County Government of LAMU

COUNTY BUDGET REVIEW

AND OUTLOOK PAPER

(CBROP)

SEPTEMBER 2016

Lamu County for people and progress

To obtain copy/copies of the document, please contact:

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Abbreviations

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal strategy Paper
CG	County Government
FY	Fiscal Year
PFMA	Public Financial Management Act
CIDP	County Integrated Development Plan
S& W	Salary and Wages
O& M	Operation and maintenance

Foreword

The County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act; 2012.This is the third CBROP to be prepared under the devolved system of county governments. It reviews the actual fiscal performance of the financial year 2015/16 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP), February, 2015. In reviewing the fiscal performance, this paper analyzes the performance of county own revenue in the FY 2015/16. It has included the total revenue collected and made comparison to projected revenue for the same year. In addition causes of the underperformance of revenue are also highlighted. Included in the analysis is also performance of ministerial expenditures for the period under review.

This paper has also provided an overview of how the actual performance of the FY 2015/16 affected the financial objectives as detailed in CFSP of 2016. The performance of 2015/16 budget has formed the basis for projecting the 2017/18 budget based on the recent economic development. It is the projected that, the projected revenue and expenditure for 2016/17 will be achieved with strict expenditure controls and enhanced revenue collection measures. This will be achieved through fiscal discipline to ensure proper management of public resources and delivery of expected output. To ensure transparency and accountability the executive will involve and relay our performance indicators to all stakeholders as required by the constitution 2010 and Public Finance Management Act, 2012.

ATWAA SALIM

COUNTY EXECUTIVE MEMBER FINANCE, STRATEGY AND ECONOMIC PLANNING

Acknowledgement

Preparation of CBROP is in line with PFMA 2012 .The preparation of the paper required consultation among all departments of the county treasury. Special thanks to the County Executive Committee Member Finance, Strategy and Economic Planning **Mr.Atwaa Salim** for the leadership during the preparation of the county document.

The team spirit of county treasury made it possible to come up with a well consolidated paper. I wish to appreciate the **Ms. Salma Omar from IFMIS** for consolidating the annual financial statement which was used in preparation of this paper; the head of revenue **Mr. Albert Mwaniki** for consolidating the revenue part of the document; **Mrs Mariam BunuPrincipal Finance Officer** for preparing the expenditure analysis and **Mr. Andrew Waweru Senior Economist** for consolidating the document.

I want also to recognise the role played by all the senior staff of county treasury who contributed during the preparation of this crucial document.

It's my hope that the lessons learned in 2015/2016 Financial year will act as springboard in 2016/2017 Financial Year.

ATHMAN AHMED ATHMAN

CHIEF OFFICER
FINANCE, STRATEGY AND ECONOMIC PLANNING

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 **30th September** in each financial year, a County Budget Review and Outlook Paper which shall include:*

a. Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;

b. Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.

c. Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest County Fiscal Strategy Paper; and

d. The reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

2) The County Executive Committee shall consider the County Budget Review and outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission

3) Not later than seven days after the County Budget Review and Outlook Paper (CBROP) has been approved by the County Executive Committee, the County Treasury shall:

a. Submit the paper to the Budget Committee of the County Assembly to be laid before County Assembly; and

b. Publish and publicize the paper as soon as practicable 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 prudency and transparency in the management of public resources. The PFM law (SectionC 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 bemade in the future

I. Introduction

a) Background

1. This County Budget Review and Outlook Paper (CBROP) is the third to be prepared under the Public Financial Management Act, 2012 within the devolved units of County Governments of Lamu. The 2016 CBROP contains a review of the fiscal performance of the financial year 2015/16, and deviations from the Approved 2015/16 Budget.

b) Objective of CBROP

2. 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 set out in the last County Fiscal Strategy Paper in this case 2016 CFSP. This together with updated economic 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 the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the fourth CFSP.

3. The CBROP will be a key document in linking policy, planning and budgeting. The County Government is embarking on reviewing of the County integrated development plan and Medium Term Expenditure Framework (MTEF) that will guide budgetary preparation and programming from 2016 onwards. In the interim, this year's CBROP is embedded on the first (MTEF) priorities, in addition to taking into account emerging challenges and transition to a devolved system of government. The launch of, the Sector Working Groups will see the formulation of the

programmes for the Medium Term Expenditure Framework (MTEF) focusing on developing of new programmes for the next MTEF 2017/18 – 2019/20.

4. The new PFM act enacted in 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings on the onset will form the indicative baseline sector ceilings for the next budget of 2017/18.

5. The updated National economic outlook will be firmed up in the fourth CFSP to reflect any changes in economic and financial conditions. Due to the need to finalise the CFSP after the release of the National Budget policy Statement in November of 2016 under the reconstituted budget calendar due to the impending General election.

The paper is structured into four sections which are;

i. Review of County fiscal performance for the previous year i.e. FY 2015/2016- details of the actual vs. budget for the year.
ii. Recent economic development and outlook
iii. Resource allocation framework
iv. Conclusions and next step

II) REVIEW OF FISCAL PERFORMANCE FOR FY 2015/2016

a). Overview

This section is meant to review how the actual financial performance for the 2015/16 financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year.

b). 2015/16 Fiscal Performance

In the Financial Year 2015/16.the County Government of Lamu prepared a balance of Kshs 3.18 billion ,comprising of kshs 1,757,115,367 (55.3 per cent) and kshs 1,423,113,857(44.7 percent) allocated for recurrent and development expenditure respectively.

To finance the above budget the county expected to receive the following revenue as indicated in table one below:

Revenue source	Budgeted 2015/16(Kshs)	% contribution
Local Revenue	107,000,000	3.36
Donations	25,000,000	0.79
Revenue transfer from Equitable share	2,051,883,746	64.52
Road Maintenance Fuel Levy	26,065,747	0.82
Free maternal health care	16,762,200	0.53
User fee forgone	2,366,871	0.001
Danida grant	7,640,000	0.24
World bank loan	14,910,000	0.47
Special grant for emergency medical services	100,000,000	3.14
Balance B/F (2014/15)	828,600,000	26.05
Total	3,180,228,564	100

Table 1: revenue sources for 2015/16

Revenue source	Budgeted 2015/16(Kshs)	Actual 2015/16(Kshs)	Deviation(Kshs)	% Deviation
Local Revenue	107,000,000	60,963,818	-46,036,182	-43%
Donations	25,000,000	2,250,000	-22,750,000	-91%
Revenue transfer from Equitable share	2,051,883,746	2,051,883,746	0	0%
Road Maintenance Fuel Levy	26,065,747	26,065,747	0	0%
Free maternal health care	16,762,200	12,337,500	-4,424,700	-26%
User fee forgone	2,366,871	2,366,871	0	0%
Danida grant[1]	7,640,000	3,820,000	-3,820,000	-50%
World bank loan	14,910,000	7,132,527	-7,777,473	-52%
Special grant for emergency medical services	100,000,000	100,000,000	0	0%
Total	2,351,628,564	2,266,820,209	-84,808,355	-4%

Table 2: summary of County Government Revenue Estimates vs. deviation

[1] The remaining amount of Kshs 3,820,000 was received later in the month of July 2016 after the closure of the 2016/17 financial year

LOCAL REVENUE

The treasury had projected to collect **kshs 107, 000,000** as local sources in the FY 2015/2016 but as the end of the closure year, that is 30th June 2016 it managed to collect **Kshs60,963,818.**

Revenue Stream	Annual Target(KSHS)	Annual Actual Revenue (KSHS)	Deviation	Revenue Performance
Buildings and plans approval	480,000	6,109,321	5,629,321	1173%
Promotions fee	400,000	239,000	-161,000	-40%
Public health ,medical levies and Hospital fee	15,200,000	10,772.01	-15,189,228	-100%
Cess Collections	5,560,000	4,085,591	-1,474,409	-27%
Fisheries	600,000	406,798	-193,202	-32%
Local Quarry	1,000,000	715,312	-284,688	-28%
Veterinary	1,200,000	1,113,825	-86,175	-7%
Market Fee	4,957,600	2,208,299	-2,749,301	-55%
Single Business Permit	20,400,000	5,999,420	-14,400,580	-71%
Property Rates	51,000,000	5,976,687	-45,023,313	-88%
Sign Board and Bill Boards	2,100,000	128,500	-1,971,500	-94%
M.ATDC/AMS(Agriculture)	0	10,997,572	10,997,572	0%
Others	4,102,400	22,972,721	18,870,321	460%
Total	**107,000,000**	**60,963,818**	-46,036,182	-43%

Table 3:Actual revenue / budgeted revenue per revenue steam

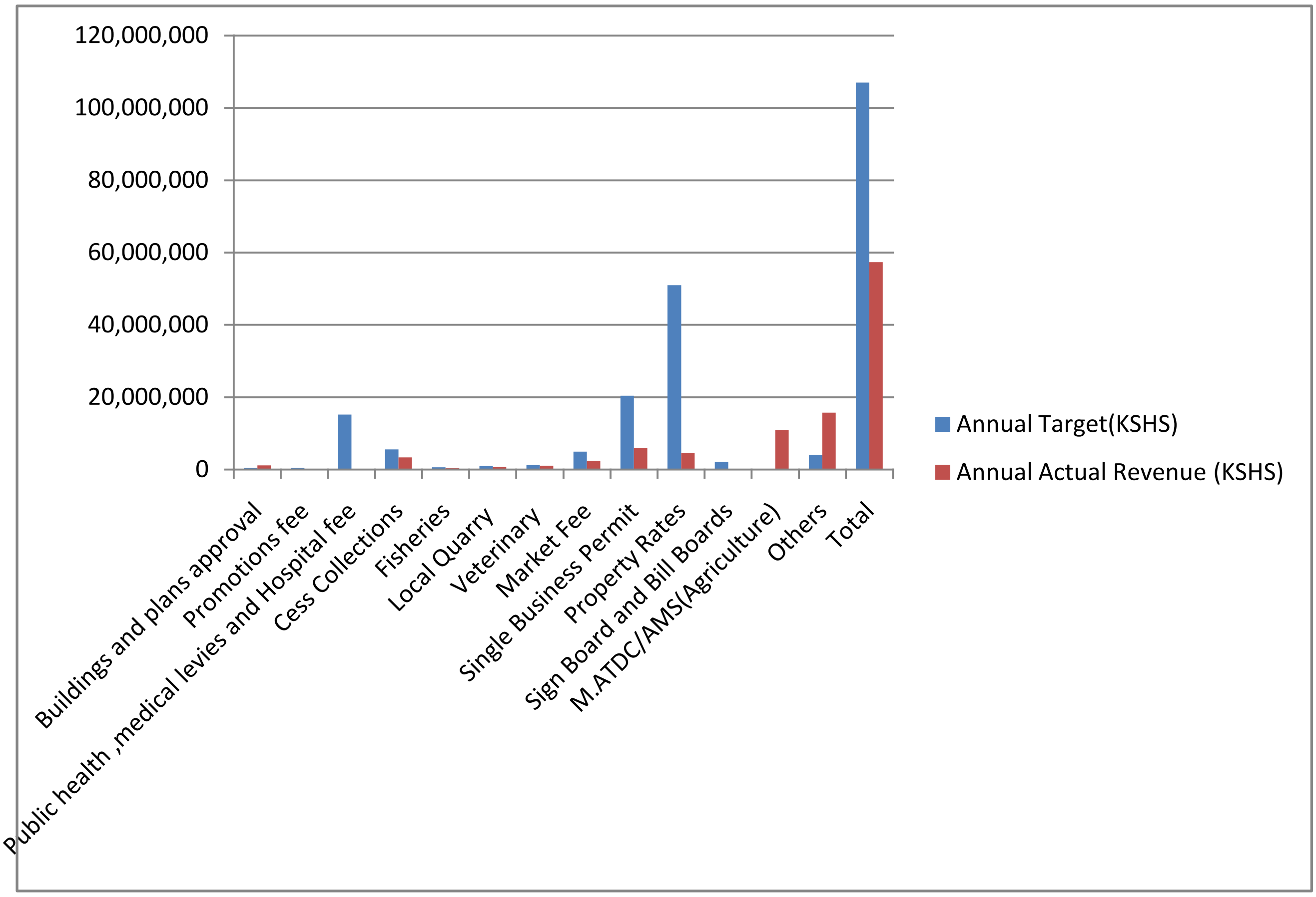


Figure 1: 2015 /16 Actual revenue / budgeted revenue per revenue steam)

Source: county treasury

As it can be seen from the table**3.** Hiring of county tractors and Business permits and land rates are the largest stream of income that the county government of Lamu can leverage on. With proper laws and enforcement the two streams on revenue can be doubled resulting to increased county revenues. Land rates improved greatly due to the waivers that were granted by the County Government. To improve on Land rates the county government should accelerate the process of land valuation and currently Mpeketoni and Lamu is almost completed In the single business permit, this is an area where with more efforts and enforcement, the County Government can double the collections by eliminating any leakage and also by making sure that all the business are paying the required licences. The county government has also establishing E-Data base of all businesses in the county by the process of registering all the existing business in the county with a view of assessing the net worth of this area.The process is still ongoing and is expected to end soon.

The county government intends to undertake the running of County Government Houses under devolved functions whose rent is being remitted to the National Treasury .The houses numbers over one hundred and ninety **(190)** which generates an average of **kshs 240,000** a month. However, most of these houses are in dilapidated conditions and requires renovations. With the renovations of these houses, revenue collections are expected to rise to Approximately Kshs 400,000 per month. The county government should consider setting aside funds for renovating these houses.

The county treasury has already published the list of land defaulters in the national newspapers and posted in the county website and notice boards with estimated uncollected land rates and accrued interest of**Kshs 211,256,622.**

In General though the performance of the county revenue generated in 2015/2016 against the target was not satisfactory.Several factors lead to the county not achieving its target. These factors include the following:

- Insecurity being experienced in the county has had adverse effects on revenuecollectors as they are unable to reach some areas.
- Insecurity issues in the country in general and also in the Lamu County have also affected the business in the county hence low revenue with mostly hit being the hotel industries.
- Reliance on casual workers who are not adequately qualified who acts as revenue collectors which reduces the level of accountability.

- Lack qualified senior management staff to coordinate revenue office at the county and sub-county level
- Lack of strict enforcement officer.

Way forward

- ✓ Improvement on county security
- ✓ Revenue officers to be provided with a means of transport like motorcycles to enable then to access more areas.
- ✓ Enforcement of county laws by enforcement officers
- ✓ Enforcement officers to be distributed to every ward to enable strict enforcement.
- ✓ Respective department should be held responsible for underperformance of respective revenue streams as opposed to the current trend where underperformance is blamed on county treasury.

Total expenditure 2015/2016

In the period under review, the county total expenditure was kshs1,757,776,995out of which kshs1, 151,795,538 was used for recurrent purposes representing 84% on the estimates and 92 % on the exchequer release. Development expenditure amounted to Kshs575, 981,457representing 51% of the gross estimates and 83% on the exchequer released by the controller of budget.

Table 4: Lamu County FY 2015/16 Budget Performance by Department

Department	Annual Budget Allocation(Kshs millions)		Exchequer issues(Kshs millions)		Expenditure(Kshs millions)		Expenditure to exchequer (%)		Expenditure to annual budget (absorption) (%)	
	REC	DEV	REC	DEV	REC	DEV	REC	DEV	REC	DEV
County Assembly	344.78	105.92	344.52	31.46	331.15	57.96	96.12	184.22	96.05	54.72
County Executive	376.58	195.08	360.31	85.54	330.57	161.26	91.75	188.52	87.78	82.66
Finance, Strategy & Economic Planning	157.84	26.33	157.85	19.33	150.62	24.66	95.42	127.56	95.42	93.64
Agriculture & Irrigation	67.73	54.56	67.73	29.36	59.07	50.24	87.21	171.11	87.21	92.08
Land, Physical Planning, Infrastructure and water	53.01	298.41	53.01	152.85	48.74	215.06	91.94	140.70	91.94	72.07
Education, Gender, Sports, Youth & Social services	54.48	234.40	54.48	137.25	52.63	174.57	96.59	127.19	96.59	74.47
Health & Sanitation	522.49	366.56	497.39	235.03	448.54	149.79	90.18	63.73	85.85	40.86
Trade, Culture, Tourism & Investment Development	35.67	47.23	35.67	23.62	33.45	36.35	93.77	153.91	93.77	76.97

Information, Communication & Public Participation	30.79	15.84	30.79	7.92	29.37	3.77	95.40	47.65	95.40	23.82
Fisheries, Livestock, Veterinary & Cooperative Development	68.67	78.83	68.67	47.89	63.91	42.89	93.07	89.57	93.07	54.41
Public Service Board	45.06	**0**	41.91	0	40.86	**0**	97.51	0.00	90.70	0.00
TOTAL	1,757.11	1,423.16	1,712.34	770.25	1,588.91	916.55	92.79	118.99	90.43	64.40

Figure 2:2015/16 Approved Budget Vs Exchequer issues (Kshs millions)

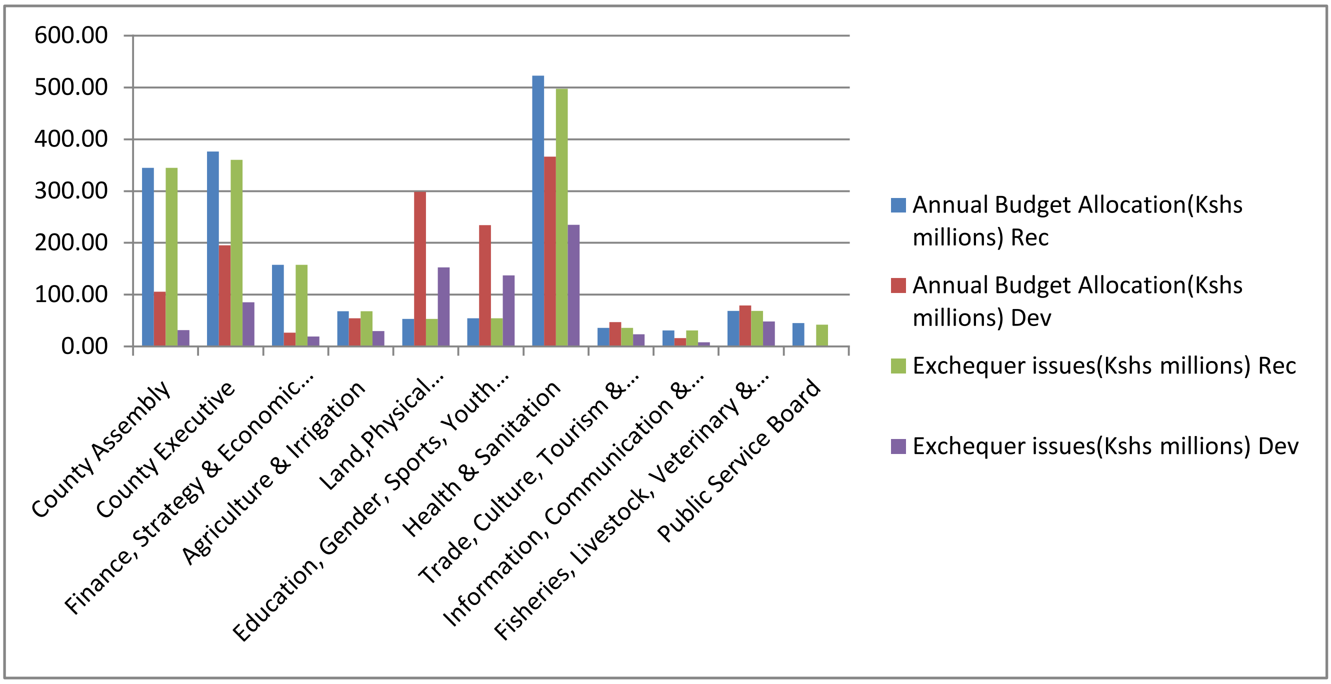


Figure3:2015/16 Approved Budget Vs Actual expenditure

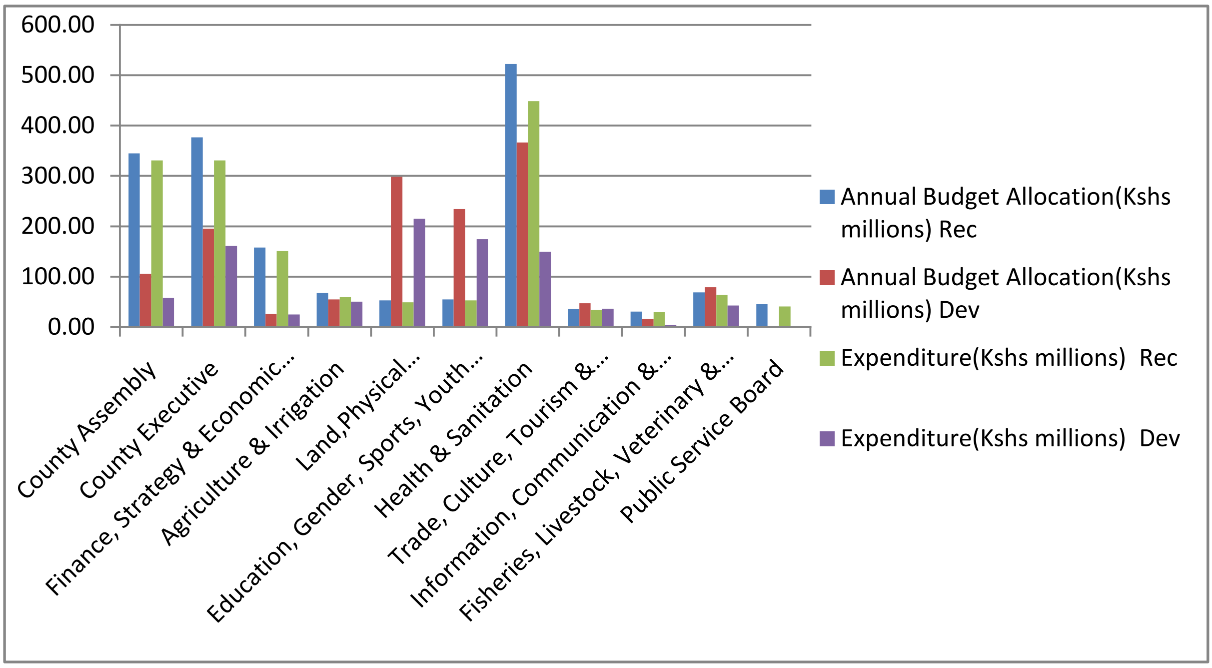
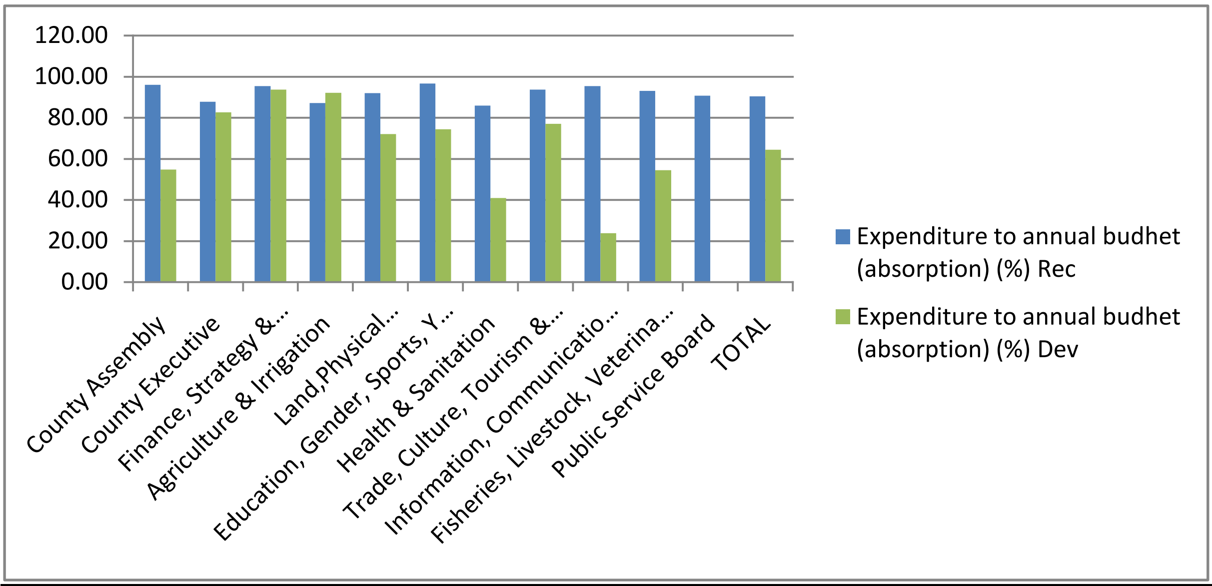


Figure6:2015/16 Absorption rate recurrent and Development per department



Analysis of recurrent expenditure 2015/2016

During the period under the review the recurrent expenditure was budgeted at Kshs**1,757,115,367**the total expenditure for the same period was**kshs 1,585,452,058**translating to absorption ofrate**90**per cent an increase from an absorption rate of **84** per cent realized in FY 2014/15. **County Assembly and Finance and Planning** recorded the highest absorption at 95 percentwhile the lowest was**Health and sanitation** at**86 percent.**

Table 5: Analysis of recurrent expenditure 2015/2016

ABSOPTION ON EXPENDITURE				
SUMMARY OF TOTAL RECURRENT EXPENDITURE AS AT 30TH JUNE 2016				
VOTE TITLE	Budgeted (Kshs) (Jul '15 To Jun '16)	Actual (Kshs) (Jul '15 To Jun '16)	DEVIATION	ABSORPTION
County Assembly	344,784,663	328,707,839	16,076,824	***95%***
County Executive	376,582,539	329,880,282	46,702,257	***88%***
Finance, Strategy & Economic Planning	157,844,549	150,622,534	7,222,015	***95%***
Agriculture & Irrigation	67,731,800	59,068,451	8,663,349	***87%***

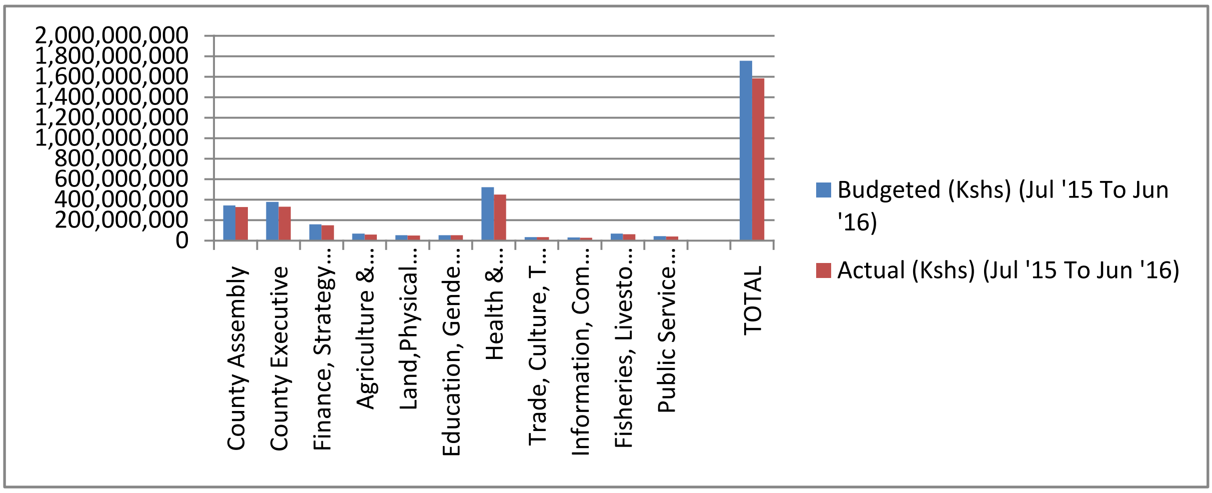
Land,Physical Planning, Infrastructure, water	53,010,504	48,590,538	4,419,966	***92%***
Education, Gender, Sports, Youth & Social services	54,484,608	52,626,782	1,857,826	***97%***
Health & Sanitation	522,487,582	448,495,152	73,992,430	***86%***
Trade, Culture, Tourism & Investment Development	35,672,602	33,343,036	2,329,566	***93%***
Information, Communication & Public Participation	30,788,140	29,371,392	1,416,748	***95%***
Fisheries, Livestock, Veterinary & Cooperative Development	68,672,097	63,881,289	4,790,808	***93%***
Public Service Board	45,056,283	40,864,763	4,191,520	***91%***
TOTAL	**1,757,115,367**	**1,585,452,058**	**171,663,309**	**90%**

SUMMARY OF EXPENDITURE ABSOPTION AS AT 30TH JUNE 2016

2015/2016 BUDGET	**APPROVED ESTIMATES**	**EXPENDITURE**	**BALANCE AS AT 30/06/2016**	**ABSOPTION RATE**
Recurrent Expenditure	1,757,115,367	1,585,452,058	171,663,309	90%
Development Expenditure	1,423,113,857	912,692,430	510,421,427	64%
TOTAL	**3,180,229,224**	**2,498,144,488**	**682,084,736**	**79%**

Source: county treasury

Figure 4: Analysis of 2015/2016Budgeted Recurrent Expenditure Vs Actual Expenditure



Analysis of the recurrent expenditure of Kshs.1,757,115,367billion shows that the County spent Kshs.806.05million (51.7per cent) on personnel emoluments and Kshs.586.85 million (48.3per cent) on operations and maintenance expenditure. Expenditure on personnel emoluments represents an increase of 33 per cent compared to FY 2014/15 when the county spent Kshs607,641,480.75largely attributed to increased recruitment of workforce, new Housing and hardship allowances as was directed by Salaries and Remuneration

Commission.Expenditure on domestic and foreign travel increased from Kshs 155 Million spent in the FY 2014/15 to Kshs 182.50 Million in the FY 2015/16 representing a 17 percent increment.

EXPENDITURE BY ECONOMIC CLASSIFICATIONS				
Expenditure classification	2014/15	2015/16	Deviation	percentage increase
Compensation to employees	607,641,480.75	806,090,747.05	198,449,266.30	33%
Use of Goods and Services	518,949,659.00	586,425,873.80	67,476,214.80	13%
Transfer to other Government Entities	2,460,055.00	57,956,082.00	55,496,027.00	2256%
Other grants and payments	58,251,005.00	97,945,153.50	39,694,148.50	68%
Social Security Benefits	30,896,381.60	37,506,976.00	6,610,594.40	21%

Table 6 Analysis of recurrent expenditure by economic classifications

Analysis of Development Expenditure 2015/2016

Analysis of development expenditure for the financial year indicates that the Kshs**912,692,430**out of budgeted estimates of kshs**1,423,113,857**was utilised which translates to the absorption rate of 64per cent an improvement from an absorption rate of 52 per cent realized in FY 2014/15. Finance, Strategy and Economic Planning andAgriculture and irrigation department had the highest absorption rate at 94per cent and 92 per cent respectively whereas followed by fisheries at 84per cent whileInformation, Communication & Public Participation and Health and Sanitation had the lowest absorption at 24per cent and 41per cent respectively. As it can be seen from the table 4 absorption of Development of Development funds has greatly improved due to a number of reasons as indicated below:

1. Strengthening of the procurement and public works by recruitment of additional staffs
2. Devolving of tendering process at the departmental level
3. Continuous training of the staff in the procurement department

Despite these successes some challenges still exist which makes the county not to fully absorb development funds which includes:

- Late and Irregular release of funds by national treasury
- Introduction of E-Procurement.

Recommendation and way forward.

- Each county department has to prepare its procurement plan which the county treasury will follow when requisitioning for the funds. With these measures, the county government expects to increase the absorption of development funds from the current 64per cent to over 80per cent in the 2016/2017 Financial Year.
- More training on E-Procurement is being undertaken and will continue to be undertaken to both county staffs and suppliers to make the procurement process smooth.
- Prudent management of resources will be employed to ensure that department are allocated resources that they can be able to absolve.
- Projects whose lifetime spurn over one financial year will be allocated funds yearly as opposed to the system where all the project money in allocated once.

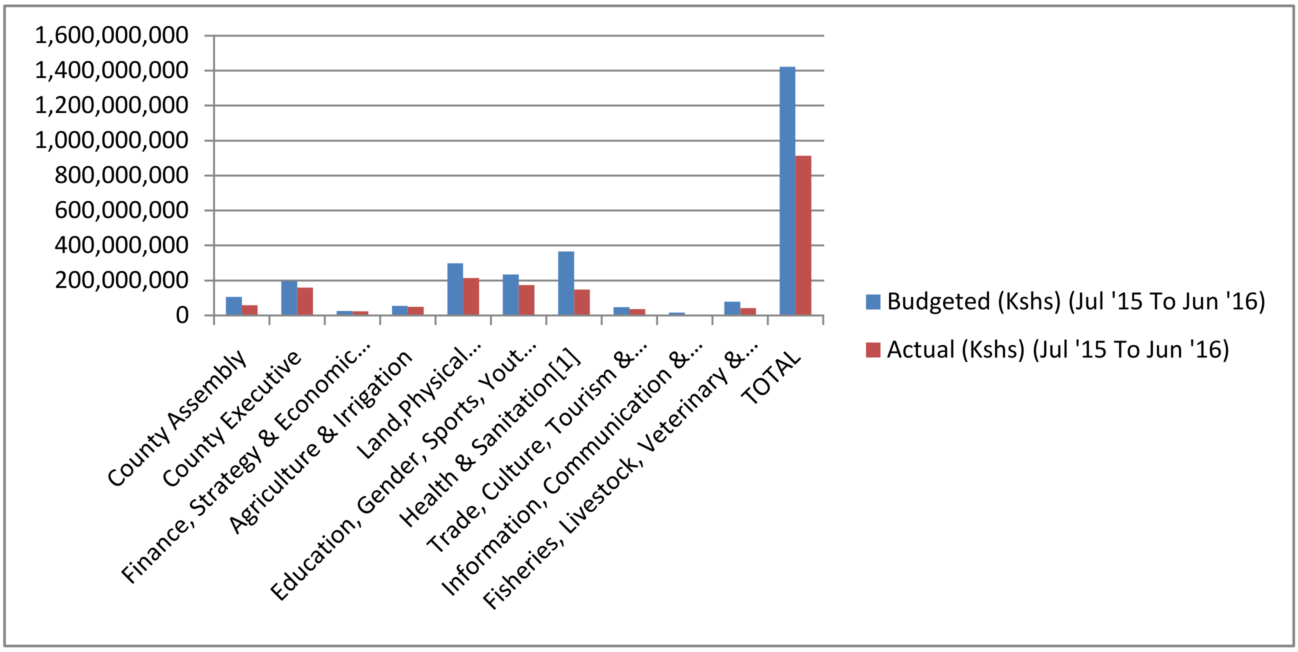
Figure 5: Analysis of 2015/2016 Budgeted Development Expenditure Vs Actual Expenditure

	SUMMARY OF TOTAL DEVELOPMENT EXPENDITURE AS AT 30TH JUNE 2016				
	VOTE TITLE	Budgeted (Kshs) (Jul '15 To Jun '16)	Actual (Kshs) (Jul '15 To Jun '16)	DEVIATION	ABSORPTION
3211	**County Assembly**	105,919,284	57,956,915	47,962,369	***55%***
3212	**County Executive**	195,079,579	160,060,651	35,018,928	***82%***
3213	**Finance, Strategy & Economic Planning**	26,331,640	24,657,308	1,674,332	***94%***
3214	**Agriculture & Irrigation**	54,559,752	50,236,507	4,323,245	***92%***
3215	**Land, Physical Planning, Infrastructure and water**	298,408,825	214,895,584	83,513,241	***72%***
3216	**Education, Gender, Sports, Youth & Social services**	234,404,278	173,109,089	61,295,189	***74%***
3217	**Health & Sanitation**[2]	366,555,565	148,753,497	217,802,068	***41%***
3218	**Trade, Culture, Tourism & Investment Development**	47,232,400	36,354,571	10,877,829	***77%***
3219	**Information, Communication & Public Participation**	15,838,834	3,773,504	12,065,330	***24%***

[2] The department of Health received a condition grant of Kshs 100,000,000 towards the end of financial year hence the reduced absorption rate

3220	**Fisheries, Livestock, Veterinary & Cooperative Development**	78,783,700	42,894,804	35,888,896	*54%*
	TOTAL	**1,423,113,857**	**912,692,430**	**510,421,427**	**64%**

Figure 6: Analysis of 2015/2016 Budgeted Development Expenditure Vs Actual Expenditure



C) Implication of 2015/16 fiscal performance on financial objectives contained in the 2016/17 approved budget.

22. The performance in the FY 2015/16will have an affects on the financial objectives set out in the revised Budget for FY 2016/17 in the following ways:

I. The county Government performance on revenue collection was notsatisfactory as the county was able to achieve only 54 percent revenue collection which implies that the county has a deficit of **Kshs 46,036,182.**This will imply that some of the projects that were scheduled to be implemented in the FY 2015/16 will have to be scaled down when preparing the supplementary budget. Also the county needs to seriously interrogate the local revenue resource envelop to have a more realistic revenue estimates.

II. Though the absorption rate of the Development funds has an effect on the financial objectives as contained in the 2016/2017 as it implies a supplementary budget would have to be prepared to include the projects/programmes that were not finalized by the closure of financial year. This implies that the county departments will have more projects to implement in the 2016/2017 Financial Year. Future allocation to county department should consider absorption rates for departments as opposed to these yearly increments. This would imply if a department was not able to absorb the funding, then the department should be allocated less amount and the rest allocated to department which are were able to utilize their funding.

III. arising from (i) and (ii) the baseline ceilings for spending departments and agencies will be set up in the fourth County fiscal strategy paper in November 2016.

IV RESURCE ALLOCATION FRAMEWORK

a) ADJUSTMENT TO 2016/17 BUDGET

Given the performance in 2015/16 and the updated economic outlook, the risks to the FY 2016/17 budget including less than target revenue performance in 2015/16 and the medium term. Expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the new Constitution and the devolved government units may limit continued funding for development expenditure. In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures and uptake of external resources. These risks will be monitored closely and the Government would take appropriate measures in the context of the next Supplementary Budget.

Adjustments to the 2016/17 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. In the face of expenditure pressures, the Government will rationalize expenditures by cutting those that are non-priority. However, the resources earmarked for development purposes will be utilized in the said projects and none, whatsoever, can be expended as recurrent. Utilization of the emergency fund will be within the criteria specified in the PFMA2012.

Any review of salaries and benefits for the public sector workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination.

45. On the Revenue side, the County Treasury is has already instituted corrective measures to reverse the revenue losses from local sources by automation of revenue collection and absorption of staff to permanent basis to increase accountability. The county is also reviewing its county revenue streams by implementation of collection of other sources of taxes such as liquor licenses, royalties, and advertisement and rental charges.

46. Devolved ministries collecting revenue will be expected to surrender them to the County revenue fund account as soon as possible.

b) MEDIUM-TERM EXPENDITURE FRAMEWORK

47. Going forward, and in view of the recent devolved functionsand limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County integrated development plan (2013-2017) will guide resource allocation, going forward.

48. The priority social sectors, including agriculture, fisheries and livestock, roads education and health, will continue to receive adequate resources. Both sectors (land and health) are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors. The economic sectors including agriculture and livestock will receive increasing share of resources to boost agricultural productivity with a view to deal with value addition and threats in food security in the country.

With the County Government's commitment in improving infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, Street lighting and water will continue to rise over the medium term. This will help the sector provide security and boost the 24 hour economy and as well as increased access to water and development of irrigation projects countrywide. Other prioritysectors including health, education and youth which will continue to receive adequate resources

49. As a County we do recognize the vast natural resources at our disposal. Our C o u n t y Government will engaging with stakeholders to develop a comprehensive policy and legislative framework covering ways of attracting investors, licensing, revenue raising measures, taxation and sustainable use of the resources. This will ensure that we derive maximum benefit from these natural resources.

50. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments and subsequently at the s u b c o u n t y level following decentralization. Above all, the Public Finance

Management Act, 2012 is expected to accelerate reforms in expenditure management system.

C) 2017/2018 BUDGET FRAMEWORK

The fiscal parameters for 2017/18 budget will be set against the background of the prudent medium-term macroeconomic framework and the MTP objectives.

In line with forecast revenues growth, local revenues are targeted at about 3 percent of all revenue sources. This performance will be underpinned by continued reforms in revenue enhancement strategies. New sources of revenue will be proposed at a later stage and revenue will be expected to increase. No major new taxes and no major increases in existing taxes are proposed at this stage.

Expenditure

As indicated earlier, the priorities will guide the County Government's funding allocation decisions in the next budget. On overall expenditures are expected to go high over the MTP and County Integrated Development Plan period, this is because of the devolved functions are still being devolved.

Recurrent Expenditure

Recurrent expenditures are expected to go high slightly for the following reasons.

Personal emolument: The wage bill is expected to go up in excess of the current due to continuous recruitments, establishing County structures and the need for improved salaries. The new housing and hardship allowance is also expected to put more pressure on the recurrent expenditure.

Operation and maintenance are also expected to increase with the increased offices as these newly created offices will require to be facilitated with the necessary equipments and other allowances that go with those offices. This is expected to increase over the years and may have some effect on the development expenditure in the medium term.

Development Expenditure

The budget for 2017/18 will be the fifth one for implementation ofVision 2030 second MTP as well as CIDP objectives. Most of these outlays will be sourced from the development budget. The development budget is made up of direct county government financing (No loans no grants). The county Government is expected to maintain the same tempo as set in the 2016/2017 by increasing the development expenditure over the Minimum requirement of 30%.

The absorption capacity of project funds is expected to increase significantly, resulting in a higher investment level in infrastructure activities including those towards Lamu CIDP and Vision 2030 MTP projects.

Overall financing

With the requirement by the controller of budget to develop a balanced budget, the 2017/2018 financial year budget is expected to have no deficit in financing. However as more demands emerge, the county Government will look for ways to engage in external borrowing under sovereign guarantees, thus sustainable PPP arrangements will be formulated to finance key infrastructure projects as identified in the Lamu CIDP.

IV.CONCLUSION AND NEXT STEPS

The set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the County intergraded development plan and the fiscal responsibility principles as outlined in the PFM act. They are also consistent with the strategic objectives pursued by the County Government as a basis of allocation of public resources. Details of the strategic objectives are provided in the first County intergraded development plan. The policies articulated above will guide the County sector working groups and line ministries in preparation of the 2017/18 budget. As budgetary resources are finite, it is critical that CSWGs and Departments prioritize their programmes within the available ceilings to ensure that use of public funds is in line with county government priorities. There is also need to ensure that currents resources are being utilised efficiently and effectively before funding is considered for programmes. CSWGs needs to carefully consider detailed costing of projects, strategic significance, deliverables (output and outcomes), alternative interventions, and administration and implementation plans in allocation resources. The third County fiscal strategy paper (CFSP) will be finalised by November 2016 deadline as per the 2012 PFM law. Finalization by this date will allow County Assembly to consider the CFSP.