REPUBLIC OF KENYA

COUNTY GOVERNMENT OF SIAYA

DEPARTMENT OF FINANCE, ECONOMIC PLANNING AND VISION 2030

County Budget Review and Outlook Paper

September 2015

Transforming Siaya through: socioeconomic empowerment, agribusiness and infrastructural development

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FOREWORD

The County Budget Review and Outlook Paper (CBROP) presents the fiscal outcome for FY 2014/15 and how this affects the financial objectives set out in the 2015/16 budget. The updated macroeconomic outlook therein also provides us with a basis to revise the 2015/16 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.

The 2014/15 FY had its fair share of challenges arising from the county operating on a 50% budget for the larger part of the year. Despite these challenges, the overall performance of the county was satisfactory. The lessons learnt will inform managerial decisions aimed at improving the county's performance in the medium term. In order to build on the successes of the 2014/15 FY, the county will continue to invest on priority areas as envisaged in the 2015/16 Fiscal Strategy Paper despite expenditure pressures from other competing sectors.

The County Government will ensure smooth running of the structures established under the devolved system of government while maintaining fiscal discipline. More important, greater transparency and high quality management of public finances will be necessary to achieve the aspirations of the people.

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CLEOPHAS O. OMBOGO

COUNTY EXECUTIVE COMMITTEE MEMBER

FINANCE, PLANNING AND VISION 2030

ACKNOWLEDGEMENTS

The County Budget Review and Outlook Paper (CBROP) is a legal document that has reviewed the performance of the county in the 2014/15 FY. Despite the overall performance being satisfactory, valuable lessons have been learnt to inform implementation in the future.

My sincere appreciation goes to the following officers who worked tirelessly to ensure timely preparation of this document: Jeniffer Ogola, (Head of Budget), Lawrence Kenyatta, (County Director of Planning), Peter Ligulu (TA), Moses Wambisa (Economic Advisor), Sylvester Oluk, Samuel Omondi Ojwang, Moses Otieno, Jared Abwao and Jacob Oduor.

It is the hope and confidence of the county treasury that the information contained in this report effectively contributes to the realization of a model county committed to quality service delivery and sustainable development, the goals and objectives of the County Government as outlined in the CIDP and other policy documents.

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MAROKO SILVESTER SIJENY
CHIEF OFFICER – FINANCE, PLANNING AND VISION 2030
COUNTY GOVERNMENT OF SIAYA

ACRONYMS AND ABBREVIATIONS

CADP	County Annual Development Plan
C-BROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
FY	Financial Year
GOK	Government Of Kenya
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management and Information System
KNBS	Kenya National Bureau of Statistics
M & E	Monitoring & Evaluation
MTEF	Medium Term Expenditure Framework
SACCO	Saving And Credit Co-Operative Society
SME	Small And Micro Enterprises
SWOT	Strength Weakness Opportunity Threat
PFMA	Public Finance Management Act
DANIDA	Danish Development Agency
CRA	Commission on Revenue Allocation
CEC'M	County Executive Committee Member

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

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

1. The County Treasury shall prepare and submit to County Executive Committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shall include:
   a Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
   b Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.
   c Information 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 latest County Fiscal Strategy Paper; and
   d The 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 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
3. Not later than seven days after the County Budget Review and Outlook Paper (CBROP) has been approved by the County Executive Committee, the County Treasury shall:
   a. Submit the paper to the Budget Committee of the County Assembly to be laid before County Assembly; and
   b. Publish and publicize the paper not later than fifteen days after laying the Paper before the Assembly.

FISCAL RESPONSIBILITY PRINCIPLES IN THE PUBLIC FINANCIAL MANAGEMENT LAW

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 107) states that:

1. The County government's recurrent expenditure shall not exceed the county government's total revenue.
2. Over the medium term a minimum of thirty per cent of the County government's budget shall be allocated to the development expenditure.
3. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member Finance regulations and approved by the County Assembly.
4. 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
5. The County debt shall be maintained at a sustainable level as approved by county assembly
6. Fiscal risks shall be managed prudently
7. 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

CHAPTER 1
INTRODUCTION

Background

Siaya County is one of the 47 counties, and is located in the Western part, of the Republic of Kenya. It borders Kisumu, Busia, Vihiga and Lake Victoria. The County is endowed with many resources, but has been a low producer of goods and services, a situation that has contributed to the prevailing high poverty levels. The factors that have led to the low productivity include the values, attitudes and work ethics that run counter to the spirit of entrepreneurship and wealth creation. Low industrial investments in the county have also contributed to low productivity.

This County Budget Review and Outlook Paper (CBROP) is the third to be prepared by the County Government under the Constitution of Kenya 2010 and the Public Finance Management Act, 2012. It contains a review of the fiscal performance of the financial year 2014/15 since the inception of the county government.

Objective of CBROP

The objective of the CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles as set out in the PFM Act, 2012.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 and general expenditure within the medium term. Details of the fiscal framework and the medium term policy priorities will be presented in the County Fiscal Strategy paper 2015.

The CBROP is one of the key documents in linking policy, planning and programming in the current financial year and in the medium term. Other documents include the County Fiscal Strategy Paper and the County Debt Management Strategy. This year's CBROP is based on the performance of the budget implemented by the County Government of Siaya in the Financial Year 2013/14. The County Government of Siaya is currently implementing the first County Integrated Development Plan and CBROP will take cognisance of its contents and of other county development plans. Fiscal projections in the in the medium term will be contained in the 2015 fiscal strategy paper.

CHAPTER 2
REVIEW OF FISCAL PERFORMANCE IN 2014/2015

Overview

2014/2015 financial year was the second year under which the county government was implementing her full budget. The fiscal performance in the financial year under review was generally satisfactory. However, the amount of local revenue realized was lower than the projection in the approved budget for the year. Although the county planned to mobilize Kshs 301,474,027 local revenue during the fiscal year, only Kshs. 143,403,440 was raised representing an under performance of Ksh 158,070,587 or 52.5% of the target revenue.

The county received Kshs. 4,358,013,207 from the national government as its equitable share. In addition, a total of Ksh. 25,150,000 and Ksh. 90,000,000 were received from DANIDA and World Bank respectively as grants, with a total of Ksh. 1,200,000,000 carried forward from the 2013/2014 FY budget bringing the total receipts for the year to Ksh. 5,673,163,207.

The total planned expenditure for the FY was Kshs.5,974,637,234 consisting of Kshs 3,261,416,485 and Kshs. 2,713,220,749 for recurrent and development expenditure respectively although the actual expenditure for the period was Kshs. 4,667,304,759. During the period under review, the share of development expenditure was Kshs.1, 589, 314,175 representing 34.1% of the total actual expenditure. Recurrent expenditure on the other hand was Kshs. 3,077,990,584 representing 65.9% of the total actual expenditure.

2014/15 Fiscal Performance

Although the county government planned to mobilize Kshs 301,474,027 local revenue during the fiscal year, only Kshs. 143,403,440 was raised representing an under performance of Ksh 158,070,587 or 52.5% of the target revenue as shown in table 1 below. Various reasons caused the low performance in terms of revenue collection. These include:

a. Revenue department being understaffed hence affecting revenue collection.

b. Shortage of means of transport to facilitate supervision of revenue collection

c. Poor infrastructure limiting provision of utility services in some markets

d. Non remittance and low collection of revenue from devolved functions

e. Seasonal nature of some revenue streams

Table 1: County Government Local Revenue 2014/15

Revenue Item	Projected/ From Printed estimates 2014/15	Actual	Deviations	% Deviation	Projected 2015/16
SBP	50,000,000	28,350,589	- 21,649,411	-43%	45,000,000
Market Fee	45,000,000	20,170,457	- 24,829,543	-55%	50,000,000
Bus Park/ parking Fee	20,000,000	14,829,361	- 5,170,639	-26%	17,000,000
Fish Cess Fee	5,586,052	3,892,399	- 1,693,653	-30%	6,500,000
Tender Fee	3,000,000	270,012	- 2,729,988	-91%	
Plan Approval Fee	2,500,000	767,608	-1,732,392	-69%	2,500,000
Transfer Fees	1,000,000	153,150	- 846,850	-85%	1,000,000
Miscellaneous Fee	8,000,000	772,375	- 7,227,625	-90%	3,240,000
Plot Rates	26,157,475	3,189,619	-22,967,856	-88%	16,150,000
Plot Rents	6,000,000	3,365,331	-2,634,669	-44%	5,900,000
School Fees	250,000	116,175	- 133,825	-54%	250,000
Slaughter Fees	700,000	573,013	-126,987	-18%	896,500
Ground/Stall Rent	3,100,000	2,952,116	- 147,884	-5%	5,239,800
Burial Fees	30,000	28,600	-1,400	-5%	30,800
Sand Cess	5,000,000	20,100	-4,979,900	-100%	1,200,000
CILOR	450,500	-	- 450,500	-100%	37,900
Sugar Cess	2,000,000	-	- 2,000,000	-100%	4,500,000
Boda Boda Fee	10,000,000	-	- 10,000,000	-100%	3,500,000
Health Department	61,500,000	47,544,186	- 13,955,814	-23%	45,500,000
Lands Department	6,200,000	1,858,156	- 4,341,844	-70%	
Agriculture	25,000,000	13,270,968	- 11,729,032	-47%	13,500,000
Trade	7,000,000	1,170,325	- 5,829,675	-83%	555,000
Roads, Public Works	12,000,000		- 12,000,000	-100%	
Liquor license	0	0	0	0	7,500,000
Education, Youth Affairs	1,000,000	108,900	- 891,100	-89%	
Total	**301,474,027**	**143,403,440**	**- 158,070,587**	**-52%**	**230,000,000**

Source: County Treasury

Total expenditure for the period under review amounted to Ksh 4,667,304,759 translating to an absorption rate of 78.1% of the total budget. This consisted of Ksh. 3,077,990,584 (65.9% of total expenditure) and Ksh. 1,589,314,175 (34.1% of total expenditure) recurrent and development expenditures respectively. Recurrent expenditure consisted of Ksh. 1,658,968,338 (53.9% of total recurrent) and Ksh. 1,489,365,905 (46.1% of total recurrent) compensation to employees and operation and maintenance respectively. During the period under review, recurrent expenditure was absorbed at the rate of 94.4% of the approved recurrent budget as shown in table 2

Table 2: County Government Total Expenditure Analysis for FY 2014/15

	Printed Estimates for 2014/15	Actual Expenditure 2014/15	Deviations	% Absorption	Projected 2015/16
Recurrent Expenditure					
Salaries and Wages	1,861,654,504	1,658,968,338	202,686,166	89.11%	2,186,218,019
Operations and maintenance	1,399,761,981	1,419,022,246	-19,260,265	101.38%	1,560,248,004
Total Recurrent	**3,261,416,485**	**3,077,990,584**	183,425,901	94.38%	**3,746,466,023**
Development	**2,713,220,749**	**1,589,314,175**	1,123,906,574	58.58%	**2,511,509,241**
Total Expenditure	**5,974,637,234**	**4,667,304,759**	1,307,332,475	78.12%	**6,257,975,264**

Source: County Treasury

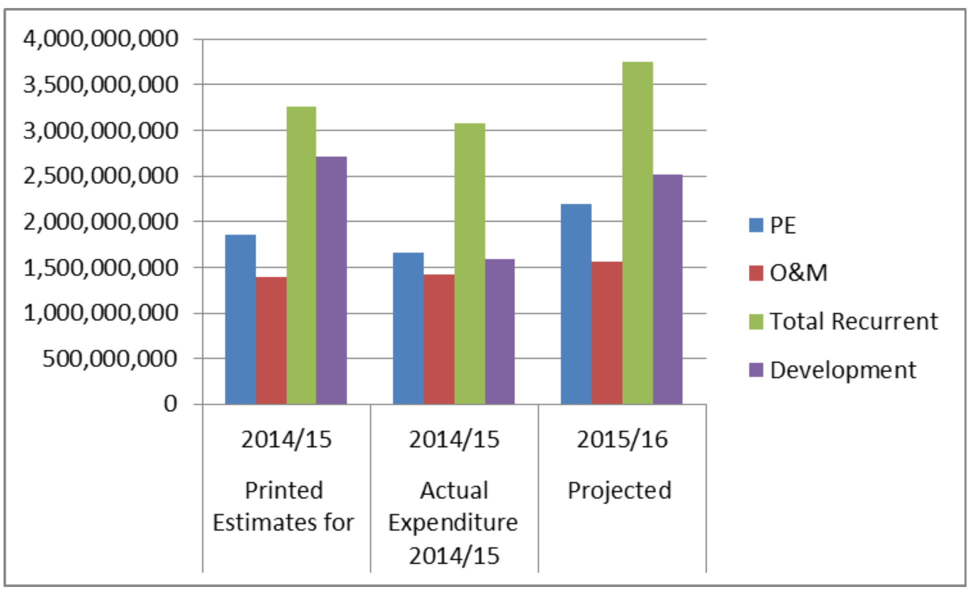

Figure 1: County Government Total Expenditure Analysis for FY 2014/15

Actual development expenditure was Kshs. 1,589,314,175 representing an absorption rate of 58.6% of the total development budget meaning that Kshs. 1,123,906,574 of development funds were not spent as shown in table 3.

Table 3: County Government Development Expenditure Analysis for 2014/15

Vote Title	Printed Estimates	Actual Expenditure	Deviation	% Deviation
County Assembly	94,000,000	86,302,941	7,697,059	8.19%
County Executive	240,718,835	222,952,983	17,765,852	7.38%
Finance And Economic Planning	25,000,000	15,846,101	9,153,899	36.62%
Agriculture	225,938,791	66,634,227	159,304,564	70.51%
Water, Environment And Natural Resources	282,820,540	160,807,381	122,013,159	43.14%
Education, Youth Affairs & Social Development	539,783,740	184,742,843	355,040,897	65.77%
County Health Services	528,819,630	169,774,282	359,045,348	67.90%
Lands, Housing, Physical Planning &	54,968,256	41,218,139	13,750,117	25.01%
Roads, Transport And Works	561,864,766	535,913,242	25,951,524	4.62%
Trade Development & Regulation	139,806,191	84,129,027	55,677,164	39.82%
ICT, Tourism And Wildlife	21,500,000	20,993,009	506,991	2.36%
Grand Total	**2,715,220,749**	**1,589,314,175**	**1,123,906,574**	**41.47%**

Source: County Treasury

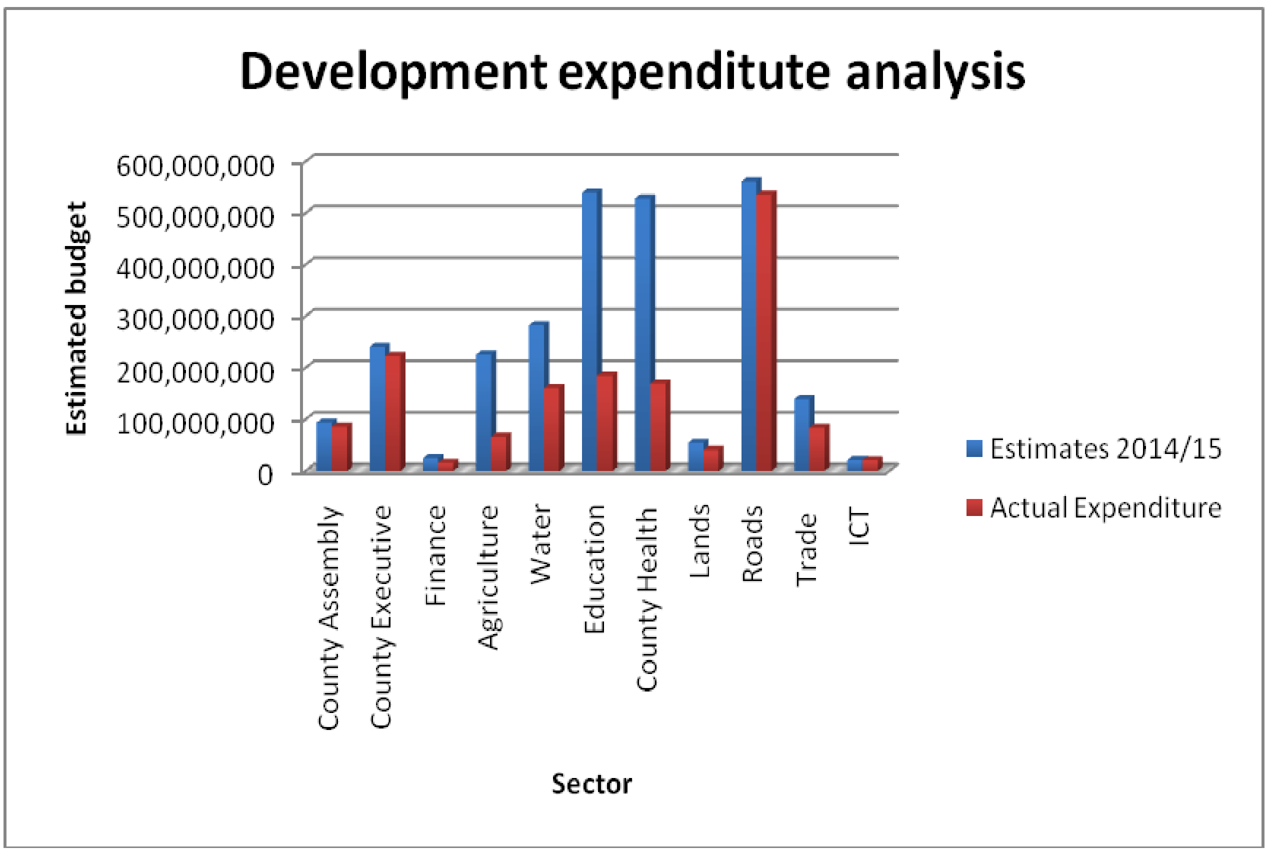

Figure 2: County Government Development Expenditure Analysis for 2014/15

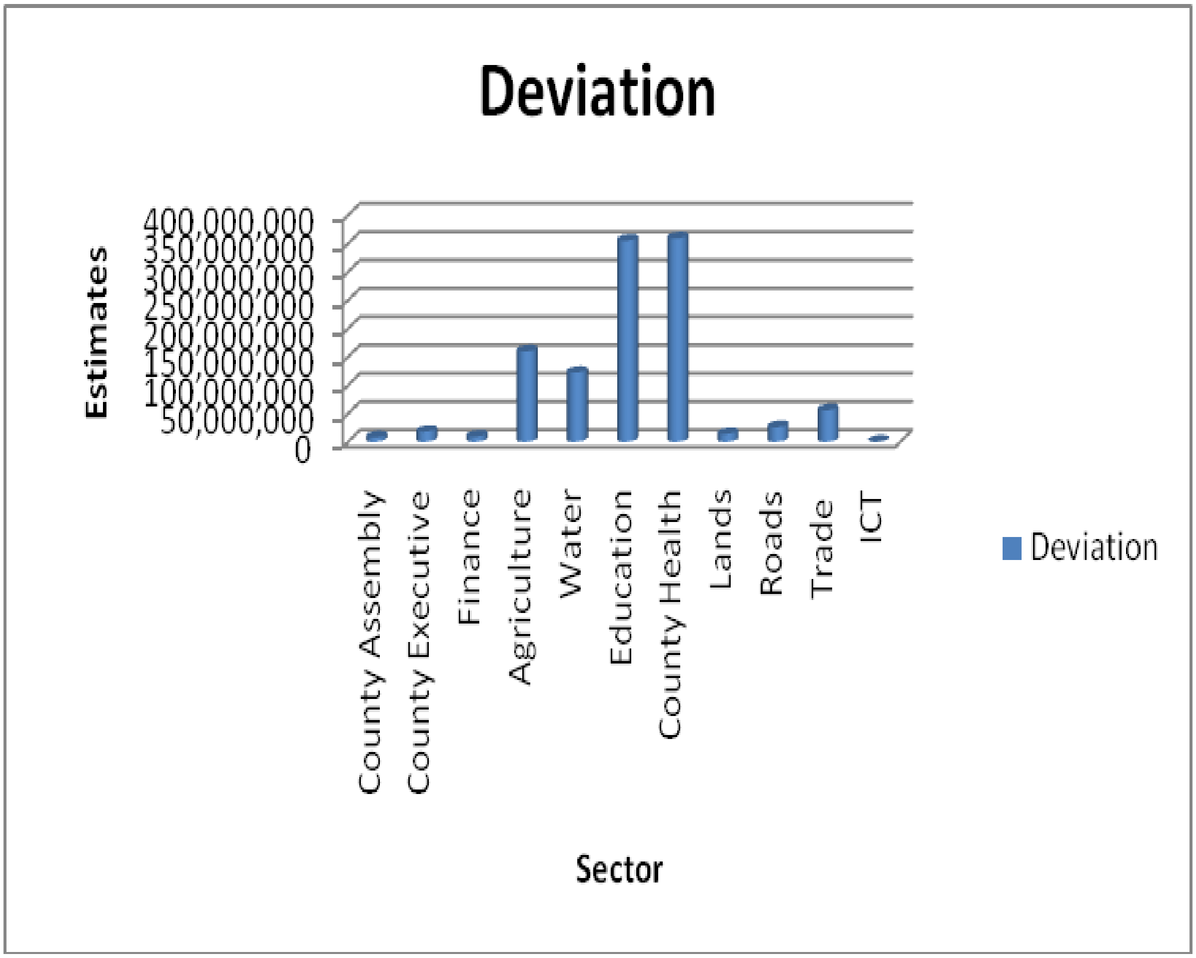

Figure 3: Expenditure Deviations

During the FY 2014/2015, the county made two supplementary budgets in September 2014 and May 2015 as shown in table 4 below.

Table 4: County Government Budget and Supplementary

Vote Title	**June 2014 Estimates**	**September 2014 Supplementary**	**May 2015 Supplementary**
County Assembly	761,745,300	867,845,300	664,720,947
County Executive	698,779,376	530,191,151	531,191,151
Finance, Economic Planning and Vision 2030	186,450,914	609,089,470	646,089,470
Agriculture, Livestock & Fisheries	387,461,677	429,100,468	444,700,468
Water, Environment & Natural Resources	236,386,497	415,468,000	377,407,037
Education, Youth Affairs, Culture, Sports & Social Services	488,526,083	616,109,823	643,309,823
County Health Services	1,412,047,881	1,585,123,511	1,764,391,864
Lands, Housing, Physical Planning & Development	79,088,730	92,456,986	95,456,986
Roads, Transport & Public Works	216,632,500	514,336,303	581,547,266
Trade Development & Regulation	103,452,446	192,058,637	182,908,637
Tourism and ICT	30,913,585	32,913,585	42,913,585
TOTAL	**4,601,484,989**	**5,884,693,234**	**5,974,637,234**

Source: County Treasury

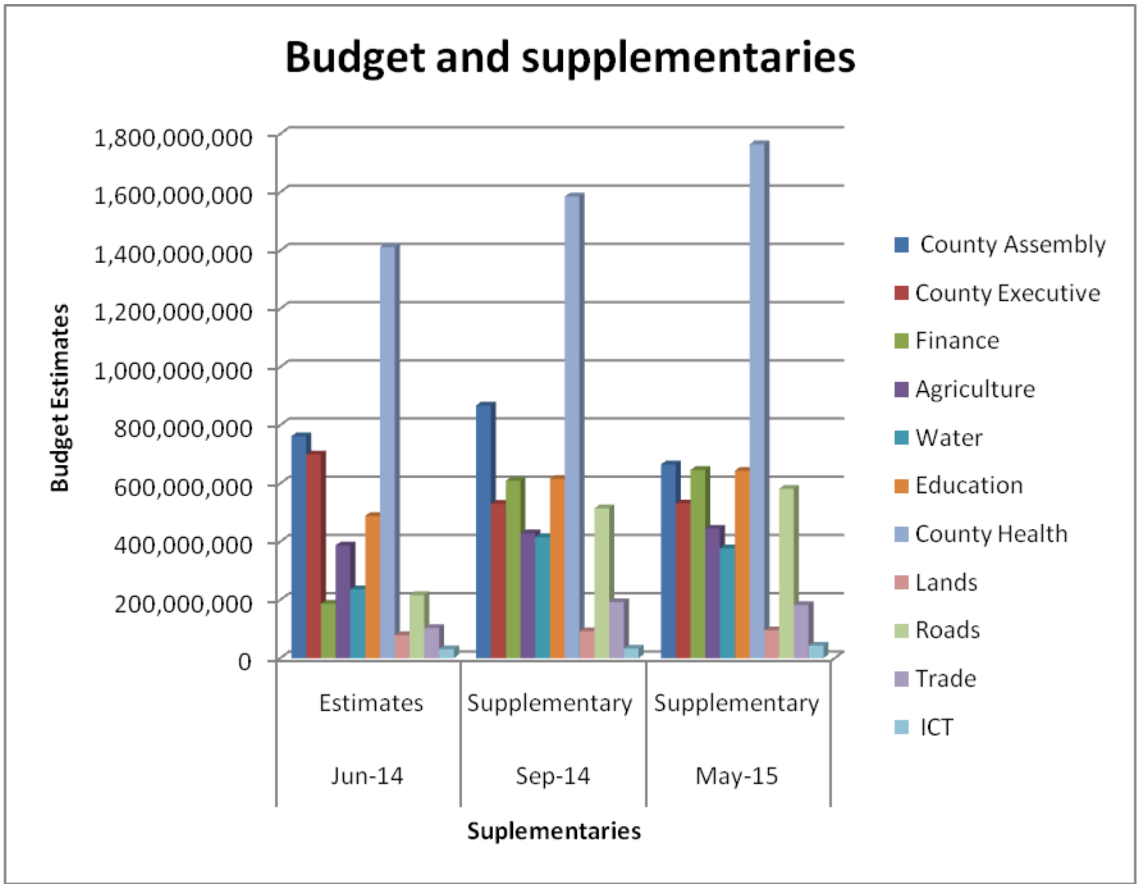

Figure 4: County Government Budget and Supplementary

The first supplementary budget in September 2014 was necessitated by the balances brought forward from FY 2013/2014 of Ksh. 1,200,000,000 and DANIDA Funds for Health Sector Support Programme of Ksh. 25,150,000. This supplementary budget was also used to bring the County Executive's programme budget to comply with the CRA ceiling requirement. The effect of the supplementary was an increase in the County's resource envelope from Ksh. 4,601,484,989 to Ksh. 5,884,693,234 giving a net increase of Ksh. 1,283,208,245. The effect of the first supplementary budget on the Recurrent and development budgets was as shown in the tables 5 and 6 below;

Table 5: Summary of Recurrent Expenditure after September 2014 Supplementary

Vote Title	**Gross Estimates 2014/15**	**Supplementary Budget**	**Decrease/ Increase**
County Assembly	711,745,300	773,845,300	62,100,000
County Executive	570,779,376	290,472,316	-280,307,060
Finance, Economic Planning and Vision 2030	161,450,914	584,089,470	422,638,556

Agriculture, Livestock & Fisheries	218,761,677	218,761,677	0
Water, Environment & Natural Resources	94,586,497	94,586,497	0
Education, Youth Affairs, Culture, Sports & Social Services	119,026,083	103,526,083	-15,500,000
County Health Services	1,217,447,881	1,242,653,881	25,206,000
Lands, Housing, Physical Planning & Development	30,488,730	40,488,730	10,000,000
Roads, Transport & Public Works	19,682,500	19,682,500	0
Trade Development & Regulation	43,102,446	43,102,446	0
Tourism and ICT	21,413,585	21,413,585	0
Total	**3,208,484,989**	**3,432,622,485**	**224,137,496**

Source: County Treasury

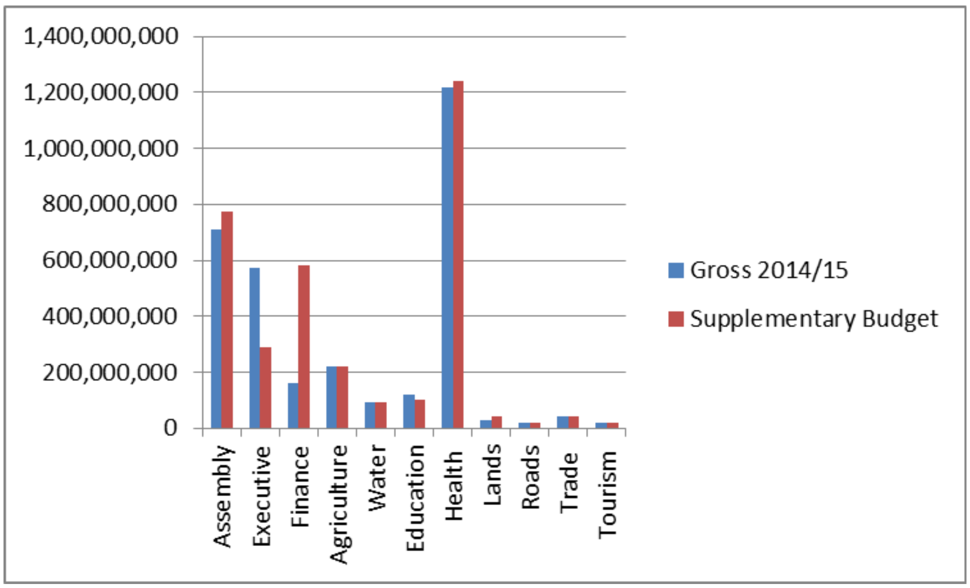

Figure 5: Recurrent Expenditure after September 2014 Supplementary

Table 6: Summary of Development Expenditure after September 2014 Supplementary

Vote Title	**Gross Estimates 2014/15**	**Supplementary budget**	**Increase /decreacse**
County Assembly	50,000,000	94,000,000	44,000,000
County Executive	128,000,000	239,718,835	111,718,835
Finance And Economic Planning	25,000,000	25,000,000	0
Agriculture	168,700,000	210,338,791	41,638,791
Water, Environment And Natural Resources	141,800,000	320,881,503	179,081,503
Education, Youth Affairs & Social Development	369,500,000	512,583,740	143,083,740
County Health Services	194,600,000	342,469,630	147,869,630
Lands, Housing, Physical Planning & Development	48,600,000	51,968,256	3,368,256

Roads, Transport And Works	196,950,000	494,653,803	297,703,803
Trade Development & Regulation	60,350,000	148,956,191	88,606,191
ICT, Tourism And Wildlife	9,500,000	11,500,000	2,000,000
Total	**1,393,000,000**	**2,452,070,749**	**1,059,070,749**

Source: County Treasury

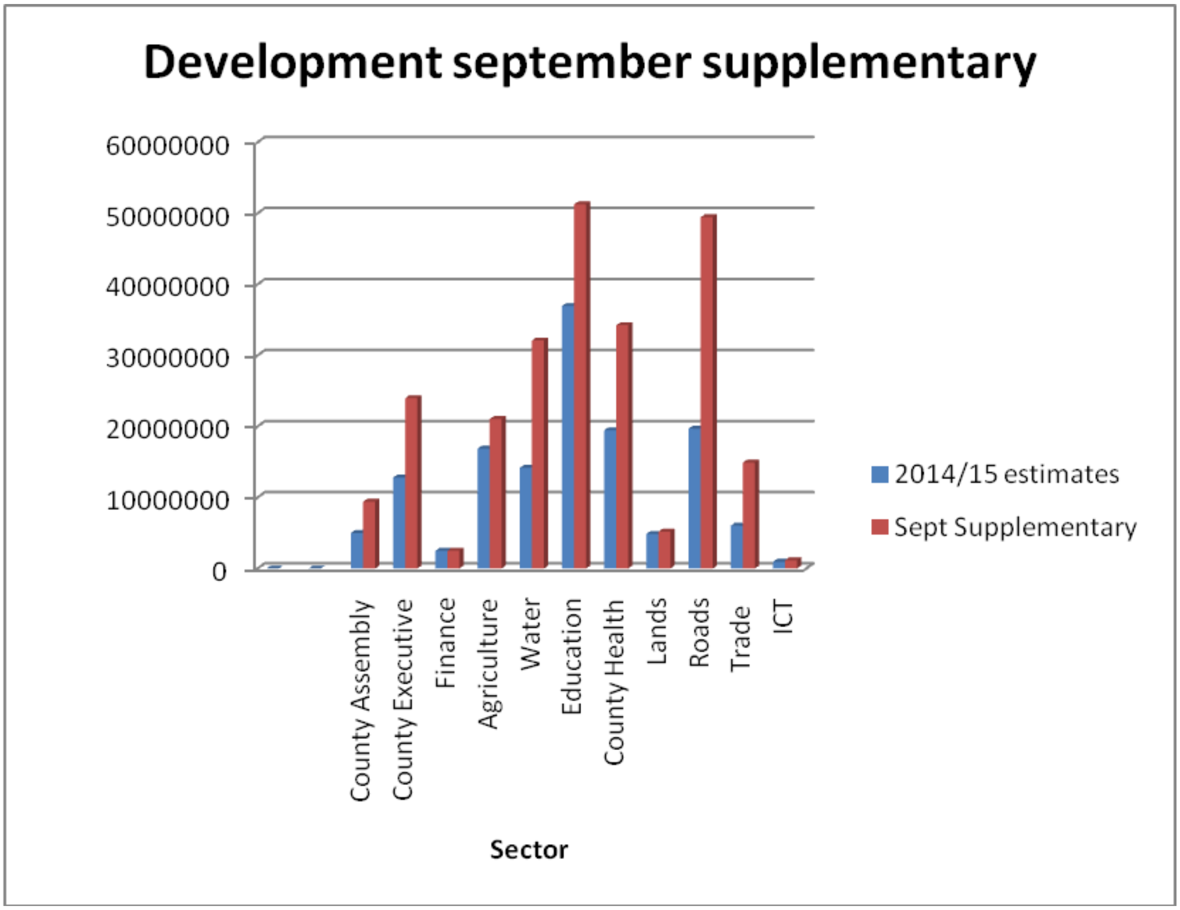

Figure 6: Development Expenditure after September 2014 Supplementary

The second supplementary budget done in May 2015 was necessitated by the reduction of the County Assembly's budget to comply with the CRA ceiling requirements. It was also used to bring on board the Ksh. 90million being the World Bank Health Sector Support Programme funding. The County Assembly's budget was reduced by Ksh. 203,124,353. This was then appropriated to both recurrent and development budgets as shown in tables 7 and 8 below:

Table 7: Summary of Recurrent Expenditure after May 2015 Supplementary

Vote Title	Gross Estimates 2014/15	Supplementary Budget	Increase/Decrease
County Assembly	773,845,300	570,720,947	-203,124,353
County Executive	290,472,316	290,472,316	0
Finance, Economic Planning And Vision 2030	584,089,470	621,089,470	37,000,000
Agriculture, Livestock & Fisheries	218,761,677	218,761,677	0
Water, Environment & Natural Resources	94,586,497	94,586,497	0
Education, Youth Affairs, Culture, Sports & Social Services	103,526,083	103,526,083	0
County Health Services	1,217,447,881	1,237,572,234	20,124,353
Lands, Housing, Physical Planning & Development	40,488,730	40,488,730	0
Roads, Transport & Public Works	19,682,500	19,682,500	0
Trade Development & Regulation	43,102,446	43,102,446	0
Tourism And ICT	21,413,585	21,413,585	0
Total	**3,407,416,485**	**3,261,416,485**	**-146,000,000**

Source: County Treasury

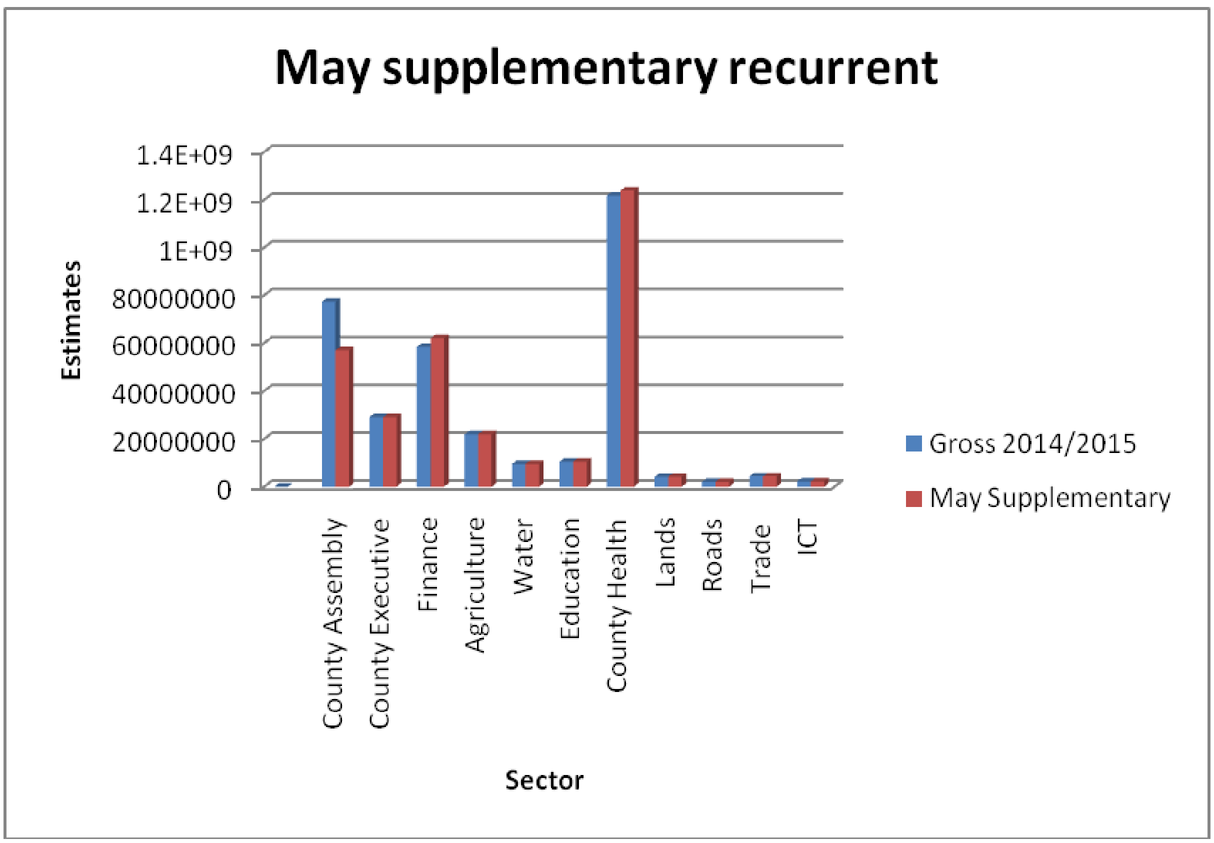

Figure 7: Recurrent Expenditure after May 2015 Supplementary

Table 8: Summary of Development Expenditure after May 2015 Supplementary

Vote Title	**Gross Estimates 2014/15**	**Supplementary Budget**	**Increase Or Decrease**
County Assembly	94,000,000	94,000,000	0
County Executive	239,718,835	240,718,835	1,000,000
Finance And Economic Planning	25,000,000	25,000,000	0
Agriculture	210,338,791	225,938,791	15,600,000
Water, Environment And Natural Resources	320,881,503	282,820,540	-38,060,963
Education, Youth Affairs & Social Development	512,583,740	539,783,740	27,200,000
County Health Services	367,619,630	528,819,630	161,200,000
Lands, Housing, Physical Planning & Development	51,968,256	54,968,256	3,000,000
Roads, Transport And Works	494,653,803	561,864,766	67,210,963
Trade Development & Regulation	148,956,191	139,806,191	-9,150,000
ICT, Tourism And Wildlife	11,500,000	21,500,000	10,000,000
Total	**2,477,220,749**	**2,715,220,749**	**238,000,000**

Source: County Treasury

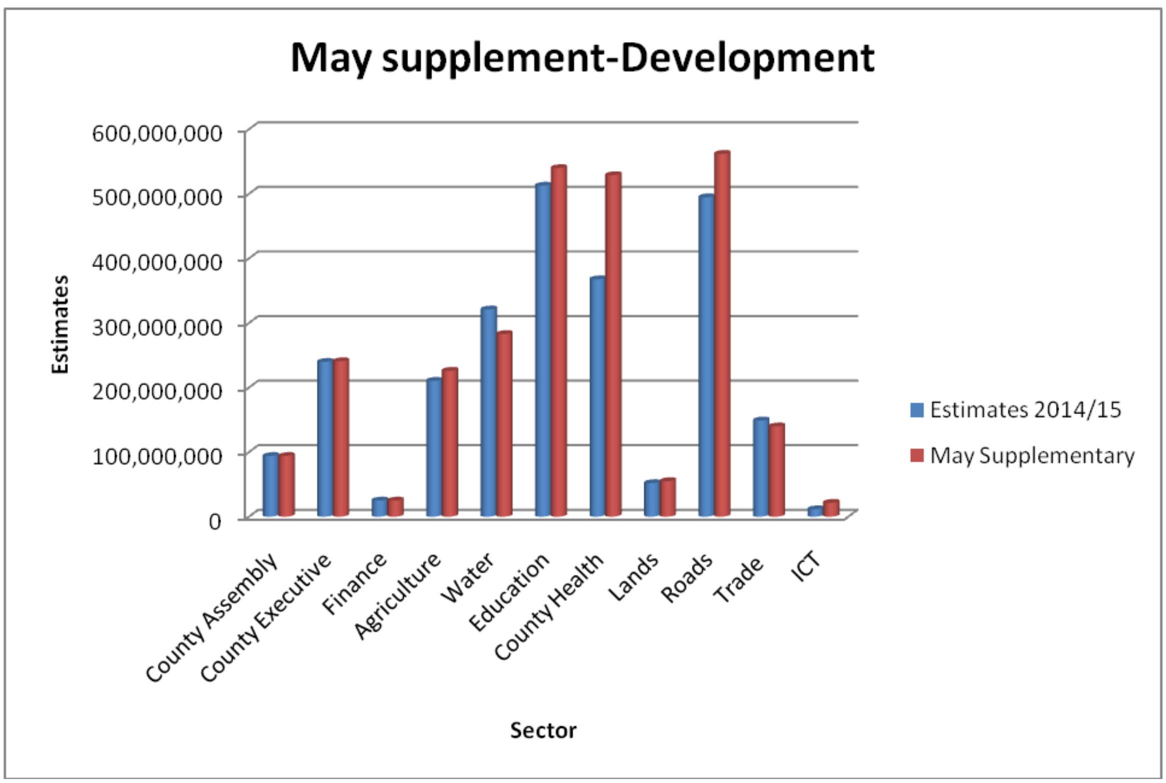

Figure 8: Summary of Development Expenditure after May 2015 Supplementary

Implication of 2014/2015 fiscal performance on compliance with the fiscal responsibility principles and with the financial objectives

The total allocation to development for the period under review was Ksh 2,713,220,749. The county government adhered to the fiscal responsibility principle that requires that a minimum of 30% of the total budget be committed to development. However, actual expenditure incurred amounted to Ksh 1,589,314,175 representing an absorption rate of 58.6%. The low absorption of development funds may affect compliance with the medium term fiscal threshold of 30 per cent on development expenditure.

The total planned expenditure on personnel emoluments was Ksh. 1,841,654,504 representing 30.8% of the total budget. However, Ksh 1,609,946,774 was actually spent. By restricting its expenditure on the wage bill within the level prescribed by the CEC member for finance, planning and vision 2030, the county government adhered to the fiscal responsibility principle that provides guidance on the percentage of the budget to be committed to personnel emoluments.

Actual expenditure on operation and maintenance amounted to Ksh. 1,489,365,905 against a budget of Ksh 1,399,761,981. This represents an over expenditure of Ksh.19,260,265. This expenditure may have eaten into resources meant for development expenditure infringing on the 30% minimum allocation to development expenditure principle.

The low absorption of development budget affected the achievement of the financial objectives in the following ways:

a. The achievement of the objective of investing in physical infrastructure to reduce the cost of doing business was affected by the poor absorption of the development budget in the, water, health, education and the executive as reflected by their respective absorption rates in table 3.

b. However, in the agricultural sector, the County Government exhibited fair progress towards achievement of the objective of opening up of new land under improved agricultural practices in order to expand food supply, reduce food prices so as to bring down the cost of living, and support expansion of agro-processing industries.

Delays in the enactment of the County Finance Bill 2014 and failure to conclude revenue automation process led to uncertainty in the business environment and the non-realization of revenue targets by the county government thereby creating a setback in the achievement of the objective of creating a conducive environment for business.

Certain projects that were under-budgeted but contracted for in the period under review are still under implementation. Contracted amounts in excess of the budget provisions will require allocation of funds in a subsequent budget to cater for the remaining phases.

CHAPTER THREE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The macroeconomic environment has continued to improve, after the wait and see attitude adopted following the outcome of the general election. Going forward, the macroeconomic outlook remains favourable.

Recent Economic Developments

The global economy continues to expand at moderate and uneven pace as prolonged recovery process from global financial crisis experienced in Greece (Greek depreciation in 2009-European debt crisis) and other countries are still saddled with unfinished post-crisis adjustments. The global recovery has also been hampered with some new challenges including a number of unexpected shocks such as the heightened geopolitical conflict (Ukraine) and in other areas of the world. However, in the outlook period premised on a set of assumptions and subject to a number of uncertainties and downside risks, the global economy is expected to strengthen in the following two years with world gross product projected at 3.1percent in 2015 and 3.3percent in 2016 (According to UN/DESA)

Africa's overall growth momentum is set to continue with the Gross Domestic Product (GDP) growth projected to increase from 3.5% in 2014 to 4.6% in 2015 and 4.9% in 2016 despite the poor performances of South African and Nigerian economies. However, if the global economy continues to weaken and the global commodity prices fall further then, the African economy will be affected through lower exports of goods and services including tourism and agriculture, lower inflow of Foreign Direct Investments (FDI) and Official Development Assistance (ODA). Besides, there are likely to be external risks in financial market volatility and exchange rates in some countries.

In Kenya, economic growth remained resilient. Data from the Kenya National Bureau of statistics (KNBS) shows that the economy expanded by 4.9 per cent in the first quarter of 2015, slightly above the 4.7 per cent in a similar quarter of 2014. This expansion was attributed to recorded positive growth rates of varying magnitude in all sectors occasioned by the current macroeconomic stability characterized by low and stable inflation rate and steadily declining rate of interest which Central Bank of Kenya (CBK) has retained at 8.5 per cent. However, accommodation and food services sub-sectors recorded quarterly contractions which may have been prompted by some negative market sentiments[1] in the

[1] The negative market sentiments have been affected by numerous factors including deterioration of the tea crop outlook, the slump in the tourists receipts besides having a detrimental impact on the shilling exchange rate which now stands at Kshs105 against a Dollar

recent months with the domestic stock market slumping, public debt yields increasing, currency succumbing to increased depreciation pressure and the general dark cloud that recent terrorists reports have cast over the country. The National Government Budget Statement for the fiscal year 2015/2016 projects real GDP to grow to 7 per cent in 2015 up from a growth of 5.3% in 2014.

Siaya County's economic prospects are expected to be driven by: Improved productivity and competitiveness; supporting SMEs through financial and skill development; continued investment in key infrastructure projects in the roads and irrigation sub-sectors; boosting food security; sealing revenue leakages in revenue collection system and supporting devolution through capacity building.

Medium Term Fiscal Framework

1. Prudent fiscal policy objective will provide an avenue to support economic activities, while allowing for implementation of the CIDP 2013-2017 within sustainable public finances.

2. With respect to local revenue, the County Government will endeavour to achieve its revenue target over the medium term. Measures to achieve this target include simplification of the taxes, fees and charges with an effort to encourage compliance and enhanced administrative measures through automation of revenue collection points. In addition, the County Government will introduce tax incentives and expand the tax base as envisaged in the County Finance Bill 2015.

3. The county recognizes vast natural resources at her disposal. The County Government is engaging with stakeholders to develop a comprehensive policy legislative framework covering ways of attracting investors, licensing revenue raising measures, taxation and sustainable use of the resources. This will ensure that the county derives maximum benefit from these natural resources.

4. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments. Subsequently it will be rolled over to sub-county level following decentralization. Besides, the county government will continue complying with the PFMA 2012 to accelerate reforms in expenditure management system.

Risks to the outlook

The risk to the outlook for the year 2015 and medium-term may include:

- Further weakening in global economic growth which may affect foreign exchange rate of the local currency.

- Unfavourable weather conditions should there be any drought or floods as a result of predicted El-nino rains by meteorological department especially in the lower parts of the county - lower Usonga in the year and years ahead,

- Resurgence of threats of terrorism since the county has two border towns,

- Emergence of alternative competitive markets in the great lakes i.e. in neighbouring Uganda where the prices of commodities are lower,

- High cost of production.

- Finally, challenges faced by the County Government with regard to transition to a decentralized system of government could weaken investor confidence and slow down growth.

Should these risks materialize; the County government in consultation with the National government will undertake appropriate measures to safeguard macroeconomic stability.

Opportunities

Through the implementation of FY 2014/15 budget, the county created opportunities for the county population including:

- a conducive job environment for youths, women and people with disability through award of contracts under the 30% restricted tender initiative;

- Improved trading environment within the county through investment in market infrastructure and construction of roads facilitate movement within the county including movement of farm produce to markets;

- Appreciated value of parcels of land within the county especially in areas where connectivity and access has been enabled through construction of roads and bridges thus an enticement to more investors.

- Through the tractor hiring initiative of the county, sufficient savings are realized as the rates for tilling parcel of land is subsidized thus releasing more resources to be invested in other development projects.

CHAPTER FOUR:

REVIEW OF FISCAL PERFOMANCE AGAINST FISCAL STRATEGY PAPER 2014

STRATEGIC PILLARS

The 2014-2015 Fiscal Strategy paper was the first to be prepared under the County Government. The paper set out the County's priority programmes to be implemented in the Medium Term Expenditure Framework (MTEF) Budget 2014/2015. It was framed against a backdrop of improving global economic prospects, underpinned by gradual strengthening of the advanced economies and continued robust growth in East Africa. The peaceful 2013 general elections bore well for accelerated economic growth prospects and creation of more jobs in Siaya and by extension, in all its sub counties.

Siaya is considered among Counties with unexplored economic potential with an impressive turnaround in economic performance. The 2014-2015 fiscal strategy paper, highlighted remedies of addressing challenges bedevilling the county and strategies of building on the successes as a basis for transforming the County's economy through agribusiness and infrastructure development.

To unlock the County's potential, the 2014/2015 Fiscal Strategy Paper covered four broad pillars, namely:

Pillar I: Investing in agricultural transformation and food security, including opening up of new land under improved agricultural practices in order to expand food supply, reduce food prices so as to bring down the cost of living, and support expansion of agro-processing industries.

Review:

To address this pillar, the department of agriculture was allocated 218.7 million and kshs.168.7 million for recurrent and capital expenditure respectively in the 2014/2015 budget. This was an increase from kshs.59.8 million and Kshs. 96.95 million for recurrent and capital expenditure respectively in the 2013/2014 budget. This pillar was prioritized highly following the impressive performance of the agriculture sector in the 2013/2014 financial year. In the year preceding the fiscal year under scrutiny, the department managed to put over 50,000 Ha of land under crop production, supplied subsidized farm inputs, categorized slaughter houses, increased number of grade animals, improved sanitation facilities at over 20 fish landing sites and put over 40ha of land under fish farming.

Pillar II: Creating conducive business environment by adopting favourable taxation policies through a business friendly County Finance Bill, quality service delivery to reduce the cost of doing business and improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;

Review:

The trade department was allocated Kshs. 43,102,446 and kshs.160, 456,191 for recurrent and capital expenditure respectively. The department was to contribute to the realization of this pillar by undertaking the following programmes: trade development and investment, promotion of fair trade practices and cooperatives extension services.

Pillar III: Investment in physical infrastructure to reduce cost of doing business and improving competitiveness in the county and nationally.

Review:

To address this pillar, key investments were undertaken in roads sector, trade sector and tourism sector. The roads department was allocated Kshs. 19,682,500 and Kshs. 494,653,803 for recurrent and capital expenditure respectively (September supplementary budget 2014/2015). Under this pillar, the department's focus in the 2014/2015 budget was mainly on completion of stalled projects, construction of county headquarters, improvement of urban infrastructure, opening up of new roads, maintenance of existing roads and street lighting.

The tourism sector focused on information and communication services programme and promotion of tourism. To undertake the programmes, the sector as allocated Kshs. 21,413,585 and Kshs. 11,500,000 for recurrent and capital expenditure respectively.

Pillar IV: Investing in the provision of quality and accessible healthcare and other social services.

Review:

To address this pillar, significant investment was captured under the sectors of water, education and health. Under water sector, key programmes included water and sanitation infrastructure development and forest management services. The sector was allocated in the September supplementary budget 2014/2015 kshs.94, 522,569 and kshs.320, 881,503 for recurrent and capital expenditure respectively.

Under the education sector, key programmes included ECD programme, youth polytechnics-youth training, children services, sports and culture. The sector was allocated in the September supplementary budget 2014/2015 kshs.103, 526,083 and kshs.512, 583, 740 for recurrent and capital expenditure respectively.

Under the health sector, key programmes included curative healthcare services; preventive, promotive and rehabilitative services; waste refuse and waste dumps. The sector was allocated kshs.1, 242,653,881 and kshs.342, 469,630 for recurrent and capital expenditure respectively.

FISCAL RESPONSIBILITY PRINCIPLES

Pursuant to the provisions of the constitution and the Public Finance Management Act (PFM) Act of 2012 the ratio of development expenditure to recurrent expenditure is 30:70.

Borrowing shall not be undertaken in the financial year 2014/15, but in the Medium Term if it is done it shall be used only for financing the development expenditure.

The County Government is in the process of verifying debts inherited from the defunct local authorities and devolved functions. Once this exercise is done we will ensure that our debts are maintained at a sustainable level.

The fiscal strategy paper committed to the following financial principles as contemplated in section 107 of the PFMA 2012:

i. The county government's recurrent expenditure shall not exceed the county government's total revenue;
ii. Over the medium term a minimum of thirty per cent of the county government's budget shall be allocated to the development expenditure;
iii. 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;
iv. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
v. The county debt shall be maintained at a sustainable level as approved by county assembly;
vi. The fiscal risks shall be managed prudently; and
vii. Reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained,

PERFORMANCE

i. The county government's recurrent expenditure in the last budget execution was Kshs. 3,432,622,485 against the county government's total revenue of kshs.5, 884,693,234, giving a percentage of 58.33.
ii. Over the last medium term budget implementation, 41.67% of the total county government's budget was allocated for development expenditure.
iii. The county government's expenditure on wages and benefits for its public officers stood at 32.77% against a personnel emolument ceiling of 40% of the total budget.

iv. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure; there was no borrowing on the part of the county government in the fiscal year under scrutiny.
v. The fiscal risks were managed prudently by the county treasury; and
vi. Reasonable degree of predictability with respect to the level of tax rates and tax bases was maintained,

FISCAL FRAMEWORK

Fiscal Policy

The second budget emphasised on narrowing the gap between revenue and expenditure; fast track implementation of devolved structures and investment in infrastructure over the medium term.

Focus was set on improving fiscal discipline through enhancing transparency and accountability; strengthening IFMIS, G-pay and the IPPD systems; providing enabling environment for private sector growth; and establishing new and refining the existing structural and institutional infrastructure amongst others.

Fiscal risks

1. Public expenditure pressure especially on recurrent expenditure, posed a fiscal risk as pressure on wage bill limited funding for development expenditure.
2. The absorption was hindered by bureaucratic procurement processes and procedures.
3. Costs of climate change: Siaya County is among the counties most at risk from an increased frequency and intensity of drought and flood conditions. Addressing the potential deleterious effects on agricultural productivity will require a combination of intensified investment in water-control systems that promote enhanced efficiency in the use of water resources; a further shift in the role of non-agricultural outputs (and thus a capacity to become competitive in earning the foreign exchange required for a higher level of food imports); and new R&D efforts at promoting agricultural techniques robust to drought and uncertain precipitation conditions.
4. The pressures for job creation arose as a result of population growth: during the MTEF period, Siaya County's education system will produce a significantly large number of new school leavers seeking jobs. The County government expenditure policies in the fiscal year under review were sensitive to the job creation possibilities associated with the realization of the government's expenditure program.
5. The budgetary risks associated with recognized contingent liabilities: the most

obvious include those liabilities inherited from the defunct local authorities and devolved departments.

To mitigate the risks above as contemplated in the fiscal strategy paper, the following remedies were provided for in the FY 2014/2015 budget.

1. To address the Public expenditure pressures, the county treasury introduced ceilings for all county departments
2. The county government adopted e-procurement so as to address the low budget absorption capacity and the bureaucratic procurement culture
3. Siaya County invested heavily on early disaster warning systems, desiltation of water dams, drought resistant seeds, and construction of water pans. New research and development efforts were put in place to promote agricultural techniques robust to drought and uncertain precipitation conditions.
4. The county government introduced restricted tendering by factoring a minimum 30% of all the county tenders offered to the youth, women and people living with disability. The move is expected to address the pressures for job creation arising from the ever rising county population. The trade department invested heavily in constructing and opening up new market centres thereby creating a conducive environment for business. The county invested in decentralization of its functions to the sub county and ward levels, thereby creating employment opportunities to ward administrators, sub county administrators and other subordinate staff.
5. The county treasury is in the process of verifying the authenticity of the liabilities inherited from the defunct local authorities and devolved departments. Once verified, the contingent liabilities will be addressed in the subsequent budgets.

The fiscal strategy paper proposed ways of Revenue Enhancement including:

1. Digitization of revenue collection to minimize pilferages; funds for this activity were allocated in the 2015/2016 budget and its implementation is on-going.
2. The county treasury enacted taxation laws through the finance bill aimed at widening the County's revenue base by targeting potential areas previously unexplored.
3. The county treasury issued circulars and regulations intended to strengthen the internal financial control systems
4. Facilitating and motivating the revenue officers: this initiative has been captured in the Finance Bill and will be addressed once the bill is enacted.

CHAPTER 5
RESOURCE ALLOCATION FRAMEWORK

Adjustment to 2015/16 Budget

Adjustments in the 2015/16 budget have taken into account actual performance of expenditure in FY 2014/15. Specifically, the expenditures for 2014/2015 FY was Ksh. 4,688,626,854 against a budget of Ksh. 5,954,637,234 giving rise to an under-spending of Ksh. 1,266,010,380. Adjustments in the 2015/2016 budget have brought forward the development projects which were not completed in FY 2014/2015. This also takes Cognizance of the fact that, during the same year, the county government collected a total of Ksh. 143,403,440 against a target of Ksh. 301,474,027.

Since resources are scarce, the County Government will focus more on priority sectors of governance and administration, social services, agriculture and infrastructure as given in the current fiscal strategy paper and cut down on expenditures for non-priority areas. These may include slowing down or reprioritizing development in order for the government to live within its means.

Any review of salaries and benefits for the County government employees will be based on the recommendations by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution while, Utilization of contingencies/emergency funds will be based on the criteria specified in the PFMA 2012.

Medium-Term Expenditure Framework

Going forward, in view of the recent macroeconomic circumstances and limited resources, MTEF budgeting will involve making adjustments on non-priority expenditures to provide resources for the priority sectors. The County Integrated Development Plan (CIDP) 2013-2017, Annual Development Plans and Sector Strategic Plans will provide guidance to the resource allocation process in the medium term.

Social transformation, through investment in healthcare services, education, youth, culture and social services will continue to receive adequate attention and resources in the medium term. Both sectors (education and health) are already receiving 43% of the total resource envelop. This is a significant share of resources in the budget as compared to other sectors.

The economic sectors of agriculture, livestock and fisheries development will continue to receive adequate resources to boost agricultural transformation for improved food security through investment in irrigation; mechanization and agro-inputs. This will boost productivity in the sector and enhance household incomes in the county. In the 2015/16 financial estimates, the sector's share of expenditure is 7% of the total budget.

The amount of resources allocated to priority physical infrastructure sector, such as roads, energy, water and ICT will constantly increase over the medium term. This follows the County Government's commitment to improve infrastructure countywide. The sector accounts for 20% of the budget.

Investing in governance and administration by establishing and strengthening devolution structures for effective service delivery, will also get a lot of focus in the medium term. This will ensure effective and accountable leadership that promotes governance and empowers the citizenry to participate in the achievement of the socio-economic and political development of the county. The table and graph below provides tentative projected baseline ceilings for the 2016-18 MTEF periods, classified by sector.

Table 9: Baseline Ceilings for the MTEF Period

Sector	**Approved estimates 2015/16**	**Projected Ceiling**	
		2016/2017	**2017/2018**
County Assembly	649,087,351	713,996,086	785,395,695
County Executive	469,258,008	516,183,809	567,802,190
Finance, Economic Planning and Vision 2030	469,945,974	501,940,571	567,134,628
Agriculture, Livestock & Fisheries	392,675,837	416,943,421	473,637,763
Water, Environment & Natural Resources	249,218,672	264,140,539	300,554,593
Education, Youth Affairs, Sports, Culture & Social Services	667,346,720	693,343,929	762,678,322
County Health Services	1,727,161,155	1,854,563,081	2,040,019,389
Lands, Housing, Physical Planning & Development	110,693,603	181,762,963	139,939,259
Roads, Transport & Public Works	565,793,778	602,373,156	682,610,472
Trade Development & Regulation	74,068,114	122,212,388	134,433,627
Tourism and ICT	82,389,436	135,942,570	149,536,827
Total	**5,457,638,648**	**6,003,402,513**	**6,603,742,764**

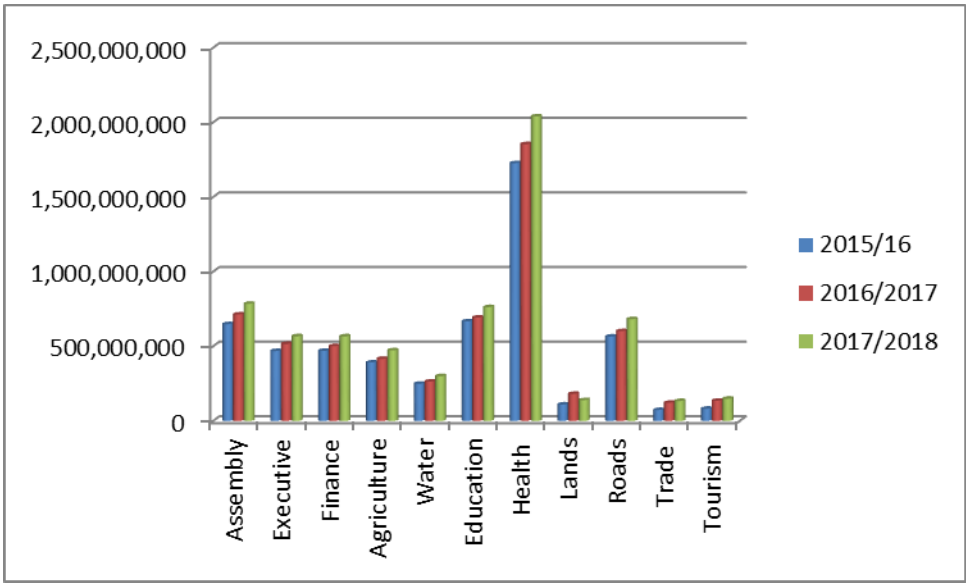

Figure 9: baseline ceilings for MTEF period

Expenditure Reforms

During the MTEF period the following expenditure reforms will be undertaken to ensure compliance and expand the revenue base for the county;

a) Enhancing resource mobilization, including broadening revenue base; revenue collection efforts will be enhanced to ensure all potential tax, fee and rate payers make their contribution towards the county’s development agenda. Revenue administration capacity will be enhanced through organization and modernization reforms including digitization program for revenue collection.

b) Expenditure rationalization will continue being a priority, with focus on reallocation of resources from non-productive to productive areas. Expenditure focus will be on those sectors whose goods and services are geared towards improving the social and economic condition of the residents of the county.

c) Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all consumables. Expenditure tracking and value for money audits will be done to ensure efficiency and effectiveness in the use of resources. Project planning and management as well as engagement with development partners will also be strengthened.

d) In the Roads and Health sectors more resources will be set aside to operationalize and maintain the already developed infrastructure as opposed to opening or constructing new ones.

e) Continue implementing targeted infrastructure development programs that are focused in attracting investments and job creation in the medium term