REPUBLIC OF KENYA

VIHIGA COUNTY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

2016

KENYA VISION 2030

Towards a Globally Competitive and Prosperous Nation

FOREWORD

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012, It shows the Budget and actual fiscal performance of the 2015/2016 Financial Year so as to inform the future planning and budgeting.

The County Budget Review and Outlook Paper (CBROP) reviews the past and present and set the future outlook of fiscal performance by presenting the fiscal outcome for 2015/16 and how it affected the financial objectives set out in the 2015/2016 County Fiscal Strategy Paper (CFSP).

Vihiga County Government remains steadfast in maintaining macroeconomic stability, even in the face of expenditure pressures associated with devolution of functions to the County and a swollen wage bill.

The county has continued to allocate more resources in investment of key sectors in the County in order to improve the economy of the county and spur growth. Particularly the County will continue to allocate more funds to infrastructure projects especially roads; water projects; agriculture projects and investment on health projects. These efforts are geared to improving the living standards of the County citizens as well as reduce the poverty levels.

The County will implement sound economic management and establish structures geared to increasing the local revenue collection which will be diverted towards capital investment.

We will ensure that a stable macroeconomic environment is maintained and that implementation of the set strategies and priorities is done with high level of transparency and accountability in management of public funds in the County.

MOSES LUVISI

COUNTY EXECUTIVE MEMBER - FINANCE AND ECONOMIC PLANNING

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ABBREVIATIONS AND ACRONYMS

CBROP	County Budget Review Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
PFMA	Public Financial Management Act
SRC	Salaries Remuneration Commission
SBP	Single Business Permit

I. INTRODUCTION

1. Public Finance Management Act, 2012 section 118.The Act requires that every County prepares a CBROP by 30th September of that financial year and submit the same to the County Executive Committee Member (CECM). The CECM shall in turn:

i. Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments. Not later than seven days after the CECM has the approved the paper, the County treasury shall

ii. Arrange for the paper to be laid before the County Assembly

iii. As soon as practicable after having done so, publish and publicize the Paper.

II. OBJECTIVE OF THE CBROP

2. The objective of the County Budget Review and Outlook Paper is to provide;

i. A review of the County Fiscal performance in the financial year 2015/16 compared to the appropriation of that year and how this had an effect on the economic performance of the County.

ii. An updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy paper.

iii. Information on any changes in the forecasts compared with the County Fiscal Strategy Paper.

iv. Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

II. REVIEW OF FISCAL PERFORMANCE IN 2015/16

A. Overview

3. This section provides an overview of the performance and implementation of the budget for the Financial Year 2015/16 and how this may have affected compliance with the fiscal responsibility with regard to the CFSP. This will be useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as a way forward for Vihiga County.

B. Fiscal Responsibility

4. In observing fiscal responsibility the PFMA section 15(2) states that;

i. Over medium term a minimum of thirty percent of the County government's budget shall be allocated to the development expenditure.

ii. The County expenditure on wages and benefits for its public officers shall not exceed a percentage of the County revenue as prescribed by regulations.

iii. Over medium term the County government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

iv. Public debt and obligations shall be maintained at a sustainable level as approved by the County assembly.

v. Fiscal risks shall be managed prudently.

vi. 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 future.

C. Fiscal Performance

5. The fiscal performance for 2015/16 was faced with a number of challenges which included;

i. Delays in disbursement of funds as scheduled by the national government continued to be experienced.
ii. Under performance of the local revenue falling far below the target in the budget.
iii. Delay in enactment by Commission of Revenue Allocation Act 2016
iv. When revising the budget, the county assembly don't refer to the county fiscal strategy paper i.e. failure to adhere to PFM Act 2012 in the budgeting process
v. Hidden budget deficit resulting from previous and present under collection of local revenue and under funding by the national Government.

D. Revenues

6. During the period under review the County had two sources funding namely the National Government and County own revenue. The financing from the equitable share amounted to Ksh. 3.87 Billion, DANIDA 7.085 Million, Kenya Roads Boards Fund 49.18 Million, Maternity 49.8 Million and that of own County revenue Ksh. 141.3 Million.

NOTE that DANIDA Funding has drastically reduced from Kshs.11.20 Million to Kshs. 7.85 Million

TABLE 1A. REVENUE ANALYSIS FY 2014 /2015

ITEM SOURCE	2014/15	2014/15	2014/15	2014/15
	Budgeted	Actual	Deviation	%
Exchequer issue	3,378,093,964	3,378,093,964	(0)	**0**
Departmental revenue(others)	377,743,491	114,387590	(263,355,901)	**70**
TOTALS	**3,755,837,455**	**3,492,481,554**	**(263,355,901)**	**70**

TABLE 1 B. REVENUE ANALYSIS FY 2015 /2016

ITEM SOURCE	2015/16	2015/16	2015/16	2015/16
	Budgeted	Actual	Deviation	%
Exchequer issue	4,190,825,816	3,871,411,960	(319,413,856)	**8**
Departmental revenue(others)	277,000,000	141,321,463	(135,678,537)	**49**
TOTALS	**4,467,825,816**	**4,012,733,423**	**(455,092,393)**	**10**

7. **The under-collection of revenue was due to;**

i. Inadequate Revenue Administration and reporting resulting into under reporting for instance some department do not avail their returns in time, revenue collected through payroll is not captured. Delay in banking the day's collection 100% leading to loss of revenue through forgery, team and lading and other ways.

ii. Automation of revenue collection has not taken effect hundred per cent in all departments. The automation process has been slow and only covers market collections. It also faced challenges such as internet connectivity, technical challenges and poor supervision. There has been a challenge of incompetence. The revenue collection system does not operate on collection plat form. There have been cases of tempering of the gargets and abuse of the process.

iii. Delay in implementing the Vihiga County Revenue Administration Act 2015.

iv. Delay in enacting other laws on revenue such as:

- Law on property rates.
- Law on trade licenses.
- Law on mining, sand harvesting and quarrying.
- Law on cess
- Laws on entertainment and gambling.
- Law on other fees and charges for services.

v. Under performance by the enforcement team in enforcing the current County Laws.

vi. Lack of proper intensive supervision resulting in poor, uncoordinated collection system and revenue management

vii. Resistance from the business community caused by lack of awareness and political interference

viii. Revenue Cartels e.g. in the Departments of Transport and Infrastructure, Health and Trade where official receipts are not used or sometimes not issued to collect revenue.

ix. Inadequate collection of property and entertainment tax from dance halls, cinema, pool tables, betting and gambling.

x. Over ambitious and unrealistic targets such as in the Department of Gender, Culture, Youth and Sports that expected to collect revenue from stadiums which were still under construction.

xi. Under-collection of revenue from murram sites, sand cess, noise pollution, and public toilets caused by collusion malpractices by staff and contractors from Departments of infrastructure and enforcement unit.

xii. Weak internal control systems that result to pilferage of revenues, expenditure at source, use of fake receipts and lack of proper records.

xiii. Majority of the collectors are on temporal terms which put revenue collection at risk.

xiv. Lack of motivation for staffs in charge of collection.

8. Some of these challenges can be addressed through the implementation of the Vihiga Revenue Administration Act 2015 so as to establish a directorate of revenue collection. Other possible solutions would include;

   i. Automation of all revenue streams through use of plat forms like Local Authority Integration Finance Management and Health Management Systems

   ii. Enhance supervision and enforcement by laying down proper revenue Administration structure and a revenue enforcement unit.

iii. Ensure disciplinary action is taken against members of staff colluding with traders/ members of the public.
iv. Motivate the revenue staff by providing uniform, transport, support them through enforcement in cases of difficulties, pay their allowances promptly and provide the necessary supervision and guidance.
v. Reduction in revenue leakages and evasions
vi. Linkages of revenues with service provision, local development and public accountability and participation
vii. Improved funding the systems improvement, capacity building, and enhanced capacity for supervision and monitoring of revenue collection and management.
viii. Expansion of own local revenue sources and ensure stable, sustainable and predictable sources to meet local needs.

TABLE 2: LOCAL REVENUE PERFORMANCE IN KSHS. 2015/16

I. QUARTER LY REVENUE REPORT

SOURCES	QTR 1	QTR 2	QTR 3	QTR4	TOTAL
S.B.P.	2,897,496	1,310,130	9,995,228	7,320,917	**21,523,771**
MARKETS	4,597,555	4,483,735	4,185,379	4,479,773	**17,746,442**
BUS PARK	9,934,130	9,815,160	9,889,050	9,159,940	**38,798,280**
RATES	146,657	188,375	699,107	404,875	**1,439,014**
STALL RENT	381,545	633,200	710,975	681,935	**2,407,655**
HOUSE /OFFICE RENT	47,200	186,500	42,573	41,500	**317,773**
PLOT RENT	34,790	25,083	86,433	52,653	**198,959**
PLAN APPROVAL	274,200	226,550	451,920	527,460	**1,480,130**
GROUP REGISTRATION /RENEWAL	64,600	42,845	55,600	52,700	**215,745**
ADVERTISEMENT	3,800	4,300	2,200	6,200	**16,500**
WALL BRANDING	93,500	139,820	169,100	263,200	**665,620**
CONVEYANCE	1,500				**1,500**
HIRE OF MACHINERY	1,112,630	584,930	1,108,290	467,380	**3,273,230**
CESS	53,502	32,500	47,900	41,800	**175,702**
OTHER FEES AND CHARGES	34,670	182,190	125,090	167,256	**509,206**
MOTORBIKE STICKERS		79,000	158,000	225,580	**462,580**
HIRE OF GROUND/HALL	9,800	11,900	4,500	56,820	**83,020**
LOCAL RATE	15,070	5,610	82,820	47,610	**151,110**
PUBLIC HEALTH	147,650	213,450	731,730	581,300	**1,674,130**

SUB-COUNTY HOSPITAL	463,770	468,670	434,640	708,865	**2,075,945**
VETERINARY	376,477	557,885	367,530	410,906	**1,712,798**
REFFERAL HOSPTAL	5,221,150	4,599,120	5,495,065	8,396,350	**23,711,685**
SURVEY/ LAND	175,000	107,300	5,200		**287,500**
NOISE POLLUTION	6,600	22,000	7,000	19,800	**55,4000**
HOUSING	351,120				**351,120**
ALCOHOL LCENCE	1,826,000	58,000	273,250	3,012,500	**5,169,750**
WATER	32,700	61,890	47,740	13,500	**155,830**
CONSERVANCY	266,000	76,000	851,500	503,000	**1,696,500**
FERTILIZER			1,175,300		**1,175,300**
OTHER INCOME	5,410,446	7,765,835			**13,176,281**
OTHER DEPATMENTAL REVENUES	8,317	842	106,118	497,710	**612,987**
TOTAL	**33,987,875**	**31,882,820**	**37,309,238**	**38,141,530**	**141,321,463**

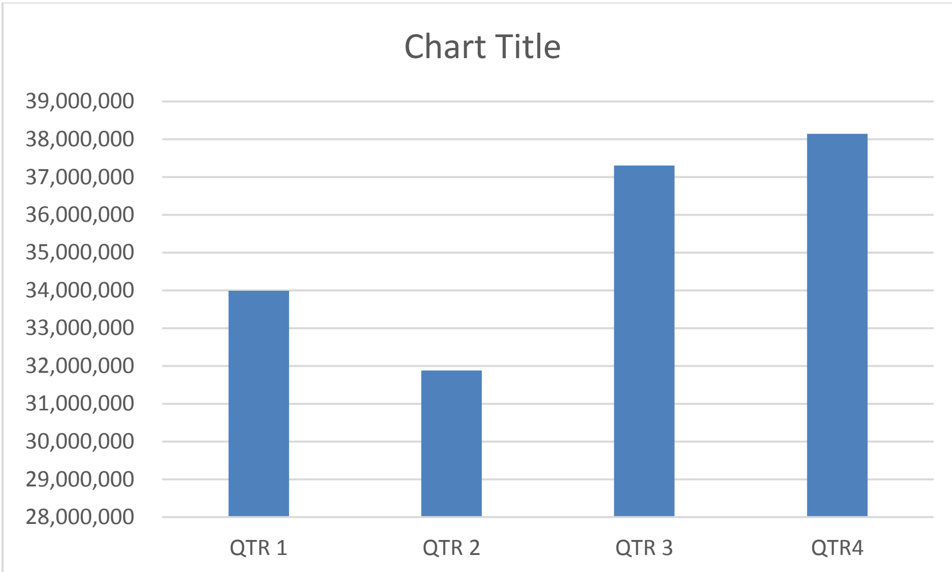


TABLE II. REVENUE COMPARISON PER QUARTER

From table II above shows that more revenue was collected in the third and fourth quarters this because it is during this period when the single business permit fall due and attract penalties same to liquor license

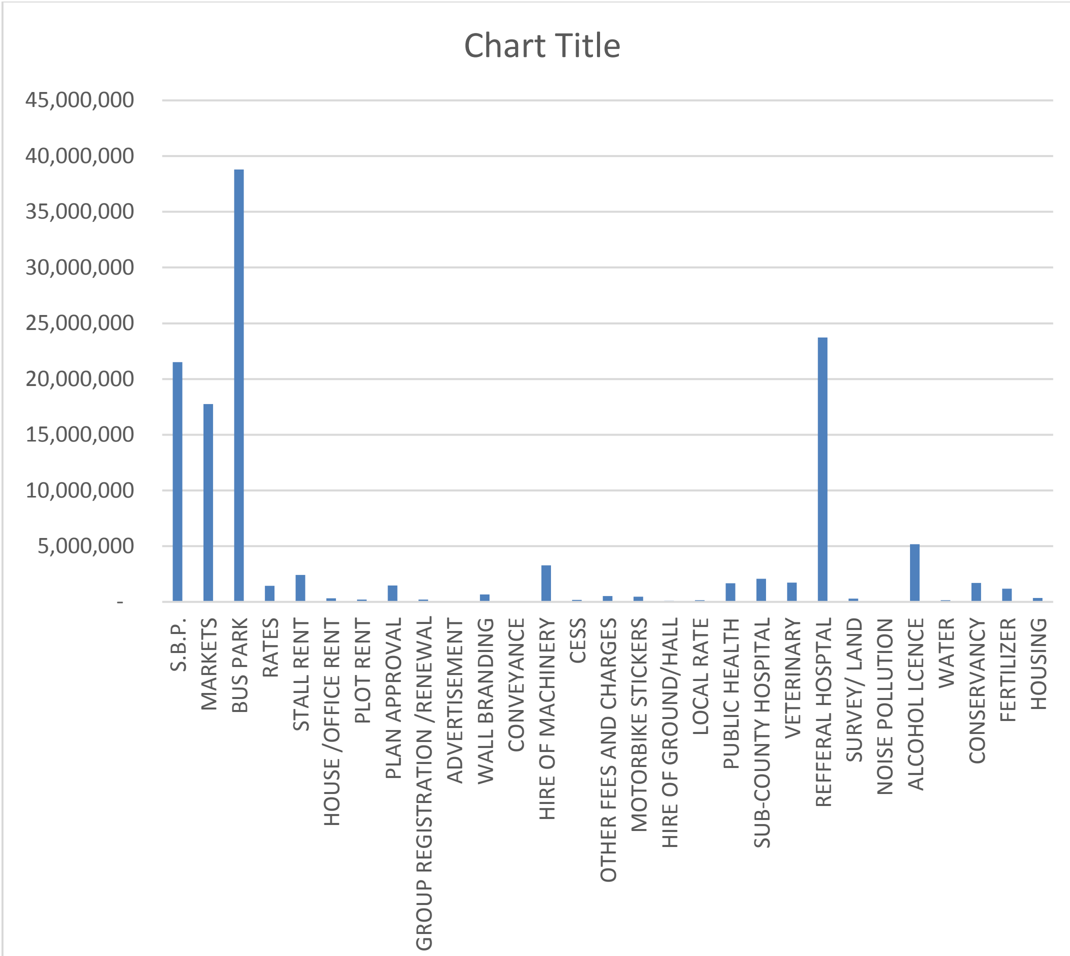


TABLE II CAMPARISON PER REVENUE SOURCE

9. As indicated in table 2 above, the highest sources of revenue are, Bus Park, Health, Single Business Permits and Market which contributed Ksh **38,798,280**, **23,711,685**, **21,523,771**and **17,746,442** to the County revenue account respectively. However, measures need to be put in place to ensure all revenue collectors comply with the County Revenue Policies. Also there is need for public awareness to ensure all stakeholders know why and when various fees need to be paid.

TABLE 3 LOCAL REVENUE PERFORMANCE IN KSHS. COMPARED TO PREVIOUS YEAR

SOURCES	TOTAL 2014/15	TOTAL 2015/16	INCREASE	% INCREASE
S.B.P.	18,161,680	21,523,771	3,362,091	15.62
MARKETS	17,747,534	17,746,442	(1,092)	(0.01)
BUS PARK	37,552,782	38,798,280	1,245,498	3.21
RATES	990,751	1,439,014	448,263	31.15
STALL RENT	1,608,675	2,407,655	798,980	33.18
HOUSE /OFFICE RENT	412,200	317,773	(94,427)	(29.72)
PLOT RENT	237,788	198,959	(38,829)	(19.52)
PLAN APPROVAL	600,084	1,480,130	880,046	59.46
GROUP REGISTRATION /RENEWAL	272,475	215,745	(56,730)	(26.29)
ADVERTISEMENT	118,200	16,500	(101,700)	(616.36)
WALL BRANDING	348,300	665,620	317,320	47.67

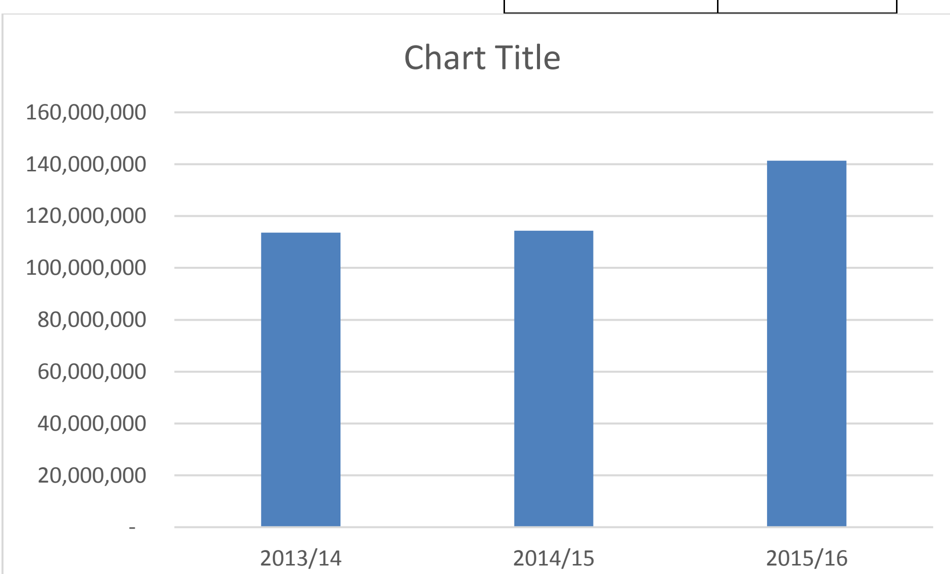
CONVEYANCE	19,500	1,500	(18,000)	(1,200.00)
HIRE OF MACHINERY	207,840	3,273,230	3,065,390	93.65
CESS	278,300	175,702	(102,598)	(58.39)
OTHER FEES AND CHARGES	447,700	509,206	61,506	12.08
MOTORBIKE STICKERS	510,350	462,580	(47,770)	(10.33)
HIRE OF GROUND/HALL	28,500	83,020	54,520	65.67
LOCAL RATE	163,143	151,110	(12,033)	(7.96)
PUBLIC HEALTH	1,054,790	1,674,130	619,340	36.99
SUB-COUNTY HOSPITAL	202,480	2,075,945	1,873,465	90.25
VETERINARY	389,573	1,712,798	1,323,225	77.26
REFFERAL HOSPTAL	26,082,644	23,711,685	(2,370,959)	(10.00)
PRESS/COMMUNICATION	13,200		(13,200)	
SURVEY/ LAND		287,500	287,500	100.00

NOISE POLLUTION		55,400	55,400	100.00
ALCOHOL LCENCE		5,169,750	5,169,750	100.00
WATER	552,935	155,830	(397,105)	(254.83)
CONSERVANCY	813,300	1,696,500	883,200	52.06
FERTILIZER	1,632,848	1,175,300	(457,548)	(38.93)
OTHER INCOME	3,796,310	13,176,281	9,379,971	71.19
OTHER DEPATMENTAL REVENUES	40,000	612,987	572,987	93.47
HOUSING	315,100	351,120	36,020	10.26
GRAND TOTAL	**114,598,982**	**141,321,463**	**26,722,481**	**18.91**

10. As indicated in the table 3 above there was tremendous improvement in revenue collection in overall and among some revenue sources. This was attributed to the fact that the County Government has put in place proper structures of revenue collection (devolved units) as compared to the previous year. There is need to note the drop in collection in the Health sector which needs to be looked into to establish the reasons why.

TABLE 4 TREND OF REVENUE FOR THE PAST THREE YEARS 2013 T0 2016

Year	Budget	Actual	Variance	Variance %
2013/14	200,000,000	113,576,509	86,423,491	43
2014/15	377,743,491	114,387,590	263,355,901	70
2015/16	277,000,000	141,321,463	135,678,537	49
Accumulated budget Deficit			**485,457,929**	



The above table shows that local revenue:

- increasing trend in revenue collection
- un realistic revenue projection in the budgets
- increasing trend of budget deficit leading to an accumulated deficit of Ksh. 485,457,929

EXPENDITURES

11. The total approved expenditure for financial 2015/16 as per was Ksh 4,367,756,767. The expenditure during the year was Ksh. 3,170,748,486. This represents absorption rate of 73%, this low rate of absorption was attributed to delay in disbursement among other factors.

TABLE3 APPROVED ESTIMATES AND EXPENDITURES PER DEPARTMENT ANALYSIS AGAINST ACTUAL EXPENDITURE 2015/16

RECURRENT

PROGRAMME	ACTUALS	BUDGETTED	DIFFERENCE	ABSORPTION %
AGRICULTURE, LIVESTOCK, FISHERIES & COOPERATIVES	103,913,186	130,125,768	26,212,582	80
LANDS, HOUSING & PHYSICAL PLANNING	16,794,672	28,311,760	11,517,088	59
TRANSPORT & INFRASTRUCTURE	39,194,292	55,875,581	16,681,289	70
INDUSTRILIAZATION, TRADE & TOURISM	16,164,595	45,700,000	29,535,405	35
HEALTH SERVICES	603,584,614	738,666,435	135,081,821	82
EDUCATION, SCIENCE & TECHNOLOGY	90,682,621	114,133,180	23,450,559	79
COUNTY EXECUTIVE	201,292,791	262,092,996	60,800,205	77
COUNTY ASSEMBLY	595,961,290	669,131,656	73,170,366	89

COUNTY TREASURY	243,208,607	279,562,390	36,353,783	87
PUBLIC SERVICE BOARD	36,734,218	54,316,780	17,582,562	68
PUBLIC SERVICE & ADMINISTRATION	174,676,994	225,189,899	50.512,905	78
GENDER, CULTURE YOUTH & SPORTS GENDER	38,589,632	49,700,456	11,110,824	78
ENVIRONMENT, NATURAL RESOURCE, WATER & FORESTRY	36,374,584	73,370,060	36,995,466	50
TOTALS	**2,197,172,096**	**2,726,176,961**	**529,004,865**	**81**

Table 5 APPROVED ESTIMATES AND EXPENDITURES PER DEPARTMENT ANALYSIS AGAINST ACTUAL EXPENDITURE 2015/16

DEVELOPMENT

PROGRAMME	ACTUALS	BUDGET	DIVIATION	ABSORPTION %
AGRICULTURE, LIVESTOCK, FISHERIES & COOPERATIVES	11,770,000	30,750,000	18,980,000	**38**
LANDS, HOUSING & PHYSICAL PLANNING	750,000	44,050,000	43,300,000	**2**
TRANSPORT & INFRASTRUCTURE	320,742,955	230,079,806	90,663,149	**139**
INDUSTRILIAZATION, TRADE & TOURISM	28,886,000	81,400,000	52,514,000	**35**
HEALTH SERVICES	31,648,716	181,206,619	149,557,903	**17**

EDUCATION, SCIENCE & TECHNOLOGY	77,634,405	204,200,000	126,565,595	**38**
COUNTY EXECUTIVE	40,157,660	50,000,000	9,842,340	**80**
COUNTY ASSEMBLY	32,810,389	103,000,000	70,189,611	**32**
COUNTY TREASURY	404,231,660	598,993,381	194,761,721	**67**
PUBLIC SERVICE & ADMINISTRATION	0	6,400,000	6,400,000	**0**
GENDER, CULTURE YOUTH & SPORTS	17,840,730	70,900,000	53,059,270	**25**
ENVIRONMENT, NATURAL RESOURCE, WATER & FORESTRY	7,103,875	40,600,000	33,496,125	**17**
TOTALS	**973,576,390**	**1,641,579,806**	**668,003,416**	59

Source: County Treasury

12. During the year the development expenditure was Ksh. 973,576,390 against the target of Ksh. 1,641,579,806, this represents an absorption rate of 59%. This means the County was unable to fully implement the budget and was mainly due to late disbursement of funds from the national government and the underperformance of the own County revenue.

13. Recurrent expenditure incurred amounted to Ksh. 2,197,172,096 against a target of Ksh. 2,726,176,961 representing 81% absorption rate.

14. As indicated in Table above the department of Health Services was allocated the highest recurrent budget of Ksh. 738,666,435. This is because the department has a huge workforce and large amount of allocation of drugs

F. Implication of 2015/16 Fiscal Performance of the fiscal responsibilities and financial objectives contained in the CFSP of 2016.

15. The underperformance of own County revenue in the FY 2015/16 has implications in the resource envelop and the base used to project the revenue for the tax items in the FY 2016/17. Therefore, in projecting the revenue for FY 2016/17 new base of the current trend of revenue has been taken into account.
16. The under spending in both Recurrent and development expenditure for the FY 2015/16 has implication on the base used to project expenditures in the FY 2016/17 and the medium term.

Column1	Departments	Budget 2015/16	Ceiling 2015/16	Variation 2015/16	Budget 2016/17	Ceiling 2016/17	Variation 2016/17
1	County Executive	350,092,996	439,171,532	89,078,536	293,747,275	308,434,639	14,687,364
2	County Assembly	515,896,442	515,896,442	0	613,773,279	644,461,943	30,688,664
3	County Health Services	929,652,502	889,652,502	-40,000,000	1,278,707,143	1,342,642,500	63,935,357
4	Agriculture, Livestock, Fisheries &Co- operatives	231,654,464	231,654,464	0	179,550,683	188,528,218	8,977,535
5	Education, Science, &Technology	405,946,555	315,424,555	-90,522,000	492,119,547	516,725,524	24,605,977
6	Gender, Culture, Youth &Sports	109,989,650	119,989,650	10,000,000	201,250,456	211,312,979	10,062,523
7	Industrialization, Trade, &Tourism	130,437,418	160,437,418	30,000,000	82,855,965	86,998,763	4,142,798
8	Environment, Natural, resources, Water and forestry	146,027,672	146,027,672	0	140,743,951	147,781,149	7,037,198
9	County Treasury	364,542,390	332,064,390	-32,478,000	483,055,091	507,207,846	24,152,755
10	Transport &Infrastructure	584,547,288	654,547,288	70,000,000	450,769,091	473,307,546	22,538,455
11	County Public Service Board	75,516,780	85,516,780	10,000,000	46,792,161	49,131,769	2,339,608
12	Land, Housing &Physical Planning	159,431,760	159,431,760	0	72,997,028	76,646,879	3,649,851
13	Public Service, Administration and Special programmmes	487,089,899	441,011,363	-46,078,536	394,266,247	413,979,559	19,713,312
	Total Proposed Expenditure	**4,490,825,816**	**4,490,825,816**	**0**	**4,730,627,917**	**4,967,159,314**	**236,531,397**

17. It is noted from the figure above that some of the departments ceilings are extensively varied beyond the PFMA (2012) and it regulations

18. The deference resulting from the above variations are moved to other departments causing changes in departmental programmes and objectives.

19. The above can be draw backs can be eliminated if the two arms of County Government can follow the law strictly and also engage in pre-budget consultations.

Citing the law the Public Finance Management (County Governments) Regulations, 2015.

…….. 37. (1) Where a county assembly approves any changes in the annual estimates of budget under section 131 of the Act, any increase or reduction in expenditure of a Vote, shall not exceed one (1%) percent of the Vote's ceilings'.

Economic Policy Agenda

20. Creating a conducive business environment for job creation – Address insecurity; Maintain macro-economic stability; Implement key structural reforms to reduce the cost of doing business and encouraging innovation and investment growth

21. Investing in agricultural transformation to ensure food security: Bring down cost of food, cost of living; Enhance agro- processing to foster export growth; Support manufacturing and tourism

22. Investing in infrastructure: This will improve productivity and competitiveness in the domestic and international markets; Develop an elaborate and modern transport and logistic network

1b. Economic Policy Agenda

23. Investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households

24. Reducing unemployment among our youth and women, by providing access to affordable credit, encouraging entrepreneurship and skills development; and

25. Supporting Devolved **system of Government for** better service delivery and enhanced economic development

2. Recent Economic Developments.

26. The resilience built over the years on account of sound macroeconomic management has sustained strong economic growth and resulted in macroeconomic stability

27. Economic growth prospects remain strong under strong foundation for economic transformation

28. Global growth is therefore estimated at 3.1 percent in 2015 (lower than the 3.4 percent in 2014) and 3.2 percent in 2016 (a 0.2 percentage point downward revision relative to the January 2016 Update). Recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies, as conditions in stressed economies start gradually to normalize. (as per the Budget statement for 2016/17 from National treasury)

BUDGET SUMMARY: POLICY FRAMEWORK FOR FY 2016/17 AND THE MEDIUM TERM FOR NATIONAL TREASURY

Underlying Assumptions

Global Outlook

29. The 2016/17 Budget has been prepared against a backdrop of slower global growth and increased uncertainty. Global economic recovery continues to be moderate, although the outlook has weakened further since October 2015 due to increased risks. The impact of lower commodity prices on commodity importers is less positive than expected and commodity exporters have to adjust their economies in a more difficult environment. Nonetheless, terms of trade developments have led to a narrowing of global imbalances, even as net creditor and debtor positions continue to expand.
30. Global growth is therefore estimated at 3.1 percent in 2015 (lower than the 3.4 percent in 2014) and 3.2 percent in 2016 (a 0.2 percentage point downward revision relative to the January 2016 Update). Recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies, as conditions in stressed economies start gradually to normalize.
31. ***Growth Prospects***
32. Our economy is estimated to have expanded by 5.6 percent in 2015, up from 5.3 percent growth in 2014. The growth in 2015 was supported by the prevailing macroeconomic stability and increased output in sectors such as agriculture (5.6 percent); construction (13.6 percent); finance and insurance (8.7 percent); transport and storage (7.1 percent); real estate (6.2 percent); manufacturing (3.5 percent) and public administration (5.4 percent). The recovery in the tourism sector supported

growth in accommodation and restaurant sector that contracted by only 1.3 percent in 2015 compared with 16.7 percent in 2014. Growth in other sectors, particularly information and communication, mining and quarrying, wholesale and retail, education and health, remained robust but lower than their corresponding levels in 2014.

33. Because of the need to accelerate this growth, the policies supporting the 2016/17 budget aim to entrench fiscal prudence, ensure value for money and delivery of programs that will sustain the current economic growth.

Going forward, we project the economy will expand further to 6.0 percent in 2016 from 5.6 percent in 2015 and 6.5 percent in the medium. This growth will be supported by strong output in agriculture with a stable weather outlook and

34. Policies to accelerate and sustain economic growth in 2016 and in the medium term will continue to focus on:

a. **Improving the business environment**. This will entail improving security; maintaining macro-economic stability and reducing the cost of doing business, so as to encourage investment opportunities in the country.

b. **Continued spending in infrastructure** to unlock constraints to growth. The Government will continue with public investments in the Standard Gauge Railway, modernizing seaports and airports, improving road networks and expanding energy and water supplies iii. **Sustaining sectorial spending** for employment creation. This will entail continued investments in agriculture for food security and support of the manufacturing sector through growth of exports.

iv. **Sustained investment in social services** for the welfare of Kenyans by investing in quality and accessible health care services and relevant education, as well as strengthening the social safety net;

v. **Enhancing service delivery through devolution** by consolidating gains made in

devolution in order to provide better service delivery;

vi. **Continued structural reforms** in the public sector, financial sector and business regulation for better service delivery and enhance competitiveness

Fiscal Policies for FY 2016/17 and the Medium Term

35. The budget policy framework for FY 2016/17 and the medium term aims at striking a balance between supporting rapid and inclusive economic growth and continued fiscal discipline. The Government will continue to reduce the overall fiscal deficit and put emphasis on efficiency and effectiveness of public spending and improve revenue performance. Specifically, the fiscal policy aims at raising revenue effort above 21.0 percent of GDP over the medium term and containing growth of total expenditure (**Table 1) below**.

FISCAL YEAR	2015/16		2016/17		2017/18	2018/19	2015/16		2016/17		2017/18	2018/19
	Revised Estimates	Estimates	Printed Estimates/1	Estimates/2	Proj	Proj	Revised Estimates	Estimates	Printed Estimates/1	Estimates/2	Proj	Proj
	KSh Million						As % o f GDP					
1.0 TOTAL EXPENDITURE AND NET LENDING	**2,034,625**	**1,842,691**	**2,262,216**	**2,046,775**	**2,269,304**	**2,462,274**	**31.0**	**28.1**	**30.6**	**27.7**	**27.8**	**26.9**
1.1 Ministerial Recurrent Expenditure	804,279	804,279	850,304	850,304	913,214	993,415	12.2	12.2	11.5	11.5	11.2	10.9
o/w Wages (civil Service & TSC)	333,527	333,527	360,776	360,776	396,854	436,539	5.1	5.1	4.9	4.9	4.9	4.8
Contributory Pensions	-	-	-	-	17,701	18,763	-	-	-	-	0.2	0.2
1.2 Development Expenditure	718,572	526,637	809,044	593,603	699,140	772,753	10.9	8.0	10.9	8.0	8.6	8.4
O/w Domestically Financed	305,003	305,003	398,430	398,430	440,880	487,175	4.6	4.6	5.4	5.4	5.4	5.3
Foreign Financed	413,569	221,634	410,614	195,173	258,260	285,577	6.3	3.4	5.6	2.6	3.2	3.1
1.3 Interest Payments & Pensions	240,500	240,501	310,957	310,957	347,678	365,752	3.7	3.7	4.2	4.2	4.3	4.0
1.4 Net Lending	2,055	2,055	2,127	2,127	2,001	1,975	0.0	0.0	0.0	0.0	0.0	0.0
1.5 Contingencies Fund	5,000	5,000	5,000	5,000	5,000	5,000	0.1	0.1	0.1	0.1	0.1	0.1
1.6 County Allocation	264,219	264,219	284,785	284,785	302,271	323,379	4.0	4.0	3.9	3.9	3.7	3.5
2.0 TOTAL REVENUES	1,295,379	1,295,379	1,500,612	1,500,612	1,695,408	1,920,330	**19.7**	**19.7**	**20.3**	**20.3**	**20.8**	**21.0**
2.1 Ordinary Revenue	1,184,368	1,184,368	1,376,424	1,376,424	1,561,398	1,776,912	18.0	18.0	18.6	18.6	19.2	19.4
2.2 Ministerial A-I-A	111,011	111,011	124,188	124,188	134,010	143,417	1.7	1.7	1.7	1.7	1.6	1.6
3.0 GRANTS	76,643	31,008	72,552	32,915	51,739	60,682	**1.2**	**0.5**	**1.0**	**0.4**	**0.6**	**0.7**
3.1 Grants - AMISOM	6,440	6,440	6,440	6,440	6,100	6,100	0.1	0.1	0.1	0.1	0.1	0.1
3.2 Project Grants	69,703	24,068	65,612	25,975	45,139	54,082	1.1	0.4	0.9	0.4	0.6	0.6
3.3 Debt Swap	500	500	500	500	500	500	0.0	0.0	0.0	0.0	0.0	0.0
4.0 DEFICIT	(662,603)	(516,305)	(689,052)	(513,249)	(522,157)	(481,262)	**(10.1)**	**(7.9)**	**(9.3)**	**(6.9)**	**(6.4)**	**(5.3)**
5.0 FINANCING	662,603	516,305	689,052	513,249	522,157	481,262	**10.1**	**7.9**	**9.3**	**6.9**	**6.4**	**5.3**
5.1 Project Loans	344,710	198,410	345,424	169,620	213,544	231,918	5.2	3.0	4.7	2.3	2.6	2.5
5.2 Commercial Financing	154,332	154,332	153,778	153,778	150,000	125,000	2.4	2.4	2.1	2.1	1.8	1.4
5.3 Program Support	8,213	8,213	3,855	3,855	0	0	0.1	0.1	0.1	0.1	-	-
5.4 Foreign Repayments	(38,379)	(38,379)	(43,623)	(43,623)	(132,178)	(135,883)	(0.6)	(0.6)	(0.6)	(0.6)	(1.6)	(1.5)
5.5 Other Domestic Financing	2,579	2,579	(11,424)	(11,424)	(11,482)	(11,537)	0.0	0.0	(0.2)	(0.2)	(0.1)	(0.1)

5.8 Domestic Borrowing	191,149	191,150	241,042	241,042	302,273	271,764	2.9	2.9	3.3	3.3	3.7	3.0
6.0 FINANCING GAP	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
NOMINAL GDP	**6,566,445**	**6,566,446**	**7,392,247**	**7,392,247**	**8,149,000**	**9,149,000**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

/1 With full absorption of committed financing from Development Partners

/2 With adjusted committed financing from Development Partners to reflect lower absorption

36. The FY 2016/17 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,499.4 billion (20.3 percent of GDP) from Ksh 1,294.3 billion (19.7 percent of GDP) in FY 2015/16 (**As shown in Table 1).** Ordinary revenues is projected at Ksh 1,375.2 billion (18.6 percent of GDP) in FY 2016/17, up from the estimated Ksh 1,183.3 billion (18.0 percent of GDP) in FY 2015/16.

37. Much progress has been achieved towards broadening the tax base and improving revenue administration. The Government has simplified and modernized the VAT legislation and consolidated all the appeals in the tax legislation into one legislation. Similarly, a modern and simplified Excise Duty and Tax Procedure legislation have been enacted, while a review of the Income Tax Act has commenced.

38. The Kenya Revenue Authority instituted measures to seal revenue leakages in customs administration (PVoc requirements) and border areas for all imports. Other measures include: expansion of withholding VAT agents for suppliers to County Governments; targeting nil and nonfilers; Rental Income Programme and operationalization of the Tax Appeals Tribunal. Further, a reputable consulting firm has been engaged to deep-dive into KRA business processes and systems to propose realistic adjustments intended to reverse the revenue shortfalls currently obtaining.

Expenditure Projections

39. The expenditures in FY 2016/17 are guided by the Medium Term Plan II (2013-2017) of Vision 2030 and the strategic priorities of the Government. The Government will continue with rationalization of public expenditures to enhance efficiency and productivity in service delivery. To improve efficiency and effectiveness in public resource utilization and budget execution key recommendations of the Capacity Assessment and Rationalization of the Public Service (CARPS) Programme will be implemented. Other initiatives include: developing a policy framework that entrenches at least 40 percent local content; full adoption of the Treasury Single Account (TSA) to improve the efficiency of the government payment processes; full implementation of the e-procurement to entrench transparency and

accountability; enforce performance benchmarks for execution of the development budget; and strengthen accountability and discipline in the use of devolved resources.

40. Overall expenditure and net lending are projected at Ksh 2,262.2 billion (30.6 percent of GDP), up from the estimated Ksh 1,842.7 billion (28.1 percent of GDP) in the FY 2015/16 budget.

Development and Net Lending

41. Overall, development expenditure outlays are expected to support ongoing infrastructure projects in roads, Standard Gauge Railway, ports, energy and security, among others. Part of this development budget will be funded by project loans and grants from development partners, while the balance will be financed from domestic resources.

42. In the FY 2016/17, domestically financed expenditure is estimated at Ksh 398.4 billion (5.4 percent of GDP), up from Ksh 305.0 billion (4.6 percent of GDP). On the externally financed expenditure, we have received commitments from donors amounting to Ksh 410.6 billion (5.6 percent of GDP) in FY 2016/17. However, going by historical absorption uptake, the received commitments are not expected to be wholly absorbed during the year and, therefore, we expect an absorption of Ksh 195.2 billion (2.6 percent of GDP) in the budget year.

Contingency Fund

In line with the constitution and the PFM Act 2012, a contingency provision of Ksh 5.0 billion has been provided for in the FY 2016/17 budget to cater for unforeseen expenditures.

Equalization Fund

43. In the FY 2016/17, Equalization Fund has been allocated Ksh 6.0 billion to cater for critical development expenditure in water, roads, health, and energy in marginalized areas to improve services in those areas. This together with the accumulated arears of Ksh 6.4 billion brings the total available resources in Equalization Fund to Ksh 12.4 billion. The National Treasury has proposed utilization of these funds as per the recommendations of Commission for Revenue Allocation.

Debt and Deficit Financing Policy

44. The Government will continue borrowing as guided by the medium term debt management strategy (MTDS). The MTDS is a policy document which aims at achieving a desirable debt portfolio and ensuring public debt sustainability. The strategy envisages borrowing from both the domestic and external sources. Domestic borrowing will be not only to raise resources for the Government budget implementation but also to develop the domestic debt market.

45. External borrowing will largely be biased towards concessional loans. While external financing will be largely on concessional terms, the Government will continue to diversify financing sources by continuing to access commercial sources of financing. A well-managed external commercial borrowing program will help alleviate the pressures in the domestic market. Maintaining a certain volume of presence in international markets, as part of a well-designed borrowing program, will enhance the predictability and credibility of the sovereign, leading to better borrowing conditions. This program will be accompanied by improved market

investor relations that includes enhanced communication with current and potential investors and improved information disclosure policies.

46. Assuming that we utilize all the committed externally funded development expenditure of Ksh 410.6 billion in FY 2016/17, we project the overall fiscal deficit including grants of Ksh 689.1 billion (equivalent to 9.3 percent of GDP). However, going by historical absorption uptake where spending agencies have not been able to utilize all the committed external financing previously, we expect an absorption of about 50 percent. This would therefore lower the projected fiscal deficit including grants to Ksh 513.2 billion (equivalent to 6.9% of GDP) in the FY 2016/17, down from the estimated Ksh 516.3 billion (7.9 percent of GDP) in the FY 2015/16. The deficit will be financed by net domestic borrowing of Ksh 241.0 billion (3.3 percent of GDP) in both cases and net external financing of Ksh 459.4 billion (6.2 percent of GDP) in the case of higher absorption and Ksh 283.6 billion (3.8 percent of GDP) in the case of lower absorption. A net repayment of 0.2 percent of GDP is assumed in both cases.

47. Going forward, we remain committed to bringing the fiscal deficit down gradually from the 6.9 percent of GDP in FY 2016/17 to 5.3 percent of GDP in FY 2018/19 and below 4.0 percent of GDP in the outer years.

4a. Risks to the Macroeconomic – Fiscal Outlook

50. Public expenditure pressures, especially recurrent expenditures continue to pose a fiscal risk, wage pressures and the inefficiencies in devolved services may limit continued funding for development expenditure.

51. The impact of insecurity on tourism, and depressed rainfall which could affect exports and agricultural production

52. Continued weak growth in advanced economies that will impact negatively on our exports and tourism activities.

53. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

4b. Measures to Mitigate Against Risks

The government has put in place measures to safeguard macroeconomic stability to mitigate the effects of the above risks as follows:

54. The Government has negotiated a Stand-By Arrangement and Stand-By Credit Facility (SBA/SCF) with the IMF that will provide US$ 688.3 million in the event of exogenous shocks. This protects the ongoing public investments ensuring they are not disrupted in the event of shocks

55. Construction of irrigation dams across the country to moderate the effects of drought on agricultural productivity and food prices

56. Continuing with the security modernization programs so as to tackle the insecurity concerns in the country and attract investments and tourists

VI. REVENUE OUTLOOK

ITEM SOURCE	2015/16	2016/17	2017/18
	Budgeted	**Budget**	**Projection at 10%**
National equalization Fund	4,190,825,816	4,252,745,786	4,316,536,973
Departmental revenue(others)	277,000,000	220,000,000	176,000,000

57. The 2015/16 budget targeted local revenue receipt of Ksh. 277 Million and receipt from national equalization fund of Ksh 4.19 Billion. The performance will be underpinned by the measures that have been put in place to enhance revenue collection.

58. The 2016/17 budget targeted local revenue receipt of Ksh. 220 Million and receipt from national equalization fund of Ksh 4.25 Billion. The performance will be underpinned by the measures that have been put in place to enhance revenue collection.

59. Projections for 2017/18 is based on progressive growth in revenues in previous years ie at 1.5% for equitable share Kshs. 4,316,536,973 and - 20% for local revenue Kshs 176,000,000

VII. CONCLUSION AND WAY FORWARD

60. The Fiscal outcome of 2015/16 together with updated macroeconomic focus and financial objectives elaborated in the County Fiscal Paper will seek to achieve the objectives outlined in the PFMA, 2012. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds by the various departments will be crucial in ensuring the County delivers her functions.

61. Going forward the set of policies outline in this CBROP reflect the changed circumstances and National Policy pursued by the National Government as the basis of allocation of the Public Resources.