



COUNTY GOVERNMENT OF WEST POKOT

COUNTY TREASURY

**COUNTY BUDGET REVIEW
AND OUTLOOK PAPER**

NOVEMBER 2015

© West Pokot County Budget Review and Outlook Paper (CBROP) 2014/2015

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FOREWORD

The Public Finance Management Act 2012, Section 118 requires every County government to prepare a County Budget Review and Outlook Paper (CBROP). In line with the law, this CBROP reviews the actual fiscal performance of FY 2014/15 budget and together with updated macroeconomic outlook, provides a basis for the indicative resource allocation framework for the FY 2016/2017.

CBROP ensures effective linkage between policies, planning and budgeting. It sets out the broad objectives, policy goals and strategic priorities that will guide the County government in preparing the budget both for FY 2016/2017 and over the medium term. The CBROP also accounts for changes and reasons for economic deviations compared to the County Fiscal Strategy Paper (CFSP) 2014.

As a review document, CBROP highlights the financial status of the County to stakeholders. It sets indicative ministerial ceilings 2016/17 in line with outlined sector key strategic objectives and priorities as set out in the County Integrated Development Plan (CIDP) and the Annual Development Plan (ADP).

Our commitment is to ensure that we realise the County's goal of poverty reduction and employment creation by focusing expenditure on high impact projects. In this regard, the need for continued fiscal discipline through efficient resource management, sustainable development, service delivery and prudent utilization of public resources is emphasized.

The fiscal framework presented in this CBROP provides a strong basis to meet these goals. I implore all stakeholders to join us in this effort.

Hon. Joel K. Ngólekong
CEC, FINANCE AND ECONOMIC PLANNING

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ACRONYMS

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
ADP	Annual Development Plan
GDP	Gross Domestic Product
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management Act
FY	Financial Year
CRF	County Revenue Fund
CARA	County Allocation Revenue Act
SSA	Sub Saharan Africa
MTP	Medium Term Plan

1.0 INTRODUCTION

1.1 Legal Basis for the Publication of CBROP

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

1. The County Treasury shall prepare and submit to County Executive Committee for approval in each financial year, a County Budget Review and Outlook Paper which shall include:
 - a) Actual fiscal performance in the previous financial year compared to the budget appropriation for that year
 - b) Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP).
 - c) Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest CFSP; and
 - d) The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2. County Executive Committee shall consider the CBROP with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the CBROP has been approved by Executive committee, the County Treasury shall:
 - a) Submit the paper to the Budget and appropriation Committee of the County Assembly to be laid before the County Assembly; and
 - b) Publish and publicize the paper not later than fifteen days after laying the Paper before County Assembly.

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

- (a) The County government's recurrent expenditure shall not exceed the County government's total revenue;
- (b) Over the medium term, the County government's recurrent expenditure shall not exceed a percentage of the County government's total revenue as prescribed by the County Committee Executive member for finance in regulations approved by the County Assembly;
- (c) the County government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly;
- (d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- (e) The County debt shall be maintained at a sustainable level;
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

1.2 Objectives of County Budget Review and Outlook Paper

The main objectives of the CBROP are to;

1. Provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles as set out in the PFM Act, 2012. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and

the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy paper 2016.

2. The CBROP will be a key document in linking policy, planning and budgeting. The West Pokot first CIDP will guide budgetary preparation and programming from 2014 -2017. This year's CBROP is embedded on the first MTEF priorities, in addition to taking into account emerging challenges and transition to a devolved system of government. The launch of, the Sector Working Groups will see the formulation of the programmes for the MTEF focusing on updating and developing of new programmes for the next MTEF.

3. The updated macroeconomic outlook will be firmed up in the County Fiscal Strategy Paper to reflect any changes in economic and financial conditions.

2.0 REVIEW OF FISCAL PERFORMANCE

2.1 Overview

This report is based on the Supplementary II Budget which was approved by the County Assembly on May 21st 2015. The total approved budget is Kshs.4,273,135,064 comprising of Kshs.2,423,159,501(56.7 per cent) allocated for recurrent expenditure and Kshs.1,849,975,563 (43.3 per cent) for development expenditure. This revenue sources for this budget was (i) Equitable Share of Kshs.3,763,444,079 (88.1 per cent), (ii) DANIDA grant to Ministry of Health Kshs.10,000,000 (0.2 per cent),(iii) Local revenue collections of Kshs.96,197,480 (2.3 per cent) and (iv) Kshs.403,493,505 (9.4 per cent) as cash balance from FY 2013/14.

During the FY2014/15, the County receivedKshs.3,836,031,275.00 from the National Government which was a direct transfer to the CRF account, collected Kshs.103,899,328.00 from local sources and had Kshs.403,493,505 balance brought forward from FY 2013/14. The total equitable share amount received exceeded CARA by Kshs. 72,587,196 which was a reimbursement due from FY2013/2014. The local revenue raised in FY 2014/15 was Kshs.103,899,328.00 which is an improvement from Kshs.58.89 million collected in FY 2013/14. The total local revenue raised in FY 2014/15 accounted for 108.0 per cent of the annual local revenue target.

Exchequer issues into the County operational accounts amounted to Kshs.4,163,309,012 which is 97.4 per cent of the approved budget, an improvement from 79.3 per cent when compared to the financial year 2013/14. Kshs.2,414,509,270.00 (58.0 per cent) was released for recurrent expenditure and Kshs.1,748,800,000.00 (42.0 per cent) was for development activities.

Actual expenditure amounted to Kshs.4,109,385,675.00 which was 98.1 per cent of the total funds released for operations, an improvement from the Kshs.2.90 billion spent in the FY 2013/14. A total of Kshs.2,412,332,667 (59.5 per cent) was spent on recurrent activities while Kshs.1,697,053,007 (41.5 per cent) on development activities. Recurrent expenditure was 98.9 per cent of the funds

released while development expenditure accounted for 97.1 per cent of the funds released for development activities.

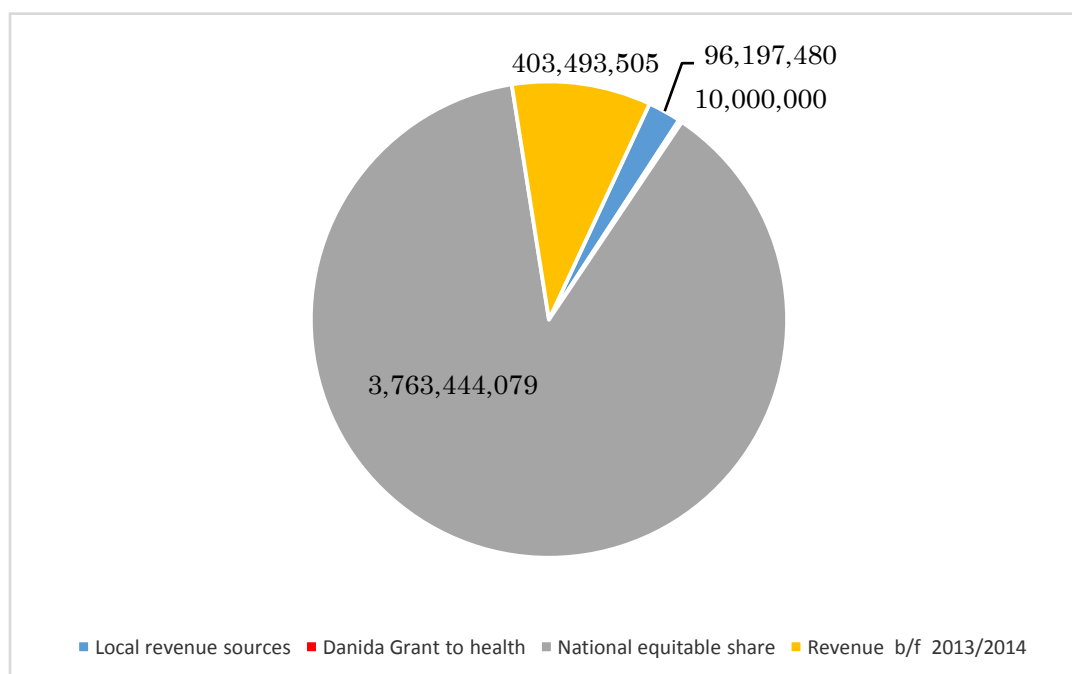
The recurrent expenditure represented an absorption rate of 99.55 per cent of the annual recurrent budget, an increase from an absorption rate of 97.0 per cent realized in FY2013/14. Development expenditure recorded an absorption rate of 91.73 per cent of the annual development budget, an improvement from an absorption rate of 60.0 per cent realized in FY 2013/14.

2.2 FY 2014/15 County Revenue Financing

2.2.1 Overall Revenue Performance

The budget was financed by the National Equitable Share of Kshs.3.76 billion (88.1 per cent), Kshs.10 million (0.2 per cent) from DANIDA grant to Health, local revenue sources of Kshs.96.2 million (2.3 per cent) and Kshs.403.49 million (9.4 per cent) as projected cash balance from FY 2013/14.

Figure 1: Analysis of Revenue Financing 2014/15 Budget



Source; FY 2014/2015 West Pokot County Treasury

The table below presents the revenue performance for the FY 2014/15 and the deviations from the approved budget estimates.

Table 1: FY 2014/15 Revenue Summary

SOURCE	AMOUNT RECEIVED	ESTIMATED 2014/2015	PERCENTAGE
EQUITABLE SHARE	3,836,031,027*	3,763,444,079	101.93%
LOCAL REVENUE	103,899,328	96,197,480	108.01%
DANIDA	10,000,000	10,000,000	100.00%
BALANCE B/D	403,493,505	403,493,505	100.00%
TOTAL RECEIVED	4,343,433,860	4,273,135,064	101.65%

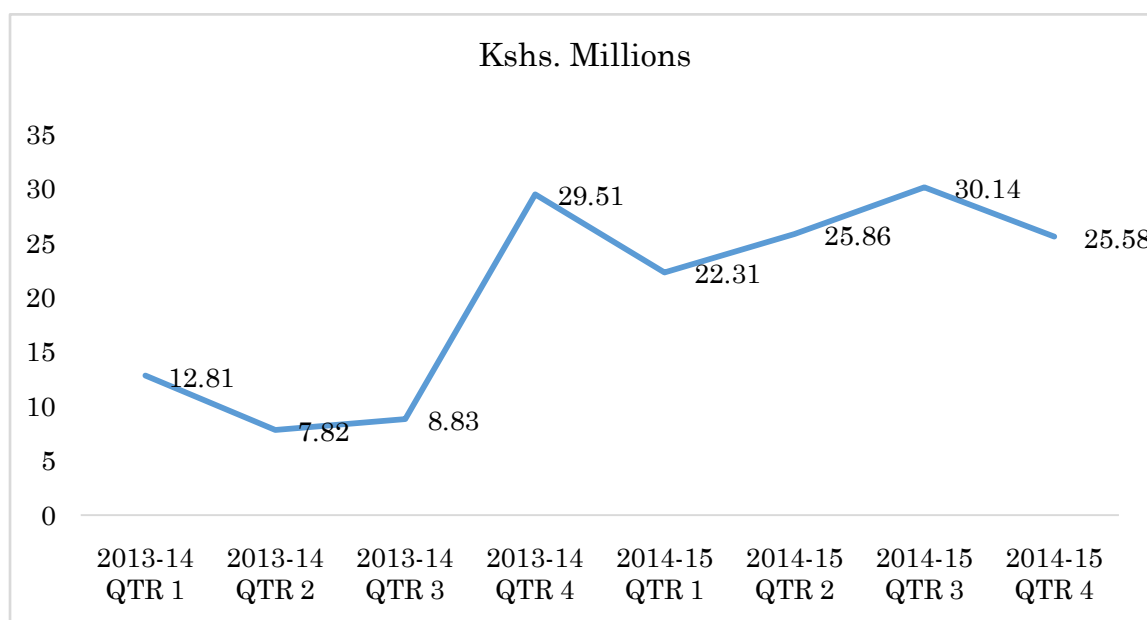
Note: The Equitable Share received in FY2014/2015 exceeded estimated amount by Kshs. 72,587,196.00. This amount is a reimbursement due to the County from FY203/2014.

2.2.2 Local Revenue Performance

The County Government collected Kshs.103.90 Million in FY 2014/15 against a target of Kshs. 96.20 Million. This represented local revenue performance of 108.0 per cent. The local revenue raised in the FY 2014/2015 represented an improvement from Kshs.56.23 Million collected in FY 2013/14.

Figure 2 shows a summary of local revenue by quarter from FY 2013/2014 to FY 2014/2015.

Figure 2: Summary of Local revenue Collection by Quarter



Source: FY 2014/2015 West Pokot County Treasury

As indicated by the figure 2 above, the highest collection of revenue was recorded in the third quarter of the FY 2014/15 with the second quarter of the FY 2013/2014 recording the least. Health is the largest source of income at 36.4 per cent of the total local revenue streams while advertising is expected to generate the least amount at 0.03 per cent as indicated in Table 2 below

Table 2: Local Revenue Sources

Revenue stream	Budget estimates 2014/15	% of revenue stream to budget estimates	Q1 July 2014 - Sep 2014	Q2 Oct 2014 - Dec 2014	Q3 Jan 2015 - March 2015	Q4 April 2015 - June 2015	Total	% of revenues realised	% of revenues realised to budget estimates
Kiosk Rent	1,252,800	1.30%	990,810	472,800	595,700	458,520	2,517,830	3.2%	201.0%
Single Business permit	10,915,800	11.35%	1,485,640	212,450	4,712,545	4,603,570	11,014,205	14.1%	100.9%
Market Fee	4,007,950	4.17%	1,060,090	916,991	1,032,690	818,690	3,828,461	4.9%	95.5%
Building Approval	304,000	0.32%	33,000	72,000	107,800	218,000	430,800	0.6%	141.7%
CESS	5,842,980	6.07%	2,551,478	583,530	1,526,810	2,445,289	7,107,107	9.1%	121.6%
Royalties	10,148,100	10.55%	5,034,360	6,110,290	8,555,750	5,876,100	25,576,500	32.7%	252.0%
Stock/Slaughter	6,383,500	6.64%	2,753,199	3,470,182	1,828,360	1,638,910	9,690,651	12.4%	151.8%
House Rent	3,095,200	3.22%	44,700	94,000	157,600	-	296,300	0.4%	9.6%
Advertising	29,150	0.03%	151,150	136,890	41,000	70,900	399,940	0.5%	1372.0%
Parking Fees	500,000	0.52%	-	1,251,635	1,427,040	1,776,630	4,455,305	5.7%	891.1%
Renewals/Applications	500,000	0.52%	281,640	434,150	992,100	512,100	2,219,990	2.8%	444.0%
Other Fee and Charges	3,718,000	3.86%	3,768,317	2,171,130	3,550,566	893,726	10,383,739	13.3%	279.3%
Liquor Licensing	500,000	0.52%	-	-	-	-	-	0.0%	0.0%
Health(Cost Sharing)	35,000,000	36.38%	3,869,024	6,945,040	4,118,550	5,676,825	20,609,439	26.3%	58.9%
Trade	5,000,000	5.20%	-	422,427	1,146,775	250,230	1,819,432	2.3%	36.4%
Lands	5,000,000	5.20%	290,700	2,060,365	112,000	200,100	2,663,165	3.4%	53.3%
Livestock/Permits	4,000,000	4.16%	-	507,510	238,870	140,085	886,465	1.1%	22.2%
TOTAL OWN REVENUE	96,197,480	100%	22,314,108	25,861,390	30,144,156	25,579,675	103,899,328		108.01%

Source: FY 2014/2015 West Pokot County Treasury

As shown in Table 2 above, royalties generated the most income at Kshs.25.58 million representing 32.7 per cent of the total local revenues raised followed by Health at Kshs. 20.61 Million representing 26.3 per cent. On the other hand, House Rent generated the least revenue at Kshs.0.30 million representing 0.4 per cent of the local revenues raised. Liquor Licensing did not generate any revenue as a result of a dispute between the County Government and the County Commissioner on the formula of sharing the raised revenues.

Analysis of performance against estimates, Advertising was the highest generating Kshs. 399,940 against an annual target of Kshs. 29,150 representing a performance of 1,372 per cent. Other revenue streams that have surpassed targets are; Kiosk rent (201.0 per cent), Building Approval (141.7 per cent), Cess

(121.6 per cent), Stock/slaughter (151.8 per cent), Royalties (252.0 per cent), Parking fees (891.1 per cent), Renewal/Applications (444.0 per cent) and Other fee and charges (279.3 per cent). House rent as a revenue stream has the worst performance having generated Kshs. 296,300 against an annual target of Kshs. 3,095,200 representing a performance of 9.6 per cent. Livestock/permits equally fared on poorly by generating Kshs, 886,465 against a target of Kshs. 4.00 million.

The County is in the process of automating local revenue collection to improve efficiency and seal all leakages, the system will enable citizens to utilize latest forms of technology such as mobile money. This convenient payment option is expected to improve compliance and increase revenue.

2.3 County Expenditure Review

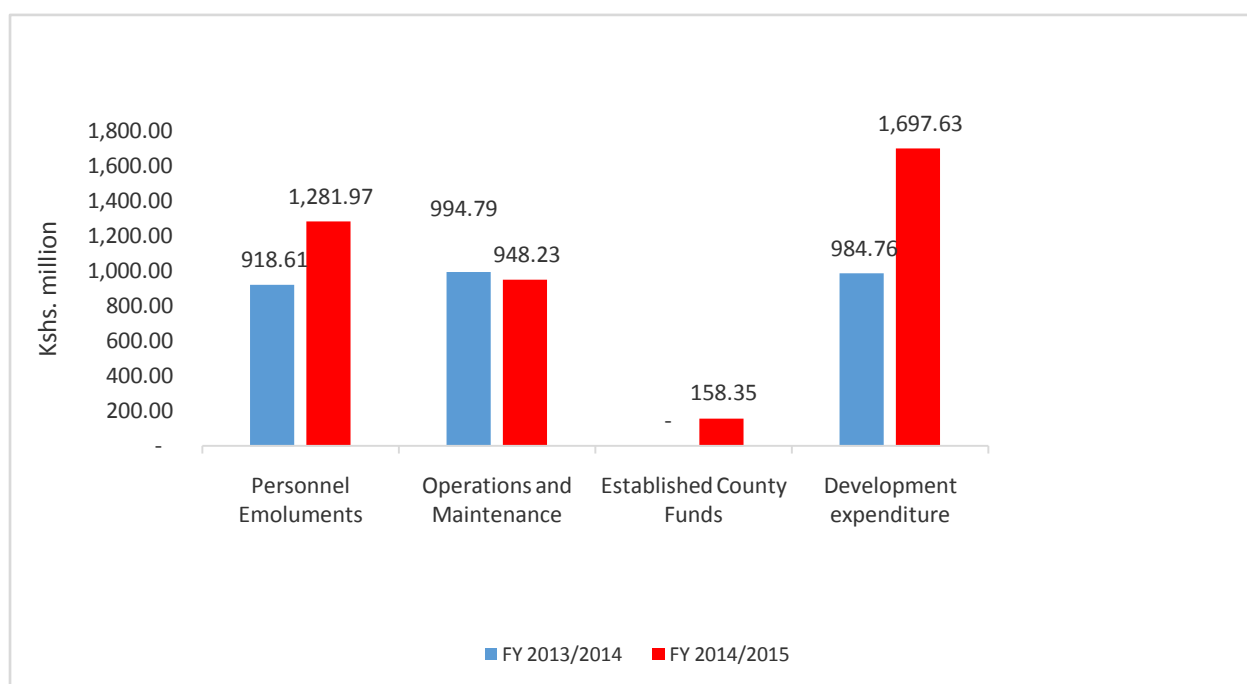
2.3.1 Overall County Expenditure

During FY2014/15, the total expenditure amounted to Ksh.4,109,385,675.00. This amount represents 98.1 per cent of the total amounts requested. During the FY 2014/15, Kshs. 2.41 billion (58.5per cent) was spent on recurrent expenditure while Kshs.1.70 billion (41.5 per cent) was incurred on development expenditure.

The Kshs. 4.11 billion expenditure was an improvement from the Kshs.2.89 billion spent in the FY 2013/14. The recurrent expenditure for the period under review represented an absorption rate of 99.55 per cent of the annual recurrent budget, a slight increase from an absorption rate of 97 per cent realized in the FY 2013/14. Development expenditure recorded an absorption rate of 91.73 per cent of the annual development budget, a significant improvement compared to FY 2013/14 when the County had an absorption rate of 60.0 per cent.

A comparison of the total expenditure between the FY 2013/2014 and FY 2014/2015 is shown in Figure 3 below.-

Figure 3: Analysis of Total Expenditure, West Pokot County

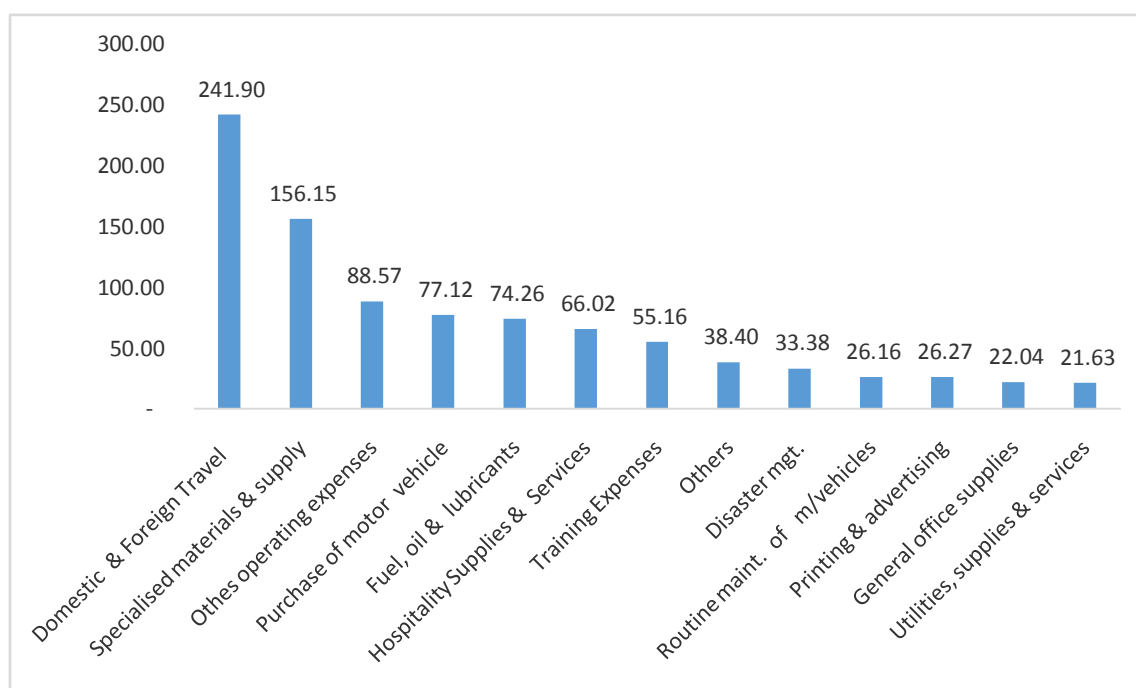


Source: 2013/2014 and 2014/2015 West Pokot County Treasury

Expenditure on personnel emoluments accounted for 31.4 per cent of total expenditure and has increased significantly in FY 2014/15 when compared to FY 2013/14 when the County spent Kshs.918.61 million (25.28 percent). The increasing wage bill in 2014/15 financial year is attributed to; (a) fifty one (51) newly recruited drivers in July 2014 but paid in August 2014, (b) one hundred and thirty one (131) newly recruited staff who reported on 1st December, 2014, and (c) in October 2014, one hundred and twenty one (121) casual staff of the former local authorities were absorbed on permanent basis and backdated to January 2014. However, the salaries of the new staff had not been provided for in the budget.

The breakdown of operations and maintenance expenditure for the period under review is shown in Figure 4 below.

Figure 4: Break down of Operations and Maintenance expenditure



Source: FY 2014/2015 West Pokot County Treasury

Figure 4 above indicates that travel cost was the single largest operation cost, representing 25.5 per cent of total operation and maintainance cost.

2.3.2 Summary of Recurrent Expenditure by Vote

Table 3: Summary of Recurrent Expenditure

RECURRENT EXPENDITURE PER VOTE	APPROVED 2014/2015 BUDGET	ACTUAL EXPENDITURE 2014/2015	EXCHEQUER ISSUES	ABSORPTION
OFFICE OF THE GOVERNOR	1,204,682,350.00	1,200,763,671.00	1,203,351,000.00	99.67%
FINANCE AND ECONOMIC PLANNING	94,061,027.00	93,486,204.00	93,532,922.00	99.39%
ROADS, PUBLIC WORKS AND TRANSPORT	48,389,307.94	48,147,939.00	48,132,261.00	99.50%
HEALTH AND SANITATION	404,839,090.00	402,802,723.00	403,660,603.00	99.50%
EDUCATION AND ICT	169,422,084.00	168,463,403.00	168,557,344.00	99.43%
AGRICULTURE AND IRRIGATION	34,080,512.00	33,784,804.00	33,243,719.00	99.13%
LIVESTOCK, FISHERIES AND VETERINARY SERVICES	32,358,947.00	31,763,245.00	32,296,695.00	98.16%

TRADE, INDUSTRY AND COOPERATIVE DEVELOPMENT	23,290,609.00	22,970,436.00	22,703,260.00	98.63%
LANDS, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	38,569,301.00	38,473,076.94	37,798,264.00	99.75%
WATER DEV., ENVIRONMENT AND NATURAL RESOURCES	39,905,944.00	39,540,575.00	39,227,491.00	99.08%
TOURISM, CULTURE, SPORTS, YOUTH AND GENDER DEV.	33,681,433.00	33,116,854.00	33,352,386.00	98.32%
WEST POKOT COUNTY ASSEMBLY	299,878,896.00	299,019,736.00	298,653,068.00	99.71%
TOTAL RECURRENT EXPENDITURE	2,423,159,500.94	2,412,332,666.94	2,414,509,013.00	99.55%

Source: FY 2014/2015 West Pokot County Treasury

From the Table above, the County's actual recurrent expenditure was within the budgeted estimates in accordance with responsibility principles and financial objectives contained in the PFM Act. The actual recurrent expenditure was 56.45 per cent of the total budget estimate.

2.3.3 Summary of Development Expenditure by Vote

Table 4: Summary of Development Expenditure

DEVELOPMENT EXPENDITURE PER VOTE	APPROVED 2014/2015 BUDGET	ACTUAL EXPENDITURE 2014/2015	EXCHEQUER ISSUES	ABSORPTION
OFFICE OF THE GOVERNOR	157,653,701.00	143,510,513.20	147,000,000.00	91.03%
FINANCE AND ECONOMIC PLANNING	65,500,000.00	58,041,574.90	59,000,000.00	88.61%
ROADS, PUBLIC WORKS AND TRANSPORT	373,947,471.00	373,947,471.00	344,000,000.00	100.00%
HEALTH AND SANITATION	304,032,201.00	298,342,148.40	298,450,000.00	98.13%
EDUCATION AND ICT	128,716,695.50	106,023,686.05	128,500,000.00	82.37%
AGRICULTURE AND IRRIGATION	153,259,843.00	148,849,754.40	148,000,000.00	97.12%
LIVESTOCK, FISHERIES AND VETERINARY SERVICES	97,631,044.00	86,726,988.15	91,000,000.00	88.83%

TRADE, INDUSTRY AND COOPERATIVE DEVELOPMENT	107,407,882.00	107,218,295.00	96,000,000.00	99.82%
LANDS, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	118,018,505.00	117,988,418.40	110,500,000.00	99.97%
WATER DEV., ENVIRONMENT AND NATURAL RESOURCES	168,905,550.00	123,651,970.25	161,450,000.00	73.21%
TOURISM, CULTURE, SPORTS, YOUTH AND GENDER DEV.	87,249,670.10	59,908,350.20	78,900,000.00	68.66%
WEST POKOT COUNTY ASSEMBLY	87,653,000.00	72,843,837.65	86,000,000.00	83.10%
TOTAL DEVELOPMENT EXPENDITURE	1,849,975,562.60	1,697,053,007.60	1,748,800,000.00	91.73%

Source: FY 2014/2015 West Pokot County Treasury

Analysis of development expenditure indicates that the department of Roads, Public Works and Transport had the highest absorption rate of 100 per cent followed by the departments of Trade, Industry and Cooperatives. Ministry of Tourism had the least absorption due to delayed implementation of their development projects.

Furthermore, Roads, Public Works and Transport Department, Trade, Industry and Cooperatives Department, Land, Physical Planning and Urban Development Department and Health and Sanitation Department spend more monies than it requested. This is due to the fact that these departments were implementing faster than requisitions.

2.3.4 Balance Brought Forward to FY 2015/16

Table 5: Balances Brought Forward from 2014/15 FY

BALANCE DUE PER VOTE	RECURRENT	DEVELOPMENT	TOTAL
OFFICE OF THE GOVERNOR	3,918,679.00	14,143,187.80	18,061,866.80
FINANCE AND ECONOMIC PLANNING	574,823.00	7,458,425.10	8,033,248.10
ROADS, PUBLIC WORKS AND TRANSPORT	241,368.94	-	241,368.94
HEALTH AND SANITATION	2,036,367.00	5,690,052.60	7,726,419.60
EDUCATION AND ICT	958,681.00	22,693,009.95	23,651,690.95

AGRICULTURE AND IRRIGATION	295,708.00	4,410,088.60	4,705,796.60
LIVESTOCK, FISHERIES AND VETERINARY SERVICES	595,702.00	10,904,055.85	11,499,757.85
TRADE, INDUSTRY AND COOPERATIVE DEVELOPMENT	320,173.00	189,587.00	509,760.00
LANDS, HOUSING, PHYSICAL PLANNING AND URBAN DEVELOPMENT	96,224.06	30,086.60	126,310.66
WATER DEV., ENVIRONMENT AND NATURAL RESOURCES	365,369.00	45,253,579.75	45,618,948.75
TOURISM, CULTURE, SPORTS, YOUTH AND GENDER DEV.	564,579.00	27,341,319.90	27,905,898.90
WEST POKOT COUNTY ASSEMBLY	859,160.00	14,809,162.35	15,668,322.35
TOTAL	10,826,834.00	152,922,555.50	163,749,389.50

The table above indicates the balance from the appropriated FY2014/15 budget. These funds will be re-budgeted in FY2015/16 Supplementary I budget and applied to payment of pending bills.

In addition to the appropriated balance of Kshs. 163,749,389.50 additional Kshs. 39,748,248 of own funds will be brought forward for a total balance brought forward of Kshs. 203,497,637.00.

2.3.5 FY2014/15 Implemented Development Projects

The County priorities for the FY 2014/2015 as outlined in CBROP 2014 and CFSP 2015 are investment in (i)road infrastructure, (ii)health, (iii)agriculture and irrigation to boost County food security, (iv)education, (v)water, and(vi)strengthening business environment to boost job creation in the County. Allocation of resources wasbased on the County strategic priorities, alongside with other activities that have been given priority in the FY2014/2015.

Table 10 indicates the projects currently being implemented that are expected to spur economic activities and support favorable growth prospect in the County.

3.0 RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

3.1 Overview of Recent Economic Performance

The Kenya National Bureau of Statistics (KNBS) initiated the process of rebasing and revising of the National Accounts Statistics (NAS) in 2010 and completed the exercise in September 2014. The rebased GDP estimates in nominal terms for 2013 is Ksh. 4,757.5 billion which represents 25.3 percent increase from the previous estimates. This translates to US\$ 1,269 in GDP per capita in 2013 up from US\$ 994 in 2012, placing Kenya at lower middle income economy. Kenya's economy is now ranked as the 9th largest in Africa and 4th largest in SSA.

Devolution is rated the biggest gain from the August 2010 constitution, which ushered in a new political and economic governance system. It is transformative and has strengthened accountability and public service delivery at local levels. The government's agenda is to deepen implementation of devolution and strengthen governance institutions, while addressing other challenges including land reforms and security to improve economic and social outcomes, accelerate growth and equity in distribution of resources, and reduce extreme poverty and youth employment.

3.2 Growth Update

The country's real Gross Domestic Product (GDP) is estimated to have expanded by 5.5 percent during the second quarter of 2015 compared to 6.0 per cent in the same quarter of 2014. The quarter was characterized by a fairly stable macroeconomic environment supported by a slowdown in inflation and decline in interest rates. During the review period, the country experienced good rains that led to improved agricultural activities despite suppressed demand of key agricultural exports. Agriculture, infrastructure, financial services and ICT contributed to the growth, but manufacturing and tourism declined.

The economy grew by 5.4% in 2014 and the World Bank, in its Kenya Economic Update for March 2015, projected the economy will grow by 6% in 2015, supported by lower energy costs, investment in infrastructure, agriculture,

manufacturing and other industries. A stable macroeconomic environment, continued investment in infrastructure, improved business environment, exports and regional integration will help sustain the growth momentum.

The world economy is estimated to have grown by 3.3 per cent in 2014. This growth rate is similar to the revised growth of 3.3 per cent in 2013. This low growth was due to – persistent weak import demand from advanced economies, – slower expansion of global supply chains and – shifts in demand towards less import intensive products.

The government has also maintained fiscal and monetary discipline, despite increasing pressure from the devolution process and rising public sector wage bill. Total public debt has increased but remains sustainable, according to Central Bank figures. The stock exchange weakened due to net foreign investor sales, while the Kenya shilling weakened against the US dollar and other major currencies.

Figure 5: GDP Growth Rates



Source: KNBS 2015

With the increased competitiveness of the manufacturing sector which will be a key driver of growth, exports and job creation, Kenya is emerging as one of Africa’s key growth centers and is also poised to become one of the fastest growing economies in East Africa.

3.3 Overview of County Economy

The main economic driver of the County is agriculture and livestock sector. This sector contributes 84 percent of the household income. Trade in the form of retail and wholesale is also a key sector that employs majority of the County population.

Tourism as well as mining sectors are still undeveloped but has the potential of turning the County around. Taking into consideration the high County's poverty levels standing at 68.7 percent that is contributing to 2.1 percent of the national poverty, these undeveloped sectors remain key in unlocking the full potential of the County.

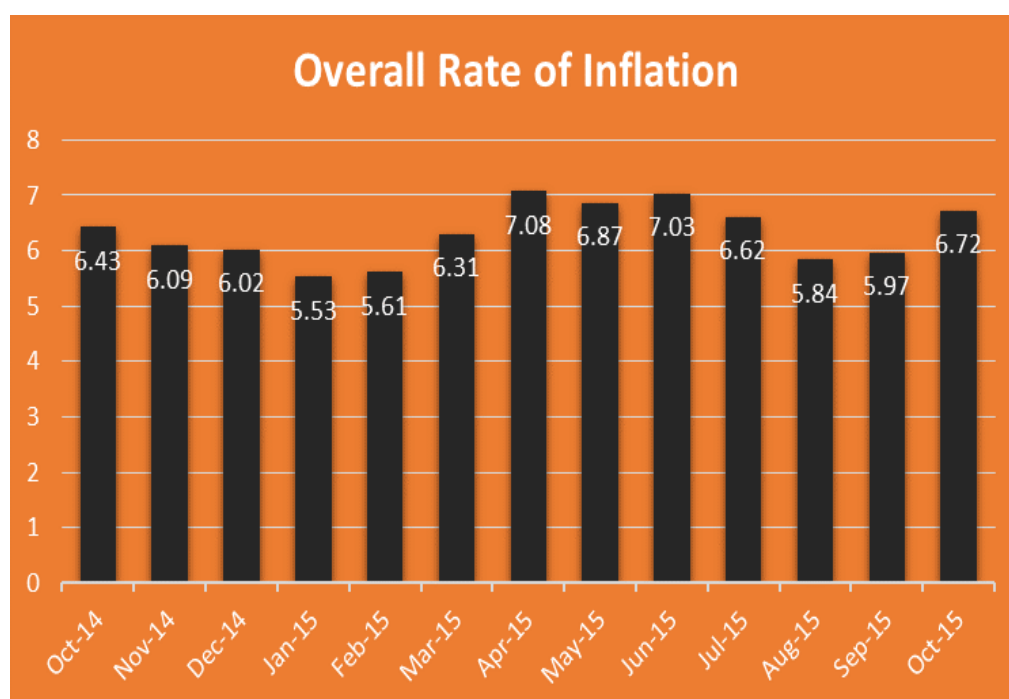
3.4 Inflation

The CPI increased by 0.50 per cent from 161.33 in September 2015 to 162.13 in October 2015. The overall inflation rate stood at 6.72 per cent in October 2015,

Domestically, the pump price of light diesel dropped significantly to average at KShs. 80.0 from KShs. 104.4 while the cost of electricity also dropped albeit by a lower margin over the same period. The decrease in the international oil prices was primarily driven by increased global production especially from shale oil. Increased production of hydro and geothermal electricity coupled with a reduction in generation of thermal electricity also contributed to the decline in energy prices.

The slowdown in inflation was mainly occasioned by; lower prices of fuel oils; electricity; transport; communication; and housing. Internationally, the price of Murban Adnoc crude oil averaged at 63 US\$ per barrel during the quarter under review compared to an average of 110 US\$ per barrel during the same quarter in 2014.

Figure 6: Rate of Inflation



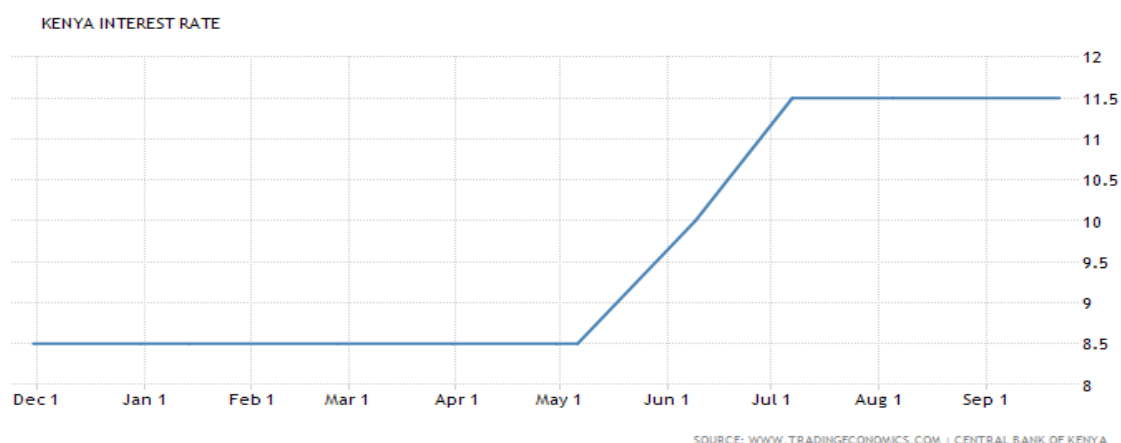
Source: KNBS 2015

The Kenyan shilling depreciated significantly against the US dollar, held firm against the Sterling Pound but appreciated significantly against all the other major trading currencies. On average, inflation eased downward to 6.99 per cent during the review period compared to 7.03 per cent in the same period of 2014.

3.5 Interest Rates

Central Bank of Kenya left its benchmark interest rate on hold at 11.5 percent on September 22nd, in line with the market's expectations, due to appropriate supporting measures that had helped lower inflation towards its target of 5 percent. Interest Rate in Kenya averaged 14.36 percent from 1991 until 2015, reaching an all-time high of 84.67 percent in July of 1993 and a record low of 0.83 percent in September of 2003.

Figure 7: Interest Rate



Source: The Central Bank of Kenya.

3.6 Development Challenges

Kenya has the potential to be one of Africa’s great success stories from its growing and youthful population, a dynamic private sector, a new constitution, and its pivotal role in East Africa. Addressing challenges of poverty, inequality, governance, low investment and low firm productivity to achieve rapid, sustained growth rates that will transform the lives of ordinary citizens, will be a major goal for the country.

3.7 Fiscal Risks to the 2016-2017 Outlook

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

At the County level, the risk to the outlook for the year 2016/17 and Medium-Term include weakening of national economic growth, unfavourable weather conditions (El Nino), threats of tribal/boundary conflicts between the Pokot and Turkana counties, high interest rates that affect resident’s borrowing from commercial banks hence limiting private sector’s growth and changing of

political environment due to incoming 2017 polls may pose investor confidence challenges as well as risk in the operationalization of the policies and programs planned in the medium term.

Natural calamities will also pose the greatest risk to the County's development agenda and revenue collection. The most common disasters include disease outbreaks for both livestock and human, conflicts, landslide, gulley erosion, lightning, flooding and drought. These calamities can delay programs or lead to collapse of projects. Without proper contingency plans, funds meant for other programs can be redirected to mitigate against the effects of disasters.

Timely release of funds by the national government will be another challenge since revenue cash flow from the national government is unpredictable. The release of the equitable share from the national government has irregular and budgeting thus affecting commencement and completion of projects and compromising service delivery.

Nationally, the following risks shall pose a challenge to the national growth prospects;

- *A weak currency will be the key pressure point for the Kenyan economy over the coming quarters.*
- *High inflation rate- Although we still hold a positive outlook for economic growth over this period, we expect tighter monetary conditions that will push interest rates high and impact on various sectors of the economy.*
- *The politicization of sharp ethnic divisions remains the key threat to Kenya's long-term political stability. Terrorism linked to Kenya's military involvement in Somalia is likely to remain a risk, but it does not pose a systemic threat to political stability.*

Other risks that will impact on the County's economy include;

- Growing wage bill that may put pressure and shrink the Development expenditure;
- Low absorption by the spending units which may influence amount of money in the economy and increase the cost of the projects;
- Unfavorable Political environment due to upcoming elections;

4.0 REVENUE GROWTH PROSPECTS

4.1 Revenue Outlook

Kenya's GDP is projected to grow at about 6 per cent in 2015 and over the medium term which is below the target of Vision 2030 of 10%. The equitable division of revenue should take into account the functions assigned to each level of government and other considerations outlined in the constitution. The resources available to be shared by the national and County governments are estimated on the basis of projections of the economy's performance. Equitable share is expected to increase from KShs. 3.155 billion in 2013/14 to KShs. 5.2 billion and 5.4 in 2016/17 and 2017/18 respectively.

Ordinary County revenue is also projected to increase through the widening of tax base, tight County fiscal policies, revenue automation, strengthening organizational structures and systems, enacting cost cutting measures, Strengthening monitoring and evaluation of the revenue systems, and enhanced transparency, accountability and supervision in revenue collection.

4.2 Fiscal Projections 2013/14- 2016/17

Table 6: Internal Revenue Projections

REVENUE SOURCE	2013/14 ESTIMATES	2014/15 ESTIMATES	2015/2016	2016/2017
			PROJECTIONS	PROJECTIONS
Kiosk rent	1,637,650.00	2,517,830	3,200,000	4,500,000.00
Singe business permit	10,981,570.00	11,014,205	16,000,000	18,000,000.00
Market fee	3,881,660.00	3,828,461	6,000,000	7,500,000.00
Building approval	600,590.00	430,800	500,000	1,000,000.00
Cess	5,442,900.21	7,107,107	8,000,000	8,500,000.00
Royalties	11,054,550.00	25,576,500	30,000,000	33,000,000.00
Stock	6,252,650.00	9,690,651	12,000,000	15,200,000.00
House rent	3,251,400.00	296,300	500,000	4,200,000.00
Advertising	26,500.00	399,940	1,000,000	1,200,000.00
Parking		4,455,305	500,000	1,300,000.00
Bus parks & Motorcycles		-	7,000,000	10,000,000.00
Renewals/Application		2,219,990	2,200,000	4,000,000.00
Liquor licensing		-	1,000,000	1,200,000.00
Other fees and charges (Public toilet), honey, hides & skins, firewood,	7,035,590.00	10,383,739	11,000,000	12,700,000.00

tamarind aloe vera, scrap metal, Fish, penalties, trade)				
Agriculture		1,819,432	2,500,000	3,000,000
Lands		2,663,165	80,908,244	34,000,000.00
Health	4,036,732.20	20,609,439	40,000,000	34,000,000.00
Livestock/permits		886,465	5,000,000	5,000,000.00
Trade		-	0	
Transfers from local Authority	2,034,993.59			
Grand totals	56,236,786.00	103,899,328	227,308,244	198,300,000.00

Source: County Treasury 2015

Internal revenue is expected to hit KShs. 198.3M in the FY2016/17 with a bulk of it coming from land rates, Health, single business permits, royalties, Cess and parking fees. The County will roll automation of revenue collection to cover all sources in the whole County as well as continue to seal loopholes in revenue collection.

This growth represents over 350 percent. With tighter measures and full automation, the County is expected to achieve its full potential over the next three years.

4.3 Revenue Forecast

As shown in the table below, the total revenue for the County is expected to grow from Kshs 3.6B to 5.2B.

Table 7: Revenue Forecast

REVENUE FORECAST	2013/2014 Estimates	2014/2015 Estimates	2015/2016 Projections	2016/2017 Projection
Equitable Share	3,155,124,840	3,763,444,079	4,284,358,741	4,750,983,166
Equalization Fund	-	-	-	-
Donor Funds	437,777,043	-	-	-
Internal County Revenue	38,350,593	96,197,480	227,308,244	198,300,000
Grant From DANIDA	0	10,000,000	12,180,000	15,000,000
Conditional Grants	0	0	203,754,505	251,000,000
Balance B/D (Savings)	0	403,493,505		
TOTAL REVENUE FORECASTS	3,631,252,476	4,273,135,064	4,727,601,490	5,215,283,166

4.4 Medium Term Expenditure Resource Allocation Framework

The following table indicates tentative ceiling that will be accorded to the different County Ministries. The expected resource envelope to the County will be Kshs 5,215,283,166 with internal revenue accounting for 4.03 percent of this County total resource envelope. The County Fiscal Strategy Paper 2015 shall indicate the final ceilings.

Table 8: Expenditure Forecast for 2016/17

Item	Amount	Per Cent Allocation
Recurrent	3,251,790,010	62.35
Development	1,963,493,156.12	37.65
TOTAL GROSS EXPENDITURE	5,215,283,166	100
Personnel Emolument to Gross Expenditure Ratio	1,646,524,711.71	31.57

4.5 2016/2017 Expenditure Priorities

The CIDP 2013-2017, Annual Development Plan 2016/2017, Kenya Vision 2030 and National MTP 2013-2017 are the key policy documents that will guide the County Government funding decisions. The Vision 2030 provide the overarching long term national development agenda, while the CIDP 2013-2017 sets out the County medium term development plan.

As enumerated under the PFMA, the County shall continue enforcing fiscal responsibility principles. Enhancing and protecting the Revenue base is equally as important. For successful implementation of 2016/17 Budget, the County Government will put up measures to improve revenue collection. Personnel emolument is expected to be lower than 35 percent of the gross expenditure.

The total County revenue shall be expended as shown in table 9 below. Health sector will take the highest allocation of 26.5 percent followed by Roads and Infrastructure at 11.7 percent, Education at 10.8 percent and Assembly at 10 percent. Agricultural sector comprising of Agriculture, Irrigation and Livestock will account 10 percent. Health and Agriculture sectors' allocation has met the Maputo declaration of 2003 which indicates that budget allocation for these sectors shall be 15 and 10 percent respectively.

Table 9: 2016/17 MTEF

Vote	2013/2014	2014/2015			2015/2016			2016/2017 Projected Estimates			2017/2018 Projected
	Total	Recurrent	Development	Total	Recurrent	Development	Total	Recurrent	Development	Total	Total
Office of the Governor	443,650,507.30	1,204,682,350.00	157,653,701.00	1,362,336,051.00	403,784,808.00	70,000,000.00	473,784,808.00	278,800,048.00	40,000,000.00	318,800,048	334,740,050.40
INTERGOVERNMENTAL Coordination, Peace Building and Disaster Management								68,000,000	50,000,000.00	118,000,000	123,900,000.00
Finance and Economic Planning	123,654,515.80	94,061,027.00	65,500,000.00	159,561,027.00	103,255,746.00	66,350,000.00	169,605,746.00	211,745,676	75,000,000.00	286,745,676	301,082,959.80
Roads, Public Works and Transport	645,142,230.20	48,389,308.00	373,947,471.00	422,336,779.00	110,863,054.00	388,889,506.00	499,752,560.00	120,450,200	460,445,358.55	580,895,559	609,940,336.48
Health and Sanitation	1,162,730,644.00	404,839,090.00	304,032,201.00	708,871,291.00	924,723,562.00	356,259,026.00	1,280,982,588.00	1,143,711,710	237,689,645.28	1,381,401,355	1,450,471,423.04
Education, Communication and ICT	148,822,690.30	169,422,084.00	128,716,696.00	298,138,780.00	327,595,532.00	229,100,000.00	556,695,532.00	330,724,400	232,962,796.25	563,687,196	591,871,556.06
Agriculture and Irrigation	125,424,619.60	34,080,512.00	153,259,843.00	187,340,355.00	102,184,424.00	151,005,378.00	253,189,802.00	120,678,242	170,111,976.16	290,790,218	305,329,729.07
Livestock, Fisheries and Veterinary Services	162,174,880.70	32,358,947.00	97,631,044.00	129,989,991.00	113,075,164.00	107,880,486.00	220,955,650.00	120,609,086	109,932,520.91	230,541,607	242,068,687.26
Trade, Industry and Cooperatives	61,401,380.00	23,290,609.00	107,407,882.00	130,698,491.00	44,347,916.00	61,000,000.00	105,347,916.00	80,322,897	86,128,267.00	166,451,164	174,773,722.20
Land, Physical Planning and Urban Development	60,792,713.60	38,569,301.00	118,018,505.00	156,587,806.00	80,176,378.00	52,066,360.00	132,242,738.00	70,529,586	89,209,230.94	159,738,817	167,725,757.79
Water development, Environment and Natural Resources	235,318,009.60	39,905,944.00	168,905,550.00	208,811,494.00	65,034,365.00	150,050,000.00	215,084,365.00	75,248,662	189,535,703.43	264,784,365	278,023,583.70
Tourism, Culture, Sports, Youth and Gender Development	67,295,892.30	33,681,433.00	87,249,670.00	120,931,103.00	47,940,504.00	44,000,000.00	91,940,504.00	80,089,924	112,195,657.60	192,285,582	201,899,860.68
County Assembly	404,846,804.30	299,878,896.00	87,653,000.00	387,531,896.00	414,669,281.00	75,000,000.00	489,669,281.00	420,879,579	100,282,000.00	521,161,579	547,219,657.95
Public Service Management					208,350,000.00	30,000,000.00	238,350,000.00	130,000,000	10,000,000.00	140,000,000	147,000,000.00
Total	3,641,254,887.70	2,423,159,501.00	1,849,975,563.00	4,273,135,064.00	2,946,000,734	1,781,600,756	4,727,601,490.00	3,251,790,010	1,963,493,156.12	5,215,283,166	5,476,047,324.43

The following are expected to guide the 2016/2017 budget as priority areas;

Poor accessibility of rural areas – the County will continue to invest in Road infrastructures to open up new areas and to improve on the accessibility of interior areas. This is intended to facilitate smooth business operations and increase incomes of the local community. A new 7 KM tarmac road is being planned to be initiated in Riwo/Mnagei wards during the FY for two years. More equipment will also be purchased to speed up road developments. Routine road maintenance will be increased.

Improvement of school retention and access to Education – provision of bursary and full scholarship to needy students will be enhanced to increase access to quality education and improve on the enrolment and retention. Recognizing the tertiary institutions as an avenue to poverty alleviation, improvement of school infrastructures especially on local polytechnics will be undertaken to avail necessary equipment and tools as well as completion of ongoing projects. This is expected to give the youths a bargaining power in self-employment and income generation. More attention will also be given to development of ECD Centre's which are currently in poor conditions and also insufficient to meet the growing demand.

Improving access to health services – during the FY, the County will concentrate only on improving the existing infrastructures and maximize the output from them. New structures will continue straining the few human resources present and jeopardize the quality of services being offered in the health sector. No new facility is expected but to complete ongoing projects and improve the existing facilities through modernization program.

Access to improved water sources - Development of water supply schemes and drilling of more boreholes will be a priority and environment and natural resources. Reforestation will also be a priority to ensure the forest is reclaimed back.

Social Development programs – youth and women will be supported with cheap loans as a startup capital and also to prop up their businesses. Sports

tournament and annual culture week will be held to improve and help nurture talents among the youth.

Disaster management and Emergency services – a fund to support effects of natural calamities will be established to help minimize the impact of the affected community. Lightning arrestors and firefighting equipment will also be given a priority during the fiscal year.

Equitable development and Enhance coordination of development programs- Finance and Economic Planning will prioritize the Masool Integrated Development Project that was started in 2015/16 FY. This is a two year program estimated to cost Kshs 100M to improve the lives of Masool residents. This project is supposed to ensure equitable development across the County by uplifting the development of under developed areas.

Deliberate action will also be made to support ongoing and high impact infrastructure projects from 2015/16 for continuous and effective implementation. Thorough monitoring, reporting and evaluation processes and systems will be strengthened and institutionalized within County ministries, in coordination with the County Treasury and Planning Unit and all implementing agencies to fully account for the usage of public funds and deliver the priorities of the County Government.

Support to SMEs - Trade, Industry and Cooperatives has prioritized market construction, construction of cottages (SMEs), support to businessmen through cheaper loans and support of cooperatives societies in value addition technologies.

Improve food security - Under Agriculture and livestock, provision of seedlings to farmers, demonstration plots, construction of Agricultural Training Centre and support to irrigation projects, animal breeding program, disease control and fish farming.

5.0. CONCLUSION

The Fiscal Year 2014/15 provides a good baseline for future references in terms of expenditure patterns of the different spending units of the County. Going forward, budgeting for future fiscal years will draw its basis from the expenditure patterns from 2014/2015FY.

This CBROP provides a platform for the County's strategic intervention of improving the living standards of our residents through poverty alleviation and employment creation by focusing expenditure on high impact projects. There is therefore need for continued fiscal discipline through efficient resource management, sustainable development, service delivery and prudent utilization of public resources.

The CBROP also provide a guide on the implementation of the strategies as outlined in 2016-2017 Annual Development Plan and County Integrated Development Plan as well as provide basis for budget ceilings for spending units for County Fiscal Strategy Paper (CFSP) 2016.

