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REPUBLIC OF KENYA

COUNTY GOVERNMENT OF BOMET

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When replying please quote Ref. No. and Date

Office of the Executive - Finance
The County Treasury
P.O. Box 19-20400
BOMET,KENYA

October 17, 2014

The Clerk
County Assembly of Bomet

Dear Sir

RE: THE BUDGET REVIEW AND OUTLOOK PAPER 2014

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

Please find attached BROP which was approved by the Executive Committee in its sitting of October 14th 2014.

Also note that this BROP has also been posted on our website.

Thank you

Yours sincerely

David Cheruiyot
CEM - F & EP

Tabled on 4/3/2015

BCA/BUA/10/2014/(387)

REPUBLIC OF KENYA

COUNTY GOVERNMENT OF BOMET

BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2014

The Treasury
County Government of Bomet
P. O. Box 19- 20400
BOMET, KENYA

The document is also available on the internet at: www.bomet.go.ke

Foreword

This paper is prepared pursuant to section 125 of the Public Finance and Management Act 2012,that mandates the County Treasury to prepare a Budget Review and Outlook Paper(BROP). The Act has ushered in a shift in budget making process and public finance managent introducing more reforms and entrenching Medium Term Expenditure Framework budgeting in the budgeting process.

The (BROP) present the fiscal outcome for 2013/14 and how this affects the financial objectives set out in the 2014 National Budget Policy Statement (BPS) introduced to the County Assembly on April 30, 2014. It also provides a basis upon revise the 2014/15 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next budget and medium term.

Very briefly, we have gone through enormous changes for the year starting July 1, 2013 from putting in place the necessary structures and employment of qualified staff while maintaining fiscal displine. The new government ensured that the budget policy for the FY 2014/15 was introduced to the Assembly within the required legal timeline.We closed the year satisfactory despite the revenue shortfall and significant expenditure reprioritization that was undertaken. This outcome will form a basis in which the fiscal projections for the current financial year are based on. The County Treaury has put in a mechanism to bridge the gap between projection and actual revenue. These measures will be addressed in 2014 Finance Bill to be introduced to the Assembly in a short while. The Bill seeks to increase revenue base by a percentage. The new liquor licensing is also expected to enhannce revenue. The County govenment is proposing a rating bill and a revised valuation roll in consultation with stakeholders, Tea Companies with a view to adjusting the existing rates on lands rates whose agreements are well over 20years. Tea cess rates will also be looked into in the FY 2014/15
The fiscal framework presented in this 2014 BROP provides a strong basis for building our common future.

DAVID KIPYEGON CHERUIYOT.
C ECM - FINANCE

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Abbreviations and Acronyms

BOPA	Budget Outlook Paper
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
BSP	Budget Strategy Paper
FY	Financial Year
GoK	Government of Kenya
MTEF	Medium Term Expenditure Framework
PFM	Public Financial Management
PPP	Public Private Partnership
SWGs	Sector Working Groups
VAT	Value Added Tax
V 2030	Vision 2030
CIDP	County Intergrated Development Plan

Legal Basis for the Publication of the County Budget Review and Outlook Paper

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

(1) A County Treasury shall—

(a) prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify—

(a) the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) information on—

(i) any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall—

(a) arrange for the Paper to be laid before the County Assembly; and

(b) as soon as practicable after having done so, publish and publicise the Paper.

Fiscal Responsibility Principles in the Public Financial Management Law

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

A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles—

(a) the county government's 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 its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

(d) over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) the county debt shall be maintained at a sustainable level as approved by county assembly; the fiscal risks shall be managed prudently; and 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.

For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue. Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

INTRODUCTION

Background

This Budget Review and Outlook Paper (BROP)-the successor document of Budget Outlook Paper (BOPA)-is the second to be prepared under the Public Financial Management Act, 2012. In line with the law, the BROP contains a review of the fiscal performance of the financial year 2013/14, updated macroeconomic forecast, and deviations from the Budget Policy Statement submitted to the County Assembly in April 2014.

Objective of BROP

The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last Budget Policy Statement (BPS). 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 next BPS.

Like previous BOPAs, the BROP will be a key document in linking policy, planning and budgeting. The Government has embarked on preparing the Second Medium Term Plan (MTP)-the successor document of the first MTP-that will guide budgetary preparation and programming from 2014 onwards. In the interim, this year's BROP is embedded on the updated first MTP priorities, in addition to taking into account emerging challenges and transition to a devolved system of government. The Sector Working Groups have begun reviewing programmes for the last Medium Term Expenditure Framework (MTEF) focusing on updating and developing new programmes for the next MTEF 2015/16 - 2017/18.

The PFM law enacted in 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the Second Year of the MTEF provided in the previous BPS will form the indicative baseline sector ceilings for the next budget of 2015/16. However, following the fiscal outcome of 2013/14 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

As usual, the updated macroeconomic outlook will be firmed up in the next BPS to reflect any changes in economic and financial conditions.

The rest of the paper is organised as follows. The next section provides a review of the fiscal performance in FY 2013/14 and its implications on the financial objectives set out in the last BPS submitted to The County Assembly in April 2014. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

REVIEW OF FISCAL PERFORMANCE IN 2013/14

Overview

The fiscal performance in 2013/14 was generally satisfactory, despite the lower tax collection and cuts in expenditure. The report will highlight the performance for 4th quarter of FY 2013/14 which was generally satisfactory, despite the low collection. On the expenditure side, the County Government had to incur higher expenditure on putting up the county infrastructure to accommodate the executive, the legislature and the other officers.

The overriding policy thrust for the 2014/15 MTEF will be to accelerate economic growth in the County, by reducing poverty levels, provide clean drinking water, ensuring food security and other development factors. The County Government of Bomet shall continue to invest in key physical infrastructure aimed at facilitating the private sector to expand its business, promote productivity and build systems necessary for poverty reduction.

Key sectors of focus in the 2014/15 FY include increasing agricultural productivity and value addition, investments in roads, creating a vibrant and globally competitive financial sector, improving health and education and building a cohesive society among others. Hard decisions must be made to ensure that scarce resources are directed towards priority areas of development and more effective service delivery. The decisions include among others:

i) Rationalization of County public service to make in lean, efficient, effective and accountable,
ii) Adoption of innovative ways to better public service ,including leveraging on ICT and Public Private Partnership,
iii) Developing and strictly enforcing on cost effectiveness and high standard benchmarks on service delivery, including infrastructure development.

With limited resources, it will require the County Government to be more efficient to make meaningful gains in poverty reduction.

As required by law, the CIDP was developed in consultation with citizens across the twentyfive wards of the county, an exercise that provided citizens an opportunity to participate in identifying their development priorities. The CIDP provides a mechanism for linking the county and national planning processes with the Medium Term Expenditure Framework (MTEF) budgetary system. The CIDP is further anchored on Vision 2030, Kenya's economic blueprint for transforming the country into a newly industrialized, middle-income country by 2030.

2013/14 Fiscal Performance

Table 1 below presents the fiscal performance for the FY 2013/14 and the deviations from the Original and Revised budget estimates.

Table 1 Fiscal Outturn

Item	Actual Budget(Ksh.)	Target Budget(Ksh.)	Deviation(Ksh.)
Recurrent Grants	1,834,418,709	1,940,765,561	106,346,852
Development Grants	1,718,490,824	1,859,182,863	140,692,039
Total	**3,552,909,533**	**3,799,948,424**	**247,038,891**

Source: County Treasury

Revenue

Total cumulative revenue collection was Kshs 211.9 Million compared to the target in the approved budget of Kshs 235.9 million. This represents a revenue shortfall of 23.9 Million (or 9.7% deviation from the target).

The underperformance in revenue was largely on account of single business permit licenses.

It is also attributed to approval of finance bill to effect the new rates that were used in making projections.

A total of approximately Ksh.s 200 million of committments were carried forward to 2014/15 FY. A deviation of 23.9 million AIA were not collected.

Table 2 Total Revenue

Item	Actual Revenue (Ksh.s)	Target Revenue(Ksh.s)	Deviations(Ksh.s)
Own Revenue by source	211,186,248	235,948,424	23,950,318
Government Funding	3,236,838,035	3,442,000,000	205,161,965
Commitments b/f	122,000,000	122,000,000	
Total	**3,570,024,283**	**3,799,948,424**	**229,112,283**

Source: County treasury

1.Own Revenue includes; Land Rates, Single Business Permits, Cess, Revenue from markets, Rental Income, Liquor Liscences among others.

Expenditure

The total expenditure for the FY 2013/14 was approximately Ksh.3.552 billion against a target of Ksh3.799 billion, representing an under spending of Kshs 247 million (or 7 % deviation from the approved Budget) The under-spending was in respect of operations and maintenance (Kshs 106 million), wages and salaries Kshs 0.3 million) due to late release of funds by the National treasury.

Table 3 below represents the fiscal performance for the period under review and the deviations from the approved estimates.

Table 3.Expenditure Kshs (million)

	2013/2014		
	Actual	**Targets**	**Deviation**
Recurrent			
Wages and Salaries	970,528,037	970,818,566	290,529
Operation and Maintenance	863,890,671	969,946,995	106,056,326
Development			
Development Projects (Net)	1,718,490,824	1,859,182,863	140,692,039
Total Expenditure	**3,552,909,533**	**3,799,948,424**	**247,038,891**

Source: Bomet County Treasury

The underspending on this budget line on development expenditure was due to late release of development funds by the National Treasury. Overall, the expenditure outturn for FY 2013/14 is preliminary. Firm data will be available when the final accounts have been audited and published.

Overall balance and financing

Reflecting the above performance in revenue and expenditure, overall fiscal balance on a commitment basis (including grants) was Ksh **3,758** billion (98.9 percent of Approved budget) in FY 2013/14 against the revised budget targeted of Ksh **3,799** billion.

Implication of 2013/14 fiscal performance on financial objectives contained in the 2013 BPS

Measures to revamp agriculture through irrigation are expected to support our favourable growth prospects. In addition, we also expect collections to increase once the finance bill has been approved.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Challenges in the movement to IFMIS platform and slow connectivity delayed implementation of the FY 2013/14 budget coupled with late receipts of funds from the National Treasury . This has now been addressed and operations are continuing in earnest. However, expenditure pressures have emerged with salary demands and putting up of structures to alleviate offices space for the new government.

Revenue collection was below target by about Ksh 33 million in the fourth quarter of the FY 2013/14. Administrative measures to address the shortfall has been put in place.

The County Government will continue to pursue fiscal responsibility principles to ensure prudency and transparency in the management of public resources. In addition, our fiscal objective will be to provide an avenue to support economic activity.

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of the Integrated Financial Management system

RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2013/14 Budget

Given the performance in 2013/14, the risks to the FY 2014/15 budget include weaker revenue performance in 2013/14 and the medium term expenditure pressures with respect to salary demand from the health and education sectors will persist. These risks will be monitored closely and the Government would take appropriate measures in the context of the next Supplementary Budget.

The County Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or reprioritizing development expenditures in order for the Government to live within its means. The following sectors are being prioritized in the current; Agriculture, Health and Education. The key priority areas include;

(i) Creating conducive business environment to encourage innovation, investment, growth and expansion of economic and employment activities,

(ii) Investing in agricultural transformation and food security to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth. Cooperatives though receiving inadequate amounts in the FY 2013/14 will receive increased share of resources in the medium term to boost agricultural productivity with a view to deal with threats in food security in the County coupled with raising the standard of living;

(iii) Investment in first class transport and logistics hub and scaling investment in other key infrastructure, including roads, energy and water to reduce cost of doing business and improve competitiveness;

(iv) Investing in quality and accessible health care services and education as well as social safety net to reduce burden on household and compliment and sustain our long term growth and development; and

(v) Entrenching devolution for service delivery and enhanced economic development.

Any review of salaries and benefits for the public sector workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination, expected to be published shortly in the Gazette Notice by the SRC.

With the Government's commitment in improving infrastructure , the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation projects countywide.

Reflecting the above medium term expenditure framework, the table below provides the tentative projected baselines ceilings for the MTEF, classified by sector. The sector ceilings include devolved funds;

Table 4 Sector Ceilings (Kshs. Millions)					**Percentage Share of total expenditure**			
	2013/2014	**2014/2015**	**2015/2016**	**2016/2017**	**2013/ 2014**	**2014/2 015**	**2015/ 2016**	**20 6/ 01**
	Approved		**Projections**					
County Headquarters	889.84	588.1	646.91	711.601	23%	13%	13%	13%
County Treasury	14.97	280.26	308.286	339.1146	0%	6%	6%	6%
Environment and Natural resources	10.8	38.62	42.482	46.7302	0%	1%	1%	1%

Children,Culture and Social Services	75.06	415.05	456.555	502.2105	2%	9%	9%	9%
Health and Sanitation	259.15	705.56	776.116	853.7276	7%	15%	15%	15%
Lands,Housing and Urban Planning	112.48	153.63	168.993	185.8923	3%	3%	3%	3%
Agri-business,Co-operatives and Marketing	155.41	607.41	668.151	734.9661	4%	13%	13%	13%
Water and Irrigation	196.38	253.05	278.355	306.1905	5%	5%	5%	5%
Education,Sports & Vocational Training	325.46	712.51	783.761	862.1371	9%	15%	15%	15%
Roads and public works	531.38	486.63	535.293	588.8223	14%	11%	11%	11%
Trade,energy, Tourism & Industry	28.4	95.18	104.698	115.1678	1%	2%	2%	2%
County Assembly	372	265	291.5	320.65	10%	6%	6%	6%
Personal Emoluments	828.48				22%			
TOTAL	**3799.81**	**4601**	**5061.1**	**5567.21**	**100%**	**100%**	**100%**	**100%**

The 2014/15 budget will target revenue collection including Appropriation-in-aid (AIA) of 343 Million. This performance will be undermined by on-going reforms in automation of revenue collection and administration.

CONCLUSION AND NEXT STEPS

The set of policies outlined in this C-BROP are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources.

The policies and sector ceilings will guide the sectors in preparation of the 2015/16 budget. The implications of the devolved system on the MTEF budget will be elaborated in the next Budget Policy Paper.

The next County Budget Policy Statement(C-BPS) will be finalized by November/December 2014, as per the new PFM law.