

# REPUBLIC OF KENYA



## COUNTY GOVERNMENT OF KERICHO

### FINANCE AND ECONOMIC PLANNING

## COUNTY BUDGET REVIEW AND OUTLOOK PAPER C- BROP

**2014**

## **FOREWORD**

1. The Public Financial Management Act, 2012 ushered in a new shift in budget making process and public finance management. It has brought in more reforms and entrenchment of Medium Term Expenditure Framework in the budgeting process. Public participation in budgeting process is mandatory.
2. The County Budget Review and Outlook Paper (C-BROP) presents the fiscal outcome for FY 2013/2014 and how this affects the financial obligations set out in the County Fiscal Strategy Paper 2014 introduced to the County Assembly on 28th February 2014. It also provides a basis upon revision of FY 2014/15 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the budget preparation over the medium term period.
3. The County Treasury will maintain the trend of stable macroeconomic performance and ensure transparency by relaying performance indicators to the public through this policy document as required by the Constitution and the Public Finance Management Act, 2012 as well other existing regulations
4. The fiscal framework presented in this 2014 C-BROP provide strong basis for ensuring that the fiscal principles set out in PFMA, 2012 are achieved.

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## **1.0 Background**

This County Budget Review and Outlook Paper (C-BROP) is the successor document of Budget Outlook Paper (BOPA). This is the second paper to be prepared for the county under the Public Financial Management Act, 2012. In line with the act, the C-BROP contains a review of the fiscal performance of the financial year 2013/14, updated macroeconomic forecast, and deviations from the County Fiscal Strategy Paper 2014 submitted to County Assembly in February 2014.

### **1.1 Legal Basis for the preparation of the County Budget Review and Outlook Paper (C-BROP)**

Section 118 of the Public Financial Management Act, 2012 states that:

- 1) A County Treasury shall –
  - (a) Prepare a County Budget Review and outlook Paper in respect of the County for each financial year, and
  - (b) Submit the paper to the County Executive Committee by the 30<sup>th</sup> September of that year.
- 2) In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify-
  - a) 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 forecast in the most recent County Fiscal Strategy Paper.
  - c) Information on –
    - (i) Any changes in the forecasts compared with County Fiscal Strategy Paper, 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 County Fiscal Strategy Paper for that financial year; and

- d) 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.
- 3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall-
  - (a) arrange for the Paper to be laid before the County Assembly; and
  - (b) as soon as practicable after having done so, publish and publicize the Paper.

**1.1.1. Fiscal Responsibility Principles in the Public Financial Management Law.**

5) In line with the Constitution, the Public Financial Management Act, 2012, set out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 avers that:

- 1) A County Treasury shall manage its public finances in accordance with the principle of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
- 2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles-
  - (a) The County government recurrent expenditure shall not exceed the county government's total revenue.
  - (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure:
  - (c) The county government's expenditure on wages and benefits for the Public Officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for Finance in regulations and approved by the County Assembly.
  - (d) Over the medium term, the government's borrowings shall be used for the purpose of financing development expenditure and not for

recurrent expenditure i.e. the county debt shall be maintained at a sustainable level as approved by the County Assembly.

## **1.2 Objective of County Budget Review and Outlook Paper (C-BROP)**

6. The objective of the C-BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget over the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy Paper 2015.

7. The C-BROP is a key document in linking policy, planning and budgeting for the County Government. County Integrated Development Plan 2013 -2017 will continue to guide budgetary preparation and programming. The preparation of Annual Development Plan for planning period 2015/2016 is complete and reflects priority areas for the County Government as shown in the revenue projections for the same year.

8. The Public Finance Management Act, 2012 has set high standards for compliance with the Medium Term Expenditure Framework budgeting process. County Government departments and Entities ceilings for the third MTEF will form an indicative base for the budget estimates of 2015/2016.

## **2.0 REVIEW OF FISCAL PERFORMANCE IN FINANCIAL YEAR 2013/2014**

### **2.1 OVERVIEW**

9. This document highlights the performance of FY 2013/2014. Despite the various challenges, the fiscal performance in 2013/14 was satisfactory as revealed in subsequent tables for both development and recurrent expenditure. Funding for the County Government in FY 2013/2014 was composed of both local revenues generated and the equitable share released by the National Government as provided for in the Constitution of Kenya, 2010.

10. Personnel Emoluments in FY 2013/2014 remained high for the County Government implying that there is need for staff rationalization in order to free resources towards development priorities.

#### **2.1.1 Revenue**

11. Total revenue for the FY 2013/14 composed of grants remitted from National Government amounting to ksh 3.294 Billion and local revenues of Kshs 338 Million. This amounted to ksh 3.632 billion which formed the total revenue envelope. Despite the projected local revenue target at ksh 338 million, the county managed to collect ksh 352 million. This therefore means that the county surpassed the revenue target by ksh 14 million. It should also be noted that the local revenue collected excludes those collected by health facilities in form of Facility Improvement Fund (FIF) for the first three quarters. Despite the fact that the national government was to disburse ksh 3.294 billion, only ksh 2.633 billion was disbursed. Ksh 365 million was deducted at source from the county allocation to cater for refund of salaries for devolved staff owed to the National Government. This greatly affected the development agenda for the county. Already the County Treasury has written to the Public Service Management Department to fast-track reconciliation with the Ministry of Devolution and Planning to ensure that the amount reimbursed is what was actually due to National Government. By the close of the financial year 2013/2014, the County Treasury prepared a refund statement and a total of ksh 456 million remained at the County Revenue Fund comprising of Ksh 76 million as local revenues and ksh 380 million from the equitable share.

Table 1, 2 and 3 therefore provides the fiscal performance for the period and deviations from the approved estimates.

**TABLE 1: COUNTY GOVERNMENT TOTAL REVENUE (KSHS)**

Source of revenue	FY 2013/2014		
	Target A (Ksh)	Actual B (Ksh)	Deviations C = A-B (Ksh)
National Equitable Share	3.294 Billion	2.633 Billion	(661 Million)
Local revenues	338 Million	352 Million	14 Million
<b>Total Collection</b>	<b>3.632 Billion</b>	<b>2.985 Billion</b>	<b>(647 Million)</b>

**Source: Kericho County Treasury**

### 2.1.2 Expenditure

12. The total expenditure incurred by the county government amounted to Kshs 2.81 Billion for the financial year 2013/14. Recurrent expenditure amounted to Kshs. 2.168 Billion and development expenditure was Kshs. 642 Million. An amount of Kshs 365 Million was deducted at source by the Exchequer as salary refunds for devolved functions. This shows that recurrent expenditure constituted 77.13% and development expenditure constituted 22.84 % of total expenditure. The main challenge faced in the financial year 2013/2014 on expenditure was devolution of functions without matching release of funds from the Exchequer.



**TABLE 2: RECURRENT EXPENDITURE, IN (KSHS)**

Vote	2013/2014		
	Target	Actual	deviations
<b>1. Recurrent grants</b>	2.448 Billion	2.168 Billion	280 Million
<b>Total Expenditure</b>	<b>2.448 Billion</b>	<b>2.168 Billion</b>	<b>280 Million</b>

**Source: Kericho County Treasury**

Table 2 provides the total appropriated recurrent expenditure against actual expenditure. From the analysis, the total actual recurrent expenditure amounted to ksh 2.168 billion against a target of 2.448 billion. As earlier mentioned ksh 365 million which is recurrent in nature was deducted at source by the Exchequer. In essence therefore recurrent expenditure increased to ksh 2.533 billion exceeding the appropriated amount by ksh 85 million.

**TABLE 3: DEVELOPMENT EXPENDITURE, IN (KSHS)**

Vote	2013/2014		
	Target	Actual	Deviations
2. Development Grants Development/Projects	1.184 Billion	642 Million	542 Million
<b>Total Expenditure</b>	<b>1.184 Billion</b>	<b>642 Million</b>	<b>542 Million</b>

**Source: Kericho County Treasury**

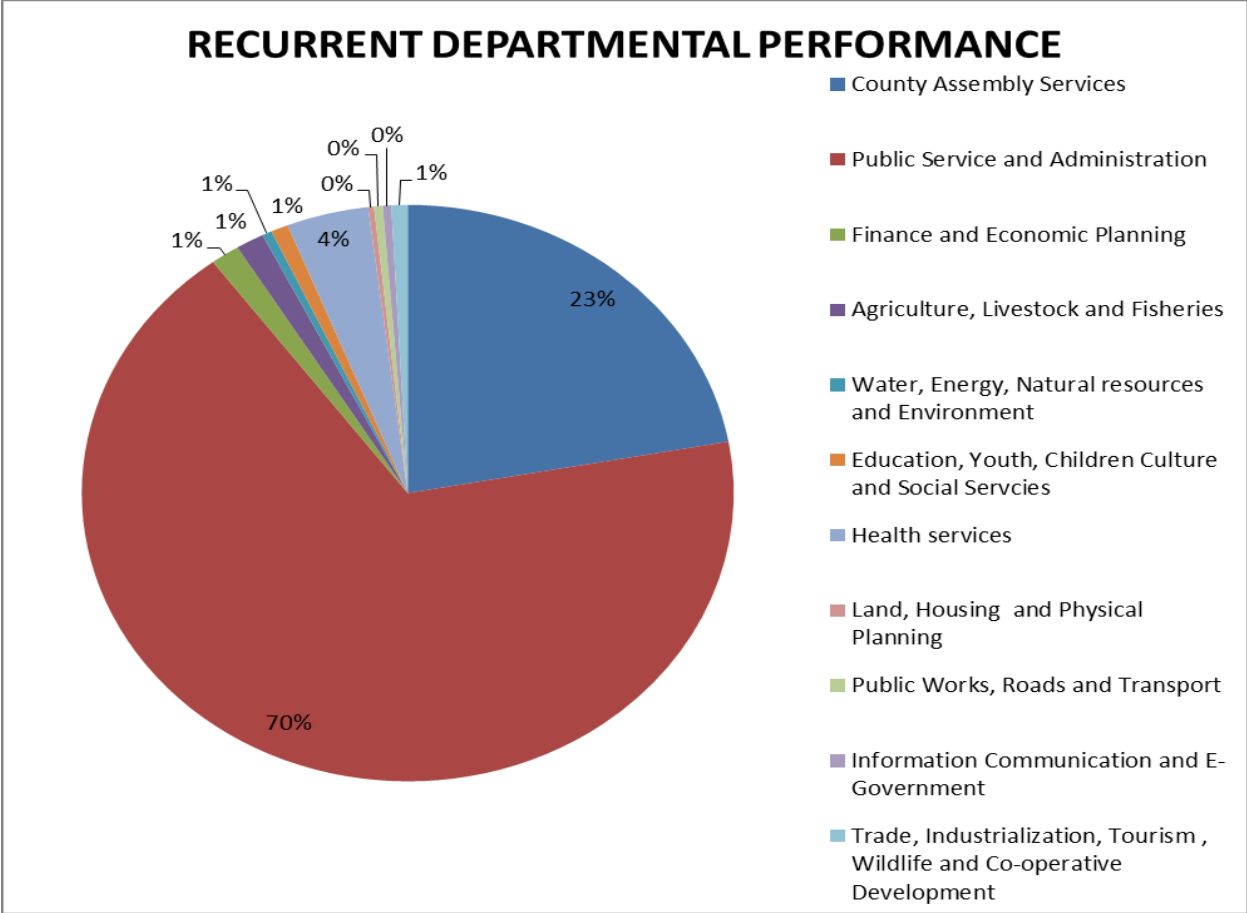
The development expenditure stood at ksh 642 million against a target of ksh 1.184 billion. Ksh 542 million was unspent accounting for 45.78% of the total development expenditure. This was mainly attributed to delay in release of funds by the Exchequer and the procurement which ought to have started early in the financial year. The low absorption also is due to transitional challenges especially in terms of capacity.

**FIGURE 1: SUMMARY OF RECURRENT COUNTY DEPARTMENTAL EXPENDITURE AND BUDGET ABSORPTION AGAINST GROSS ESTIMATES**

Department	Gross Estimates Kshs	Opening Balance	Quarter 4	Cumulative Expenditure	Absorption %
	A	B	C	D=C+B	E=D/A*100 %
County Assembly Services	538,061,341.00	263,622,205.00	216,596,519	480,218,724	89.25
Public Service and Administration	1,501,749,843.00	991,380,032.27	476,142,317.00	1,467,522,349	97.72
Finance and Economic Planning	31,301,410.00	20,848,943.00	10,308,892.00	31,157,835	99.54
Agriculture, Livestock and Fisheries	33,003,793.00	23,252,898.00	7,200,076.00	30,452,974	92.27
Water, Energy, Natural resources and Environment	21,831,432.00	5,912,934.00	4,624,669.00	10,537,603	48.27
Education, Youth, Children Culture and Social Services	124,520,038.00	13,486,821.00	4,871,722.00	18,358,543	14.74
Health services	134,276,787.00	10,753,037.00	77,584,326.00	88,337,363	65.79
Land, Housing and Physical Planning	14,265,365.00	3,530,178.00	2,800,651.00	6,330,829	44.38
Public Works, Roads and Transport	15,056,914.00	6,081,269.00	3,137,101.00	9,218,370	61.22
Information Communication and E-Government	9,934,589.00	7,000,685.00	2,208,653.00	9,209,338	92.70
Trade, Industrialization, Tourism , Wildlife and Co-operative Development	24,602,242.00	9,980,077.00	7,776,719.00	17,453,196	70.94
<b>Total Recurrent Expenditure</b>	<b>2,448,603,754.00</b>	<b>1,270,796,416.65</b>	<b>823,559,687.18</b>	<b>2,094,356,104</b>	<b>85.53</b>

**FIGURE 2: SUMMARY OF DEVELOPMENT COUNTY DEPARTMENTAL EXPENDITURE AND BUDGET ABSORPTION AGAINST GROSS ESTIMATES**

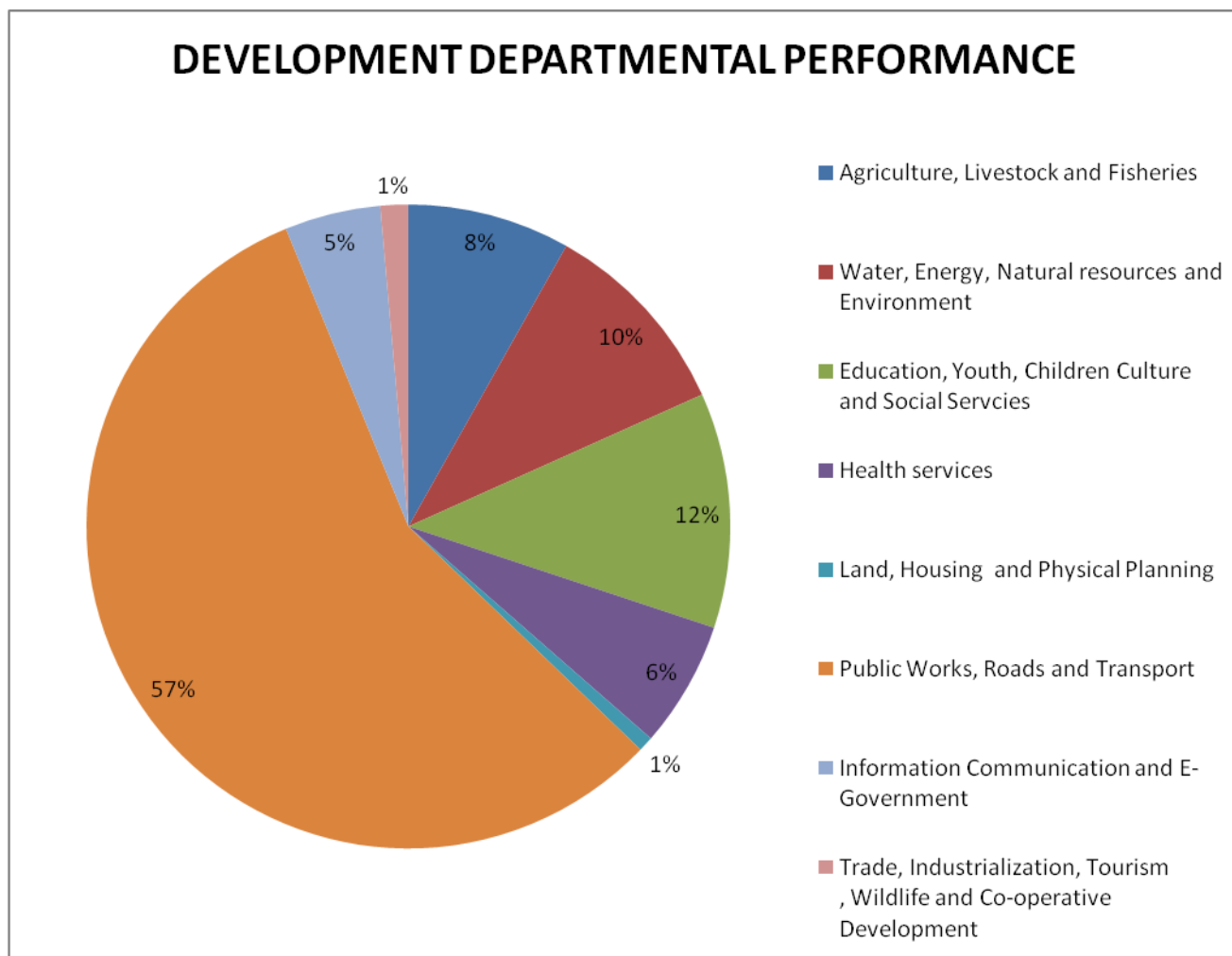
<b>Department</b>	<b>Gross Estimates Kshs</b>	<b>Opening Balance</b>	<b>Quarter 4</b>	<b>Cumulative Expenditure</b>	<b>Absorption %</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D=C+B</b>	<b>E=D/A*100 %</b>
Agriculture, Livestock and Fisheries	185,000,000.00	32,548,144	24,989,810	52,409,530	28.33
Water, Energy, Natural resources and Environment	105,000,000.00	38,164,008	41,692,592.00	65,018,169	61.92
Education, Youth, Children Culture and Social Services	117,000,000.00	100,000	75,759,000.00	75,859,000	64.84
Health services	119,000,000.00	-	40,750,000.00	40,750,000	34.24
Land, Housing and Physical Planning	17,000,000.00	2,366,609	2,450,109.00	4,816,718	28.33
Public Works, Roads and Transport	527,000,000.00	191,904,126	151,689,410.00	363,560,391	68.99
Information Communication and E-Government	35,000,000.00	12,276,209	18,664,862.00	30,941,071	88.40
Trade, Industrialization, Tourism , Wildlife and Co-operative Development	79,000,000.00	4,798,681	3,897,480.00	8,999,761	11.39
<b>Total Expenditure</b>	<b>1,184,000,000.00</b>	<b>282,461,377</b>	<b>359,893,263.00</b>	<b>642,354,640.00</b>	<b>54.25</b>



The figures 1 and 2 plus the diagrammatical presentations above capture the county departmental expenditures for both recurrent and development votes. Further, respective absorption rates against departmental appropriated funds are also provided. Overall the absorption rate is 85.53% on the recurrent expenditure while development expenditure is 54.25%.

### **Full Year development departmental performance**

Here below is the full year pie chart representation of development departmental performance;



From the representation above, it is evident that of all expenditure incurred under the recurrent vote, the Public Works, Roads and Transport has the leading portion of 57% of the funds spent. This is evidently explained by the access road projects implemented by the county government. This is followed by the Education department and Water at 12% and 10% respectively.

### **3.0 IMPLEMENTATION OF FY 2014/2015 BUDGET**

#### **Recent economic developments and outlook**

In general, the macroeconomic environment has remained favorable allowing for investment to expand in the county.

#### **Recent Economic Developments**

The National Government projected real GDP to grow in 2014 up from a growth rate of 5.2 percent in 2013 to approximately 6.0 percent. In Kericho County, this is expected to be driven by: Improving productivity and competitiveness; supporting SMEs through financial and skill development; continued investment in key infrastructure projects in the roads and energy sub- sectors; boosting food security; maintaining a stable macroeconomic environment ; sealing revenue leakages in revenue collection system and supporting devolution through capacity building

13. The Financial Year 2014/2015 budget was approved by the County Assembly on 30th June 2014 and the Appropriation Act already out. The county will continue to use IFMIS in transacting financial operations. The use of e- procurement should be in place by December 2014.

14. Revenue projections for 2014/2015 stand at Kshs 716 million from local sources including F.I.F. and Donor Grants which will amount to Ksh 46 million. County Government expects to receive Equitable share from the National Government amounting to Kshs 3.835 billion. The Finance Bill 2014/15 is ready for submission to County Assembly, National Treasury and Commission on Revenue Allocation for input. The bill sets out revenue sources and their respective charges. Efficient administration measures and management of revenue collection is key to ensure the set targets are achieved. This includes monthly reconciliations, scheduled audits and periodic inspection to be undertaken.

Further, the County Treasury has allocated funds in this financial year budget to automate revenue collection. Also mapping of revenue streams within Kericho Town will be undertaken and to be up scaled in subsequent financial years to cover the entire county. This will help in precision of revenue projections.

### **3.1 Medium Term Fiscal Framework**

15. The county government will continue to pursue fiscal responsibility to ensure prudence and transparency in the management of public resources. In addition, our fiscal objective is to provide an avenue to support economic activity.

16. On the side of expenditure, County Government of Kericho will continue with rationalization of expenditure in order to improve efficiency and reduce wastage. Expenditure management will be strengthened with the implementation of Integrated Financial Management Information System (IFMIS). PFMA 2012 is expected to accelerate reforms in expenditure management system.

## **4.0 RESOURCE ALLOCATION FRAMEWORK FOR FY 2015/2016 FINANCIAL YEAR**

### **4.1 2015/16 Budget framework**

17. The 2015/16 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county government will rationalize expenditures by cutting those that are non priority. This may include slowing down on recurrent expenditure and reprioritizing development expenditures. Infrastructure development across the sectors is important and that explains why roads, education, water, agriculture and health sectors are allocated a substantial amount of money.

18. Given the performance in FY 2013/2014, the risks to the FY 2015/2016 budget may include weaker revenue performance.

19. Going forward and in view of the recent limited resources, MTEF budgeting will entail adjusting non priority expenditure to cater for the priority sectors. The County Integrated Development Plan which is aligned to the Second MTP and anchored on Vision 2030 is currently being implemented and will guide allocation of resources in the next financial year 2015/16.

a). The priority sectors are roads, water, health and agriculture and will continue to receive adequate resources. The sectors are required to utilize the resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

b). The economic sectors including agriculture, trade, tourism though allocated receiving inadequate funds will have their allocation enhanced in the medium term to boost agricultural and investment opportunities

20. A tentative projection of estimates for 2014/2015, 2015/16 -2016/17 is shown in on table 4 classified by department and entity.



**TABLE 4: PROJECTED ESTIMATES PER DEPARTMENT AND ENTITY FOR FY 2014/15-2016/2017 MTEF BUDGET**

Department and Entity Name	2014/15	2015/16	2016/17	%age share of total expenditure		
				2014/15	2015/16	2016/17
	Approved					
	Approved	Projections		Printed	Projections	
County Assembly Services	632,961,277	683,598,180	738,286,034	14%	13%	13%
County Public Service Board	53,708,565	55,907,503	58,285,780	1%	1%	1%
Office of the Governor and Deputy Governor	104,345,317	109,572,925	115,197,171	2%	2%	2%
Public Service & Administration	244,868,680	267,917,479	293,294,126	5%	5%	5%
Finance & Economic Planning	206,904,980	231,158,279	234,884,918	5%	5%	4%
Health Services	1,388,400,521	1,454,462,945	1,554,900,448	30%	29%	27%
Agriculture, Livestock Development & Fisheries	231,296,130	247,689,724	272,458,697	5%	5%	5%
Education, Youth, Children, Culture & Social Services	398,078,064	432,895,742	465,736,685	9%	9%	8%
Public Works, Roads & Transport	793,640,646	1,062,157,837	1,426,557,975	17%	21%	25%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	165,752,304	177,438,555	189,844,104	4%	4%	3%
Water, Energy, Natural Resources & Environment	215,891,142	220,616,182	225,611,771	5%	4%	4%
Land, Housing & Physical Planning	79,164,379	83,312,195	87,193,030	2%	2%	2%
Information, Communication & E-Government	38,119,514	40,667,699	43,409,927	1%	1%	1%
<b>GRAND TOTAL</b>	<b>4,553,131,519</b>	<b>5,067,395,245</b>	<b>5,705,660,666</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### **4.1.1 Revenue projections**

21. The FY 2015/16 budget will target revenue collection including local revenue streams including F.I.F. As noted above, this performance will be underpinned by on-going reforms in revenue collection and administration. As such, total revenues including are expected to be Kshs 5.067 Billion. Within the medium term, the revenue is projected to grow annually to reach Kshs 5.705 Billion in the FY 2016/17.

#### **4.1.2 Expenditure Forecasts**

The expenditure comprises recurrent and development votes. The County Treasury will endeavor to maintain fiscal responsibility principle of 60:40 in 2015/2016 implying that 40% of the total revenues will be utilized for development priorities while 60% will be allocated towards recurrent expenditure.

## **5.0. CONCLUSION AND WAYFORWARD**

22. Going forward, the set of policies outlined in this C- BROP reflect the changing circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act, 2012. They are also consistent with the national strategic objectives pursued by the government as a basis of allocation of public resources. Details of the strategic objectives are provided in the updated first CIDP in line with the second MTP 2013-2017.

23. The policies and sector ceilings will guide the line government departments and entities in preparation of the FY 2015/16 budget.

24. The next County Fiscal Strategy Paper (C-FSP) will be finalized by January 2015, well ahead of the February 2015 deadline as per the new PFM Act, 2012. Finalization by this date will allow County Assembly to deliberate on this policy document.