



COUNTY GOVERNMENT OF TRANS-NZOIA

TREASURY

COUNTY BUDGET REVIEW

AND

OUTLOOK PAPER

AUGUST 2016

FOREWARD

This County Budget Review and Outlook Paper (CBROP) present the fiscal outcome for the 2015/2016 financial year and how this affects the financial objectives set out in the 2016 County Fiscal Strategy Paper (CFSP). The updated macroeconomic outlook therein also provides us with a basis to revise the 2016/2017 Budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the 2017/18 budget.

Despite brief challenges in the 1st quarter of financial Year 2015/16, the county government closed the year satisfactorily despite the revenue shortfall and significant expenditure reprioritization. The total cumulative revenue realized was Ksh. 6,068,114,736 compared to the targeted Ksh. 6,154,867,114. This represents a revenue shortfall of Ksh. 86,752,378 of which ordinary local revenues under collection was Ksh. 24,056,478 while transfers from the National Treasury underperformed by Ksh. 62,695,900. On the other hand, expenditure amounted to Ksh. 5,333,330,140 of which Ksh. 3,543,533,047 was recurrent while Ksh. 1,789,797,093 was development expenditure. Thus, expenditure underperformed by Ksh. 734,784,596.

The 2015/16 fiscal outcome has had implications on the base in which the fiscal projections for the Financial Year 2016/17 were based on. This in turns informs the budget framework for the financial year 2017/18. While at the national level, macroeconomic environment has stabilized significantly, at the county level, the fiscal outcome for FY 2015/2016 and the first two months of financial year 2016/17 call for a review of the 201/17 budget estimates and forms the basis of the sector ceiling provided in this policy document for the financial year 2017/18. However, this ceiling have been underpinned by the county's desire in maintaining the medium term macroeconomic framework that seeks to increase youth employment, reduce poverty and enhance land productivity as outlined in the county integrated development plan.

This CBROP outlines the policies that the county government seeks to implement in order for it to live up its mandate given the prevailing macro-economic circumstances and in conformity with the fiscal responsibility principles outlined in the PFM Act 2012 and the County's development Strategic objectives as contained in the county development plans. The sector strategies include;- prudent management of the county's financial resources in line with the PFM Act 2012, establishing a county public service that can deliver efficiently, developing appropriate social economic policies that can spur growth and development, creating a conducive investment

environment, providing accessible and affordable social services and providing efficient and affordable transport and communication services.

Other strategies include promoting youth, women and the marginalized members of our community, increasing land productivity to ensure increased farm incomes and food security, promoting sustainable exploitation of the county's natural resource base and ensuring security of land tenure as well as providing adequate land for infrastructure and development of public institution.

The fiscal framework presented in this 2015 CBROP provides a strong basis for building our common future under the new constitution dispensation. This CBROP must be anchored great fiscal discipline, transparency and public participation if it can be able to achieve the aspirations of the people of Trans Nzoia County. These policy strategies will be firmed in the next County Fiscal Strategy Paper (CFSP) to be released by February 2017.

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COUNTY EXECUTIVE MEMBER FOR FINANCE

LIST OF ABBREVIATIONS

ADC	Agricultural Development Corporation
CARB	County Allocation of Revenue Bill
CBD	Central Business District
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development plan
CPSB	County Public Service Board
CRA	Commission for Revenue Allocation
DORB	Division of Revenue Bill
ECDC	Early Child Development Centre
FY	Financial year
ICT	Information Communication technology
IFMIS	Integrated Financial Management System
KIE	Keya Industrial Estate
MTEF	Medium term Expenditure Framework
PFM Act 2012	Public Financial management Act 2012
PSM	Public service management
SRC	Salaries and Remuneration Commission
TC	Tissue Culture Banana
VTC	Vocational Training College

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SECTION ONE

BACKGROUND INFORMATION

i. Legal Basis for the Publication of the Budget Review and Outlook Paper

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

- (1) A County Treasury shall:-
 - (a) Prepare a County Budget Review and Outlook Paper in respect of the County for each Financial year and
 - (b) Submit the paper to the County Executive Committee by 30th September of that year.

- (2) In preparing its CBROP, the County Treasury shall specify:-
 - (a) 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 Fiscal Strategy Plan.
 - (c) Information on :-
 - (i) any changes in the forecasts compared with CFSP or
 - (ii) how actual financial performance for the previous fiscal year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP financial year and
 - (d) Reasons for any deviations from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

- (3) Not later than Seven days (7) after the CBROP is submitted to the County Executive Committee (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 publicize the Paper.

- (4) The County Executive Committee shall consider the CBROP with a view to approving it with or without amendments, within fourteen days (14) after its submission.

ii. Fiscal Responsibility Principles in the Public Financial Management Law.

In line with the Constitution, the new 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:-

County Treasury to enforce fiscal responsibility Principles (Sec. 107):

- (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 per cent of the County government's budget shall be allocated to the development expenditure.
 - (c) The county government's recurrent expenditure shall not exceed a percentage of the county government's total revenue as prescribed by the County Committee Executive Member for Finance in regulations 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 recurrent expenditure.
 - (e) The county debt shall be maintained at a sustainable level.
 - (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 purpose 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)

1. INTRODUCTION

1.1. Background

The CBROP is a key document linking Policy, planning and budgeting. The CBROP provides the County Government the basis upon which to reprioritize project portfolio as contained in the County Integrated Development Plan (CIDP) 2013-2017 and other County Development plans in view of the indicative sector budget ceiling provided by the CBROP while taking into account emerging county developmental needs.

This County Budget Review and Outlook Paper (CBROP) is the fourth to be prepared by the County Government of Trans-Nzoia as stated in the Public Financial Management Act, 2012. In line with the Act, the CBROP contains a review of the fiscal performance of the financial year 2015/2016, updated macroeconomic forecast, and deviations from the CFSP as submitted to County Assembly in February 2016 after getting approval from the County Executive Committee as well as providing indicative sector ceilings for the 2017/18 budget and the medium term guided by the PFM Act 2012. The Ceilings thus provided will set in motion the budget preparation process for the Fiscal Year 2017/18.

The updated macroeconomic outlook will be firmed up in the CFSP to reflect any changes in economic and financial conditions. The next CFSP will be submitted to the Assembly earlier than normal submission deadline of February under the PFM law as per the Treasury budget circular for 2017/18-2019/20 MTEF period.

1.2. Objectives of the CBROP

Specifically, the objective of this CBROP is;

- To provide a review of the 2015/16 fiscal performance.
- To update expectations for key economic indicators and implication for budget performance in 2016/17 financial year, this informs revision of the 2016/17 budget and the 2017/18 budget.
- To propose indicative sector (Departmental) budget ceiling for the financial year 2017/18 budget and medium term.

1.3. Organization of Report

This report has been organized into three Sections. Section one provides Background information on CBROP which contains, an introduction and objectives of the CBROP. Section two provides a review of the fiscal performance in FY 2015/2016 and its implications on the financial objectives set out in the last CFSP. Section three provides

brief highlights of the recent economic developments and updated macroeconomic outlook, Resources allocation framework and the conclusion.

SECTION TWO

REVIEW OF FISCAL PERFORMANCE IN 2014/2015

2. Overview

The fiscal performance in the 2015/2016 financial year was fairly satisfactory. The total cumulative revenue realized was Ksh. 6,068,114,736 compared to the targeted Ksh. 6,154,867,114. This represents a revenue shortfall of Ksh. 86,752,378 of which ordinary local revenues under collection was Ksh. 24,056,478 while transfers from the National Treasury underperformed by Ksh. 62,695,900.

On the other hand of the actual revenue realized, expenditure amounted to Ksh. 5,333,330,140 of which Ksh. 3,543,533,047 was recurrent while Ksh. 1,789,797,093 was development expenditure. Thus, expenditure underperformed by Ksh. 734,784,596.

2.1. 2015/2016 Fiscal Performance

2.1.1. Revenue Performance;

The approved total revenue for the financial year 2015/16 was Ksh. 6,154,523,830 comprising of both local revenues and grants from the national Treasury. However, the actual realized revenue was Ksh. 6,068,114,736 reflecting a shortfall of Ksh. 36,806,424. The detailed revenue budget is provided in table 1 below.

Table 1: Approved and Actual Revenue Realized by Source for FY 2015/16

SOURCE	APPROVED BUDGET	ACTUAL	VARIANCE
Tentative CRA Allocation	5,099,612,701	5,099,612,701	0
Local Sources	389,026,513	364,970,035	24,056,478
Grants; DANIDA	11,330,000	0	11,330,000
Grants; User Charges Forgone	19,085,197	19,085,197	0
Free Maternal Health care	119,768,400	68,402,500	51,365,900
Road Maintenance Fuel Levy	64,782,039	64,782,039	0
Unspent Balance for FY 2014-15	451,262,264	451,262,264	0
Total Income	6,154,867,114	6,068,114,736	86,752,378

Source: County Budget Office 2015

Local sources underperformed by Ksh. 24,056,478 while free maternal health care disbursement declined by Ksh. 51,365,900. On the other hand Danida grant was never disbursed at all.

Tables 2 below provide an analysis of estimated and Actual Revenues from local sources by sector realized during the Financial Year 2015/16.

Table 2: Revenue Report for FY 2015/16

Sector / Revenue Source	Approved Budget(Ksh)	Actual Collection (Kshs)	Variance
AGRICULTURE, LIVESTOCK AND FISHERIES			
Application fees	2,238,806	3,436,280	1,197,474
Cattle auction and slaughter fees	1,492,538	1,278,860	-213,678
Total	3,731,344	4,715,140	983,796
ECONOMIC PLANNING, COMMERCE AND INDUSTRY			
Open Air Market	29,850,746	19,802,528	-10,048,218
Market stalls, bandas and enclosed markets	22,388,060	4,830,510	-17,557,550
Total	52,238,806	24,633,038	-27,605,768
ENVIRONMENT, WATER AND NATURAL RESOURCES			
Refuse collection and conservancy	2,985,074	10,694,097	7,709,023
WORKS, TRANSPORT AND INFRASTRUCTURE			
Advertisement, Trade names, billboards and signboards	3,731,343	14,315,784	10,584,441
Building plans, clearances and completion certificates	3,731,344	8,314,523	4,583,179
Total	7,462,687	22,630,307	15,167,620
HEALTH			
Income from Health services	119,000,000	114,234,474	-4,765,526
PHYSICAL PLANNING, LANDS AND HOUSING			
Change of user, plot sub-division and transfers	2,985,074	2,646,725	-338,349
GENDER, YOUTH, SPORTS, CULTURE AND TOURISM			
Hire of facilities (social hall, stadium)	1,149,254	101,900	-1,047,354
Amusement fees	0	838,464	838,464

Total	1,149,254	940,364	-208,890
FINANCE			
Cess (maize, tea,sand, ballast etc)	33,582,090	20,747,161	-12,834,929
Land Rates and clearances (current year)	59,701,492	32,720,779	-26,980,713
Land Rates penalties	7,462,687	4,182,055	-3,280,632
Single Business permits	34,607,110	76,937,195	42,330,085
Single Business permits penalties	8,955,223	1,253,475	-7,701,748
Vehicle Parking fees	54,822,388	37,960,193	-16,862,195
Liquor Licences	-	8,498,750	8,498,750
Total	199,130,990	182,299,608	-16,831,382
Total of Local Revenue	389,026,513	364,970,035	-24,056,478

Source Draft Revenue Report FY 2015/2016

From the foregoing, the total cumulative local revenue realized was Ksh. 364,970,035 compared to the targeted Ksh. 389,026,513. This represents a revenue shortfall of Ksh. 24,056,478.

The underperformance in revenue collection was largely on account of challenges as listed below:-

1. Non-payment of rates namely Kenya Railways, A.D.C., CILLOR, K.I.E. etc.
2. Valuation Roll being used is the old one only covering CBD and not the entire County.
3. Late enactment of the County Finance Act 2015.
4. Poor enforcement,
5. Undergoing construction works on the central matatu terminus and Kitale market hence reduced parking fee and open market traders fee.
6. Manual revenue collection system
7. Revenue leakages

This will be corrected once the business park and Kitale modern market are completed and operational, a new valuation roll is adopted as well as the automatic revenue collection system whose procurement is in process.

2.1.2. Expenditure Performance

Expenditure for both recurrent and development budget for the financial year 2015/16 was Ksh. 5,378,421,169 against a target of Ksh. 6,154,867,114 comprising of Ksh. 3,117,109,820 under the recurrent vote and Ksh. 2,261,311,349 under the development vote as can be deduced from table three below.

Table 3: Summary of Budget and Actual Expenditure by Category for FY 2015/16

Particulars	Budgeted (Ksh)	Actual (Kshs)	Variance
Personnel	1,817,420,981	1,556,720,852	260,700,129
Operations & Maintenance	1,429,556,461	1,560,388,968	(130,832,507)
Development	2,907,889,672	2,261,311,349	646,578,323
Total	6,154,867,114	5,378,421,169	776,445,945

Source- Draft Financial statements 2015/2016

The recurrent vote expenditure experienced mixed performance during the year. Operations and maintenance expenditure overshoot the budget by Ksh. 130,832,507 while personal emoluments component under spent by Ksh. 260,700,129. On the other hand, the development vote experienced an under expenditure amounting to Ksh. 646,578,323 leading to an overall under expenditure of Ksh. 776,445, 945. The departmental budget performance is provided in the table below.

Table 4: Sectoral Budget Performance FY 2015/16

Sector	Detail	Approved Budget	Actual Expenditure	Variance
Agriculture	Recurrent	256,022,537	237,488,511	18,534,026
	Development	184,704,429	186,271,689	-1,567,260
Economic Planning, Commerce & Industry	Recurrent	30,468,797	21,479,821	8,988,976
	Development	151,826,847	128,162,673	23,664,174
Water, Environment & Natural Resources	Recurrent	46,231,161	37,937,339	8,293,822
	Development	302,286,237	286,883,783	15,402,454

Public Works, Infrastructure	Recurrent	199,456,881	146,912,331	52,544,550
	Development	1,061,551,457	749,345,746	312,205,711
Health Services	Recurrent	1,221,381,659	1,058,898,987	162,482,672
	Development	477,504,823	424,496,167	53,008,656
Lands, Housing & Urban Development	Recurrent	28,582,825	26,859,682	1,723,143
	Development	163,288,720	90,604,424	72,684,296
Gender, Youth, Culture	Recurrent	52,765,476	47,875, 404	4,890,072
	Development	119,801,720	101,193,699	18,608,021
Education, ICT	Recurrent	171,866,165	153,836,565	18,029,600
	Development	187,552,942	163,307,143	24,245,799
Governance, PSM,CPSB	Recurrent	324,762,861	244,012,181	80,750,680
	Development	92,685,954	66,340,189	26,345,765
Finance	Recurrent	417,130,321	336,863,239	80,267,082
	Development	79,700,000	59,914,349	19,785,651
County Assembly	Recurrent	498,398,759	489,094,397	9,304,362
	Development	86,986,672	4,791,705	82,194,967
Total Expenditure	Recurrent	3,246,977,442	3,117,109,820	129,867,622
	Development	2,907,889,672	2,261,311,349	646,578,323

Source- Draft Financial statements 2015/2016

2.1.3. Departmental milestones achieved during the FY 2015/16

Economic Planning Commerce and Industry

In the financial year 2015/16, the sector's key milestones include;-

The preparation of the County Development Plans including the Development plan 2016/17, annual work plan and budget for 2015/16, conducted a monitoring and evaluation exercise on the implementation of the 2015/16 work plan, and participating

in the preparation of the 2016/2017 MTEF budgeting process. During the period, NAWIRI Fund, disbursed a loan of Ksh. 1.5 million to Pamoja Sacco, a feasibility study on the maize milling plant in Kitale was undertaken, Trans Nzoia Investment Conference and Expo 2016, was organized, completion of construction on five major markets and 12 wards' based fresh produce markets, commencement of works on Kitale Modern market and completion of the Environmental and Social Impact Assessment for the establishment of the Suam market.

Land, Housing and Urban Development.

The major achievements for the period included, completion of survey of Endebess, Siyoi, Sibanga, Emoru, Saboti, Kapsara, Kapkarwa, Kipsoen and Nzoia market centres; equipping of survey amendment centre, establishment of a Geospatial Information System laboratory and digitization of land records, processing of 88,000 titles, and acquisition of over 30 acres of land for the development of various county infrastructural facilities and market expansion.

Agriculture, Livestock, Fisheries, Cooperative Development Sector

The sector's key projects implemented during the year include the procurement and installation of milk coolers, Purchase of Artificial insemination equipment and semen, and promotion of indigenous poultry. Other projects are distribution of 35,000 bags of planting & 30,000 bags of top dressing subsidized mavuno fertilizer, establishment and Equipping of Tissue Culture Banana Laboratory, distribution of over 60,000 TC Banana plantlets, distribution of 300,000 subsidized coffee seedlings, procurement of a sorted modern farm machinery, establishment of 25 Model farms, procurement and installation of 18 green houses and construction of 3 grain stores in Kiminini, Kwanza and Saboti sub counties.

Gender, Youth, Sports, Culture and Tourism

In the financial year 2015/16 the gender sub sector distributed over Ksh. 71 million under the Youth and women development fund benefiting 682 groups, Provided Welfare services for the disabled and elderly, established a child rescue center and undertook Landscaping at social hall.

In the sports sub sector, a county Sports Bus was procured. The leveling of 25 ward sports grounds is ongoing in seven fields while 18 others have been completed, and coordinated the county participation in KICOSCA Games. In addition, the department provided support to Sports teams, financially and provision of sports equipments.

To promote tourism, the department organized and conducted the Marakwet Cultural festival, Trans Nzoia Tourism & Cultural festival, Sabaot cultural festival, Facilitation for activities of the Councils of elders among other activities.

Public Works, Transport and Infrastructure

The key sub sector achievement included installation of 25 culverts, purchase of fire engine, construction of fire station, routine road maintenance, construction of modern business centre and Bus Park, and construction of 100 boda boda parking sheds. In addition, 26 high mast floodlights were installed, street lights were elected in selected major streets and markets centres, and maintenance of existing street lighting and high mast floodlights.

Environment, Water, and Natural Resources

In the 2015/16 financial year the Ministry implemented 54 piped schemes, one water dam and 20 water points at a cost of Ksh 131,384,640. Most of these projects are complete and a population of 186,450 is accessing clean potable water. This has increased the number of households accessing clean portable water from 53,855 to 59,930 representing 35.32 % of the total projected population of the County of 1,018,175 people

Other activities included drilling of boreholes, spring protection, and digging of boreholes. Other activities funded were tree planting and town cleaning services. In addition, the County Government also acquired 2No. Drilling Rigs to increase coverage by drilling boreholes to the community

Governance and Public Service Management

In the financial year 2015/16, the sector facilitated, development and approval of county organizational structure, coordinated public service training and capacity development, facilitated the recruitment of county staff including firemen, Doctors and ECDC care givers. In addition, the sector also facilitated placement and attachment of student interns across the departments. At the same time, the sector is also charged with facilitating Public Participation and Civic Education. In order to promote service delivery, the sector also coordinated the carrying out of customer satisfaction survey.

Education and ICT

Among the programmes implemented in the financial year 2015/16 in the sector include; Infrastructural Development (construction) of ECDC classrooms and VTC

twin lab blocks, Procurement of ECDC and VTC learning and instructional materials disbursement of Ksh. 112 million under Elimu bursary fund. The sector also initiated the Employment of 756 ECDC caregivers and 140 polytechnic instructors. The sector also hosted an education day that saw a rewarding of performance in all the schools within the county

Health

The key achievements for the sector during the period under review included continuation of construction of the county referral hospital, installation of oxygen plant at the Kitale County Hospital, construction of a public toilet in Kiminini market, supply of medical equipment to the renal unit at the Kitale County Hospital and procurement of a lorry for the distribution drugs and other medical supplies.

2.1.4. Budget Performance for (July and August) 2016

The 2016/17 budget performance in the months of July and August has been moderate with variances across the sectors. A summary of sector performance is provided in tables 5 and 6 below.

2.1.4.1. Revenue Performance

The estimated local annual Revenue for the current financial year 2016/17 is Ksh. 500,000,000. The revenue collected during the two months period is Ksh. 52,065,791 a paltry 10 % of the target revenue for the year.

Table 5: July and August Revenue Report Fy 2015/2016

Sector/Source of Revenue	Approved Revenues (Ksh.) 2016/17	Actual
Agriculture, Livestock and Fisheries		
Application fees	4,763,072	
Cattle auction & slaughter fees	2,324,655	63,560
Agricultural mechanization Services	3,513,127	294,400
Economic Planning, Commerce and Industry		

Sector/Source of Revenue	Approved Revenues (Ksh.) 2016/17	Actual
Open Air Market	38,911,810	2,068,920
Market stalls, bandas and enclosed markets	11,503,821	48,650
Environment, Water and Natural Resources		
Refuse collection and conservancy	11,744,982	-
Works, Transport and Infrastructure		
Advertisement, Trade names, billboards and signboards	15,096,311	98,930
Building plans, clearances and completion certificates	10,117,056	15,000
Health		
Income from Health services	169,043,098	13,459,175
Physical Planning, Lands and Housing		
Change of user, plot sub-division and transfers	3,843,503	2,356,242
Gender, Youth, Sports, Culture and Tourism		
Hire of facilities (social hall, stadium)	202,210	-
Amusement fees	258,967	178,250
Finance		
Cess (maize, tea, sand, ballast etc)	37,290,756	11,286,152
Land Rates and clearances (current year)	41,186,258	15,178,432
Land Rates penalties	2,725,274	-
Single Business permits	65,979,092	2,744,230
Single Business permits penalties	1,566,273	2,356,242

Sector/Source of Revenue	Approved Revenues (Ksh.) 2016/17	Actual
Vehicle Parking fees	61,763,740	2,865,060
Liquor Licenses	18,165,995	1,093,000
Total:	500,000,000	52,065,791

Source: Monthly revenue report FY 2016/17

In overall, the revenue collected as percent of budget estimates is only 10 %. Many of the sectors have recorded zero collection on some items for the two months period.

2.1.4.2. Expenditure Performance

The expenditure during the two months' period is Ksh. 522,243,909 under the recurrent vote while development vote has not recorded any expenditure at all.

Table 6: July and August expenditure FY 2015/16

DESCRIPTION	BUDGETED	ACTUAL	% PERFORMANCE
Personnel	1,939,081,038.00	409,367,848.00	21
Operations & Maintenance	1,425,074,416.00	112,876,061.00	7.9
Development	2,928,213,262.00	0	0
TOTAL	6,292,368,716.00	522,243,909.00	15.5

Source IFMIS Expenditure report FY 2016/17

The only captured expenditure of Ksh. 522,243,909 is under the recurrent vote. Personal emoluments form the greater part of the expenditure at 21% while O&M is 7.9 resulting in an overall expenditure of 8.3 % of the county budget.

2.1.4.3. Implication of 2015/2016 Fiscal Performance on Financial Objectives.

The budget performance in the FY 2015/2016 and the first two months of the 2016/17 budget has a great bearing on the implementation of the current budget as well the envisaged 2017/18 county budget, and this will greatly affect the financial objectives set out in the current County Fiscal Strategy Paper.

The implication of the above revenue and expenditure trend is a less turn targeted revenue in addition to a slow absorption of the development budget while the recurrent expenditures are ay above the quarterly budget allocation. This therefore calls for revision of the budget estimates accordingly in line with the current revenue

and expenditure trends. However, this is likely to erode the base upon which the Income and Expenditure Projections for 2016/2017 and the medium term is based. This means that revenue projection needs to be cautious and in line with the revised budget framework assumptions. Consequently, the MTP Ceilings will need to change reflecting the updated revenue and expenditure forecast. In this regard, the ceilings in the 2017 CFSP have to be modified to reflect new developments in the Resource Envelope as well as to be in tandem with the current expenditure trends.

SECTION THREE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. Recent Economic Developments

National, the economy had an improved growth of 5.9 per cent in the first quarter of 2016 compared to a growth of 5.0 per cent in the same quarter 2015. This high growth in the first quarter of 2016 was supported by positive growths in all sectors of the economy. The sectors with improved performance were; agriculture, forestry and fishing (4.8 per cent), mining and quarrying (6.9 per cent), transport and storage (8.4 per cent), electricity and water supply (8.5 per cent), wholesale and retail trade (7.3 per cent), accommodation and restaurant (12.1 per cent) and information and communication (9.7 per cent). However, growth slowed in a number of sectors including; manufacturing, construction, finance and insurance and real estate (*THE NATIONAL TREASURY- Quarterly Economic and Budgetary Review Fourth Quarter, Financial Year 2015/2016*)

Overall month on month inflation increased to 5.8 per cent however, this is within target range in June 2016 from 5.0 per cent in May 2016 due to the increase in the prices of food and non-alcoholic drinks, alcoholic beverages, tobacco and narcotics as well as the increased cost of house rents, and kerosene. In addition the increase in pump prices of petrol and diesel led to the increase of the Transport index. Thereby driving up the prices of essential goods and services. However, the average annual inflation rate stood at 6.5 per cent in June 2016 compared to 6.6 per cent in June 2015.

On the fiscal performance, by the end of June 2016, total cumulative revenue collected amounted to Ksh 1,219.1 billion against a target of Ksh 1,299.9. This performance was below the target by KShs. 80.9 billion. Implying that most services slated for implementation within the two months period may not be financed.

At the county level, the government has purposely targeted poverty reduction, increased youth employment and increased land productivity. Key projects and programmes has contained in the county development plan were under implementation during the year. Land productivity is being addressed gradually under the non acidic fertilizer subsidize and adoption of conservation agriculture, while other programmes including NAWIRI Fund, Women and Youth fund are geared towards, youth and women empowerment hence effectively addressing youth unemployment and high poverty level.

Albeit the slow implementation of development projects, the general welfare of the citizens has substantially improved following gradual increase in maize production rising from about 4 million bags in 2103 to about 5.4 million bags in 2015. The increment is expected to continue in 2016. Milky production has also increased substantially from 90 million litres annual in 2013 to over 100 million litres in 2015. Other key development includes the Crop diversification- tissue culture banana, other horticultural crops, and promotion of coffee and tea in the county.

This CBROP aims to build on the growth momentum arising from the ongoing programmes and projects while taking advantage of any new growth opportunities that may arise. The government will put in place measures to improve on revenue collection, ensure efficient procurement and delivery of services and streamline expenditure management while creating a conducive environment for investment. Going forward especially in agro -based industrial development. The services sector is also being promoted through the construction of fresh in the entire county, produce, construction of Kitale business park, street lighting programme among others.

3.1. Growth Prospects

The projected revenue both locally, and from the national government for the month of July and August two has been quiet low. The local revenue collected in July and August is Ksh. 39,801,996. This is way below what was projected. Therefore there is need to analyse and evaluate the annual Revenue Estimates for the Current financial year in line with what is collectible hence affecting our budget framework for the financial year 2016/17 as well as in the medium term.

The economy is expected gain from increased investment in the county following several investment agreements as well as increased inquiries from prospecting investors as a result of the successful international investor conference organized towards the end of FY 2015/16. In addition, this budget will attempt to facilitate the creation of a conducive environment that will boost investor confidence and increase Private investment in the county.

Whereas the rise in the transport index is likely to lead to increased prices of essential food and non food items, the anticipated pumper harvest will caution the residents as the cost of grain and milk is likely to fall. In addition, the implementation of key development project may be hindered by slow implementation of development budget as witnessed in the first two months of the financial year 2016/17. Moreover, revenue projections have also fallen short of the target. This is likely to reduce the growth levels envisioned in the county development plans.

The reduced public sector investments especially on value addition will reduce job opportunities. There is therefore need to explore new financing options such as asset financing, PPP and donor support to ensure that the projects and programmes contained in the county development plans are implemented without delay, taking into account limited public resources.

3.2. Fiscal Framework

The government will continue to pursue prudent fiscal policy to ensure sustainability of the county's development agenda of poverty reduction, youth employment and increasing agricultural productivity. The overall County Government objective is maintain a balanced budget during the year and in the medium term. This will provide adequate room for maneuverability of fiscal policy in the event of budget shocks.

The County Government will maintain a strong revenue effort over the Medium term. Measures to achieve this effort include procurement of revenue collection system, simplification of Collection process in line with international best practices and improved compliance with enhanced administrative measures. In addition, the County Government will expand the tax base and improve on its collection and administration. In addition, the government will seek to augment revenues through new forms of financing including, asset financing and PPP. In addition, the government will seek for donor support in form grants and loans from domestic and external sources, in line with the regulations as set out in the PFM Act and other financial regulations.

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management is strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments and enforcing and upscaling the e-procurement in line with the PFM Act, 2012.

3.3. Risks to the outlook

The risk to the outlook for 2016 and medium term include the uncertainties in the political arena as the county enters into electioneering period for 2017 national elections, inability to realize the estimated local revenues, slow pace of implementation of the development budget, overreliance on maize as the main cash crop by most of the county residents, low private investments in the county, late disbursement of CRA allocation by the national treasury, inability of the local contractors and supplier to appreciate and comply with the e-procurement directives among others.

SECTION FOUR

RESOURCE ALLOCATION FRAMEWORK

4. Adjustment to 2016/2017 Budget

Given the performance in 2015/2016 and the updated budget framework, the risks to the FY 2016/2017 budget includes weaker revenue performance in 2015/2016 and the medium term, Expenditure pressures with respect to sector/departmental operations and maintenance budgets, demands for employment of extra personnel due to gaps specifically in Education and health

Adjustments to the 2016/2017 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, and shifting expenditures from new projects that may not completed towards ongoing project portfolio in order for the County Government to live within its means.

Any review of salaries and benefits for the public sector workers will be implemented based on recommendation by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination, published in the Gazette Notice by the SRC. In addition internal promotions will be handled on a case to case basis as well as the ability of the county government to meet the extra costs.

On local Revenue collection, the County Government will undertake regular sensitization of citizens on various tax revenues and enhance enforcement to raise compliance levels. Sealing of revenue leakages is ongoing and will be strengthen once the automation of the whole revenue collection into one system is in place. Revenue collectors will be closely monitored in addition, to placing them on performance to ensure that targeted levels are met.

4.1. Medium-Term Expenditure Framework

In view of the recent macroeconomic circumstance, growth prospects and limited resources, MTP budgeting will entail adjusting non-priority expenditures to cater for the priority across the sectors. The current CIDP will be reviewed in preparation of the 2nd generation CIDP that will guide resource allocation in the medium term. The 2017/18 annual development plan has been finalized and the sector have outlined key strategies for implementation in the financial year 2017/18 which will guide the

resource allocation. The proposed sector ceiling under the development vote has been annexed.

4.2. FY 2017/2018 Budget Framework

The FY 2017/2018 budget framework is set against the background of the updated medium-term county fiscal framework set out above. Real growth is expected to increase in FY 2017/2018 underpinned by continued good performance across all sectors of the County. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation especially on most food items is expected to remain low and stable, reflecting continued favorable weather conditions and implementation of a prudent monetary policy and stable commodity prices at the national level.

4.2.1. Revenue Projections

The FY 2016/2017 budget will target revenue collection of about Ksh. 600 Million from Local Sources. As noted above, this performance will be underpinned by on-going reforms in Revenue policy and administration. As such, total revenues including Exchequer disbursements are expected to be approximately Ksh. 6 .5 billion.

4.2.2. Expenditure Forecasts

In FY 2017/2018 the general Sector expenditure will go towards the following:-

- Training and Capacity Building & motivation of county staff
- Citizen participation
- Creating enabling environment for agricultural valuation addition.
- Fast tracking the implementation of the CIDP
- Creating an enabling environment for business partners and other investors
- Looking for new ways of doing business in order to attain the Vision of the County
- Promoting agricultural diversification,
- Ensuring easy access to basic social services including water, education and health care. The summary of the expenditure forecast for 2017/2018 FY is as below.

Table 7: Summary of proposed Expenditure by Economic Classification

Expenditure Category	Amount in Ksh. Billion
Personnel	2,135,000,000
Operations & Maintenance	1,632,000,000
Development	3,568,500,000
Total	7,335,500,000

The determining factor will be the CRA share of allocation that the National Assembly will approve in the County Allocation of Revenue Bill (CARB) in 2017/2018 and the actual share of the revenue that will be passed by the Senate through the Division of Revenue Bill (DORB) 2017/2018.

Annex 1

Table 8: Indicative Sector Development Budget Ceiling for 2017/18 FY

NO.	SECTORS	AMOUNT
1.	Agriculture,Livestock,Fisheries and Cooperative Development	310,000,000.00
2.	Economic Planning Commerce & Industry	253,500,000.00
3.	Water Environment and Natural Resources	283,500,000.00
4.	Works, Transport & Infrastructure	810,000,000.00
5.	Education,ICT and Vocational Training	290,000,000.00
6.	Health Services	600,000,000.00
7.	Lands, Housing and Urban Development	281,500,000.00
8	Gender,Youth,Culture,Sports,Women & Tourism	210,000,000.00
9.	Governance & Public Service Management	120,000,000.00
10.	Finance	110,000,000.00
	TOTAL	3,568,500,000.00

Source: Budget Circular August 2016