



**REPUBLIC OF KENYA**

**COUNTY GOVERNMENT OF SIAYA**  
*DEPARTMENT OF FINANCE, ECONOMIC PLANNING AND VISION 2030*

**County Budget Review and Outlook Paper**  
**September 2014**



**Transforming Siaya through:** socioeconomic  
empowerment, agribusiness and infrastructural  
development

## COUNTY VISION AND MISSION

### **VISION**

A model county committed to quality service delivery and sustainable development

### **MISSION**

Achieve sustainable development and excellence using world class methods of service delivery and technology with emphasis on public participation.

### **CORE VALUES**

- ✓ Accountability and Transparency
- ✓ Fairness
- ✓ Professionalism
- ✓ Creativity and Innovation
- ✓ Responsiveness
- ✓ Courtesy
- ✓ Patriotism
- ✓ Ethics and Integrity
- ✓ Teamwork
- ✓ Meritocracy

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## **FOREWORD**

The County Budget Review and Outlook Paper (CBROP) presents the fiscal outcome for FY2013/14 and how this affects the financial objectives set out in the budget. The updated macroeconomic outlook therein also provides us with a basis to revise the 2014/15 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.

The last financial year was a year full of challenges arising from the fact that it was the very first budget developed and implemented by the County Government of Siaya with the onset of devolved system of governance in Kenya. Despite these challenges the year was closed satisfactorily. The outcome has had implications on the basis on which the fiscal projections for the current financial year were prepared by the County Government of Siaya. Under these circumstances, we remain steadfast in improving the agricultural productivity and the business environment, even in the face of expenditure pressures from other competing county sectors.

The County Government of Siaya 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 at the County will be necessary to achieve the aspirations of the people for better governance.

The fiscal framework presented in this 2014 CBROP provides a strong basis for building our common future. More details will be provided in the County Fiscal Strategy Paper 2015.

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**CLEOPHAS O. OMBOGO**  
**COUNTY EXECUTIVE COMMITTEE MEMBER**  
**FINANCE, PLANNING AND VISION 2030**

## **ACKNOWLEDGEMENTS**

I appreciate the role played and the effort provided by all the officers who participated in the preparation and eventual publication of this County Budget Review and Outlook Paper. In particular, special thanks go to the following: Jennifer Ogola, the Head of Treasury Budget for providing leadership during the preparation of this document; Lawrence Kenyatta Nyamwaya the County Director of Economic Planning; Moses Okoth Keya; Silvester Oluk; Daniel Ochudi Okelele and Samuel Omondi Ojwang’.

The county treasury will endeavor to champion the fixation of the fiscal gaps that exist in attaining the vision and mission of the department as captured in this document. 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 of Siaya as outlined in its CIDP and other policy documents.

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**MAROKO SILVESTER SIJENY**

**CHIEF OFFICER – FINANCE, ECONOMIC 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 Weakness Threat

## **Legal Basis for the Publication of the County Budget Review and Outlook Paper**

The County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Finance Management Act, 2012. The law states that:

1. The County Treasury shall prepare and submit to County Executive Committee for approval, by 30<sup>th</sup> 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 in the Public Financial Management  
Law**

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law (Section 107) states that:

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 percent 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



## **INTRODUCTION**

### **Background**

Siaya County is one of the 47 counties, and is located in the Western part, of the Republic of Kenya. It borders Kisumu, Busia, Vihiga and Lake Victoria. The County is endowed with many resources, but has been a low producer of goods and services, a situation that has contributed to the prevailing high poverty levels. The factors that have led to the low productivity include the values, attitudes and work ethics that run counter to the spirit of entrepreneurship and wealth creation. Low industrial investments in the county have also contributed to low productivity.

This County Budget Review and Outlook Paper (CBROP) is the second to be prepared by the County Government of Siaya under the Constitution of Kenya 2010 and the Public Finance Management Act, 2012. It contains a review of the fiscal performance of the financial year 2013/14 since the inception of the county government.

### **Objective of CBROP**

1. The objective of the CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles as set out in the PFM Act, 2012. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and general expenditure within the medium term. Details of the fiscal framework and the medium term policy priorities will be presented in the County Fiscal Strategy paper 2015.
2. The CBROP is one of the key documents in linking policy, planning and programming in the current financial year and in the medium term. Other documents include the County Fiscal Strategy Paper and the County Debt Management Strategy. This year's CBROP is based on the performance of the budget implemented by the County Government of Siaya in the Financial Year 2013/14.

The County Government of Siaya is currently implementing the first County Integrated Development Plan and CBROP will take cognisance of its contents and of other county development plans. Fiscal projections in the in the medium term will be contained in the 2015 fiscal strategy paper.

## **I. REVIEW OF FISCAL PERFORMANCE IN 2013/2014**

### **A. Overview**

1. Despite the 2013/2014 financial year being the first under which the county government was implementing her full budget, the fiscal performance in the financial year under review was generally not satisfactory. The amounts of revenues realized were lower than the projections in the approved budget for the year. Although the county government planned to mobilize, Kshs 150 million local revenue during the fiscal year, only Kshs. 101 million was raised.
2. The county expected to receive Kshs. 3.972 billion from the national government. However only Kshs. 2.965 billion was received from the exchequer within the financial year.
3. The total planned expenditure was Kshs. 4.263 billion consisting of Kshs 2.944 billion and Kshs.1.319 billion for recurrent and development expenditure respectively. The actual expenditure was Kshs.2.017 billion out of which development expenditure was Kshs.285 million representing 14% of the total expenditure. Recurrent expenditure on the other hand was Kshs.1.733 billion representing 86% of the total expenditure.

### **B. 2013/14 Fiscal Performance**

1. Table 1 and 2 below presents the fiscal performance for the FY 2013/14 and the deviations from the original and revised budget estimates.
2. The total revenue collection from local sources during the period under review was

Kshs. 100,756,443 compared to a target of Kshs. 153,466,278. This reflects a collection shortfall of Kshs.52, 709,835 or 34% of the targeted revenue. Various reasons caused the low performance in terms of revenue collection. These include:

- a. lethargy during the period of the gubernatorial by-election;
- b. reluctance by devolved units to remit their revenue to the county;
- c. political interference by some of the leaders;
- d. outbreak of foot and mouth disease in some parts of the county and
- e. poor enforcement of revenue collection by revenue officials.

From the National Government, the county received disbursements of Kshs. 2.965 compared to the equitable share of Kshs.3.962 billion during the period under review. This is exclusive of the last disbursement of Kshs. 341 million received after the expiry of the fiscal year. Salaries paid in the first half of the financial year to national government employees seconded to county governments were also withheld by the national treasury without appropriate notice. This was a setback that negatively impacted on the income of the county.

Table 1: County Government Revenue for FY2013/14 .

		Projected/ from Printed estimates	Actual	Deviations	%Deviati ons	Projected
	Revenue Item	2013/14				2014/15
	Revenue from Local Source					
1.	Market fees	31,992,690	29,532,150	-2,460,540	-8%	45,000,000
2.	Single Business Permit	39,946,745	30,189,859	-9,756,886	-24%	50,000,000
3.	Bus-Park fees	22,993,125	14,247,416	-8,745,709	-38%	20,000,000
4.	Fish Cess	16,000,000	5,109,978	-10,890,022	-68%	5,642,052
5.	Tender Fees		5,705,700	5,705,700	-	3,000,000
6.	Miscellaneous fees	22,655,993	5,151,045	-17,504,948	-77%	8,000,000
7.	Plot rent	14,165,654	2,242,917	-11,922,737	-84%	6,000,000
8.	Plot rates and Card Application	5,712,071	2,560,770	-3,151,301	-55%	26,157,475
9.	Approval of Plan		1,717,815	1,717,815	-	2,500,000
10.	Kiosk Rent		1,058,914	1,058,914	-	
11.	Slaughter Fees		758,410	758,410	-	700,000

		Projected/F rom Printed estimates	Actual	Deviations	%Deviati ons	Projected
	Revenue Item	2013/14				2014/15
	Revenue from Local Source					
12.	Transfer fees		418,270	418,270	-	1,000,000
13.	Ground rent		947,543	947,543	-	
14.	Stall rent		289,798	289,798	-	3,100,000
15.	School fees		161,809	161,809	-	250,000
16.	House rent		127,759	127,759	-	
17.	Sand Cess		514,290	514,290	-	5,000,000
18.	Burial fees		22,000	22,000	-	30,000
19.	Sugar Cess			0	-	2,000,000
20.	Cilor			0	-	450,500
21.	Bodaboda Fee			0	-	10,000,000
22.	Health Department			0	-	61,500,000
23.	Lands Department			0	-	6,200,000
24.	Agriculture			0	-	25,000,000
25.	Trade			0	-	7,000,000
26.	Roads and Public Works			0	-	12,000,000
27.	Education, Youth affairs and Social Services			0	-	1,000,000
	SUB TOTAL	153,466,278	100,756,443	-52,709,835	-34%	301,530,027
	TOTAL INCOME					

Source: County Treasury

3. Total expenditure for the period under review amounted to Ksh 2,376,946,022 which is approximately 56% of the total budget of Kshs. 4,263,898,013. This represent an under spending of Kshs.1, 886,951,991(or 44 percent deviation from the approved budget for the financial year). This expenditure includes Kshs.359 million for salaries paid by the national government to staff performing devolved functions in the first half of the financial year.

The low absorption rate of funds was attributed to various reasons which include:

- a. delays by the National Treasury to release funds to Counties;
- b. the lengthy procurement procedures;
- c. systemic challenges involving unestablished structures of the county

government entities;

Table: County Government Expenditure Analysis for FY2013/14

		<b>Printed Estimates for 2013/14</b>	<b>Actual Expenditure For 2013/14</b>	<b>Deviations</b>	<b>% Absorption</b>	<b>Projected 2014/15</b>
	<b>RECURRENT EXPENDITURE</b>					
1.	Salaries and Wages	1,653,107,180	1,449,642,760	203,464,420	88%	1,871,409,094
2.	Operations and maintenance	1,291,580,765	851,734,829	439,845,936	66%	1,337,075,895
	<b>Total Recurrent</b>	<b>2,944,687,945</b>	<b>2,301,377,589</b>	643,310,356	78%	<b>3,208,484,989</b>
	DEVELOPMENT	1,319,210,068	285,758,115	1,033,451,953	22%	1,393,000,000
	<b>TOTAL EXPENDITURE</b>	<b>4,263,898,013</b>	<b>2,587,135,704</b>	1,676,762,309	61%	<b>4,601,484,989</b>

Source: County Treasury

3. Recurrent expenditure amounted to Ksh **2,301,377,589** against a target of Ksh **2,944,687,945** representing an under-spending of Kshs. **643,310,356** (or an absorption rate of 78% of the approved recurrent budget).

The actual development expenditure incurred was Kshs.285, 758,115. This an absorption rate of 22% of the total development budget of Kshs. 1,319,210,068 meaning that Kshs.1,033,451,953 of development funds were not spent thereby denying the local economy the much needed benefits.

### **C. Implication of 2013/2014 fiscal performance on compliance with the fiscal responsibility principles and with the financial objectives**

1. The performance in the FY 2013/14 has affected the compliance with the fiscal responsibility principles outlined in the PFM Act 2012 in the following ways: (i) the low absorption of development funds may affect the compliance with the medium term fiscal threshold of 30 per cent on development expenditure.

2. Given the above deviations, the revision in revenues and expenditures will be based on the revised macroeconomic assumptions which will be firmed up in the context of the County Fiscal Strategy Paper. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modification to the financial objectives to be contained in the CFSP to reflect the changed circumstances.
3. The County Government of Siaya will continue in its endeavours to revamp agriculture through mechanization of agriculture, input access, soil testing and sampling, investment in aquaculture, upgrading fish handling centres, alongside other activities that have been given priority in the FY2014/2015 Budget. These interventions are expected to make Siaya a food secure county and even produce more for sale to other food deficient regions.
4. The low absorption of development budget affected the achievement 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 roads, water, health, education and the executive as reflected by their respective absorption rates.
  - 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.
5. Delays in the enactment of the county finance bill and other relevant legislation 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.
6. There is need for downward revision on the revenue targets for the financial year 2014/15 due the non achievement of the targeted revenue projections for the period under review. In addition, the experience on the absorption levels of funds by

different departments and the regulations set by the Commission on Revenue Allocation necessitates the adjustments in the baseline ceilings for spending agencies which will then be firmed up in the County Fiscal Strategy Paper 2015.

7. 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.

## **II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

### **A. Recent Economic Developments**

According to the Economic Survey 2013, the Kenyan economy grew by 4.7% and is projected to grow by 5.7% in 2014. The growth was achieved against a backdrop of a stable macroeconomic environment, characterized by low inflation of 5.8% and a relatively stable exchange rate.

With the actual growth level of the economy being less than the projected growth of 5.2% the national government revenue targets were equally affected which may have led to the slowdown in the flow of funds to finance county budgets. The slowdown of the general national economic performance may have impacted negatively on the local economy as exhibited by the non realization of the projected revenue targets.

#### ***Implementation of 2014/15 budget***

1. Various issues have affected the take off in the implementation of the 2014/15 budget. First, the guidelines by the commission of revenue allocation on budget ceilings by different arms of the county government, were generally not adhered to leading to the declination by the office of the Controller of budget to approve the release of funds by the national treasury. All counties were allowed to access up to fifty percent of their budget as a result of a high court ruling on the same. To date Siaya County has only been able to access salaries and funding for operational and maintenance limited to thirty per

cent of the salaries amounts disbursed.

2. Revenue collected for the first two months of the year was Kshs. 22,558,181 compared to a targeted projection of Kshs.50, 000,000. This represents a shortfall of Kshs.27, 441,819. The major challenge with mobilization of local revenue is on the unwillingness by some devolved units to remit A-in-A revenue to the county revenue account. Other challenges include: delays in the enactment of the finance bill and other applicable legislation and existence of leakages due to poor enforcement of revenue laws.

### **B. Medium Term Fiscal Framework**

1. The County Government of Siaya will strive to maintain a strong revenue base over the medium term. Measures to achieve this include simplification of the taxes, fees and charges with an aim of encouraging compliance and other administrative measures. Moreover, introduction of tax incentives, expansion of the tax base and automation of revenue collection are other measures proposed to improve revenue collection.
2. To maximize the benefits derived from natural resources, the county government of siaya will engage with stakeholders to develop a comprehensive policy and legislative framework on ways to attract investors, raising revenues and sustainable use of natural resources.
3. The County Government of Siaya will ensure strict compliance with the provisions of the Public Financial Management Act 2012 with an aim of accelerating reforms in revenue and expenditure management. The rationalization of expenditure to improve efficiency and reduce wastage and the strengthening of expenditure management through the implementation of the Integrated Financial Management Information System (IFMIS) are some other measures taken to improve the overall efficiency and effectiveness in financial management.

### **C. Risks to the outlook**

The risk to the outlook for the year 2014 and medium-term include: further weakening in global economic growth; unfavorable weather conditions should there be any drought; floods in Usonga in the year and years ahead; risk of power failure that is common in the county;



crop failure; high cost of production. Other challenges include those associated with the uncertainty in the political climate could weaken investor confidence and slow down growth. Should these risks materialize; the County government in consultation with the National government will undertake appropriate measures to safeguard macroeconomic stability.

The national government may review the amount allocated to counties up to the constitutional threshold of fifteen per cent of revenues of the latest audited revenue accounts which will drastically affect the fiscal performance in the medium term.

#### **D. Opportunities**

Connection to the national fibre optic cable network leading to faster internet services and enhanced connection of the county to the global community is expected to increase the ease of doing business.

### **III. RESOURCE ALLOCATION FRAMEWORK**

#### **A. Adjustment to 2014/15 Budget**

1. Adjustments to the 2014/15 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Because of the resource constraints, the County Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or reprioritizing development expenditures in order for the government to live within its means. Utilization of contingencies/emergency funds will be within the criteria specified in the PFMA act 2012.
2. Any review of salaries and benefits for the County workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution.

#### **B. Medium-Term Expenditure Framework**

1. Going forward, in view of the recent macroeconomic circumstance and limited resources, MTEF budgeting will involve making adjustments on non-priority expenditures to provide resources for the priority sectors. The County Integrated

Development Plan CIDP (2013-2017) and Annual Development Plans will provide guidance to the resource allocation process in the medium term.

2. The priority social sectors, early childhood education, vocational training and health, will continue to receive adequate resources. Both sectors (education and health) are already receiving a significant share of resources in the budget and are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.
3. The economic sectors including agriculture, livestock and fish farming will continue to receive adequate resources to boost agricultural productivity so as to effectively deal with threats in food security in the county.
4. The amount of resources allocated to priority physical infrastructure sector, such as roads, energy, water and irrigation, will have a constant increase over the medium term as part of the County Government's commitment to improving infrastructure countywide. This will help the sectors provide increased communication, reliable and affordable energy, as well as increased access to water and development of irrigation projects.
5. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2015 MTEF, classified by sector.

<b>Sector</b>	<b>approved estimates</b>	<b>Projected Ceiling</b>	
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
County Assembly	761,745,300	837,919,830	921,711,813
County Executive	698,779,376	768,657,314	845,523,045
Finance, Economic Planning and Vision 2030	186,450,914	205,096,005	225,605,606
Agriculture, Livestock & Fisheries	387,461,677	426,207,845	468,828,629
Water, Environment & Natural Resources	236,386,497	260,025,147	286,027,661

Education, Youth Affairs, Sports, Culture & Social Services	488,526,083	537,378,691	591,116,560
County Health Services	1,412,047,881	1,553,252,669	1,708,577,936
Lands, Housing, Physical Planning & Development	79,088,730	86,997,603	95,697,363
Roads, Transport & Public Works	216,632,500	238,295,750	262,125,325
Trade Development & Regulation	103,452,446	113,797,691	125,177,460
Tourism and ICT	30,913,585	34,004,944	37,405,438
<b>TOTAL</b>	<b>4,601,484,989</b>	<b>5,061,633,488</b>	<b>5,567,796,837</b>

## CONCLUSIONS

The fiscal performance of 2013/14 budget has affected the financial objectives outlined in the County Fiscal Strategy Paper 2014 and has had implications on the compliance with the fiscal responsibility principles outlined in the PFM Act 2012. The policies outlined in this paper reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act.

The national strategic objectives pursued by the National Government as a basis of maintaining a stable macroeconomic environment have also been taken into account.

The unspent development budget amounting to approximately kshs.1.2 billion will be appropriated in the supplementary budget of this financial year. This is expected to increase the budgetary proportions allocated to development and effectively pushing the total budget from Kshs.4.601 billion to Kshs.5.884 billion.

The challenges faced in the absorption of development budget need to be addressed for the realisation of the county objectives. Budgeted development expenditure must be fully implemented in order to spur economic growth to enhance productivity.