



THE REPUBLIC OF KENYA
COUNTY GOVERNMENT OF KISUMU
COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2015

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Foreword

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012 is the second to be prepared under the new County government. It presents the recent economic developments and actual fiscal performance of the FY 2013/2014 and makes comparisons to the budget appropriations for the same year. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the latest County Fiscal Strategy Paper (CFSP), released in April 2014. In this paper, we will also provide an overview of how the actual performance of the FY 2013/2014 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2014 CFSP.

We faced several challenges last financial year but closed the year satisfactorily. Going forward, the various county government departments will increasingly align their planning and expenditure to meet the objectives of the CIDP. At the same time, growing collaborative dialogue between county government, the citizen of Kisumu County, the private sector and civil society is needed to make the plan a reality. The county infrastructure programme is the most immediate contribution to the goals of the CIDP. Capital investments in economic and social infrastructure will relieve serious constraints in agriculture, transport and water allowing for improved economic growth and quality of life for all citizens of Kisumu County

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Abbreviations

CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
GDP	Gross Domestic Product
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PFM	Public Finance Management

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Preamble

Legal Basis for Preparation of the County Budget Review and Outlook Paper

The Budget Review and Outlook Paper (CBROP) is prepared in accordance with Section 118 of the Public Finance Management (PFM) Act 2012. The law stipulates that:

- 1) A county Treasury shall;
 - a. Prepare a CBROP in respect of the County for each year; and
 - b. Submit the paper to the County Executive Committee (CEC) by 30th September of that year.
- 2) In preparing its CBROP, the County Treasury shall specify;
 - a. The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year
 - b. The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP)
 - c. Information on:
 - (i) Any changes in the forecasts compared with the CFSP; or
 - (ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or financial objectives in the CFSP for that financial year; and
 - d. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
- 3) The CEC shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the CBROP is approved by the CEC, the County Treasury shall:
 - a. Arrange for the paper to be laid before the County Assembly; and
 - b. As soon as practicable after having done so, publish and publicise the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution of Kenya 2010, the PFM Act, 2012 sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 of the PFM Act, 2012 states that: The County Government's recurrent expenditure shall not exceed the County Government's total revenue;

- 1) Over the medium term, a minimum of thirty (30) per cent of the County Government's budget shall be allocated to the development expenditure;
- 2) The county Government's expenditure on wages 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;
- 3) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure;
- 4) The County debt shall be maintained at a sustainable level as approved by County Assembly;
- 5) The fiscal risks shall be managed prudently; and
- 6) 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.

INTRODUCTION

This second County Budget Review and Outlook Paper (CBROP) of the County Government of Kisumu comes against a backdrop of growing stabilization on the structures setup within the county. It has been prepared in conformity to the Public Finance Management (PFM) Act, 2012 and contains a review of the fiscal performance of financial year 2014/15, recent macroeconomic forecast and adjustments to be incorporated into County Fiscal Strategy Paper (CFSP) to be submitted to County assembly before February 2016 deadline.

Objective of CBROP

The objective of CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in the CFSP. This together with macroeconomic outlook provides a basis for revision of the current budget in the context of the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed in the CFSP.

Significance of CBROP

The significance of CBROP is that it ensures that the government reviews its previous year's performance, the county and the national economic – financial environment and its likely impact on the level of future revenues; and to set preliminary sector ceilings and the light of this review of revenue.

Structure

This paper is in four sections namely:

- I. Review of county fiscal performance
- II. Recent economic development and outlook
- III. Resource allocation frame work
- IV. Conclusion and next steps

I. REVIEW OF COUNTY FISCAL PERFORMANCE IN 2014/2015

Revenue Outturn(Ksh '000')

S/No.	Local Revenue	Budget Kshs	Actual Kshs	Deviation Kshs	Deviation %
	Opening balance	1,023,879	965,840	(58,039)	-0.1
1	Court Fines		553	553	
2	Impounding Charges		165	165	
3	Clamping fees		173	173	
4	By Law		128	128	
5	Land rate penalties		95	95	
6	SBP Penalties	91	128	37	40.7
	Sub Total	91	1,242	1,151	40.7
1	Lease of water distribution network		6,041	6,041	0.0
2	Hire of Social Hall/stadium	330	1,821	1,491	451.8
3	Hire of Vehicle/Plant/Tractors		41	41	
	Sub Total	330	7,903	7,573	2294.8
1	Sale of Tender Documents		1,013	1,013	
2	Storage fee		23	23	
3	Clearance Certificate	50	2,522	2,472	4944.0
4	Imprest Recoveries		290	290	
5	Attachment fees		187	187	
6	Sundry	24,513	1,594	(22,919)	(93.5)
	Sub Total	24,563	5,629	(18,934)	(77.1)
1	Land Rates	171,854	117,702	(54,152)	(31.5)
2	Other Property Charges		49	49	
3	Land Rates Arrears		7,847	7,847	
	Sub Total	171,854	125,598	-46,256	(26.9)
1	Market Fees	96,477	74,876	-21,601	-22.4
2	Street Parking Fees	77,730	75,962	-1,768	-2.3
3	Bus park fee	120,670	107,738	-12,932	-10.7
4	Other vehicle parking fees	133	270	137	103.0
5	Crop/Other Cess	6,254	12,191	5,937	94.9
6	Mineral Royalties	662	288	-374	-56.5
7	sign board and advertisement	67,209	56,297	-10,912	-16.2
8	Trade Name Fees		15	15	
9	Promotion/Display/Wall Branding/Marketing		16	16	
10	SBP	70,644	96,992	26,348	37.3
11	Application fee/registration	767	1,509	742	96.7
12	Registration of groups		16	16	
13	Registration of private schools	21	168	147	700.0
14	Vocational Training Fess		45	45	
15	Pegging/beacon/search fees		3,106	3,106	
16	Survey Fees		58	58	
17	subdivision and Amalgamation fee		1,477	1,477	
18	Land Search fee	2	13	11	550.0
19	Food Hygiene License	7	6,069	6,062	86600.0
20	Public Health Inspection fees		3,049	3,049	
21	Cemetery/Burial fees	-	97	97	
22	Molasses Levy	550	-	-550	-100.0
23	Tree Felling		151	151	
24	Refuse Collection fees		7	7	
25	Slaughter fees	249	1,823	1,574	632.1

S/No.	Local Revenue	Budget Kshs	Actual Kshs	Deviation Kshs	Deviation %
26	Plans Renewal/Application		913	913	
27	Change/extension of user	28	6,262	6,234	22264.3
28	Environmental Fees		1,008	1,008	
29	Plot Transfer fees	20	662	642	3210.0
30	Building Plan Approval	53,495	8,054	-45,441	-84.9
31	Occupation Permit		2,938	2,938	
32	Hoarding		1,252	1,252	
33	Building Inspection fee	42	6,632	6,590	15690.5
34	Structural Plans Approval fees		5,571	5,571	
35	Road crossing		1,619	1,619	
36	Fire Inspection Certificates		2,746	2,746	
37	Stock Sales	4,839	3,683	-1,156	-23.9
38	Weights and Measures	2,462	1,171	-1,291	-52.4
	Sub Total	502,261	484,744	-17,517	-3.5
1	Nursery school fees	120	354	234	195.0
2	Health Cost sharing	719,809	295,221	-424,588	-59.0
3	County Cost Sharing		755	755	
4	Water Supply receipts	316	1,485	1,169	369.9
5	Agriculture, Fisheries & Livestock Levies	27,038	6,083	-20,955	-77.5
6	Industrialization/Cooperative Levies	1,414	147	-1,267	-89.6
7	Education/Sports & Social Services	4,444		-4,444	-100.0
8	Fire Fighting Services				
	Sub Total	753,141	304,045	-449,096	-59.6
1	Ground/Plot rent	2,148	2,320	172	8.0
2	Market stall rent	4,299	666	-3,633	-84.5
3	Housing Estate Rents	715	16,945	16,230	2269.9
4	Institutional House rent	40,570	21,162	-19,408	-0.5
5	Temporary Occupation License		637	637	
6	Ground/Plot Rent Arrears	1	13	12	1200.0
	Sub Total	47,733	41,743	-5,990	-12.5
	Totals	1,499,973	970,904	-529,069	-35.3
1	Equitable Share Fund	4,957,071	4,957,071	0	0.0
2	Level 5 Hospital Fund	248,506	248,506	0	0.0
3	Additional Allocation Fund	196,330	-	-196330	-100.0
4	C.A. Health Facilities (DANIDA)Fund	14,200	14,200	0	0.0
	Total Exchequer Releases	5,416,107	5,219,777	-196330	-3.6
	Total Revenue	7,939,959	7,156,521	-783438	-9.9

Table 1: Revenue outturn

Table 1 shows that total revenue amounted to Ksh 7.16 B against a target of Ksh7.94 B representing an under-performance of Kshs 783.44 million (or -9.9 per cent deviation from the revised budget).

A total of Kshs 970.90 million was collected from local revenue sources against a target of Kshs 1.5 B resulting to an under –performance of Kshs 529.07 million (or -35.3 per cent deviation from the revised budget). Although the actuals reflect an under performance in local revenue, comparison to the

previous year shows an improvement by 50% (previous local revenue was Ksh 621.86 million compared to Ksh 970.90 million). This is attributable to recognition of devolved revenues.

Share of national revenue total Ksh 5.22 B against target of Ksh 5.42 B also reflecting an underperformance of Ksh 196.33 million.

The Local revenue under performance was attributable to:

- Over optimistic projections in the department of health.
- Under collection in agriculture, education and industrialization departments due to poor monitoring.
- Under collection due to under staffing in plan approvals, market, parking and sign board fees
- Under collection of land rates due to un cleaned register
- In adequate collection systems especially in the sub counties.
- Macroeconomic courses i.e. inflation and global economic down turn.
- Pilferages and leakages due to human face with revenue collected.

Expenditure outturn(Kshs '000')

Item	Budget A	Actual B	Deviation A – B = C	% Deviation
RECURRENT	5,088,970	4,626,130	462,840,305	9.1
<i>Compensation to employees</i>	2,826,462	3,112,783	(286,321)	(20.1)
<i>Use of Goods and Services</i>	1,427,062	788,227	638,835	44.8
<i>Current transfers and Grants</i>	742,716	685,852	56,864	7.7
<i>Security Benefits</i>	11,730	12,807	1,077	(9.2)
<i>County Funds (Executive car loan)</i>	81,000	26,460	54,540	67.3
DEVELOPMENT	2,851,015	1,502,801	1,348,215	47.3
<i>Acquisition of Assets</i>	2,751,015	1,402,949	1,348,067	49.0
<i>County Funds (Scholarship fund)</i>	100,000	99,852	148	0.1
Total Expenditure	7,939,985	6,128,930	1,811,055	22.8

Table 2: Expenditure outturn

- Table 2 shows that total expenditure amounted to Kshs 6.13 billion against a target of Kshs 7.94 billion representing an under spending of Kshs 1.81 billion (or 22.8 per cent deviation from the revised budget). The shortfall was attributed to delay in release of funds from the consolidated fund to County Revenue fund, failure to release loans and grants meant to supplement the financing of the County functions, under-performance in the County own revenues, and delayed procurement processes.
- A total of Kshs 4.63 billion was spent on Recurrent expenditure against a target of Kshs 5.09 billion resulting to an under –spending of Kshs 462.84 million (or 9.1 per cent deviation from the revised recurrent budget). The highest under-spending was on use of goods and services

with a deviation of Kshs 638.84 million (or 44.8 per cent deviation from the revised estimates) while overspending was on compensation to employees with a deviation of Kshs 286.32 million (or 20.1 per cent deviation from the revised estimates). The overspending on compensation to employees was occasioned by arrears of payroll deductions relating to financial year 2013/14 paid in the period under review (financial year 2014/15).

- The County spent Kshs 1.50 billion on development expenditure compared to a target of Kshs. 2.85 billion. This accounted for an under-spending of Kshs 1.35 billion (or 47.3 per cent deviation from the revised development expenditure estimates). This can be attributed to delayed preparation of tender documents, poor management of procurement processes, inadequate capacity in project management, encroachment into public land, inadequate funding of projects, and low staffing and inadequate equipment in the Transport and infrastructure department leading to ineffective supervision of projects.

Fiscal outturn

	Target		Actual	Deviation		Performance	
	Budget Estimates	Revised Estimates		From Budget	From Revised	% of Budget	% of Rev Estimate
A. TOTAL REVENUE	11,430,818	7,939,985	7,156,520	-4,274,298	-116,797	-37	-2
CRF Account B/F	1,335,294	1,023,879	965,840	-369,454	-58,039	-28	-6
Tax Receipts	1,881,136	744,833	125,599	-1,755,537	-619,234	-93	-83
National grants	5,221,782	5,401,906	5,205,577	-16,205	470,339	0	10
Proceeds from Domestic and Foreign Grants	2,030,972	14,200	14,200	-2,016,772	0	-99	0
Other Receipts	961,634	755,167	845,304	-116,330	90,137	-12	12
B. EXPENDITURE	10,885,877	7,939,985	6,128,930	-4,756,947	1,811,055	-73	-56
1. Recurrent	4,492,092	5,088,970	4,626,129	134,037	-462,841	3	-9
Compensation to Employees	3,034,411	2,826,462	3,112,783	78,372	286,321	3	10
Use of Goods and Services	1,343,812	1,427,062	788,227	-555,585	-638,835	-41	-45
Other Social Benefit Schemes - Loans & Mortgages	81,000	81,000	26,460	-54,540	-54,540	-67	-67
Social Security Benefits	18,774	11,730	12,807	-5,967	1,077	-32	9
Other grants and transfers	14,095	742,716	685,852	671,757	-56,864	4766	-8
2. Capital Expenditure	6,393,785	2,851,015	1,502,801	-4,890,984	-1,348,214	-76	-47
Acquisition of Assets	6,393,785	2,751,015	1,402,949	-4,990,836	-1,348,066	-78	-49
County Funds (Scholarship fund)	0	100,000	99,852	99,852	-148	-	0
C FISCAL BALANCE							
Surplus/Deficit	544,941	-	1,027,590				

Table 3: Fiscal outturn

2014/2015 Fiscal Performance

Table 3 presents the fiscal performance for the FY 2014/15 giving the deviations from the budget estimates. Total revenue amounted to Ksh7.16 billion down from a budget of Ksh11.4 billion reflecting a downward deviation of 37%. However the deviation from the revised budget of Ksh 7.27 was minimal at 1%. The huge variation from the original budget was because the revenue target was based on the assumption that tax receipts and other receipts including those from revenue streams that were from devolved national governments would boost local revenue of the county.

The other reason is that revenue collection is still below expectation for certain revenue streams due to incomplete or lack of up to date records as in the case for land rates. This coupled with inefficient methods of revenue collection as well as revenue leakages.

In the same FY, expenditure was mainly on compensation to employees at Ksh 3.1 billion and use of goods and services at Ksh 777 million against a budget of Ksh 2.8 billion and Ksh 1.3 billion respectively. This increased recurrent expenditure to Ksh 4.6 billion as compared to expenditure on development which was Ksh 1.5 billion thus giving development index of 32.6%.

Overall, comparing the total revenue of Ksh 7.156 billion the total expenditure amounting to Ksh6,128,930 for F/Y 2014/2015, the County registered a surplus of Ksh. 1.027 billion. This can majorly be attributed to the low rate of absorption especially of the development allocations that has been affected by procurement and capacity issues.

Implications of 2014/2015 fiscal performance.

Revenue and expenditure projections will be based on the macroeconomic assumptions contained in this CBROP and this will be firmed up in the next County Fiscal Strategy Paper (CFSP). The County will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest CFSP to reflect the changed circumstances.

The financial year 2014/2015 fiscal outturn has necessitated revision of the financial objectives to be set out in the next CFSP and the Budget for fiscal year 2016/2017 in the following ways:

- Low absorption of development funds have created a huge backlog of unimplemented projects which will require to be re-budgeted in the next fiscal year hence need for review of the development expenditure projections in the medium term. This huge surplus at the end of financial year is impacting negatively on our development index.
- The resultant surplus also implies low absorption capacities by the departments thus a need to adjust on timeliness of preparation of Bill of Quantities and procurement process. The low absorption by the departments also has implication on the base used to calculate expenditure projections for 2015/2016.
- Under-performance in County own revenues, loans and grants has shrunk the resource base thus necessitating adjustments in the fiscal aggregates for the current budget and in the MTEF period.

- Poor performance by revenue streams such as Facility improvement fund raises concerns about the integrity of the projected estimates as well as need to avoid exerting unnecessary pressure on basic social services to boost revenues.
- Over optimistic projections in the department of health hence exerts undue pressure on the quality of expected service delivery.

This implications will inform the CFSP projections and objectives to enable adjustments to be made in light of the above analysis.

Updated Fiscal Projections in the medium term (Kshs '000')

	2014/2015	2015/2016		2016/2017	2017/2018	2018/2019
	Actual	Budget	BROP	BROP	BROP	BROP
REVENUE & GRANTS	7,156,520	9,637,624	9,278,000	8,869,000	9,939,000	
Local Revenue	970,903	1,868,587	1,729,000	2,075,000	2,490,000	
National Grants	5,205,577	7,752,424	5,951,000	6,546,000	7,201,000	
Donor Funds	14,200	16,580	1,350,000	0		
Other Sources	0	0				
CRF A/C Balance B/F	965,840	1,370,261				
	6,128,931	9,637,624	9,278,000	8,869,000	9,939,000	
EXPENDITURE	4,626,130	5,706,949	5,567,000	5,321,000	5,963,000	
Recurrent	1,502,801	3,930,675	3,711,000	3,547,000	3,976,000	
Development						

Table 4: Updated fiscal projection in the medium term

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Economic indicators

Indicator	2011	2012	2013	2014
Real GDP growth rate (%)	4.4	4.6	4.7	5.3
Agriculture growth rate (%)	1.5	3.8	2.9	3.5
Income per capita (Ksh)	77,098	84,624	87,105	89,240
Population growth rate (%)	2.6	3	4.2	2.87
Annual Avg inflation rate (%)	14.02	9.4	7.5	6.66
91 days treasury bill rate (nominal) %	17.9	8.3	8.75	8.58
Exchange rate (Ksh/USD)	88.81	84.5	87.5	87.92

Source: Central Bank of Kenya

Table 5: Economic indicators

The main economic mainstay of the county remain Agriculture, Manufacturing/informal sector and tourism.

The agriculture sector output has been negatively affected by the poor performance in sugar and rice industry. In a bid to improve food security sorghum production has been enhanced. The current rice variety has low marketability thus impacting negatively on rice industry. An attempt to diversify into fish farming has not yielded much.

The recent classification of hotels into four star within the city is expected to spur tourist sector.

Recent Economic Development

- *Growth Update*

Real GDP in 2014 grew by 5.3 percent and amounted to ksh 3.83 trillion compared with 5.7 percent growth in 2013. The real GDP is estimated to have increased by 4.8 in the first quarter, 6.1 percent in the second quarter, 5.4 percent in the third quarter and 5.1 percent in the fourth quarter compared with growth of 6.0 percent, 7.0 percent, 6.85 percent and 3.0 percent in comparable quarters in 2013. The economy grew by 4.9 percent in the first quarter in the 2015 compared to a growth of 4.7 percent in the first quarter of 2014. The performance of all the sectors of economy was positive except for hotel and restaurant, which contracted to 7.5 percent due to insecurity concerns that occasioned issuance of travel advisory in some key

European source market for tourism. Real GDP growth in the first quarter of 2015 was supported by construction, finance and insurance, information and communication, electricity and water supply, wholesale and retail trade, and transport and storage.

- *Agriculture*

Agriculture output declined to record 3.5 percent growth in 2014 from 5.2 percent in 2013. The down turn, reflected in the first two quarters, offset the impact of the recovery in the latter two quarters of 2014. Specifically agriculture output grew by 2.2 percent growth in the first quarter of 2014, 2.1 percent growth in the second quarter, 6.8 percent growth in the third quarter and 3.8 percent growth in the fourth quarter compared with increase of 6.3 percent in the first quarter of 2013. 6.6 percent in the second quarter, 6.4 percent in the third and 0.9 percent in the fourth quarter of 2013. Agriculture output grew by 4.4 percent in the first quarter of 2015 due to increased use of agricultural inputs. Dry weather conditions in the early part of 2015 however resulted in higher prices in some food items such as beans.

- *Inflation.*

Overall 12-month inflation declined from 7.1 percent in April 2015 to 6.9 percent in May 2015 largely reflecting a decline in fuel and food inflation. Fuel inflation eased by 125 basis points to 0.3 percent in May 2015 while food inflation eased by 13 basis points to 12.4 percent. Non- food non- fuel (NFNF) inflation rose by 62 in April and May 2015. Overall domestic inflation is expected to remain within the government medium term target on account of improved weather condition which are expected to boost supply of agricultural produce as well as increase water levels in power generation dams thus enhancing usage of hydro power, adding on electricity costs. However the weaker shilling may continue to exert upward pressure on some domestic prices.

- *Exchange.*

The Kenya shilling weakened against major international currencies and displayed mixed performance against EAC currencies during the month of May 2015. The weakening reflects developments on the international market. In the first three quarters of 2014 the economy expanded by 5.2 percent on average compared with 6.6 percent in the same period in 2013. On account of performance during the first three quarters and the projected growth of 5.3 percent in 2014, the fourth quarter growth of 2014 is estimated to be at 5.5 percent.

- *Interest rate.*

The Monetary Policy committee maintained the Central Bank Rate (CBR) at 8.5 percent on May 6, 2015, in order to continue anchoring inflationary expectations. Meanwhile, the weighted average interbank rate increased to 11.2 percent in May 2015 from 8.8 percent in April 2015 consistent with the pursuit of current tightening bias stance in the money market in order to anchor inflationary expectations.

- The most recent Kenya economic update says manufacturing industry could be the key to sustaining the country positive growth and creating employment. Towards this the national government has come up with a ten year blue print to guide industrial development.
- KEMSA has transformed to improve service delivery and save lives by becoming a more independent and competitive medical logistic authority. The new self-sustainable supply system model ensures that supply of medical commodities to public health facilities continue uninterrupted.
- Bringing electricity to Kenya's slums by the national utility Kenya Power has found a way to bring electricity to the country's poorest neighborhood using community base approach. This lighting up projects has grown from 5,000 household to over 150,000 in just one year.
- Emphasis on public participation is the key to Kenya's devolution process. This resonates with global experience which shows that building bottom – up participatory mechanism is a key ingredient to effective decentralization.

Implementation of 2014/15 budget /challenges.

- The county embarked on a strategy to improve on health care system through purchase of ambulances for each sub county, provision of medical supplies in public

hospitals and expansionary program through construction and refurbishing health facilities

- Improved ICT infrastructure by installing LAN as opposed to use of modems for IFMIS operations thus improving the performance of G-pay in fast tracking supplier's payments.
- Implementation of bulk SMS platform for Kisumu County thus opening up communication line to the public and also providing transparency platform for the development projects agenda.
- Implementation of the free Wi-Fi hot spots was done to enhance sharing of information between government and the public.
- Hiring of 668 ECD assistants out of the planned 700 has greatly improved the human resource capacity in the education sector.
- There was a prolonged stalemate between the executive and the assembly resulting in a delay in approval of the Supplementary Budget hence non implementation of planned development projects during the year.
- Untimeliness of national revenue share disbursements hampers timely implementation of the budget.
- Non utilization of available funds as per the AIE requisition hampers departmental budget implementation.

Medium Term Fiscal Framework.

Prudent fiscal policy sustainability continues to be the focus of the county in effort to deliver effective and efficient devolved services to the citizens. We will continue to enhance economic capacity in resources.

- Regarding revenues the county government will maintain its focus on raising revenue to at least 25% of the total budgets over MTEF. This will be achieved through automation of revenue collection, continuity involvement of the public in revenue matters, expansion of the revenue base and emphasis on periodic payments of rates.
- The county government will endeavor to reduce cost on personnel emoluments operations expenditure in a bid to reduce and maintain personnel cost below 35% of the total budget. The savings will be directed to increasing development expenditure.

This would be done through workforce rationalization and continued strengthening use of IFMIS.

Risks to the outlook

- Recent reinstatement of employees who were dismissed by the defunct Kisumu Municipal Council and sprawling effect of increased agitation for pay hikes will exert additional wage pressure which may limit continued funding for development projects.
- Delayed disbursements of the share of national revenues has resulted to unpredictable cash flows for the County with the risk of accumulating penalties from overdue contractual obligations and non-remitted statutory deductions.
- Emerging liabilities from the on-going verification of assets and liabilities also poses a fiscal risk to the County.

III. RESOURCE ALLOCATION FRAMEWORK

Adjustment to 2015/16 Budget

- Adjustment of personnel emoluments in education department to include 42 youth instructors, in health to include 305 health workers and City of Kisumu to include 51 re-instated staffs.
- Adjustment in the resource allocation to departments arising from rein-fencing of national revenue grant to the health sector.

Medium-Term Expenditure Framework

- Going forward, and in view of the limited disbursements from the county share of national revenues, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors.
- The priority sectors, infrastructure and health, will continue to receive adequate resources. Both sectors are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.
- Infrastructure is the driver of the county's economy and reflects county government's commitment in improving infrastructure throughout the county. Going forward the attention will be redirected towards maintaining already the developed infrastructure.
- The Education, Youth, Culture & Sports and Agriculture, Livestock & Fisheries departments receive the second largest share of resources. Agriculture being the mainstay of the rural areas which comprises the greater population of the county, it is imperative that it continues to receive high priority consideration in funding. The allocation to agriculture will continue to rise over the medium term.
- Specifically, the county government has prioritized key strategic interventions across major sectors as a way of accelerating Kisumu County's economic and social transformation so as to improve quality of services to the population. The main areas of interventions cover food security, improved access to quality health care,

empowering youth and women. Resources earmarked for these interventions may be ring fenced over the medium term.

- Basing on the medium term expenditure framework stated above, tentative projected baseline ceilings for the 2016 MTEF classified departmentally for both recurrent and development expenditure on table 7 above.
- Though extensive work has gone into costing the devolved functions for purposes of determining expenditure requirements in the counties based on the assigned functions, the sharing of revenues between the national government and county governments does not reflect the financial burden on the county governments to undertake the assigned constitutional functions. This skewed allocation will continue to impact negatively on the ability of the county governments to discharge their mandates effectively.

DEPARTMENTS	Category	2014/15 REVISED ESTIMATES	2015/16 CEILINGS	PROJECTIONS		% SHARE OF TOTAL EXPENDITURE			
				2016/17	2017/18	2014/15 ESTIMATE S	CFSP Ceiling 2015/16	PROJECTIONS	
								2016/17	2017/18
Agriculture, Livestock & Fisheries	Sub-total	308.22	487.08	535.79	589.37	4.1%	6.3%	6.3%	6.3%
	Rec. Gross	298.22	307.08	337.79	371.57	3.9%	4.0%	4.0%	4.0%
	Dev. Gross	10.00	180.00	198.00	217.80	0.1%	2.3%	2.3%	2.3%
Health	Sub-total	2,083.20	2,368.30	2605.13	2865.64	27.5%	30.9%	30.9%	30.9%
	Rec. Gross	1,981.20	2,127.99	2340.79	2574.87	26.2%	27.7%	27.7%	27.7%
	Dev. Gross	102	240.31	264.34	290.78	1.3%	3.1%	3.1%	3.1%
Education, Youth, Sports and Culture	Sub-total	357.61	354.39	389.83	428.81	4.7%	4.6%	4.6%	4.6%
	Rec. Gross	94.36	124.65	137.12	150.83	1.2%	1.6%	1.6%	1.6%
	Dev. Gross	263.25	229.74	252.71	277.99	3.5%	3.0%	3.0%	3.0%
Office of the Governor and County Administration*	Sub-total	458.4	480.55	528.61	581.47	6.1%	6.3%	6.3%	6.3%
	Rec. Gross	375.57	392.02	431.22	474.34	5.0%	5.1%	5.1%	5.1%
	Dev. Gross	82.83	88.53	97.38	107.12	1.1%	1.2%	1.2%	1.2%
Transport & Infrastructure	Sub-total	627.3	531.03	584.13	642.55	8.3%	6.9%	6.9%	6.9%
	Rec. Gross	109.21	120.16	132.18	145.39	1.4%	1.6%	1.6%	1.6%
	Dev. Gross	518.09	410.87	451.96	497.15	6.8%	5.4%	5.4%	5.4%
Finance & Planning	Sub-total	2,070.94	865.61	952.17	1047.39	27.3%	11.3%	11.3%	11.3%
	Rec. Gross	822.07	508.22	559.04	614.95	10.9%	6.6%	6.6%	6.6%
	Dev. Gross	1,248.87	357.39	393.13	432.44	16.5%	4.7%	4.7%	4.7%
ICT & Communication	Sub-total	43.35	172.43	189.67	208.64	0.6%	2.2%	2.2%	2.2%
	Rec. Gross	34.35	72.43	79.67	87.64	0.5%	0.9%	0.9%	0.9%
	Dev. Gross	9.00	100	110.00	121.00	0.1%	1.3%	1.3%	1.3%
Industrialization, Energy & Enterprise Development	Sub-total	121.35	305.03	335.53	369.09	1.6%	4.0%	4.0%	4.0%
	Rec. Gross	64.95	80.03	88.03	96.84	0.9%	1.0%	1.0%	1.0%
	Dev. Gross	56.40	225	247.50	272.25	0.7%	2.9%	2.9%	2.9%
Kisumu City	Sub-total	757.58	941.23	1035.35	1138.89	10.00%	12.3%	12.3%	12.3%
	Rec. Gross	757.58	851.23	936.35	1029.99	10.00%	11.1%	11.1%	11.1%
	Dev. Gross	0	90	99.00	108.90	0.00%	1.2%	1.2%	1.2%
Lands, Housing and Physical Planning	Sub-total	83.59	142.21	156.43	172.07	1.1%	1.9%	1.9%	1.9%
	Rec. Gross	28.59	31.41	34.55	38.01	0.4%	0.4%	0.4%	0.4%
	Dev. Gross	55.00	110.80	121.88	134.07	0.7%	1.4%	1.4%	1.4%
Tourism, Trade & Heritage	Sub-total	128.62	199.00	218.90	240.79	1.7%	2.6%	2.6%	2.6%
	Rec. Gross	64.71	68.72	75.59	83.15	0.9%	0.9%	0.9%	0.9%
	Dev. Gross	63.91	130.28	143.31	157.64	0.8%	1.7%	1.7%	1.7%
Water, Environ't & Natural Resources	Sub-total	162.93	308.17	338.99	372.89	2.2%	4.0%	4.0%	4.0%
	Rec. Gross	86.83	98.15	107.97	118.76	1.1%	1.3%	1.3%	1.3%
	Dev. Gross	76.10	210.02	231.02	254.12	1.0%	2.7%	2.7%	2.7%
County Assembly*	Sub-total	371.34	520	572.00	629.20	4.9%	6.8%	6.8%	6.8%
	Rec. Gross	371.34	520	572.00	629.20	4.9%	6.8%	6.8%	6.8%
	Dev. Gross	0.00	0.00	0.00	0.00	0	0.0%	0.0%	0.0%
TOTAL	Total	7,574.43	7,675.03	8442.53	9286.79	1.00	1.00	1.00	1.00
	Rec. Gross	5,088.98	5,302.09	5832.30	6415.53	0.67	0.69	0.69	0.69
	Dev. Gross	2,485.45	2,372.94	2610.23	2871.26	0.33	0.31	0.31	0.31

* CRA Cealings apply

Table 6: Total Expenditure Ceiling for the MTEF period 2014/15 – 2017/18

2014/15 Budget framework

The 2014/15 budget framework is set against the background of the updated medium-term fiscal framework set out above. Real GDP is expected to increase by 6.3 percent in FY 2014/15 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as stable exchange rate.

Revenue projections

42. The 2014/15 budget targets local revenue collection of 25.0 percent of total revenues. As noted above, this performance will be underpinned by on-going reforms in revenue administration. As such, total revenues including allocation from national share are expected to be Ksh 11.4 billion.

Revenue Streams	Revised Estimates 2014/2015	Projected Estimates 2015/2016	PROJECTIONS	
			2016/2017	2017/2018
Equitable Distribution (CRA)	6,439.99	6,427.15	7,069.87	7,776.85
<i>Locally collected revenue:</i>				
Market fees	113.24	124.56	137.02	150.72
Parking fees	77.73	85.50	94.05	103.46
Rents	33.68	37.05	40.75	44.83
Land rates	171.90	189.09	208.00	228.80
Single Business Permit	71.50	78.65	86.52	95.17
Building plans	35.26	38.79	42.66	46.93
Liquor Licences	-	-	-	-
Signboard, promotions etc	67.21	73.93	81.32	89.46
Public Health and others	-	-	-	-
Others	156.04	171.64	188.81	207.69
Sub-total	7,166.55	7,226.37	7,949.00	8,743.90
Other Revenue Sources:				
Health:				
Cost sharing	396.00	435.60	479.16	527.08
Agriculture:				
Agricultural mechanization	5.40	5.94	6.53	7.19
veterinary levies	2.76	3.04	3.34	3.67
Fisheries	0.60	0.66	0.73	0.80
Commerce and Industry:				
weights and measures	-	-	-	-
Industrailization/Cooperatives:				
Audit and supervisory fees	0.50	0.55	0.61	0.67
Educ,Sports,s/services:				
Licences renewals(casinos)	1.26	1.39	1.52	1.68
Funfare licence	1.20	1.32	1.45	1.60
Pool table licences	0.16	0.18	0.19	0.21
ECD Registration	-	-	-	-
Physical planning/public wks				
plan approvals	-	-	-	-
Total Rev from other source	407.88	448.67	493.53	542.89
GRAND REVENUE TOTAL	7,574.43	7,675.03	8,442.54	9,286.79

Table 7: revenue projections

Expenditure Forecasts

43. In 2014/15, overall expenditures are projected at Ksh11.4 billion, being the same as the revenue projection as the county governments are expected to maintain a balanced budget, up from the Ksh 7.3 billion in the FY 2013/14 revised budget.

44. Recurrent expenditures are expected to decrease from 66 percent of total expenditure in the FY 2013/14 to 45 percent of total expenditure in the FY 2014/15, on account of devoting more resources to development as required by the PFM Act.

45. Expenditure ceilings on goods and services for ministries are based on funding allocation in the FY 2013/14 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

IV. CONCLUSION AND NEXT STEPS

The set of policies outlined in this section concisely capture the purpose and value of the Budget Review and Outlook Paper. reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the County Integrated Development Plan objectives pursued by the county government as a basis of allocation of public resources.

In conclusion the broad picture of this CBROP is as highlighted in the matrix below.

Sector/ subsector	Priorities	Constraints	Strategies
Finance	Improve budget performance for development index	<ul style="list-style-type: none"> • Delayed disbursements of funds from the National exchequer • Poor/ Under revenue collection. • Poor management of procurement processes. 	<ul style="list-style-type: none"> • Timely/ strict adherence to timelines as stipulated in the PFM Act. • Strengthen and follow-up on revenue collection systems in place. • Capacity building and sensitization of all departments on procurement. • Implementation of the e-procurement.
Governance / Human Resources	Contain/ reduce/manage the growing wage bill	<ul style="list-style-type: none"> • High wage bill 	<ul style="list-style-type: none"> • Freeze new recruitments unless for essential and crucial services.

		<ul style="list-style-type: none">• Hefty penalties.	<ul style="list-style-type: none">• Timely remittance of payroll deductions
Planning	Timely production and submission of the County Planning Documents.	<ul style="list-style-type: none">• Poor tracking and reporting systems	<ul style="list-style-type: none">• Capacity building and sensitization of all departments to submit reports promptly

Annex 1: Budget Calendar for the 2015/16 Budget

ACTIVITY	RESPONSIBILITY	DEADLINE
1. Develop and Issue Budget Guidelines/Dissemination		
1.1 Develop and Issue Budget Guidelines	CECM-Finance	30-Aug-15
1.2 Hold Budget Preparation Briefing	CECM-Finance	15-Oct.-15
1.3 Hold Budget Preparation Workshop	County Treasury	30-Oct-15
2. Performance Review and Strategic Planning		
2.1 Review of strategic plans	Accounting officers/Departments	10-Sept.-15
2.2 Review of programme outputs and outcomes	"	"
2.3 Expenditure review	"	"
2.4 Preparation of Annual plans	"	"
2.5 Annual Work plans Presented to C/Assembly&CBEF	CECM-Finance	17-Sep-15
3. Determination of Fiscal Framework		
3.1 Formation of ad hoc budget preparation committee	County Treasury	15-Sep-15
3.2 Estimation of Resource Envelope	Ad hoc Committee	"
3.3 Determination of policy priorities in the County Budget And Economic Forum.	CBEF	"
3.4 Preliminary resource allocation to departments, County Assembly & units	County Treasury	"
3.5 Draft County Budget Review and Outlook Paper (CBROP)	County Treasury	"
3.6 Submission of CBROP to the County executive Committee for Approval	County Treasury	22-Sept.2015
3.7 Submission of CBROP to the County Assembly	County Treasury	30-Sept.2015
4. Stakeholders/ Public participation(in preparation of Draft sectorial Budgets)	County Treasury	28-Dec.-2015
5.Preparation of County Budget proposals		
5.4 Public participation on County Budget proposals(preferably jointly with County Assembly)	CECM-Finance/Clerk to Assembly	31-Mar-16
5.1 Draft Departmental proposals(Reports from Sectorial Budget Work Groups)	Treasury/ Sector Work groups	7-Jan.2016
5.2 Submission of Draft budget to the County Budget and Economic Forum (CBEF)	County Treasury	21-Jan.-2016
5.3 Review of the Proposals	CBEF Members	28-Jan.2016

6.0 Draft Fiscal Strategy Paper (FSP)		
6.1 Draft FSP	County Treasury	22-Feb-/2016
6.2 Submission of FSP to County Executive Committee for Approval	County Treasury	"
6.3 Consultative discussion of FSP in the CB&EF	County Treasury	"
6.4 Submission of FSP to County Assembly for Approval	County Treasury	28-Feb-/2016
6.5 Adoption of FSP by County Assembly	County Assembly	14-Mar.-2016
7. Preparation and approval of final budget estimates		
7.1 Submission of Final Departmental Budget proposals to Treasury	Departments	14-Mar.-2016
7.2 Consolidation of the Draft budget estimates	County Treasury	21-Mar.-2016
7.3 Submission of draft budget to County Executive Committee	County Treasury	28-Mar.-2016
7.4 Consultative discussion of Draft budgets in the County Budget & Economic Forum(Alignment of sectorial budgets to the County economic policy and Fiscal Framework)	County Treasury/CB&EF	15-April.-2016
7.5 Submission of draft C/ Executive &C/ Assembly budgets to County Assembly	County Treasury	30-April.-2016
7.6 Review of Draft Budget estimates by County Assembly	County Assembly	21-May.-2016
7.7 Report on Draft Budget estimates from County Assembly	County Assembly	25-May.-2016
7.8 Consolidation of the final BudgetEstimates	County Treasury	07-June.-2016
7.9 Submission of Appropriation Bill to County Assembly	County Treasury	20-June.-2016
7.10 Appropriation Bill passed	County Assembly	30-June.-2016
7.11 Assent to Appropriation Act	H.E. The Governor	14-July.-2016
8. Preparation and approval of Finance Bill		
8.1 Pronouncement of means to fund FY2016/2017 Budget	CECM-Finance	15-July.-2016
8.2 Public participation forum on the finance bill,2016	CECM-Finance	31-August.-2016
8.3Develop and submit Finance Bill to County Assembly for Approval	CECM-Finance	15-Sept.-2016
8.4 Finance Bill passed	County Assembly	30-Sept.-2016
8.5 Assent on Finance Act,2016	H.E. The Governor	07-Oct.-2016