REPUBLIC OF KENYA
COUNTY GOVERNMENT OF KILIFI

COUNTY TREASURY

COUNTY BUDGET REVIEW & OUTLOOK PAPER

SEPTEMBER 2016

LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER(CBROP)

The County Budget Review and Outlook Paper, 2016 is prepared in accordance with Section 118 of the Public Finance Management Act, 2012. The law states that:

1. A County Treasury shall —
   a. Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
   b. Submit the paper to the County Executive Committee by the 30th September of that year.
2. 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 with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
   c. Information on—
      i. Any changes in the forecasts compared with the County Fiscal Strategy Paper; or
      ii. 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.
3. 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.
4. 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 FINANCE MANAGEMENT, ACT, 2012

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

i. i.The county government's recurrent expenditures shall not exceed the county's government total revenue.

ii. ii.Over the medium term, a minimum of thirty percent of the county government budget shall be allocated to the development expenditures.

iii. iii.The County governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the executive member for finance in regulations and

iv. iv.Over the medium term the government borrowing shall be used only for the purpose of financing development expenditures and not recurrent expenditure.

v. v.The county debt shall be maintained at sustainable level as approved by county assembly.

vi. vi.The fiscal risks shall be maintained prudently; and

vii. vii.A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained taking into account any reforms that may be made in the future.

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INTRODUCTION

Overview

1. This County Budget Review and Outlook Paper (CBROP), 2016 is prepared in line with Section 112 of the Public Finance Management (PFM) Act, 2012. The paper is a key document in the budget process, particularly the Medium Term Expenditure Framework (MTEF) within which planning, budgeting and execution of programmes is managed. It reviews recent economic developments and actual fiscal performance of the FY 2015/16 against the budget appropriations of the same year. It further provides an overview of how the actual performance of the FY 2015/16 complied with the fiscal responsibility principles under the PFM Act, 2012 as well as provide the basis for revision of the current budget in the context of Supplementary Budget and the broad fiscal parameters underpinning the next budget and the medium term.

2. This CBROP, 2016 is premised on consolidating gains made by the County in implementing the development agenda espoused in the first County Integrated Development Plan (2013-2017) in preparation for transition into the second phase of planning, budgeting and execution of programmes. The FY 2015/16 budget, which was implemented on the third year of the County's operations, affords an opportunity for a three year review of budget performance and projections made during the medium term 2013/14-2015/16. The lessons learnt and experience gained will improve the implementation of programmes and certainty of projections for medium term period of 2016/17-2018/19.

Objectives of the CBROP

3. 3. The objectives of the CBROP, 2016 are to:

   i. Review the actual fiscal performance compared to the budget appropriation for FY 2015/16;

   ii. Update economic and financial forecasts with sufficient information to show changes from the forecasts in the County Fiscal Strategy Paper (CFSP), 2016;

   iii. Provide information on how actual financial performance for the FY 2015/16 may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP, 2015; and

   iv. Provide reasons for any deviation from the financial objectives in the CFSP, 2016 together with proposals to address the deviation and the time estimated for doing so.

Structure of the CBROP

4. The rest of the CBROP is organized as follows;

   i. Chapter one states the objectives and structure of the CBROP

   ii. Chapter two presents a review of the fiscal performance in FY 2015/16 and its implications on the financial objectives set out in the CFSP,2016;

   iii. Chapter three highlights the recent economic developments and updated macroeconomic outlook.

   iv. Chapter four sets out the resource allocation framework,

   v. Chapter five concludes.

CHAPTER TWO: REVIEW OF COUNTY FISCAL PERFORMANCE

Overview

5. This chapter assesses the county's fiscal performance and deviations between actual and budgeted expenditure and revenue in the FY 2015/16 and the ways in which this performance affected the financial objectives set in the County Fiscal Strategy Paper, (CFSP) 2016.

6. In overall, there was a significant improvement in the county's fiscal performance in FY 2015/16 compared to FY 2014/15. This improvement was realised amidst challenges that slowed the implementation of programmes. These challenges include;

    a. Delays in approval of the FY 2015/16 budget;-budget was approved in August 2015.

    b. Delays in release of funds as scheduled by the national government; and

    c. Low own revenue collection.

Fiscal Performance in FY 2015/16

7. In FY 2015/16, the county's revenue grew by 33 per cent while expenditure grew by 105 per cent from FY 2013/14 as the year from which the County completed the first financial year of operations. Revenue growth is on account of 28 percent increase of the equitable share from national government and 23 percent growth of own revenue collection. Growth in own revenue collection has been slow due to inelasticity of tax payers to incentives offered by the County. Tax payers have responded disproportionately to incentives such as reduced fees and charges and automation of revenue collection aimed at making it cheaper and easier for them to pay. The other reason for the slower growth in revenue collection by the County has been underreporting for fees collected especially by Health Facilities partly due to the Facility Improvement Fund (FIF) policy that allowed a proportion of these fees to be used by the facility that collected them. These fees have been traced and the report presents an impressive performance.

8. The growth in expenditure dispels an earlier notion that the county government cannot fully utilize available funds especially development funds. From FY 2013/14, it is instructive that the County has contained growth of the wage bill to 51 percent while recruiting additional technical staff to fill identified gaps. Further, recurrent expenditure which more than doubled from FY 2013/14 to FY 2015/16 correspond to the seven fold increase of development expenditure required to operationalize projects undertaken by the County. Table 1 below presents the overall fiscal performance from FY 2013/14-FY 2015/16. The variation between total revenue and total expenditure arises from expenditures made in IFMIS but not complete in i-Banking.

Table 1: Overall Fiscal Performance, FY 2013/14-FY 2015/16

Item Description	Performance FY 2013/14	Performance FY 2014/15	Performance FY 2015/16		
	Actual	Actual	Budget	Actual	% Growth From FY 2013/14
Revenue					
Equitable Share	5,820,419,123	6,492,284,172	7,441,216,645	7,441,216,645	28%
Conditional Grants	-	105,150,000	475,525,125	475,525,125	
Own Revenue	481,725,212	502,304,437	1,407,318,463	458,111,159	-5%
Facility Improvement Fund (FIF)	-	48,512,266	91,691,863	132,376,177	
Re-voted Revenue (B/F)	144,917,631		2,104,436,232		
Total	**6,447,061,966**	**7,148,250,875**	**11,520,188,328**	**8,507,229,106**	**32%**
Expenditure					
Compensation to employees	1,683,558,893	1,771,746,404	2,635,429,189	2,547,026,468	51%
Use of goods and services	631,325,678	1,307,255,549	2,587,150,686	2,334,936,424	270%
Other recurrent	1,415,774,795	1,456,870,012	349,757,848	119,553,894	-92%
Development	448,879,706	2,976,901,139	5,947,850,606	3,585,865,230	699%
Total	**4,179,539,072**	**7,512,773,104**	**11,520,188,328**	**8,587,382,015**	**105%**

Source: County Treasury

County Own Revenue Performance

9. County own revenue collection grew by 23 percent from Ksh.481,725,214 in FY 2013/14 to Ksh.590,487,336 in FY 2015/16. In FY 2014/15, the County raised Ksh.550,816,703. Analysis of own revenue collection by stream shows immense potential on Cess on natural resources which consistently grew from Ksh.118,274,099 in FY 2013/14; Ksh.148,724,039 in FY 2014/15 and Ksh.162,021,217 in FY 2015/16. Revenue collection from Bill Boards and signage had a growth of 30 percent from Ksh.11,224,982 in FY 2013/14 to Ksh.14,556,452 in FY 2015/16 though this was a drop from Ksh.20,128,072 raised in FY 2014/15. Other revenue streams attained higher growths in FY 2014/15 but dropped to lower than FY 2013/14 levels in FY 2015/16. These include Land rates and other Land Revenue that rose to Ksh.150,728,560 in FY 2014/15 from Ksh.139,742,612 in FY 2013/14 before dropping to Ksh.138,348,379 in FY 2015/16. The other major revenue streams to exhibit this trend were Business Permits and Parking Fees. Revenue collection from Business Permits dipped from Ksh.96,474,071 raised in FY 2014/15 to Ksh.76,760,496 in FY 2015/16 which was lower than Ksh.78,350,225 raised in FY 2013/14. Parking Fees collected amounted to Ksh.41,050,741 in FY 2013/14 and rose to Ksh.47,255,581 in FY 2014/15 before dropping to Ksh.26,516,192 in FY 2015/16.

10. The improved performance on revenue collection in FY 2014/15 resulted from deliberate efforts by the County to concentrate collection on five major revenue streams namely Land Rates and Other Land Revenue, Cess on natural Resources, Business Permits, Parking Fees and Bill Boards and signage. Arising from this improvement, the County will revamp efforts targeting to collect more revenue from these major sources and employ other strategies aimed at increasing contact between tax payers and the county government. It has come to the attention of the County that rate payers have minimal contact with the county government which is a prerequisite for more revenue collection. The County's incentives on revenue collection such as reduced fees and charges have been supply side oriented but there is need to stimulate the demand side as well. For instance, rate payers' response to reduced fees and charges has been inelastic contrary to the assumption that this would attract more rate payers and increase revenue collection. This requires the County to

shift focus and stimulate the demand side by among others; advertizing and conducting awareness campaigns to provide tax payers with information on their tax obligation and enhance the enforcement unit to ensure compliance with revenue raising laws.

11. Implementation of revenue administration measures will also be fast tracked and results monitored closely so that remedial measures can be instituted in case of deviations from intended results. These measures include formation of a taskforce dedicated to monitor and evaluate revenue collection; implementation of the Integrated Revenue Collection Automation and Agency Banking to bring about systems efficiencies; restructuring revenue collection by deploying revenue clerks to departments that generate revenue to not only collect but address underreporting of revenue collection by departments; conduct regular audits to ensure compliance with laid down procedures to eliminate the risk of revenue leakages; and create a database of tax payers to facilitate tracking of payments and minimize defaulting.

Table 2: County Own Revenue Collection, FY 2013/14-FY 2015/16

Revenue Stream	Actual Revenue Collection			% Growth From FY 2013/14
	FY 2013/14	FY 2014/15	FY 2015/16	
Facility Improvement Fund			132,376,177	
Land Rates and other Land Revenue	139,742,612	150,728,560	138,348,379	-1%
Cess on natural resources	118,274,099	148,724,039	162,021,217	37%
Business Permits	78,350,225	96,474,071	76,760,496	-2%
Parking Fees	41,050,741	47,255,581	26,516,192	-35%
Market Fees	25,579,120	26,352,393	23,579,172	-8%
Bill Boards and signage	11,224,982	20,128,072	14,556,452	30%
Building Plan approval and Inspection	15,673,847	16,290,903	4,668,245	-70%
Rent/Stall rents			3,653,350	
Survey fees and plot rents				
Sale of Tender Documents	2,260,400	4,788,000		-100%
Plot ground rent	418,315	4,541,843		-100%
House rent	18,130,818	4,268,168		-100%
Refuse Collection	2,249,239		377,200	-83%
Food Hygiene Fees	12,563,877	4,985,425	3,035,932	-76%
Slaughter House and Livestock sale Yards			3,934,824	
Others	16,206,939	26,279,648	659,700	-96%
Total	**481,725,214**	**550,816,703**	**590,487,336**	23%

Source: County Treasury

County Expenditure Performance, FY 2015/16

9. 9. In FY 2015/16, the County's actual expenditure amounted to Ksh.8,587,382,015 against a target of Ksh.11,520,188,328 representing an absorption rate of 75 percent. The County Executive had the highest absorption at 93 percent having spent Ksh.382,424,378; followed by Department of ICT, Culture and Social Services at 92 percent having spent Ksh.190,075,343. County Health Services and Devolution, Public Service and Disaster Management absorbed 84 percent of their budget having spent Ksh.2,267,910,446 and Ksh.418,259,013 respectively. recorded an under expenditure of Ksh.75,260,084 and Ksh.283,062,329 recording absorption rates of 92 per cent and 87 per cent respectively. The Departments of Trade, Cooperatives, Industrialization, Wildlife and Tourism; and Roads, Transport and Public Works had the lowest absorption rates at 54 per cent and 57 per cent having spent Ksh.149,997,677 out of Ksh.278,155,235 and Ksh.853,832,040 out of Ksh.1,492,719,160 respectively. The department of Trade, Cooperatives, Industrialization, Tourism and Wildlife absorbed 48 percent of their budget having spent Ksh.180,069,201; followed by the department of Education, Youth Affairs and Sports at 58 percent having spent Ksh.1,041,470,079. The County Public Service Board was the third lowest recording an absorption rate of 59 percent having spent Ksh.26,378,074.

10. 10. In FY 2015/16, recurrent expenditure was Ksh.5,001,516,786 representing a 90 percent uptake of the total recurrent budget of Ksh.5,572,337,722. A detailed analysis of recurrent expenditure in FY 2015/16 shows the Department of Roads, Transport and Public Works overshot her recurrent budget by 18 percent; followed by Agriculture, Livestock and Fisheries by 10 percent; and Water, Environment and Solid Waste Management by 8 percent. The Department of Roads, Transport and Public Works spent Ksh.270,430,523 against a recurrent budget of Ksh.229,879,119; Agriculture, Livestock and Fisheries spent Ksh.312,278,589 against Ksh.283,475,510 while Water, Environment and Solid Waste Management spent Ksh.162,947,031 against Ksh.154,419,563. The County Public Service Board recorded the lowest absorption of recurrent budget at 59 percent having spent Ksh.26,378,074 out of Ksh.44,940,000; Department of Finance and Economic Planning at 73 percent having spent Ksh.328,511,203 out of Ksh.450,451,724 and the County Assembly at 79 percent having spent Ksh.632,599,428 out of Ksh.802,824,932.

11. 11. In FY 2015/16, actual development expenditure was Ksh.3,585,865,230 representing 60 percent of the development budget of Ksh.5,947,850,606. The County Executive spent Ksh.1,192,312 without a development budget allocation. The Department of ICT, Culture and Social Services had the highest development budget absorption at 89 percent having spent Ksh.93,495,027 out of Ksh.104,790,862. Three departments; Roads, Transport and Public Works, Water, Environment and Solid Waste Management and Devolution, Public Service and Disaster Management recorded an absorption of 72 percent of their development budget having respectively spent Ksh.1,105,035,770; Ksh.586,791,375 and Ksh.69,758,903. The Department of Trade, Industrialization, Cooperatives, Tourism and Wildlife, Finance and Economic Planning and the County Assembly recorded the lowest absorption of development budget at 28 percent; 31 percent and 46 percent respectively.

12. The overshoots in recurrent and development expenditures posted in the Integrated Financial Management Information System (IFMIS) could have arisen from attempts to reconcile electronic payments with physical vouchers by voiding transactions that were not actually paid for. Personnel making such transactions must exercise utmost caution because the system seemingly picks these wrong entries as expenditure on budget lines that do not have funds. The County Treasury will continue to liaise with the IFMIS Directorate of the National Treasury for capacity building as well as call for institution of more control measures to prevent the system from picking such transactions.

Table 3: County Expenditure Performance, FY 2015/16

DEPARTMENT	RECURRENT		DEVELOPMENT		TOTAL		ABSORPTION RATE
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	
COUNTY ASSEMBLY	802,824,932	632,599,428	276,817,114	126,174,994	1,079,642,046	758,774,421	70%
COUNTY EXECUTIVE	411,188,126	381,232,066	0	1,192,312	411,188,126	382,424,378	93%
FINANCE & ECONOMIC PLANNING	450,451,724	328,511,203	55,000,000	16,996,274	505,451,724	345,507,477	68%
AGRICULTURE, LIVESTOCK AND FISHERIES	283,475,510	312,278,589	508,177,073	297,360,739	791,652,583	609,639,327	77%
WATER, ENVIRONMENT AND SOLID WASTER MANAGEMENT	154,419,563	162,947,031	812,259,669	586,791,375	966,679,232	749,738,405	78%
EDUCATION AND YOUTH AFFAIRS AND SPORTS	581,198,697	481,648,234	1,211,222,553	559,821,844	1,792,421,250	1,041,470,079	58%
HEALTH SERVICES	1,895,837,877	1,765,844,132	802,519,278	502,066,315	2,698,357,155	2,267,910,446	84%
LANDS, ENERGY, HOUSING,PHYSICA L PLANNING AND URBAN DEVELOPMENT	92,017,162	84,588,636	294,460,000	157,080,922	386,477,162	241,669,559	63%
ROADS, TRANSPORT AND PUBLIC WORKS	229,879,119	270,430,523	1,535,649,389	1,105,035,770	1,765,528,508	1,375,466,293	78%
ICT, CULTURE AND SOCIAL SERVICES	101,993,420	96,580,316	104,790,862	93,495,027	206,784,282	190,075,343	92%
TRADE, COOPERATIVES, INDUSTIRALIZATI ON TOURISM AND WILDLIFE	125,284,890	109,978,446	249,754,668	70,090,755	375,039,558	180,069,201	48%
COUNTY PUBLIC SERVICE BOARD	44,940,000	26,378,074	0	0	44,940,000	26,378,074	59%
DEVOLUTION PUBLIC SERVICE AND DISASTER MANAGEMENT	398,826,702	348,500,109	97,200,000	69,758,903	496,026,702	418,259,013	84%
TOTAL	**5,572,337,722**	**5,001,516,786**	**5,947,850,606**	**3,585,865,230**	**11,520,188,328**	**8,587,382,015**	**75%**

Source: County Treasury

13. Outstanding commitments in FY 2015/15 were Ksh.1,610,620,460 representing 14 percent of the total budget. Development budget commitments were Ksh.1,175,452,502 representing 20 percent development budget whereas recurrent budget commitments were Ksh.435,167,958 representing 8 percent of recurrent budget. The County Public Service Board made more commitments at 67 percent of the budget followed by the departments of Education, Youth Affairs and Sports and Finance and Economic Planning at 21 percent and 19 percent respectively. Department of Agriculture, Livestock and Fisheries had the lowest commitments to total budget at 5 percent, followed by Lands, Energy, Housing, Physical Planning and Urban Development at 8 percent while the commitment levels for the departments of Roads, Transport and Public Works and Devolution, Public Service and Disaster Management were at 10 percent. Analysis of recurrent expenditure commitments shows that the department of

Agriculture, Livestock and Fisheries had the lowest commitments of Ksh.451,249 representing 0.2 percent of the recurrent budget while the County Public Service Board had the highest commitments to recurrent budget at 67 percent. The department of Finance and Economic Planning had the highest commitment to the development budget at 60 percent whereas the department of ICT, Culture and Social Services had the lowest commitments at 7 percent.

Table 4: Departmental Outstanding Commitments, FY 2015/16

DEPARTMENT	BUDGET FY 2015/16			COMMITMENTS FY 2015/16			% OF COMMITMENTS TO BUDGET		
	REC.	DEV.	TOTAL	REC.	DEV.	TOTAL	REC	DEV	TOTAL
COUNTY ASSEMBLY	802,824,932	276,817,114	1,079,642,046	54,224,584	71,138,803	125,363,387	7%	26%	12%
COUNTY EXECUTIVE	411,188,126	-	411,188,126	58,268,549	-	58,268,549	14%	0%	14%
FINANCE AND ECONOMIC PLANNING	450,451,724	55,000,000	505,451,724	65,227,595	33,231,569	98,459,164	14%	60%	19%
AGRICULTURE, LIVESTOCK AND FISHERIES	283,475,510	508,177,073	791,652,583	451,249	40,614,635	41,065,885	0.2%	8%	5%
WATER, ENVIRONMENT AND SOLID WASTE MANAGEMENT	154,419,563	812,259,669	966,679,232	16,303,070	158,334,559	174,637,628	11%	19%	18%
EDUCATION, YOUTH AFFAIRS AND SPORTS	581,198,697	1,211,222,553	1,792,421,250	35,116,273	341,470,533	376,586,806	6%	28%	21%
COUNTY HEALTH SERVICES	1,895,837,877	802,519,278	2,698,357,155	87,443,517	278,120,316	365,563,833	5%	35%	14%
LANDS, ENERGY, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	92,017,162	294,460,000	386,477,162	7,329,123	22,796,978	30,126,101	8%	8%	8%
ROADS TRANSPORT AND PUBLIC WORKS	229,879,119	1,535,649,389	1,765,528,508	18,346,806	158,482,610	176,829,416	8%	10%	10%
ICT,CULTURE AND SOCIAL SERVICES	101,993,420	104,790,862	206,784,282	18,910,530	7,719,132	26,629,662	19%	7%	13%
TRADE, INDUSTRIALIZATION, COOPERATIVE DEVELOPMENT, TOURISM AND WILDLIFE	125,284,890	249,754,668	375,039,558	7,375,252	49,813,810	57,189,062	6%	20%	15%
COUNTY PUBLIC SERVICE BOARD	44,940,000	-	44,940,000	30,033,725	-	30,033,725	67%	0%	67%
DEVOLUTION, PUBLIC SERVICE AND DISASTER MANAGEMENT	398,826,702	97,200,000	496,026,702	36,137,685	13,729,556	49,867,241	9%	14%	10%
TOTAL	**5,572,337,722**	**5,947,850,606**	**11,520,188,328**	**435,167,958**	**1,175,452,502**	**1,610,620,460**	**8%**	**20%**	**14%**

Overall Balance and Financing

12. Arising from the analysis of performance in revenue and expenditure, the overall fiscal balance on a commitment basis amounted to Ksh.1,689,581,056 which was a fiscal deficit of 14.7 percent of the total budget. Specifically, the county's revenue stood at Ksh.8,507,229,106 against expenditure of Ksh.10,196,810,162 as shown in the table below.

Table 5: Fiscal Balance on a Commitment Basis, FY 2015/16

Item Description	Performance FY 2013/14	Performance FY 2014/15	Performance FY 2015/16	
	Actual	Actual	Budget	Actual
Total Revenue	**6,447,061,966**	**9,024,446,027**	**11,520,188,328**	**8,507,229,106**
Equitable Share	5,820,419,123	6,492,284,172	7,441,216,645	7,441,216,645
Conditional Grants	-	105,150,000	475,525,125	475,525,125
Local Revenue	481,725,212	550,816,703	1,407,318,463	458,111,159
Facility Improvement Fund (FIF)	-	-	91,691,863	132,376,177
Re-voted Revenue	144,917,631	1,876,195,152	2,104,436,232	
Total Expenditure	**4,179,539,072**	**8,695,370,923**	**11,520,188,328**	**10,196,810,162**
Recurrent	3,730,659,366	4,987,723,862	5,572,337,722	5,436,684,743
Development	448,879,706	3,707,647,061	5,947,850,606	4,760,125,419
Fiscal Balance	**2,267,522,894**	**329,075,104**	**-**	**(1,689,581,056)**

Source: County Treasury

Performance of Fiscal Developments for FY 2015/16 against Financial Objectives and Fiscal Responsibility Principles

13. 13The fiscal performance in the FY 2015/16 has affected the financial objectives set out in the February 2016 CFSP and the budget for FY 2016/17 in the following ways:

    i. There will be no adjustments to the fiscal aggregates for the current budget except for re-voted revenue and medium term revenue estimates to reflect the balance brought forward from FY 2015/16 and revisions to the base of own revenue collection taking into account current trends.

    ii. Corrective revisions on expenditure categories will be undertaken through the Supplementary Budget FY 2016/17 and projected expenditure in FY 2017/18. The revisions will reflect under execution of projects in FY 2015/16 with a view to implement the Medium Term Expenditure Framework (MTEF) where budgeting for development projects will be spread to outer years while taking into account development priorities presented in the Annual Development Plan, 2016. The baseline expenditure ceilings for departments will be firmed up in the next County Fiscal Strategy Paper in November, 2016.

14. In FY 2015/16, the fiscal responsibility principles set out in the PFM. Act 2012, were adhered to the extent that:

i. The development budget allocation over the medium term is above the 30 per cent minimum set out in the law. In FY 2015/16, the county allocated 52 percent of the total budget to development projects and actual development expenditure was 42 percent of the total expenditure. Over the medium term, the county will shift the composition of actual expenditure towards implementation of development projects.

ii. The county government expenditure on wages and benefits was 30 percent of the total expenditure for FY 2015/16 which was within the projection 32 percent made in the CBROP, 2015. The county government commits to adhere to the principle on the ratio of revenue used for wages and benefits that will be prescribed in the PFM regulations.

iii. The county has maintained a reasonable degree of predictability with respect to the level of tax rates and bases by focussing on automation and ease the process of making payments to promote compliance.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

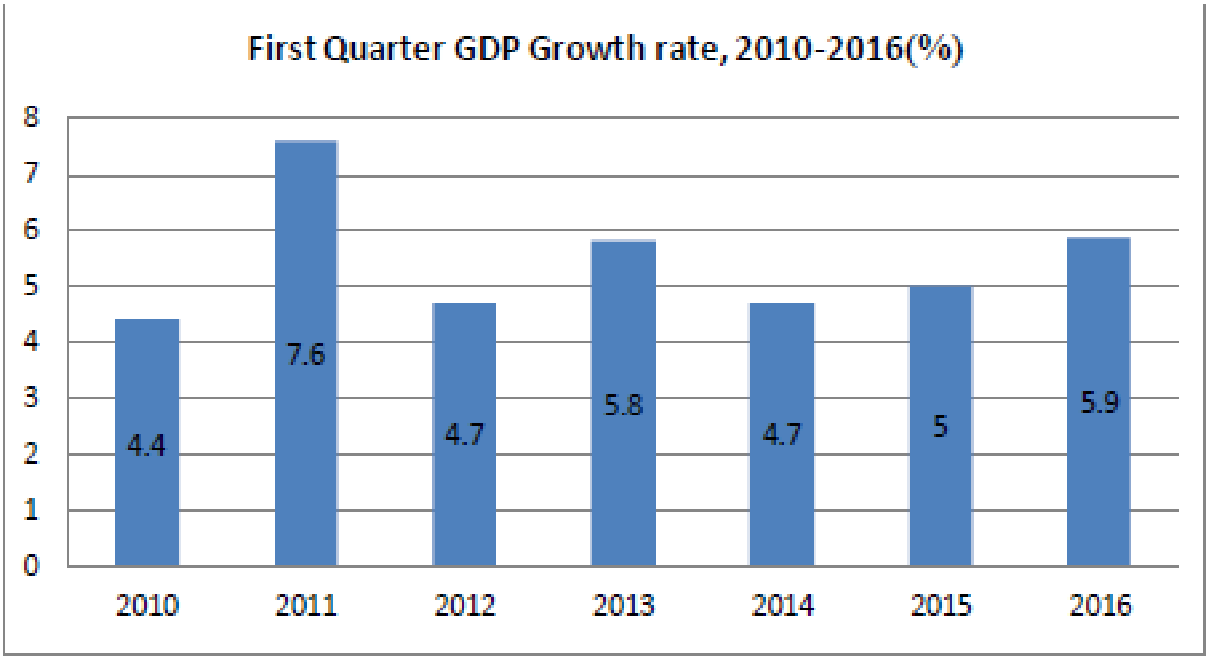
Overview

15. 15. The chapter highlights the performance of key macroeconomic variables as an indication that the performance of the County's public finance and economic affairs relies on macroeconomic management and performance of sectors in the national economy. These indicators are the Gross Domestic Product (GDP), inflation rate, interest rates and exchange rates.

Gross Domestic Product

16. According data released by Kenya National Bureau of Statistics on GDP, Kenya's economy grew by 5.9 percent in the first quarter of 2016 compared to 5 percent over a similar period in 2015. The figure below shows first quarter GDP growth rates 2010-2016.

Figure 1: First Quarter GDP Growth Rates, 2010-2016(%)

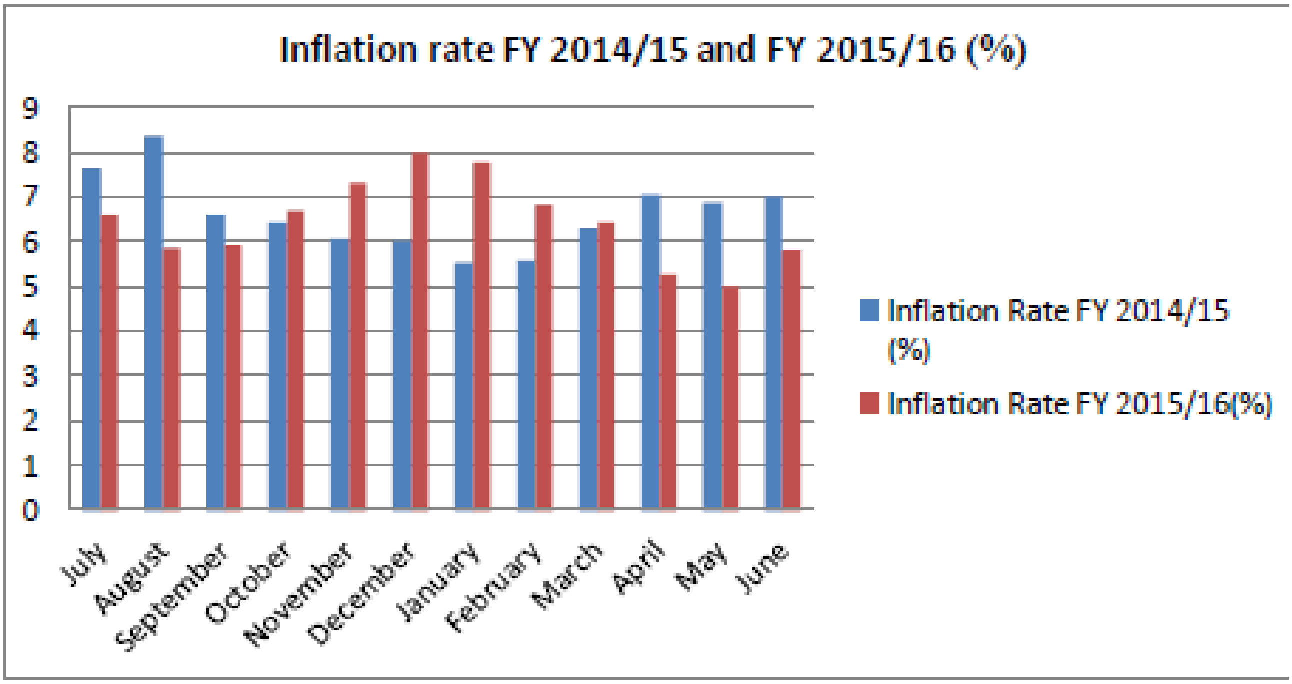


Source: Kenya National Bureau of Statistics

Inflation rate

17. During FY 2015/16, the overall inflation rate remained within a single digit supported by declining food and fuel prices arising from easing of food prices due to favorable weather conditions and effects of low international oil prices respectively as shown in Figure 2 below

Figure 2: Overall Inflation Rate (%), Fourth Quarter FY 2014/15 And FY 2015/16

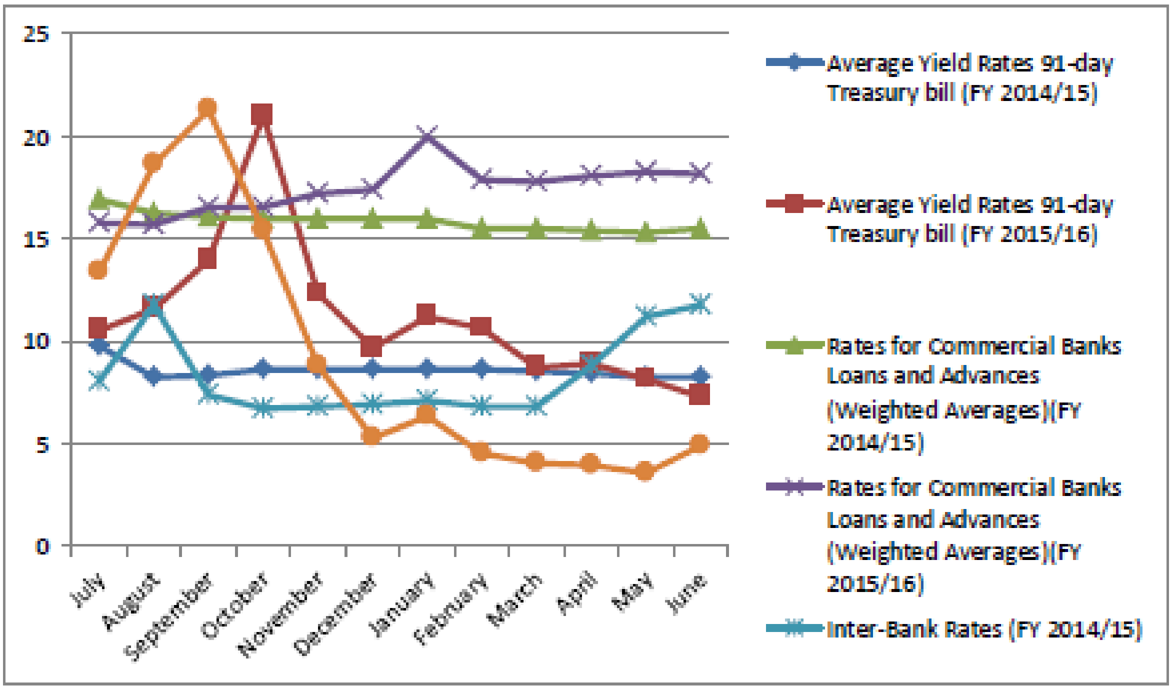


Source: County Treasury

Interest Rates

18. The average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, fluctuated but trended downwards from a high of 21.04 percent in October 2015 to a low of 7.25 percent in June 2016. Average yield rates were higher in FY 2015/16 than in FY 2014/15 up to May 2016. Interbank rates were higher in FY 2015/16 than in FY 2014/15 up to December 2015 when they decreased to 5.31 percent compared to 6.91 percent in December 2014. The rates for commercial banks loans and advances maintained an upward trend from September 2015 in FY 2015/2016 compared to FY 2014/2015. Figure 3 presents the interests rates for FY 2014/15 and FY 2015/2016.

Figure 3: Interest rates (%), FY 2014/15 and FY 2015/16

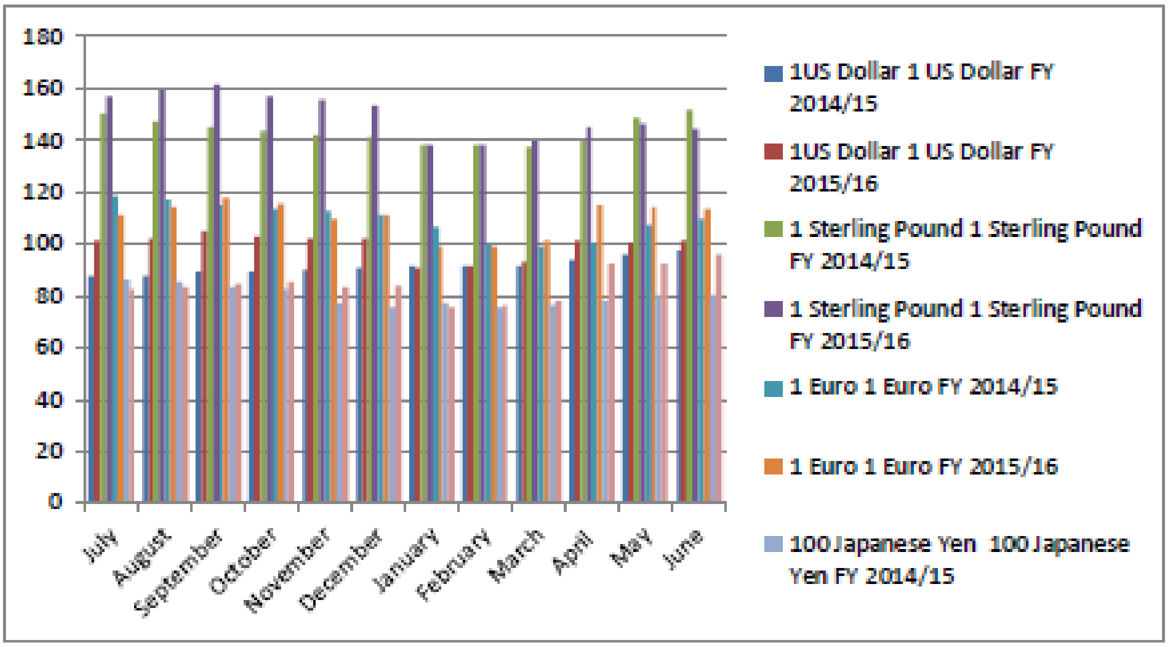


Source: County Treasury

Exchange Rates

19. In FY 2015/16, the Kenya shilling continued to weaken against the Japanese Yen while recorded mixed results against Euro. Moreover, US dollar and Sterling pound had an unpredictable trend when compared with a similar period in the FY 2014/15 as shown in Figure 4. The US Dollar, Sterling Pound and Japanese Yen exchanged at higher rates in FY 2015/16 than FY 2014/15 except in January for US Dollar and January, February, May, June for Sterling Pound and January, August, June for Japanese Yen.

Figure 4: Exchange rates fourth Quarter FY 2014/2015 and FY 2015/2016



Source: County Treasury

Implementation of the 2016/17 Budget

20. The County operated on vote on account till August 30, 2016 when FY 2016/17 budget was approved by the County Assembly and subsequently assented to by the Governor on September 02, 2016. This has significantly delayed implementation of the budget especially development budget. The vote on account permitted use of funds on essential services excluding development projects. As a result, the County paid salaries for July and August with minimal amount going to operational and maintenance costs.

21. Expenditure on development projects is going to pick very fast because of pending payments on projects that were completed in the previous financial year. There are also other development projects that have since been completed and are due for payment which are going to boost development expenditure in the first quarter of FY 2016/17. The momentum on implementation of development projects will remain high on account of ongoing projects expected to be completed during the second quarter of FY 2016/17. This trend will continue in the third and fourth quarters of FY 2016/17 when completion of new projects is expected to pick. The County will keep an eye on this projection to identify potential project implementation risks and take appropriate action to mitigate them.

22. 22. Regarding own revenue, the Finance Bill that is before the County Assembly was guided by the policy stance to maintain and possibly reduce taxes and rates. In the first two months of FY 2016/17, actual revenue collection was Ksh.44,224,080 compared to Ksh.37,887,689 collected over a similar period in FY 2015/16. It is expected that revenue collection outturn will be within the target because the County has rolled out some of the measures aimed at increasing revenue collection such as the waiver of penalties on land rates that is currently

running.

Medium Term Fiscal Framework

23. The county government will continue to pursue prudent fiscal policies aimed at contributing to achieving macroeconomic stability and deliver public goods and services in a sustainable manner. The specific fiscal policy objectives underpinning the FY 2017/18 budget and MTEF aims to:

    i. Enhance resource mobilization by widening the revenue base, automation and build revenue administration capacity. These measures are aimed at reducing the cost of compliance and ensure all potential tax payers make their contribution towards financing priority development projects in the County.

    ii. Shift more financial resources from recurrent to development expenditures so as to promote sustainable and inclusive growth.

    iii. Enhance effective implementation of budget programmes by introducing departmental project implementation performance benchmark of at least 80 per cent which slightly stretches the current development expenditure performance trend in the County. Deriving from current practice and lessons learnt, project planning; budgeting and implementation will be extended to outer years in order to address delays associated with procurement procedures and tying of financial resources to projects which sometimes do not take-off within the financial year.

    iv. Improve expenditure efficiency by benchmarking with best practice. The County has rolled out the implementation of electronic procurement system through Integrated Financial Management Information System (IFMIS) "Procure to Pay" module thereby bringing to an end the manual procurement challenges encountered in the past. The cost benchmarks for projects and consumables inbuilt in the system will be enforced with a view to improve efficiency, save substantial financial resources and instil public confidence that they are getting value for their money.

Risks to Economic Outlook

23. The County's outlook for 2017 and medium term is promising but risks both macro and micro remain. The performance of the county's economy is vulnerable to macroeconomic management and performance of sectors in the national economy. As such, the key risks that the County envisages with regard to the FY 2016/17 budget are:

    i. Continued weak growth in advanced economies and the negative impact this has on exports and tourism activities;
    ii. Geopolitical uncertainty on the international oil market and the effect this has on fuel inflation;
    iii. High current account deficit arising from continued high capital imports and high investment demand to finance infrastructure investment;
    iv. Contracting tourist arrivals due to insecurity concerns by international visitors.
    v. Depressed rainfall which could affect agricultural production and exports
    vi. Recurrent expenditure pressures particularly personnel emoluments that are likely to reduce financial resources for undertaking priority development projects.
    vii. Uncertainty in the proportion of the county allocation from national resources.

24. The county will take appropriate measures in line with guidelines issued by the National Treasury in a bid to stabilize the economy should these risks materialize.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

Adjustments to the FY 2016/17 Budget

25. The implementation of projects in FY 2016/17 budget will spill to the next financial year while recurrent expenditure pressures will continue to constrain availability of funding. This risk is fueled by delays related to procurement processes especially e-procurement and inadequate financial capacity of contractors that stretches project implementation period beyond the six months stipulated in most contracts. The spilled implementation of projects will lead to an accumulation of on-going projects which will have the effect of taking up funds allocated to projects in FY 2017/18 budget particularly when own revenue collection is not on target. This means that the County has to secure continuity of these projects through re-voting while ensuring sufficient resources are mobilized to fund these projects when they are due. Herein lays a multi-faceted challenge that requires concerted efforts to address.

26. First, the challenge arises on estimation of how much of a project will not be complete by the close of the financial year to accord them the on-going project status and give them priority for funding in the next financial year. As a result, re-voting is done just before the budget is approved by the County Assembly when project completion status has been confirmed with a higher degree of certainty. While this is a sure approach that all budgeted projects in the previous financial years will be implemented to completion, it bloats the budget by creating a hidden deficit especially when unspent funds at the end of a financial year cannot fully meet the cost of these projects and alternative funding mechanism are not brought to the fore.

27. Secondly, in the coming financial year, going by the trend at which re-voted projects have been accumulating, the allocations of funds to some departments cannot fully accommodate on-going projects that take priority during allocation of funds before new ones are considered. This implies that the budget for the coming year for these departments may not have new projects yet the on-going ones will not be fully funded as well.

28. Thirdly, the needs of the County are a critical component in allocating as well as estimating the resource basket. It is nearly always the case that estimation of own revenue resources will be committed to emerging needs yet the build up on shortfall of revenue collection has contributed to the funding constraint. This becomes more complex when increase in own revenue collection is one of the most likely solution to funding of on-going projects. It is therefore possible to apportion part of the own revenue collection estimates for funding new projects and the other for on-going projects such that any shortfall or excess is likewise distributed.

29. 29. Arising from the above, and the stance to consolidate gains on project implementation, FY 2016/17 budget will focus on completion of re-voted projects and on-going activities of the county government flagship projects. Adjustment of the FY 2016/17 budget will be guided by reviewing the project implementation cycle of new projects as informed by the delayed approval of the budget, experiences and lessons learnt to allocate funds that will be utilized by the close of the financial year and roll over the balance to the next financial year and the medium term. The rolled-over projects will be accorded priority in allocation on funds in FY 2017/18 together with county government flagship projects and Ward Development Projects in a bid to ensure continuity and equitable allocation of resources respectively. Rolling-over allocation of funds to outer years is distinct from pending of spending in the current financial year and should not be construed as savings but an attempt to address the issue of re-voting and entrenching MTEF.

30. 30. On the revenue front, full automation of revenue collection system and processes will be enhance to eliminate leakages and reduce the cost of compliance. The County will also consolidate the gains made on the legislative front by operationalizing laws that enable revenue collection including the Finance Bill, once enacted, so as to boost revenue collection

to meet and possibly exceed the set target.

Medium Term Expenditure Framework

24. The County MTEF approach consists of a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources in the context of the annual budget process. The MTEF budgeting will thus entail adjusting non-priority expenditures to cater for the priority ones and ensure continuity in resources allocation based on priority programmes aligned to the Second Medium Term Plan (2013-2017) of Vision 2030, the County Integrated Development Plan (2013-2017), Annual Development Plan, 2016 and strategic policy initiatives of the county government's administration. Due consideration will also be made to ensure resources are allocated to on-going projects and emerging priorities to reap expected benefits from projects and keep abreast with current trends.

25. Consequently, in the FY 2017/18 MTEF budget, departments dealing with economic affairs such as Agriculture, Livestock and Fisheries: Land, Energy, Housing, and Physical planning; Trade, Industrialization, Cooperatives, Tourism and Wildlife: ICT, Culture and Social Services; Roads, Transport and Public Works will receive increasing share of resources to boost agricultural productivity and improve value addition ventures as the County addresses concerns on food security, market access and returns for agricultural produce, and land tenure as well. For expansion of agricultural activities, irrigation sub-sector will receive a large share of resources in the medium term period to reduce the risk of crop failure due to reliance on rain fed agriculture.

26. Departments under the social sector, Education, Youth Affairs and Sports; and Health, will continue to receive adequate resources in the FY 2017/18 MTEF budget though they are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate strategic interventions by the Department of Water, Environment, Natural Resources and Solid Waste Management to provide community amenities. All the other departments will continue to receive adequate resources in line with the County's commitment to a balanced sector development so as to ensure socio-economic welfare and enhanced quality of life for the residents of the County.

27. Further, budget implementation by the spending units will be monitored closely especially development expenditures and uptake of resources by revitalizing monitoring and evaluation by the county government.

28. The County's resource basket for FY 2017/18 budget is estimated at Ksh.8,548,196,47. This amount consists of the equitable share estimated at Ksh.7,580,742,023 bearing in mind revision of the revenue sharing formula and growth rate what was actually disbursed in FY 2015/16; own revenue growth and fiscal capacity with no conditional grants since none has been confirmed yet. The table below provides the estimates.

Table 6: Revenue Estimates FY 2017/18 Budget

Revenue Stream	ACTUAL FY 2015/16	ESTIMATES FY 2016/17	ESTIMATES FY 2017/18
Equitable Share	7,441,216,645	8,029,167,703	7,618,533,213
Facility Improvement Fund	132,376,177	585,881,577	208,413,053
Cess	162,021,217	353,672,278	255,086,204
Land/Property Rates	138,348,379	303,375,888	217,815,688
Business Permits & Market Fees	100,339,666	219,029,081	157,974,770
Parking Fees	26,516,192	57,881,569	41,747,093
Advertisement	14,556,452	31,774,934	22,917,678
Devolved Revenue	4,668,245	10,190,201	7,349,685
Agricultural Fees & Cess	3,934,824	8,589,233	6,194,987
Liquor Licensing	3,653,350	7,974,811	5,751,834
Public Health	3,035,932	6,627,066	4,779,771
Betting	377,200	823,381	593,864
Fines & Penalties	659,700	61,557	1,038,632
Total	**8,031,703,979**	**9,615,049,279**	**8,548,196,472**

29. The indicative expenditure ceilings for FY 2017/18 provide funding for policy and programmes currently under implementation and excludes one off-expenditures and casual wages as well. These include the Ward Scholarship Programme including the loans to University and Colleges students, Ward Development Programme, medical cover for staff, Mbegu Fund, Cash Transfer to the Elderly and Orphans and Vulnerable Children. Table 7 below provides the indicative expenditure ceilings FY 2017/18 Budget.

Table 7: Indicative Expenditure Ceilings FY 2017/18 Budget

DEPARTMENT	ECONOMIC CLASSIFICATION	CEILING FY 2017/18(KSH.)	CEILING FY 2017/18 (%)
County Assembly	**TOTAL**	**779,274,214**	**9%**
	P.E.	320,293,928	11%
	O&M	343,278,629	13%
	DEVELOPMENT	115,701,657	4%
County Executive	**TOTAL**	**395,347,004**	**5%**
	P.E.	128,681,601	4%
	O&M	241,665,403	9%
	DEVELOPMENT	25,000,000	1%
Finance and Economic Planning	**TOTAL**	**1,436,794,619**	**17%**
	P.E.	235,125,273	8%
	O&M	211,669,347	8%
	DEVELOPMENT	990,000,000	12%

Agriculture, Livestock and Fisheries	**TOTAL**	**609,606,549**	**7%**
	P.E.	219,541,026	7%
	O&M	84,639,967	3%
	DEVELOPMENT	305,425,556	11%
Water, Environment, Natural Resources & Solid Waste Management	**TOTAL**	**392,774,795**	**5%**
	P.E.	94,808,099	3%
	O&M	49,596,250	2%
	DEVELOPMENT	330,402,741	11%
Education, Youth Affairs and Sports	**TOTAL**	**919,506,315**	**11%**
	P.E.	207,906,043	7%
	O&M	522,099,460	20%
	DEVELOPMENT	189,500,812	7%
County Health Services	**TOTAL**	**2,334,210,932**	**27%**
	P.E.	1,406,581,938	47%
	O&M	597,226,253	23%
	DEVELOPMENT	248,370,446	9%
Roads, Transport and Public Works	**TOTAL**	**480,240,303**	**6%**
	P.E.	94,474,504	3%
	O&M	147,243,542	6%
	DEVELOPMENT	238,522,257	8%
Land, Housing, Physical Planning and Energy	**TOTAL**	**251,648,503**	**3%**
	P.E.	34,974,310	1%
	O&M	80,299,459	3%
	DEVELOPMENT	136,374,735	5%
ICT, Culture and Social Services	**TOTAL**	**211,192,476**	**2%**
	P.E.	33,802,577	1%
	O&M	99,068,120	4%
	DEVELOPMENT	78,321,780	3%
Trade, Industrialization, Cooperatives, Tourism and Wildlife	**TOTAL**	**198,899,181**	**2%**
	PERSONNEL EMOLUMENTS	35,505,720	1%
	O&M	46,281,470	2%
	DEVELOPMENT	117,111,991	4%
County Public Service	**TOTAL**	**83,372,021**	**1%**
Board	PERSONNEL EMOLUMENTS	33,784,663	1%
	O&M	29,587,358	1%
	DEVELOPMENT	20,000,000	1%
Devolution, Public Service & Disaster Management	**TOTAL**	**455,329,559**	**5%**
	P.E.	156,958,353	5%
	O&M	217,798,770	8%
	DEVELOPMENT	80,572,436	3%

	TOTAL	**8,548,196,471**	**100%**
	P.E.	3,002,438,033	35%
	O&M	2,624,172,557	31%
GRAND TOTAL	DEVELOPMENT	2,875,304,411	34%

CHAPTER FIVE: CONCLUSION

30. 30. The FY 2017/18 MTEF budget presented in this County Budget Review and Outlook Paper (CBROP) has been developed taking into account moderate growth in overall expenditure, the need to maintain fiscal discipline and adhere to the fiscal responsibility principles outlined in the Public Finance Management Act, 2012.

31. Allocation of resources over the medium term is set to ensure continuity in policy priorities by completing on-going projects, addressing emerging priorities while focusing on implementing priority programmes developed in accordance to the Second Medium Term Plan (2013-2017) of Vision 2030; County Integrated Development Plan (2013-2017); Annual Development Plan, 2017; and strategic policy initiatives of the county government's administration.

32. The set of policies outlined in this CBROP and the Annual Development Plan, 2016 will guide departments in their Sector Working Groups in their bid for resources and preparation of the FY 2017/18 budget. The sector ceilings will be firmed up in the next County Fiscal Strategy Paper by the November 2016 deadline.

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