	Project/Initiative
Agriculture	• Transform Agriculture from subsistence to a viable commercial undertaking • Invest in Agro-processing and value addition • Construct state of the art storage facilities • Support formation of farmer controlled SACCOs
Roads and Transport	• Use Public Private Partnership model to upgrade major county roads to bitumen standards
Education	• Invest in provision of quality pre-school education • Enter into partnership with HELB for provision of Bursaries • Build and Equip Youth Polytechnics • Employ sufficient teachers on permanent and pensionable basis and provide them with medical, trainings and motivation incentives
Sports	• Develop sports, talent and innovation Hubs • Renovation and modernization of Masinde Muliro Stadium
Water	• Invest in safe drinking water • Promote rain-water harvesting • Develop gravity fed water systems
Health	• Promote universal access to Health Care by supporting all HHs to enroll with NHIF. • Constructing, staffing and equipping of health facilities to meet the required standards. • Strengthen preventive and promotive services through community strategy in the county. • Construct a level 5 County Referral Hospital

Sector	Project/Initiative
Industry	• Bungoma Integrated Industrial Project. Project components include: Infrastructure, Industrial plants, Agriculture, Supply of construction materials, Housong development among others • Revive Kitinda Dairy • Development of cottage and manufacturing industries
Trade	• Provide supporting infrastructure to all markets • Develop modern truck shops on the Northern Corridor to offer storage, packaging, truck maintenance and hotel accommodation • Exempt or reduce county taxes for micro businesses such as boda-boda and mama mbogas • Reform and harmonize licensing regime • Build Capacity of Local Traders to participate in County contracts
Tourism	• Use partnership model to attract Tourism Investments in Mt Elgon • Promote cultural Tourism through development of cultural sites in all Constituencies
Gender	• Gender leadership and empowerment academy
	• Children rescue and protection centre.
Culture	• Drugs and alcohol rehabilitation centre.
	• Arts theatre and music studio.

D. Risks to the Domestic Economic Outlook

80. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. If not addressed they could weigh down global growth with negative impact on trade and financial flows.

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

82. At the County level, risks will emanate from high public expectations and demand for faster results, which may require pro-active response mechanisms including scheduling various fora with stakeholders to clarify facts and explain the project implementation processes as well as enhancing the county budget absorption capacity.

83. The County Government will monitor the above risks and take appropriate measures to ensure efficient and effective delivery of planned outputs and outcomes, while sharing relevant information with stakeholders.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustments to the FY 2018/19 Budget

84. The Medium Term Fiscal Framework (MTFF) for the FY2018/19 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure the debt position remains sustainable while at the same time supporting rapid and inclusive economic growth and continued fiscal discipline.

85. As preparations for the FY 2019/20 medium-term budget commence, it is worth noting that the implementation of the FY 2018/19 budget is experiencing challenges particularly on revenue collection and elevated expenditure pressures. The outturn for the FY 2017/18 indicate the need to review the projected revenues in FY 2018/19 order to take into account the lower than expected revenue performance in the base year.

86. As such the revenue forecasts for FY 2018/19 have been reviewed downwards to reflect outcome in FY 2017/18 and also taking into account the fiscal developments through end August 2018. Expenditure projections for FY2018/19 will be revised to accommodate some of these challenges through trade-offs and reallocations of the existing budgetary provisions supported by austerity measures instituted on less productive areas of spending across the Government.

B. Medium Term Fiscal Projections

87. Medium-Term Fiscal Policy aims at supporting inclusive economic growth, continue the fiscal consolidation programme while creating fiscal space to support the implementation of the "Big Four" Plan. In this regard, and driven by continued reforms, revenue collection is expected to rise to about 9.7 percent of budget by FY 2021/22. Recurrent expenditures are expected to maintain at a rate of 62% over the medium term while development expenditures is projected at 32% percent of budget over the medium term.

88. The overall budget deficit inclusive of grants is projected to decline in the medium term. The lower deficit reflects the adherence to the Presidential directive on freeze of new projects to complete on-going ones first, enhanced revenue collection and prudent public spending. This will reinforce policy of consistency and predictability of government spending and will be achieved through the following strategies:

- Increasing efficiency, effectiveness and accountability of public spending;
- Containing the growth of recurrent expenditure in favour of capital investment; and
- Ensuring that capital expenditure proposals have been thoroughly scrutinized and prioritized in line with the CIDP II, "the Big Four" Plan, the Third MTP and strategic policy interventions by the Government
- Verifying that the requisite legal frameworks are in place to support efficient and effective project execution.

C. FY 2019/20 Budget Framework

89. The FY 2019/20 budget framework is intended to continue the fiscal consolidation agenda with the completion of on-going projects, reviewing agriculture related interventions and other one-offs expenditure programmes, particularly those related to non-core recurrent expenditures. The overall fiscal deficit including grants is expected to decline from - percent of budget in FY 2017/18 to - percent in FY 2019/20. This fiscal consolidation will bolster our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

90. Revenue Projections: In the FY 2019/20 revenue collection including Appropriation-in-Aid (AiA) is projected to increase to Kshs 1,156,050,000 up from Kshs 1,101,000,000 in the FY 2018/19. This revenue performance will be underpinned by on-going reforms in revenue administration.

91. Expenditure Projections: The County Government is pursuing a fiscal consolidation policy which is aimed at reducing the overall fiscal deficit. Taking this into account, the overall expenditure for FY 2019/20 are projected at Kshs 13,009,521,780 up from the estimated Kshs 11,229,708,340 in the FY 2018/19 revised budget. These expenditures comprises among others, recurrent of Kshs 8,135,042,582, development of Kshs 5,007,544,313.

D. Medium-Term Expenditure Framework

92. The Government will continue with its policy of expenditure prioritization with a view to achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies, implementation of the constitution, creation of employment opportunities and improving the general welfare of the people. Realization of these objectives will have implications in the budget ceilings to be provided in the Budget Review and Outlook Paper. The following criteria will serve as a guide for allocating resources:

i. Programme priority in terms of need and impact
ii. Support and Linkage of Programmes to the 'Big Four' Plan either as drivers or enablers;
iii. Linkage of the programme with the objectives of the CIDP, the Third Medium-Term Plan of Vision 2030;
iv. Degree to which a programme addresses job creation and poverty reduction;
v. Degree to which the programme is addressing the core mandate of the MDAs;
vi. Expected outputs and outcomes from a programme; and
vii. Cost effectiveness and sustainability of the programme.

D. Medium-Term Expenditure Framework

93. The Government will continue with its policy of expenditure prioritization with a view to achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the

elimination of duplication and inefficiencies, implementation of the constitution, creation of employment opportunities and improving the general welfare of the people. Realization of these objectives will have implications in the budget ceilings to be provided in the Budget Review and Outlook Paper. The following criteria will serve as a guide for allocating resources:

i. Linkage of Programmes to the 'Big Four' Plan either as drivers or enablers;
ii. Linkage of the programme with the objectives of the CIDP, Third Medium-Term Plan of Vision 2030;
iii. Degree to which a programme addresses job creation and poverty reduction;
iv. Degree to which the programme is addressing the core mandate of the MDAs;
v. Expected outputs and outcomes from a programme; and
vi. Cost effectiveness and sustainability of the programme.

94. In FY2018/19, the Government initiated the implementation of the "Big Four" Agenda and allocated resources to implement the programmes for both for drivers and enablers. Going forward, resources will be prioritized towards the achievement of the following "Big Four" interventions;

(i) Enhancing Food and Nutrition Security to all Kenyans by 2022 - Under this cluster, the objective is to ensure all citizens enjoy food security and improved nutrition by 2022;
(ii) Providing Universal Health Coverage and Guaranteeing Quality and Affordable Healthcare to all Kenyans - under this cluster, the relevant MDAs will be implementing identified interventions with the objective of expanding Universal Health Coverage;
(iii) Provision of Affordable and Decent Housing for all Kenyans - under this cluster, the Government intends to provide decent and affordable housing by constructing at least five hundred thousand housing units by 2022; and
(iv) Supporting value addition and raising the manufacturing sector share of GDP to 15 percent by 2022 - under this cluster, the objective is to increase the share of manufacturing sector to GDP to 15 percent by 2022.

95. Reflecting on the above, the county budgets for the medium term will be aligned to the 'Big Four' initiatives to support shared growth and prosperity.

96. Thus the County Treasury has developed the Medium-Term Expenditure Framework as provided in Annex 1.

V. CONCLUSION AND NEXT STEPS

97. The 2019/20 FY budget is being prepared in the context of a moderate global economic recovery. Due to limited resources at the County level, Bungoma county will align the budget to the 'Big Four' plan with a view of taping into the National Government resource envelope for the benefit of the county and leveraging on the public-private sector partnership to achieve some of the goals under the Big Four plan.

98. All proposed sector Budgets for 2019/20 FY Should be scrutinized thoroughly to ensure that they are not only directed towards improving productivity but also aligned to the achievement of the objectives of the "Big Four" Plan either directly or indirectly.

99. Sectors will be required to conduct a scrutiny of expenditure programmes to ensure value for money and improvement in productivity both at public and private level especially in the agricultural sector which forms the backbone of Bungoma County Economy. County Government fiscal focus in this BROP will be on enhancing revenue collection and reallocating resources to productive sectors of the economy.

100. Programmes and initiatives supporting increased productivity across the sectors should be prioritized to stabilize supply chains and boost value generated across the value-chains.

101. In order to avoid delays or last minute rush, sectors are encouraged to ensure adherence to treasury circulars issued from time to time to guide the budget process and programme implementation.

102. There has been a challenge in implementation of programs and activities in previous budgets as a result of lack of the requisite policies and regulations. To overcome this and enhance provision of quality service the County Government will pursue policy and legal framework reviews to strengthen implementation results and oversight

ANNEX 1: MEDIUM TERM SECTOR CEILINGS FY 2018/19-2021

Sector		Estimates	Ceiling	Projection		% share of total expenditures			
						Estimates 2018/19	Ceiling 2019/20	Projections	
		2018/19	2019/20	2020/21	2021/22			2020/21	2021/22
Agriculture, Irrigation, Livestock, Fisheries and Coop Development	**Sub Total**	**1,036,133,093**	**949,415,836**	**996,886,628**	**1,046,730,959**	**7.96**	**7.96**	**7.96**	**7.96**
	Rec. Gross	461,501,147	422,876,656	444,020,488	466,221,513	3.55	3.55	3.55	3.55
	Dev. Gross	574,631,946	526,539,180	552,866,139	580,509,446	4.42	4.42	4.42	4.42
Environment and Tourism	**Sub Total**	**132,068,704**	**121,015,456**	**127,066,229**	**133,419,541**	**1.02**	**1.02**	**1.02**	**1.02**
	Rec. Gross	109,388,449	100,233,384	105,245,053	110,507,305	0.84	0.84	0.84	0.84
	Dev. Gross	22,680,255	20,782,073	21,821,176	22,912,235	0.17	0.17	0.17	0.17
Water and Natural Resource	**Sub Total**	**537,511,694**	**492,525,640**	**517,151,921**	**543,009,518**	**4.13**	**4.13**	**4.13**	**4.13**
	Rec. Gross	54,766,999	50,183,376	52,692,544	55,327,172	0.42	0.42	0.42	0.42
	Dev. Gross	482,744,695	442,342,264	464,459,377	487,682,346	3.71	3.71	3.71	3.71
Roads, infrastructure and public works	**Sub Total**	**1,866,303,099**	**1,710,106,287**	**1,795,611,602**	**1,885,392,182**	**14.35**	**14.35**	**14.35**	**14.35**
	Rec. Gross	187,363,671	171,682,613	180,266,743	189,280,080	1.44	1.44	1.44	1.44
	Dev. Gross	1,678,939,428	1,538,423,675	1,615,344,858	1,696,112,101	12.91	12.91	12.91	12.91
Education	**Sub Total**	**1,539,696,413**	**1,410,834,348**	**1,481,376,066**	**1,555,444,869**	**11.84**	**11.84**	**11.84**	**11.84**
	Rec. Gross	1,048,133,841	960,412,203	1,008,432,813	1,058,854,454	8.06	8.06	8.06	8.06
	Dev. Gross	491,562,572	450,422,145	472,943,252	496,590,415	3.78	3.78	3.78	3.78

Sector		Estimates	Ceiling	Projection		% share of total expenditures			
		2018/19	2019/20	2020/21	2021/22	Estimates 2018/19	Ceiling 2019/20	Projections 2020/21	2021/22
Health	**Sub Total**	**3,323,062,258**	**3,044,944,663**	**3,197,191,896**	**3,357,051,491**	**25.54**	**25.54**	**25.54**	**25.54**
	Rec. Gross	2,985,676,059	2,735,795,382	2,872,585,151	3,016,214,409	22.95	22.95	22.95	22.95
	Dev. Gross	337,386,199	309,149,280	324,606,744	340,837,082	2.59	2.59	2.59	2.59
Sanitation	**Sub Total**	**42,981,333**	**39,384,089**	**41,353,294**	**43,420,958**	**0.33**	**0.33**	**0.33**	**0.33**
	Rec. Gross	2,155,109	1,974,741	2,073,478	2,177,152	0.02	0.02	0.02	0.02
	Dev. Gross	40,826,224	37,409,348	39,279,816	41,243,806	0.31	0.31	0.31	0.31
Trade, Energy and Industrialization	**Sub Total**	**301,473,573**	**276,242,296**	**290,054,411**	**304,557,131**	**2.32**	**2.32**	**2.32**	**2.32**
	Rec. Gross	49,305,861	45,179,297	47,438,262	49,810,175	0.38	0.38	0.38	0.38
	Dev. Gross	252,167,712	231,062,998	242,616,148	254,746,956	1.94	1.94	1.94	1.94
Lands, Urban and Physical Planning	**Sub Total**	**637,571,504**	**584,211,127**	**613,421,684**	**644,092,768**	**4.90**	**4.90**	**4.90**	**4.90**
	Rec. Gross	126,873,101	116,254,690	122,067,424	128,170,795	0.98	0.98	0.98	0.98
	Dev. Gross	510,698,403	467,956,438	491,354,260	515,921,973	3.93	3.93	3.93	3.93
Housing	**Sub Total**	**54,730,510**	**50,149,940**	**52,657,437**	**55,290,309**	**0.42**	**0.42**	**0.42**	**0.42**
	Rec. Gross	26,279,597	24,080,174	25,284,183	26,548,392	0.20	0.20	0.20	0.20
	Dev. Gross	28,450,913	26,069,766	27,373,254	28,741,917	0.22	0.22	0.22	0.22
Gender, Culture, Youth and Sports	**Sub Total**	**295,183,099**	**270,478,291**	**284,002,206**	**298,202,316**	**2.27**	**2.27**	**2.27**	**2.27**

Sector		Estimates	Ceiling	Projection		% share of total expenditures			
		2018/19	2019/20	2020/21	2021/22	Estimates 2018/19	Ceiling 2019/20	Projections 2020/21	2021/22
	Rec. Gross	121,642,706	111,462,043	117,035,145	122,886,902	0.94	0.94	0.94	0.94
	Dev. Gross	173,540,393	159,016,248	166,967,061	175,315,414	1.33	1.33	1.33	1.33
County Assembly	**Sub Total**	**1,131,486,135**	**1,036,788,480**	**1,088,627,904**	**1,143,059,299**	**8.70**	**8.70**	**8.70**	**8.70**
	Rec. Gross	874,978,131	801,748,443	841,835,865	883,927,658	6.73	6.73	6.73	6.73
	Dev. Gross	256,508,004	235,040,037	246,792,039	259,131,641	1.97	1.97	1.97	1.97
Finance and Planning	**Sub Total**	**997,014,356**	**913,571,070**	**959,249,623**	**1,007,212,104**	**7.66**	**7.66**	**7.66**	**7.66**
	Rec. Gross	969,622,374	888,471,609	932,895,190	979,539,949	7.45	7.45	7.45	7.45
	Dev. Gross	27,391,981	25,099,459	26,354,432	27,672,154	0.21	0.21	0.21	0.21
County Public Service	**Sub Total**	**49,565,951**	**45,417,620**	**47,688,501**	**50,072,926**	**0.38**	**0.38**	**0.38**	**0.38**
	Rec. Gross	49,565,951	45,417,620	47,688,501	50,072,926	0.38	0.38	0.38	0.38
	Dev. Gross	0	-	-	-	-	-	-	-
Governors	**Sub Total**	**402,885,029**	**369,166,306**	**387,624,621**	**407,005,852**	**3.10**	**3.10**	**3.10**	**3.10**
	Rec. Gross	402,885,029	369,166,306	387,624,621	407,005,852	3.10	3.10	3.10	3.10
	Dev. Gross	0	-	-	-	-	-	-	-
D/Governors office	**Sub Total**	**39,530,969**	**36,222,497**	**38,033,622**	**39,935,303**	**0.30**	**0.30**	**0.30**	**0.30**
	Rec. Gross	39,530,969	36,222,497	38,033,622	39,935,303	0.30	0.30	0.30	0.30

Sector		Estimates	Ceiling	Projection		% share of total expenditures			
								Projections	
		2018/19	2019/20	2020/21	2021/22	Estimates 2018/19	Ceiling 2019/20	2020/21	2021/22
	Dev. Gross	0	-	-	-	-	-	-	-
Public Administration	**Sub Total**	**480,381,421**	**440,176,780**	**462,185,619**	**485,294,900**	**3.69**	**3.69**	**3.69**	**3.69**
	Rec. Gross	434,165,856	397,829,142	417,720,599	438,606,629	3.34	3.34	3.34	3.34
	Dev. Gross	46,215,565	42,347,638	44,465,020	46,688,271	0.36	0.36	0.36	0.36
Sub County Administration	**Sub Total**	**10,673,436**	**9,780,142**	**10,269,149**	**10,782,607**	**0.08**	**0.08**	**0.08**	**0.08**
	Rec. Gross	10,673,436	9,780,142	10,269,149	10,782,607	0.08	0.08	0.08	0.08
	Dev. Gross	0	-	-	-	-	-	-	-
County Secretary	**Sub Total**	**131,269,203**	**120,282,868**	**126,297,011**	**132,611,862**	**1.01**	**1.01**	**1.01**	**1.01**
	Rec. Gross	98,169,203	89,953,112	94,450,767	99,173,306	0.75	0.75	0.75	0.75
	Dev. Gross	33,100,000	30,329,756	31,846,244	33,438,556	0.25	0.25	0.25	0.25
TOTALS	**Sub Total**	**13,009,521,780**	**11,920,713,737**	**12,516,749,424**	**13,142,586,895**	**100.00**	**100.00**	**100.00**	**100.00**
	Rec. Gross	8,052,677,490	7,378,723,430	7,747,659,602	8,135,042,582	61.90	61.90	61.90	61.90
	Dev. Gross	4,956,844,290	4,541,990,307	4,769,089,822	5,007,544,313	38.10	38.10	38.10	38.10

NB: FY 2018/19 has balance brought forward for equitable share and conditional grants. That is why it is totaling to a higher amount than the subsequent years projections.