REPUBLIC OF KENYA

COUNTY GOVERNMENT OF UASIN GISHU

THE COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER (C-BROP)

2014/2015

SEPTEMBER 2015

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FORWARD

Section 118 of the Public Finance Management (PFM) Act 2012 requires the County Treasury to prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and submit it to the County Executive Committee by 30th September of that year.

The CBROP details the actual fiscal performance for the 2014/15 financial year compared to budget appropriation for the year. It further provides information on changes in forecasts as indicated in the most recent County Fiscal Strategy Paper (CFSP); and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It also gives reasons for any deviation from the county financial objectives in the CFSP together with proposals to address the deviations.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters for preparation of the next budget. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities that will contribute towards the realization of aspiration of our County Integrated Development Plan.

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UASIN GISHU COUNTY GOVERNMENT

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ABBREVIATIONS AND ACRONYMS

A.I.A	Appropriation in Aid
C-BROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
ECDE	Early Childhood Development Education
IFMIS	Integrated Financial Management Information System
NCPB	National Cereals and Produce Board
PFMA	Public Finance Management Act

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PREAMBLE

Section 118 of the Public Finance Management (PFM) Act 2012 requires the County Treasury to prepare County Budget Review and Outlook Paper (CBROP) for the county and the same to be submitted to the County Executive Committee by 30th September of the year. The PFMA 2012 section 118 (1) states thus; the county treasury shall –

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

Section 118 (2) of the Act gives details of issues presented in the County Budget Review and Outlook Paper. The section states thus: In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify—

a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
b) The updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper(CFSP);
c) Any changes in the forecasts compared with the CFSP;
d) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
e) Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

This C-BROP was therefore prepared by the County Treasury in pursuant of this provision of PFMA 2012 section 118 (1)

The county government is required by Section 107 of PFMA 2012 to manage public finances in line with the principles of fiscal responsibility. The section states thus:

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

(2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles-

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;

(c) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

(d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by county assembly;

(f) The fiscal risks shall be managed prudently; and

(g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

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

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

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

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

1.0 INTRODUCTION

This section presents the objectives of the C-BROP and lays out its significance in the budget preparation process within the Medium Term Expenditure Framework. It also gives a brief description of the paper's structure.

1.1 Objectives of C-BROP

C-BROP is prepared with the main objective being to detail a review of the county's fiscal performance for previous financial year and to indicate how this affects the financial objectives contained in the CFSP of that particular year. Further, it provides a summary of the national macroeconomic outlook and how it affects the county's economic performance. Specifically, C-BROP's objectives are to provide:

i. The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
ii. The updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper(CFSP);
iii. Any changes in the forecasts compared with the CFSP;
iv. How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

1.2 Significance of C-BROP

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

1.3 Structure of C-BROP

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

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN FY 2014/15

This section details the actual fiscal performance for the FY 2014/15 compared to the budget appropriations for the year; and how it might have affected the county government financial objectives for the period under review.

2.1 Overview

During the period under review, the county government pursued financial objectives laid out in the CFSP to increase revenue inflows and shift focus to public expenditure productivity as a viable alternative to reducing deficits. The strategy entailed increasing investment spending by private sector through exploring new competitive sources of private finance such as PPP arrangements; and mobilizing grants from external sources to support implementation of policies across sectors.

Similarly, the fiscal responsibility principles set out in section 107 of the Public Finance and Management (PFM) Act 2012 were to ensure prudence and transparency in the management of public resources. In the 2014/15 period, development expenditure accounted for 44 percent, thereby complying with fiscal responsibility principle requiring a minimum of 30% of the County Budget is allocated to development expenditure. In addition, recurrent expenditure did not exceed the total revenue; expenditures on wages and benefits were within the prescribed limit of 35 percent; and the budget was balanced hence there was no need to borrow to finance the budget. Further, fiscal risks were managed prudently by taking into account the challenges in revenue performance and pressures on expenditures. Therefore, the budget for the period under review conformed to the Fiscal Responsibility Principles.

2.2 Fiscal Performance

There was an overall improvement in fiscal performance for the year under review compared to the previous year. On revenue, local revenue grew by 20 percent and equitable share allocation by 19 percent between 2013/14 and 2014/15 financial years; while total expenditure grew by 103 percent in similar period. This performance is illustrated in table 2.1 below:

Table 2.1: Summary of County Fiscal Performance

	2013/14	2014/15		Deviation[1]	% deviation	% growth[2]
	Actual	Actual	Targets			
TOTAL REVENUE & GRANTS	**4,462,002,853**	**5,344,699,431**	**6,929,448,798**	**1,584,749,367**	-30	
Bal c/d			1,494,845,908[3]			
1. Revenue (Total)	4,462,002,853	5,329,759,431	5,419,662,890	89,903,459	-11	19
Equitable Share Allocation	3,796,628,687	4,529,662,890	4,529,662,890	0	0	19
Local revenue	665,374,166	800,096,541	890,000,000	89,903,459	-11	20
2. Grants (Total)	0	14,940,000	14,940,000	0	0	
TOTAL EXPENDITURE	**2,732,564,439**	**5,537,473,208**	**6,929,448,798**	**1,391,975,590**	-25	103
3. Recurrent	2,528,794,885	3,102,980,486	3,415,799,493	312,819,007	-10	23
4. Development	203,769,554	2,434,492,722	3,513,649,306	1,079,156,584	-44	109
SURPLUS(DEFICIT)	**1,729,438,414**	**-192,773,777**	**0**			

Source: County Treasury, 2015.

[1] Difference between actual and estimates for FY 2014/15.
[2] Growth between 2013/14 and 2014/15 FYs.
[3] Development amount carried forward from the 2013/14 Budget and re-appropriated in the 2014/15 Budget.

2.2.1 Revenue Performance

During the period under review, the county's equitable share of revenue and grants from National Treasury were Kshs. 4,529,662,890 and Kshs.14,940,000 respectively; while local revenue totaled Kshs. 800,096,541 against the target of Kshs.890,000,000, reflecting an under collection of Kshs. 89,903,459 or a 11 percent shortfall as indicated in table 2.1. However, this represents a 20 percent growth in local revenue compared to the previous year.

The increase in county's equitable share of revenue is attributed to increased county allocations by the National Government and improved revenue performance at the national level. On the other hand, the underperformance of local revenue collection by County Government is due to over projections of revenue targets and under-collections due to capacity challenges.

On revenue performance per stream, Business Permits was the leading revenue earner for the county accounting for 19.8 percent of total revenue collected followed by Bus parks and land rates in that order; while collections from Home Craft and stadium were the lowest as shown in table 2.1 below:

Table 2.2: Revenue Performance per Stream

No.	ITEM	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1	Court Fines	3,936,371.00	3,344,537.00	3,814,036.00	4,973,657.00	16,068,601.00
2	Financial Management Unit	3,394,358.00	1,081,480.00	6,779,314.00	2,668,911.00	13,924,063.00
3	Street Parking	20,124,180.00	17,765,912.00	20,633,050.00	20,784,435.00	79,307,577.00
4	Land Rates Management Unit	16,825,725.00	5,256,955.00	54,085,990.00	12,405,934.00	88,574,604.00
5	Business Permit Unit	5,972,942.00	2,068,710.00	118,066,470.00	32,858,523.00	158,966,645.00
6	Cess Management Unit	9,882,127.80	1,920,729.00	2,668,114.00	16,783,187.75	31,254,158.55
7	Home Craft Center Management	14,000.00	27,500.00	36,500.00	11,900.00	89,900.00

8	Housing Management Units	13,554,685.00	16,772,943.00	8,603,265.00	8,804,055.00	47,734,948.00
9	Nursery School Fees	198,100.00	129,100.00	234,300.00	243,500.00	805,000.00
10	Epidemic Control and Inspection Unit	968,430.00	623,650.00	1,409,800.00	1,561,750.00	4,563,630.00
11	Cemetery Unit	236,000.00	184,200.00	246,900.00	231,900.00	899,000.00
12	Food Quality Inspection Fee	268,360.00	90,565.00	842,395.00	1,530,690.00	2,732,010.00
13	Health Centers Former EMC	621,700.00	630,400.00	916,350.00	1,413,060.00	3,581,510.00
14	Refuse Collection Unit	673,380.00	2,204,731.30	11,360,010.00	2,050,280.00	16,288,401.30
15	Slaughter House Management Unit	945,880.00	1,760,395.00	1,935,885.00	2,891,900.00	7,534,060.00
16	Engineering & Urban Planning Management Unit	16,070,266.00	14,381,994.00	23,972,902.00	14,033,174.00	68,458,336.00
17	Fire Fighting & Ambulance Management Unit	242,500.00	306,000.00	831,500.00	294,000.00	1,674,000.00
18	COUNTY Markets	3,783,479.00	5,559,945.00	4,507,692.00	5,365,790.00	19,216,906.00
19	Bus Parks	18,274,535.00	18,455,505.00	27,411,485.00	29,175,790.00	93,317,315.00
20	COPERATIVE SOCITIES Audit and supervision	56,530.00	127,850.00	353,850.00	555,800.00	1,094,030.00
23	Alcoholic Drinks Licence	2,336,006.00	751,000.00	517,560.00	11,443,000.00	15,047,566.00
24	Stadium Hire	160,000.00	0.00	0.00	0.00	160,000.00
25	DEVOLVED FUNCTIONS	7,313,530.00	5,245,670.00	2,441,579.00	6,518,285.00	21,519,064.00
26	CONSERVANCY ELDOWAS	0.00	2,172,817.70	0.00	2,129,941.60	4,302,759.30
27	Direct Banking	55,010,101.15	11,820,246.00	27,136,548.50	9,015,561.30	102,982,456.95
	GRAND TOTALS	**180,863,185.95**	**112,682,835.00**	**318,805,495.50**	**187,745,024.65**	**800,096,541.10**

Source: County Treasury, 2015.

2.2.2 Expenditure Performance

In the 2014/15 period, actual expenditure totaled Kshs.5, 537,473,208 against the target of Kshs. 6,929,448,798, reflecting an under-spending of Kshs.1, 391,975,590 or a shortfall of 25 percent as indicated in table 2.1. However, this was an improvement in terms of absorption compared to the previous year.

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

On budget execution for 2014/15 financial year, expenditure on Personnel Emolument was the highest accounting for 37 percent of total expenditures under recurrent; while expenditures on infrastructure topped the development vote. For departments: Roads Transport and Public Works was the biggest spender accounting for 28 percent of total actual expenditure; while Lands, Housing and Physical Planning was the lowest accounting for 1 percent of total expenditures. The expenditure per department is summarized in table 2.3.

Table 2.3: County expenditures per department for 2014/15 FY

NO.	DEPARTMENT	BUDGET ALLOCATION (Kshs)			EXPENDITURE (Kshs)			BALANCES (Kshs)		
		Recurrent	**Development**	**Total**	**Recurrent**	**Development**	**Total**	**Recurrent**	**Development**	**Total**
1	Finance and Economic Planning	414,956,804	140,308,516	555,265,320	390,812,396	37,312,100	428,124,496	24,144,408	102,996,416	127,140,824
2	Public Service Management	517,469,383	75,040,000	592,509,383	396,434,592	35,895,000	432,329,592	121,034,791	39,145,000	160,179,791
3	ICT and E-Government	28,032,228	140,557,000	168,589,228	20,739,170	101,876,987	122,616,157	7,293,058	38,680,013	45,973,071
4	Roads, Transport and Infrastructure	253,374,020	1,620,453,400	1,873,827,420	244,417,211	1,288,451,413	1,532,868,624	8,956,809	332,001,987	340,958,796
5	Lands, Housing and physical planning	128,182,684	110,373,000	238,555,684	29,530,094	31,683,050	61,213,144	98,652,590	78,689,950	177,342,539
6	Water, Environment, Energy and Natural Resources	179,366,327	208,805,625	388,171,952	167,570,965	186,815,253	354,386,218	11,795,362	21,990,372	33,785,734
7	Health Services	723,274,173	345,107,065	1,068,381,238	729,681,743	209,053,950	938,735,693	- 6,407,570	136,053,115	129,645,545
8	Agriculture, Livestock and Fisheries	301,363,015	215,873,300	517,236,315	289,560,197	123,513,482	413,073,679	11,802,818	92,359,818	104,162,636
9	Trade, Cooperatives, Tourism and Wildlife	70,639,319	142,290,000	212,929,319	59,887,596	29,438,000	89,325,596	10,751,723	112,852,000	123,603,723
10	Education, Social Cultural, Youth and Sports	226,724,700	472,609,400	699,334,100	222,722,927	368,147,850	590,870,777	4,001,773	104,461,550	108,463,323
11	Governor's Office	118,437,568	10,000,000	128,437,568	108,918,140	-	108,918,140	9,519,428	10,000,000	19,519,428
12	County Public Service Board	29,596,837	3,732,000	33,328,837	27,432,729	-	27,432,729	2,164,108	3,732,000	5,896,108
13	County Assembly	424,382,434	28,500,000	452,882,434	415,272,726	22,305,637	437,578,363	9,109,708	6,194,363	15,304,071
	TOTAL	**3,415,799,492**	**3,513,649,306**	**6,929,448,798**	**3,102,980,486**	**2,434,492,722**	**5,537,473,208**	**312,819,006**	**1,079,156,584**	**1,391,975,590**

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The macroeconomic environment has continued to improve, and as a result of this, the macroeconomic outlook remains favourable even though some risks still remain.

3.1 Recent Economic Developments

As per the National Budget policy statement, the prospects for the Kenyan economy remain bright. Kenya is well integrated with the world economy and the positive developments are likely to impact positively our growth prospects, assuming normal weather prevails. Furthermore, continued implementation of robust economic policies and structural reforms as well as sound economic management is expected to yield efficiency and translate to faster growth of our economy and creation of more jobs in the country.

GDP growth remained robust in 2013 at 5.7% based on rebased statistics and stood at 4.4%, 5.8% and 5.5% in the first three quarters of 2014 compared with 6.4%, 7.2% and 6.2% in comparable quarters of 2013. According to the central bank's economic monthly review of November 2014, growth was mainly supported by expansion in construction; manufacturing; finance and insurance; information, communications and technology; and wholesale and retail trade. The economy slowed in the third quarter of 2014, partly due to a sharp drop in tourism following terrorist attacks in the country. Overall GDP growth is expected to amount to 6.6% and 6.3% in 2015 and 2016, respectively. Consumer price index (CPI) inflation is expected to remain in the single digits, at around 5%, during the same period. Kenya rebased its GDP in September 2014, resulting in the country's moving to lower middle-income status. The rebasing raised Kenya's nominal GDP for 2013 from USD 44.1 billion to USD 55.2 billion and per capita GDP from USD 994 to USD 1 246. The country leaped from the 12th to the 9th largest economy in Africa.

The government has implemented relatively sound macroeconomic policies in recent years, resulting in stable macroeconomic fundamentals. A prudent fiscal stance kept the budget deficit at an average of 5% of GDP in the five years leading to 2013. The deficit is projected to be higher than 8% in the short term, mainly on account of continued expansionary fiscal policy due to large infrastructure investments and consumption expenditure.

Inflation is expected to remain in a single digit of 5 percent target and is expected to remain the same during the entire period. This will be driven by a prudent monetary policy, the decline in the food and oil prices and stability of the shilling against major currencies. Short-term interest rates have also eased but still remain relatively high thus affecting investment potential, while the shilling exchange rate has deteriorated against major currencies. A weakening Shilling against the US Dollar is likely to offset the gains made from the declining fuel prices as it implies more expensive imports. Given that the country is currently undertaking major infrastructure projects in the transport and energy sectors that involve a lot of importation of goods, this is likely to worsen the current account balance if the monetary authorities do not maintain the exchange rate stability.

This anticipated level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the ongoing initiatives to deepen regional integration.

The recent economic developments at the national level have implications on the development at the county. This is because they affect and determine how the county‘s strategic priorities are implemented.

Challenges with regard to funding of County Governments by the National Government delayed implementation of the FY 2014/15 budget by two months which affected implementation of development projects.

There was also over projection of the revenue targets and under collection of revenue due to understaffing and capacity challenges. The revenue collected during the period under review was Kshs. 800,096,541.10 against a target of Kshs. 890,000, 000 giving a deviation of 10.1%. Therefore, Enhanced administrative measures to address local revenue shortfall will be required.

There was low absorption of funds due to procurement challenges. However, this will be enhanced by early start of the procurement process by the concerned department and adherence to procurement plans. The full roll out of the IFMIS procure to pay system along with the simplification of the procurement process are likely to improve county absorption capacity

3.2 Economic Outlook and Policies

The updated Economic framework is thoughtful given the weaker-than-expected revenue performance in the financial year 2014/2015. Despite this, the County Government will continue with its policy of expenditure rationalization with a view to funding only core services and reducing costs through the elimination of duplication and inefficiencies.

Improvement in investment climate, coupled with administrative and legal reform is expected to improve the competiveness of the county as leading business hub and a destination of choice for both domestic and foreign investors.

3.3 Medium Term Fiscal Framework

Our prudent fiscal policy objective will provide an avenue to support economic activities, while allowing for implementation of the CIDP projects and programmes within sustainable public finances. The county fiscal policy objectives will be to focus its spending in the coming year on; water, infrastructure, agriculture and health. This will enhance sector growth linkages for sustainable development.

With respect to revenue, the County Government will maintain a strong revenue effort over the medium term. Measures to achieve this effort include introduction of new business permit licenses, penalties for non-compliance, and introduction of new user fees and enhanced administrative measures for example automation of revenue collection in order to reduce leakages.

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

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce expenditures on non-core items. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments. In addition, the county government will closely be monitoring its recurrent expenditure with a view to reducing unproductive expenditure. However, the delay in the full roll out of the IFMIS e-procurement module is likely to cause delay in absorption of funds by the County Government due to unreliable internet connectivity and capacity challenges.

The county government has prioritized water, infrastructure, agriculture and health as the main drivers of the county government development. Most of the development expenditure will go into these sectors and is expected to provide linkages and growth to the other sectors. In addition, programmes targeting the vulnerable groups in society including youths, women and people living with disabilities (PWDs) will be up-scaled to improve their status.

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

Allocation (CRA). In addition, any government borrowings shall be used for financing major capital projects in adherence with fiscal responsibility principles. Further, the county debt shall be maintained at a sustainable level as approved by county assembly.

3.4 Risks to the Outlook

Kenya remains vulnerable to external and domestic risks, and continues to underperform relative to its potential. Growth remains significantly below the Vision 2030 target rate of 10% and is also short of the 6% average of Kenya's peers in the East African Community and sub-Saharan Africa. Emerging fiscal pressure from implementation of devolution, financing of programs promised by the Jubilee government during elections and rising public sector wage bill further constrain prospects for growth.

Rising interest payments and slow revenue growth compound the situation, though private sector growth, supported by expansion of bank credit to the sector, is expected to underpin growth prospects.

The external position is weak, with risks of deteriorating terms of trade, due to high import demand, driven by oil and gas exploration and infrastructure projects. Exports remain stagnant mainly as a result of subdued demand from Kenya's trading partners and increased vulnerabilities of emerging markets. Furthermore, the external position may continue to weaken due to high petroleum prices and renewed security threats in the region, which have a negative impact on tourism.

Rainfall was below average in the county during the main wet season from March to September. The dry weather cut farming yields and led to crop failure. Delays in distribution of fertilizers by NCPB also affect investments in agriculture

Tourism was adversely affected by spate of attacks claimed by Islamist group Al-Shabaab and the subsequent travel advisories issued by western nations.

Weak revenue base thereby leading to over-reliance on the equitable share from national government

4.0 RESOURCE ALLOCATION FRAMEWORK

This section sets out how the government intends to live within its means. It establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department.

4.1 Adjustment to Proposed Budget

Fiscal performance in 2014/15 and the updated macroeconomic outlook in the international and national scene are likely to have effects on 2015/16 budget. The expected weak growth in the advanced economies with resultant negative impact on Kenya's exports and tourism and geopolitical uncertainty on the international oil market is expected to pose risks to the proposed (2015/16) budget. Strengthening of the dollar against the local currency will also be a damper to the budget implementation.

Expenditure pressures, especially recurrent expenditure, are a source of fiscal risk. Wage bill continue to pile pressure on the budget, and given that the county still needs to employ additional technical staff, this pressure is likely to be compounded, limiting funding to development expenditure.

In addition, absorption in development vote is a major source of concern. A number of development projects have been carried forward to the 2015/16 budget as a result of low uptake of resources and late disbursement of funds by the National Treasury, a scenario which could delay the implementation pace in the spending units during the proposed budget period, as well as lead to price variation concerns. These risks will be keenly monitored and appropriate measures taken in the context of the next Supplementary Budget.

Revenue performance for financial year 2014/15 was also a source of concern; it fell short of what was anticipated. This necessitated budget revisions to align the budget to realistic provisions. In the proposed budget the government will implement efficient revenue collection measures as well as expanding revenue base for increased collections.

The proposed budget will be subjected to adjustments after considering actual performance of expenditures and asses the absorption capacity of the departments. This will also be expedited since the personnel emoluments (salaries) and operations & maintenance were generally understated. Revenue performance will also be taken into consideration in the process of adjusting the budget.

4.2 Medium Term Expenditure Framework

Resource allocation and utilization over the medium term will be guided by the emerging priorities, CIDP and other county plans and the principles of PFM Act 2012 to ensure effective utilization of public finances for enhanced expenditure productivity. Sector allocations will be informed by the county goals and people's aspirations as captured in the County Integrated Development Plan (CIDP).

Whereas expenditure cuts are targeted on the one-off expenditures that do not require additional expenditure for the subsequent financial years, expenditure increments will be informed by core needs identified through analysis by fiscal experts in the County as well as from submissions from the public and submissions by individuals and organizations on budget proposals.

Table 4.1: Budget Ceilings 2016/17

No.	Department		Estimates	Estimates	Projections	
			2014/15	2015/16	2016/17	2017/18
1	Finance and Economic Planning	Sub Total	555,265,320	836,489,593	626,978,628	727,532,483
2	Public Service Management	Sub Total	592,509,383	701,154,292	672,098,528	805,783,445
3	ICT and E-Government	Sub Total	168,589,228	111,466,918	124,441,210	159,919,394
4	Roads, Transport and Infrastructure	Sub Total	1,873,827,420	1,315,908,968	831,964,565	900,666,025
5	Lands, Housing and physical planning	Sub Total	238,555,684	243,907,656	166,680,408	271,223,292
6	Water, Environment, Energy and Natural Resources	Sub Total	388,171,952	435,010,332	499,891,505	559,078,200
7	Health Services	Sub Total	1,068,381,238	1,538,417,298	1,594,574,728	1,629,477,863
8	Agriculture, Livestock and Fisheries	Sub Total	517,236,315	578,702,915	657,541,596	629,442,733
9	Trade, Cooperatives, Tourism and Wildlife	Sub Total	212,929,319	369,604,282	274,053,112	335,191,049
10	Education, Social Cultural, Youth and Sports	Sub Total	699,334,100	687,846,573	682,188,525	723,414,113
11	Governor's Office	Sub Total	128,437,568	86,051,086	113,378,680	112,583,253
12	County Public Service Board	Sub Total	33,328,837	49,094,081	49,898,289	74,202,599
13	County Assembly	Sub Total	452,882,434	567,097,842	553,000,000	607,483,397
		TOTAL	**6,929,448,798**	**7,520,751,836**	**6,846,689,774**	**7,535,997,846**

4.3 The Proposed Budget Framework

4.3.1 Revenue Projections

In the proposed budget the county government targets to collect a total of Kshs. 1B as local revenue. The county has put adequate measures to realize this target, which measures include completing the process of automating revenue collection as well as expanding revenue base. The capacity of the revenue collection function has also been targeted for strengthening. Table 4.2 illustrates the revenue target for the proposed budget and revenue projections.

Table 4.2: Revenue and outlook

Revenue Type	2014/15	Projected Estimates		
		2015/2016	2016/2017	2017/2018
Local Revenue	800,096,541	1,037,217,425	1,140,939,168	1,255,033,084
Central Government Transfer	4,529,662,890	5,190,879,968	5,705,750,606	6,280,964,761
Grants		221,440,118		
Balance B/F		1,071,214,325		
Total	**5,329,759,431**	**7,520,751,836**	**6,846,689,774**	**7,535,997,846**

4.3.2 Expenditure Forecasts

In the proposed budget the total expenditure forecast is Kshs. 7,520,751,836. This figure includes development amount brought forward from last financial year (2014/15) and re-appropriated in the proposed budget. The government will continue with its efforts to enhance expenditure productivity in the inherent wake of limited resources. Expenditure forecasts for 2016/17 and 2017/18 are Kshs. 6,846,689,774 and Kshs. 7,535,997,846 respectively as shown in table 4.3.

Table 4.3: Expenditure Forecasts

Expenditure Type	2014/15	Projected Estimates		
		2015/2016	2016/2017	2017/2018
Recurrent Expenditure	3,102,980,486	4,066,568,738	4,246,419,777	4,824,599,503
Development Expenditure	2,434,492,722	3,454,183,098	2,600,269,997	2,711,398,343
Total	**5,537,473,208**	**7,520,751,836**	**6,846,689,774**	**7,535,997,846**

The proposed budget reveals compliance with the principles of fiscal responsibility. Recurrent expenditure accounts for 54 percent while development expenditure accounts for the remaining 46 percent. The wage bill is expected to increase in proposed budget period from the previous financial year as a result of planned recruitment of technical staff.

The county government will utilize the borrowing framework for sub-nationals approved by IBEC and guidelines issued by CRA for any borrowing during the year 2015/16.

4.3.3 Projected Fiscal Balance

Any budget deficits in the 2015/16 financial year will be met by borrowing in line with the fiscal responsibility principles provided in the PFMA 2012.

5.0 CONCLUSION

The financial objectives outlined in the CFSP of increasing revenue inflows and shifting focus to public expenditure productivity; and the fiscal responsibility principles laid out in the PFM Act 2012 guided the county in the 2014/15 financial year.

There was an overall improvement in fiscal performance for the period under review compared to the previous year. Intensified revenue efforts by the county government saw local revenue grow by 20 percent compared to previous year, while early execution of procurement plans and work plans by departments improved absorption levels which stood at 90 percent for recurrent and 69 percent for development. However, underperformance in local revenue collection was due to over projections and under-collections due to capacity challenges. In addition, the under-spending experienced in the period under review was partly due to delays in exchequer releases and procurement challenges.

The fiscal outlook presented herein will lay the ground for the next financial year in terms of preparing the annual budget and the CFSP. Local revenue is projected to expand to Kshs.1, 037,217,425 and Kshs.1, 140,939,168 in the 2015/16 and 2016/17 financial years respectively; while equitable share of revenue will expand to Kshs. 5,190,879,968 and Kshs.5, 709,967,965 in the same period. This therefore means expenditures will grow by similar margin over the period.

In conclusion, the County Treasury will continue to pursue fiscal discipline in the management of public finance with a view to ensuring delivery of expected outcomes of improved revenue performance and effective and efficient utilization of funds.