



VIHIGA COUNTY GOVERNMENT

**COUNTY BUDGET REVIEW AND
OUTLOOK**

PAPER

SEPTEMBER 2015

FOREWARD

The County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. It reviews the actual fiscal performance of the financial year 2014/15 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP), February, 2015.

In reviewing the fiscal performance, this paper analyses the performance of County own revenue in the FY 2014/15. It has included the total revenue collected and made comparison to projected revenue for the same year. In addition causes of the underperformance of revenue are also highlighted. Included in the analysis is also performance of Departmental expenditures for the period under review compared to the projected expenditures.

This paper has also provided an overview of how the actual performance of the FY 2014/15 affected the financial objectives as detailed in CFSP of 2015. The performance of 2014/15 budget has formed the basis for projecting the 2015/16 budget based on the recent economic development. The projected revenue and expenditure for 2015/16 will be achieved through strict expenditure controls and enhanced revenue collection measures and fiscal discipline to ensure proper management of public resources and delivery of expected output. To ensure transparency and accountability, the Executive will involve and relay our performance indicators to all stakeholders as required by the Constitution 2010 and Public Finance Management Act, 2012. Finally I would like to express my gratitude to all those who participated in the preparation of CFSP.

Moses Luvisi,
*County Executive Committee Member, Finance and Economic
Planning.*

TABLE OF CONTENTS

ABBREVIATION AND ACRONYMS.....	V
INTRODUCTION	1
OBJECTIVE OF THE CBROP.....	1
REVIEW OF FISCAL PERFORMANCE IN 2014/15.....	1
A. Overview.....	1
B. Fiscal Responsibility.....	2
C. Fiscal Performance.....	2
D. Revenues.....	3
ECONOMIC POLICY AGENDA.....	13
A. Recent Development.....	13
Going Forward Macroeconomic-Fiscal Policy and Projection.....	23
Risk to the Macroeconomic – Fiscal Outlook.....	24
CONCLUSION AND WAY FORWARD.....	26
ANNEX I: Approved Programme Based Budget 2014/15	27
ANNEX 11: Budget Calendar for the FY 2016/17.....	32

ABBREVIATIONS AND ACRONYMS

CBROP	County Budget Review Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
PFMA	Public Financial Management Act
SRC	Salaries Remuneration Commission
SBP	Single Business Permit

I. INTRODUCTION

1. The County Budget Review and Outlook paper (CBROP) is prepared in line with the Public Finance Management Act, 2012 section 118. The Act requires that every County prepares a CBROP by 30th September of that financial year and submit the same to the County Executive Committee Member (CECM). The CECM shall in turn—

- (i) Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments. Not later than seven days after the CECM has approved the paper, the County treasury shall
- (ii) Arrange for the paper to be laid before the County Assembly
- (iii) As soon as practicable after having done so, publish and publicize the Paper.

II. OBJECTIVE OF THE CBROP

2. The objective of the County Budget Review and Outlook Paper is to provide—

- (i) A review of the County Fiscal performance in the financial year 2014/15 compared to the appropriation of that year and how this had an effect on the economic performance of the County.
- (ii) An updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy paper.
- (iii) Information on any changes in the forecasts compared with the County Fiscal Strategy Paper.
- (iv) Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

III. REVIEW OF FISCAL PERFORMANCE IN 2014/15

A. Overview

3. This section provides an overview of the performance and implementation of the budget for the Financial Year 2014/15 and how this may have affected compliance with the fiscal responsibility with regard to the CFSP. This will be useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as a way forward for Vihiga County.

B. Fiscal Responsibility

4. In observing fiscal responsibility the PFMA section 15 (2) states that—

- (i) Over medium term a minimum of thirty percent of the County government's budget shall be allocated to the development expenditure.
- (ii) The County expenditure on wages and benefits for its public officers shall not exceed a percentage of the County revenue as prescribed by regulations.
- (iii) Over medium term the County government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- (iv) Public debt and obligations shall be maintained at a sustainable level as approved by the County assembly.
- (v) Fiscal risks shall be managed prudently.
- (vi) 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 future.

C. Fiscal Performance

5. The fiscal performance for 2014/15 was faced with a number of short comings which included—

- (i) Delays in disbursement of funds as scheduled by the national government.
- (ii) Under performance of the local revenue.
- (iii) Conditional grant of KSh. 410 million in the Department of health was factored in the budget and yet it was not funded by National Government.
- (iv) DANIDA funding was budgeted at 23 million yet actual funding was 11.17 million.
- (v) A resolution of was passed to pay KSh. 500 million being unbudgeted infrastructure development programmes.
- (vi) Re-imbursments of personnel emoluments for devolved functions were not refunded by national government.
- (vii) Resources have not followed the functions e.g. Rent collected in the Department of housing and infrastructure hire of machinery.

- (viii) Additional allocation by CRA to County Assembly was not appropriated and funded.
- (ix) Introduction of CRA ceilings after the preparation of budgets impacted negatively on programmes.
- (x) Delay in enactment by CRA Act 2014.
- (xi) When revising the budget the county assembly don't refer to the county fiscal strategy paper i.e. failure to adhere to PFM Act 2012 in the budgeting process.
- (xii) The revenue of 5 million collected in Department of infrastructure banked in different account, Department of agriculture 3.7million, trade and industry KSh. 114,000, health 3.2 million.

D. Revenues

During the period under review the County had two sources funding namely the National Government and County own revenue. The financing from the equitable share amounted to KSh. 3.4 Billion, DANIDA 11.20 million, balance brought Forward 568 million, conditional grant 410 million, and that of own County revenue KSh. 115 Million against target of 378 Million, reflecting a performance of 30%. The total local revenue collected in the financial year 2013/14 from the various sources was 114 Million as indicated in Table 1 below, against target of 200 Million, reflecting an underperformance of 43%.

TABLE 1. REVENUE ANALYSIS FY 2013/14 LOCAL REVENUE PERFORMANCE.

ITEM SOURCE	2013/14	2013/14	2013/14	2013/14
	Budgeted	Actual	Deviation	%
Exchequer issue	,059,656,380	2,921,406,466	138,249,914)	4.5
Departmental Revenue (others)	00, 000,000	113,576,509	86,423,491)	43
TOTALS	,259,656,380	3,034,982,975	224,673,405)	47.5

TABLE 1A. REVENUE ANALYSIS FY 2014 /2015

ITEM SOURCE	2014/15	2014/15	2014/15	2014/15
	Budgeted	Actual	Deviation	%
Exchequer issue	,378,093,964	,378,093,964	(0)	0
Departmental revenue(others)	77,743,491	14,387590	(263,355,901)	70
TOTALS	3,755,837,455	3,492,481,554	(263,355,901)	70

The under-collection of revenue was due to—

- (i) Delay in automation of revenue collection. The automation process has been slow and only covers market collections. It also faced challenges such as internet connectivity, technical challenges and poor supervision. There has been a challenge of incompetence. The revenue collection system does not operate on collection plat form.
- (ii) Inadequate and ineffective enforcement. The County has delayed in constituting an enforcement unit and is using untrained personnel without basic on the By-Laws on the county revenue law and formal training on enforcement.
- (iii) Lack of proper intensive supervision resulting in poor, uncoordinated collection system and revenue management
- (iv) Lack of clear Departmental mandates hence overlapping of the revenue function across the various Departments. There is no clear distinction between service provision and revenue collection. They want to give service and at the same time collect revenue whereas the collection services must be done by revenue unit e.g. Department of Trade has always claimed to be in charge of market collection.
- (v) Resistance from the business community caused by lack of awareness and political interference
- (vi) Revenue Cartels e.g. in the Departments of Transport and Infrastructure, Health and Trade where official receipts are not used or sometimes not issued to collect revenue.
- (vii) Lack of necessary Laws e.g. Failure of the legislature to pass the legal framework and other regulatory instruments like valuation roll and the physical planning regulations.

- (viii) Lack of distinction of revenue streams between Departments of Environment, Natural Resource, water and Forestry and the Amatsi Water Company.
- (ix) Inadequate collection of property and entertainment tax from dance halls, cinema, pool tables, betting and gambling.
- (x) Over ambitious and unrealistic targets such as in the Department of Gender, Culture, Youth and Sports that expected to collect revenue from stadiums which were still under construction.
- (xi) Under-collection of revenue from murrum sites, sand cess, noise pollution, and public toilets caused by collusion malpractices by staff and contractors from Departments of infrastructure and enforcement unit.
- (xii) Weak internal control systems that result to pilferage of revenues, expenditure at source, use of fake receipts and lack of proper records.
- (xiii) Majority of the collectors are on temporal terms which put revenue collection at risk.

7. Some of these challenges have since been addressed and in general we intend to establish a directorate of revenue collection under the Revenue Administration Bill that is before the County Assembly. Other possible solutions would include—

- (i) Automation of all revenue streams through use of plat forms like Local Authority Integration Finance Management and Health Management Systems
- (ii) Enhance supervision and enforcement by laying down proper revenue Administration structure and a revenue enforcement unit.
- (iii) Enactment of Revenue Administration Laws and Regulations.
- (iv) Ensure disciplinary action is taken against members of staff colluding with traders/ members of the public.

TABLE 2: LOCAL REVENUE PERFORMANCE IN KSh.)

QUARTER LY REVENUE REPORT

SOURCES	QTR 1	QTR 2	QTR 3	QTR4	TOTAL
S.B.P.	2,039,270	788,935	10,321,500	5,011,975	18,161,680
Markets	4,490,746	4,172,435	4,563,737	4,309,224	17,747,534

SOURCES	QTR 1	QTR 2	QTR 3	QTR4	TOTAL
Bus Park	9,317,920	9,399,810	9,207,002	9,628,050	37,552,782
Rates	297,222	184,222	398,027	111,280	990,751
Stall Rent	274,875	269,550	493,550	570,700	1,608,675
House /Office Rent	54,100	44,200	64,000	249,900	412,200
Plot Rent	15,786	34,072	132,529	55,401	237,788
Plan Approval	176,734	130,150	190,800	102,400	600,084
Group Registration /Renewal	58,600	68,600	91,775	53,500	272,475
Advertisement	52,500	54,300	350	11,050	118,200
Wall Branding	96,900		55,700	195,700	348,300
Conveyance	1,500	3,000	10,500	4,500	19,500
Hire Of Machinery	167,180	—	0	40,660	207,840
Cess	71,900	52,000	77,200	77,200	278,300
Other Fees And Charges	67,640	207,380	64,450	108,230	447,700
Motorbike Stickers	103,400	121,200	190,250	95,500	510,350
Hire Of Ground/Hall	600	16,400	8,900	2,600	28,500
Local Rate	10,175	8,533	98,510	45,925	163,143
Public Health	0	0	517,060	537,730	1,054,790
Meat Inspection	0	0	61,900	140,580	202,480
Veterinary	0	0	50,380	339,193	389,573
Press/ Communication	0	0	13,200	0	13,200
Health Services	6,648,274	5,070,880	5,965,268	8,398,222	26,082,644
Agriculture	178,689	265,639	54,320	1,134,200	1,632,848
P/Planning	8,600	176,000	70,300	60,200	315,100
Water	157,665	232,550	95,720	67,000	552,935
Conservancy	0	0	627,300	186,000	813,300
Trade	40,000	0	0	0	40,000
Other Depatmental Revenues	274,008	288,487	2,231,025	1,002,790	3,796,310
TOTAL	24,604,284	21,588,343	35,655,253	32,539,710	114,387,590

Source: County Treasury

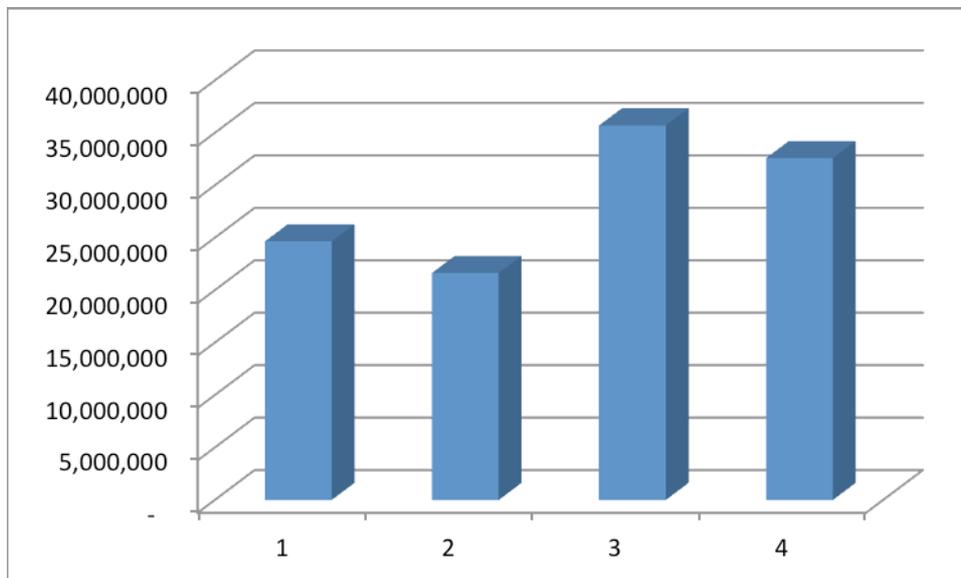
8. As indicated in table 2 above, the highest sources of revenue are, Bus Park, Health, Single Business Permits and Market which contributed KSh. 37,552,782, 26,082,644, 18,161,680 and 17,727,534 to the County revenue account respectively. While the lowest sources of revenue during the period under review were Press/Communication, conveyance, hire of ground/hall and Department of Trade which contributed KSh.13,200, 19,500, 28,500 and 40,000 respectively. However, measures need to be put in place to ensure all revenue collectors comply with the County Revenue Policies. Also there is need for public awareness to ensure all stakeholders know why and when various fees need to be paid.

9. Recommendations to improve revenue performance—

- (i) Creation of a Single Business Permits registers to register all businesses within the County and monitor the payments to the County. This could be maintained through SBP module and CIFORMS platforms.
- (ii) Complete preparation of Land Valuation Roll to enhance rate collection and tracking of defaulters.
- (iii) Revenues from surveys Department should be reported.
- (iv) House rent deductions on the payroll be reconciled on monthly basis and a cheque issued to department of housing to bank on county revenue account to enhance accountability.
- (v) Establish a strong and effective enforcement unit whose responsibility will be to ensure compliance with development laws and regulations.
- (vi) Develop a register of all business advertisements and ensure annual renewals through regular inspections.
- (vii) Implement and enforce all By-Laws on wall branding and other advertisements.
- (viii) Ensure effective and efficient use of plant and machinery and all revenues due are collected, receipted and banked in county revenue account.
- (ix) Illegal use of plant and machinery should be prohibited.
- (x) Enact appropriate legislation to enhance cess revenue.
- (xi) Fast-track the passage of Revenue related bills.

- (xii) Political intervention to ensure compliance with revenue collection laws (motor bike stickers, single business permits and market fees).
- (xiii) Ensure there's proper inventory of drugs, use official receipts for services rendered, bank all collected intact and promptly.
- (xiv) Embrace Health Information Management Systems.
- (xv) Ensure all revenues from subsidies are receipted and banked intact.
- (xvi) Permits and licences should be printed and controlled from within the county.
- (xvii) The department of trade should ensure revenue from inspection and stamping of weights and measures are accounted.
- (xviii) Revenue from hosting miss Tourism events must be accounted.
- (xix) Ensure all water connections are metered and use of revenue collected between the department of water and Amatsi Water Company (the County paying electricity Bills while the company retains the revenues collected).
- (xx) Revenue raised from licensing of bars should be accounted by Department of Public Service and Administration.

FIGURE 1: Revenue Performance per Quarter.



10. As indicated in the figure 1 above the second quarter i.e. Oct, Nov and Dec, recorded the lowest levels of revenue collection. This was attributed to the fact that the County Government was still in the process of putting in place proper structures of revenue collection (devolved units). During the third and fourth quarters i.e. January, February and March; April, May and June, the County recorded the highest levels of revenue because some of the structures of collecting revenue had been established and most of the licenses are renewed during this period.

Expenditures

The total approved expenditure for financial 2014/15 as per County Fiscal Strategy Paper, 2015 was KSh. 4,763,437,637. The expenditure during the year was KSh. 3,617,947,227 against the target of KSh. 4,763,437,637. This represents absorption rate of 76%, this low rate of absorption was attributed to delay in disbursement among other factors.

Table 3 APPROVED ESTIMATES AND EXPENDITURES PER DEPARTMENT ANALYSIS

RECURRENT

PROGRAMME	ACTUALS	BUDGETTED	DIFFERENCE	ABSORPTION
Agriculture, Livestock, Fisheries and Cooperatives	132,802,193	141,238,379	8,436,186	94
Lands, Housing and Physical Planning	17,883,914	25,425,010	7,541,096	70
Transport and Infrastructure	85,915,300	113,143,192	27,227,892	76
Industrialization, Trade and Tourism	31,278,625	32,851,085	1,572,460	95
Health Services	654,246,389	755,810,196	101,563,807	87
Education, Science and Technology	83,718,703	96,591,218	12,872,515	87
County Executive	237,040,971	255,522,492	18,481,521	93
County Assembly	332,952,786	295,555,769	(37,397,017)	113

PROGRAMME	ACTUALS	BUDGETTED	DIFFERENCE	ABSORPTION
County Treasury	192,576,075	207,379,920	14,803,845	93
Public Service Board	70,436,335	83,026,000	12,589,665	85
Public Service and Administration	370,016,205	424,639,187	54,622,982	87
Gender, Culture Youth and Sports Gender	63,014,131	74,303,544	11,289,413	85
Environment, Natural Resource, Water and Forestry	32,131,421	36,720,600	4,589,179	88
TOTALS	2,304,013,048	2,542,206,592	238,193,544	91

TABLE 4 APPROVED ESTIMATES AND EXPENDITURES PER DEPARTMENT ANALYSIS

DEVELOPMENT

PROGRAMME	ACTUALS	BUDGET	DEVIATION	ABSORPTION
Agriculture, Livestock, Fisheries and Co-operatives	68,580,529	86,178,934	17,598,405	80
Lands, Housing and Physical Planning	79,099,642	138,000,000	58,900,358	57
Transport and Infrastructure	505,895,149	682,100,000	176,204,851	74
Industrialization, Trade and Tourism	46,920,742	131,600,000	84,679,258	36
Health Services	90,107,865	136,000,000	45,892,135	66
Education, Science and Technology	118,379,018	256,200,000	137,820,982	46
County Executive	159,309,858	212,893,415	53,583,557	75
County Assembly	57,781,626	223,000,000	165,218,374	26
County Treasury				71

PROGRAMME	ACTUALS	BUDGET	DEVIATION	ABSORPTION
	105,689,812	147,844,964	42,155,152	
Public Service and Administration	3,000,000	3,500,000	500,000	86
Gender, Culture Youth & Sports	11,020,906	51,500,000	40,479,094	21
Environment, Natural Resource, Water and Forestry	68,149,030	152,413,732	84,264,702	45
TOTALS	1,313,934,177	2,221,231,045	907,296,868	59

Table 5 APPROVED ESTIMATES AND EXPENDITURES PER DEPARTMENT ANALYSIS

PROGRAMME	BUDGET	ACTUAL	DEVIATION	ABSORPTION
Agriculture, Livestock, Fisheries and Co-operatives	227,417,313	201,382,722	26,034,591	89
Lands, Housing and Physical Planning	163,425,010	96,983,556	66,441,454	59
Transport and Infrastructure	795,243,192	591,810,449	203,432,743	74
Industriliazation, Trade and Tourism	164,451,085	78,199,367	86,251,718	49
Health Services	891,810,196	744,354,254	147,455,942	83
Education, Science and Technology	352,791,218	202,097,721	150,693,497	57
County Executive	468,415,907	396,350,829	72,065,078	85
County Assembly	518,555,769	390,734,412	127,821,357	75
County Treasury	355,224,884	298,265,887	56,958,997	84
Public Service Board	83,026,000	70,436,335	12,589,665	85
Public Service and Administration	428,939,187	373,016,205	55,922,982	87
Gender, Culture Youth and Sports	125,803,544	74,035,037	51,768,507	59

PROGRAMME	BUDGET	ACTUAL	DEVIATION	ABSORPTION
Environment, Natural Resource, Water and Forestry	189,134,332	100,280,451	88,853,881	53
TOTAL	4,764,237,637	3,617,947,225	1,146,290,412	76

Source: County Treasury.

12. During the year the development expenditure was KSh.1,313,934,177 against the target of KSh. 2,221,231,045, this represents an absorption rate of 59%. This means the County was unable to fully implement the budget and was mainly due to late disbursement of funds from the national government, lack of disbursement of donor funding amounting KSh 414 million and financing of level 5 hospital of KSh. 108 million and the underperformance of the own County revenue.

13. Recurrent expenditure incurred amounted to KSh. 2,304,013,048 against a target of KSh. 2,542,206,592 representing 91% absorption rate.

14. As indicated in Table above the department of Health Services was allocated the highest budget of KSh. 891,810,196 which translates to 19% of the total budget for FY 2014/15. This is because the department has a huge workforce and large amount of allocation of drugs.

F. Implication of 2014/15 Fiscal Performance of the fiscal responsibilities and financial objectives contained in the CFSP of 2015.

15. The underperformance of own County revenue in the FY 2014/15 has implications in the resource envelop and the base used to project the revenue for the tax items in the FY 2015/16. Therefore in projecting the revenue for FY 2015/16 new base of the current trend of revenue has been taken into account.

16. The under spending in both Recurrent and development expenditure for the FY 2014/15 has implication on the base used to project expenditures in the FY 2015/16 and the medium term. Corrective revisions were undertaken during the preparation of the budget 2015/16 and the projected expenditure in the last CFSP has been modified to reflect the revisions.

1a. Economic Policy Agenda

17. Creating a conducive business environment for job creation– Address insecurity; Maintain macro-economic stability; Implement key structural reforms to reduce the cost of doing business and encouraging innovation and investment growth.

18. Investing in agricultural transformation to ensure food security: Bring down cost of food, cost of living; Enhance agro- processing to foster export growth; Support manufacturing and tourism

19. Investing in infrastructure: This will improve productivity and competitiveness in the domestic and international markets; Develop an elaborate and modern transport and logistic network; includes the Standard Gauge Railway, Urban commuter railway, modernizing seaports and airports, improving road networks and expanding energy and water supplies

1b. Economic Policy Agenda

20. Investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households

21. Reducing unemployment among our youth and women, by providing access to affordable credit, encouraging entrepreneurship and skills development; and

22. Supporting Devolved system of Government for better service delivery and enhanced economic development

2. Recent Economic Developments.

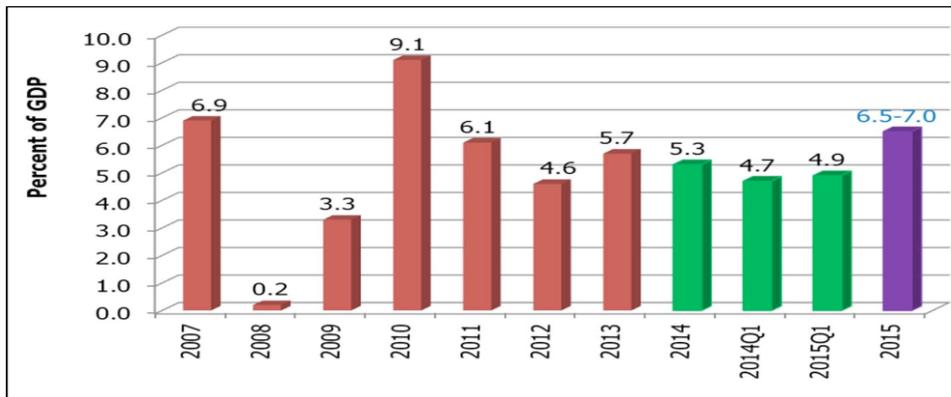
23. The resilience built over the years on account of sound macroeconomic management has sustained strong economic growth and resulted in macroeconomic stability

24. Economic growth prospects remain strong under strong foundation for economic transformation:

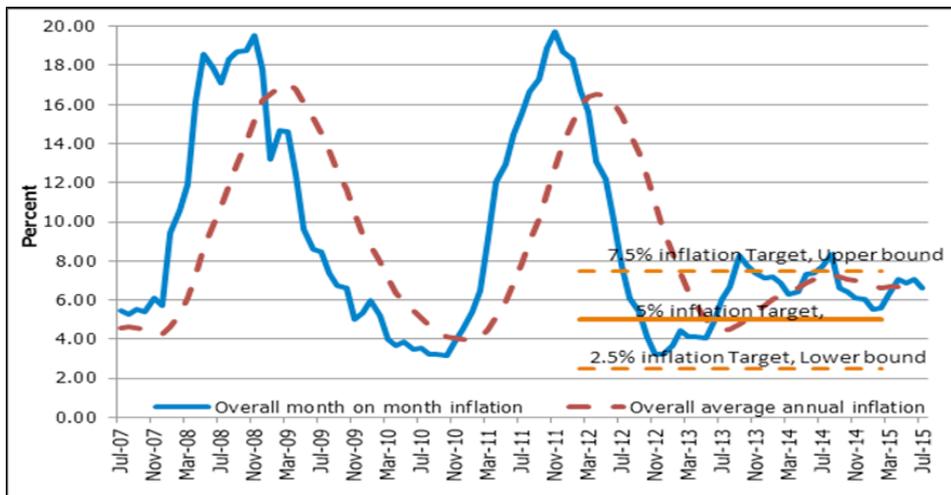
25. In 2014, the economy grew by 5.3 percent and is estimated to expand by 6.5-7.0 percent in 2015, rising further to 7.0 percent over the medium term.

26. Accelerating and sustaining inclusive growth, create opportunities for productive jobs, and secure livelihoods of all Kenyans

2a. Growth remain robust despite recent insecurity challenges and exchange rate pressures

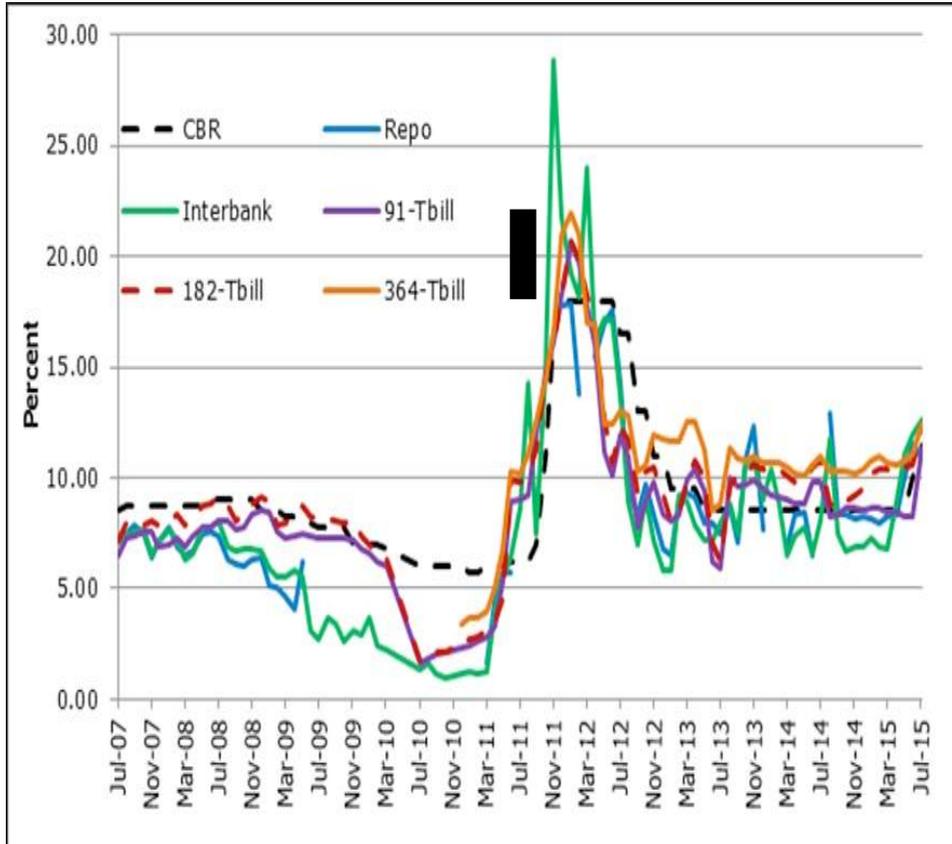


27. Growth in Q1 of 2015 was 4.9% due to strong growth in construction (11.3%), financial and insurance sector (9.1%), Electricity and water (8.4%), transport and storage (6.0%) and agriculture and forestry, and fishing (4.4%).



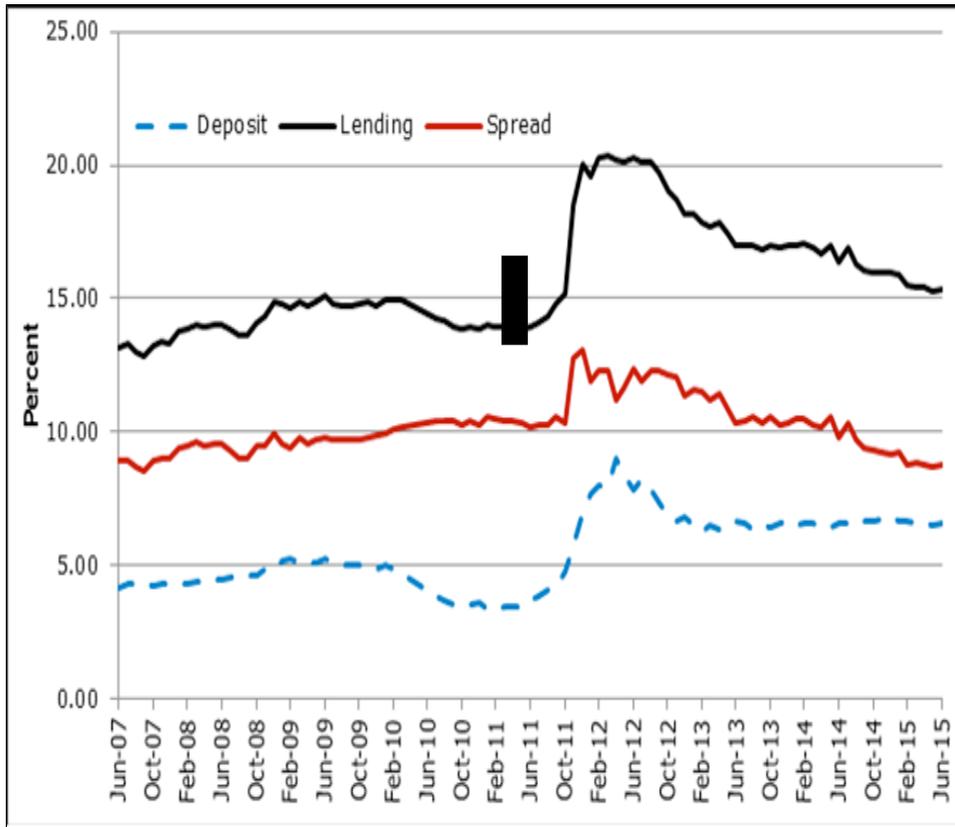
28. Overall month on month inflation declined further to 6.6% in July 2015 from 7.0% in June 2014 due to lower food prices despite increase in fuel and non-food non-fuel inflation.

2c. CBR raised to 11.5 percent in July 2015 to mitigate against emerging risks on inflationary expectations.



29. The interbank rate increased sharply in July and August 2015 on account tight liquidity in the money market following interventions by the Central Bank to mitigate against volatility of the exchange rate.

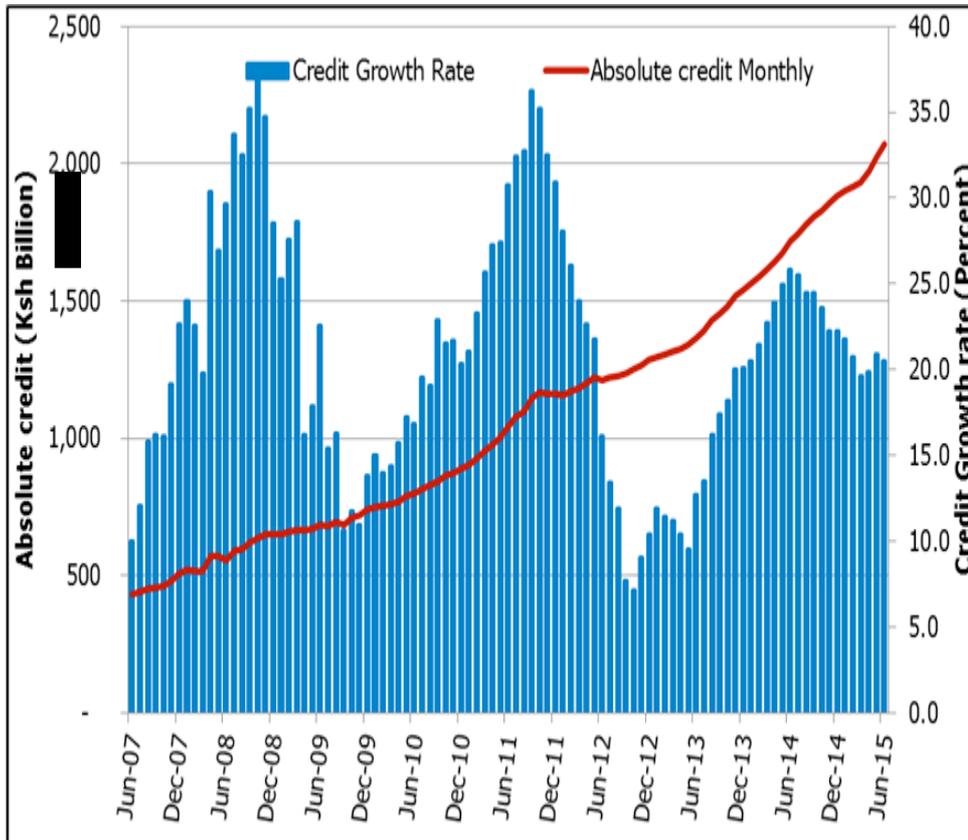
2d. Lending Rates decline due to reduction of KBRR to 8.54 in January 2015



30. Lending rates declined to 15.5% in June 2015 from 16.4% in June 2014 while deposit rates increased to 6.6% from 6.5% over the same period.

31. KBRR reviewed upwards to 9.87 percent following the upward revision of CBR. 2e. The shilling weakened against the Dollar due to the global strengthening of the US Dollar on the international market, and high dollar demand by importers in the domestic market.

2f. Private Sector Credit flow to productive sectors, though there is a pick up in sectors with consumption bias.

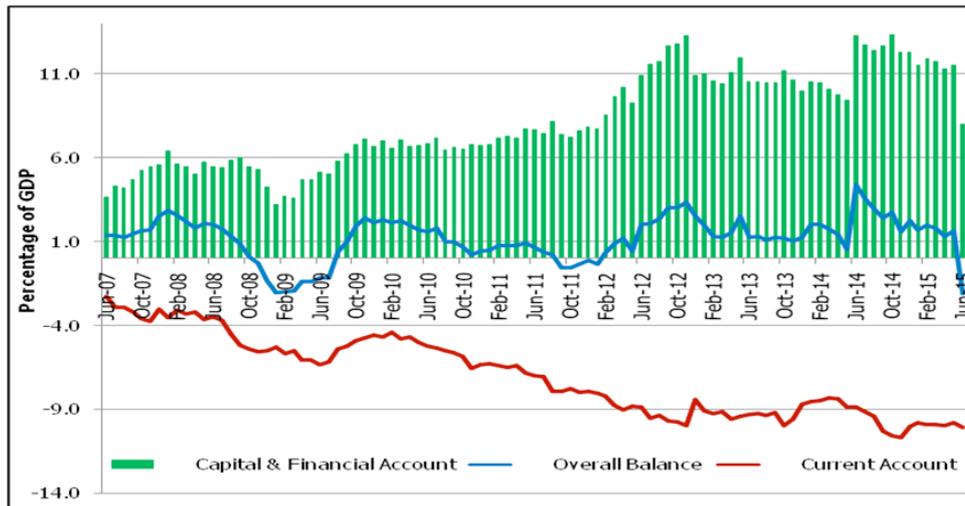


32. Private sector credit grew by 20.5% in June 2015 from 25.8% in June, 2014.

33. Sector growths are as follows; building and construction (15.5%), agriculture (24.0%), trade (25.9%) and finance and insurance (43.3%).

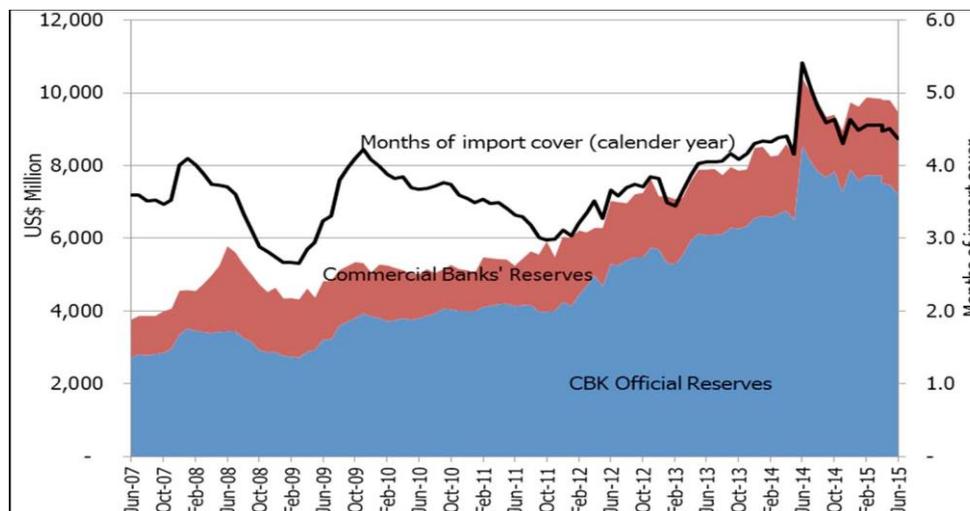
34. Credit to private households had an increased growth of 31.2% in June, 2015.

2g. Our external payments position is in deficit, and widening current account deficit remain a source of concern

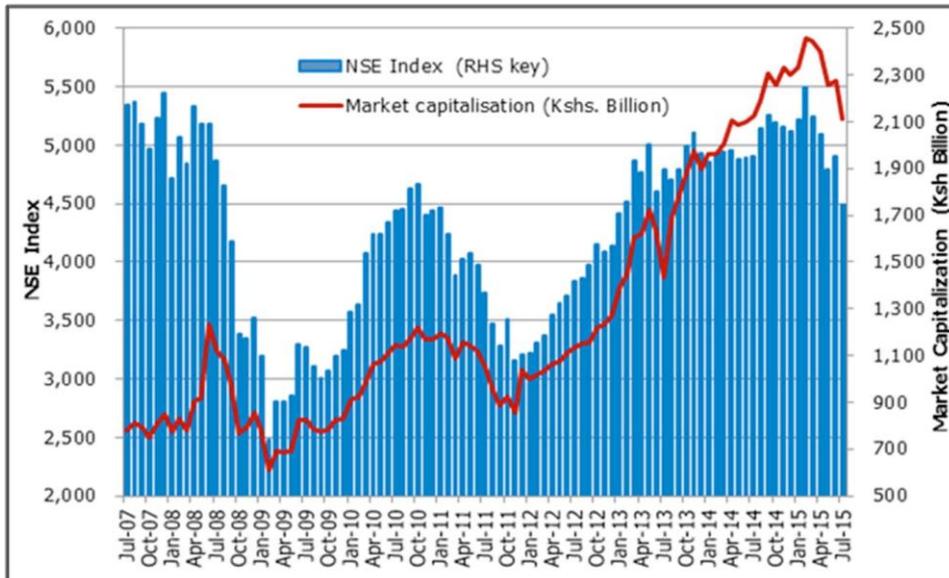


35. BOP in deficit of US\$ 1,282m by June 2015 as Current Account deficit worsened to 10.1% of GDP by June 2015

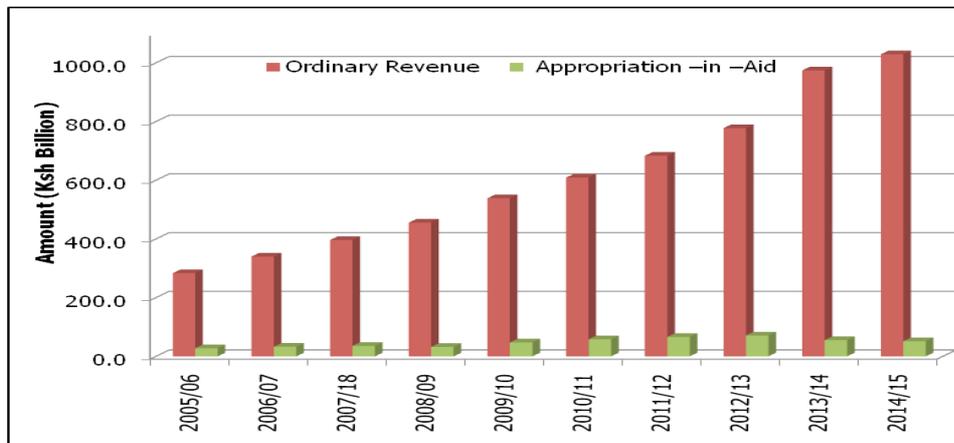
2h. Our current level of Foreign Exchange Reserves is comfortable (US\$ 9.5 billion), of which US\$ 7.2 billion (4.4 months of import cover, calendar year) is official reserves, but we need to continue building it up further to cushion ourselves from any external shocks



2i. Activity at the stock market slowed down in the year to July 2015 as both the NSE 20 share Index and Market capitalization decline.



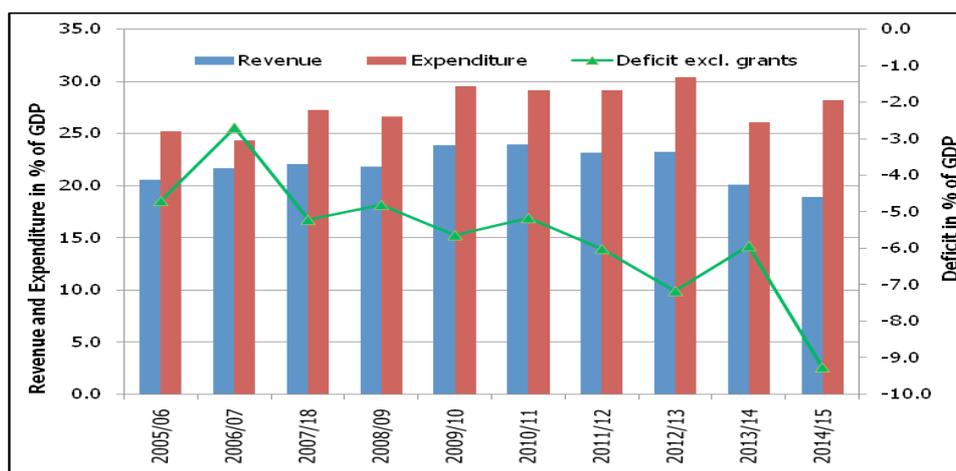
2j. Revenues continue to improve due to tax and revenue reforms



36. Total Revenues have increased over the years to Ksh 1,081.2 billion (18.9% of GDP) in FY 2014/15.

37. Ordinary revenues improved to Ksh 1,029.3 billion while A-I-A amounted to Ksh 51.9 billion over the same period.

38. Total expenditures and net lending increased to KSh 1,617.6 billion (28.2% of GDP) in FY 2014/2015 compared to KSh1,297.8 billion (26.0% of GDP) in the FY 2013/2014 due to increase in recurrent expenditures.



39. Overall fiscal balance (on a commitment basis and excluding grants) at 9.3% of GDP in FY 2014/2015. Including grants, at 8.5% of GDP

	JULY-14	JUL-15			%
	Actual	Prog.	Prel.	Deviation	Growth
A. Total Revenue (1+2)	69,579	91,285	83,347	(7,938)	19.8
1. Ordinary Revenue	65,269	82,974	77,397	(5,577)	18.6
Import Duty	4,564	6,546	5,853	(693)	28.2
Excise Duty	7,615	10,571	9,416	(1,155)	23.7
Income Tax	31,331	36,349	36,490	140	16.5
PAYE	18,108	21,515	20,537	(979)	13.4
Other Income Tax	13,223	14,834	15,953	1,119	20.6
VAT	17,885	24,397	21,898	(2,499)	22.4

	JULY-14	JUL-15			%
	Actual	Prog.	Prel.	Deviation	Growth
VAT Local	8,766	12,262	12,259	(2)	39.9
VAT Imports	9,119	12,135	9,638	(2,497)	5.7
Other Revenue	3,874	5,111	3,740	(1,370)	-3.4
2. Appropriation In Aid	4,310	8,311	5,950	(2,361)	38.0
0/w Railway Development Levy	1,823	1,852	1,696	(157)	-7.0
B. External Grants	527	1,273	61	(1,212)	(88.4)
Total Revenue and External Grants (A+B)	70,106	92,559	83,408	(9,151)	19.0
Total Revenue and External Grants(% of GDP)	1.23	1.42	1.28		

2m. Revenues for the FY 2015/16 is broadly on course, outturn is expected to be within the target.

40. Total revenues at KSh 83.3 billion below target of KSh 91.3 billion in July 2015 by KSh 7.9 billion due to under performance of both the A-i-A and ordinary revenues.

	Jul-14	Jul-15			%
	Actual	Prog.	Prel.	Deviation	Growth
TOTAL EXP ENDITURE AND NET LENDING (1+2+3+4)	48,604	126,426	57,065	(69,360)	17.4
1. Recurrent Expenditure	47,932	75,155	51,919	(23,237)	8.3
Domestic Interest	4,509	7,959	6,722	(1,237)	49.1
Foreign Interest	1,300	1,973		(1,973)	-100.0
Pensions and other CFS	1,800	3,663	200	(3,463)	-88.9
Net issues/Net Expenditures	38,038	55,562	40,922	(14,640)	7.6
Wages and Salaries	25,000	27,794	27,794	-	11.2
Others	13,038	18,125	13,128	(4,997)	0.7
Ministerial Recurrent AIA	2,285	5,599	4,074	(1,524)	78.3
2. Development	673	25,309	5,147	(20,162)	665.3
Domestically Financed (Gross)	673	11,529	5,086	(6,444)	656.2
o/w Domestically Financed (Net)	470	10,669	3,210	(7,459)	582.8
Ministerial Development AIA	202	860	1,876	1,015	826.8
Foreign Financed	-	13,780	61	(13,719)	0.0
Net Lending	-	-	-	-	0.0
Equalization Fund	-	-	-	-	

	Jul-14	Jul-15			%
	Actual	Prog.	Prel.	Deviation	Growth
3. County Allocation	-	25,961	-	(25,961)	0.0
4. CF	-	-	-	-	-

41. Total expenditures by end July 2015 was KSh. 57.1 billion below target of KSh.126.4 billion

42. Due to under performance in both the recurrent and development expenditures by KSh. 23.2 billion and KSh. 20.2 billion respectively and under absorption of the County Allocation fund by KSh. 26.0 billion

43. The debt level increased in FY 2014/15 due to increased borrowing as a result of mega investment projects taking place during the period.

44. Debt levels are expected to decline as the mega projects like the SGR Going Forward: Macroeconomic - Fiscal policy and Projection.

Going Forward: Macroeconomic- Fiscal Policy and Projection.

45. Monetary Policy: Focus will be to maintain a stable inflation of around 5%, stable interest rates and exchange rates and strengthen the international reserves position to over 4.5 months of import cover

46. Fiscal Policy: Focuses on supporting rapid economic growth and ensuring the debt position remains sustainable while at the same time supporting the devolved system of government.

3a: Looking ahead, our growth prospects is favorable

47. Real GDP growth is projected at 6.5-7.0% in 2015 and 7.0% over the medium-term and is expected to be bolstered by—

(i) Expected normal weather pattern and implementation of strategic interventions to revamp agriculture and energy sectors.

—This will boost agriculture and support cheap sources of power for manufacturing.

(ii) Completion of key infrastructure projects (such as SGR, roads and energy) that were started over the recent years.

—This will expand employment creation and poverty reduction

(iii) Stable macroeconomic environment (low inflation and stable interest rates and exchange rate).

—This will improve competitiveness and boost investments

(iv) Further structural reforms especially those targeted toward improving competitiveness of the private sector and promoting overall productivity in the economy.

—Exports will continue to benefit from the on-going initiatives to deepen regional integration and measures to promote Kenya's exports globally.

3b. Fiscal Projection

47. In the Medium term, driven by continued reforms, revenue collection is expected at 21.8% of GDP in FY 2018/2019 from 18.9% in FY 2014/2015,

48. Overall expenditures, as % of GDP decline from 28.2% in FY 2014/15 to 26.8% in FY 2018/19.

49. Fiscal deficit including grants expected to ease from 8.5% of GDP in 2014/15 to 4.1% of GDP in FY 2018/19 while public debt (NPV) declines to 43.4% by FY 2018/19 from 44.0% in 2014/15

3c. Going Forward: Macroeconomic Projections: Strong Growth, Revenues, Improved C/A Reduced Expenditures, Nominal Debt

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
	Act		Prov			projected	
National accounts and prices							
Real GDP	5.1	5.5	5.9	6.7	6.9	7.0	7.0
GDP deflator	7.1	6.3	7.1	6.5	6.3	6.1	5.7
CPI Index(eop)	4.9	7.4	7.0	6.0	5.0	5.0	5.0
Cpi Index(avg)	4.8	6.1	3.1	5.6	5.1	5.0	5.0
Terms of trade (-deterioration)	2.0	1.5	0.2	0.3	0.2	0.2	0.2
Investment and Saving							
Investment	20.8	20.8	23.8	25.3	25.6	25.1	25.1
Gross National Saving	12.5	11.9	12.8	14.5	16.8	17.7	18.1
Central Government Budget							
Total Revenue	19.3	19.8	19.4	21.1	21.4	21.6	21.8
Total Expenditure and Net lending	24.8	25.7	28.2	30.3	28.3	27.1	26.8
Overall Balance (commitment basis) excl. grants	-6.0	-6.5	-9.3	-9.3	-6.6	-4.9	-4.5
overall Balance (commitment basis) incl. grants	-5.5	-5.9	-8.5	-8.4	-6.2	-4.5	-4.1
Public net debt, NPV	-	42.3	44.0	46.4	45.9	44.8	43.4
External Sector							
Current external Balance, including official transfers	-8.5	-9.7	-10.2	-9.9	-8.7	-7.3	-6.9
Gross international reserve coverage in months of import	3.8	4.9	3.8	3.8	3.9	4.0	4.1

4a. Risks to the Macroeconomic – Fiscal Outlook

50. Public expenditure pressures, especially recurrent expenditures continue to pose a fiscal risk, wage pressures and the inefficiencies in devolved services may limit continued funding for development expenditure.

51. The impact of insecurity on tourism, and depressed rainfall which could affect exports and agricultural production

52. Continued weak growth in advanced economies that will impact negatively on our exports and tourism activities.

53. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

4b. Measures to Mitigate Against Risks

The government has put in place measures to safeguard macroeconomic stability to mitigate the effects of the above risks as follows:

54. The Government has negotiated a Stand-By Arrangement and Stand-By Credit Facility (SBA/SCF) with the IMF that will provide US\$ 688.3 million in the event of exogenous shocks. This protects the ongoing public investments ensuring they are not disrupted in the event of shocks

55. Construction of irrigation dams across the country to moderate the effects of drought on agricultural productivity and food prices

56. Continuing with the security modernization programs so as to tackle the insecurity concerns in the country and attract investments and tourists

5. Next Steps—Preparation of 2016/17 Budget

57. Develop and issue MTEF guidelines by end August 2015

58. Launch of the sector working groups by 15th September 2015

59. Submission of 2015 BRPOP (with sector ceilings) to cabinet and parliament by September 30, 2015.

60. Convene public sector hearing in preparation of the MTEF budget proposals and submission of the sector reports to Treasury by 30th November 2015

61. Submission of the BPS, Division of Revenue Bill and County Allocation of Revenue Bill to cabinet and parliament by 15th February 2016.

62. Submission of Draft Budget Estimates to parliament by 30th April 2016.

63. Submission of the Budget statement to parliament by 15th June 2016.

VI. REVENUE OUTLOOK

The 2015/16 budget targets local revenue receipt of KSh. 277 Million as per annex 11 and receipt from national equalization fund of KSh 3.773 Billion, conditional grants KSh. 418 Million and Donor funding KSh. 23 Million. The performance will be underpinned by the measures that have been put in place to enhance revenue collection. The overall expenditures for FY 2015/16 is KSh. 4,490,825,815 of which recurrent expenditure KSh. 2,672,195,305 and development expenditure of KSh. 1,818,630,511.

VII. CONCLUSION AND WAY FORWARD

The Fiscal outcome of 2014/15 together with updated macroeconomic focus and financial objectives elaborated in the County Fiscal Paper will seek to achieve the objectives outlined in the PFMA, 2012. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds by the various departments will be crucial in ensuring the County delivers her functions.

Going forward the set of policies outline in this CBROP reflect the changed circumstances and National Policy pursued by the National Government as the basis of allocation of the Public Resources.

ANNEX I: SUMMARY OF COUNTY FUNDING

Revenue Source	Approved Budget 2014/15	Estimates 2015/16	Projections 2016/17	Projections 2017/18
Single Business Permit	48,276,888	53,104,577	56,290,852	59,668,303
Bus Park	40,794,468	44,873,915	47,566,350	50,420,331
Motor Cycle		3,000,000	3,180,000	3,370,800
Market Fees		18,500,000	19,610,000	20,786,600
Stall Rent	1,722,270	1,894,497	2,008,167	2,128,657
Other Fees	714,582	786,040	833,202	883,195
Transport Cess		1,500,000	1,590,000	1,685,400
Fisheries	300,000	330,000	349,800	370,788
Sand Cess	213,840	235,224	249,337	264,298
Land Rates	3,660,532	4,026,585	4,268,180	4,524,271
Plan Approval	1,019,040	1,120,944	1,188,201	1,259,493
Plot Rent	775,381	852,919	904,094	958,340
local Rate		10,175	10,786	11,433
Weight of Measure	500,000	550,000	583,000	617,980
Audit of Supervision	1,000,000	1,100,000	1,166,000	1,235,960
Audit of License	1,000,000	1,100,000	1,166,000	1,235,960
Inspection	1,000,000	1,100,000	1,166,000	1,235,960

Revenue Source	Approved Budget 2014/15	Estimates 2015/16	Projections 2016/17	Projections 2017/18
Fees				
application for plan		300,000	318,000	337,080
mortuary fees		5,000,000	5,300,000	5,618,000
Registration of Group	370,920	408,012	432,493	458,442
Youth Group Registration	500,000	550,000	583,000	617,980
ECD Registration	500,000	550,000	583,000	617,980
Others (Education)	500,000	550,000	583,000	617,980
Sports registration.		100,000	106,000	112,360
	59,400	65,340	69,260	73,416
Stadium charges	150,000,000	1,000,000	1,060,000	1,123,600
Hire of Tipper	409,200	450,120	477,127	505,755
ground rent		100,000	106,000	112,360
Audit License	1,000,000	600,000	636,000	674,160
Inspection	1,000,000	600,000	636,000	674,160
Others	1,000,000	600,000	636,000	674,160
Plan Approval	1,000,000	4,300,000	4,558,000	4,831,480
SBP application.		700,000	742,000	786,520
License Renewal	200,000	220,000	233,200	247,192
fanfare license	0	200,000	212,000	224,720
Land rate	467082	513,790	544,617	577,294
	50,000	0	0	0
	50,000	0	0	0

Revenue Source	Approved Budget 2014/15	Estimates 2015/16	Projections 2016/17	Projections 2017/18
Hire of Hall	120,000	132,000	139,920	148,315
Veterinary Levies	1,299,600	1,429,560	1,515,334	1,606,254
Cooperative Audit		426,302	451,880	478,993
Cost Sharing	90,000,000	74,000,000	78,440,000	83,146,400
Liquor License	10,000,000	15,000,000	15,900,000	16,854,000
Others	18,240,288	120,000	127,200	134,832
Departmental Revenue	0	10,000,000	10,600,000	11,236,000
house/ Office		1,000,000	1,060,000	1,123,600
Rent		2,000,000	2,120,000	2,247,200
Advertisement				
Wall Branding		5,000,000	5,300,000	5,618,000
Conveyance		1,000,000	1,060,000	1,123,600
Hire of Machinery		15,000,000	15,900,000	16,854,000
Hire of Grounds		1,000,000	1,060,000	1,123,600
GRAND TOTALS	377,000,000	277,000,000	293,620,000	311,237,200

GOVERNMENT FUNDING

Loans and Grants	0	0	0	0
Donors	23,000,000	23,000,000	26,000,000	27,000,000

Conditional Grants	410,000,000	417,825,816	424,000,000	449,440,000
Equitable Share	3,378,000,000	3,773,000,000	3,796,000,000	4,023,760,000
TOTAL	3,811,000,000	4,213,825,816	4,246,000,000	4,500,200,000

TOTAL FUNDING

REVENUE SOURCE	Approved Budget 2014/15	Estimates 2015/16	Projections 2016/17	Projections 2017/18
Government Receipts	3,788,000,000	4,190,825,816	4,220,000,000	4,473,200,000
Own Resources	377,000,000	277,000,000	293,620,000	311,237,200
Donors	23,000,000	23,000,000	26,000,000	27,000,000
Others (Balances from previous period)	573,000,000	0	0	0
GRAND REVENUE TOTALS	4,761,000,000	4,490,825,816	4,539,620,000	4,811,437,200

VOTE	VOTE TITLE	GROSS ESTIMATES 2015/16	% of Total Estimate
	County Executive	108,000,000	5.94
	County Assembly	60,896,442	3.35
	County Health	138,986,067	7.64
	Department of Agriculture, Livestock, Fisheries and Co-operatives.	88,028,696	4.84

VOTE	VOTE TITLE	GROSS ESTIMATES 2015/16	% of Total Estimate
	Department of Education, Science and Technology	278,963,375	15.34
	Department of Gender, Culture, Youth and Sports	51,289,194	2.82
	Department of Industrialization, Trade and Tourism.	99,237,418	5.46
	Department of Environment, Natural Resources, Water and Forestry.	65,457,612	3.60
	County Treasury	180,000,000	9.90
	Department of Transport and Infrastructure.	403,671,707	22.20
	County Public Service Board	—	—
	Department of Lands, Housing and Physical Planning.	129,000,000	7.09
	Department of Public Service and Administration.	215,100,000	11.83
	TOTAL	1,818,630,511	100.00

ANNEX II: Budget Calendar for the FY 2016/17

No.	ACTIVITY	RESPONSIBILITY	DEADLINE
1.	Issue guidelines for preparation of 2015/16 County Budget.	County Treasury.	30th August 2015.
2.	Submission of Annual Development Plan (ADP) to the County Assembly for approval.	Member responsible for Planning.	1st September, 2015.
3.	Expenditure Reviews.	Member responsible for Planning	10th September , 2015.
4.	Draft County Budget Review and Outlook Paper. (CBROP)	County Treasury	15th September, 2015.
5.	Submission CBROP to the County Executive Committee for deliberation and approval.	County Executive Committee Member for Finance (CECMF)	30th September, 2015
6.	Deliberation and approval of CBROP by the County Executive Committee.	County Executive Committee	14th October, 2015.
7.	Submission of approved CBROP to County Assembly.	County Executive Committee Member for Finance (CECMF).	21st October, 2015.
8.	Issue guidelines for reviewing 2014/2015 County Budget (Supplementary).	County Treasury	30th October, 2015.
9.	Submission of Supplementary Budget Proposals to the County Treasury.	All Accounting Officers	10th November, 2015.
10.	Submission of Supplementary Budget Proposals to County Executive Committee	County Executive Committee Member for Finance (CECMF)	By 15th November, 2015.

No.	ACTIVITY	RESPONSIBILITY	DEADLINE
11.	Submission of Supplementary Budget Proposals to County Assembly.	County Executive Committee Member for Finance (CECMF)	By 30th, November 2015.
12.	Public Participation	County Treasury	By end of January, 2016.
13.	Draft County Fiscal Strategy Paper (CFSP) circulated to stakeholders.	County Treasury	15th January, 2016.
14.	Submission of the CFSP to County Assembly.	County Executive Committee Member for Finance (CECMF)	28th February, 2016
15.	Submission of budget Estimates proposal for 2015/16 to County treasury.	All Accounting officers	By 10th March, 2016.
16.	Consolidation of budget estimates for FY 2015/16.	County treasury	By 30th March, 42016.
17.	Submission of County Budget Estimates and other supporting documents to County Executive Committee.	County Executive Committee Member for Finance (CECMF).	15th , April 2016.
18.	Submission of County Budget Estimates and other supporting documents to County Assembly.	County Executive Committee Member for Finance (CECMF).	30th , April 2016.
19.	Approval of the budget estimates.	County Assembly	By end of June, 2016.