COUNTY GOVERNMENT OF MOMBASA

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2014

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Foreword

The new Public Financial Management Law enacted in 2012 has ushered in a paradigm shift in budget making. Apart from introducing reforms in our public financial management system, the new law entrenched the Medium Term Expenditure (MTEF) Framework budgeting.

The County Budget Review and Outlook Paper (CBROP) present the fiscal outcome for 2013/14 and how this affects the financial objectives set out in the 2014/15 Fiscal Strategy Paper. The updated macroeconomic outlook therein also provides us with a basis to revise the 2014/15 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next budget and medium term.

Very briefly, we went through the challenges of last financial year and closed the year satisfactory 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 improved significantly since late 2013, the fiscal outcome for 2013/14 and the weakening global economic environment as well as uncertainty in world commodity prices called 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 and salary demands. More important, greater transparency and high quality management of public finances will be necessary to achieve the aspirations of the Mombasa residents.

The fiscal framework presented in this 2014 CBROP provides a strong basis for building our common future under the new constitutional dispensation. More details will be provided in the next Fiscal Strategy paper expected shortly.

Hon. Hazel J. Koitaba.
EXECUTIVE MEMBER FOR FINANCE

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Abbreviations and Acronyms

ADP	Annual Development Plan
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Budget Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
PFM	Public Financial Management

Legal Background

The County Budget Review and Outlook Paper (CBROP) was prepared by the County Treasury in accordance with Section 118 of the Public Finance Management (PFM) Act. The Act states that a 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 the 30th September of that year.

The main objectives of a CBROP are to specify;

- The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- The updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper(CFSP);
- Any changes in the forecasts compared with the CFSP;
- 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
- Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

In summary, this CBROP is expected to present a review of the fiscal performance for the previous year, 2013/14 financial year.

The CBROP is expected to provide a summary of the national macroeconomic outlook and how this will affect the County's economic performance.

The above statistics would partly provide the basis for the revision of the Financial Year 2014/15 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 fiscal framework presented in this document provides a strong basis for building our common future under the current constitutional dispensation. The paper also presents an overview of budget financing sources that includes revenue and grants. In the last section, the paper offers some conclusions and the way forward.

I. Introduction

1. The law requires CBROP to present the fiscal outcome for the previous financial year and to state how this outcome affects the financial objectives contained in that year's CFSP. In line with the law, the CBROP contains a review of the fiscal performance of the financial year 2013/14, updated macroeconomic forecast, and deviations from the Fiscal Strategy Paper February 2014.

2. 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 Fiscal Strategy Paper (CFSP). 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. The CBROP will be a key document in linking policy, planning and budgeting. The County Government has prepared Annual development plans (ADP), County Intergraded Development Plans (CIDP), CFSP, which will aid budgetary preparation and programming from 2015 onwards.

4. The new PFM law enacted in 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the Second Year of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2014/15. However, following the fiscal outcome of 2013/14 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this CBROP.

5. As usual, the updated macroeconomic outlook will be firmed up in the next CFSP to reflect any changes in economic and financial conditions. We are committed to maintain the trend of economic growth and development in line with the expectations and commitments we have made to the people of Mombasa County. Towards this end, we shall ensure there is transparency and accountability by relaying our performance indicators to the public as well as publicizing other publications as required by the Constitution and the Public Finance Management Act.

II. REVIEW OF FISCAL PERFORMANCE IN 2013/14

6. This section is meant to review how the actual financial performance for the 2013/14 financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year.

7. In line with the Constitution, the new Public Financial 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 15) states that:

a) Over the medium term, a minimum of 30% of the budget shall be allocated to development expenditure

b) The Government's expenditure on wages and benefits for public officers shall not exceed a percentage of the Government revenue as prescribed by the regulations.

c) Over the medium term, the Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure

d) Public debt and obligations shall be maintained at a sustainable level as approved by County Assembly .

e) Fiscal risks shall be managed prudently

f) 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

A. Overview

8. The fiscal performance in 2013/14 was generally satisfactory, despite the Revenue Collection and cuts in expenditure. The fiscal deficit on commitment basis (including grants) was 8.7 percent of actual Annual revenue Collection compared with 3.7 percent of Annual revenue Collection in the revised budget estimates for FY2013/14.

B. 2013/14 Fiscal Performance

9. Table below presents the fiscal performance for the FY 2013/14 and the deviations from the Original and Revised budget estimates.

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c
RECEIPTS	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**%age**
Land rates and related Receipts	2,000,000,000	(1,280,000,000)	720,000,000	478,485,685	241,514,315	66
Business permit Receipts	900,000,000	(120,000,000)	780,000,000	452,171,123	327,828,877	58
Sand, Gravel, and Ballast Extraction Receipts	1,200,000,000	(823,308,108)	376,691,892	224,556,835	152,135,057	60
Exchequer releases	4,347,617,805	0	4,347,617,805	3,229,934,144	1,117,683,661	74
Reimbursements and Refunds	0	6,000,000	6,000,000	4,702,353	1,297,647	78
Other Receipts	13,339,501,281	(7,883,796,082)	5,455,705,199	555,952,834	4,899,752,365	10
			0			
PAYMENTS						
Compensation of Employees	(3,916,894,975)	136,435,728	(3,780,459,247)	(3,341,295,730)	(439,163,517)	88.38
Use of goods and services	(3,716,683,156)	1,562,965,525	(2,153,717,631)	(1,091,854,127)	(1,061,863,504)	50.70
Interest payments and other creditors	(750,000,000)	640,000,000	(110,000,000)	(222,704,655)	112,704,655	202.46
Other grants and transfers	(300,000,000)	108,485,600	(191,514,400)	(3,979,890)	(187,534,510)	2.08
Social Security Benefits	0	(225,000,000)	(225,000,000)	0	(225,000,000)	0.00
Acquisition of Assets	(13,103,540,955)	8,078,217,337	(5,025,323,618)	(182,620,608)	(4,842,703,010)	3.63
Other Payments	0	(200,000,000)	(200,000,000)	(146,933,194)	(53,066,806)	73.47
Deficit	**0**	**0**	**0**	**-43,585,230**		

Table 1: To show budget implementation

REVENUE

10. Total cumulative revenue collection including AiA was Kshs 4.9 billion compared to the target in the revised budget of Kshs 11.7 billion and in the Original budget of Kshs 21.8 billion. This represents a revenue shortfall of Kshs 6.8 billion (or 58 % deviation from the revised target). Local/Own revenue Sources amounted to Kshs 1.7 billion against the target of Kshs 7.4 billion, reflecting an under collection of Kshs 5.7 billion. Equitable National share amounted to Kshs 3.2 billion against a target of Kshs 4.3 billion; more than Kshs.700 million was withheld by the National Treasury to cater for Salaries debt it had paid for devolved staff and about Kshs.300 Million had not been transferred to the County at the end of FY 2013/2014.

11. The underperformance in revenue collection was largely due to lateness in drafting the Finance Bill and an overly ambitious budget. Revenue expected from Agriculture, fisheries, livestock, Mombasa Water Company and local tourism could not be collected. Since the County of Mombasa boundaries happened to be the same boundaries of the defunct Municipal Council of Mombasa, increasing charges from Kshs 1.5 billion collected by the Municipal to Kshs 7.4 Billion would have been burdensome and a disincentive to businessmen.

12. The County received no grant from donors and well wishers.

13. The wave of insecurity that affected Mombasa County and its environs was a hindrance that affected collection of hotel levy and local tourism charges.

Expenditure

14. Total expenditure amounted to Kshs 5.0 billion against a target of Kshs 11.7 billion, representing an under spending of Kshs 6.7 billion (or 57.2 percent deviation from the revised budget). The shortfall was attributed to lower absorption in both recurrent and development expenditures departments, ambitious budget and stringent procurement procedures.

16. Recurrent expenditure amounted to Kshs 4.9 billion against a target of Kshs 7.6 billion, representing an under-spending of Kshs 2.7 billion (or 36 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Kshs 1.4 billion), wages and salaries (Kshs 439 million).

17. Development expenditure was Kshs 108 Million compared to a target of Kshs 4.1 billion. This represented an under-spending of Kshs 4.0 billion (or 97 percent deviation from the approved development expenditure). Appropriation-in-aid accounted for the most of the under-spending in the development votes (by Kshs 4.0 billion). The underperformance in development expenditure reflects low absorption by Departments; delay in procurement, under reporting of externally funded donor projects and reliance on local revenue to fund Projects.

18. In arriving at the revenues and expenditures above, the cash basis was used and therefore uncollected revenues and pending bills were excluded

Overall balance and financing

19. Reflecting the above performance in revenue and expenditure, overall fiscal balance was 91 million representing 1.8% percent of the total revenue. This is the Cashbook balance and may differ from the bank balance due to reconciliation items that is, un-credited receipts and un-cleared real time gross settlements (RTGS) and cheques.

20. The County had no deficit to finance.

C. Implication of 2013/14 fiscal performance on financial objectives contained In the 2014 CFSP

21. The performance in the FY 2013/14 has affected the financial objectives set out in the latest CFSP and the Budget for FY 2014/15 in the following ways:

(i) The macroeconomic assumptions underpinning the 2014/15 budget and medium term will need to be modified in light of almost no growth in the revenue sources and the significant increase in inflation;
(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 departments, the baseline ceilings for spending departments will be adjusted and then firmed up in the next CFSP February 2015.

22. While we expect the economy to remain resilient, our projections remain cautious. We expect Revenue growth to be 12 percent in 2014/15, representing a slight revision upwards from the 10 percent projected in the CFSP 2014.This is expected to remain constant for the next two years as we expect security to improve and absence of election hysteria.

23. The implication of a lower expansion in total revenue is due to the need to promote an enabling business environment and balance between rises in cost of living as well as provide efficient service to residents of Mombasa.

24. The under-spending in both recurrent and development budget for the FY 2013/14 has implication on the base used to project expenditures in the FY 2014/15 and the medium term. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the outturn in expenditures in 2013/14.The slow uptake of external resources remains a challenge. The County Treasury will work closely with the implementing Departments to fast track absorption.

25. Table 2 provides comparison between the updated Projections in the CBROP 2014 and the CFSP 2014 for the FY 2014/15 and in the medium term.

REVENUE ITEM	ACTUALS FY 2013/2014 Kshs	PROPOSED FY 2014/2015 Kshs	PROPOSED FY 2015/2016 Kshs	PROPOSED FY 2016/2017 Kshs
Transfers from National Treasury	3,229,934,144	4,500,000,000	4,560,000,000	4,600,000,000
Land rates and related Receipts	478,485,685	535,903,967	643,084,761	720,254,932
Business permit Receipts	452,171,123	506,431,658	607,717,989	680,644,148
Sand, Gravel, and Ballast Extraction Receipts	224,556,835	251,503,655	301,804,387	338,020,913
County Plants & Equipment Hire	69,800	78,176	93,811	105,069
Fire brigade & ambulance fees	44,299,700	49,615,664	59,538,797	66,683,452
Road maintenance fees	211,798,924	237,214,795	284,657,754	318,816,684
Legal department fees	25,368,392	28,412,599	34,095,119	38,186,533
Plot rent & related charges	13,320,600	14,919,072	17,902,886	20,051,233
Housing Estates Monthly Rent	34,984,199	39,182,303	47,018,763	52,661,015
Advertisement Receipts	72,261,602	80,932,995	97,119,593	108,773,945
Architectural Unit	210,315	235,553	282,663	316,583
Market collection	62,947,299	70,500,975	84,601,170	94,753,310
Clinic cost sharing charges & Other services.	26,233,374	29,381,379	35,257,654	39,488,573
Environment management & related Receipts	5,715,700	6,401,584	7,681,901	8,603,729
General enforcement charges	1,093,200	1,224,384	1,469,261	1,645,572
Valuation & Survey Fees	5,490,035	6,148,839	7,378,607	8,264,040
Development control income	30,673,121	34,353,896	41,224,675	46,171,636
Financial related income	14,918,331	16,708,531	20,050,237	22,456,265
Tender Documents Sale	796,000	891,520	1,069,824	1,198,203
Hotel Levy	7,638,263	8,554,855	10,265,825	11,497,725
Social halls Fields and Stadium hire	1,883,743	2,109,792	2,531,751	2,835,561
Education administration	952,589	1,066,900	1,280,280	1,433,913
	4,945,802,974	**6,421,773,090**	**6,866,127,708**	**7,182,863,033**

Table 2: Updated Revenue Projections against CFSP'14 Projections, 2013/14-2015/16

DEPARTMENT/MINISTRY	ACTUALS FY 2013/2014	PROPOSED FY 2014/2015	PROPOSED FY 2015/2016	PROPOSED FY 2016/2017
	Kshs	Kshs	Kshs	Kshs
COUNTY ASSEMBLY	327,917,321	640,935,230	685,284,746	716,897,017
EXECUTIVE	268,484,440	904,114,377	966,674,575	1,011,267,393
CITY OF MOMBSA	3,761,463,912		0	0
COUNTY PUBLIC SERVICE	14,898,466	77,915,690	83,307,066	87,150,031
FINANCE AND ECONOMIC PLANNING	87,894,593	459,669,326	491,476,147	514,148,003
AGRICULTURE	124,188,090	649,476,307	694,416,823	726,450,357
YOUTH GENDER AND SPORTS	73,303,310	383,360,136	409,886,742	428,794,869
EDUCATION	374,218	601,957,078	643,609,500	673,299,287
HEALTH SERVICES	205,746,891	1,076,010,839	1,150,465,414	1,203,536,527
COUNTY PLANNING AND HOUSING	30,029,052	157,045,316	167,912,067	175,657,872
WATER ENVIRONMENT AND NATURAL RESOURCES	47,250,507	247,109,725	264,208,484	276,396,454
TRANSPORT AND INFRASTRUCTURE	18,389,143	770,171,160	823,463,157	861,449,615
TRADE,ENERGY AND INDUSTRIAL DEVELOPMENT	11,078,312	257,937,127	275,785,088	288,507,088
TOURISM	18,369,949	196,070,780	209,637,898	219,308,520
TOTAL EXPENDINTURE	**4,989,388,204**	**6,421,773,090**	**6,866,127,708**	**7,182,863,033**

Table 3: Updated Expenditure Projections against CFSP'14 Projections, 2013/14-2015/16

26. Given the above deviations, the revision in revenues and expenditures will be based on the revised assumptions contained in this CBROP and which will be firmed up in the context of the next CFSP The CG will not deviate from the fiscal responsibility principles, but will make appropriate modification to County Budget Review and Outlook Paper, 2014 the financial objectives contained in the latest CFSP, to reflect the changed circumstances.

27. The CG intends to automate revenue collection at all sources to reduce spillage, coupled with registering business in the County which will increase revenue collection. In addition, we also expect stability in interest rates and exchange rates as a result of the National Government policies, to promote access to credit for private sector and boost investments and consumption thus stimulating growth.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

28. The CG has large growth prospects that will be brought about by construction of Dogo Kundu by-pass and the high speed railway which will improve mobility and reduce traffic congestion in the County.

A. Recent Economic Developments

29. Growth in revenue remained resilient, 22% was collected in the first quarter, 12% in the third quarter, 44% in the third quarter and 21 % in the last quarter as illustrated in figure 1(see also annex 1), for FY2013/14.

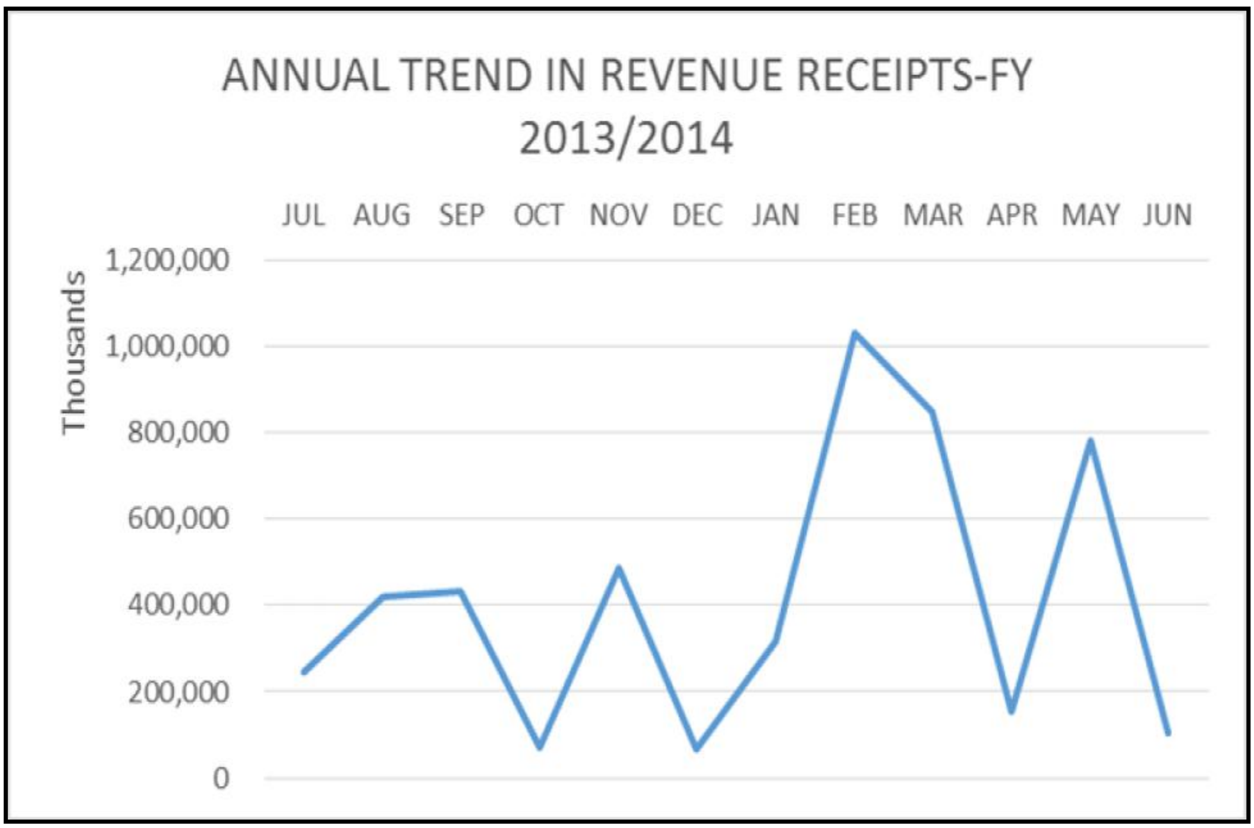

Figure 1: To show Revenue trend for FY 2013/2014 (see table 5)

Growth in Revenue remains resilient but downside risks remain

30. Revenue for FY2013/2014 was 80% more of Annual Revenue collected in FY2012/13. This growth was mainly attributed to Increase in National Government Transfers, that is, the National Equitable share as compared to the previously Disbursed Local Authority Transfer Fund. Other revenues Collection remained substantially the same as depicted in figure 2.

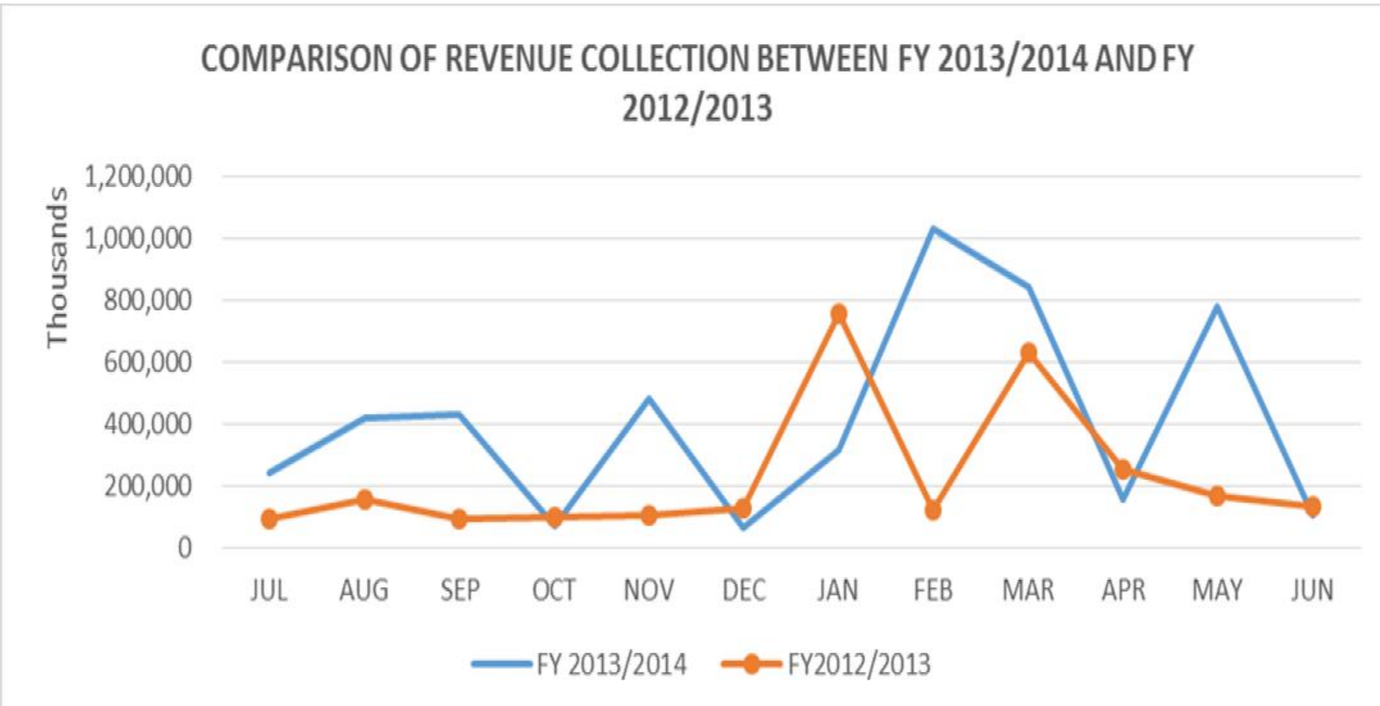

Figure 2: To compare Revenue Collection between two Fiscal Years (see table 5)

Implementation of 2013/14 budget is progressing well after a slow start

31. Challenges in the movement to new IFMIS platform delayed implementation of the FY 2013/14 budget by almost 1 Month. This has now been addressed and County government operations are continuing in earnest. However, expenditure pressures have emerged with salary demands from all departments. These posed risk to the stability of the budget for 2013/14 in the face of resources requirement for development activities.

32. Revenue collection was below target by about Kshs 6.8 billion in the year. Measures to tap revenue formally earned by devolved units should be put in place and the revenue base expanded accordingly as the County continues to collect revenue traditionally collected by the defunct Municipal Council of Mombasa.

B. Macroeconomic outlook and policies

33. The updated macroeconomic framework is cautious given the weaker-than expected recovery in global output and performance in the first quarter of FY2013/14.

Growth prospects

34. The proposal to build the second Nyali bridge, Dogo Kundu by-pass, high speed railway line increases the revenue growth prospects of Mombasa County. In addition, new sources of revenue emerged after devolution and the county has to enact relevant Finance Acts on advice by the concerned departments to them which will increase revenue collection.

35. Against this backdrop and given the weaker-than-anticipated FY 2013/2014 Revenue growth performance, our updated expectations are cautious. Nonetheless, with the improved weather conditions, easing of inflation and stable fuel prices and exchange rates, the current growth projections remain within reach, although downside risks remain.

36. Improvement in the investment climate, coupled with further structural and legal reforms as we implement the new Constitution, are expected to improve competitiveness of the private sector and promote overall productivity in the economy. This will increase the County Revenue.

37. Whereas the revised projected growth is still below the target envisioned in CIDP needed to increase Mombasa County Growth, the CG recognizes that further scaling up would require mobilization of larger amounts of resources, and more efficient production structure. The next Second phase of CIDP will articulate key priority measures to accelerate growth, taking into account limited public resources.

Inflation outlook

38. We anticipate that the current stability in the overall inflation would continue in the months ahead. Ample supply of food with normal weather conditions combined with stable energy prices will support our performance as input prices will be as budgeted.

C. Medium Term Fiscal Framework

39. We will continue to pursue prudent fiscal policy to assure stability. In addition, our fiscal policy objective will provide an avenue to support economic activity while allowing for implementation of the new Constitution within sustainable public finances. As such, the CG is committed to a gradual reduction in the debts. This will help to bring down the debt-to-revenue ratio to well below 15 percent and contribute to reducing pressure in expenditure and to provide adequate cushion against unforeseen events.

40. With respect to revenue, the CG will maintain a strong revenue effort at 23-25 percent of Revenue Growth over the medium term. Measures to achieve this effort include simplification of the Revenue codes in line with international best practices and improved fees and charges collection with enhanced administrative measures. In addition, the CG will rationalize existing fees and charges incentives, expand the income base and remove exemptions as envisaged in the Constitution.

41. Following the discovery of hydro carbons (petroleum deposits) in our country, the CG is will be engaging with stakeholders to develop a comprehensive policy and legislative framework covering licensing, having a competitive edge of the opportunities so created like exporting, refining or setting up industries that deal with petroleum by-products, and hence increase its revenue.

42. On the expenditure side, the CG 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 .Above all, the new PFM Act, 2012 is expected to accelerate reforms in expenditure management system.

43. The CG remain committed to accessing international capital market with caution, including floating County bonds when the County financial conditions permit, and in line with the new PFM law, that borrowed resource would be used for development expenditures only.

D. Risks to the outlook

44. The high wage bill will be a major challenge in the implementation of the budget. The County government inherited over - staff from the national government in addition to the - staff from the defunct Local authority. Recruitment of any additional staff will be based on the outcome of the on-going job evaluation exercise aimed at staff rationalization to achieve a lean and efficient workforce and a sustainable wage bill. Uncertainties associated with transition as the County develops structures will continue to affect revenue collection. Deliberate interventions are being put in place to increase the revenue collection, strengthen controls and seal revenue leakages. Key among these strategies includes automation of processes, integration and digitization of data, collection of high quality data and a mapping of the various revenue sources. Timely release of funds by the national government will be another challenge. Delay in funds release could lead to disruption in the activities of counties and compromise service delivery.

45. The risk to the outlook for 2014 and medium-term include further weakening in global economic growth and unfavorable weather conditions should there be any drought in 2015 and years ahead. Also, reversal in the current easing of international oil prices may fuel inflation and weaken growth. Finally, unsuccessful transition to a decentralized system of government could weaken investor confidence and slow down growth. Should these risks materialize the CG will undertake appropriate measures to safeguard its stability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/15 Budget

46. Given the performance in 2013/14 and the updated fiscal outlook, the risks to the FY 2014/15 budget include weaker revenue performance in 2013/14 and the medium term. Expenditure pressures with respect to salary demands. 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 external resources. These risks will be monitored closely and the CG would take appropriate measures in the context of the Supplementary Budget.

47. Adjustments to the 2014/15 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 constrains, the Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or reprioritizing development expenditures in order for the Government to live within its means. Utilization of contingencies funds will be within the criteria specified in the new PFM law.

48. 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.

49. On the Revenue side, the County Treasury is expected to institute corrective measures to reverse the revenue lose. Options could include enhanced compliance audit, and speedy implementation of collection of other sources of revenue such as Agricultural income, fisheries income, liquor licensing and betting.

50. Departments having surplus in their budget will be expected to surrender them to the County Revenue Fund as soon as possible.

B. Medium-Term Expenditure Framework

51. Going forward, and in view of the limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. In the Meantime, the resource allocation will be based on the updated First CIDP and the Fiscal Strategy paper: The priority social sectors, education and health, will continue to receive adequate resources. Both sectors (education and health) 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.

52. The economic sectors including agriculture, fisheries and livestock will receive increasing share of resources to boost agricultural productivity with a view to deal with threats in food security in the County. With the CG commitment in improving infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation Projects County wide, youth and women development will continue to receive adequate resources.

53. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2014 and MTEF, classified by Department.

DEPARTMENT/MINISTRY	ACTUAL FY 2013/2014	CEILINGS FY 2014/2015	CEILINGS FY 2015/2016	CEILINGS FY 2016/2017	CEILINGS FY 2017/2018
COUNTY ASSEMBLY	327,917	640,935	685,285	716,897	802,925
EXECUTIVE	268,484	904,114	966,675	1,011,267	1,132,619
CITY OF MOMBSA	3,761,464	0	0	0	0
COUNTY PUBLIC SERVICE	14,898	77,916	83,307	87,150	97,608
FINANCE AND ECONOMIC PLANNING	87,895	459,669	491,476	514,148	575,846
AGRICULTURE	124,188	649,476	694,417	726,450	813,624
YOUTH GENDER AND SPORTS	73,303	383,360	409,887	428,795	480,250
EDUCATION	374	601,957	643,610	673,299	754,095
HEALTH SERVICES	205,747	1,076,011	1,150,465	1,203,537	1,347,961
COUNTY PLANNING AND HOUSING	30,029	157,045	167,912	175,658	196,737
WATER ENVIRONMENT AND NATURAL RESOURCES	47,251	247,110	264,208	276,396	309,564
TRANSPORT AND INFRASTRUCTURE	18,389	770,171	823,463	861,450	964,824
TRADE,ENERGY AND INDUSTRIAL DEVELOPMENT	11,078	257,937	275,785	288,507	323,128
TOURISM	18,370	196,071	209,638	219,309	245,626
TOTAL RECURRENT	**4,989,388**	**6,421,773**	**6,866,128**	**7,182,863**	**8,044,807**

TABLE 4: Medium Term Sector Ceiling 2015/16 - 2017/18, Kshs '000'

Departments Budgets and the Transfer of Functions

54. A key challenge in developing the 2014/15 MTEF budget is the allocation of funds to departments. The departments have to manage their own funds and modality of reporting on timely basis instituted. It is not clear if the IFMIS system can provide such a platform.

55. As such, it will be critical to have the CG Department constituted and their capacities strengthened in order to enable them perform their assigned functions effectively and efficiently. Staffs need to be deployed and rationalized to streamline the County activities.

56. Extensive work has been done in providing reporting templates and issuance of Budget guideline so as to ensure consistency in reporting and monitoring progress.

D. **2015/16 Budget framework**

57. The 2015/16 budget framework is set against the background of the updated medium-term macro-fiscal framework set out above.

Revenue projections

58. The 2014/15 budget will target revenue collection including Appropriation-in-Aid (AiA) of 24.3 percent of The Previous Revenue. As noted above, this performance will be underpinned by on-going reforms Revenue policy and revenue administration. As such, total revenues including AiA are expected to be Kshs 6.4 billion.

Expenditure Forecasts

59. In 2014/15, overall expenditures are projected to Kshs.6.4 Billion

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V. CONCLUSION AND WAY FORWARD

60. The fiscal outcome for 2014/15 together with the updated forecast have had ramification of the financial objectives elaborated in the last CFSP 2013. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. Details of the strategic objectives are provided in the CIDP.

61. The fiscal outlook presented herein will seek to achieve the objectives outlined in the PFM Act and lay ground for the next financial year in terms of preparing the CBROP and CFSP. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds especially on capacity building on different sectors of the county will be crucial in ensuring that the County gets to deliver on its functions.

62. Other area worth mentioning is the poor connectivity for the operationalization of IFMIS exacerbated by inadequate human capacity and computer hardware to support the systems. Indeed, Mombasa County experienced a high downtime for IFMIS during the period under review. To solve these challenges, critical user divisions will be given an on-the-job training and the County will utilize optic fiber networks to boost connection.

63. The policies and sector ceilings proposed herewith will guide the Departments in preparation of realistic 2015/16 budget. This will go a long way in minimizing underutilization greatly visible in the FY 2013/2014.The CG should scale down its budget as shown in table 4, then increase it gradually over the medium term as it expands its revenue base. In addition the CG should cease depending on local revenue to fund development expenditure and should strictly set aside at least 30% of National Equitable share to fund its development expenditure.

ANNEX 1.COMPARISON OF REVENUE RECEIPTS BETWEEN FY2013/2014 AND FY 2012/2013

MONTHS	FY 2013/2014 KSHS	FY 2012/2013 KSHS	VARIANCE KSHS
JULY	244,521,586	93,008,977.00	151,512,609
AUGUST	418,822,559	154,894,270.00	263,928,289
SEPTEMBER	430,721,231	94,200,592.00	336,520,639
OCTOBER	69,523,231	101,800,414.00	(32,277,183)
NOVEMBER	485,123,026	103,807,900.00	381,315,126
DECEMBER	66,354,138	129,565,681.00	(63,211,543)
JANUARY	316,481,290	758,672,714.00	(442,191,424)
FEBRUARY	1,030,204,348	121,059,091.00	909,145,257
MARCH	845,932,841	630,848,417.00	215,084,424
APRIL	154,261,568	255,555,526.00	(101,293,958)
MAY	780,285,443	169,377,187.00	610,908,256
JUNE	103,573,432	135,269,242.00	(31,695,810)
TOTAL	**4,945,804,693**	**2,748,060,011**	**2,197,744,682**

Table 5: To compare Revenue collection between two fiscal years. Revenues Increased majorly due to National Government Equitable share Disbursement.

ANNEX 2: COMPARISON OF PAYMENTS BETWEEN FY2013/2014 AND FY 2012/2013

Compensation of Employees	3,341,295,730	1,112,123,000
Use of goods and services	1,091,854,127	1,299,361,959
Interest payments and Other Creditors	222,704,655	88,243,000
Other grants and transfers	3,979,890	-
Acquisition of Assets	182,620,608	43,141,000
Repayment of principal on Domestic and Foreign borrowing	-	297,439,000
Other Payments	146,933,194	-
TOTAL PAYMENTS	**4,989,388,204**	**2,840,307,959**

Table 6: To Compare expenditure between two fiscal years. Expenditure increased greatly due to increase in staff mainly from Defunct Municipal Council of Mombasa and devolved units.