

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KERICHO

FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER C- BROP

2015

FOREWORD

1. 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.
2. In reviewing the fiscal performance, this paper analyzes 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. Included in the analysis is also performance of ministerial expenditures for the period under review.
3. 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. It is the projected that, the projected revenue and expenditure for 2015/16 will be achieved with strict expenditure controls and enhanced revenue collection measures. This will be achieved through fiscal discipline to ensure proper management of public resources and delivery of expected output. To ensure transparency and accountability the executive will involve and relay our performance indicators to all stakeholders as required by the constitution 2010 and Public Finance Management Act, 2012.

Hon. Patrick C Mutai

C.E.C – Finance and Economic Planning and Head of County Treasury

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ACRONYMS

CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CPI	Consumer Price Index
FIF	Facility Improvement Fund
FY	Financial /Fiscal year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information Systems
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PFM Act	Public Finance Management Act

1.0 Background

The County Budget Review and Outlook paper (CBROP) will provide actual fiscal performance of the financial year 2014/15 compared to the budget appropriation of the same Financial Year. It will also give an updated economic and financial forecasts and show changes from the forecasts in the County Fiscal Strategy Paper 2015.

1.1 Legal Basis for the preparation of the County Budget Review and Outlook Paper (C-BROP)

Section 118 of the Public Financial Management Act, 2012 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 forecast in the most recent County Fiscal Strategy Paper.
 - c) Information on –
 - (i) Any changes in the forecasts compared with 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.

Under section 137 of the PFM Act 2012, the County Budget and Economic forum purpose shall be;

- (a) Preparation of county plans, the County Fiscal Strategy Paper and the Budget Review and Outlook Paper for the county; and
 - (b) Matters relating to budgeting, the economy and financial management at the county level.
- 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 publicize the Paper.

1.1.1. Fiscal Responsibility Principles in the Public Financial Management Law.

5) In line with the Constitution, the Public Financial Management Act, 2012, set out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 avers that:

- 1) A County Treasury shall manage its public finances in accordance with the principle of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
- 2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles-
 - (a) The County government recurrent expenditure shall not exceed the county government's total revenue.
 - (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure:
 - (c) The county government's expenditure on wages and benefits for the Public Officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for Finance in regulations and approved by the County Assembly.
 - (d) Over the medium term, the government's borrowings shall be used for the purpose of financing development expenditure and not for recurrent expenditure i.e. the county debt shall be maintained at a sustainable level as approved by the County Assembly.

1.2 Objective of County Budget Review and Outlook Paper (C-BROP)

6. The objectives 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.

2.0 REVIEW OF FISCAL PERFORMANCE IN FINANCIAL YEAR 2014/2015

2.1 OVERVIEW

7. 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 Kericho County.

2.1.1 Revenue

8. During the period under review the county had two sources funding namely the equitable share of the national government revenue and county own revenue. The financing from the equitable share amounted to Kshs 3.93 Billion, conditional grants of Kshs 20 Million and that of own county revenue Kshs 386 Million and unspent balance of Kshs 480 million from the FY 2013/14, making the total budget to be Kshs 4.814 Billion. The total local revenue collected in the financial year 2014/15 from the various sources was

413 Million surpassing the target of Kshs 386 Million by 27 Million. The 27 Million is composed of 9 Million from Health Facilities and 18 Million as local revenue. The county received a total of Kshs.4.412 Billion as total approved requisition during the FY 2014/15.

Table 1, 2 and 3 therefore provides the fiscal performance for the period and deviations from the approved estimates.

TABLE 1: COUNTY GOVERNMENT TOTAL REVENUE (KSHS)

Source of revenue	FY 2014/2015		
	Target A (Ksh)	Actual B (Ksh)	Deviations C = A-B (Ksh)
National Equitable Share	3.93 Billion	3.499 Billion	(431 Million)
Local revenues	386 Million	413 Million	27 Million
Conditional Grants (Danida)	20Million	20Million	0
Unspent Funds 2013/14	480Million	480Million	0
Total Collection	4.814 Billion	4.412 Billion	(404 Million)

Source: Kericho County Treasury

2.1.2 Expenditure

9. The total expenditure incurred by the county government amounted to Kshs 4.410 Billion for the financial year 2014/15. Recurrent expenditure amounted to Kshs. 3.042 Billion and development expenditure was Kshs. 1.367 Billion. This translates to recurrent expenditure constituted 69% and development expenditure constituted 31% of total expenditure.

TABLE 2: RECURRENT EXPENDITURE, IN (KSHS)

Vote	2014/2015		
	Target	Actual	Deviations
1. Recurrent grants	3.117 Billion	3.042 Billion	74 Million
Total Expenditure	3.117 Billion	3.042 Billion	74 Million

Source: Kericho County Treasury

Table 2 provides the total appropriated recurrent expenditure against actual expenditure. The deviation was due to late release of funds.

TABLE 3: DEVELOPMENT EXPENDITURE, IN (KSHS)

Vote	2014/2015		
	Target	Actual	Deviations
2. Development Grants Development/Projects	1.697 Billion	1.367 Billion	330 Million
Total Expenditure	1.697 Billion	1.367 Billion	330 Million

Source: Kericho County Treasury

10. The development expenditure incurred amounted to Kshs 1.367 billion against a target of Kshs 1.697 Billion translating to a deviation of Kshs 330 Million not paid but committed during the Financial year under review. This deviation was due to late release of funds and lengthy procurement procedure of development activities and also the E-procurement module launch during the last quarter of the financial year leading to cases being clogged in the system.

FIGURE 1: SUMMARY OF RECURRENT COUNTY DEPARTMENTAL EXPENDITURE AND BUDGET ABSORPTION AGAINST GROSS ESTIMATES

Department	Gross Estimates Kshs	Opening Balance	Quarter 4	Cummulative Expenditure	Absorp tion %
	A	B	C	D=C+B	E=D/A* 100%
County Assembly Services	569,589,133.00	411,148,491.00	158,440,642.00	569,589,133.00	100%
Finance and Economic Planning	208,195,150.00	131,881,292.00	51,072,568.00	182,953,860.00	88%
Agriculture, Livestock and Fisheries	151,613,946.00	99,149,365.00	51,434,606.00	150,583,971.00	99%
Health services	1,267,718,177.00	811,708,873.00	454,254,668.00	1,265,963,541.00	100%
Education, Youth, Children Culture and Social Servcies	260,630,975.00	202,828,649.00	48,719,264.00	251,547,913.00	97%
Land, Housing and Physical Planning	31,986,292.00	21,269,099.00	5,596,913.00	26,866,012.00	84%
Public Works, Roads and Transport	51,621,691.00	29,675,535.00	16,339,748.00	46,015,283.00	89%
Water, Energy, Natural resources and Environment	51,947,845.00	34,470,374.00	14,546,253.00	49,016,627.00	94%
Public Service and Administration	275,964,737.00	203,824,792.00	58,410,902	262,235,694	95%
Office of the Governor and Deputy Governor	114,734,573.00	54,322,884.00	59,144,269	113,467,153	98%
County Public Service Board	49,077,882.00	22,592,947.00	19,798,775	42,391,722	86%
Trade, Industrialization, Tourism , Wildlife and Co-operative Development	65,178,887.00	46,806,783.00	18,288,310.00	65,095,093.00	100%
Information Communication and E-Government	18,792,865.00	12,056,813.00	5,027,746.00	17,084,559.00	91%
TOTAL EXPENDITURE	3,117,052,153.00	2,081,735,897.00	961,074,664.00	3,042,810,561.00	98%

FIGURE 2: SUMMARY OF COUNTY DEVELOPMENT EXPENDITURE AND BUDGET ABSORPTION AGAINST GROSS ESTIMATES

Department	Gross Estimates Kshs	Opening Balance	Quarter 4	Cummulative Expenditure	Absorption %
	A	B	C	D=C+B	E=D/A*100%
County Assembly	9,168,471.00	-	6,800,130.00	6,800,130.00	74%
Finance and Economic Planning	15,538,000.00	-	-	-	0%
Agriculture, Livestock and Fisheries	160,040,000.00	62,520,352.00	48,353,123.00	110,873,475.00	69%
Water, Energy, Natural resources and Environment	142,952,316.00	40,579,875.00	41,898,352.00	82,478,227.00	58%
Education, Youth, Children Culture and Social Services	204,906,700.00	9,089,200.00	160,145,427.00	169,234,627.00	83%
Health services	200,650,000.00	6,801,000.00	109,617,504.00	116,418,504.00	58%
Land, Housing and Physical Planning	77,738,000.00	18,034,810.00	26,406,684.00	44,441,494.00	57%
Public Works, Roads and Transport	716,018,111.00	466,597,077.00	245,571,835.00	712,168,912.00	99%
Information Communication and E-Government	24,426,330.00	5,440,405.00	10,090,288.00	15,530,693.00	64%
Trade, Industrialization, Tourism , Wildlife and Co-operative Development	146,150,000.00	58,953,921.00	50,527,500.00	109,481,421.00	75%
	1,697,587,928.00	668,016,640.00	699,410,843.00	1,367,427,483.00	81%

11. From figure 1 above, County Assembly and Health Services and Trade had a leading absorption of 100% which are attributable to oversight activities and rolling out of major functions that were devolved under the health sector. This is followed by the Agriculture, Livestock and fisheries absorption standing at 99% mainly because of operationalisation of the two sectors greatly due to the devolved services. The overall performance of the County was at approximately 98% of the approved budget which is highly attributed to the fact that the departments that were fully devolved had been operationalized and the systems had been adequately set up. This was a great improvement compared to 85% budget absorption in the 2013/2014 financial period.

12. From figure 2 above, the department of Public Works, Roads and Transport recorded a leading absorption standing at 99% against the budgetary provision

due to completion and execution of access roads in the county. This is followed by Education, Youth, Children Culture and Social Services at 83% due to rolling out of Early Childhood Development Education (ECDE) infrastructure development in the county and the award of bursary funds to beneficiaries in the county. The overall performance of the County with regard to the approved budget was at 81% which is highly attributed to the concentration on the development projects and ongoing implementation of the same projects albeit the lengthy procurement processes associated with the development projects. The budget absorption is a great improvement to the absorption of 54% in the 2013/2014 financial period.

3.0 IMPLEMENTATION OF FY 2015/2016 BUDGET

Recent economic developments and outlook

In general, the macroeconomic environment has remained favorable allowing for investment to expand in the county.

Recent Economic Developments

13. GDP growth remained robust in 2013 at 5.7% based on rebased statistics, and stood at 4.4%, 5.8% and 5.5% in the first three quarters of 2014 compared with 6.4%, 7.2% and 6.2% in comparable quarters of 2013. According to the central bank's economic monthly review of November 2014, growth was mainly supported by expansion in construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade. The economy slowed in the third quarter of 2014, partly due to a sharp drop in tourism following terrorist attacks in the country. Overall GDP growth is expected to amount to 6.5% and 6.3% in 2015 and 2016, respectively. Consumer price index (CPI) inflation is expected to remain in the single digits, at around 5%, during the same period. The weakening of the Kenyan Shilling against the United States Dollar will affect the growth of the overall economy negatively because the cost of imports will rise significantly therefore will also hamper investments in the counties. The County will strive to allocate 100Million towards the Elnino preparedness as required by the national government.

14. The Financial Year 2015/2016 budget was approved by the County Assembly on 30th June 2015 and the Appropriation Act is out. The County started using of e- procurement during the last quarter of FY2014/15 and will continue to implement it. E-Banking has been introduced to all counties and county assemblies by the Central Bank of Kenya and the County Government of Kericho has put in place mechanisms for the same.

15. Revenue projections for 2015/2016 stand at Kshs 5.081 Billion comprising of Equitable share of Kshs 4.505 Billion, F.I.F at Kshs. 167.4 Million, local revenue projections stand at Kshs.386 Million and Conditional Grants (DANIDA) at Kshs 22.6 Million. The County shall incorporate the Road Maintenance Levy Fund of 57.2 Million, Maternal Health Care 98.854Million and User Fee Foregone in the next supplementary budget. The Supplementary budget for FY2015/16 will be completed by December 2015.

3.1 Medium Term Fiscal Framework

16. The county government will continue to pursue fiscal responsibility to ensure prudence and transparency in the management of public resources as per the Public Finance Management Act section 107.

17. With the Introduction of E-Banking system and E-Procurement in the county by Central Bank and National Treasury respectively, the County expects to continue with rationalization of expenditure in order to improve efficiency and reduce wastage.

4.0 RESOURCE ALLOCATION FRAMEWORK FOR FY 2016/2017 FINANCIAL YEAR

4.1 2016/17 Budget framework

18. The 2016/17 budget framework is set against the background of the updated medium-term macro-fiscal framework. The economy of the county is dominated by agriculture and a review of the global and national economic performance indicates good prospects for growth in the county's products. The county will also strive to allocate 10% of the agriculture budget towards the

Maputo Declaration. The county government will continue to rationalize on expenditures by prioritizing those of importance.

19. MTEF budgeting will entail adjusting non priority expenditure to cater for the priority sectors. The County Integrated Development Plan which is aligned to the Second MTP and anchored on Vision 2030 is currently being implemented and will guide allocation of resources in the next financial year 2016/17.

20. A tentative projection of estimates for 2015/2016, 2016/2017 -2017/2018 is shown in on table 4 classified by department and entity. Annex I shows the detailed recurrent and development projections.

TABLE 4: PROJECTED ESTIMATES PER DEPARTMENT AND ENTITY FOR FY 2015/16-2017/2018 MTEF BUDGET

Department and Entity Name	2015/16	2016/17	2017/2018	%age share of total expenditure		
	Approved Estimates	Projections 10%	Projections 8%	2015/16	2016/17	2017/2018
				Printed	Projections	projections
County Assembly Services	558,037,314	613,841,045	662,948,329	11%	11%	11%
Finance & Economic Planning	344,325,912	378,758,503	409,059,183	7%	7%	7%
Agriculture, Livestock Development & Fisheries	325,376,626	357,914,289	386,547,432	6%	6%	6%
Health Services	1,503,299,619	1,653,629,581	1,785,919,947	30%	30%	30%
Education, Youth, Children, Culture & Social Services	486,742,349	535,416,584	578,249,911	10%	10%	10%
Land, Housing & Physical Planning	118,023,100	129,825,410	140,211,443	2%	2%	2%
Public Works, Roads & Transport	802,736,779	883,010,457	953,651,293	16%	16%	16%
Water, Energy, Natural Resources & Environment	209,878,010	230,865,811	249,335,076	4%	4%	4%
Public Service & Administration	287,626,929	316,389,622	341,700,792	6%	6%	6%
County Public Service Board	43,027,950	47,330,745	51,117,205	1%	1%	1%
Office of the Governor and Deputy Governor	144,451,074	158,896,181	171,607,876	3%	3%	3%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	165,509,364	182,060,300	196,625,124	3%	3%	3%
Information, Communication & E-Government	92,029,011	101,231,912	109,330,465	2%	2%	2%
GRAND TOTAL	5,081,064,037	5,589,170,440	6,036,304,076	100%	100%	100%

4.1.1 Revenue projections

21. The FY 2016/2017 budget will target revenue collection including local revenue streams including F.I.F and National Equitable share and is expected to grow by 10% to reach Kshs. 5.589 Billion.

4.1.2 Expenditure Forecasts

22. The expenditure comprises recurrent and development votes. The County Treasury will endeavor to maintain fiscal responsibility principle of 64:36 in 2015/2016 for recurrent and development expenditures as required by section 107 of the Public Finance Management Act.

5.0. CONCLUSION AND WAYFORWARD

23. C- BROP has been prepared in accordance with Section 118 of the Public Finance Management Act 2012, the county government will continue to implement the fiscal responsibility principles outlined in the PFM Act, 2012. The County Government will take into consideration the strategic objectives provided in the First County Integrated Development Plan 2013-17 and the objectives of the National Government in the allocation of resources when preparing the next budget.

25. The policies and sector ceilings will guide the government line departments and agencies in preparation of the FY 2016/17 budget.

ANNEX I

Projected Recurrent and development Estimates for the MTEF Period 2015-2018
Recurrent Expenditure

Department and Entity Name	2015/16	2016/17	2017/2018	%age share of total expenditure		
				2015/16	2016/17	2017/2018
	Ceilings	Projections 10%	Projections 8%	Ceilings	Projections	projections
County Assembly Services	538,037,314	591,841,045	639,188,329	16%	16%	16%
Finance & Economic Planning	299,937,168	329,930,885	356,325,355	9%	9%	9%
Agriculture, Livestock Development & Fisheries	159,602,571	175,562,828	189,607,855	5%	5%	5%
Health Services	1,330,473,247	1,463,520,571	1,580,602,217	41%	41%	41%
Education, Youth, Children, Culture & Social Services	202,642,938	222,907,232	240,739,810	6%	6%	6%
Land, Housing & Physical Planning	43,783,324	48,161,657	52,014,589	1%	1%	1%
Public Works, Roads & Transport	54,930,615	60,423,677	65,257,571	2%	2%	2%
Water, Energy, Natural Resources & Environment	69,317,442	76,249,186	82,349,121	2%	2%	2%
Public Service & Administration	277,357,725	305,093,498	329,500,977	8%	8%	8%
County Public Service Board	43,027,950	47,330,745	51,117,205	1%	1%	1%
Office of the Governor and Deputy Governor	144,451,074	158,896,181	171,607,876	4%	4%	4%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	78,805,537	86,686,091	93,620,978	2%	2%	2%
Information, Communication & E-Government	24,214,048	26,635,453	28,766,289	1%	1%	1%
GRAND TOTAL	3,266,580,954	3,593,239,049	3,880,698,173	100%	100%	100%

Development Expenditure

Department and Entity Name	2015/16	2016/17	2017/2018	%age share of total expenditure		
				2015/16	2016/17	2017/18
	Ceilings	Projections @ 10%	Projections @ 8%	Ceilings	Projections	projections
County Assembly Services	20,000,000	22,000,000	23,760,000	1%	1%	1%
Finance & Economic Planning	44,388,744	48,827,618	52,733,828	2%	2%	2%
Agriculture, Livestock Development & Fisheries	165,774,055	182,351,461	196,939,577	9%	9%	9%
Health Services	172,826,372	190,109,009	205,317,730	10%	10%	10%
Education, Youth, Children, Culture & Social Services	284,099,411	312,509,352	337,510,100	16%	16%	16%
Land, Housing & Physical Planning	74,239,776	81,663,754	88,196,854	4%	4%	4%
Public Works, Roads & Transport	747,806,164	822,586,780	888,393,723	41%	41%	41%
Water, Energy, Natural Resources & Environment	140,560,568	154,616,625	166,985,955	8%	8%	8%
Public Service & Administration	10,269,204	11,296,124	12,199,814	1%	1%	1%
County Public Service Board		-	-	0%	0%	0%
Office of the Governor and Deputy Governor		-	-	0%	0%	0%
Trade, Industrialization, Tourism, Wildlife & Cooperative Development	86,703,827	95,374,210	103,004,146	5%	5%	5%
Information, Communication & E-Government	67,814,963	74,596,459	80,564,176	4%	4%	4%
GRAND TOTAL	1,814,483,084	1,995,931,392	2,155,605,904	100%	100%	100%