

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF UASIN GISHU**

**THE COUNTY TREASURY**

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**COUNTY BUDGET REVIEW AND OUTLOOK**

**PAPER (C-BROP)**

**2016**

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**SEPTEMBER 2016**

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## **Foreward**

The County Treasury is required by Section 118 of the Public Finance Management (PFM) Act 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the county, to be submitted to the County Executive Committee by 30<sup>th</sup> September of the year. The county government is also required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility.

This 2016 C-BROP was therefore prepared by the County Treasury pursuant to the provisions of section 118 (1) PFMA 2012. It was prepared to provide a review of the county's fiscal performance for 2015/16 financial year and to show how this affected the financial objectives contained in the CFSP of that year. Further, it provides a summary of the national macroeconomic outlook and how it affects the county's economic performance.

C-BROP is one of the budget documents whose intention is to enhance financial discipline and fiscal responsibilities within the county's financial management framework. It is important in the budget making process within the Medium Term Expenditure Framework. It details the actual fiscal performance for the previous financial year with deviations from the budget appropriation, and reasons for the deviations. It also details how actual financial performance for the previous financial year may have affected compliance with the responsibility principles. Further the updated macroeconomic outlook provides a basis for any budget revision and also sets out broad fiscal parameters for the next budget.

The provisional ceilings presented in the document are expected to act as a guide to sector working groups in preparing their budgets.

I therefore believe that this policy document will be useful in instilling financial discipline and fiscal responsibility for the realization of aspirations and overall goals of the County Integrated Development Plan.

**MR. SHADRACK SAMBAI,**  
**CECM – FINANCE AND ECONOMIC PLANNING**

## **Acknowledgement**

This is the second County Budget Review and Outlook Paper (CBROP) to be prepared by the County Treasury. It reviews the actual fiscal performance in the 2015/16 financial year compared to the budget appropriation for the year. In addition, it provides an updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent fiscal strategy paper and reasons for any deviations.

As usual, the preparation of the C-BROP 2016 continues to be a collaborative effort. Much of the information in this report was obtained from county government departments. We are grateful for their inputs. We are also grateful for the comments from Mr. Shadrack Sambai, the County Executive Committee Member responsible for finance and economic planning; in addition to comments from other stakeholders.

A team from Budget and Planning Units spent substantial amount of time putting together this paper. We are particularly grateful to them for their tireless efforts in ensuring this document was produced in time and is of high quality.

**MR. BEN SAMOEL,**

**CHIEF OFFICER, COUNTY TREASURY (ECONOMIC PLANNING)**

## **ABBREVIATIONS AND ACRONYMS**

A.I.A	Appropriation in Aid
C-BROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
ECDE	Early Childhood Development Education
IFMIS	Integrated Financial Management Information System
PFM	Public Finance Management
CARPS	Capacity Assessment and Rationalization of the Public Service

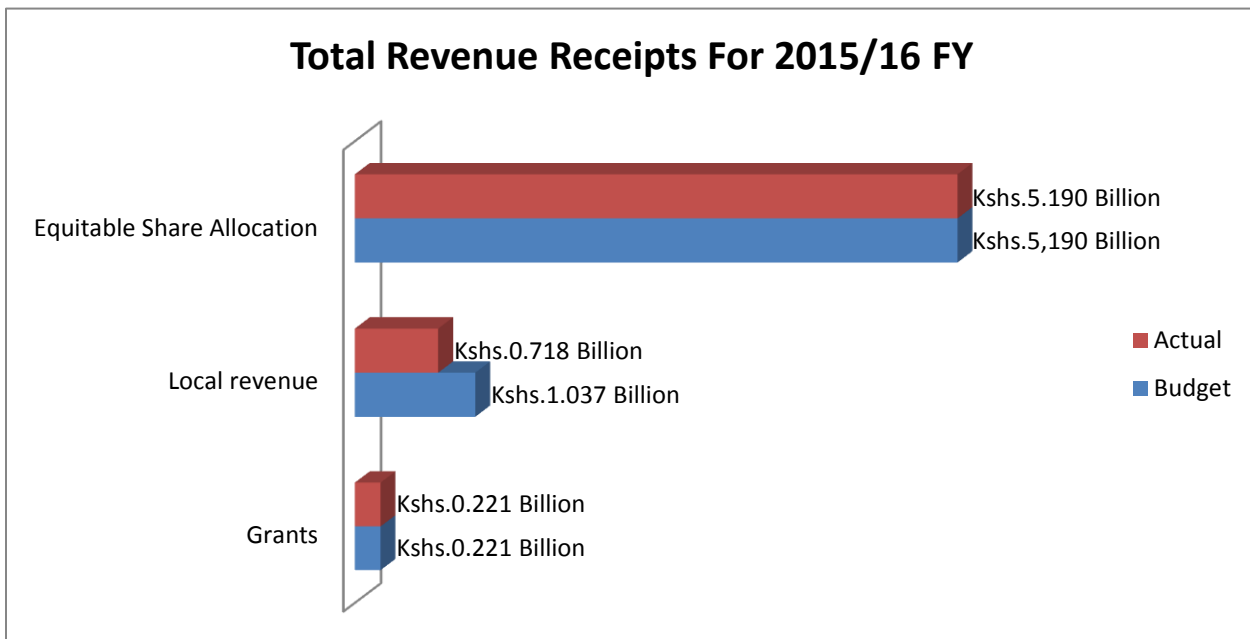
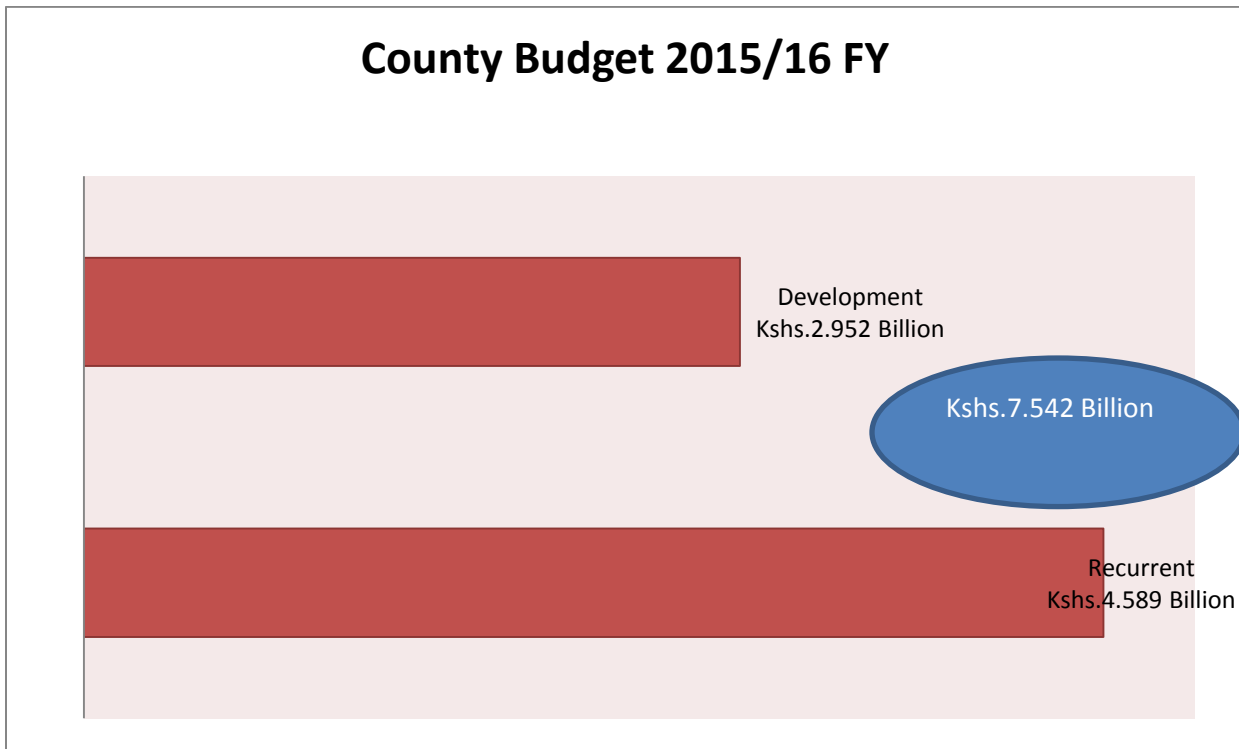
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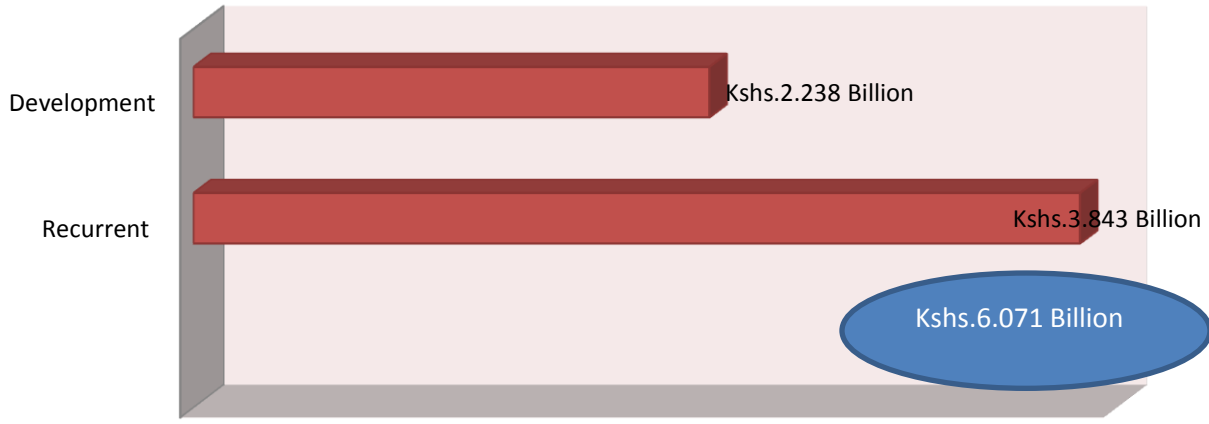
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# Key Highlights

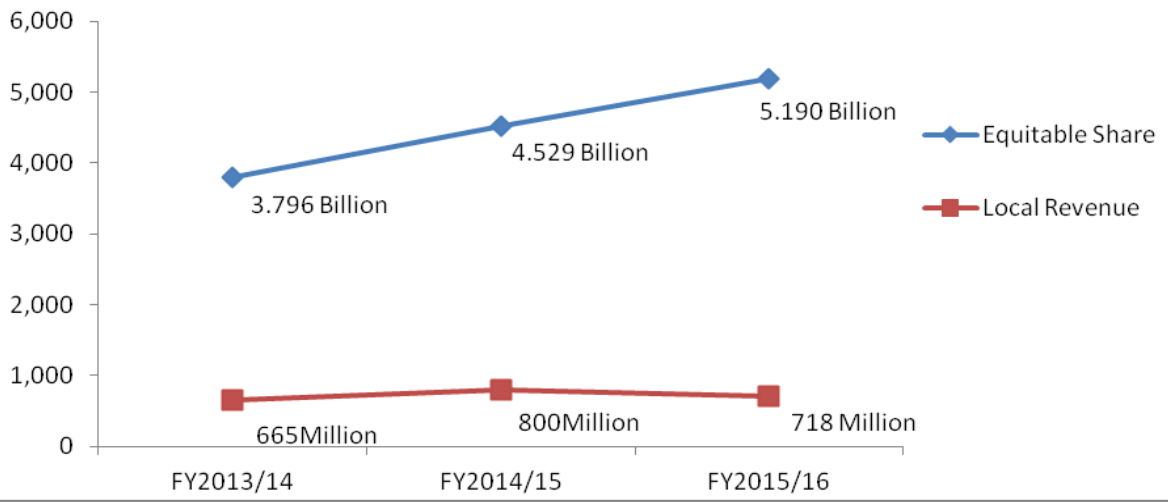




### Exchequer Issues 2015/16 FY



### County Revenue Growth Trend



## PREAMBLE

The County Treasury is obliged by Section 118 of the Public Finance Management (PFM) Act 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the county, which is to be submitted to the County Executive Committee by 30<sup>th</sup> September of the year. Section 118 (1) of the PFMA 2012 states thus; the county treasury shall –

- Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
- Submit the paper to the County Executive Committee by the 30<sup>th</sup> September of that year.

Section 118 (2) of the Act gives details of issues presented in the County Budget Review and Outlook Paper. The section states thus: In preparing its county Budget Review and Outlook Paper, 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 in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- c) Any changes in the forecasts compared with the CFSP;
- d) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- e) 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.

This 2016 C-BROP was therefore prepared by the County Treasury pursuant to provision of PFMA 2012 section 118 (1). The county government is required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility. The section states thus:

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

(2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles - (a) the county government's recurrent expenditure shall not exceed the county government's total revenue; (b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure; (c) 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; (d) over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure; (e) the county debt shall be maintained at a sustainable level as approved by county assembly; (f) the fiscal risks shall be managed prudently; and (g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

(3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

(4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

(5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

The county government will continue to ensure compliance with fiscal responsibility principles and transparency and accountability by providing feedback on performance indicators as envisaged in the Constitution 2010 and the Public Finance Management Act 2012.

## **1.0 INTRODUCTION**

This section illustrates on the objectives of the C-BROP and lays out its significance in the budget preparation process within the Medium Term Expenditure Framework. It also provides brief description of the structure of the paper.

### **1.1 Objectives of C-BROP**

The County Treasury prepares C-BROP with a view to providing a review of the county's fiscal performance for previous financial year and to show how this affects the financial objectives contained in the CFSP of that particular year. Further, it provides a summary of the national macroeconomic outlook and how it affects the county's economic performance. Specific objectives of C-BROP are to provide:

- 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 in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- c) Any changes in the forecasts compared with the CFSP;
- d) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- e) 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.

### **1.2 Significance of C-BROP**

C-BROP is one of the budget documents whose intention is to enhance financial discipline and fiscal responsibilities within the county's financial management framework. It is important in the budget making process within the Medium Term Expenditure Framework. It details the actual fiscal performance for the previous financial year with deviations from the budget appropriation. It also details how actual financial performance for the previous financial year may have affected compliance with the responsibility principles. Further the updated macroeconomic outlook

provides a basis for any budget revision. It also set out broad fiscal parameters for the next budget.

### **1.3 Structure of C-BROP**

In addition to section 1.0 of this paper 2016 C-BROP has four other sections. Section Two reviews the county's fiscal performance for the previous year. It is divided into three subsections: The Overview; Fiscal Performance; and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections, namely, Recent Economic Developments, Economic Outlook & Policies, Medium Term Fiscal Framework and Risks to the Outlook. Section four sets out how the government intends to operate within its means. The section establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. It further has four sections: adjustment to the proposed budget; the medium term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. Finally, section five gives a conclusion of the entire paper.

## **2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2015/16 FY**

This section details the actual fiscal performance for the 2015/16 financial year in respect to the budget appropriations for the year; and how it might have affected the county government financial objectives for the period under review.

### **2.1 Overview**

In the period under review, financial objectives laid out in the CFSP to expand revenue inflows and re-orient public expenditure towards productive areas were pursued by the county government. It involved strategies such as external resource mobilization to finance county programmes and increased investment spending by private sector through exploring new competitive sources of private finance such as PPP arrangements. In addition, the county government deepened reforms for resource mobilization towards improved local revenue collection.

Also in the same period the county government adhered to the fiscal responsibility principles set out in section 107 of the Public Finance and Management (PFM) Act 2012 to ensure prudence and transparency in the management of public resources. Development expenditure accounted for 39 percent of the entire budget allocations thus meeting the minimum 30 percent requirement; while expenditures on wages and benefits were above the prescribed limit of 35 percent by one percent. In addition, recurrent expenditure did not exceed the total revenue; and no borrowing made as the county government implemented a balanced budget. Further, all fiscal risks to the budget were managed prudently by taking into account the challenges in revenue performance and pressures on expenditures.

### **2.2 Fiscal Performance**

There was an overall improvement in fiscal performance for the year under review compared to the previous year. Total revenue grew by 15 percent in 2015/16 FY despite a 10 percent drop in local revenue in the same period; while total expenditure grew by 14 percent in similar period as indicated in Table 2.1 below:

**Table 2.1 Summary of County Fiscal Performance**

	2014/15 FY	2015/16 FY			% Growth <sup>1</sup>
	Actual	Target	Actual	% Deviation	
<b>TOTAL REVENUE &amp; GRANTS</b>	<b>6,836,615,340</b>	<b>7,542,626,350</b>	<b>7,223,636,970</b>	4%	6%
Unspent Bal From Previous FY	1,491,915,909	1,093,088,839	1,093,088,839	0%	-27%
1. Revenue (Total)	<b>5,344,699,431</b>	<b>6,449,537,511</b>	<b>6,130,548,131</b>	5%	15%
Equitable Share Allocation	4,529,662,890	5,190,879,968	5,190,879,968	0%	15%
Local revenue	800,096,541	1,037,217,425	718,228,095	31%	-10%
2. Grants (Total)	14,940,000	221,440,118	221,440,068	0%	1382%
<b>TOTAL EXPENDITURE</b>	<b>5,743,526,501</b>	<b>7,542,626,350</b>	<b>6,534,796,825</b>	13%	14%
3. Recurrent	3,102,980,486	4,589,734,056	4,210,980,092	8%	36%
4. Development	2,640,546,015	2,952,892,294	2,323,816,733	21%	-12%
Unspent Bal Current FY	1,093,088,839		688,840,145		

*Source: County Treasury, 2016*

### 2.2.1 Revenue Performance

During the period under review the county's allocation of equitable share of revenue was Kshs. 5,190,879,968 and grants of Kshs. 221,440,068; while local revenue amounted to Kshs. 718,228,068 against a target of Kshs. 1,037,217,425, reflecting an under collection of Kshs. 318,989,357 or a 31 percent shortfall translating to a 10 percent drop compared to the previous year as shown in table 2.1. In addition the county also received a total of Kshs. 221,440,068 in form of grants under the Free Maternal Health Care, Support for abolishment of user fees, DANIDA Health Sector Support Programme III and Road Maintenance Fuel Levy Fund.

<sup>1</sup> Percentage Growth in revenue and expenditures between 2014/15 and 2015/16 Financial Years

The increase in county's equitable share of revenue is as a result of increased county allocations by Commission of Revenue Allocation (CRA) attributed to improved revenue performance and economic conditions at the national level. On the other hand, the underperformance of local revenue collection by county government is because of over projections of revenue targets; and the under-collections owing to migratory challenges brought about by automation of revenue services and other capacity challenges.

On revenue performance per stream, business permits was the leading revenue earner for the county accounting for 26 percent of total revenue collected and followed by bus parks and land rates in that order; while collections from lease of water distribution network and application for rental housing accommodation were the lowest as indicated in Table 2.2 below:

**Table 2.2: Summary of Revenue Performance per Stream**

REVENUE STREAMS	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	Total
Alcoholic Inspection Fee	66,000	599,000	1,153,200	829,220	2,647,420
Application Fee	715,820	115,960	2,152,645	627,600	3,612,025
Application for Rental Housing Accommodation	500	-	-	-	500
Audit and Supervision Fees	129,900	107,900	115,100	546,800	899,700
Buildings Inspection Fee	1,926,984	1,001,756	364,350	161,120	3,454,210
Buildings Plan Approval Fee	3,365,715	2,838,326	1,551,066	1,836,060	9,591,167
Burial Fees	175,600	112,700	80,200	135,100	503,600
Business Permits Current Year	10,050,754	2,551,802	138,251,499	36,148,638	187,002,693
Cheque Clearance Fee	9,800	-	-	-	9,800
Clamping Fee	896,450	780,700	339,800	431,400	2,448,350
Council Premises Occasional Hire (Offices, etc.)	32,600	67,600	14,700	32,600	147,500
Court Fines	6,793,185	4,667,567	4,563,918	3,466,993	19,491,663
Debts Clearance Certificate Fee	440,000	116,000	-	-	556,000
Document Search Fee	92,000	13,000	15,000	-	120,000
Donation from Donor {Name} for Purpose {Description}	-	10,000	-	-	10,000
Enclosed Bus Park Fee	28,228,289	21,423,361	19,398,840	27,596,900	96,647,390
Fire-Fighting Services	95,000	8,000	83,000	195,000	381,000
Food Quality Inspection Fee	875,320	386,430	392,940	921,480	2,576,170
Conservancy (Eldowas)	-	-	4,388,930	2,617,817	7,006,748
Housing Estates Monthly Rent	5,414,525	8,131,655	2,261,705	5,609,202	21,417,087
Impounding Charges	361,710	362,600	157,020	472,200	1,353,530
Inoculation Fee	1,771,400	776,810	989,160	1,568,020	5,105,390
Land Rates Current Year	12,027,135	6,876,830	25,425,687	25,701,500	70,031,152



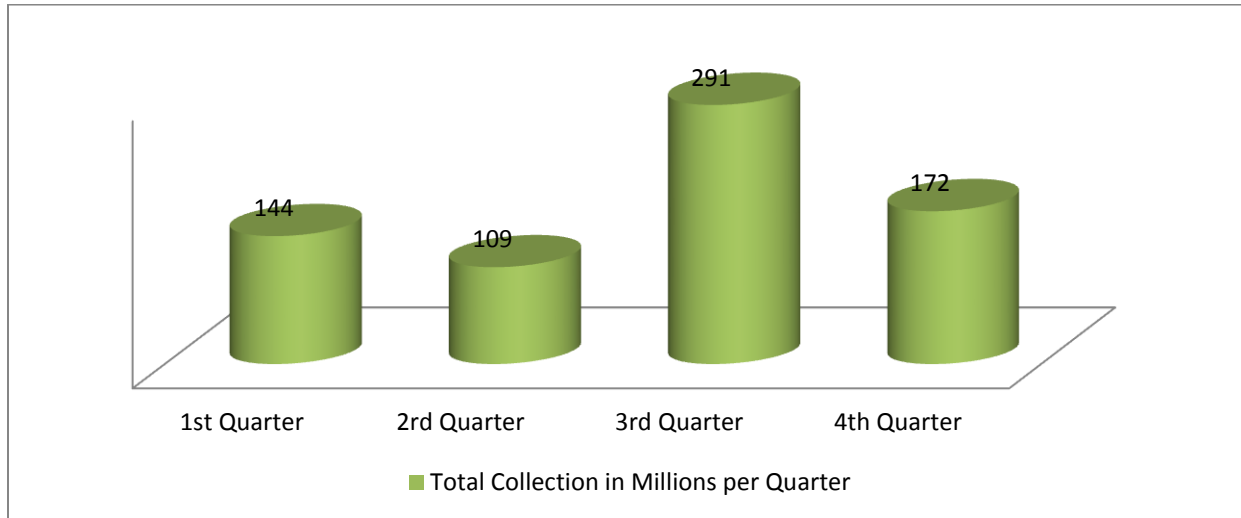
<b>REVENUE STREAMS</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
Lease of Water Distribution Network	1,000	-	-	-	1,000
Livestock Auction/Sales Fees	481,250	230,140	-	-	711,390
Log Cess/ Bark Cess	167,586	108,050	16,750	51,000	343,386
Market Fees	3,021,145	2,736,784	4,421,747	9,050,884	19,230,560
Milk Cess	171,935	-	-	-	171,935
Nursery Schools Fee	100,900	163,248	133,100	-	397,248
Open Air Market Fees	841,234	557,478	249,905	-	1,648,617
Quarry Extraction Fees	347,600	-	100,000	694,933	1,142,533
Refuse Collection Fee	756,510	153,250	1,528,550	560,900	2,999,210
Motor Bikes	697,000	2,227,472	155,100	147,900	3,227,472
Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	99,780	1,156,533	800	110,643	1,367,756
Sale of Type 3 Council Assets	1,000	1,000	2,000	-	4,000
Sand, Gravel, and Ballast Extraction Fees	5,600	-	125,000	-	130,600
Sign Boards & Advertisement Fee	10,248,565	4,214,843	9,648,598	3,340,143	27,452,149
Slaughtering Fee	2,173,995	2,180,900	962,600	2,333,302	7,650,797
Storage Fee	9,300	13,600	4,400	-	27,300
Street Parking Fee	16,691,590	18,678,600	16,979,540	14,601,011	66,950,741
Sugarcane Cess	-	172,502	-	522,684	695,186
Tender Documents Sale	86,000	-	-	-	86,000
Training/Learning Center Fee	11,900	6,100	-	50,250	68,250
Transfer Fee	61,400	40,000	-	-	101,400
Upgrading Fees	158,265	220,558	-	-	378,823
Water Kiosks Sales	370,569	361,750	-	122,610	854,929
Wheat & Maize Cess	1,257,469	552,570	7,565,393	7,495,858	16,871,290
Soil Testing	-	-	-	46,700	46,700
Agriculture AMS	380,000	77,100	676,100	181,720	1,314,920
Agriculture Vertenary	1,262,710	476,640	565,400	481,131	2,785,881
Betting Control	908,750	286,750	321,500	271,250	1,788,250
Health Centers & Dispensaries Fees	6,527,625	2,129,740	6,070,888	5,506,743	20,234,996
Public Health	1,394,286	4,000	249,700	2,625,100	4,273,086
DIRECT BANKING (BANK SLIPS NOT RECEIPTED)	23,183,974	22,134,131	39,728,899	15,211,593	100,258,597
<b>TOTAL REVENUE COLLECTION</b>	<b>144,887,625</b>	<b>109,831,736</b>	<b>291,204,730</b>	<b>172,304,004</b>	<b>718,228,095</b>

*Source: County Treasury, 2016*

As shown in Figure 2.2.1, revenue collection dropped in the second quarter (October-December 2015) from the previous figure in the first quarter (July-September 2015). However, collections increased sharply in the third quarter (January-March 2016), normally the peak period in revenue collection; it is during this time (quarter three) that clients make payments on land rates and

renewal of single business permits by entrepreneurs. Revenue collection again dropped in the fourth quarter (April-June 2016). This is illustrated in figure 2.1.

**Figure 2.1: Showing Quarterly Local Revenue Performance for 2015/16 FY**



### 2.2.2 Expenditure Performance

During the period under review, the actual expenditure stood at Kshs. 6,453,010,280 against the projected amount of Kshs. 7,542,626,350, reflecting an under-spending of Kshs. 1,089,616,070 which translates to an absorption rate of 86 percent as indicated in table 2.3. However, this was an improvement in terms of absorption compared to the previous year.

The under-spending experienced in the period is attributed to low absorption of both of recurrent and development expenditures by the line departments partly due to delays in release of funds by National Treasury and slow procurement processes in finalizing awarding of tenders for development projects attributed to e-procurement.

On budget execution for 2015/16 financial year, expenditure on Personnel Emolument was the highest accounting for 36 percent of total expenditures under recurrent; while expenditures on infrastructure topped the development vote. For departments: Roads Transport and Public Works was the biggest spender accounting for 28 percent of total actual expenditure; while Lands,

Housing and Physical Planning was the lowest accounting for 1 percent of total expenditures.

The expenditure per department is summarized in table 2.3

**Table 2.3: Summary of County Expenditures by Department for 2015/16 FY**

EXPENDITURE ANALYSIS FY 2015/16							
Economic Item & Title	Budget Allocation			Cumulative Expenditure			% Of Absorption
	Recurrent	Development	Total	Recurrent	Development	Total	
Governor's Office	113,551,086	10,000,000	123,551,086	104,052,037	8,402,045	112,454,082	91%
Finance and Economic Planning	739,129,609	110,017,089	849,146,698	677,580,778	56,164,093	733,744,870	86%
Public Service Management	649,419,190	79,444,921	728,864,111	617,814,768	73,505,113	691,319,881	95%
ICT and E-Government	32,086,905	65,460,330	97,547,235	27,953,285	40,544,506	68,497,791	70%
Roads, Transport and Infrastructure	398,869,829	941,418,513	1,340,288,342	374,830,755	831,098,798	1,205,929,553	90%
Lands, Housing and Physical Planning	69,898,553	198,461,102	268,359,655	63,510,787	144,534,050	208,044,837	78%
Water, Environment, Energy and Natural resources	139,228,447	318,661,365	457,889,812	127,842,154	226,974,697	354,816,851	77%
Health Services	1,226,902,476	223,400,000	1,450,302,476	1,127,032,631	184,674,809	1,311,707,441	90%
Agriculture, Livestock and Fisheries	240,553,193	326,624,956	567,178,149	206,082,409	167,200,684	373,283,093	66%
Trade, Cooperatives, Tourism and Wildlife	130,300,885	204,370,323	334,671,208	125,422,583	119,594,602	245,017,185	73%
Education, Social Cultural, Youth and Sports	306,047,547	443,314,108	749,361,655	254,577,798	372,338,712	626,916,511	84%
County Public Service Board	45,362,081	3,006,000	48,368,081	40,620,612	3,006,000	43,626,612	90%
County Assembly	498,384,255	28,713,587	527,097,842	463,659,495	13,992,078	477,651,573	91%
<b>TOTAL</b>	<b>4,589,734,056</b>	<b>2,952,892,294</b>	<b>7,542,626,350</b>	<b>4,210,980,092</b>	<b>2,242,030,188</b>	<b>6,453,010,280</b>	<b>86%</b>

As shown in Figure 2.3 below, absorption rates for recurrent and developments votes for the period under review was at 92 and 76 percent respectively.

**Figure 2.2: Showing Absorption Levels by Recurrent and Development Votes**

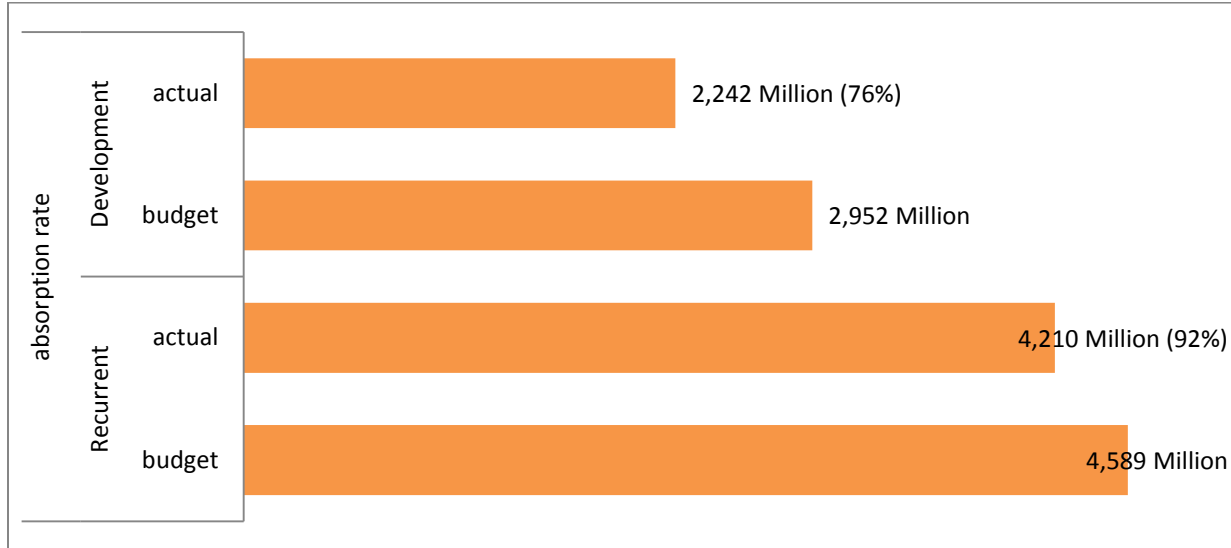
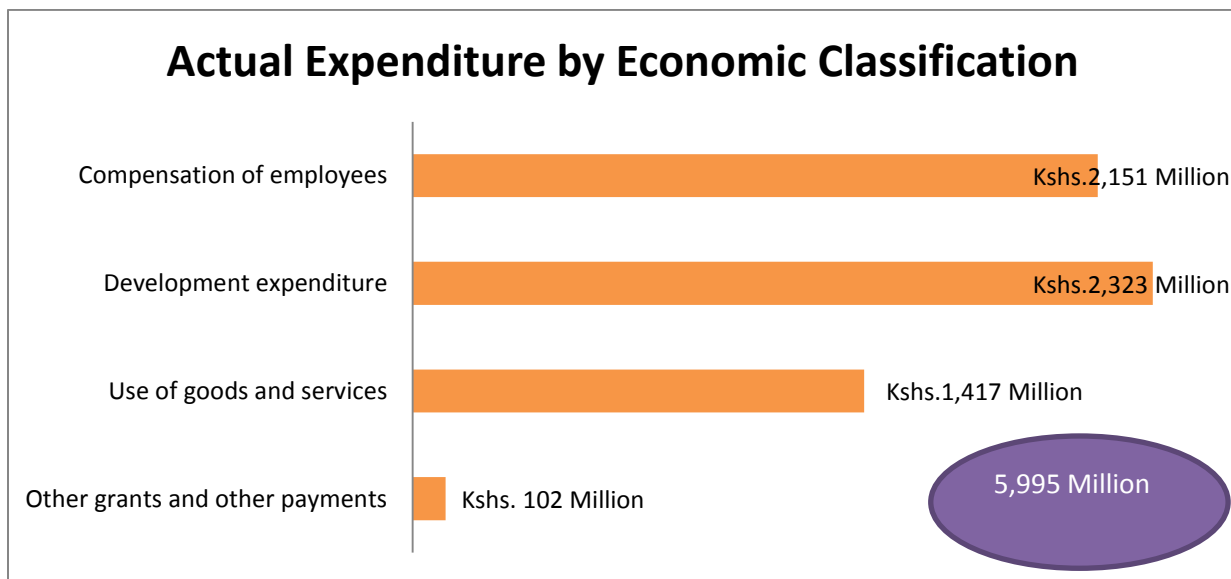


Figure 2.3 below shows actual expenditures by economic classification with compensation of employees taking a bigger portion of the recurrent vote.

**Figure 2.3: Showing Actual Expenditure by Economic Classification**



### **3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

This section provides the macroeconomic environment the county operated in and how it affected its financial objectives during the period under review.

#### **3.1 Recent Economic Developments**

Growth prospects for the Kenyan economy continue to be headwind. Kenya operates within the global economic framework so that developments in the global economy are likely to impact on its economy. Domestic risks such as weather conditions also have effects on the national economy. Implementation of robust economic policies, structural reforms and sound economic management is expected to yield efficiency and translate to faster growth for increased employment and poverty reduction.

GDP grew by 5.3 percent in 2014. The economic growth remained resilient in 2015 recording an average growth of 5.5 percent in the first three quarters compared to 5.3 percent growth in a similar period in 2014. Based on statistic the economy grew by 5.0%, 5.6%, and 5.8% in the first three quarters of 2015 compared with 4.4%, 5.8% and 5.5% in comparable quarters of 2014. The robust economic growth is supported by significant investment in infrastructure, construction, mining, lower energy prices and improved agriculture activities following improved weather. Overall GDP growth is expected to amount to 5.6%, 6.0% and 6.5% in 2015, 2016, and over the medium term respectively.

Inflation is expected to remain in a single digit of 5 percent target and is expected to remain the same during the entire period. This will be occasioned by a prudent monetary policy measure in place, declining international oil prices and stability of the shilling against major currencies. With the introduction of reduced interest rate regime, investments are expected to increase across the country. This will be expected to result in more job opportunities especially for the youth and women. With within-target inflation, stability in the exchange rate and reduced interest rate regime, the general demand is expected to rise in the county with a premium of accelerated economic activities; Uasin Gishu County is expected to leverage on this given its strategic location.

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The growth will be attained by increased production in agriculture, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale, financial intermediation, higher public and private investment, increased consumer confidence and the ongoing initiatives to deepen regional integration.

Improved economic condition and revenue performance at the national level implies increased allocations to the county by Commission of Revenue Allocation which will have implications on how strategic priorities are implemented. Delays in the implementation of FY 2015/16 budget affected the implementation of development projects due to low update of E-procurement system which eventually led to the suspension of the system.

The revenue collected during the period under review was Kshs.718, 228,095 against a target of Kshs. 1, 037,217,425 reflecting a 30 % shortfall giving a 10% drop compared to the previous year. This was due to over projection of revenue targets and under collection of revenue occasioned by capacity and migratory challenges brought by automation of revenue service.

In F/Y 2015/16 the actual spending was Kshs. 6,453,010,280 against the projected target of Kshs. 7,542,626,350 translating to 86% absorption rate. The absorption rate of funds was not 100% due to delay in release of funds by national treasury and the implementation of e-procurement system.

### **3.2 Economic Outlook and Policies**

The economy of Uasin Gishu County depends on the resource base of the county government, which it uses to strengthen service delivery framework. In the last four years, the government has been operating on limited resources compounded by below par own revenue collection, thereby largely depending on national government transfers. In the medium term the government will strengthen regional integration (NOREB) initiatives for deeper trade and investment. The government will also partner and collaborate with the national government and development partners to implement flagship projects in the county as well as other targeted projects to improve the lives residents of the county, notably in water, agriculture, infrastructure and health. It will strengthen financial policy to broaden revenue base. The government will also ensure

fully computerized revenue collection as well as strengthening enforcement to bolster revenue collection.

### **3.3 Medium Term Fiscal Framework**

The county's fiscal policy will continue to focus on balanced budget in the next financial year and in the medium term, but with short term borrowings for cash flow management purposes. However, in case there is change in development needs the county government may borrow in the medium term. With inherent scarcity of resources the government will pursue expenditure productivity. The government will focus resources on growth potential areas to stimulate economic activities in the county. These areas include infrastructure, agriculture, water, and health.

The county government will strengthen its revenue collection efforts to bolster revenue levels. Local revenue collection has been below par and fluctuating in the last four years. The government will strengthen policies to widen revenue base, enhance enforcement, enforce penalties for non-compliance, and introduce new user fees and fully computerize revenue collection (automation of revenue collection) in order to reduce leakages. The government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate exploitation of the vast natural resources in the county. The policy will address issues of, apart from revenue raising measures, licensing, attracting investors, taxation and sustainable use of the resources.

Expenditure management will be strengthened by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. Recurrent expenditure, and especially the wage bill, will be expected to take up an increased and bigger proportion of the total expenditure since the county government is yet to make comprehensive recruitments to fill the staff gap. The county government will closely be monitoring its recurrent expenditure with a view to reducing unproductive expenditure. In addition, programmes targeting the vulnerable groups in society including youths, women and people living with disabilities (PWDs) will be up-scaled to improve their status.

On the debt management, the county government will make use of the borrowing framework for Sub-Nationals approved by the Inter-Governmental Budget and Economic Council (IBEC) and

the guidelines issued by Commission for Revenue Allocation (CRA). In addition, any county government borrowings shall be used for financing development projects only. Further, the county debt shall be maintained at a sustainable level as approved by county assembly.

The county government will generally continue to ensure fiscal responsibility principles are adhered to throughout its public finance management discourse.

### **3.4 Risks to the Outlook**

- Risks to economic outlook include the weakened growth prospects throughout the world economy with resultant negative impact on exports and tourism. Uasin Gishu County is an exporting county and this negative effect is likely to trickle down.
- The outlook is based on assumed normal rainfall. However, rainfall pattern proved erratic in some seasons in the past. Erratic rainfall pattern, if experienced, is likely to affect agricultural production.
- Local revenue is also a risk to the outlook; it has been fluctuating and below par. However, general revenue is expected to rise as a result of increased tax revenue collection at the national given the positive growth prospects of Kenya.
- Expenditure pressures are inherent risks to the economic outlook of the county. Recurrent expenditure, compounded by wage bill, is expected to substantially increase leaving out fewer resources for development.
- Legislative challenges in the form of delayed enactment of County Allocation of Revenue Bill, affecting counties' budgeting process for not having their respective clear ceilings beforehand. Variations of county allocation of revenue formula by the Commission on Revenue Allocation and Senate is also a potential risk as this may lead to reduced share of shareable revenue. This is also compounded by delay in exchequer releases.
- Conflicting priorities between the County Assembly and the county Executive thus affecting budget making process and budget execution.



## **4.0 RESOURCE ALLOCATION FRAMEWORK**

This section establishes the total resource envelope the county expects per sector and thereafter determines expenditure ceilings across all sector for 2017/18 FY and MTEF.

### **4.1 Adjustment to Proposed Budget**

The macroeconomic dynamics of the development process link globally via the national level to the county level. Fiscal performance nationally in the financial year 2015/2016 was on a slight slowdown compared to the previous year attributed to declining commodity prices, depreciating currencies of emerging market economies and increasing financial markets volatility. This led to national revision of revenue projections downwards on account of weaker expected performance.

Given the macroeconomic outlook experienced in the year, the risks to the FY 2015/16 impacted negatively on overall economic growth leading to reduced revenue collection, expenditure pressures especially on recurrent expenditures, wage pressures and slow implementation of devolution due to delayed funds.

In addition, the roll out of the IFMIS system to the counties affected budget absorption. The county government experienced a slight slowdown on development vote from the previous year due to challenges in the use of e-procurement and delay in disbursement of funds from the National treasury. Revenue shortfalls was also experienced with rising challenges from the rolled out automated revenue system which did not pick up as expected thus necessitating budget revisions to realistic provisions. In the proposed budget the government will fully implement the new automated revenue system and review the revenue act to expand revenue base for increased collections.

In order to reduce expenditure pressures, the government will minimize unnecessary expenses and further reinforce common expenditures by introducing controls such as fuel and travel controls while also ensuring departments' adherence to the approved budget allocations.

### **4.2 Medium Term Expenditure Framework**

In view of the macroeconomic outlook, resource allocation and utilization in the medium term will direct resources to priority areas as outlined in the county integrated development plan and other county plans, further enforcing the fiscal responsibility principles as outlined in section 107

of the PFM Act 2012. The government will also prioritize public expenditure productivity through fiscal adjustments and sustainability in the inherent circumstance of meager resources and prioritize expenditure within the overall sector ceilings and strategic sector priorities identified in the county annual plan informed by the core needs of the public.

Based on the above medium-term expenditure framework, the Table 4.1 below provides indicative sector ceilings for the 2017/2018 – 2018/2019 MTEF period.

**Table 4.1: Summary of Indicative Sector Ceilings for 2017/18 FY MTEF**

Sector	MDAs		Total Expenditure Kshs.				% Share of Total Expenditure		
			Revised Estimates	Estimates	Projections		Estimates	Ceilings	Projections
			2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18
<b>PUBLIC ADMIN.</b>	Governor's Office	Sub-Totals	123,551,086	173,648,791	176,013,388	201,351,744	2%	2%	2%
	Finance	Sub-Totals	849,146,698	309,408,428	277,369,521	311,148,397	11%	4%	4%
	Budget & Economic Planning	Sub-Totals	0	70,634,857	74,789,084	86,849,085	0%	1%	1%
	Public Service Management	Sub-Totals	728,864,111	439,151,154	426,317,796	478,366,875	10%	6%	6%
	Public Administration	Sub-Totals	0	112,940,614	135,575,295	176,728,201	0%	1%	2%
	Public Service Board	Sub-Totals	48,368,081	63,589,434	66,346,428	73,735,254	1%	1%	1%
	County Assembly	Sub-Totals	527,097,842	477,979,605	484,004,087	540,971,591	7%	6%	6%
<b>ARD</b>	Agriculture	Sub-Totals	567,178,149	757,237,890	748,082,938	810,541,112	8%	10%	10%
	Trade	Sub-Totals	334,671,208	308,267,793	326,944,159	371,929,449	4%	4%	4%
	Lands	Sub-Totals	268,359,655	311,165,533	307,403,564	333,068,987	4%	4%	4%

<b>I&amp;ICT</b>	Roads	Sub-Totals	1,340,288,342	1,174,461,659	1,160,262,502	1,257,133,948	18%	15%	15%
	Water	Sub-Totals	457,889,812	648,227,721	640,390,694	693,857,537	6%	8%	8%
	ICT & e-govt.	Sub-Totals	97,547,235	110,061,135	108,730,504	117,808,519	1%	1%	1%
<b>Health</b>	Health Services	Sub-Totals	1,450,302,476	1,844,345,854	1,822,047,845	1,974,172,395	19%	24%	24%
<b>Education</b>	Education	Sub-Totals	749,361,655	537,789,589	531,287,751	575,645,483	10%	7%	7%
	Sport and Youth Development	Sub-Totals	0	309,564,141	370,031,691	417,848,396	0%	4%	5%
		<b>Grand Total</b>	<b>7,542,626,350</b>	<b>7,648,474,198</b>	<b>7,655,597,248</b>	<b>8,421,156,973</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### 4.3 The Proposed Budget Framework

#### 4.3.1 Revenue Projections

The 2016/17 budget targets to raise Kshs. 1,192,000,000 from local sources and Kshs. 5.6 billion are expected from the National Government. The County Government is set to receive additional conditional grants for the health sector for the following activities: Kshs. 22,181,068 to support free maternal health care; Kshs.40, 766,831 for health user fees compensation; Kshs. 8,660,000 from DANIDA Health Sector Programme Support III (HSPS III) grant to provide additional support for operations and maintenance of public health centers and dispensaries. And a further Kshs.65, 941,437 million Road Maintenance Fuel Levy Fund for the repair and maintenance of county roads. The county also expects to receive Kshs.29, 088,998 conditional grants from World Bank under the Kenya Devolution Support Programme for capacity building in the areas of Public Finance Management, Monitoring & evaluation, Human Resource Management, and Civic Education and Public Participation. Therefore, overall revenues for the County Government are expected to be Kshs. 7,648,474,007 for 2016/17 FY. Table 4.2 below shows revenue projections for the medium term.

**Table 4.2: Summary of Revenue projections for 2017/2018 FY and MTEF**

Revenue Type	Actual	Projected Estimates		
	2015/16	2016/2017	2017/2018	2018/19
Unspent Bal b/f	1,093,088,839	688,840,145	0	0
Local Revenue	718,228,095	1,192,000,000	1,311,200,000	1,442,320,000
Central Government Transfers	5,190,879,968	5,601,025,717	6,161,128,289	6,777,241,118
Grants	221,440,068	166,608,145	183,268,960	201,595,855
<b>Total</b>	<b>7,223,636,970</b>	<b>7,648,474,007</b>	<b>7,655,597,248</b>	<b>8,421,156,973</b>

### 4.3.2 Expenditure Forecasts

In the proposed budget overall expenditures are estimated at Kshs. 7,648,474,198 up from Kshs. 7,223,636,970 in the FY 2015/2016 budget representing a 5 percent increase. Recurrent expenditures are expected to increase to Kshs. 4,563,372,616 in FY 2016/2017 from Kshs. 4,210,980,092 in FY2015/2016, translating to an increase of 8 percent. Additionally, development expenditures are also expected to increase to Kshs. 3,085,101,582 in FY2016/2017 from Kshs. 2,323,816,733 in FY 2015/2016 translating to an increase of 32 percent. Personnel emolument for the government in FY 2016/2017 is estimated at Kshs. 2,756,581,868 as compared to Kshs.2, 151,719,254 in FY 2015/2016. This is expected to increase slightly in the MTEF period, as a result of new recruitment of technical staff in various departments.

The government will continue with its efforts to enhance expenditure productivity in the inherent wake of limited resources and ensure compliance with the fiscal responsibility principles as outlined in the PFM Act. In the proposed financial year 2016/17, development expenditure accounts for 40 per cent of total expenditure while recurrent expenditure accounts for the remaining 60 per cent. Personnel emoluments on the other hand account for 36 per cent of the county government's expenditure. The county will continue to re-organize county government staff over the medium term to enhance efficiency and increased productivity in service delivery. However, the county government will be required to manage the rising wage bill to within the required limit of 35 percent once the national government releases the CARPS report.

**Table 4.3: Summary of Expenditure Projections 2017/2018 FY and MTEF**

Revenue Type	Actual	Projected Estimates		
	2015/16	2016/2017	2017/2018	2018/19
Personnel Emoluments	2,151,719,254	2,756,581,868	2,763,670,607	3,040,037,667
Operations & Maintenance	2,059,260,838	1,806,790,748	2,289,023,577	2,517,925,935
Development	2,323,816,733	3,085,101,582	2,602,903,064	2,863,193,371
Unspent Bal FY	688,840,145	0	0	0
Total	7,223,636,970	7,648,474,198	7,655,597,248	8,421,156,973

### **4.3.3 Projected Fiscal Balance**

In the occurrence of a budget deficit the shortfall will be met through borrowing in line with the fiscal responsibility principles as per the PFM Act and borrowing framework by sub-nationals approved by the Intergovernmental Budget and Economic Forum (IBEC).

## **5.0 CONCLUSION**

The county government sets out to support economic activity by implementing financial objectives as set out in the CFSP 2016. This include adopting a balanced budget over the medium term; ensuring expenditures are guided by sector objectives as outlined in the County Integrated Development Plan (CIDP); and increase local revenue collection through automation. In addition, the county government will ensure compliance with the fiscal responsibility principles as outlined in the PFM Act 2012.

In the period under review, the county government deepened reforms for resource mobilization towards increased revenue collection and explored external resource mobilization to support budget execution through PPP arrangements. The county government implemented a balanced budget and no borrowing was made; development expenditure accounted for 39 per cent of the entire budget, while personnel emoluments was 1 per cent more than the set limit in the fiscal responsibility principles. Budget absorption rate was at 86 per cent of total budget estimates; while local revenue collection declined by 10 per cent

The fiscal outlook further outlines strategic and fiscal policies that will guide the county government in implementing the integrated development plan and other policies. In addition, it sets out an indicative sector ceilings which will form the basis for preparation of the county annual budgets and CFSP. To enhance revenue collection the county government will fast track full migration to automation of revenue collection and review the county revenue administration policy. In the medium term local revenue is expected to rise from Kshs 1,192,000,000 in FY 2016/17 to Kshs 1,442,320,000 in FY 2018/19.

In conclusion, the county government will over the medium term continue to pursue fiscal policies set out in the CFSP 2016 in the management of public finance with a view of improving revenue performance; and effective and efficient utilization of funds. In addition, the fiscal responsibility principles thresholds on development; wage and compensation to employees; and borrowing will be complied with in the medium term.