

Foreward

The Finance Public Financial Management Law enacted in 2012 ushered in a paradigm shift in budget making. Apart from introducing Reforms in our Public Finance & Management System, the law has introduced the production of reports on a regular basis.

The County Budget Review and Outlook Paper (CBROP) present the fiscal outcome for 2013/2014 and how this affects the financial objectives set out in the 2014 Budget Policy Statement (BPS). The updated macroeconomic outlook therein also provides us with a basis to revise the 2014/2015 Budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next Budget.

Very briefly, we went through the challenges of last Financial Year and closed the year satisfactorily despite the revenue shortfall and significant expenditure reprioritization. The outcome has had implications on the base in which the fiscal projections for the current Financial Year were based on. While the macroeconomic environment has stabilized significantly, the fiscal outcome for 2013/2014 and uncertainty in economic terms call for caution in fiscal projections. Under these circumstances, we remain steadfast in maintaining macroeconomic stability, even in the face of expenditure pressures associated with implementation of the Constitution under the guidelines laid down in the PFM Act 2012.

As the Financial year lapsed, the County Government expedited a smooth financial system while maintaining fiscal discipline amid challenges that were not foreseen. More important greater transparency and high quality management of Public Finances at the County Government were necessary to achieve the aspirations of the people of Trans Nzoia County.

The fiscal framework presented in this 2014 CBROP provides a strong basis for building our common future under the new constitution dispensation. More details will be provided in the next Budget Policy Statement expected shortly.

**HON. KENNEDY SIMIYU,
COUNTY EXECUTIVE MEMBER FOR FINANCE**

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Legal Basis for the Publication of the Budget Review and Outlook Paper

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

(1) A County Treasury shall:-

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

(2) In preparing its CBROP, the County Treasury shall specify:-

- (a) details of the actual fiscal performance in the previous year compared to the Budget appropriation for that year.
- (b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Fiscal Strategy Plan.
- (c) Information on :-
 - (i) any changes in the forecasts compared with CFSP or
 - (ii) how actual financial performance for the previous fiscal year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP financial year and

(d) reasons for any deviations from the financial objectives in the CFSP

together with proposals to address the deviation and the time estimated for doing

so.

(3) Not later than Seven days (7) after the CBROP is submitted to the County Executive

Committee(CEC), the County Treasury shall:-

(a) arrange for the Paper to be laid before the County Assembly, and

(b) as soon as practicable after having done so publish and publicize the Paper.

(4) The County Executive Committee shall consider the CBROP with a view to approving it

with or without amendments, within fourteen days (14) after its submission.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the Management of Public resources. The PFM Law (Section 107) states that:-

County Treasury to enforce fiscal responsibility Principles

(Sec. 107:)

- (1) A 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 enforce 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 a minimum of thirty per cent of the County government's budget shall be allocated to the development expenditure.
 - (c) The county government's recurrent expenditure shall not exceed a percentage of the county government's total revenue as prescribed by the County Committee Executive Member for Finance in regulations 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 recurrent expenditure.
 - (e) The county debt shall be maintained at a sustainable level.
 - (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 purpose 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)

1. INTRODUCTION

Background

1. This County Budget Review and Outlook Paper (CBROP) is the second to be prepared for the County Government of Trans-Nzoia under the Public Financial Management Act, 2012. In line with the law, the CBROP contains a review of the fiscal performance of the financial year 2013/2014, updated macroeconomic forecast, and deviations from the Budget Policy Statement which was submitted to County Assembly in April 2014 after getting approval from the County Executive Committee.

2. 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 set out in the previous Budget Policy Statement (BPS) 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 the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the next BPS.

3. Like previous Actual Performance reports, the CBROP will be a key document in linking Policy, planning and budgeting. The County Government embarked on reviewing and updating the County Integrated Development Plan (CIDP) and preparing the County Strategic Plan and Sector Plans ADPs that will guide budgetary preparation and programming from 2015 onwards. In the interim, this year's CBROP is embedded on the first CIDP priorities, in addition to taking into account emerging challenges and their possible solutions . Following the CIDP review in 2014, groups have begun reviewing programmes for the 1st Expenditure Framework focusing on updating and developing new programmes for next budget cycle.
4. The new PFM law enacted in 2012 has set high standards for compliance with budgeting process. Therefore, it is expected that the sector ceilings for the third Year of the County Operations provided in the BPS will form the indicative baseline sector ceilings for the next budget of 2015/2016. However, following the fiscal outcome of 2013/2014 and the updated macroeconomic framework, these sector ceilings have been modified as indicated.
5. As usual, the updated macroeconomic outlook will be firmed up in the next BPS to reflect any changes in economic and financial conditions. The next CBPS will be submitted to the Assembly by January/February 2015 ahead of the deadline of February under the PFM law.

6. The rest of the paper is organized as follows. The next section provides a review of the fiscal performance in FY 2013/2014 and its implications on the financial objectives set out in the last BPS. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook Resources allocation framework is also provided before the conclusion.

11. REVIEW OF FISCAL PERFORMANCE IN 2013/2014

A. Overview

7. The fiscal performance 2013/2014 was generally satisfactory, despite the lower revenue collection and cuts in expenditure. This was caused by the implementation of a Supplementary budget which had not been approved by the County Assembly. The County Assembly approved the Supplementary budget Estimates in June 2014 when the actual expenditure had already been done. Shifting of these votes from Recurrent to Development therefore became a challenge.
8. Due to economic challenges experienced in the course of the financial year coupled with lack Substantive Collectors of revenue, Local revenue collection fell short of target by Ksh.216,185,936.00. Most of our Rate Payers were not willing to pay their dues under the County Government due to attitude. It took some time to do some capacity building for the attitude change.

9. On the expenditure side, the County Government incurred higher expenditure on travelling and subsistence due to coordination issues in the transition to devolved government period, payment of creditors and other unforeseen expenses. In order to finance these additional Expenditure pressures in the face of financing constraints, the County Government instituted Measures, taking into account availability of funds. Adjustments to the original budget were approved by the County Assembly in the context of the Supplementary Estimates.

B. 2013/2014 Fiscal Performance

10. Table 1 below presents the fiscal performance for the FY 2013/2014 and the deviations from the Original and revised budget estimates.

TRANS-NZOIA COUNTY
REVENUE REPORT FOR FY 2013/2014

LOCAL SOURCES	BUDGETED	ACTUAL	VARIANCE
Plans Approval	1,428,943.00	283,050.00	(1,145,893.00)
Transfer of Plots	5,468,550.00	504,730.00	(4,963,820.00)
Land Clearance	2,788,394.00	224,000.00	(2,564,394.00)

Sand, Gravel & Ballast	180,000.00	13,300.00	(166,700.00)
Sign Boards	2,422,898.00	12,000.00	(2,410,898.00)
Conservancy	1,259,585.00	568,239.00	(691,346.00)
Sale of Building Plans	4,067,993.00	2,261,028.00	(1,806,965.00)
Trade Name	794,561.00	10,852.00	(783,709.00)
Canopy fee	562,320.00	406,000.00	(156,320.00)
interest on investments	-	-	-
Certificate of Search	1,704.00	-	(1,704.00)
Miscellaneous income	4,507,270.00	1,771,699.00	(2,735,571.00)
Land Rates	56,480,520.00	32,718,237.00	(23,762,283.00)
Land Rates Penalties	1,500,000.00	8,250,184.00	6,750,184.00
Ground Rent	545,280.00	1,150,422.00	605,142.00
Other Property	21,182,870.00	1,578,543.00	(19,604,327.00)
Single Business Permits	54,917,672.00	54,092,873.00	(824,799.00)
Single Business Permit Penalties	300,000.00	3,883,070.00	3,583,070.00
Vehicle Park fees	14,424,477.00	7,955,328	(6,469,149.00)
Clamping fee	403,390.00	91,750.00	(311,640.00)
Open Air Market	18,654,541.00	24480,656.00	5,826,115.00
Temporary Occupation License (T.O.L)	129,220.00	662,000.00	532,780.00
Advertisement	152,508.00	6,194,073.00	6,041,565.00
Shops & Banda's Rent	5,112.00	649,230.00	644,118.00
Cattle Auction Sales	800,000.00	582,600.00	(217,400.00)
Permit Application Fees	4,361,721.00	2,416,700.00	(1,945,021.00)

Barter market fees	18,850,250.00	403,350.00	(18,446,900.00)
Bus Park Fees	37,500,750.00	17,665,908.00	(19,834,842.00)
Slaughter fees	1,161,501.00	632,253.00	(529,248.00)
Others: Maize cess 20%	32,000,000	19,835,534.00	(12,164,466.00)
Coffee/Tea cess/others	350,000.00	21,280.00	(328,720.00)
Maize cess 50%	60,281.00	3,000.00	(57,281.00)
Inspection fee	4,941,765.00	2,670,415.00	(2,271,350.00)
Building Completion Certificate	2,264,332.00	267,600.00	(1,996,732.00)
Hoarding fee	167,560.00	309,800.00	142,240.00
Erection of Bill Boards	1,175,760.00	570,000.00	(605,760.00)
Hire of Grader/Exhauster	5,064,404.00	-	(5,064,404.00)
Road Breaking Charges	998,260.00	14,975.00	(983,285.00)
Change of User	720,124.00	60,500.00	(659,624.00)
Plot Sub-division fee	146,828.00	140,100.00	(6,728.00)
Fire-Fighting Services	2,858,140.00	1,411,895.00	(1,446,245.00)
Public Burials	160,346.00	64,900.00	(95,446.00)
Nursery Schools fees	20,000.00	26,300.00	6,300.00
Sale of Seedlings	1,136.00	10,300.00	9,164.00
Impounding charges	1,007,064.00	389,690.00	(617,374.00)
Refuse Collection	909,387.00	3,283,517.00	2,374,130.00
Social Hall hire	214,988.00	47,500.00	(167,488.00)
Stadium hire	207,320.00	44,290.00	(163,030.00)
Group registration	2,556.00	-	(2,556.00)

Food and Drugs Licenses	971,691.00	347,104.00	(624,587.00)
Clinic fees	281,571.00	190,850.00	(90,721.00)
Food preparation hygiene	832,794.00	1,120,940.00	288,146.00
Market stalls	1,044,000.00	546,500.00	(497,500.00)
Debt Recovery	190,209,308.00	84,436,644.00	(105,772,664.00)
Sub-total	501,461,645.00	285,275,709.00	(216,185,936.00)
CRA allocation	3,923,051,138.00	3,356,022,973.00	(567,028,165.00)
Sub Total	3,923,051,138	3,356,022,973.00	(567,028,165.00)
TOTAL REVENUE	4,424,512,783	3,641,298,682.00	(783,214,101.00)

NOTE:

Deficit of Ksh. 216,185,936/- arose due to the following challenges:-

1. Non-payment of rates namely Kenya Railways, A.D.C., CILLOR, K.I.E. etc.
2. Valuation Roll only covered the CBD and not the extended areas. Now it will cover the entire County after conclusion of preparation of valuation roll.
3. Late enactment of the County Finance Act 2013.
4. Lack of substantive revenue officer in charge of revenue
5. Poor enforcement
6. Manual revenue collection system
7. Corruption
8. Recovery of revenues for devolved units salaries at source Ksh. 103,666,146.00

9. The National Government did not remit the funds budgeted under the CRA Allocation on time i.e.

(a) Last disbursement	-	Ksh. 335,688,716.00
(b) Salary recoveries	-	" 108,666,145.00
(c) Conditional grant	-	" <u>127,673,303.00</u>
	-	" <u>567,028,164.00</u>

EXPENDITURE:-

(a) Basic Salaries of Permanent Employees	-	Ksh. 233,950,783.90
(b) Basic Wages of temporary employees	-	" 20,640,521.15
(c) Personal allowances paid as part of salary	-	" 233,289,138.00
(d) Pension and other social security contributions	-	" 705,647,498.00
(e) Compulsory national health insurance schemes	-	" 3,675,320.00
(f) Utilities supplies and services	-	" 21,242,324.00
(g) Communication, supplies and services	-	" 32,392,726.00

11. Revenue

Total cumulative revenue collection was Ksh. 3,641,298,682.00 compared to the targeted in the budget of Ksh. 4,424,512,783.00. This represents a revenue shortfall of ksh.783, 214, 101.00

ordinary local revenues amounted to ksh.285, 275,709.00 against the target of Ksh.

501,461,645.00 reflecting an under collection of Ksh 216,185,936.00, while transfers from the National Treasury underperformed by Ksh. 567,028,165.00.

The underperformance in revenue collection was largely on account of challenges as listed below:-

Copy of the challenges on pages 2 of Revenue Report:-

C. Implication of 2013/2014 Fiscal Performance on Financial Objectives.

12. The performance in the FY 2013/2014 has affected the financial objectives set out in the BPS and the Budget for FY 2014/2015 in the following ways:-

- (i) The macroeconomic assumptions underpinning the 2014/2015 budget and medium term will need to be modified in light of the slower-than-envisaged real growth and the significant shifts caused by the larger macroeconomic changes.
- (ii) The base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term, and
- (iii) Arising from (i) and (ii), as well as taking into account the slower pace of execution

of the budget by the County Government , the baseline ceilings for spending agencies will be adjusted and then firmed up in the next Budget Policy Statement in January/February 2015.

13. While our economic growth is still resilient, the outcome of the first quarter of 2014/2015 and weakening County growth calls for caution in the growth forecast.

According to latest quarterly report (1st quarter FY 2014/2015) Table 2, the

Performance of the County Government compared to the budget for the whole FY is as per table below indicating a Less optimistic outlook;

Table 2:- 1st quarter 2014/2015

REVENUE

NO.	DEPARTMENT	BUDGET	ACTUALS	10% COLLECTION
1.	Agriculture,Livestock,Fisheries & Co-operative Development	5,000,000.00	662,615.00	13%
2.	Economic Planning, Commerce & Industry	70 ,000,000.00	5,156,870.00	7%
3.	Environment, Water and Natural Resources	4,000,000.00	174,685.00	4%
4.	Works, Transport and Infrastructure	10,000,000.00	3,663,092.00	37%
5.	Health	72,000,000.00	18,300,090.00	25%
6.	Lands, Housing & Physical Planning	4,000,000.00	191,900.00	5%
7.	Gender,Youth,Sports,Culture & Tourism	2,000,000.00	8,000.00	0.4.%
8.	Governance and Public Service Management	250,000,000.00		0%
9.	Finance	253,000,000.00	24,575,342.00	10%

Our projections remain cautious since the trend analysis that can be done using the previous Performance indicate that there will be changes in some votes which may call for reallocation in line with Section 115 of the PFM Act 2012.

14. The implication of the changes in both revenue and expenditure is expected to erode the base upon which the Income and Expenditure Projections for 2015/2016 and the medium term is based. This means that revenue projection needs to be cautious and in line with the revised Macroeconomic assumptions. Consequently, the MTEF Ceilings will need to change reflecting the updated macroeconomic forecast. Therefore the ceilings in the next BPs have to be modified to reflect new developments in the Resource Envelope.

15. Underperformance in some revenue sources in 2013/2014 has implications in the base used to project the revenue for these items in the FY 2015/2016 and the medium term. Therefore, in updating the fiscal outlook the new base has been taken into account. In addition, the approved Finance law is expected to address the challenges relating to all revenue sources and make the law more efficient and easy to comply with by tax payers. This is expected to enhance revenue yield from these sources.

16. The under-spending in both recurrent and development budget for the FY 2013/2014 has implication on the base used to project expenditures in the FY 2013/2014 and the medium term. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the Outturn in expenditures in FY 2013/2014. The slow release of Exchequer resources remains a challenge.

The County Treasury will work closely with the implementing agencies to fast track absorption and also with the National Treasury to fast track the release of Exchequer funds.

17. Given the above deviations, the revision in revenues and expenditures will be based on the revised macroeconomic assumptions contained in the CBROP and which will be firmed up in the context of the next BPS. The County Government will not deviate from the fiscal responsibility principles, but will

make appropriate modification to the financial objectives contained in the coming BPS to reflect the changed circumstances.

18. Measures to revamp Agriculture, Livestock development, fisheries, trade, transport, health sectors are expected to support favorable growth prospects. In addition we also expect our County not only to be the granary of Kenya in terms of maize production but also production of other commodities including cash crops like coffee. This will enable our residents not just to be maize producers but also have access to other products that will increase money circulation within the County.

111. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

19. The macroeconomic environment has continued to improve, although gradually.

Going forward, the macroeconomic outlook remains favorable although risks remain.

A. Recent Economic Developments

20. Growth remained resilient, although at a lower than expected rate.

Despite that, investor confidence has been portrayed, Structures are also in place specifically in the devolved system of governance and this will enhance economic stability in the County as a whole.

Growth remains resilient though downside risks remain.

21. Real growth has not been felt on the ground mainly because of the startup problems. But it is anticipated that growth will be seen and felt in all sectors of the County Government once the structures for each sector are in place and fully implemented. Capacity building is ongoing in order to achieve this much desired goal.

22. Data for the first quarter is expected to be released by the end of October, 2014 but economic indicators points to improved growth, although it remains slower than anticipated. Leading indicators for all Sectors will be availed in the quarterly financial performance reports.

Implementation of 2014/2015 Budget is progressing well after a slow start

23. The first quarter began at a slow pace because of structural problems and lack of funds. The requisitioning of funds from the exchequer was a challenge due to the approval procedures involved. More so there was the initial budgeting problem since the County Budget was prepared on a Programme base and without guidelines. The guidelines came in later causing delays in the approval processes required.

The new financial system (IFMIS) introduced was a challenge too. It required training and most of the time was used for capacity building in this system. However we are happy to report that the system is currently working well and hence will enhance financial management

B. Macroeconomic Outlook and Policies

24. The updated macroeconomic framework is cautious given the weaker-than-expected performance in the 1st 2 Months of 2014/2015 FY

Growth prospects

25. The general Revenue Collection has been low due to the low season especially in Local Revenues.

26. Against this backdrop and given the weaker-than-anticipated performance, our updated macroeconomic framework is cautious. Nonetheless, with the anticipated improved conditions, and stability in the economy generally the current growth projections remain within reach although downside risks remain.

27. Improvement in the investment climate, coupled with further structural and legal reforms as we Implement of the new Constitution are expected to improve competitiveness of the private sector And promote overall productivity in the economy. Implementation of the devolved system of governance in line with the Law will also boost investor confidence and increase private investment

28. Whereas the revised projected growth is still below the target envisioned in the CIDP and hence Vision 2030 there is need to increase labour absorption while the County Government recognizes that Further scaling up would require mobilization of larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structure. The next Medium Term Plan will articulate key priority measures to accelerate growth, taking into account limited public resources.

Inflation outlook

29. The overall inflation rate for the County is expected to be maintained at the same level as National Government rate. This will enable ample supply of food with normal weather conditions combined with stable energy which will support the low inflation forecast target in the year ahead and Medium term. This in turn will help in economic stability in the County Government that will stimulate growth in the Medium term.

30. The County Government is committed to implementing the Constitution and specifically the PFM Act when it comes to borrowing. Any borrowing done will be used specifically to finance development expenditure as required by law.

County Accounts

31. Stability and improvement in investor confidence should enable the financial statements to be in surplus as compared to the balanced budget, that is currently being implemented.

B. Medium Term Fiscal Framework

32. We will continue to pursue prudent fiscal policy to ensure macroeconomic stability. In addition, our fiscal policy objective will provide an avenue to support economic activity while allowing for implementation of new Constitution within sustainable fiscal means . As such, the County Government is committed to a gradual reduction in the overall actual fiscal deficit in the medium term. This will help to bring down any debts and contribute to reducing pressure in the budget, in addition to providing adequate room for future countercyclical fiscal policy in the event of a financial shock.

33. With respect to revenue, the County Government will maintain a strong revenue effort over the Medium term. Measures to achieve this effort include simplification of Collection process in line with national best practices and improved compliance with enhanced administrative measures. In addition, the County Government will rationalize existing tax incentives, expand tax base and remove tax exemptions as envisaged in the Constitution. In addition to the proposed Finance Law that has been approved by the County Assembly, the County Government is reviewing all other legislations in order to simplify and modernize them as will be indicated in the FY 2015/2016 Budget Statement.

34. The County Government is in the process of doing a baseline survey to find out if it has any natural resources that can be used to increase revenue so as to benefit maximally from such natural resources. This and other untapped sources of revenue will be seen in the Revenue Enhancement Plan (REP) which will be reviewed soon.

35. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management is strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments and subsequently at the Sub-County level following decentralization. Above all, the new PFM Act, 2012 is expected to accelerate reforms in expenditure management system.

36. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and stated in the Medium-Term Debt Strategy Paper. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector to allow the expected increase in private investment to pick up.

C. Risks to the outlook

37. The risk to the outlook for 2015 and medium term include further weakening the Country's economic growth and unfavorable weather conditions in 2015 and the years ahead. Also the uncertainties in the political arena coupled with the low rate or slow pace of capacity building could weaken investor confidence and slow down growth. Should these risks materialize the County Government will undertake appropriate measures to safeguard macroeconomic stability. Another risk to the fiscal stability is the proposed Referendum and this will directly impact on Local Revenues and the general expenditure.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/2015 Budget

38. Given the performance in 2013/2014 and the updated macroeconomic outlook, the risks to the FY 2014/2015 budget includes weaker revenue performance in 2014/2015 and the medium term. Expenditure pressures with respect to sector/departmental recurrent budgets continue to persist and so are demands for employment of extra personnel due to gaps in each Sector. In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures and uptake of exchequer funds. These risks will be monitored closely and the County Government would take appropriate measures in the context of the next Supplementary Budget.

39. Adjustments to the 2014/2015 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Because of the resource constraints, the County Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or re-prioritizing some expenditures in order for the County Government to live within its means. Utilization of emergency funds in case it is created will be within the criteria specified in the new PFM law.

40. Any review of salaries and benefits for the public sector workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination, published in the Gazette Notice by the SRC.

41. Comprehensive restructuring in accordance with the Constitution is ongoing and such additional expenditures would also be taken into consideration in the next Supplementary budget.

42. On the Revenue side, the County Government is expected to shorten the time taken and processes required by the tax payers in order to make it a one stop shop. We are also in the process of sensitizing our customers so that they become compliant in payment of any rates due to the County Government. Sealing of loopholes is ongoing and will enhance revenue collection effectively including making sure all the funds are deposited directly to the Revenue Collection Account for the County Government.

43. Strict measures will also be taken against those who do not comply so as to raise revenue above the targeted figure.

B. Medium-Term Expenditure Framework

44. Going forward, and in view of the recent macroeconomic circumstance and limited resources. MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The Strategic Plan (2013-2018) was finalized and will guide resource allocation, going forward. In the Meantime, the resource allocation will be based on the updated MTEF being developed in future.

- The priority social sectors, transport, Agriculture and Health, will continue to receive adequate Resources. All sectors are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

- The economic sectors including agriculture and livestock will receive increasing share of resources to boost agricultural productivity with a view to deal with threats in food security in County and the whole Country.
- With the Government’s commitment in improving infrastructure countrywide, the share of resources going to priority physical infrastructure sector, such as roads, water and irrigation, will continue to rise over the Medium-term. The County’s concern is with the other roads have not been classified either under KURA or KERRA. The works on such roads have been done though not as effectively as expected.
- Implementation of the Constitution and Devolution will receive greater attention in terms of resources and capacity support to members of the County Government. As such Civic Education will continue throughout the County.
- Other priority sectors including Planning , Trade, Tourism, Gender ,Youth and Women development will continue to receive adequate resources.

45. Reflecting the above medium –term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2014 MTEF, classified by sector. The sector ceilings include capacity building funds.

Table 3 – proposed development ceilings for 2015/2016 fy per sector

NO.	SECTORS	AMOUNT
1.	Agriculture, Livestock, Fisheries and Cooperative Development	266,895,325.00
2.	Economic Planning Commerce & Industry	251,896,877.00
3.	Water Environment and Natural Resources	248,160,604.00

4.	Works, Transport & Infrastructure	314,780,833.00
5.	Education ,ICT and Vocational Training	217,233,952.00
6.	Health Services	252,801,066.00
7.	Lands, Housing and Urban Development	246,876,207.00
8.	Gender, Youth, Culture, Sports, Women & Tourism	238,442,687.00
9.	Governance & Public Service Management	348,163,454.00
10.	Finance	114,748,995.00
	TOTAL	2,500,000,000.00

C. County Budget and the Transfer of Functions

46. A key challenge in developing the 2014/2015 MTEF budget was the allocation of funds for Devolved functions. Functions were devolved without being costed contrary to the Constitution requirement that funds follow functions. Because of this, costing of such functions and allocating resources in the current budget became a hard task considering that the budget was to be presented in a programme-based format.

47. As such, it was critical to have the County Government capacity strengthened in order to enable her perform her assigned functions effectively and efficiently. The National Government through the National Treasury ensured Capacity Building was done through not fully in order not to disrupt Service Delivery . The process is still ongoing.

48. Although asymmetric transfer of functions is provided for in the Constitution, the National Government was to rapidly build up capacity at the County level, especially for Public Financial Management, so that the County is empowered to take over the assigned functions as soon as possible. This was to avoid a situation whereby some counties have more functions transferred to them because

of their stronger capacities while this one has less functions transferred owing to lack of capacity. However all the devolved functions were released without the proper capacities and this has brought about the current challenges.

49. Extensive work has gone into costing the devolved functions for purpose of determining expenditure patterns in the County Government based on the assigned functions. It was therefore anticipated that the Transition Authority will build on these efforts to facilitate phased transfer of the functions, after the CRA proposed a formula for sharing of revenue. However this was not done and has resulted in major gaps that need to be addressed nationally.

50. The coming Budget Policy Statement will elaborate on the framework to ensure a smooth Operation of these functions that were devolved.

D. 2015/2016 Budget Framework

51. The 2015/2016 budget framework is set against the background of the updated medium-term macro-fiscal framework set out above. Real growth is expected to increase in FY 2015/2016 underpinned by continued good performance across all sectors of the County. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as the shilling exchange rate.

Revenue Projections

52. The 2015/2016 budget will target revenue collection of about Ksh. 1 billion from Local Sources. As noted above, this performance will be underpinned by on-going reforms in Revenue policy and

administration. As such, total revenues including Exchequer disbursements are expected to be approximately Ksh. 6 billion.

Expenditure Forecasts

53. In 2015/2016 the general Sector expenditure will go towards the following:-

- Training and Capacity Building & motivation
- Citizen participation
- Creating enabling environment for creation of goods and services
- What is contained in Sector work plans that have been developed from the CIDP
- Creating an enabling environment for business partners and other investors
- Looking for new ways of doing business in order to attain the Vision of the County

The summary of the expenditure forecast for 2015/2016 FY is as below:-

Personnel	-	2 Billion
Operations & Maintenance	-	1.5. Billion
Development	-	2.5 Billion

The determining factor will be the CRA share of allocation that the National Assembly will approve in the County Allocation of Revenue Bill (CARB) in 2015/2016 and the actual share of the revenue that will be passed by the Senate through the Division of Revenue Bill (DORB) 2015/2016.

CONCLUSION AND NEXT STEPS

The actual financial objectives will be elaborated in the next BPs to be submitted to the County Assembly by February 2015. The set of policies outlined in the CBROP reflect the changed circumstances

and are broadly in line with the fiscal responsibility principles outlined in the PFM Act 2012. They are also consistent with the County Strategic objectives pursued as a basis of allocation of Public resources.

Details of the Strategic objectives will be provided in the Strategic Plan.

- The policies & Sector focus will be guided by the following for each Sector:-

Finance

- Adoption of government procedures in dealing with Public finance as outlined in the PFM Act 2012.

PSM - (Public Service Management)

- Improvement of staff skills, motivation, developing & instilling institutional culture, creating teamwork, harmonization, and service charter.

Planning

- Developing research policies, monitoring and evaluation of women,
-

Youth, Gender,

Sports, Tourism, Profile for the County, holding ground for orphans & Street children.

Water, Environment & Natural Resources

- Water – More connections, Boreholes, springs solid management
- Forestry is crucial

Agriculture, Livestock, Fisheries, Co-op Development:

- Food security, social economic development of farmers, value chain studies, dairy farming diversification, value addition

Education ICT

- Teachers, learning materials and facilities, polytechnics, Bursary fund, information management.

Transport Works & Infrastructure

- Roads (non classified) airstrip, railway, uplifting, Biogas & green energy development, disaster management.

Land and Housing

- Planning, relocation and creation of space for parking, open air market and extension of planned town to cover 69km squared from the current 18km squared, partnering with Nation Housing Corporation (NHC) to build staff houses under TPHS.

Health

- Upgrading of Kitale District Hospital to a Referral hospital, partnering with KEMSA in supply of drugs.

CPSB

- Autonomous and deals with entry, stay and exit of officers.

54. The overall sector ceiling that will be in the MTEF and sector plans will guide in the preparation of the 2015/2016 budget.