REPUBLIC OF KENYA

COUNTY GOVERNMENT OF UASIN GISHU

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

SEPTEMBER 2017

A Prosperous and Attractive County in Kenya and Beyond

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FOREWARD

The County Budget Review and Outlook Paper (CBROP) 2017 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012 which requires the county government to prepare a budget review and outlook paper in respect for each financial year; and submit it to the County Executive Committee by 30th September.

The paper reviews fiscal performance of the county for the 2016/17 financial year while comparing it with the budget appropriation. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2016; and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It further gives reasons for any deviation from the county financial objectives in the fiscal strategy paper together with proposals to address the deviations.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters for preparation of the next budget. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities outlined in section 107 of the PFM Act 2012 that will contribute towards the realization of aspiration of the residents of the county.

MR. SHADRACK SAMBAI,
CECM - FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

This County Budget Review and Outlook Paper (CBROP) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and is the fourth to be prepared under the County Government of Uasin Gishu. It provides a review of the recent economic developments and actual fiscal performance of the FY 2016/2017 in comparison to the budget appropriations for the same year. It also provides an overview of how the actual performance of the FY 2016/2017 affected the County compliance with the principles of fiscal responsibility and the financial objectives as provided for in the PFM Act 2012 section (118) as well as information showing changes from the projections outlined in the County Fiscal Strategy Paper (CFSP 2016) and reasons for such deviations.

The preparation of the 2017 CBROP was a concerted and consultative effort among various departments and stakeholders which provided useful information required in preparing this document. We are indebted to them. We owe special thanks to our respective County Executive Committee Members (CECs) and the Chief Officers (CO) for their leadership and guidance.

We are particularly appreciative to the team from the Economic Planning for their tireless efforts towards ensuring that this document was completed in good time.

CPA MILLICENT OKONJO

CHIEF OFFICER - ECONOMIC PLANNING

ABBREVIATIONS AND ACRONYMS

CRA	:	Commission of Revenue Allocation
CBROP	:	County Budget Review and Outlook Paper
CFSP	:	County Fiscal Strategy Paper
GDP	:	Gross Domestic Product
IBEC	:	Inter-Governmental Budget and Economic Council
ICT	:	Information and Communication Technology
IFMIS	:	Integrated Financial Management Information System
KNBS	:	Kenya National Bureau of Statistics
MTEF	:	Medium Term Expenditure Framework
NOREB	:	North Rift Economic Block
PE	:	Personnel Emoluments
PFM	:	Public Finance Management
PWD	:	People with Disabilities
SRC	:	Salaries and Remuneration Commission
SWG	:	Sector Working Group

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PREAMBLE

The County Treasury is mandated by Section 118 of the Public Finance Management (PFM) Act 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the county, which is to be submitted to the County Executive Committee by 30th September of the year. Section 118 (1) of the PFMA 2012 states that; the county treasury shall;

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

Section 118 (2) of the Act provides details of issues presented in the County Budget Review and Outlook Paper. The section states that: In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify –

i. The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
ii. The updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
iii. Any changes in the forecasts compared with the CFSP;
iv. How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

This 2017 C-BROP was therefore prepared by the County Treasury pursuant to provision of PFMA 2012 section 118 (1). By law, the county government is required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility. The section states that:

1) The County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
2) In managing the county government's public finances, the County Treasury shall adhere to the following fiscal responsibility principles - (a) the county government's recurrent expenditure shall not exceed the county government's total revenue; (b) over the medium term plan a minimum of Thirty percent of the county government's budget

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

3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.
5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

The county government shall continue to ensure compliance with fiscal responsibility principles, transparency and accountability by providing feedback on performance indicators as outlined in the Constitution 2010 and the Public Finance Management Act 2012.

1.0 INTRODUCTION

This section highlights objectives of the paper, its significance in the budget making process and a brief description of the structure.

The County Budget Review and Outlook Paper (CBROP) is prepared in line section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the county for the financial year 2016/2017; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2017 and reasons for such deviations.

1.1 Objectives of CBROP

The objective of the paper is to provide a review of the previous fiscal performance of the county and how this impacts the macro-economic outlook. Specifically the CBROP provides:

i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
iii. Any changes in the forecasts compared with the CFSP;
iv. Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

The paper is a policy document and links planning with budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF) as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2018/2019 budget and in the medium term to guide Sector Workings groups (SWGs) before being affirmed in the CFSP 2018.

1.3 Structure of CBROP

This paper has four other sections. Section Two reviews the county's fiscal performance for the previous year. It is divided into three sub-sections, namely, The Overview, Fiscal Performance and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections of Recent Economic Developments, Economic Outlook & Policies, Medium Term Fiscal Framework and Risks to the Outlook. Section four sets out how the county government intends to operate within its means. It establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. In addition, it has four sub-sections: adjustment to the proposed budget; the medium term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. And lastly, section five gives a conclusion of the entire paper.

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2016/17 FY

This section details the county's fiscal performance for the financial year 2016/17 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 Overview

During the period under review, the county government set out in the C-FSP 2016 to attain positive growth prospects through increased activities in the county sectors. The county strengthened revenue administration to enhance efficiency in revenue collection and built capacity towards utilization of e-procurement among departments to enhance budget absorption. County expenditure was also guided by sector objectives and priorities as outlined in the CIDP.

Implementation of the 2016/17 FY budget focussed on adherence of fiscal responsibility principles and objectives and prudent management of public resources. However, revenue and expenditure lagged behind their respective targets. Local revenue collections were Ksh.523.4 million short of the respective target. Total expenditures amounted to Ksh. 6,363,885,352 representing 18 per cent deviation from the targeted Ksh.7, 719,087,215 resulting to unspent balances of Ksh.836, 841,574 at the close of the financial year. Development expenditure accounted for 35 per cent while recurrent expenditures represented 65 per cent of the budget meeting the minimum requirements as prescribed in section 107 of the PFM Act 2012.

2.2 Fiscal Performance

In overall, total revenues for 2016/17 FY grew by 6 per cent while total expenditure decreased by 3 per cent compared to 2015/16 FY. Revenue collections also fell short of the Kshs. 1.192 billion target and by 7 per cent compared to the previous financial year as indicated in table 2.1 below.

Table 2.1: Summary of County Fiscal Performance

	2015/16 FY	2016/17 FY			
	Actual	Approved	Actual	% Deviation	Growth %
TOTAL REVENUE & GRANTS	**7,223,636,970**	**7,719,087,215**	**7,200,726,926**	**-7%**	**0%**
Unspent Bal from Previous FY	1,093,088,839	672,847,174	672,847,174	**0%**	**-38%**
Revenue (Total)	**6,130,548,131**	**7,046,240,041**	**6,527,879,752**	**-7%**	**6%**
Equitable Share Allocation	5,190,879,968	5,601,025,717	5,698,009,717	**2%**	**10%**
Local Revenue	718,228,095	1,192,000,000	668,516,746	**-44%**	**-7%**
Grants (Total)	221,440,068	253,214,324	161,353,289	**-36%**	**-27%**
Total Expenditure	**6,534,796,825**	**7,719,087,215**	**6,363,885,352**	**-18%**	**-3%**
Recurrent	4,210,980,092	5,042,938,818	4,675,949,113	**-7%**	**11%**
Development	2,323,816,733	2,676,148,397	1,687,936,239	**-37%**	**-27%**
Unspent Bal Current FY	688,840,145		836,841,574		

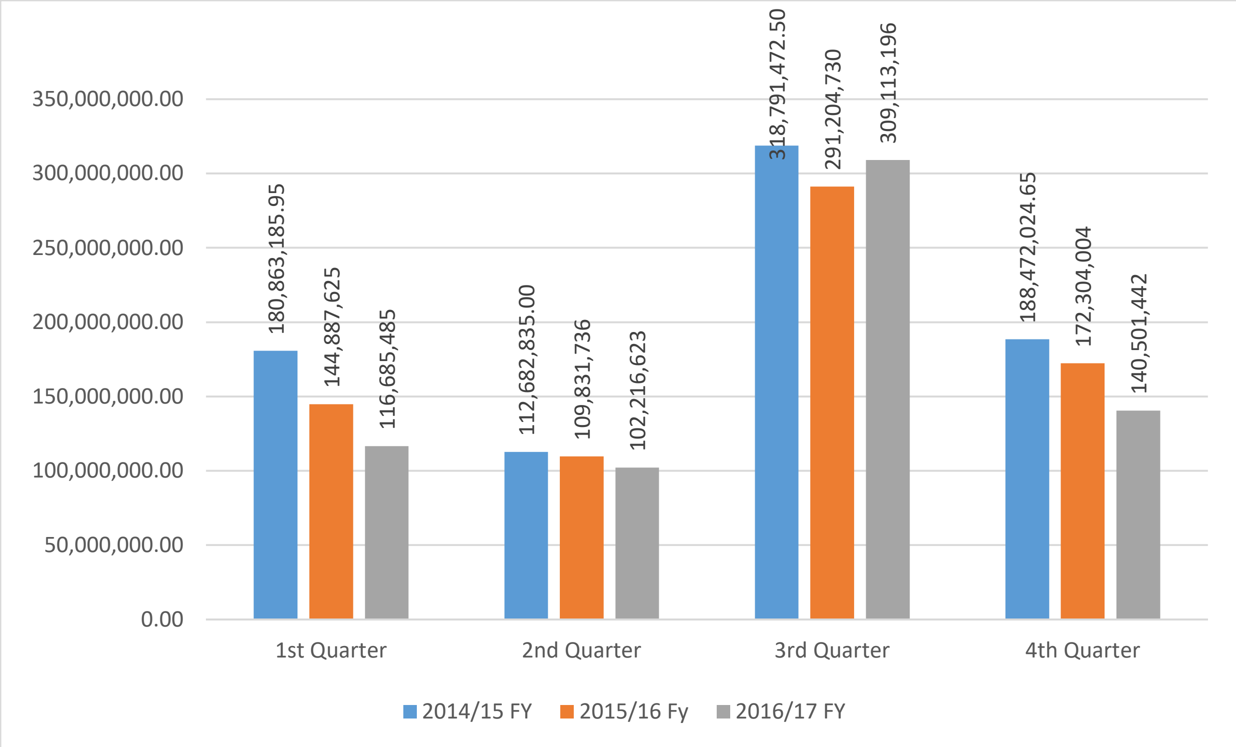
2.2.1 Revenue Performance

In 2016/17 FY, the county received an equitable share of county revenue of Kshs. 5,698,009,717 grants of Kshs. 161,353,289 against a target of Kshs.253, 214,324. Local revenue amounted to Kshs. 668,516,746 against a target of Kshs. 1,192,000,000 as shown in table 2.1.

The equitable share allocation of county revenue increased by 10 per cent compared to the previous 2015/16 FY attributed to improved revenue performance at the national level. Total grants received include; Road Maintenance Fuel Levy fund Kshs 86,059,722 Maternal Health Care fee and User Fee compensation Ksh.66, 633,568 and Donor Funds (HSSF) Ksh.8, 660,000.

Figure 2.1 shows the quarterly trend in revenue collection from the first quarter of 2014/15 FY to the fourth quarter of 2016/17 FY.

Figure 2.1 Quarterly trend in revenue collection from 1st Quarter 2014/15 FY to 4th Quarter of 2016/17 FY



The total revenue collected in 2016/17 FY amounted to Kshs. 668,516,746 representing a decrease of 7 percent compared to Kshs.718, 228,095 generated in 2015/16 FY and represented 56 percent of the local revenue target. The trend also shows that revenue collections increased sharply in the third quarter attributed to client payments on land rates and renewal of single business permits by entrepreneurs.

In 2016/17 FY, observation on revenue performance per stream shows that revenue from business permits as the leading earner cumulatively, followed by land rates, bus park fees and street parking as shown in table 2.2 below.

Table 2.2 Revenue Performance per stream

ANNUAL REPORT REVENUE 2016-2017					
REVENUE STREAMS	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**TOTAL**
Bar Inspection Fee	169,000	359,100	502,310	89,500	**1,119,910**
Application Fee	686,400	438,700	1,832,500	1,354,300	**4,311,900**
Audit and Supervision Fees	310,900	262,300	355,200	1,018,800	**1,947,200**
Buildings Plan Approval Fee	838,255	1,305,362	1,998,620	836,600	**4,978,837**

Burial Fees	60,900	258,000	167,100	129,900	**615,900**
Business Permits Current Year	11,974,072	1,995,670	140,119,498	22,915,082	**177,004,322**
Clamping Fee	483,400	893,785	610,250	745,900	**2,733,335**
Council Premises Occasional Hire (Offices, etc.)	223,800	134,300	21,900	62,500	**442,500**
Court Fines	3,892,667	2,730,810	1,596,018	1,106,151	**9,325,646**
Enclosed Bus Park Fee	24,569,710	24,787,210	24,652,590	22,223,248	**96,232,758**
Fire-Fighting Services	139,000	49,800	234,000	132,000	**554,800**
Housing Estates Monthly Rent	3,457,302	5,962,682	7,132,006	4,022,134	**20,574,124**
Impounding Charges	645,500	618,345	159,400	259,500	**1,682,745**
Inoculation Fee	1,856,570	1,068,510	1,454,800	279,900	**4,659,780**
Land Rates Current Year	12,388,578	10,683,674	53,677,542	19,887,104	**96,636,898**
Log Cess/ Bark cess	128,000	1,779,140	172,000	23,000	**2,102,140**
Market Fees	7,188,679	7,247,258	5,329,937	3,886,628	**23,652,502**
Milk Cess	0	0	0	116,483	**116,483**
Refuse Collection Fee	1,497,200	751,750	8,506,900	2,035,110	**12,790,960**
Motor Bikes	467,238	375,000	492,680	407,820	**1,742,738**
Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	619,738	1,622,678	2,034,189	41,538	**4,318,143**
Sand, Gravel, and Ballast Extraction Fees	750,000	65,200	0	485,120	**1,300,320**
Sign Boards & Advertisement Fee	8,894,057	8,947,650	8,339,057	9,517,705	**35,698,469**
Slaughtering Fee	2,226,710	2,812,848	2,962,355	2,791,060	**10,792,973**
Street Parking Fee	16,870,304	13,671,697	15,511,880	10,661,357	**56,715,238**
Sugarcane Cess	0	318,573	0	4,248,362	**4,566,935**
Tender Documents Sale	0	5,000	0	500	**5,500**
Weight and Measures	86,300	273,500	573,990	189,920	**1,123,710**
Water Kiosks Sale/Supply	260,130	97,335	149,685	0	**507,150**
Wheat & Maize Cess	4,308,678	1,292,337	8,250,419	16,100,005	**29,951,439**
Public Toilet	160,000	40,000	5,000	0	**205,000**
Agriculture AMS	275,850	940,348	735,685	275,080	**2,226,963**
Agriculture Veterinary	1,539,240	1,880,231	1,907,690	428,480	**5,755,641**
Betting Control	768,750	337,500	201,500	503,500	**1,811,250**
Health Centres & Dispensaries Fees	7,216,396	5,716,872	7,776,127	7,902,582	**28,611,977**
Public Health	979,690	1,975,640	2,745,320	949,740	**6,650,390**
DIRECT BANKING (BANK SLIPS NOT RECEIPTED)	752,471	517,818	8,905,048	4,874,833	**15,050,170**
TOTAL REVENUE COLLECTION	116,685,485	102,216,623	309,113,196	140,501,442	**668,516,746**

2.2.1.1 Revenue Underperformance

The drop in revenue collections in 2016/17 by 7 per cent compared to 2015/16 FY was attributed to the following; over projection, system transition from *LAIFOM* to *UG Pay* system, insufficient revenue legislations to guide in revenue collection and management, court cases in housing revenue, revenue from nursery school fees abolished in the financial year, low ICT literacy levels among residents affecting compliance, non-remittance of ELDOWAS conservancy fees and conversion of parking slots to walk ways within the CBD.

2.2.2 Expenditure Performance

Total expenditure in the FY 2016/17, amounted to Ksh. 6,363,885,352 against a target of Ksh.7,719,087,215 representing an under spending of Ksh.1, 355,201,863 and 18 per cent deviation from the appropriated budget. In addition a total of Ksh.4, 675,949,113 was spent on recurrent activities while Ksh.1, 687,936,239 on development expenditure. The expenditure excludes unspent balances amounting to Ksh. 836,841,574 which would be carried forward to the next financial year. Recurrent expenditure accounts for 65 per cent while development expenditure accounts for 35 per cent of the budget as shown in table 2.1.

Budget expenditure recorded an absorption rate of 82 percent, a decrease from 86 per cent attained in a similar period of FY 2015/16. The under spending in the FY 2016/17 is attributed to low absorption rates in both recurrent and development expenditures by the line county departments, under collection in revenue and delay in disbursements from national government.

2.2.2.1 Budget Absorption and Comparison between CFSP 2016 ceilings and FY 2016/17 budget

Respective sectors absorption rates compared to their respective budget allocations in Table 2.3 below shows; Health sector recorded an absorption rate of 91 percent followed by Public Administration, Infrastructure and ICT and Education sectors at 90, 82 and 82 per cent respectively. Agriculture and Rural Development sector recorded the least absorption rate at 63 per cent. The slow absorption by respective sectors has been hinged mainly to a slow procurement process, delay in disbursements and challenges in department's staff capacities.

Table 2.3 Showing Absorption rates by sectors and Comparison with CFSP 2016

SECTOR	MINISTERIAL DEPARTMENTS	C-FSP 2016			BUDGET ALLOCATION 2016/17			Cumulative Expenditure 2016/17			Absorption (%)	Deviation (%) CFSP - BUDGET
		REC	DEV	TOTAL	REC	DEV	TOTAL	REC	DEV	TOTAL		
PUBLIC ADMIN.	Governor's Office	125,831,123	0	**125,831,123**	187,648,791	0	**187,648,791**	166,788,270	0	**166,788,270**	**89%**	**49%**
	Finance	266,520,538	0	**266,520,538**	305,662,421	8,846,007	**314,508,428**	292,998,338	0	**292,998,338**	**93%**	**18%**
	County Public Service Board	63,589,434	0	**63,589,434**	63,589,434	0	**63,589,434**	36,350,544	0	**36,350,544**	**57%**	**0%**
	Public Administration	54,739,812	72,000,000	**126,739,812**	82,739,614	50,201,000	**132,940,614**	45,708,350	10,303,970	**56,012,320**	**42%**	**5%**
	Public Service Management	448,352,346	7,200,000	**455,552,346**	463,074,134	3,714,723	**466,788,857**	461,551,967	0	**461,551,967**	**99%**	**2%**
	Economic Planning	43,000,000	12,000,000	**55,000,000**	74,634,857	0	**74,634,857**	49,402,486	0	**49,402,486**	**66%**	**36%**
	County Assembly	462,071,800	0	**462,071,800**	502,000,000	15,907,805	**517,907,805**	500,093,754	11,161,030	**511,254,784**	**99%**	**12%**
	SUB-TOTALS	**1,464,105,053**	**91,200,000**	**1,555,305,053**	**1,679,349,251**	**78,669,535**	**1,758,018,786**	**1,552,893,709**	**21,465,000**	**1,574,358,709**	**90%**	**13%**
INFRASTRUCTURE	ICT and E-Government	45,787,844	40,000,000	**85,787,844**	45,787,844	64,273,291	**110,061,135**	32,849,488	54,122,327	**86,971,815**	**79%**	**28%**
	Roads, Transport and Infrastructure	522,172,039	400,000,000	**922,172,039**	501,158,719	874,074,166	**1,375,232,885**	492,264,740	648,245,641	**1,140,510,381**	**83%**	**49%**
	Water, Environment, Energy and Natural Resources	156,122,509	403,000,000	**559,122,509**	156,122,509	454,905,212	**611,027,721**	132,667,566	352,340,615	**485,008,181**	**79%**	**9%**
	SUB-TOTALS	**724,082,392**	**843,000,000**	**1,567,082,392**	**703,069,072**	**1,393,252,669**	**2,096,321,741**	**657,781,794**	**1,054,708,583**	**1,712,490,377**	**82%**	**34%**
HEALTH	Health Services	1,483,701,920	320,000,000	**1,803,701,920**	1,638,884,009	190,028,152	**1,828,912,161**	1,569,960,751	88,827,183	**1,658,787,934**	**91%**	**1%**
ARD	Lands, Housing and physical planning	109,121,286	130,000,000	**239,121,286**	115,121,286	151,844,247	**266,965,533**	86,326,064	92,073,692	**178,399,756**	**67%**	**12%**
	Agriculture, Livestock and Fisheries	247,380,841	307,000,000	**554,380,841**	247,380,841	545,357,049	**792,737,890**	230,326,350	262,956,952	**493,283,302**	**62%**	**43%**
	Trade, Cooperatives, Tourism and Wildlife	78,444,167	120,000,000	**198,444,167**	101,670,825	193,591,629	**295,262,454**	88,423,303	96,232,928	**184,656,231**	**63%**	**49%**
	SUB-TOTALS	**434,946,294**	**557,000,000**	**991,946,294**	**464,172,952**	**890,792,925**	**1,354,965,877**	**405,075,717**	**451,263,572**	**856,339,289**	**63%**	**37%**
EDUCATION	Education	259,990,058	272,000,000	**531,990,058**	456,184,473	80,405,116	**536,589,589**	400,319,745	43,671,901	**443,991,646**	**83%**	**1%**
	Youth development and Sports	39,000,000	112,000,000	**151,000,000**	103,185,307	43,000,000	**146,185,307**	89,917,397	28,000,000	**117,917,397**	**81%**	**-3%**
	SUB-TOTALS	**298,990,058**	**384,000,000**	**682,990,058**	**559,369,780**	**123,405,116**	**682,774,896**	**490,237,142**	**71,671,901**	**561,909,043**	**82%**	**0%**
	TOTAL	**4,405,825,717**	**2,195,200,000**	**6,601,025,717**	**5,044,845,064**	**2,676,148,397**	**7,720,993,461**	**4,675,949,113**	**1,687,936,239**	**6,363,885,352**	**82%**	**17%**

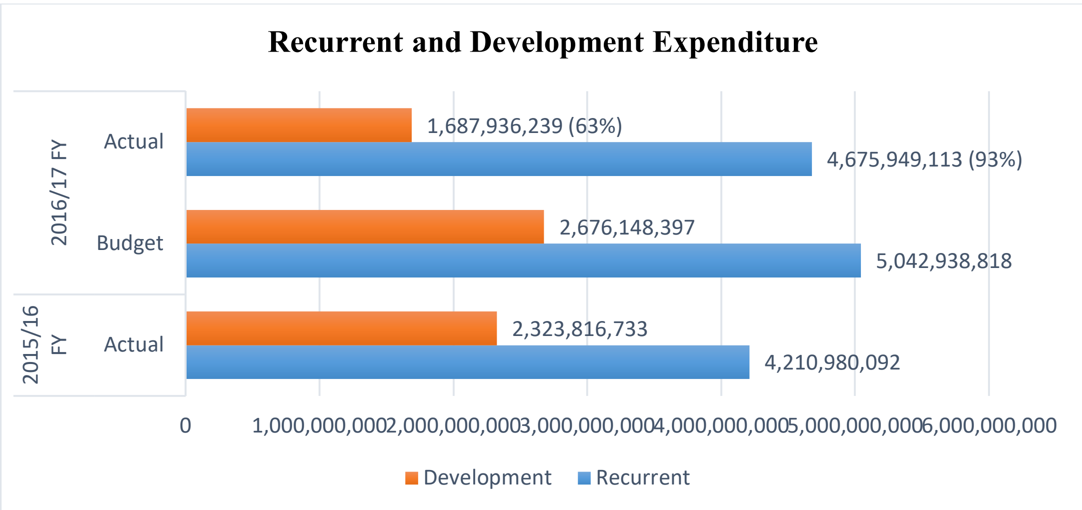
Comparison between CFSP 2016 ceilings and 2016/17 FY budget allocation showed a general growth in budget allocations occasioned by increase in equitable share of county revenue. Sector ceilings were revised upwards by 13 per cent in Public Administration which is attributed to the reorganisation of county departments and staff to enhance service delivery. Infrastructure sector ceilings were also reviewed upwards by 34 per cent from Ksh.1, 567,082,392 ceiling to Ksh.2, 096,321,741. The increased allocation in the sector is credited to increased receipts from conditional grants on road maintenance fuel levy. In addition the increased sector allocation is reflective of the strategic interventions in development of water infrastructure across the county.

Agriculture and Rural development sector received increased allocations by 37 per cent, attributed to ongoing economic empowerment programmes; *Inua mama na kuku*, *Kijana na Acre*, maize and seed subsidy and *A.I* subsidy programmes in the agriculture department. Allocations were also increased to support the Co-operative Enterprise Fund and finalisation of county spatial planning.

2.2.2.2 Recurrent and Development Expenditure

As shown in figure 2.4 below, absorption rates for recurrent and development votes for the period under review was at 93 and 63 per cent respectively. Development expenditure absorption decreased by 13 per cent compared to the 2015/16 FY attributed to unspent balances of Kshs. 836,841,574.

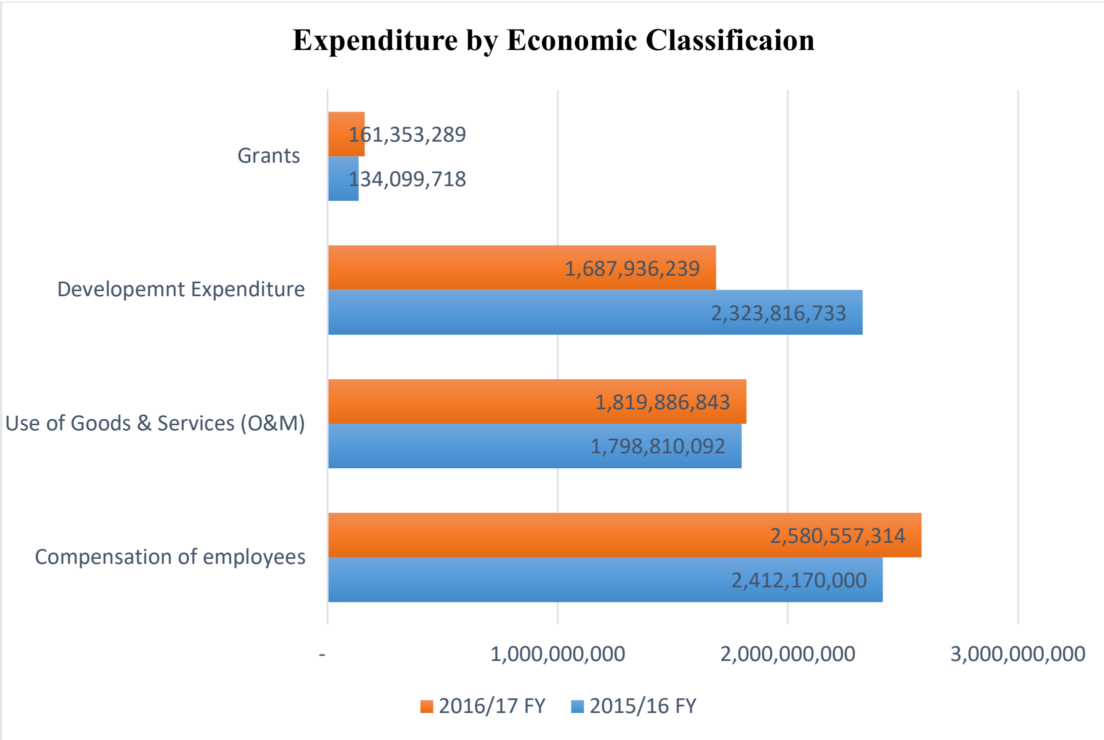
Figure 2.2 Showing Recurrent and Development Expenditure Analysis



2.2.2.3 Expenditure by economic classification

The figure 2.3 below shows actual expenditure by economic classification; personnel emoluments at Ksh. 2,580,557,314, which is 37 percent of the county governments total revenue and has increased by 18 per cent from the previous year 2015/16 FY. Development expenditure fell short by 37 per cent from the targeted amount of Ksh. 2,676,148,397 to Ksh.1,687,936,239 and reflected a decrease of 27 per cent compared to 2015/16 FY. This resulted to unspent balances amounting to Ksh.836, 841,574.

Figure 2.3 Showing Expenditure by Economic Classification



2.2.3 Implication of 2016/17 FY Fiscal Performance

The fiscal performance in the FY 2016/17 has affected financial objectives set out in the 2017 County Fiscal Strategy Paper and the Budget 2017/18 in the following ways;

- Revenue collection fell short of the targeted Ksh.1, 192,000,000 by 44 per cent. This under collection in revenue has warranted adjustment to projected revenues for the budget and in the medium term.

- The under spending in the 2016/17 FY budget has implications on the total county government revenue used to base expenditures for the 2017/18 FY. Appropriate revisions will be undertaken taking into account the fiscal performance of 2016/17 FY.
- Expenditures on wages and benefits in 2016/17 FY accounted for 36 per cent (1 per cent above the prescribed limit). Adjustments are expected on this expenditure due to recommendations from Salaries and Remunerations Commission on wages and allowances for doctors, nurses and other public servants. In the medium term the county government expects to maintain wages and benefits expenditures within the prescribed limit.

These implications will also inform 2018 County Fiscal Strategy Paper projections. Over the medium term the county government will adhere to the fiscal responsibility principles and objectives as set out in section 107 of the Public Finance Management Act of 2012.

Medium term projections have taken into account performance of 2016/17 FY and macroeconomic factors expected at the national level. Table 2.4 below shows the county government fiscal projections in the medium term. Revenue collection will be maintained at Ksh. 1 billion in CFSP 2018 taking into account strategies employed towards raising revenue in the medium term. This include; passing of revenue legislations on revenue administration and collection, full automation of revenue collection and integration, strengthening and enforcing surveillance and sensitization of the public. In addition, recurrent and development expenditure will be maintained at 65 percent and 35 per cent respectively meeting the minimum 30 per cent requirement for development expenditure.

Table 2.4 County Government Fiscal Projections in the Medium Term

	2015/16 FY	2016/17 FY		2017/18 FY		2018/19 FY		2019/20 FY		2020/21 FY	
	Actual	Budget	Actual	Budget	CBROP 2017	CBROP 17'	CFSP 17'	CBROP 17'	CFSP 17'	CBROP 17'	CFSP 17'
TOTAL REVENUE & GRANTS	7,223,636,970	7,719,087,215	7,200,726,926	7,425,884,487	7,510,007,688	7,602,141,232	7,645,156,110	7,734,184,056	8,377,571,720	8,060,915,876	9,215,328,892
Unspent Bal from Previous FY	1,093,088,839	672,847,174	672,847,174								
Revenue (Total)	**6,130,548,131**	**7,046,240,041**	**6,527,879,752**	**7,425,884,487**	**7,510,007,688**	**7,602,141,232**	**7,645,156,110**	**7,734,184,056**	**8,377,571,720**	**8,060,915,876**	**9,215,328,892**
Equitable Share Allocation	5,190,879,968	5,601,025,717	5,698,009,717	5,977,414,645	5,993,190,000	6,113,053,800	6,575,156,110	6,235,314,876	7,232,671,720	6,547,080,620	7,955,938,892
Local Revenue	718,228,095	1,192,000,000	668,516,746	1,000,000,000	1,000,000,000	1,000,000,000	1,070,000,000	1,000,000,000	1,144,900,000	1,000,000,000	1,259,390,000
Grants (Total)	221,440,068	253,214,324	161,353,289	448,469,842	516,817,688	489,087,431.8	0	498,869,180.48	0	513,835,255.90	0
Total Expenditure	**7,223,636,970**	**7,719,087,215**	**6,363,885,352**	**7,425,884,487**	**7,510,007,688**	**7,602,141,232**	**7,645,156,110**	**7,734,184,056**	**8,377,571,721**	**8,060,915,876**	**9,215,328,893**
Recurrent	**4,210,980,092**	**5,042,938,818**	**4,675,949,113**	**5,041,718,524**	**5,125,841,725**	**5,169,456,038**	**4,969,351,472**	**5,179,864,602**	**5,445,421,619**	**5,378,880,450**	**5,989,963,781**
Recurrent as % of CG Total Revenue	***58%***	***65%***	***65%***	***68%***	***68%***	***68%***	***65%***	***67%***	***65%***	***67%***	***65%***
Personnel Emoluments	2,412,170,000	2,756,581,868	2,580,557,314	2,581,643,419	2,804,371,382	3,040,037,667	2,828,707,761	3,092,039,551	3,099,701,537	3,051,641,528	3,409,671,691
Operations & Maintenance	2,059,980,092	2,286,356,950	2,095,391,799	2,460,075,105	2,321,470,343	2,129,418,371	2,140,643,711	2,087,825,052	2,345,720,082	2,327,238,922	2,580,292,090
Personnel Emoluments as % of CG Revenue	***33%***	***36%***	***36%***	***35%***	***37%***	***40%***	***37%***	***40%***	***37%***	***38%***	***37%***
Development	**2,323,816,733**	**2,676,148,397**	**1,687,936,239**	**2,384,165,963**	**2,384,165,963**	**2,432,685,194**	**2,675,804,638**	**2,554,319,454**	**2,932,150,102**	**2,682,035,426**	**3,225,365,112**
Development as % of CG Total Revenue	***32%***	***35%***	***23%***	***32%***	***32%***	***32%***	***35%***	***33%***	***35%***	***33%***	***35%***
Unspent Bal Current FY	688,840,145		836,841,574								

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

This section presents Recent Economic Developments; Medium Term Fiscal Framework; and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future. In this section, the county government discusses its assessment of the prospects for growth after analyzing the recent economic events and circumstances.

3.1 Recent Economic Developments

Economic developments in the national economy affect economic activities in the county thus affecting revenue streams and expenditure of the county government. Kenya's economy maintained growth momentum for the third consecutive year by posting an estimated real gross domestic product (GDP) growth of 5.8 percent in 2016 compared to revised growth of 5.7 percent in 2015. Generally, the growth was well spread and robust in most sectors but subdued in a few. This growth was supported by accommodation and food services which registered the most improved growth of 13.3 per cent in 2016 from a contraction of 1.3 per cent in 2015; information and communication sector; real estate; and transport and storage. Construction; mining and quarrying; and financial and insurance activities registered the most notable slowdown in growths. The economy grew by 5.3 percent in 2014 being supported by strong performance in most sectors of the economy which offset contraction in the tourism sector.

Key macroeconomic indicators remained fairly stable in 2016. Overall annual average inflation was within target (±5.0 per cent). Month-on-month inflation declined to 7.8 percent in January 2016 from 8.0 percent in December 2015. This was attributed to the declines in the prices of electricity, kerosene and cooking gas. In addition there was reduction in the pump prices of petrol and diesel that led to the reduction of the Transport index. Annual average inflation was contained at 6.3 per cent compared to an average of 6.6 per cent in 2015. The easing in inflation was mostly due to significant slowdowns in prices of transportation; housing and utilities; and communication. The Kenya National Bureau of Statistics (KNBS) also reported that inflation increased from 7.0 percent in January 2017 to 9.0 percent in February 2017 on account of rising food and electricity prices.

The Kenya Shilling exchange rate continued to display relatively less volatility compared with the major regional currencies and strengthened by 1.4 percent for the period October 2015 to October 2016 (Chart 4). The stability of the Kenya shilling exchange rate reflects improved export earnings from tea and horticulture, a reduction in the imports of petroleum products due to lower oil prices, resilient Diaspora remittances and improved tourism performance.

Short term interest rates in Kenya remained low due to the improvement of liquidity conditions in the money market. The interbank rate declined to 4.1 percent in October 2016 from 4.9 percent in September 2016 and 21.3 percent in September 2015, while the 91-day Treasury bill rate declined to 7.8 percent from 8.1 percent and 14.0 percent over the same period. The average lending rates which had increased to 17.7 percent in August 2016 from 15.7 percent in August 2015 have declined to 14.0 percent. Similarly, the deposit rate which had decreased to 6.4 percent in August 2016 from 6.9 percent in August 2015 have risen to 7.0 percent from September 14, 2016 as provided in the Banking (Amendment) Act, 2015.

The growing national economy with inflation that is within target, low interest regime and stable and strengthening Kenya shilling exchange rate reflects good prospects for both the national and county economies. The county is expected to experience increased demand leading to increased economic activities. More investments as a result of favourable macroeconomic conditions are expected to yield more job opportunities that will benefit especially the youth, women and people with disabilities. The county government will also continue to provide necessary environment to attract investments by investing in infrastructure expansion and ensuring better environment for doing business.

The county is therefore in better stead to experience growth in agriculture and livestock production, building and construction, manufacturing, retail and wholesale, financial intermediation, public and private investments, increased consumer confidence and the ongoing initiatives to deepen regional integration, through NOREB.

The growing national economy is expected to lead to enhanced revenue performance. This will mean increased allocations to the county by Commission of Revenue Allocation thus having implication on the implementation of strategic interventions.

In FY 2016/17, the county local revenue performance missed the target by 44 percent by posting Kshs. 668,516,746.00 against target of Kshs. 1,192,000,000.00. This was a slowdown by 7 percent compare to 2015/16 FY. The shortfall was attributed to over projection, system transition from *LAIFOM* to *UG Pay* system, insufficient revenue legislations to guide in revenue collection and management, court cases in housing revenue, revenue from nursery school fees abolished in the year, low ICT literacy levels among residents affecting compliance, non-remittance of ELDOWAS conservancy fees and conversion of parking slots to walk ways within the CBD. In the same period government also received an equitable share of county revenue of Kshs. 5,698,009,717, grants of Kshs. 161,353,289.

Delay in release of funds by the National Government and under-collection of revenue affected implementation of 2016/17 budget. Absorption rate was about 82 percent during the period. Total expenditure in the period was Kshs. 6,363,885,352.00 against target of Kshs. 7,719,087,215.00, leading to a deviation of about 18 percent amounting to Kshs. 1,355,201,863.00.

3.2 County Economic Outlook and Policies

The resource envelop of the County Government of Uasin Gishu has never been adequate since inception of the government. This situation has always been compounded by underperformance in own revenue collection, leaving the government largely dependent on national transfers. The government will continue to activate synergy by strengthening collaboration, networking and partnerships. The government will continue to work with the National Government, development partners and other counties in the region and beyond in addressing development challenges facing residents of the county, especially in water, agriculture, infrastructure and health. NOREB will be strengthened to deepen regional integration for enhanced trade and investment. Relevant policies will be adopted to strengthen revenue performance and expenditure management mechanisms. This will be expected to result into improved revenue performance while focusing on expenditure productivity.

3.3 Medium Term Fiscal Framework

The county government will operate within a framework of balanced budget in the medium term with occasional short term borrowing as may be necessary for cash flow management purposes. The government's fiscal policy objective in the medium term will be to focus resources to priority and growth potential areas including water, infrastructure, agriculture and livestock production, and health.

Revenue mobilization initiatives will be strengthened to enhance revenue performance. The County's own revenue performance has been fluctuating over the years culminating to a shrink of 7 percent in 2016/17 compared to 2015/16. To realign local revenue performance to positive growth trajectory, the government will ensure adequate legislations to guide revenue collection and management, improve enforcement for compliance, enhance residents' ICT literacy levels for more compliance, and broaden tax base. The government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions. The government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate exploitation of the vast natural resources in the county. The policy will address itself to licensing, attracting investors, taxation and sustainable use of the resources. It will also address revenue raising measures.

In the medium term the county government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The government will continue to monitor expenditures closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will be expected to include personnel emoluments (P.E), development and operations. The government will also upscale implementation of programmes targeting the vulnerable including the youth, women and people living with disabilities (PWDs) to enhance their participation in the socio-economic development of the county.

The County Government of Uasin Gishu does not anticipate any long term borrowing in the medium term. However, in case there will be need for long term borrowing, then it will be done within the framework for Sub-Nationals approved by the Inter-Governmental Budget and Economic Council (IBEC) and the guidelines issued by Commission for Revenue Allocation (CRA). Further, any borrowings shall be used for financing development projects only. The county government will maintain a sustainable debt level as approved by county assembly.

The fiscal responsibility principles will remain the guiding framework for its public finance management discourse.

3.4 Risks to the Outlook

Risks to the economic outlook of the county include the following;

- Subdued global economic outlook in 2016 though expected to gradually recover in 2017 and beyond. The county operates within the framework of global economy and the world scenario will affect the economy of the county vide exports, tourism, among others.
- The outlook is based on assumed normal rainfall. However, rainfall pattern proved erratic in some seasons in the past. Erratic rainfall pattern, if experienced, is likely to affect agricultural production.
- Local revenue performance. This has been fluctuating and underperforming. But with the expected improved revenue performance at the national level due to the growth momentum of the Kenya, the total revenue of the county is expected to increase over the medium term.
- Expenditure pressures due to increasing wage bill thus leaving inadequate resources for development.
- Delay in the enactment of County Allocation of Revenue Bill. This has been affecting counties' budgeting process for lack of clear ceilings beforehand.
- Variations of county allocation of revenue formula by the Commission on Revenue Allocation and Senate is also a potential risk as this may lead to reduced share of shareable revenue.
- Exchequer releases. This affects budget implementation.
- Conflicting priorities between the County Assembly and the County Executive thus affecting budget making process and budget execution.

4.0 RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the county expects and how it will be allocated across all the sectors for 2018/19 FY and MTEF

4.1 Adjustment to the FY 2017/18 Budget

The 2017/18 Budget sought to consolidate the gains made by the county government in the last four years as it even continues to pursue the transformative agenda it started for inclusive economic growth.

As we even commence implementation of the FY 2017/18 Budget, there will be need to make adjustments to it. This is because of changes in CARA 2017 which reduced the county's equitable share of revenue to Kshs. 5.7 billion; changes in personnel emolument occasioned by increment in allowances for doctors; and the anticipated restructuring of the county government departments.

In addition, poor fiscal performance at the national level due to a repeat election may further dampen downwards revenue projections and thus allocations to the counties. This coupled with local revenue shortfalls as experienced in the 2016/17 year will further affect the current budget. Therefore to avert these risks, revisions on local revenue projections to realistic provisions will be undertaken and rising challenges on revenue collection addressed through full roll-out of the revenue system. Further, to reduce unnecessary pressure on expenditures, the county government will institute measures aimed at reducing unnecessary expenses and introduce controls which will ensure adherence to the approved budget allocations.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in county integrated development plan and other county plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities drawn from the five county goals.

Table 4.5 below therefore provides indicative sector ceilings for the 2018/2019 – 2020/21 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

Table 4.5 Summary of Indicative Sector Ceilings for FY 2018/19 MTEF

		Total Expenditure Kshs.					% Share of Total Expenditure				
Sector	MDAs	Revised Estimates	Estimates	Projections			Estimates	Ceilings	Projections		
		2016/17	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20	2020/2021
PUBLIC ADMIN.	Governor's Office	187,648,791	143,549,472	167,836,560	176,228,388	185,039,807	2%	2%	2.40%	2%	2%
	Finance	314,508,428	309,408,428	287,280,661	301,644,694	316,726,929	4%	4%	3.00%	4%	4%
	Economic Planning	74,634,857	103,496,507	139,863,800	146,856,990	154,199,840	1%	1%	2.00%	2%	2%
	Public Service Management	466,788,857	344,828,894	349,659,500	367,142,475	385,499,599	6%	5%	5.00%	5%	5%
	Devolution & Public Administration	132,940,614	313,855,174	205,863,800	216,156,990	226,964,840	2%	4%	2.00%	3%	3%
	County Public Service Board	63,589,434	67,426,580	104,897,850	110,142,743	115,649,880	1%	1%	1.50%	1%	1%
	County Assembly	500,093,754	672,000,000	489,523,300	513,999,465	539,699,438	6%	9%	7.00%	6%	6%
ARD	Agriculture	792,737,890	669,331,342	559,455,200	587,427,960	616,799,358	10%	9%	8.00%	7%	7%
	Livestock Development & Fisheries			209,795,700	220,285,485	231,299,759			3.00%		
	Trade,Investment & Industrialisation	295,262,454	300,358,819	174,829,750	183,571,238	192,749,799	4%	4%	2.50%	2%	2%
	Co-op & Enterprise Dev			559,455,200	587,427,960	616,799,358	0%	0%	8.00%	7%	7%
	Physical Planning & Urban Dev			118,884,230	124,828,442	131,069,864	0%	0%	1.70%	2%	2%
	Lands and Housing	266,965,533	278,435,605	188,816,130	198,256,937	208,169,783	3%	4%	2.70%	2%	2%
I&ICT	Roads,Transport,Energy & Public Works	1,375,232,885	915,181,409	850,554,526	893,082,252	937,736,365	18%	13%	9.00%	11%	11%
	Water, Environment,Natural |Resources,Tourism &Wildlife	611,027,721	433,018,119	629,387,100	660,856,455	693,899,278	8%	6%	9.00%	8%	8%
	ICT & e-govt.	110,061,135	93,181,672	104,897,850	110,142,743	115,649,880	1%	1%	1.50%	1%	1%
Health	Health Services	1,828,912,161	1,774,550,086	1,656,416,565	1,739,237,393	1,826,199,263	24%	24%	21.00%	22%	22%
Education	Education, Culture,& Social Services	536,589,589	508,973,085	384,625,450	403,856,723	424,049,559	7%	7%	5.50%	5%	5%
	Youth Affairs, Gender and Sports	146185307	357,616,910	420,098,060	441,102,963	463,158,111	2%	5%	5.50%	6%	6%
		7,703,179,410	**7,285,212,102**	**7,602,141,232**	**7,982,248,294**	**8,381,360,708**	**100%**	**100%**	5.00%	5.00%	5.00%

4.3 The Proposed 2018/19 Budget Framework

4.3.1 Revenue Projections

The FY 2018/19 budget targets revenue (equitable share and local) collection of Kshs. 6,993 Million up from Kshs. 6,707 Million in the FY 2017/18. This revenue performance will be dependent on ongoing automation of revenue collection and revenue administration. Local revenue is projected at Kshs. 1 billion in FY 2018/19 similar to FY 2017/18.

4.3.2 Expenditure Forecasts

In the proposed 2018/19 budget, overall expenditures are projected to increase by 4 percent to Kshs. 7,602,141,232 up from Kshs. 7,285,636,970 in the FY 2017/2018. Recurrent expenditure is projected to increase by 3 percent to Kshs. 5,169,456,038 in FY 2018/19 up from Kshs.5, 041,718,524 in FY2017/18, accounting for 68 percent of total budget. Similarly, development expenditure is projected to increase by 2 percent to Kshs. 2,432,685,194 in FY 2018/19 up from Kshs. 2,384,165,963 in FY 2017/18 accounting for 32 percent of the total budget and within the recommended level of 30 percent. In addition, personnel emolument is projected to increase by 8 percent to Kshs. 3,040,037,667 in FY 2018/19 up from Kshs. 2,804,371,382 in FY 2017/18, accounting for 40 percent of the total revenue and which is above the required limit of 35 percent. The 8 percent increase in PE in the next period is slightly lower compared to previous period and is attributed to reduced remuneration for MCAs as recommended by SRC; and remuneration for the new CECs and Chief Officers which will be at the entry level.

In this regard, the county government will over the medium ensure compliance with the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The county government is expected to enhance expenditure productivity in the proposed year and manage manage the rising wage bill to be within the required limit.

Table 4.3 below indicates the projections for expenditure in the medium term period.

Table 4.6 Summary of Expenditure Projections 2018/19 FY and MTEF

Revenue Type	Actual	Approved Budget Estimates	Projeted Estimates		
	2016/17	2017/18	2018/19	2019/20	2020/21
Personnel Emoluments	2,580,557,314	2,804,371,382	3,040,037,667	3,192,039,551	3,351,641,528
Operations &Maintenance	1,595,298,046	2,321,470,343	2,129,418,371	2,235,889,290	2,347,683,754
Development	1,676,775,208	2,384,165,963	2,432,685,194	2,554,319,454	2,682,035,426
Unspent Bal FY	672,847,174	836,841,574	0	0	0
Total	**6,525,477,742**	**8,427,442,926**	**7,602,141,232**	**7,982,248,294**	**8,381,360,708**

4.4 Projected Fiscal Balance

The proposed 2018/19 county budget is balanced, but however, any shortfall in revenue that may occur within the year will be addressed through supplementary or borrowing within the borrowing framework by sub-nationals as approved by the Intergovernmental Budget and Economic Forum (IBEC).

5.0 CONCLUSION

CBROP is one of the budget documents purposed to enhance financial discipline and fiscal responsibilities within the county's financial management framework; an important document in the budget making process within the Medium Term Expenditure Framework. The document details the actual fiscal performance for the previous financial year with deviations from the budget appropriation. It also details how actual financial performance for the previous financial year may have affected compliance with the responsibility principles. Further the updated macroeconomic outlook provides a basis for any budget revision. It also set out broad fiscal parameters for the next budget.

During the period 2016/17 the county government realized increased total revenue by 6 percent while expenditure shrunk by 3 percent compared to 2015/16. Equitable share increased by 10 percent whereas local revenue shrunk by 7 percent over the same period. During the same period recurrent expenditure accounted for 65 percent while development accounted for 35 percent of the total budget. The county government generally complied with the principles of fiscal responsibility. In the period under review, recurrent expenditure increased by 11 percent while development expenditure shrunk by 27 percent compared to 2015/16. Key macroeconomic conditions in the country in the form of maintained growth momentum in GDP, within-target inflation, stable Kenya shilling exchange rate and low interest regime are believed to have impacted positively on the fortunes of county. The ceilings for the sectors, Public Administration, ICT & Infrastructure, and Agriculture and Rural Development, in the CFSP were revised upwards by 13 percent, 34 percent and 37 percent respectively. This bolstered the implementation of the county's priority areas.

In conclusion resource allocation was based on the strategic objectives as set out in the county integrated development plan (CIDP).