

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF SIAYA



DEPARTMENT OF FINANCE, ECONOMIC PLANNING AND VISION 2030

**County Budget Review and Outlook Paper
September 2016**



Transforming Siaya through: socioeconomic empowerment, agribusiness and infrastructural development

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FOREWORD

This Budget Review and Outlook Paper (BROP) presents the fiscal performance of the County Government of Siaya for FY 2015/16 and how this affects the financial objectives set out in the 2016/17 budget. The updated macroeconomic outlook therein also provides us with a basis to revise the 2016/17 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 2015/16 FY had its fair share of challenges arising from the county operating on a 50% budget for the larger part of the year. Despite these challenges, the overall performance of the county was satisfactory. The lessons learnt will inform managerial decisions aimed at improving the county's performance in the medium term. In order to build on the successes of the 2015/16 FY, the county will continue to invest on priority areas as envisaged in the 2016/17 Fiscal Strategy Paper despite expenditure pressures from other competing sectors.

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

.....
Cleophas O. Ombogo

County Executive Committee Member

Finance, Planning and Vision 2030

ACKNOWLEDGEMENTS

The County Budget Review and Outlook Paper (CBROP) is a legal document that has reviewed the performance of the county in the 2015/16 FY. Despite the overall performance being satisfactory, valuable lessons have been learnt to inform implementation in the future.

My sincere appreciation goes to the following officers who worked tirelessly to ensure timely preparation of this document: Jeniffer Ogola, (Head of Budget), Lawrence Kenyatta, (County Director of Planning), Peter Ligulu, Moses Otieno and Jared Abwao.

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

.....
DANIEL O. OKOTH
CHIEF OFFICER – FINANCE, PLANNING AND VISION 2030
COUNTY GOVERNMENT OF SIAYA

ACRONYMS AND ABBREVIATIONS

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

LEGAL BASIS FOR BUDGET REVIEW AND OUTLOOK PAPER

The preparation and subsequent adoption of the Budget Review and Outlook Paper is anchored in section 118 of the Public Finance Management Act, 2012 which states that:

1. The County Treasury shall prepare and submit to County Executive Committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shall include:
 - a Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
 - b Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.
 - c Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest County Fiscal Strategy Paper; and
 - d The reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
2. The County Executive Committee shall consider the County Budget Review and outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission
3. Not later than seven days after the County Budget Review and Outlook Paper (CBROP) has been approved by the County Executive Committee, the County Treasury shall:
 - a. Submit the paper to the Budget Committee of the County Assembly to be laid before County Assembly; and
 - b. Publish and publicize the paper not later than fifteen days after laying the Paper before the Assembly. _

FISCAL RESPONSIBILITY PRINCIPLES

Section 107 of the Public Finance Management (PFM) Act, 2012, sets out fiscal responsibility principles to ensure prudence and transparency in the management of public resources. These principles are as listed below;

1. The County government's recurrent expenditure shall not exceed the county government's total revenue.
2. Over the medium term a minimum of thirty per cent of the County government's budget shall be allocated to the development expenditure.
3. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member Finance regulations and approved by the County Assembly.
4. Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
5. The County debt shall be maintained at a sustainable level as approved by county assembly
6. Fiscal risks shall be managed prudently
7. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

Chapter One

Introduction

Background

This Budget Review and Outlook Paper (BROP) is the third to be prepared by the County Government of Siaya in line with the Constitution of Kenya 2010 and the Public Finance Management Act, 2012. It reviews the fiscal performance for FY 2015/16 and provides forecasts to guide budget making and implementation in the medium term.

The BROP together with County Integrated Development Plan, Annual Development Plan and Fiscal Strategy Paper are key documents linking policy, planning, budget making and execution in respective fiscal years and the medium term.

Objective of BROP

The objective of the BROP is to review the performance of the county government in the preceding fiscal year, provide an outlook for the future as well as document challenges and lessons learnt to inform future planning and budgeting. Further, the document establishes the level of compliance with fiscal responsibility principles as set out in section 107 of the PFM Act, 2012.

Chapter Two

Review of Fiscal Performance in 2015/2016

Overview

The county government was expected to collect Ksh 230,000,000 from local sources and receive Kshs. 4,995,298,722 as equitable share, Ksh 1.2 billion for projects rolled over from 2014/15 budget, Ksh 128,080,400 for maternal health care, Ksh 95,744,681 for leasing of medical equipment Ksh 63,456,905 fuel levy fund, Ksh 27,530,000 DANIDA grant, Ksh 91,500,000 HSSF, Ksh 93,617,021 County Emergency Fund and Ksh 19,634,077 for user fees forgone to bring its resource envelope to Ksh. 6,946,327,312. Out of this, Kshs 2,137,368,200 was to be spent on personnel emolument, Ksh 1,586,874,264 for operations and maintenance and Kshs. 3,222,084,848 for development.

There was significant improvement in fiscal performance for the period under review as compared with the previous one. Total expenditure for the period amounted to Ksh 5,427,451,679 as compared to Ksh 4,667,304,759 for the previous period. Expenditure on development stood at Ksh 1,830,884,455 representing an increase of Ksh241,570,280 from the previous period.

Actual Performance

Receipts

In the period under review, Ksh 5,438,807,762 was received from the exchequer against a planned budget of Ksh 6,946,327,312. Among the revenue streams that were not received were conditional grants of Ksh 91.5 million HSSF, 93,617,021 county emergency fund and Ksh 75 million for leasing of medical equipment were not released by the national treasury

Local Revenue

Ksh 135,583,664 was raised from local sources against a target of Ksh 230,000,000 representing an under performance of Ksh 94,416,336 or 41.1%. This underperformance

is attributed to:

1. Charges in the finance act 2015 being high leading to low levels of compliance
2. Inadequacy in county legislations hindered collection of revenue from public health, fisheries and liquor licensing
3. Weak enforcement unit
4. Inadequate operational vehicles
5. Poor infrastructure limiting provision of utility services in some markets
6. Low motivation of revenue workforce

From the analysis below, the health department recorded the highest revenue collection of Ksh 44,564,351 or 32.9% of total collections while revenue from burial fees which stood at Ksh 10,500 was the lowest. Comparatively, revenue collection for 2015/16 was lower than that of 2014/15 by Ksh 7,819,776 with revenue collection from the Health Department registering the highest decline from Ksh 47,544,189 to Ksh 44,564,351

Table 1: Local Revenue

Revenue Item	Projected 2015/16	Actual Performance	Deviation	Percentage Deviation
SBP	45,000,000	26,097,518	- 18,902,482	-42%
Market Fee	50,000,000	22,646,625	- 27,353,375	-55%
Bus Park/ parking Fee	17,000,000	11,858,870	- 5,141,130	-30%
Fish Cess Fee	6,500,000	4,316,150	- 2,183,850	-34%
Tender Fee	-	-	-	
Plan Approval Fee	2,500,000	1,823,696	- 676,304	-27%
Transfer Fees	1,000,000	158,100	- 841,900	-84%
Miscellaneous Fee	3,240,000	1,465,980	- 1,774,020	-55%
Plot Rates	16,150,000	2,419,683	- 13,730,317	-85%
Plot Rents	5,900,000	2,770,781	- 3,129,219	-53%
School Fees	250,000	79,050	- 170,950	-68%
Slaughter Fees	896,500	636,840	- 259,660	-29%
Ground/Stall Rent	5,239,800	2,346,445	- 2,893,355	-55%
Burial Fees	30,800	10,500	- 20,300	-66%
Sand Cess	1,200,000	384,760	- 815,240	-68%
CILOR	37,900		- 37,900	-100%
Sugar Cess	4,500,000		- 4,500,000	-100%
Boda Boda Fee	3,500,000		- 3,500,000	-100%
Health Department	45,500,000	44,564,351	- 935,649	-2%
Lands Department	-	2,875,234	2,875,234	
Agriculture	13,500,000	10,159,982	- 3,340,018	-25%
Fair Trade	555,000	623,755	68,755	12%
Roads, Public Works	-	345,344	345,344	
Liquor license	7,500,000		- 7,500,000	-100%
Education, Youth Affairs	-		-	
Total	230,000,000	135,583,664	- 94,416,336	-41%

Source: County Treasury

Table 2: Local Revenue Comparative Analysis for 2014/15 and 2015/16

Revenue Item	Actual 2014-15 (A)	Actual 2015-16 (B)	Deviation (B-A)
SBP	28,350,589	26,097,518	- 2,253,071
Market Fee	20,170,457	22,646,625	2,476,168
Bus Park/ parking Fee	14,829,361	11,858,870	- 2,970,491
Fish Cess Fee	3,892,399	4,316,150	423,751
Tender Fee	270,012	-	- 270,012
Plan Approval Fee	767,608	1,823,696	1,056,088
Transfer Fees	153,150	158,100	4,950
Miscellaneous Fee	1,739,729	1,465,980	- 273,749
Plot Rates	3,189,619	2,419,683	- 769,936
Plot Rents	3,365,331	2,770,781	- 594,550
School Fees	116,175	79,050	- 37,125
Slaughter Fees	573,013	636,840	63,827
Ground/Stall Rent	2,952,116	2,346,445	- 605,671
Burial Fees	28,600	10,500	- 18,100
Sand Cess	213,070	384,760	171,690
CILOR			-
Sugar Cess			-
Boda Boda Fee			-
Health Department	47,544,189	44,564,351	- 2,979,838
Lands Department	1,538,054	2,875,234	1,337,180
Agriculture	13,270,968	10,159,982	- 3,110,986
Trade	330,100	623,755	293,655
Roads, Public Works	-	345,344	345,344
Liquor license			-
Education, Youth Affairs	108,900		- 108,900
Total	143,403,440	135,583,664	- 7,819,776

Expenditure

Total expenditure for the period under review amounted to Ksh 5,427,451,679 against a planned budget of Ksh 6,946,327,312 translating to an absorption rate of 78.1% of the total budget. Sectorally, expenditure for the department of ICT and tourism was the highest at Ksh 91,787,663 against an approved budget of Ksh 96,502,589 while the Department of Education registered the lowest expenditure of Ksh 502,848,194 against a budget of Ksh 900,538,109

Table 3: Total Expenditure Analysis for FY 2015/16

	Printed Estimates for 2015/16	Actual Expenditure 2015/16	Deviations	% Absorption	Projected 2016/17
Recurrent Expenditure					
Salaries and Wages	1,866,834,469	1,754,508,216	112,326,253	93.98%	2,003,678,677
Operations and maintenance	1,857,407,995	1,842,059,008	15,348,987	99.17%	1,833,145,626
Total Recurrent	3,724,242,464	3,596,567,224	127,675,240	96.57%	3,836,824,303
Development	3,222,084,848	1,830,884,455	1,391,200,393	56.82%	3,492,667,024
Total	6,946,327,312	5,427,451,679	1,518,875,633	78.13%	7,329,491,327

Source: County Treasury

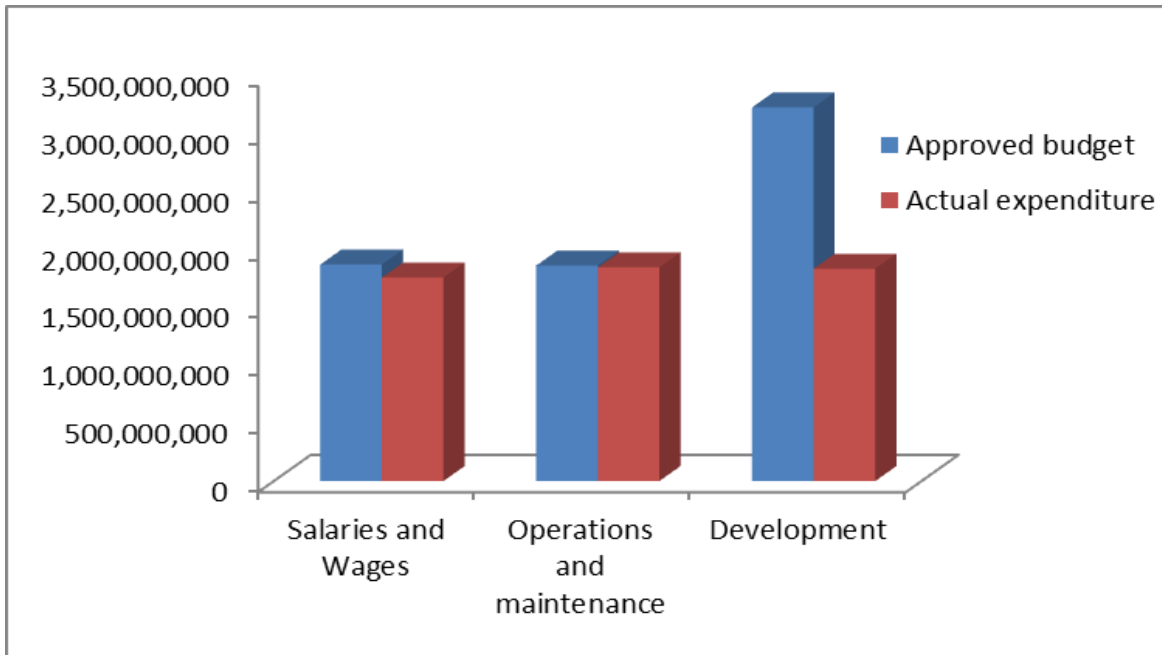
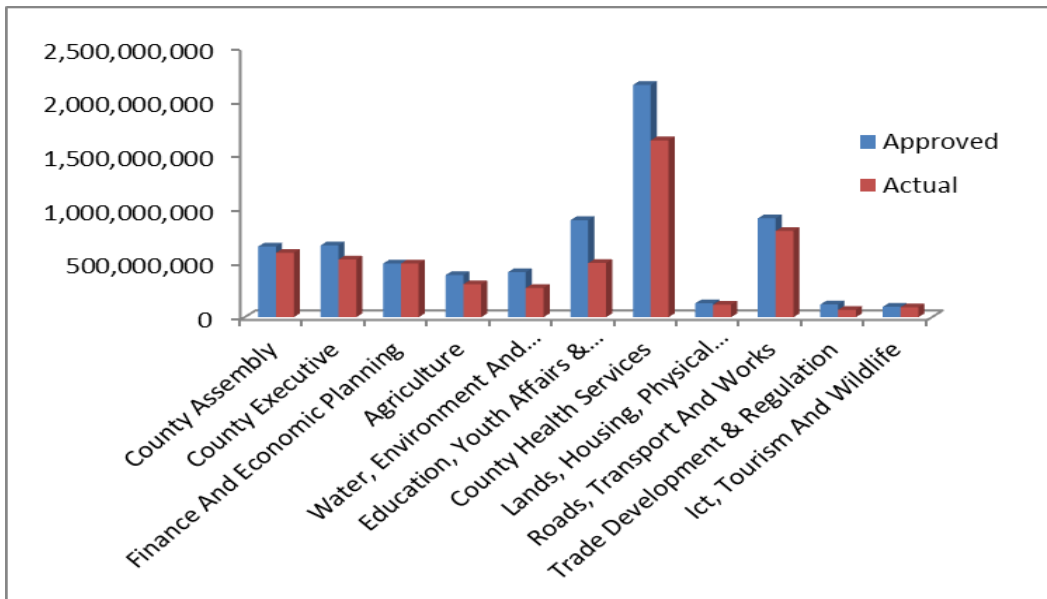


Table 4: Approved Vs Actual Expenditure in 2015/16

Department	2015-16 Approved Budget	Actual Expenditure	Deviation	% Deviation
County Assembly	655,923,777	597,433,093	58,490,684	8.92%
County Executive	666,512,340	535,077,727	131,434,613	19.72%
Finance And Economic Planning	497,440,178	497,413,690	26,488	0.01%
Agriculture	390,781,194	305,410,971	85,370,223	21.85%
Water, Environment And Natural Resources	417,814,765	270,972,492	146,842,273	35.15%
Education, Youth Affairs & Social Development	900,538,109	502,848,194	397,689,915	44.16%
County Health Services	2,155,836,883	1,641,668,343	514,168,540	23.85%
Lands, Housing, Physical Planning & Development	129,489,659	115,785,394	13,704,265	10.58%
Roads, Transport And Works	917,508,233	800,445,088	117,063,145	12.76%
Trade Development & Regulation	117,979,585	68,609,024	49,370,561	41.85%
ICT, Tourism And Wildlife	96,502,589	91,787,663	4,714,926	4.89%
TOTAL	6,946,327,312	5,427,451,679	1,518,875,633	21.87%

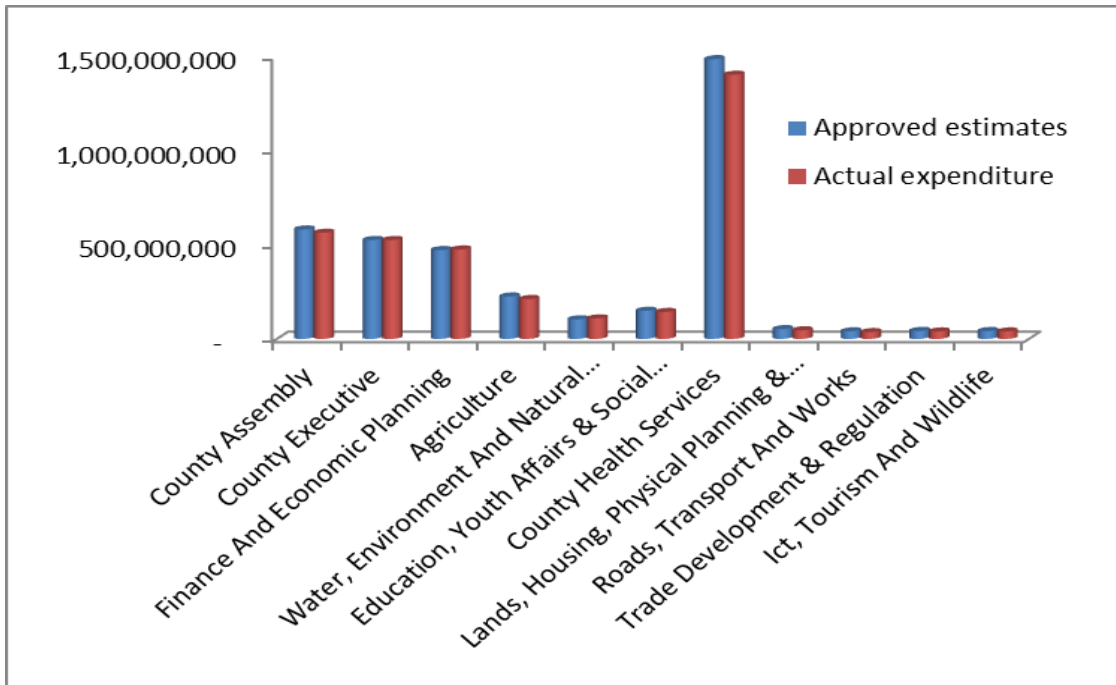


Recurrent Expenditure

Actual expenditure on recurrent stood at Ksh 3,596,567,224 against a planned budget of Ksh 3,724,242,464. The department of governance and public service registered the highest expenditure of Ksh 525,603,527 against an approved budget of Ksh 525,858,008 while that of health registered the lowest expenditure of Ksh 1,404,557,816 against a budget of Ksh 1,486,989,871. Departments of Finance and Planning and Water, Environment and Natural Resources overshot their budgets by Ksh 2,900,712 and Ksh 5,133,698 respectively. The over expenditure was due to reallocation of funds in the supplementary budget yet expenditure had already been incurred.

Table 5: Summary of recurrent expenditure after November 2015 supplementary

Department	Approved Budget	2015-16 Actual Expenditure	Deviation	% Deviation
County Assembly	582,029,051	564,337,401	17,691,650	3.04%
County Executive	525,858,008	525,603,527	254,481	0.05%
Finance and Planning	472,440,178	475,340,890	- 2,900,712	-0.61%
Agriculture	225,361,277	212,164,320	13,196,957	5.86%
Water, Environment And Natural Resources	103,973,799	109,107,497	- 5,133,698	-4.94%
Education, Youth Affairs & Social Development	149,792,823	143,613,058	6,179,765	4.13%
County Health Services	1,486,989,871	1,404,557,816	82,432,055	5.54%
Lands, Housing, Physical Planning & Development	52,284,050	46,054,813	6,229,237	11.91%
Roads, Transport And Works	40,693,727	36,176,932	4,516,795	11.10%
Trade Development & Regulation	42,817,091	39,693,208	3,123,883	7.30%
ICT, Tourism And Wildlife	42,002,589	39,917,762	2,084,827	4.96%
Total	3,724,242,464	3,596,567,224	127,675,240	3.43%



Development Expenditure

Actual development expenditure was Kshs. 1,830,884,455 against a planned development budget of Ksh 3,222,084,848 representing an absorption rate of 56.82% of the total development budget.

The low absorption of funds was as a result of;

1. Delayed release of funds by the National Treasury
2. Restricted release of funds by the office of the controller of budget due to incomplete roll over of projects in the June budget
3. Systemic bottlenecks resulting from end to end procurement process and internet banking
4. Limited capacity of contracted service providers

From the table below the department of ICT and tourism incurred the highest expenditure on development at Ksh 51,869,901 against a planned budget of Ksh 54,500,000 while the department of governance and public service had the lowest expenditure at Ksh 9,474,200 against a budget of Ksh 140,654,332

Table 6: Development Expenditure Analysis for 2015/16

Vote Title	Approved Budget	Actual Expenditure	Deviation	% Deviation
County Assembly	73,894,726	33,095,692	40,799,034	55.21%
County Executive	140,654,332	9,474,200	131,180,132	93.26%
Finance And Economic Planning	25,000,000	22,072,800	2,927,200	11.71%
Agriculture	165,419,917	93,246,651	72,173,266	43.63%
Water, Environment And Natural Resources	313,840,966	161,864,995	151,975,971	48.42%
Education, Youth Affairs & Social Development	750,745,286	359,235,136	391,510,150	52.15%
County Health Services	668,847,012	237,110,527	431,736,485	64.55%
Lands, Housing, Physical Planning & Development	77,205,609	69,730,581	7,475,028	9.68%
Roads, Transport And Works	876,814,506	764,268,156	112,546,350	12.84%
Trade Development & Regulation	75,162,494	28,915,816	46,246,678	61.53%
ICT, Tourism And Wildlife	54,500,000	51,869,901	2,630,099	4.83%
Total	3,222,084,848	1,830,884,455	1,391,200,393	43.18%

Source: County Treasury

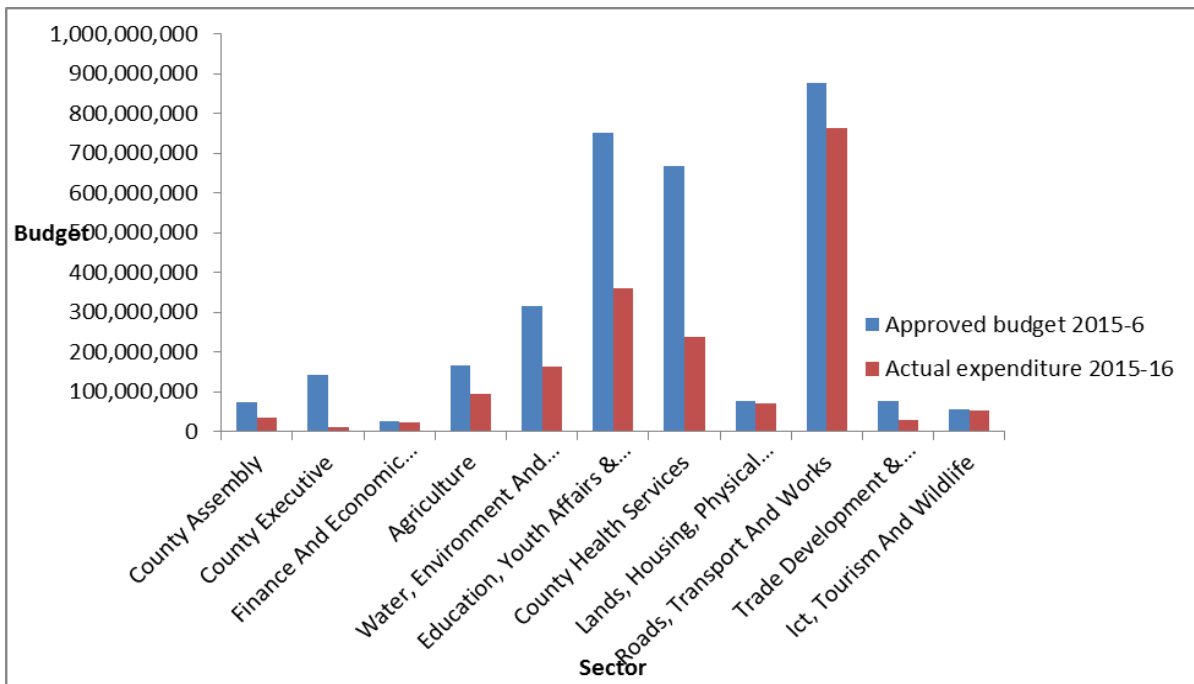


Figure 1: County Government Development Expenditure Analysis for 2014/15

Supplementary Budget

During the period, one supplementary budget was made in November 2015 as shown in table 4 below.

The supplementary budget was necessitated by the need to bring on board projects worth Ksh 700 million which had not been rolled over in the June budget, Ksh 128,080,400 for maternal health care, Ksh 95,744,681 for leasing of medical equipment Ksh 63,456,905 fuel levy fund, Ksh 93,617,021 County Emergency Fund and Ksh 19,634,077 for user fees forgone which were made available after the budget had been passed in June.

Table 7: 2015-16 June and Supplementary Budgets

Department	June estimates	Supplementary Estimates	Deviations
County Assembly	683,089,351	655,923,777	-27,165,574
County Executive	513,737,187	666,512,340	152,775,153
Finance And Economic Planning	494,945,974	497,440,178	2,494,204
Agriculture	456,266,832	390,781,194	-65,485,638
Water, Environment And Natural Resources	365,598,406	417,814,765	52,216,359
Education, Youth Affairs & Social Development	780,037,370	900,538,109	120,500,739
County Health Services	1,926,817,316	2,155,836,883	229,019,567
Lands, Housing, Physical Planning & Development	134,512,395	129,489,659	-5,022,736
Roads, Transport And Works	713,929,706	917,508,233	203,578,527
Trade Development & Regulation	92,651,291	117,979,585	25,328,294
ICT, Tourism And Wildlife	96,389,436	96,502,589	113,153
Total	6,257,975,264	6,946,327,312	688,352,048

Source: County Treasury

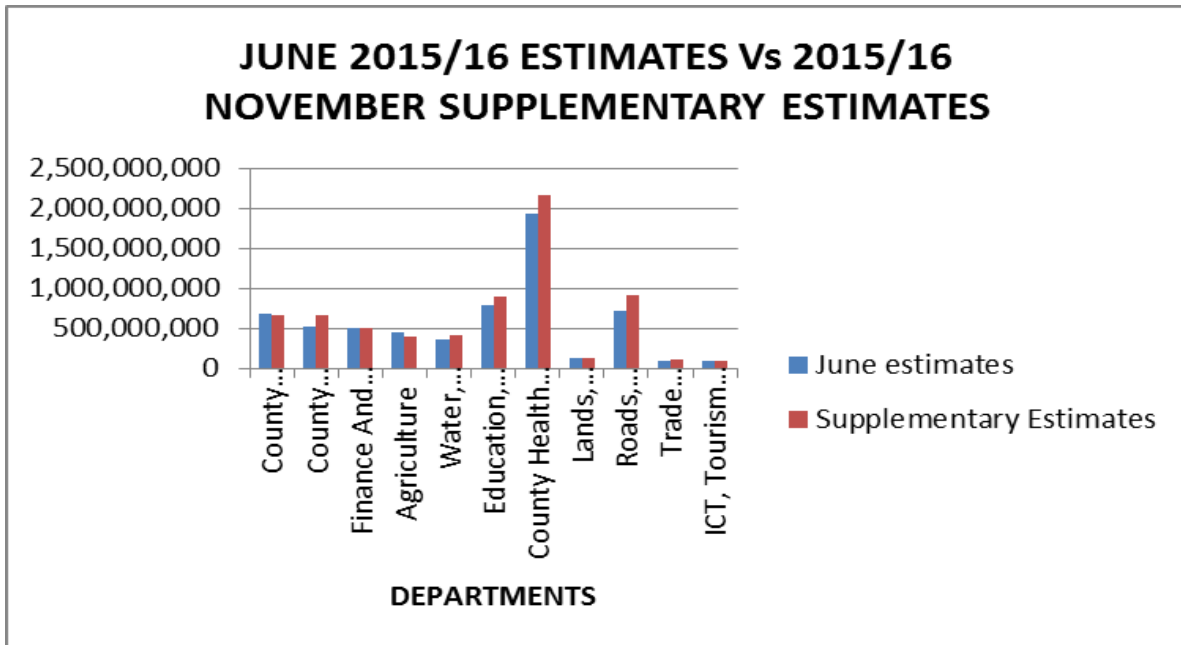


Figure 2: Budget and Supplementary budget

Table 8: Summary of Recurrent Expenditure after Supplementary

Department	June Estimates	Supplementary Estimates	Deviations
County Assembly	594,029,051	582,029,051	-12,000,000
County Executive	456,945,974	525,858,008	68,912,034
Finance And Economic Planning	469,258,008	472,440,178	3,182,170
Agriculture	231,841,549	225,361,277	-6,480,272
Water, Environment And Natural Resources	104,598,672	103,973,799	-624,873
Education, Youth Affairs & Social Development	166,746,720	149,792,823	-16,953,897
County Health Services	1,540,231,155	1,486,989,871	-53,241,284
Lands, Housing, Physical Planning & Development	49,806,785	52,284,050	2,477,265
Roads, Transport And Works	42,890,558	40,693,727	-2,196,831
Trade Development & Regulation	45,228,114	42,817,091	-2,411,023
ICT, Tourism And Wildlife	44,889,436	42,002,589	-2,886,847
Total	3,746,466,022	3,724,242,464	-22,223,558

Source: County Treasury

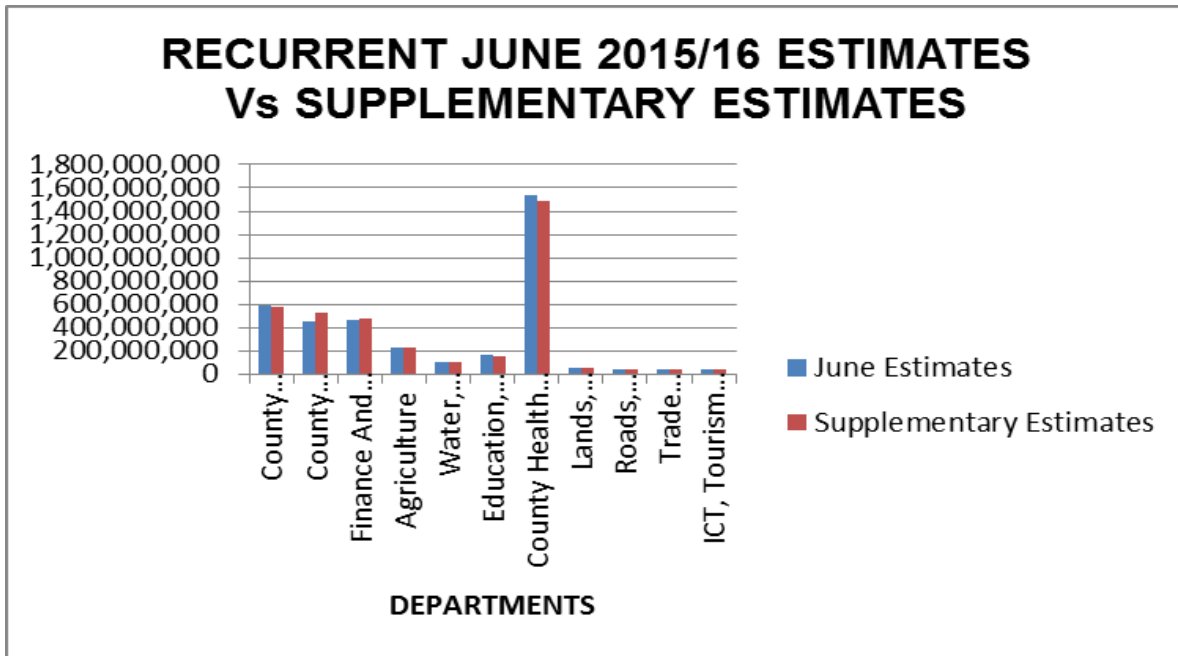
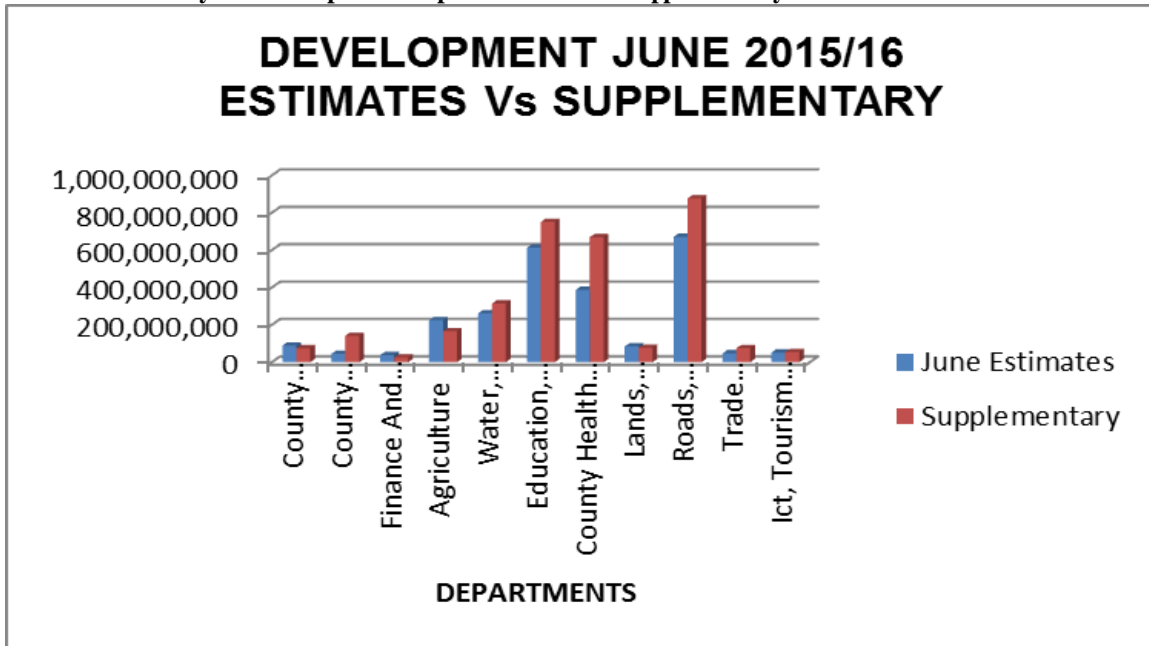


Figure 3: Recurrent Expenditure after Supplementary

Table 9: Development Expenditure after Supplementary

Vote Title	June Estimates 2015/16	Supplementary 2015/16	Deviation
County Assembly	89,060,300	73,894,726	-15,165,574
County Executive	44,479,179	140,654,332	96,175,153
Finance And Economic Planning	38,000,000	25,000,000	-13,000,000
Agriculture	224,425,283	165,419,917	-59,005,366
Water, Environment And Natural Resources	260,999,734	313,840,966	52,841,232
Education, Youth Affairs & Social Development	613,290,650	750,745,286	137,454,636
County Health Services	386,586,161	668,847,012	282,260,851
Lands, Housing, Physical Planning & Development	84,705,609	77,205,609	-7,500,000
Roads, Transport And Works	671,039,148	876,814,506	205,775,358
Trade Development & Regulation	47,423,177	75,162,494	27,739,317
Ict, Tourism And Wildlife	51,500,000	54,500,000	3,000,000
Total	2,511,509,241	3,222,084,848	710,575,607

Table 1: Summary of Development Expenditure after Supplementary**Figure 4: Development Expenditure after Supplementary**

Implication of performance on compliance with fiscal responsibility principles and financial objectives

The county government's total revenue was planned at Ksh 6,946,327,312 out of which Ksh 3,724,242,464, was to be spent on recurrent. Actual expenditure on recurrent amounted to Ksh. 3,596,567,224 or 51.8% of budget for the year. In this regard, the fiscal responsibility principle that prohibits recurrent expenditure from exceeding total revenue was complied with.

In the period under review, Ksh 3,222,084,848 or 46.8% of total revenue was allocated to development. This includes Ksh 1.2 billion which was rolled over from the previous period. The fiscal responsibility principle setting the minimum allocation for development budget at 30% was complied with.

The total planned expenditure on personnel emoluments was Ksh. 2,137,368,200 or 30.8% of the total budget. By restricting its expenditure on the wage bill to below 35% of total expenditure, the county government adhered to the fiscal responsibility principle that provides guidance on the percentage of the budget to be committed to personnel emoluments.

Since inception, the county government has not borrowed to either finance recurrent or development expenditure. This is as a result of prudent financial management and operating on a balanced budget.

Debts amounting to Ksh 230,408,433 were inherited from the defunct local authorities. However, by the time of winding up, the Transition Authority had neither certified these debts nor a decision taken on how they will be settled.

Fees and charges as proposed in the finance act 2015 have remained stable since there were no amendments to the act after being passed by the county assembly. This ensured a reasonable degree of stability with regard to the tax rate and base.

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

- a. The achievement of the objective of investing in physical infrastructure to reduce the cost of doing business was affected by the poor absorption of the development budget in the, water, health, education and the executive as reflected by their respective absorption rates in table 3.
- b. However, in the agricultural sector, the County Government exhibited fair progress towards achievement of the objective of opening up of new land under improved agricultural practices in order to expand food supply, reduce food prices so as to bring down the cost of living, and support expansion of agro-processing industries.

Delays in the enactment of the County Finance Bill 2015 and failure to conclude revenue automation process led to uncertainty in the business environment and the non-realization of revenue targets by the county government thereby creating a setback in the achievement of the objective of creating a conducive environment for business.

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

CHAPTER THREE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Recent Economic Development

Growth prospects for the global economy continue to weaken and recent events such as the Brexit vote, terrorist attacks around the world and the upcoming US presidential election are creating elevated levels of uncertainty for global economic growth. The Global economy is forecasted to grow at 3.2 percent and 3.5 percent in 2016 and 2017 respectively.

Growth in advanced economies is projected to remain modest at about 2 percent with economic recovery being hampered by weak demand, partly held down by unresolved crisis legacies, as well as unfavourable demographics and low productivity growth. Domestic demand will be supported by improving government finances and a stronger housing market that help offset the drag on net exports coming from a strong dollar and weaker manufacturing. In the euro area, low investment, high unemployment, and weak balance sheets weigh on growth, which will remain modest at 1.5 percent this year and 1.6 percent next year. In Japan, both growth and inflation are weaker than expected, reflecting in particular a sharp fall in private consumption. Growth is projected to remain at 0.5 percent in 2016 before turning slightly negative to -0.1 percent in 2017, as the scheduled increase in the consumption tax rate goes into effect.

While emerging markets and developing economies will still account for the lion's share of world growth in 2016, prospects across countries remain uneven and generally weaker than over the past two decades. Growth rate is expected to increase only modestly—relative to 2015—to 4.1 percent this year and 4.6 percent next year.

Africa's overall growth momentum is set to continue with the Gross Domestic Product (GDP) growth projected to increase from 3.5% in 2015 to 4.6% in 2016 and 4.9% in 2017 despite the poor performances of South African and Nigerian economies. However, if the global economy continues to weaken and the global commodity prices fall further then, the African economy will be affected through lower exports of goods and services including tourism and agriculture, lower inflow of Foreign Direct Investments (FDI) and Official Development Assistance (ODA). Besides, there are likely to be external risks in financial market volatility and exchange rates in some countries.

In Kenya, economic growth remained resilient. Data from the Kenya National Bureau of statistics (KNBS) shows that the economy expanded by 4.9 per cent in the first quarter of 2015, slightly above the 4.7 per cent in a similar quarter of 2014. This expansion was attributed to recorded positive growth rates of varying magnitude in all sectors occasioned by the current macroeconomic stability characterized by low and stable inflation rate and steadily declining rate of interest which Central Bank of Kenya (CBK) has retained at 8.5 per cent. However, accommodation and food services sub-sectors recorded quarterly contractions which may have been prompted by some negative market sentiments¹ in the recent months with the domestic stock market slumping, public debt yields increasing, currency succumbing to increased depreciation pressure and the general dark cloud that recent terrorists reports have cast over the country. The National Government Budget Statement for the fiscal year 2015/2016 projects real GDP to grow to 7 per cent in 2015 up from a growth of 5.3% in 2014.

County Specific Outlook

The outlook for Siaya County for the financial year 2016/17 is envisaged to provide a development oriented environment, which will ensure an improved environment for business while at the same time seeking to provide a conducive working and residential space for the population. Improvement of health services, investment in physical

infrastructure, refinement of ECDE learning and provision of social amenities are strategies that will be used to achieve this favourable environment in the County.

Roads

Infrastructure will remain a top priority in the County during the 2016/17 fiscal year. Emphasis will be on expanding and improving road network, development and renovation of government buildings and street lighting.

Health

Improved access to high quality health care; through expansion of existing health infrastructure, investment in modern diagnostic facilities, improving of the county ambulance system and enhancing staff capacity in specialized areas of medicare will be sought for in the period hence a better health sector.

Trade

Improving and expanding market infrastructure, creating an enabling environment for enterprise development through creation of trade and co-operative and improving security in urban and market centres through solar lighting.

Tourism, ICT and Culture

The ICT platform holds greater potential for service transformation in the county. The County will continue investing in modern ICT infrastructure while progressively building human resource capacities for optimal outcome. The County will promote and market its culture and aggressively be marketed as a preferred tourist destination coupled with developing unique products for enhanced tourism activity.

Lands and Housing

Focus will be on provision of a spatial frame work that will guide and coordinate land use development for sustainable livelihood, secure property boundaries of public/plot, government houses and trading centers and to provide adequate, affordable and decent housing for all.

Education

Focus will be on improving and expanding the infrastructure and facilities of ECDE centres and youth training institutions, enhancing education standards, expanding welfare and support systems, development and promotion of sports and recreational facilities for sustainable development

Finance and Economic Planning

Emphasis on efficient and cost effective technologies for resource mobilization, research and development, evidence based planning, county statistics, economic policy formulation and enhanced public participation. Planning, budgeting, and prudent expenditure will guide the focus of this sector.

Reconstruction and updating of the county asset register, timely provision, of financial systems and tightening expenditure controls are expected to enhance prudence in public financial management.

Water, Irrigation, Energy and Natural Resources

Focus will be to improve water and sewerage infrastructure, protection and increasing water access through construction of boreholes, shallow wells, water pans and protection of open water sources, increase area under irrigation and enhance environmental sustainability.

Agriculture

Key priority area to be addressed in this sector include improving livestock production and productivity, crop production and productivity, fish productivity in capture and culture fisheries and to provide quality and efficient animal health services

Governance and Public service

Focus will be on championing devolution at grass root level, retaining skilled and motivated workforce, providing leadership to the County Executive Committees and administration based on the County policies and plans, providing supervision of administration and delivery of services in the County and all decentralized units and agencies in the County and to facilitate the development of coherent integrated human resource planning and budgeting for personnel emolument in the County.

County Assembly

Key focus areas will be on improving physical infrastructure of Assembly's chambers, strengthening the capacity of Members of County Assembly on legislative, representative and oversight roles and enhancing professionalism, build human resource capacity and provide effective services.

Medium Term Fiscal Framework

1. Prudent fiscal policy objectives will provide an avenue to support economic growth in the county by ensuring effective implementation of the CIDP (2013-2017).
2. Diversification of revenue sources, automation of revenue collection, simplification of taxes, fees and charges to encourage compliance and strengthening of enforcement are among measures geared towards unlocking the local revenue potential of the county to further spur economic growth.
3. The county has vast natural resources at her disposal. In this regard it is engaging with stakeholders to develop a comprehensive framework to ensure sustainable exploitation of the natural resources.
4. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments. Subsequently it will be rolled over to sub-county level following decentralization. Besides, the county government will continue complying with the PFMA 2012 to accelerate reforms in expenditure management system.

Risks to the Outlook

The risk to the outlook for the year 2017/18 and medium-term may include:

1. Weakening in global economy which may affect foreign exchange rate
2. Unfavourable weather conditions especially the predicted la-nina which may affect agricultural productivity in the county
3. Resurgence of threats of terrorism since the county has two border towns,

4. Emergence of alternative competitive markets in the great lakes i.e. in neighbouring Uganda where the prices of commodities are lower
5. High cost of commodities due to increased production costs of basic commodities.
6. Heightened political environment due to general elections in 2017

Opportunities.

Through the implementation of FY 2015/16 budget, the county created opportunities for the county population including:

1. A conducive job environment for youths, women and people with disability through award of contracts under the 30% restricted tender initiative;
2. Improved trading environment within the county through investment in market infrastructure and construction of roads facilitating movement within the county including movement of farm produce to markets;
3. Increased demand for public land for investment which has led to appreciation in value of parcels of land within the County
4. Available tractors for hire at subsidized prices which can lead to increased area of land under agricultural production, food self-sufficiency and security.

CHAPTER FOUR:

REVIEW OF FISCAL PERFORMANCE AGAINST FISCAL STRATEGY PAPER 2015

Strategic Pillars

The 2015-2016 Fiscal Strategy paper was the second to be prepared under the County Government. The paper set out the County's priority programmes to be implemented in the Medium Term Expenditure Framework (MTEF) Budget 2015/2016. It was framed against a backdrop of improving global economic prospects, underpinned by gradual strengthening of the advanced economies and continued robust growth in East Africa.

Siaya is considered among Counties with unexplored economic potential with an impressive turnaround in economic performance. The 2015-2016 fiscal strategy paper, highlighted remedies of addressing challenges bedeviling the County and strategies of building on the successes as a basis for transforming the County's economy through agribusiness and infrastructure development.

To unlock the County's potential, the 2015/2016 Fiscal Strategy Paper covered four broad pillars, namely:

Pillar I: Improvement of governance and administration through investment in devolution structures for effective service delivery;

Review:

To address this pillar, significant investment was directed in Governance and public service, lands, finance and County Assembly. Governance and public service Kshs.525, 858,008 and kshs.140, 654,332 was allocated for recurrent and capital expenditure respectively in the 2015/2016 supplementary budget. Under lands Kshs. 52,284,050 and Kshs. 77,205,609 was allocated to department in November supplementary budget 2015/16 for recurrent and development respectively. County Assembly was on the other hand allocated Kshs. 582,029,051 and Kshs. 73,894,726 for recurrent and development respectively in November 2015/16 supplementary budget. During the period under review, Lands department invested in preparation of a county spatial plan, valuation rolls for urban centers, survey public plots with government houses and trading centers and prepared base maps for planning, engineering purposes, County land administration and purchased land for development purposes

Under Governance focus was on facilitation of the process of development of policies, laws and requisite regulations that will enhance good governance, implementation of the various development projects in the county and public participation. Under the County Assembly in the financial year under review investment was directed towards strengthening the capacity of Members of County Assembly in legislative processes, representative capacity and oversight, enhanced professionalism and built human resource capacity

Under finance focus was on providing efficient financial services so as to support service delivery by other department, improving tracking of results to inform programme implementation and ensure timely completion of projects, automation of revenue collection to seal the possible leakages and improve on internal revenue generation. To effectively implement these projects, the department was allocated Kshs.472, 440,178 and Kshs.25, 000,000 for recurrent and development respectively in November supplementary budget 2015/16.

Pillar II: Social transformation through investment in healthcare services, education, youth, culture and social services;

Review:

To address this pillar, significant investment was captured under the sectors of water, education and health. Under water sector, key programmes included water and sanitation

infrastructure development and forest management services. The sector was allocated in the November supplementary budget 2015/2016 kshs.103, 973,799 and kshs.313, 840,966 for recurrent and capital expenditure respectively.

Under the education sector, key programmes included ECD programme, youth polytechnics-youth training, social services, sports and culture. The sector was allocated in the November supplementary budget 2015/2016 kshs.149, 792,823 and kshs.750, 745,286 for recurrent and capital expenditure respectively.

Under the health sector, key programmes included curative healthcare services; preventive, promotive and rehabilitative services; waste refuse and waste dumps. The sector was allocated kshs.1, 486,989,871 and kshs.668, 847,012 for recurrent and capital expenditure respectively in November supplementary budget 2015/16.

Pillar III: Agricultural transformation for improved food security through investment in irrigation, mechanization and agro inputs

Review:

To address this pillar, the department of Agriculture, Livestock, Fisheries and veterinary services was allocated Kshs.225,361,277 and kshs.165,419,917 for recurrent and capital expenditure respectively in the 2015/2016 supplementary budget.

In the fiscal year under review, the department focussed on livestock development and management, crop production and management, fisheries management and development, veterinary services and general administration, planning and support services.

Pillar IV: Transformation of county infrastructure and communication through Investment in road network and ICT services

Review:

To address this pillar, significant investment was captured under the sectors of roads, ICT and trade. Under trade sector the department was allocated Kshs. 42,817,091 and kshs.75, 162,494 for recurrent and capital expenditure respectively in November supplementary budget 2015/16. The department contributed to the realization of this pillar by undertaking the following programmes: trade development and investment, promotion of fair trade practices and cooperatives extension services.

The roads department was allocated Kshs. 40,693,727 and Kshs. 876,814,506 for recurrent and capital expenditure respectively in November supplementary budget 2015/2016. Under this pillar, the department's focus in the review period was mainly on improvement of urban infrastructure, opening up of new roads, maintenance of existing roads and street lighting.

The ICT and tourism sector focused on information and communication services

programme and promotion of tourism. To undertake the programmes, the sector was allocated Kshs. 42,002,589 and Kshs. 54,500,000 for recurrent and capital expenditure respectively in the period under review.

Fiscal Responsibility Principles

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

Borrowing shall not be undertaken in the financial year 2016/17, but in the Medium Term if it is done it shall be used only for financing the development expenditure.

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

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

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

Fiscal Performance in 2015/16 Financial year

- i. The County government's recurrent expenditure in the last budget execution was Kshs. 3,596,567,224 against the County government's total receipts from national government of kshs.5, 438,807,762 translating to 66.1 percent of total receipts. In

addition recurrent expenditure stood at 51.8 percent against the County's approved revenue of Kshs. 6,946,327,312

- ii. Over the last medium term budget implementation, 48.2 percent of the total county government's budget was allocated for development expenditure.
- iii. The county government's expenditure on wages and benefits for its public officers stood at 25.3 percent against a personnel emolument ceiling of 40 percent of the total budget.
- iv. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure; there was no borrowing on the part of the County government in the fiscal year under scrutiny.
- v. The fiscal risks were managed prudently by the county treasury; and
- vi. Reasonable degree of predictability with respect to the level of tax rates and tax bases was maintained,

FISCAL FRAMEWORK

Fiscal Policy

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

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

Fiscal risks

1. Public expenditure pressure especially on recurrent expenditure, posed a fiscal risk as pressure on wage bill limited funding for development expenditure.
2. The absorption was hindered by bureaucratic procurement processes and procedures, restricted release of funds by office of controller of budget until roll-over of 2014/15 development projects was completed, delayed resumption of release of funds by the national treasury and lack of capacity on contracted service providers.
3. Costs of climate change: Siaya County is among the counties most at risk from an increased frequency and intensity of drought and flood conditions. Addressing the potential deleterious effects on agricultural productivity will require a combination of intensified investment in water-control systems that promote enhanced efficiency in

the use of water resources; a further shift in the role of non-agricultural outputs (and thus a capacity to become competitive in earning the foreign exchange required for a higher level of food imports); and new R&D efforts at promoting agricultural techniques robust to drought and uncertain precipitation conditions.

4. The pressures for job creation arose as a result of population growth: during the MTEF period, Siaya County's education system will produce a significantly large number of new school leavers seeking jobs. The County government expenditure policies in the fiscal year under review were sensitive to the job creation possibilities associated with the realization of the government's expenditure program.

To mitigate the risks above as contemplated in the fiscal strategy paper, the following remedies were provided for in the FY 2015/2016 budget.

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

The fiscal strategy paper proposed ways of Revenue Enhancement including:

1. Digitization of revenue collection to seal leakages and minimize monetary haemorrhage; funds for this activity were allocated in the 2015/2016 budget and its implementation is on progress.
2. The county treasury enacted taxation laws through the finance Act 2016 aimed at widening the County's revenue base by targeting potential areas previously unexplored.
3. The county treasury issued circulars and regulations intended to strengthen the internal financial control systems

4. Facilitating and motivating the revenue officers: this initiative has been captured in the Finance Act 2016.

Medium-Term Expenditure Framework

The favourable macroeconomic conditions envisaged to prevail in the country this financial year will provide a significant development platform for this county. However, there are myriad of challenges to be encountered; ranging from high wage bill, low tourism, high commodity prices, La-Nina, approaching elections, appreciating US dollar against local currency and a weak global economy.

The implementation of the CIDP will assist in the achievement of the development targets and streamline the resource allocation and utilization. MTEF budgeting will provide an important platform for adjusting non-priority expenditures to cater for the priority sectors. This initiative will embrace thorough public participation as provided for in the constitution and it will be an important tool to ensure the achievement of objectives and targets set out in the CIDP.

Preparation of annual development plans is a necessary step to improve the absorption capacity and provide a guideline on how best objectives will be achieved without overstretching or clustering. There is also need to streamline the procurement procedures and process to ensure timely achievement of objectives.

Outcome and impact targeted expenditure will be a guiding principle in utilization of funds. Feasible and measurable indicators will be set for each sector and will guide in output based implementation of projects. Tangible results will be used to monitor the effectiveness of the funds used.

2016/17 Budget Framework

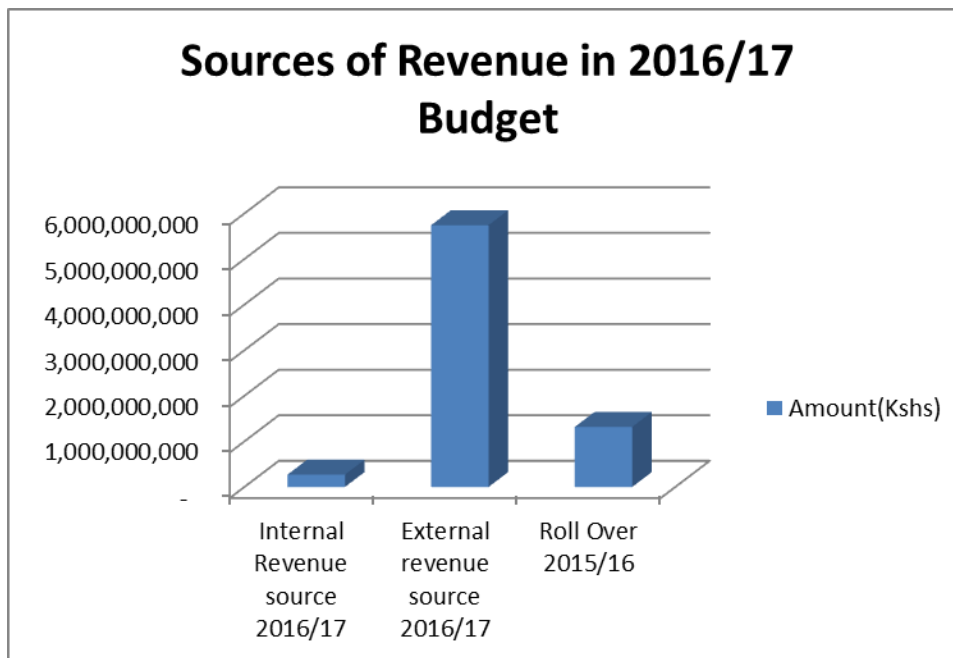
The 2016/2017 budget framework is set against the background of the CIDP and the Medium Term Plan. The budget is optimistic in regard to the overall performance of the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food prices. The business environment is expected to remain conducive despite the threats of terrorism and heightened political atmosphere due to the approaching elections.

Balanced budget approach to budget preparation has been used to ensure matching of resources to needs in the county. This is necessary to ensure that all sectors are provided with a substantial allocation of funds as per the resources available. There is also need to avoid off budget spending as this may lead to failure in achievement of set objectives.

Budget Estimates FY 2016/2017

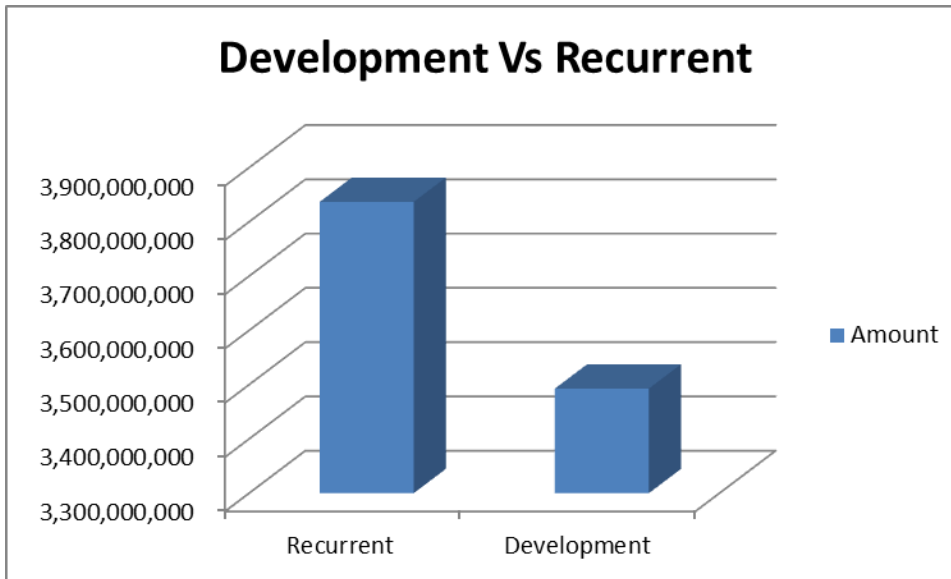
The County seeks to finance a total budget of Ksh 7,329,491,327 during the fiscal period 2016/17. A total of Ksh 270,000,000 will be raised from internal sources, Kshs. 1,317,001,876 being roll over from 2015/16 financial year, while the balance of Ksh 5,742,489,451 will be funded externally from the National government transfers.

Internal Verses External Revenue



Development Vs Recurrent Projections

The County seeks to utilize a total of Ksh 3,836,824,303 in recurrent expenditure against a development vote of Ksh 3,492,667,024.



Budget Outlook 2017/2018

Revenues

The 2017/18 resource envelope is projected at a total outlay of Ksh 6,613,738,396 constituting of Ksh 6,316,738,396 being projected exchequer release and projected internal resources of Ksh 297,000,000. This scenario translates to 95.5 percent resources from National government allocation and 4.5 percent internally mobilized resources. Internal resources will constitute county levied taxes, charges and user fees.

Expenditures

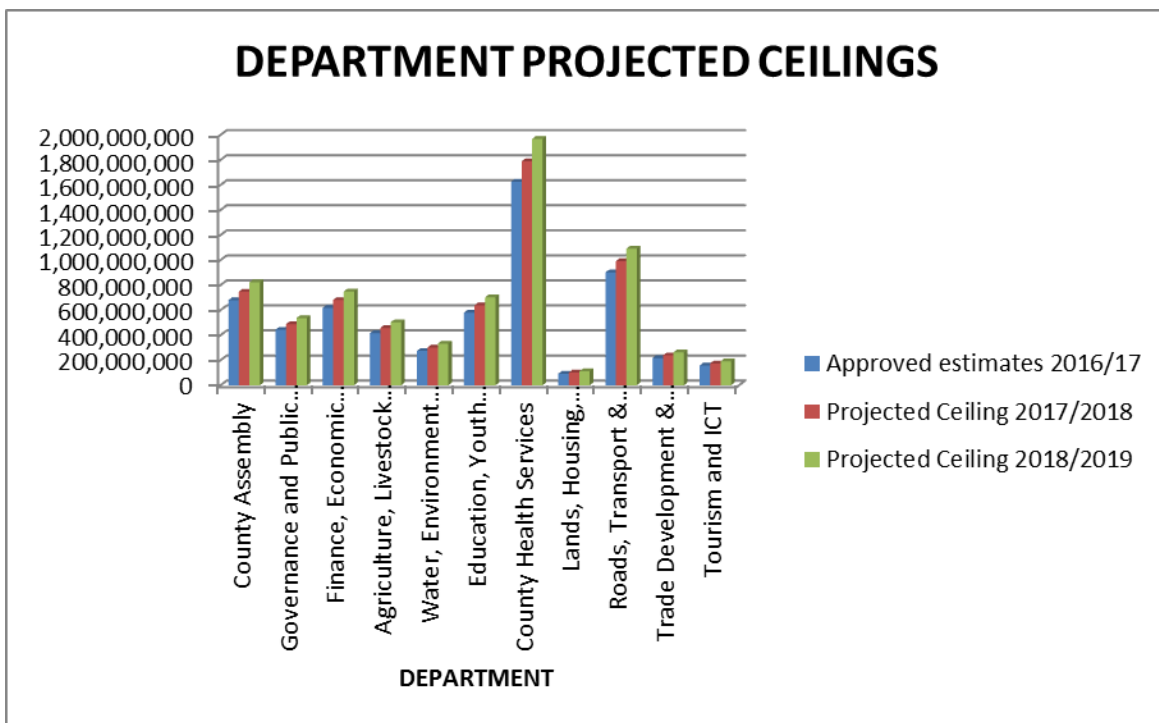
Expenditure is broadly categorized into capital and recurrent. The County is projected to incur a recurrent expenditure of Ksh 4,497,342,109 representing 68 percent of the total budget and a development allocation of Ksh 2,116,396,286 equivalent to 32 percent of the total budget.

The table and graph below provides tentative projected baseline ceilings for the 2017-19 MTEF periods, classified by sector.

Table 10: Baseline Ceilings for the MTEF Period

Sector	Approved estimates 2016/17	Projected Ceiling	
		2017/2018	2018/2019
County Assembly	679,914,472	747,905,919	822,696,511
Governance and Public service	444,160,229	488,576,252	537,433,877
Finance, Economic Planning and Vision 2030	619,239,793	681,163,772	749,280,150
Agriculture, Livestock & Fisheries	416,568,645	458,225,510	504,048,060
Water, Environment & Natural Resources	274,626,489	302,089,138	332,298,052
Education, Youth Affairs, Sports, Culture & Social Services	580,679,660	638,747,626	702,622,389
County Health Services	1,626,648,927	1,789,313,820	1,968,245,202
Lands, Housing, Physical Planning & Development	92,504,388	101,754,827	111,930,309
Roads, Transport & Public Works	902,032,578	992,235,836	1,091,459,419
Trade Development & Regulation	217,561,941	239,318,135	263,249,949
Tourism and ICT	158,552,329	174,407,562	191,848,318
Total	6,012,489,451	6,613,738,396	7,275,112,236

Figure 5: baseline ceilings for MTEF period



Expenditure Reforms

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

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

capacity will be enhanced through organization and modernization reforms including digitization program for revenue collection.

- b) Expenditure rationalization will continue being a priority, with focus on reallocation of resources from non-productive to productive areas. Expenditure focus will be on those sectors whose goods and services are geared towards improving the socio-economic condition of the residents of the county.
- c) Expenditure efficiency and effectiveness in the implementation of budget programs through enforcement of cost benchmarks for all consumables. Expenditure tracking and value for money audits will be done to ensure efficiency and effectiveness in the use of resources. Project cycle management as well as engagement with development partners will also be strengthened.
- d) In the Roads and Health sectors more resources will be set aside to operationalize and maintain the already developed infrastructure as opposed to opening or constructing new ones.
- e) Continue with the implementation of targeted infrastructure development programs that are focused in attracting investments and job creation in the medium term