



Republic of Kenya



County Government of Wajir

**DEPARTMENT OF FINANCE AND ECONOMIC
PLANNING**

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2015

© County Budget Review and Outlook Paper (CBROP) 2015

To Obtain copies of the document, please contact:

County Chief Officer,

Finance and Economic Planning

Wajir County

P.O BOX 9 – 70200

Wajir

Tel:

Fax:

The document is also available on the website at: www.wajir.go.ke

FOREWORD

This County Budget Review and Outlook Paper (C-BROP) presents the fiscal outcome for 2014/15 and how this affects the financial objectives set out in the PFM Act, 2012. The updated macro-economic and fiscal forecasts therein also provides the basis to revise the 2015/16 budget in the context of Supplementary Estimates, as well as set out the broad fiscal parameters for the 2016/17 budget and the medium term.

The county continues to benefit from the stability of the macroeconomic environment in Kenya. The revised estimates that were released in September 2014 demonstrate that the Country's economic growth has remained resilient since 2010 growing to 5.4 percent in 2014 underpinned by macroeconomic stability, strong fiscal performance and expanded activities in all the key sectors of the economy.

While the national macroeconomic environment remains favorable, however, the lower than projected outcome of revenue collection so far in fiscal year 2015/16 as well as the potential challenge from the forecasted El-nino rains call for caution in fiscal projections for 2016/17 and the medium-term.

In this C-BROP 2015 we are re-emphasizing the Government's fiscal policy strategy, which focuses on containing the recurrent expenditure while consolidating the investments capital expenditures and optimally ensuring efficiency and effectiveness in the use of public resources. A strategy that recognizes the need to strike a balance between essential social services and the emphasis on higher investments in agriculture, infrastructure development and human capital for sustainable growth.

Sector Working Groups are called upon to adhere to the hard sector ceilings and rationalize all programs to ensure that only those programs with the least cost but highest impact on our core objective of growth, employment and poverty reduction are given consideration in resource allocation.

SALAH ABDI

COUNTY EXECUTIVE MEMBER - FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2015 County Budget Review Outlook Paper(C-BROP) is prepared in line with the Public Finance Management Act 2012 and is the third to be prepared since the county government came into place. The paper highlights a review of the recent economic developments and actual fiscal performance of the FY 2014/2015 in comparisons to the budget appropriations for the same year.

As required, the preparation of the 2015 C-BROP was a collaborative effort with all the stakeholders involved. All the spending units, county departments and entities provided useful information through their budget performance reports and hence we appreciate their inputs. We are grateful also to sector working groups who worked tirelessly in ensuring quality and timeliness in preparation of this document.

A competent team in the department of Finance and Economic Planning spent significant time in putting together this C-BROP. We appreciate particularly Mr. John Maina the Chief Finance Officer, Mr. Stephen Muoka the Head of Economic Planning Division and Senior Economists Mr. Donald Matumaini, Mr. Abubakar Abdi and Mr. Mohamed Yunis for their tireless efforts in preparation of this document. I also take this opportunity to thank the entire staff of the department for their continued support, teamwork, dedication and industrious efforts to public service.

FARAH A. OSMAN,
CHIEF OFFICER - FINANCE AND ECONOMIC PLANNING

TABLE OF CONTENTS

FOREWORD	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
ABBREVIATIONS AND ACRONYMS.....	v
I. INTRODUCTION.....	1
Objective of the C-BROP.....	1
II. REVIEW OF FISCAL PERFORMANCE IN 2014/15	2
A. Overview.....	2
B. 2014/15 Fiscal Performance	2
C. Implication of 2014/15 fiscal performance.....	8
III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK	11
A. Recent Economic Developments	11
B. Macroeconomic outlook and policies	12
C. Medium Term Fiscal Framework	12
D. Risks to the outlook.....	14
IV. RESOURCE ALLOCATION FRAMEWORK.....	15
A. Adjustment to 2014/15 Budget.....	15
B. Medium-Term Expenditure Framework	16
C. 2015/16 Budget framework	19
V. CONCLUSION.....	20
VI. ANNEXES.....	21

TABLES

Annex Table 1: Revenue Analysis for FY 2014-2015.....	21
Annex Table 2: County Government Operations FY2014/15 - FY2018/19 (Kshs.)	22
Annex Table 3: Development Ceilings MTEF Period 2016/17 - 2018/19	23
Annex Table 4: Recurrent Ceilings MTEF Period 2016/17 - 2018/19.....	24
Annex Table 5: County Government Fiscal Projections FY 2014/15 – 2016/17.....	26

ABBREVIATIONS AND ACRONYMS

AiA	Appropriation-In-Aid
ASAL	Arid and Semi-Arid Land
BPS	Budget Policy Statement
CA	County Assembly
CBR	Central Bank Rate
C-BROP	County Budget Review and Outlook Paper
C-FSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CRA	Commission for Revenue Allocation
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
IFMIS	Integrated Financial Management Information System
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PERs	Public Expenditure Review
PFM	Public Finance Management
PPP	Public Private Partnership
SWG	Sector Working Groups
VAT	Value Added Tax
V2030	Vision 2030

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 Financial Management Act, 2012. The law states that:

- 1) County Treasury shall prepare a County Budget Review and Outlook Paper (C-BROP) and submit the paper to the County Executive Committee for approval by the 30th September in each financial year, which should include:
 - (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 with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
 - (c) Information on any changes in the forecasts or how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
 - (d) 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 is approved by the County Executive Committee, 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 publicise the Paper.

Fiscal Responsibility Principles in the Public Financial Management Law

Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act (Section 107 subsection 2) states that:

- a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
- b) Over the medium term a minimum of 30% 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.

I. INTRODUCTION

Objective of the C-BROP

1. The County Budget Review and Outlook Paper (C-BROP) captures the fiscal performance of the previous period and outlines the implications on the financial objectives and fiscal responsibility principles set out in the PFM Act 2012.
2. C-BROP undertakes Public Expenditure Review (PER) that provides an assessment of the extent to which expenditure addresses priorities in an effort to strengthen the link between government policies, planning and budgeting. Public Expenditure Review is prepared to provide a critical assessment of public spending, challenges, weaknesses and successes in the past financial year.
3. The C-BROP provides the basis for strengthening the fiscal framework through the next fiscal strategy paper (C-FSP) that outlines the medium term policy priorities. It subsequently informs current and future expenditure through policies that influence budget decisions and links public expenditure to performance of key sectors in the economy for the past year. This paper will be the initial guide in setting the sector ceilings for the 2016/2017 year of the MTEF which will then be refined in the 2016 C-FSP.
4. This paper also gives an outline on sector performance of programmes and reviews expenditures for the period. It provides recommendations to improve implementation of the budget in terms of efficiency, effectiveness, timeliness and targets for better service delivery.
5. The paper then briefly highlights the recent economic developments and updated macroeconomic outlook which are highlighted in Section III. Finally, it provides the resource allocation framework in section IV; and then concludes in section V.

II. REVIEW OF FISCAL PERFORMANCE IN 2014/15

A. Overview

6. The fiscal performance in FY 2014/15 was nearly as programmed despite the shortfall in local revenue collection. The county government continues to experience challenges occasioned by delayed disbursement of funds by the National Treasury. The local revenue collection target in FY 2014/15 was initially set at Kshs 120 million though was reviewed downwards to Kshs 102.29 Million.

7. On the expenditure side the government targeted on high priority development projects. In this respect, the initial planned recurrent expenditure went down by ksh 12.67 million after adjustments to the original budget through supplementary Estimates which was directed to development expenditure. The percentage of recurrent expenditure reduced to 45% of the total budget from 50% the previous year which meant that more resources were allocated towards development expenditure.

B. 2014/15 Fiscal Performance

Tables 1, 2 & 3 below present the fiscal performance for the FY 2014/15 and the deviations from the Original and Revised budget estimates.

Table 1: Fiscal Performance FY 2014/15				
Department	FY 2014/15		Deviation (Kshs)	% growth / change
	Revised (Kshs)	Target (Kshs)		
1. TOTAL REVUNUE & GRANTS				
a. Revenue				
Equitable Share	6,158,069,999.10	6,158,069,999.10	0	0
Local revenue collection	102,290,000	120,000,000	-17,710,000.00	-14.76
b. Grants				
Partners grants	17,710,000	17,710,000	0	0
2. Balance B/F	983,802,551	983,802,551	0	0
2. TOTAL EXPENDITURE				
a. Recurrent	7,261,872,550	7,261,872,550	0.00	0.00

i) Compensation to employees	1,527,141,202	1,647,215,202	120,074,000.00	-7.29
ii) Use of goods and services	1,356,582,071	1,249,174,786	107,407,285.00	8.60
b. Development	4,378,149,278	4,365,482,562	12,666,716.00	0.29

Table 2: Estimates As Per The County Departments – Recurrent Expenditure				
Department	FY 2014/15		Deviation (Kshs)	% growth
	Printed Estimates Kshs(M)	Revised Estimates Kshs(M)		
Agriculture, Livestock and Livestock Development	121,757,671	122,107,671	350,000	0.3
Roads Transport and Public works department	59,400,000	48,864,770	-10,535,230	-17.7
Trade, Industrialization, Co-operative Development	52,970,000	46,902,800	-6,067,200	-11.5
Public Health, Medical Services and Sanitation	730,737,400	583,473,656	-147,263,744	-20.2
Education, Youth, Gender and Social Services	173,850,000	164,350,000	-9,500,000	-5.5
Water Resources Development	133,364,636	148,668,136	15,303,500	11.5
Energy, Environment and Natural Resources	38,450,000	31,294,800	-7,155,200	-18.6
Lands, Housing and Physical Planning	55,257,246	51,120,746	-4,136,500	-7.5
Information Communication and E-Government	101,900,000	78,512,914	-23,387,086	-23.0
Finance and Economic Planning	452,177,469.4	556,153,781	103,976,312	29.7
County Executive	294,568,639	294,568,639	0.0	0.0
County Assembly	341,025,887	453,655,146	112,629,259	33.0
Public Service, Labor and Decentralized Unit	205,139,040	206,784,880	1,645,840	0.8
Town Administration	135,792,000	97,265,334	-38,526,666	-28.4
TOTAL	2,896,389,988.4	2,883,723,273	-12,666,716	-0.5

Table 3: Estimates As Per The County Departments – Development Expenditure				
Department	FY 2014/15		Deviation (Kshs)	% growth
	Printed Estimates Kshs(M)	Revised Estimates Kshs(M)		
Agriculture, Livestock and Livestock Development	446,710,740	346,710,740	-100,000,000	-22.4
Public works, Roads & Transport Department	1,505,734,332	1,654,534,332	148,800,000	9.9
Trade, Industrialization, Co-Operative Development	158,200,000	130,000,000	-28,200,000	-17.8
Public Health, Medical Services and Sanitation	783,350,623	680,417,339	-102,933,284	-13.1
Education, Youth, Gender and Social Services	119,970,584	139,970,584	20,000,000	16.7
Water Resources Development	859,436,542	967,936,542	108,500,000	12.6
Energy, Environment and Natural Resources	57,500,000	23,500,000	-34,000,000	-59.1
Lands, Housing and Physical Planning	160,592,754	190,592,754	30,000,000	18.7
Information Communication and E-Government	273,986,987	244,486,987	-29,500,000	-10.8
TOTAL	4,365,482,562	4,378,149,278	12,666,716	0.3

Revenue

8. Total cumulative local revenue collection including AiA amounted to Ksh 108.34 million compared to the initial target in the printed budget of Ksh 120 million. This represents a revenue shortfall of Ksh 11.66 million (or 9.71 % shortfall). The performance in terms of local revenue collection improved significantly compared to FY 2013/14 whereby there was an underperformance of 73.7%. There is however need to improve more on this through automation of revenue collection and further expansion of tax base to cover all possible revenue streams in the county.

Expenditure

9. Total expenditure amounted to Ksh 6.73 billion against a target of Ksh 7.26 billion, representing an under spending of Ksh 528.79 million or 7.3 per cent deviation from the revised budget. This was an improvement from the previous year where by the under spending was Ksh 983.8 million or 18.17 % of the total budget. The shortfall was attributed to lower absorption in development expenditures by the

county departments attributed to slow release of funds by the National Treasury and long procurement procedures.

Through a supplementary budget, more funds were saved from recurrent expenditure and channelled to development which amounted to Ksh 12.67 Million. Despite the reallocation of funds, the absorption levels still remained relatively low. Table 4 and 5 below shows the spending analysis.

Table 4: Estimates As Per The County Departments and Expenditure Type FY 2014/15						
Department	FY 2014/15					
	Recurrent Expenditure	Revised Estimates	Deviation (Ksh)	Development Expenditure	Revised Estimates	Deviation
Agriculture, Livestock and Livestock Development	122,107,617	122,107,671	54	244,710,275	346,710,740	102,000,465
Public works, Roads and Transport Department	48,864,767	48,864,770	3	1,624,856,550	1,654,534,332	29,677,782
Trade, Industrialization, Co-operative Development	46,902,701	46,902,800	99	122,016,575	130,000,000	7,983,425
Public Health, Medical Services and Sanitation	583,472,760	583,473,656	896	497,537,084	680,417,339	182,880,255
Education, Youth, Gender and Social Services	164,349,818	164,350,000	182	109,080,826	139,970,584	30,889,758
Water Resources Development	148,667,515	148,668,136	621	860,519,708	967,936,542	107,416,834
Energy, Environment and Natural Resources	31,294,796	31,294,800	4	21,282,540	23,500,000	2,217,460
Lands, Housing and Physical Planning	51,120,256	51,120,746	490	134,983,094	190,592,754	55,609,660
Information Communication and E-Government	78,511,849	78,512,914	1,065	234,393,740	244,486,987	10,093,247
Finance and Economic Planning	556,153,763	556,153,781	18	-	-	-
County Executive	294,568,020	294,568,639	619	-	-	-
County Assembly	453,639,113	453,655,146	16,033	-	-	-
Public Service, Labor and Decentralized Unit	206,784,877	206,784,880	3	-	-	-
Town Administration	97,265,122	97,265,334.00	212	-	-	-
TOTAL	2,883,702,974	2,883,723,273	20,299	3,849,380,392	4,378,149,278	528,768,886

Table 5: Summary Expenditure Analysis for FY 2015/16				
	FY 2014/15			% Change
	Approved Estimates	Actual Expenditure	Deviation (balance b/f)	
Recurrent	2,883,723,273	2,883,702,974	20,299	0.0
Development	4,378,149,278	3,849,380,392	528,768,886	12.1
TOTAL EXPENDITURE	7,261,872,551	6,733,083,366	528,789,185	7.3

10. Recurrent expenditure amounted to Ksh 2,883,702,974 against a target of Ksh 2,883,723,273 representing an under-spending of Ksh 20299 from the approved recurrent budget. This underspending was minimal and represents the capacity within the departments to implement programs.

11. Development expenditure amounted to Ksh 3.849 billion compared to a target of Ksh 4.378 billion. This represented an under-spending of Ksh 528. 77 million or 12.1% deviation from the approved development budget compared to 21.8% in FY 2013/14. The underperformance in development expenditure reflects delay in procurement and delay in release of funds by the National Treasury.

Overall balance and financing

12. The county budget was balanced which implies that expenditure was equal to revenues and hence a fully funded budget. However, the funding from development partners still remains very low with only Kshs 17,710,000. This was from National Government donor funds hence the County Government is still faced with limited information on funds channeled by the development partners operating the county and therefore, it is a challenge to integrate the funds in the budget making process as well as in tracking the CIDP implementation progress.

C. Implication of 2014/15 fiscal performance

13. The performance for FY 2014/15 will affect the fiscal objectives set out in the February 2015 C-FSP as well as FY 2015/16 Budget as follows:

- i) The base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term; and
- ii) To accommodate the slow execution of the FY 2014/15 budget by County Departments, the baseline ceilings of county department and agencies will be adjusted accordingly in the next County Fiscal Strategy Paper in February 2016.

14 Nationally, the economic growth is still resilient and it's expected that the economy will be favourable going forward. The country's GDP growth was estimated at 5.4% in 2014 down from 5.7% in 2013. The growth was mainly supported by expansion in construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade.

15. At the county level, the macroeconomic environment will be stable though this will largely depend on the forecasted el-nino phenomenon which might lead to diversion of key government resources towards responding to emergencies. In addition this might lead to increase in key commodities prices due to increased cost of transport as a result of flooding of key county roads.

16. The local revenue projections will be as per the initial projected target of Ksh 200 million and will be guided by revenue base indicated through the County Public Finance Bill 2015. The MTEF ceilings provided in the C-FSP will reflect the macroeconomic forecast though there will be slight adjustments to the ceilings.

17. The under-spending by most of the county departments in FY 2014/15 will have implications on the base to be used to project expenditures in FY 2016/17 and the medium term. Appropriate revisions have been undertaken through this C-BROP, in reference to budget outturn for FY 2014/15 and final adjustments will be reflected in the C-FSP 2016. In addition The County Treasury will capacity build county departments and entities to improve the absorption levels of the budgeted resources.

18. The county government is putting systems to modernize the key productive sectors of livestock and agriculture; invest in efficient transport, water and energy infrastructure; Improve business environment, Fiscal reforms and efficient budget implementation and Invest in efficient social service delivery. This is geared towards stimulating economic growth and development by empowering all sectors in the county. Table 6 below shows the county fiscal projections in the medium term.

Table 6: County Government Fiscal Projections FY 2015/16 – 2018/19

Department	Final Budget 2014/15	C-FSP Ceiling 2015/16	Budget Estimates 2015/16	C-BROP Ceiling 2016/17	Projections 2017/18	Projections 2018/19
		Kshs(M)	Kshs	Kshs	Kshs	Kshs
Agriculture, Livestock and Livestock Development	468,818,411	371.00	370,139,100.00	553,699,165.00	586,921,114.90	622,136,381.79
Roads & Transport Services	1,703,399,102	1,180.00	1,175,799,972.64	1,246,543,605.75	1,321,543,627.48	1,401,056,129.35
ICT, Trade, Industrialization, Co-Operative Development	499,902,701	434.5	433,999,141	557,229,098	585,369,167.50	620,484,614.57
Public Health, Medical Services and Sanitation	1,263,890,995	1,143.00	1,141,366,168.84	1,267,360,555.71	1,407,263,349.86	1,562,609,887.88
Education, Youth, Gender and Social Services	304,320,584	484.80	483,606,335.00	584,293,475.00	619,351,083.50	656,512,148.51
Water Development Services	1,116,604,678	968.00	965,973,515.00	1,029,955,382.73	1,098,175,130.01	1,170,913,455.46
Energy, Environment and Natural Resources	54,794,800	332.00	331,007,481.00	370,521,965.05	396,458,502.60	424,210,597.79
Public works, Lands, Housing and Physical Planning	241,713,500	434.00	433,422,520.00	452,430,172.00	479,575,982.32	508,350,541.26
Finance and Economic Planning	453,863,781	377.00	376,608,148.35	422,932,963	444,079,611.15	466,283,591.71
County Executive	294,568,639	415.00	414,150,665.92	457,699,264	480,584,227.20	504,613,438.56
County Assembly	453,655,146	561.00	560,327,132.00	602,351,667	620,422,217.01	648,648,696.18
Public Service, Labor and Decentralized Unit	304,050,214	624.00	623,936,603.50	654,931,531.78	687,466,176.71	721,617,025.89
WAJWASCO	-	126.20	125,963,418.75	152,985,047.69	160,593,545.25	179,864,770.68
CPSB	-	33.00	32,899,416.00	36,779,926.79	38,618,923.13	41,443,789.13
TOTAL	7,159,582,551	7,483.50	7,469,199,618.00	8,389,713,820	8,926,422,658.62	9,528,745,068.76

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

19. Following the rebasing of the National Accounts Statistics (NAS), the revised estimates demonstrate that the economic growth has remained resilient since 2010 growing to 5.7 % in 2013 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. The economy is estimated to have grown by 5.4 percent in 2014 and is projected to reach over 7.0 % by 2018.

20. From the national outlook, the county macroeconomic environment remains stable and going forward the macroeconomic outlook remains favorable. However, the County's performance will highly depend on the country's economic performance which has been highlighted above.

A. Recent Economic Developments

21. 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 6.5% and 6.3% in 2015 and 2016, respectively. The short to medium-term positive growth projections are based on assumptions of increased rainfall for enhanced agricultural production, a stable macroeconomic environment, continued low international oil prices, stability of the Kenya shilling, improvement in the security situation for a positive influence on the tourism sector; and reforms in the areas of governance and justice.

Implementation of 2015/16 budget progress

22. The implementation of FY 2015/16 budget has started in a slow pace due to challenges in accessing the National allocation funds. The local revenue collection for the July and August was Kshs 15 million. The draft County Public Finance Bill 2015 has been subjected to public review and has been presented to the county Assembly for

debate and approval. The enactment of this bill is expected to unlock new revenue streams and expand the revenue base and therefore increase the local revenue.

B. Macroeconomic outlook and policies

i. Growth prospects

23. The various priority economic policies and Sectoral expenditure programmes outlined in the 2015 County Fiscal Strategy Paper will drive the economic expansion. Heavy investment in the key sectors of irrigated agriculture, Value addition and infrastructure is expected to bolster resilience to climatic shocks and foster sustained high and inclusive growth.

ii. Inflation outlook

24. Consumer price index (CPI) inflation is expected to remain in the single digits, at around 5%, over the medium term to 2018. The prices of most of the commodities are expected to be stable over the year as the prices of petroleum products are on a downward trend. The enhanced rainfall expected in the October-November-December season will see increased agricultural output which is expected to further stabilise food prices over the medium term.

25. The expansion of the transport infrastructure is on course which will lead to lower cost of transporting commodities. This will lead to lower or stable commodity prices. This is not to say that there are no threats to commodity prices, as the supply side shocks remain a threat to price stability.

C. Medium Term Fiscal Framework

26. The purpose of this section is to present the underlying macroeconomic and fiscal assumptions, policies, and strategies for the development of the medium term expenditure framework and annual budget plans. Consequently, we focus on the fiscal policy objectives for FY 2016/17 and a set of integrated medium-term macroeconomic targets and projections. With regard to the economic policy

management, the Government will continue to pursue prudent fiscal policies aimed at sustaining macroeconomic stability.

27. The fiscal policy objective aims at supporting rapid economic growth through expanded local revenue; investments in the productive sectors of Agriculture and Energy while also offering quality services in the social sectors. Specifically, the Fiscal Policy underpinning the FY 2016/17 Budget and MTEF aims at local revenue of more than Kshs 220 million over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth.

28. The fiscal policy will undertake reforms on the following areas, namely:

(i) Enhancing resource mobilization, including broadening revenue base; Revenue collection efforts will be enhanced to ensure all potential taxpayers make their contribution towards County's development agenda. Revenue administration capacity will be strengthened through organizational and modernization reforms, broadening of the tax base in order to grow revenue to finance priority development. Automation of the Revenue Department remains a priority in order to enhance revenue collection.

(ii) Expenditure rationalization will continue being a priority focusing on rationalizing expenditures in the non-productive areas.

(iii) Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all projects and consumables. There will further be enforcement of a project implementation performance benchmark of at least 90 percent, expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at both levels of expenditure. Project planning and management as well as engagement with development partners will be strengthened.

D. Risks to the outlook

29. Going forward, the macroeconomic outlook remains favourable although risks remain. Some of the challenges within the economy include: Insecurity, weather, export market and fiscal pressures on expenditures particularly recurrent expenditures. The expected El-nino rains is a unique challenge to the county's economy; in the short run it is expected to impact negatively on the productive sectors of crop production, livestock, transport and trade. The county has put in place contingency plan to mitigate the effects of the rains; it is therefore expected that in the long run there will be a positive effect on the crop production, food security, livestock production and price stability from improved output as a result of increased water reservoirs and pastures.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/15 Budget

30. Given the FY 2014/15 performance and the updated outlook, summary of risks to the county economy therefore include:

- The forecasted El-nino phenomenon expected between October and December this year;
- Unpredicted inter-clan clashes leading to displacement of communities;
- Slow budget implementation of the budget by departments;
- Pressures from ballooning wages as well as recurrent expenditures;
- Uncertainty of fuel prices caused by uncertainty in international oil market;

31. The County Government will closely and continuously monitor the risks closely to ensure they are attended to in a timely and appropriate manner in the context of the Supplementary Budgets.

32. The FY2015/16 budget adjustments will take into account actual performance of expenditure and absorption capacity in the remainder of the financial year in order to ensure all departments utilise the budgeted funds. Concerning recurrent expenditure pressures, the Government will rationalize by cutting non-priority expenditures. For resources allocated for development purposes will be utilized in the said projects and none, whatsoever, can be expended as recurrent. Finally, utilization of the emergency Fund will be within the criteria specified in the PFM law to ensure disasters are responded to in a timely manner hence minimise the damages.

33. The County Treasury will work tirelessly to ensure the County Finance Bill once approved by the County Assembly is implemented fully. This will lead to increased revenue collection through broadening of the revenue streams as well as strengthening the revenue collection systems to close all the leakages.

B. Medium-Term Expenditure Framework

34. Going forward MTEF budgeting will focus on cutting down less productive expenditures and redirecting thereafter the resultant savings to capital projects. The County government will continue creating an enabling environment for strong private sector investment activities. This will enable achievement of objectives set out in the C-FSP and County Integrated Development Plan which focuses on:

- (i) Improving business environment, Fiscal reforms and efficient budget implementation through encouraging of domestic and foreign direct investment in the key County projects and empowerment of youths and women by providing grants, revolving funds and training on business skills and empowerment through cooperatives as well as procurement opportunities.
- (ii) Modernising the key productive sectors of livestock and agriculture enhancing food security through mega irrigation and value addition
- (iii) Investing in efficient transport, water and energy infrastructure through expanding investment on physical infrastructure to improve transport, access to electricity, water, sanitation and housing;
- (iv) Investing in efficient social service delivery by enhancing quality of education and skills development through vocational and technical training; and protecting livelihoods of the poor and the most vulnerable in the society
- (v) Climate Change Strategy and disaster management by providing for enough funds to build resilience in the communities as well as respond to emergencies.

35. The C-FSP 2015 and CIDP (2013-2017) guides resources allocation in ensuring only high priority projects are implemented. Since the county government is has limited resources at its disposal, the resource allocation will be as follows:

- The priority social sectors of health and education will continue to receive adequate resources. It should be noted that both sectors are already receiving a significant share of resources in the budget. The sectors, however, shall work tirelessly to ensure improvement in the quality of services;
- The Government will continue to improve infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, energy, and ICT will continue to rise over the medium term as well as water and irrigation sectors. This will help the sector provide reliable and affordable energy, as well as increased access to portable water and development of irrigation projects countywide;
- The economic sectors including Agriculture, Livestock and Trade will receive increased share of resources to boost agricultural productivity with a view to dealing with the recurrent food security problems in the county as well as improve the business environment for businesses to thrive;
- Other priority sectors include Disaster Management; decentralised units and Town Administration; Youth and Gender, which have received a significant increment in resources.

36. Referring back to the above medium-term expenditure framework, table 5 below provides the tentative projected baseline ceilings for the 2016 MTEF, classified by county departments and entities.

Table 7: Department Ceilings MTEF Period 2015/16-2016/17				
Department	Estimates 2015/16	Ceiling 2016/17	Projections 2017/18	Projections 2018/19
Agriculture, Livestock and Livestock Development	370,139,100	553,699,165.00	586,921,114.90	622,136,381.79
Roads & Transport Services	1,175,799,972.64	1,246,543,605.75	1,321,543,627.48	1,401,056,129.35
ICT, Trade, Industrialization, Co-Operative Development	433,999,141.00	557,229,098	585,369,167.50	620,484,614.57
Public Health, Medical Services and Sanitation	1,141,366,169	1,267,360,555.71	1,407,263,349.86	1,562,609,887.88
Education, Youth, Gender and Social Services	483,606,335	584,293,475.00	619,351,083.50	656,512,148.51
Water Development Services	965,973,515.00	1,029,955,382.73	1,098,175,130.01	1,170,913,455.46
Energy, Environment and Natural Resources	331,007,481.00	370,521,965.05	396,458,502.60	424,210,597.79
Public works, Lands, Housing and Physical Planning	433,422,520.00	452,430,172.00	479,575,982.32	508,350,541.26
Finance and Economic Planning	376,608,148.35	422,932,963	444,079,611.15	466,283,591.71
County Executive	414,150,665.92	457,699,264	480,584,227.20	504,613,438.56
County Assembly	560,327,132	602,351,667	620,422,217.01	648,648,696.18
Public Service, Special Programs and Decentralized Unit & Town Administration	623,936,604	654,931,531.78	687,466,176.71	721,617,025.89
WAJWASCO	125,963,418.75	152,985,047.69	160,593,545.25	179,864,770.68
CPSB	32,899,416.00	36,779,926.79	38,618,923.13	41,443,789.13
TOTAL	7,469,199,619	8,389,713,820	8,926,422,658.62	9,528,745,068.76

NB: The final ceilings will be given out through C-FSP in February 2016 after Commission for Revenue Allocations issues The County Allocation of Revenue Bill.

C. 2015/16 Budget framework

37. The 2015/16 budget framework is set against the background of the updated medium-term framework set out in chapter III. The county economy is expected to be boosted by the expected sufficient rains as well as increased investment by the private sector as key infrastructure in different sectors is put in place. Inflation is expected to remain low and stable, reflecting stable food and oil prices as well as low cost of doing business.

i) Revenue Projections

38. In FY 2016/17 Budget the targeted total revenue is Kshs 8.39 billion. This will include Kshs 8.05 billion from equitable share, ksh 96.47 conditional allocations from the Road Maintenance Fuel Levy Fund, Kshs 43.2 million grants from development partners and finally Kshs 200 million from local revenue collection. The county treasury will automate revenue collection as well as broaden further the revenue base in order to attain this target.

ii) Expenditure Forecasts

39. Going forward it should be noted that the former department of Information Communication and E-government has been merged with department of Trade, Industrialization and Co-operative Development to form one department. In addition the Public works division formerly in Roads and Transport Departments was moved to department of Lands, Housing and Physical Planning.

The FY 2016/17 budget is projected at Kshs 8.39 billion up from estimated Kshs 7.469 billion in 2015/16 budget. The recurrent expenditure projection is Kshs 4.02 billion while development expenditure is Kshs 4.37 billion. This is a proportion of 48% to 52% respectively of the total expenditure. A total of Kshs 100 million will be set aside for emergency fund.

iii) Overall Deficit and Financing

40. The overall budget for FY 2016/17 is balanced and hence fully financed, though it should be highlighted that this can fluctuate due to performance of local revenue collection as well as the grants pledged by development partners.

V. CONCLUSION

41. The FY16/17-18/19 MTEF highlighted in this C-BROP is prepared taking into account the challenges facing the economy of this county. There is therefore need to maintain fiscal discipline in all departments and entities in order to ensure maximum return from the available public resources.

42. Going forward therefore, the policies highlighted in this paper focus on allocation of resources to only high priority programs as guided by the county integrated development Plan which aims at accelerating economic growth, creation of more job opportunities and eradication of poverty.

43. The departmental ceilings annexed herewith will guide the departments and entities in preparation of FY2016/17 Budget. The next County Fiscal Strategy Paper which will provide the final ceilings will be finalised and forwarded to the County Assembly by 28th February 2016.

VI. ANNEXES

Annex Table 1: Revenue Analysis for FY 2014-2015

REVENUE ANALYSIS FOR YEAR 2014-2015													
	2014						2015						TOTAL REVENUE
REVENUE STREAM	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	PER STREAM
Stock Auction fees	608,900	515,060	358,400	235,900	192,000	608,570	718,000	522,000	399,000	328,000	569,750	732,167	5,787,747
Stock Export fees	234,950	148,740	232,650	133,400	71,300	288,800	239,000	268,000	203,000	87,700	176,000	269,533	2,353,073
Slaughter fees	130,700	138,200	144,500	119,200	140,600	111,000	145,200	161,100	193,300	140,800	138,500	146,350	1,709,450
Hides &Skin	100,000	156,100	50,000	58,000	8,000	3,000	50,900	5,000	-	6,000	16,000	18,400	471,400
Arabic Gum	50,850	5,300	50,900	121,950	25,000	22,000	-	38,400	34,600	45,600	14,800	33,600	443,000
Miraa Cess	1,626,000	1,499,000	1,670,000	1,877,000	1,828,000	1,775,000	1,855,000	1,660,000	1,831,000	1,779,500	1,896,000	2,255,400	21,551,900
Single Business Permit(SBP)	2,372,800	191,100	1,664,800	101,800	515,700	315,300	1,065,300	1,724,800	1,422,000	928,400	529,100	276,400	11,107,500
Septic Tank	120,000	-	-	-	-	-	307,850	178,500	158,000	234,000	300,000	131,400	1,429,750
Conservancy	44,850	224,800	466,000	153,000	153,400	138,150	21,950	112,150	45,950	34,150	23,050	20,050	1,437,500
Land Rent	200,000	104,900	87,000	113,750	4,393,100	212,250	249,550	258,900	459,000	158,830	144,100	94,000	6,475,380
House Rent	20,750	-	61,000	152,600	72,900	32,400	-	-	-	65,500	-	-	405,150
Water	-	59,400	-	-	-	-	-	-	-	-	-	-	59,400
Building Materials	712,000	267,800	206,950	451,600	426,700	461,900	355,400	726,100	814,700	1,083,200	1,432,000	1,182,900	8,121,250
Market gate fees(fresh produce)	65,000	29,500	49,300	56,900	58,700	120,000	74,000	60,000	29,700	71,500	37,150	-	651,750
Scrap metal	-	-	-	10,000	-	-	-	-	-	-	-	-	10,000
Cereals	285,700	190,800	228,400	184,000	161,000	360,100	171,300	176,300	299,100	158,650	45,500	59,200	2,320,050
Development permission	-	-	-	-	-	-	-	-	-	-	-	-	-
Allotment(for schools)	-	-	-	-	-	-	-	-	-	-	-	-	-
Charcoal	-	450	250	1,300	2,150	350	900	4,500	4,800	4,500	5,200	-	24,400
Hire of County Assets	1,604,800	1,872,000	750,000	1,395,300	3,423,134	1,781,970	2,579,000	2,346,000	2,271,600	5,864,110	6,500,000	700,000	31,087,914

Cost sharing	527,900	601,100	507,150	542,080	256,710	524,910	554,760	386,940	259,845	300,810	1,616,020	1,892,395	7,970,620
Medical Certificate			46,900	57,400	152,325	118,900	61,900	41,100	90,700	16,100	1,500	30,600	617,425
Clearance certificate	-	-	-	-	-	-	-	-	-	-	-	-	-
School registration	-	-	-	-	-	-	-	-	-	-	125,000	-	125,000
Approval of Building Plan(Safcom)	-	-	-	-	-	-	-	-	-	-	-	-	-
Advertisement	-	-	-	-	-	-	10,000	70,600	-	-	-	-	80,600
Sale of tender documents	7,000		64,000	615,000	508,000	339,000	250,000	437,000	715,700	501,000	153,000	100,000	3,689,700
Veterinary department	-	-	-	-	-	-	125,925	31,625	50,325	25,200	48,950	127,550	409,575
MONTHLY TOTALS	8,712,200	6,004,250	6,638,200	6,380,180	12,388,719	7,213,600	8,835,935	9,209,015	9,282,320	11,833,550	13,771,620	8,069,945	108,339,534

Annex Table 2: County Government Operations FY2014/15 - FY2018/19 (Kshs.)

Wajir County Government Operations 2014/15-2018/19 (Kshs.)					
Department	Approved Estimates FY 2014/15	Approved Estimates FY 2015/16	Projection FY 2016/17	Projection FY 2017/18	Projection FY 2018/19
1. Total Revenue	7,261,872,550.42	7,469,199,618	8,389,713,820	8,926,422,658.62	9,528,745,069
Equitable share	7,141,872,550.42	7,232,740,318.00	8,050,039,973.93	8,565,242,532.26	9,139,113,781.92
Local revenue collection	102,290,000.00	200,000,000.00	200,000,000	210,000,000	220,500,000
Donor funds	17,710,000.00	36,459,300.00	43,200,000.00	51,946,328.73	67,681,343.30
Fuel Levy Fund	-		96,473,846.30	99,233,797.63	101,449,943.54
2. Total Expenditure	7,261,872,550.42	7,469,199,618	8,389,713,820	8,926,422,659	9,528,745,069
Recurrent	2,896,389,988.40	3,728,664,400	4,022,547,152	4,269,258,996.12	4,550,094,566.04
Development	4,365,482,562.02	3,740,535,218	4,367,166,668	4,657,163,662.50	4,978,650,502.73

Annex Table 3: Development Ceilings MTEF Period 2016/17 - 2018/19

Departmental Development Ceilings					
Department		Estimates 2015/16	Ceiling 2016/17	Projections 2017/18	Projections 2018/19
Agriculture, Livestock and Livestock Development	GOK	200,901,800	376,000,000	398,560,000.00	422,473,600.00
	Local AIA				
Roads & Transport Services	GOK	1,046,044,158	1,110,300,000	1,177,102,731.71	1,247,924,741.97
	Local AIA				
ICT, Trade, Industrialization, Co-Operative Development	GOK	274,000,000	397,000,000	417,048,500.00	442,066,613.94
	Local AIA				
Public Health, Medical Services and Sanitation	GOK	423,670,000	458,799,941.94	509,446,454.61	565,683,790.23
	Local AIA				
	Grants	36,459,300	43,200,058.06	47,968,873.59	53,264,114.37
Education, Youth, Gender and Social Services	GOK	260,175,000	307,500,000	325,950,000.00	345,507,000.00
	Local AIA				
Water Development Services	GOK	818,396,960	875,000,000	932,956,150.00	994,751,060.37
	Local AIA				
Energy, Environment and Natural Resources	GOK	239,081,800	274,000,000	293,180,000.00	313,702,600.00
	Local AIA				
Public Works, Lands, Housing and Physical Planning	GOK	327,686,000	336,120,000	356,287,200.00	377,664,432.00
	Local AIA				
Finance and Economic Planning	GOK	21,660,000	32,490,000	34,114,500	35,820,225
	Local AIA				
Public Service, Special Programs and Decentralized Unit & Town Admin	GOK	21,000,000	61,000,000	64,030,260.77	67,211,054.00
	Local AIA				
WAJWASCO	GOK	71,460,200	95,756,668	100,518,991.82	112,581,270.84
	Local AIA				
TOTAL		3,740,535,218	4,367,166,668	4,657,163,662.5	4,978,650,502.73

Annex Table 4: Recurrent Ceilings MTEF Period 2016/17 - 2018/19

Departmental Recurrent Ceilings					
Department		Estimates 2015/16	Ceiling 2016/17	Projections 2017/18	Projections 2018/19
Agriculture, Livestock and Livestock Development	Salaries	108,978,800	114,427,740	121,293,404	128,571,009
	Other Recurrent	60,258,500	63,271,425	67,067,711	71,091,773
Roads & Transport Services	Salaries	41,906,795	44,002,135	46,649,567	49,456,285
	Other Recurrent	87,849,020	92,241,471	97,791,271	103,674,981
ICT, Trade, Industrialization, Co-Operative Development	Salaries	64,127,839	67,334,231	70,734,610	74,977,837
	Other Recurrent	95,871,302	92,894,867	97,586,058	103,440,050
Public Health, Medical Services and Sanitation	Salaries	574,626,965	655,585,747	727,955,268	808,313,594
	Other Recurrent	106,609,904	109,774,808	121,892,750	135,348,381
Education, Youth, Gender and Social Services	Salaries	149,114,235	196,727,211	208,530,844	221,042,694
	Other Recurrent	74,317,100	80,066,264	84,870,240	89,962,454
Water Development Services	Salaries	73,103,310	76,758,476	81,842,622	87,263,520
	Other Recurrent	74,473,245	78,196,907	83,376,328	88,898,812
Energy, Environment and Natural Resources	Salaries	66,526,721	69,853,057	74,742,771	79,974,765
	Other Recurrent	25,398,960	26,668,908	28,535,732	30,533,233
Public works, Lands, Housing and Physical Planning	Salaries	48,935,090	53,828,599	57,058,315	60,481,814
	Other Recurrent	56,801,430	62,481,573	66,230,467	70,204,295
Finance and Economic Planning	Salaries	131,409,085	137,979,539	144,878,516	152,122,442
	Other Recurrent	223,539,063	252,463,424	265,086,595	278,340,925
County Executive	Salaries	266,817,666	280,249,905	294,262,400	308,975,520

	Other Recurrent	147,333,000	177,449,359	186,321,827	195,637,918
County Assembly	Salaries	442,153,998	464,261,698	478,189,549	499,945,064.60
	Other Recurrent	118,173,134	138,089,969	142,232,668	148,703,627.11
Public Service, Special Programs and Decentralized Unit & Town Administration	Salaries	260,372,444	276,483,689	290,218,293	304,635,177
	Other Recurrent	342,564,160	317,447,843	333,217,382	349,770,289
WAJWASCO	Salaries	13,440,000	14,112,000	14,813,841	16,591,501
	Other Recurrent	41,063,219	43,116,380	45,260,713	50,691,998
CPSB	Salaries	19,525,416	21,087,449	22,141,821	23,761,434
	Other Recurrent	13,374,000	15,692,478	16,477,433	17,683,171
Total		3,728,664,400	4,022,547,152	4,269,258,996	4,550,094,566

Annex Table 5: County Government Fiscal Projections FY 2014/15 – 2016/17

County Government Fiscal Projections						
Department	Final Budget 2014/15	C-FSP Ceiling 2015/16	Budget Estimates 2015/16	C-BROP Ceiling 2016/17	Projections 2017/18	Projections 2018/19
		Kshs(M)	Kshs	Kshs	Kshs	Kshs
Agriculture, Livestock and Livestock Development	468,818,411	371.00	370,139,100.00	553,699,165.00	586,921,114.90	622,136,381.79
Roads & Transport Services	1,703,399,102	1,180.00	1,175,799,972.64	1,246,543,605.75	1,321,543,627.48	1,401,056,129.35
ICT, Trade, Industrialization, Co-Operative Development	499,902,701	434.5	433,999,141	557,229,098	585,369,167.50	620,484,614.57
Public Health, Medical Services and Sanitation	1,263,890,995	1,143.00	1,141,366,168.84	1,267,360,555.71	1,407,263,349.86	1,562,609,887.88
Education, Youth, Gender and Social Services	304,320,584	484.80	483,606,335.00	584,293,475.00	619,351,083.50	656,512,148.51
Water Development Services	1,116,604,678	968.00	965,973,515.00	1,029,955,382.73	1,098,175,130.01	1,170,913,455.46
Energy, Environment and Natural Resources	54,794,800	332.00	331,007,481.00	370,521,965.05	396,458,502.60	424,210,597.79
Public works, Lands, Housing and Physical Planning	241,713,500	434.00	433,422,520.00	452,430,172.00	479,575,982.32	508,350,541.26
Finance and Economic Planning	453,863,781	377.00	376,608,148.35	422,932,963	444,079,611.15	466,283,591.71
County Executive	294,568,639	415.00	414,150,665.92	457,699,264	480,584,227.20	504,613,438.56
County Assembly	453,655,146	561.00	560,327,132.00	602,351,667	620,422,217.01	648,648,696.18
Public Service, Labor and Decentralized Unit	304,050,214	624.00	623,936,603.50	654,931,531.78	687,466,176.71	721,617,025.89
WAJWASCO	-	126.20	125,963,418.75	152,985,047.69	160,593,545.25	179,864,770.68
CPSB	-	33.00	32,899,416.00	36,779,926.79	38,618,923.13	41,443,789.13
TOTAL	7,159,582,551	7,483.50	7,469,199,618.00	8,389,713,820	8,926,422,658.62	9,528,745,068.76