

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF MACHAKOS**

**COUNTY TREASURY**

---

**COUNTY BUDGET REVIEW AND  
OUTLOOK PAPER**

---

**SEPTEMBER 2017**

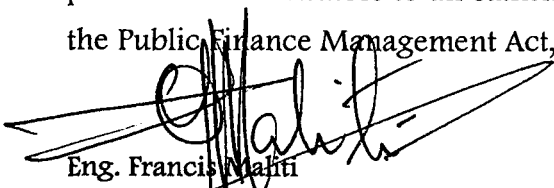
## **Foreword**

The County Budget Review and Outlook Paper (CBROP) 2017 has been prepared in accordance to section 118 of the Public Finance Management Act, 2012. It reviews the fiscal performance of the FY 2016/17, makes comparisons to the budget appropriations of the same year and provides an overview of how the fiscal performance impacts compliance with the fiscal responsibility principles and the financial objectives outlined in the PFM Act 2012 and the County Fiscal Strategy Paper (CFSP) 2017. The CBROP also provides information on local and national economic developments as well as giving financial forecast for the medium term.

In reviewing the fiscal performance, this paper analyzes the performance of the total county revenue (both exchequer releases and own revenue) i.e. the total budgeted revenue vis-a-vis actual revenue, causes of variations in the actual versus budgeted revenue, strategies to enhance revenue collection and finally an analysis of departmental expenditures.

This paper has also provided an overview of how the actual performance of the FY 2016/17 budget affected the financial objectives detailed in CFSP of 2017. The performance of the FY 2016/17 has formed the basis for projecting the FY 2017/18 budget based on the recent economic development. The projected revenue and expenditure for FY 2017/18 will be attained with strict expenditure controls and enhanced revenue collection measures. The strict controls will enhance fiscal discipline; ensure proper management of public resources and expedite the provision of public goods and services.

The County Government of Machakos is committed towards maintaining the growth trajectory achieved in the first term of devolution. This growth is people centered and aimed at addressing the needs of the citizens identified through the various stakeholder participation forums. Priority will be given to expenditure on critical sectors, enhancing revenue collection and driving growth through targeted high returns spending. Transparency and accountability are therefore integral elements in the realization of the county's development agenda. The County Executive will for this reason ensure that they involve and relay the county performance indicators to all stakeholders as required by the constitution of Kenya 2010 and the Public Finance Management Act, 2012.



Eng. Francis Mahiti

H.E Deputy Governor

Ag. County Executive Committee Member- Finance and Revenue Management

## Table of Contents

Foreword.....	1
Table of Contents .....	2
Abbreviations and Acronyms .....	4
Legal basis for preparation of the County Budget Review and Outlook Paper (CBROP).....	5
Adherence to Fiscal Responsibility Principles.....	5
Objective of the County Budget Review and Outlook Paper.....	6
Outline of the 2017 County Budget Review and Outlook Paper.....	7
I. Review of Fiscal Performance in FY 2016/17.....	7
A. 2016/17 FY Fiscal Performance.....	7
Performance of Revenues.....	7
Expenditures .....	10
B. Fiscal Performance for FY 2016/2017 in relation to Fiscal Responsibility Principles.....	11
C. Fiscal Responsibility Principles .....	14
II. Recent Economic Development and its outlook .....	16
A. Global economy .....	16
B. National Economy.....	17
C. County Economic Environment.....	18
D. Risks to the Economic Outlook .....	19
III. Resource Allocation Framework.....	20
A. Medium Term Expenditure Framework.....	20
B. Approved Budget FY 2017/18 .....	23
IV. Conclusion .....	24
Annex 1: Total County Own Revenue by Source.....	25
Annex 2: Total County Own Revenue by Month.....	25
Annex 3: Summary of Approved Budget by Department .....	26
i. Recurrent Estimates.....	26
ii. Development Estimates .....	27
Annex 4: Budget Expenditure 2016/2017 .....	28

Annex 5: Budget Calendar for the FY 2018/19 MTEF Budget Process.....30

## Abbreviations and Acronyms

CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
PFM	Public Financial Management Act

## **Legal basis for preparation of the County Budget Review and Outlook Paper (CBROP)**

The County Budget Review and Outlook paper (CBROP) 2017 is prepared in accordance with section 118 of the Public Finance Management Act, 2012. The laws states that:

- i. The County Treasury shall prepare and submit to County Executive Committee (CEC) for approval by 30<sup>th</sup> September in each financial year, a County Budget Review and Outlook Paper
- ii. The County Executive shall in turn approve the CBROP with or without amendments within fourteen days after submission
- iii. The County Treasury shall arrange for the paper to be laid before the County Assembly not later than seven days after the CEC has approved it
- iv. The County Treasury shall publish and publicize the paper after approval by CEC as soon as practicable.

## **Adherence to Fiscal Responsibility Principles**

The Constitution of Kenya 2010 and PFM Act, 2012, set out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act, 2012 section 107 states that;

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

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

## **Objective of the County Budget Review and Outlook Paper**

The objective of the County Budget Review and Outlook Paper is to provide;

- i. A review of the County Fiscal performance for the FY 2016/17 as compared to the appropriation of that year and how this impacts the financial objectives and fiscal responsibilities principles set out in the 2017 County Fiscal Strategy Paper (CFSP)
- ii. An outline of sector performance and review of budget utilization.
- iii. An updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent 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 estimated time it would take to address the deviation.

## Outline of the 2017 County Budget Review and Outlook Paper

---

This Paper is structured into four sections as follows;

1. Section I provides a review of the fiscal performance in the FY 2016/17 and implications on the financial objectives set out in the 2017 CFSP.
2. Section II highlights the recent economic development and the updated macroeconomic outlook.
3. Section III outlines proposed resources allocation to various priority programmes in the medium term, and
4. Conclusion in section IV.

### I. Review of Fiscal Performance in FY 2016/17

5. The fiscal performance for the FY 2016/17 was largely within target despite shortfalls in the County's own revenue and late disbursement of funds from National Government.

#### A. 2016/17 FY Fiscal Performance

##### Performance of Revenues

6. The County Government's expenditure for the financial year 2016/2017 was to be financed from two main revenue sources namely; National Government allocation and County own revenue. The National Government allocation includes; equitable share, conditional grant and donor funding.
7. The targeted national government allocation amounted to Kshs. 8.01 billion while the targeted county own revenue amounted to Kshs. 2.8 billion. This translated to 74% and 26% of the Total Budget Estimates for the FY 2016/2017.



8. During the period under review, actual revenue from the aforementioned sources amounted to Kshs. 9.67 billion against a target of Kshs. 10.8 billion; translating to a performance rate of 89%.

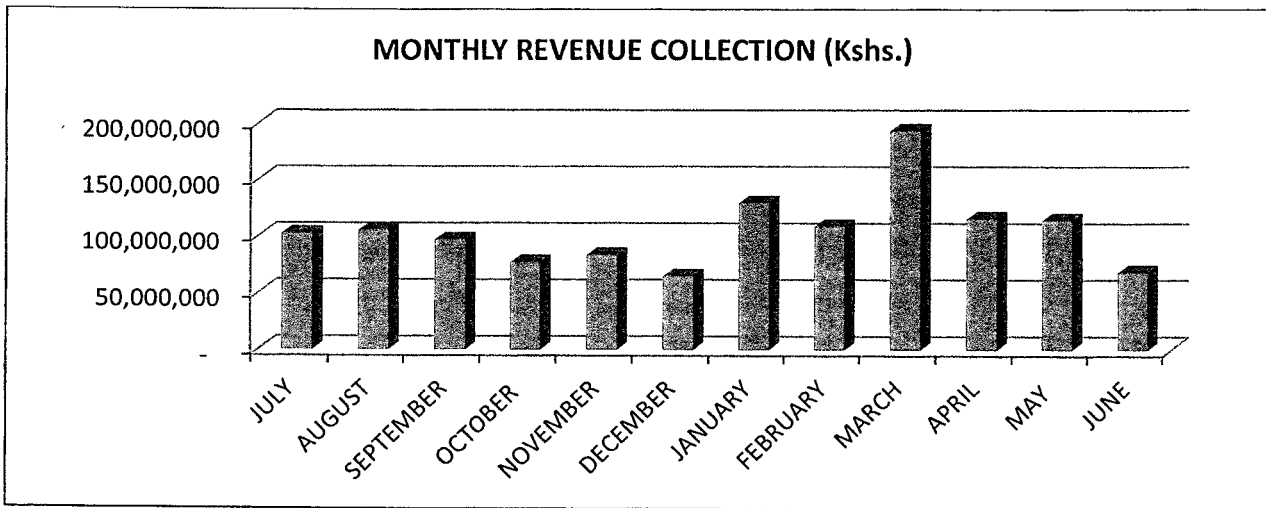
Table 1: *Summary of Revenue Received in the FY 2016/2017 by Items*

No	Source	Amount (Kshs)
1.	Exchequer Releases	7,303,464,454
2.	National Government Level 5 Hospital Funding	365,317,919
3.	Returned CRF Issues	339,888,586
4.	Doctors, Nurses, Clinical Officers and Other Health Officers Allowances	156,588,000
5.	Kenya Roads Board Fuel Levy Fund	112,217,668
6.	Free Maternity Programme	88,707,500
7.	Health User Fees Forgone	24,764,876
8.	DANIDA	13,350,000
9.	Coffee Cess Allocation	6,636,751
10.	County Own Revenue	1,262,634,850
	<b>Total</b>	<b>9,673,569,604</b>

Source: Consolidated Financial Statements, County Government of Machakos, October 2017

9. From the Kshs. 9.67 billion revenue received by the County Government of Machakos, Kshs. 8.41 billion was received from the national government allocations while the remaining Kshs. 1.262 billion was received from county own revenue collections. This translated to 87% and 13% of total revenue received.
10. The county government targeted to collect own revenue amounting to Kshs. 2.8 billion. However, it only managed to collect Kshs 1.26 billion translating to 44% of the targeted county own revenue. A breakdown of this amount by source and by month is given in Annex 1 and 2 respectively.
11. The months of January and March recorded the highest revenue collections. This is because most business permits are renewed in January and compliance is checked in March.

Figure 1: Total Monthly Revenue Collections FY 2016/17 in Kshs.



Source: County Treasury, 2016/17

12. The County Government of Machakos plans to institute measures to expand its revenue base through assessment of the existing revenue streams' potential, identification of new revenue sources and elimination of revenue leakages.

13. In addition, the County Government intends to mitigate cases of deficits in the future by instituting strategies to counter challenges that hinder revenue collection. These interventions will amongst others include;

- i. Establishing a resource mobilization unit,
- ii. Developing of a PPP framework to enhance collaboration with the National Government and other non-state actors,
- iii. Exploiting dormant revenue streams
- iv. Continuous mapping of all available revenue streams.
- v. Disposal of non-serviceable assets as per the Public Procurement and Disposal Act, 2015.
- vi. Incorporating hospital fees and charges in the County Finance Act in line with the Hospital Fund Management Act.

14. To eliminate leakages and non-disclosure of revenue, the County Government will institute the following measures;

- i. Strengthening the implementation of cashless revenue collection,
- ii. Setting of monthly revenue targets and subsequent monitoring,

- iii. Continuous redeployment, rotation and capacity building of revenue collection staff,
- iv. Sensitizing all citizens on the benefits of paying County rents, rates and fees, Installation of CCTV cameras in selected revenue collection points, and
- v. Enactment and enforcement of revenue related Acts e.g. Sand Harvesting Act, Liquor Act etc.

15. The County Treasury has already set up a fully operational one stop shop in Mavoko Sub County to enhance the access and delivery of County Government Services and increase revenue collection from the existing revenue streams. Plans are underway to replicate this concept in all the remaining Sub County headquarters.

### Expenditures

16. The total approved budget for the FY 2016/17 was Kshs. 10.8 Billion out of which Kshs. 7.3 Billion was for recurrent expenditures and Kshs. 3.5 billion for development expenditures. This translated to 67.5 per cent and 32.5 per cent of the total budget respectively.

17. As indicated in Table 2 below, the total expenditure during the year amounted to Kshs. 9.466 Billion against a target of Ksh. 10.833 Billion translating to an execution rate of 86 percent for the period under review.

**Table 2: Performance of Budget for FY 2016/17**

Particulars	FY 2016/17 Budget Estimates	FY 2016/17 Revised Estimates	FY 2016/17 Actual Performance	Percentage
<b>1.0 Revenue</b>				
1.1 Total County Revenue	10,876,000,000	10,883,133,809	9,673,569,604	89
<b>2.0 Expenditures</b>				
2.1 Recurrent	7,539,572,768	7,374,291,558	7,309,297,598	99
2.2 Development	3,336,427,232	3,508,842,251	2,157,209,129	61
<b>Total Expenditure</b>	<b>10,876,000,000</b>	<b>10,883,133,809</b>	<b>9,466,506,727</b>	<b>86</b>
<b>3.0 Balance</b>			<b>207,062,877</b>	

Source: County Treasury

**Table 3: Classification of Expenditures for the FY 2016/2017**

No	Expenditure Type	Amount (Ksh)
1.	Compensation of Employees	5,153,173,804
2.	Use of Good and Services	1,409,457,448
3.	Transfer to Other Government Units	819,347,253
4.	Social Security Benefits	147,209,336
5.	Acquisition of Assets	1,928,515,433
6.	Other Payments	8,803,454
	<b>Total Payments</b>	<b>9,466,506,727</b>
	<b>Total Revenues</b>	<b>9,673,569,604</b>
	<b>Surplus/Deficit</b>	<b>207,062,876</b>

Source: Consolidated Financial Statements, County Government of Machakos, October 2017

18. From table 3 above, a total of Kshs. 207.06 million was carried forward to FY 2017/18

19. The county recurrent expenditure for the FY 2016/17 amounted to Kshs. 7.3 billion against a target of Kshs. 7.37 billion representing a 99% execution rate.

20. Development expenditure for the same period amounted to Kshs. 2.1 billion against a target of 3.5 billion, translating to 61% of the appropriated development expenditure.

21. Comparing the performance of National Government Allocation and County Own Revenue collection for the FY 2016/2017 against the actual targets, there was a shortfall in budget financing amounting to Kshs. 1.2 billion.

**B. Fiscal Performance for FY 2016/2017 in relation to Fiscal Responsibility Principles**

22. To effectively implement the FY 2016/2017 budget, departments developed Programme Based Budgets and resources were allocated to enhance delivery of their mandates. Table 4 below provides departmental budget allocation, expenditure and absorption rate for the same period.

Table 4: FY 2016/2017 Budget Allocation and Expenditure

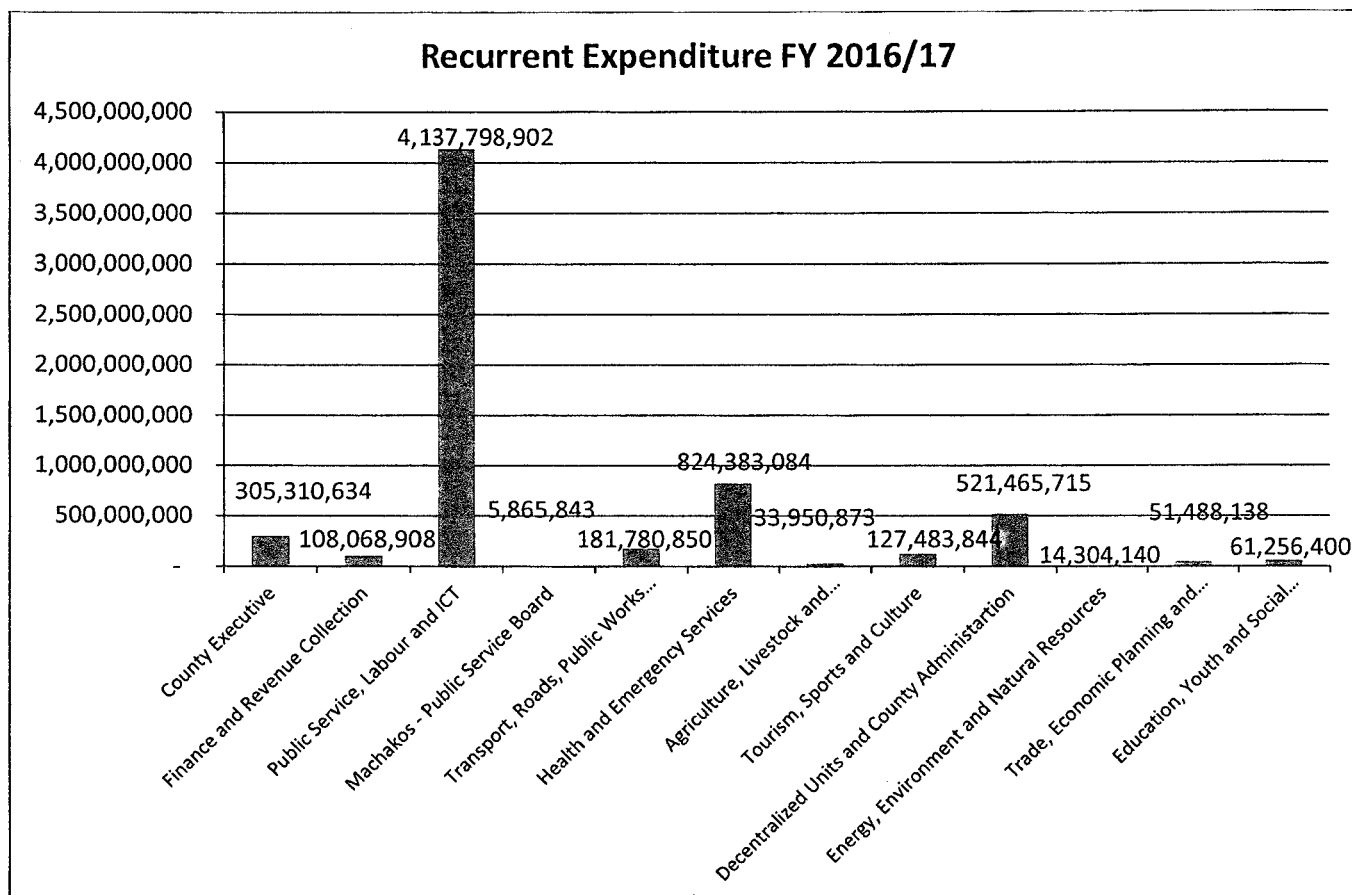
Department	Approved Budget FY 2016/17	Revised Budget FY 2016/17	Actual Performance FY 2016/17
County Executive	565,631,493	421,031,462	342,685,149.75
Finance and Revenue Collection	414,317,429	164,298,951	111,640,693.30
Public Service, Labour and ICT	635,439,742	4,240,062,652	4,156,404,885.75
Machakos - Public Service Board	63,292,001	18,189,463	5,865,842.50
Transport, Roads, Public Works and Housing	825,617,276	1,246,923,706	1,007,144,479.75
Health and Emergency Services	2,895,088,473	1,560,790,874	1,134,055,482.95
Agriculture, Livestock and Cooperative Development	577,646,966	128,928,616	70,544,688.45
Tourism, Sports and Culture	234,721,867	177,403,411	238,065,515.30
Decentralized Units, Urban Areas and Municipalities	2,081,885,096	1,323,660,536	1,117,531,606.45
Lands, Energy, Environment and Natural Resources	121,412,721	65,157,393	32,737,139.75
Trade, Economic Planning and Industrialization	1,108,258,355	265,107,750	234,525,962.85
County Assembly	1,102,741,272	1,035,099,438	936,140,268.00
Education, Youth and Social Welfare	249,947,309	236,479,557	79,165,012.20
<b>TOTAL</b>	<b>10,876,000,000</b>	<b>10,883,133,809</b>	<b>9,466,506,727.00</b>

Source: County Treasury, 2016/2017

23. From table 4 above, the Public Service, Labour and ICT Department had the highest expenditure in the FY 2016/2017. This is because all staff salaries (except those under county assembly) were paid from this budget line.

24. The Ministries of Public Service, Labor and ICT; Health, and Emergency Services and Decentralized Units and County Administration incurred the highest recurrent expenditure as at 30<sup>th</sup> June 2017. They accounted for 57%, 11% and 7% of total recurrent expenditure respectively. This was mainly due to staff compensation, purchase of drugs and other medical supplies and the coordination of day to day operations in the county.

Figure 2: Recurrent Expenditure (in Kshs) by Department FY 2016/2017

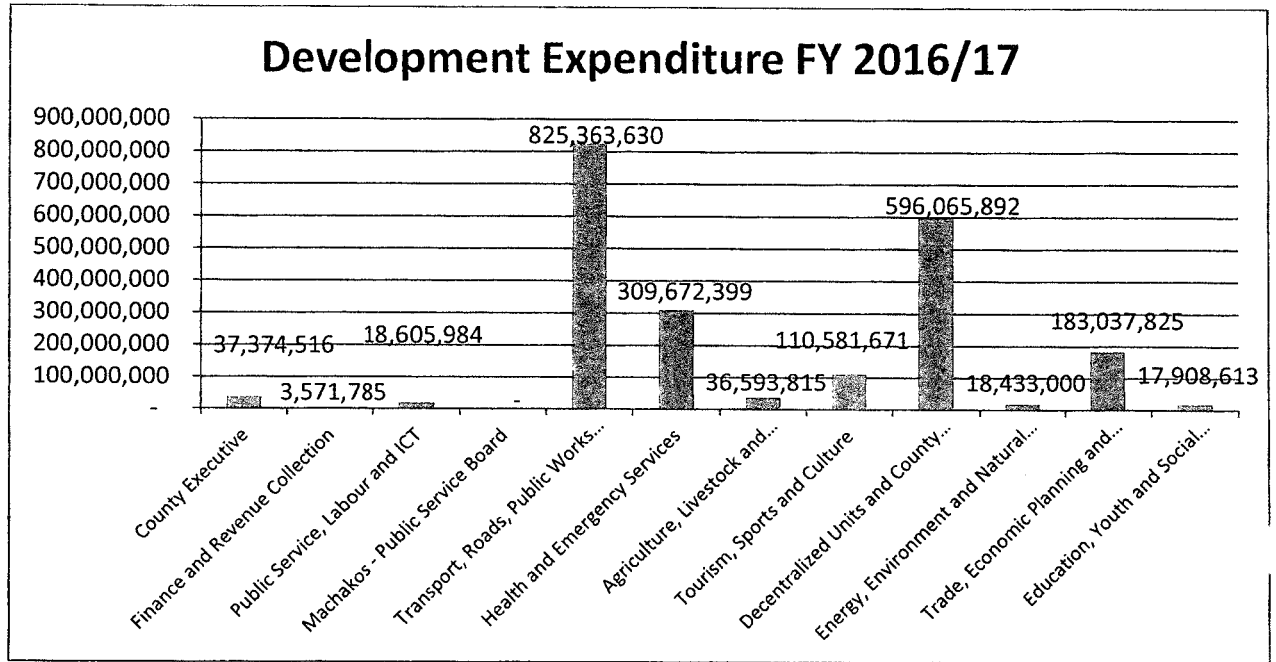


Source: County Treasury, 2016/17

25. On the other hand, the Ministries of Transport, Roads, Public Works and Housing; Decentralized Units and County Administration and Health and Emergency Services accounted for the largest share of the total development expenditure at 38%, 28% and 14% respectively.

26. The Ministry Transport, Roads, Public Works and Housing had the highest development expenditure as a result of the construction of two major roads in the County, the Masinga-Kivandini Road and Kakuyuni Road.

Figure 3: Development Expenditure (in Kshs) by Department FY 2016/2017



Source: County Treasury, 2016/17

27. A table showing the total budget expenditure by ministries and type (recurrent and development) is provided in Annex 4.

28. The fiscal performance in the FY 2016/17 has affected the financial objectives set out in the February 2017 CFSP and the Budget for FY 2017/2018 in the following ways ;

- i. The underperformance of county revenue in the FY 2015/16 and 2016/17 had implications on the resource envelop for the FY 2017/18. The base for revenue and expenditure projections had to be changed implying the need for adjusting the fiscal aggregates for the current Financial Year 2017/18 and the medium term. Using the trends in the two financial years, the county revenue was downscaled from Kshs. 10.8 billion in 2016/17 to Kshs. 9.9 billion in 2017/18.

### C. Fiscal Responsibility Principles

29. The County Government has in line with the Constitution and PFM Act , 2012 adhered to the fiscal responsibilities as set out in the law as follows;

- i. The county government's recurrent expenditure shall not exceed the county government's total revenue*

The total recurrent expenditure in the FY 2016/17 amounted to Kshs. 7.3 billion. This was lower than the total county revenue of Kshs. 9.6 billion for the same period.

- ii. Over medium term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*

The county budget for the FY 2016/17 was Kshs. 10.8 billion. A total of Kshs. 3.5 billion was allocated for development expenditure. This translated to 32.5% hence above the 30% threshold.

- iii. The county expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly.*

Further to the Act, the PFM Regulations stipulate that the County Government's expenditure on wages and benefits for County public officers shall not exceed thirty five (35) percent of the county's total revenue.

In regards to wages and benefits, the county government spent Kshs. 5.15 billion against a county's budget of Kshs. 10.8 billion translating to 47%. In a bid to lower the county's wage bill, the County Public Service Board has embarked on a staff audit programme to enhance rationalization in the public service sector.

- iv. Over medium term the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.*

During the period under review, the County Government did not borrow any amounts to supplement the budget. Should the need to borrow arise over the medium term, all borrowings will be used to finance development expenditures.

- v. Fiscal risks shall be managed prudently*



The County Government has taken into account the fiscal risks arising from unforeseen occurrences .In this regard, the county has in every Financial Year factored funds in the budget to cater for urgent and unforeseen expenditure in the form of emergency funds and budgetary reserves.

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

On the principle of maintaining a degree of predictability with respect to level of fees and charges the County is charging, the County Government has adopted public participation in preparation of tax policies and incorporated citizen views on the various levels of taxes to be charged. Once the Finance Bill is approved, the County Government also publicizes its contents to the various stakeholders. This has simplified all rates being charged under various categories in the Finance Act.

## II. Recent Economic Development and its outlook

---

30. This section highlights the recent economic developments at the global, national and county level and the impact that these occurrences have had on the county economic development.

### A. Global economy

31. The global economy is estimated to have expanded by 2.9 per cent in 2016 compared to a growth of 3.1 per cent in 2015. Advanced economies grew by 2.1 per cent in 2016.

32. The United States of America recorded a growth of 1.5 per cent in 2016 compared to 2.6 per cent in 2015. This was mainly due to weak exports, subdued investments and uncertainty surrounding the 2016 elections. Growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption. In Japan, growth was boosted by private consumer spending, signaling improved consumer purchasing power after two years of contraction. Global inflation was estimated at 2.9 per cent compared to 2.8 per cent recorded in 2015(Economic Survey, 2017).

33. The Sub-Saharan Africa's real gross domestic product is estimated to have grown by 1.5 per cent in 2016 compared to 3.8 per cent growth registered in 2015.
34. In emerging markets and developing economies, headline inflation remained steady as currencies remained broadly stable, or appreciated in some cases.
35. Growth of the global trade slowed in 2016 to 1.9 percent from 2.6 per cent growth in 2015. Global unemployment rate was estimated at 5.7 per cent in 2016 compared to 5.8 per cent in 2015.

#### B. National Economy

36. Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015.
37. Accommodation and food services recorded improved growth of 13.3 per cent in the year under review compared to a contraction of 1.3 per cent in 2015. The other sectors that registered significant improved performance in economic activities were in the information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.
38. On the other hand, growth in construction; mining and quarrying; and financial and insurance activities decelerated in 2016. From the demand side, growth was buoyed by consumption in both the public and private sector.
39. Annual average inflation eased to 6.3 per cent in 2016 compared to an average of 6.6 per cent in 2015. This was mainly due to decline in prices of transportation; housing and utilities; and communication.
40. The Shilling strengthened against the Pound Sterling, South African Rand, Ugandan Shilling, Tanzanian Shilling and the Rwandan Franc but weakened against the US Dollar, Euro, and the Yen in 2016. The capping of interest rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR) resulted in a significant decline in interest rates during the month of September to 13.84 per cent compared to 16.75 in a similar month in 2015.

41. Domestic credit slowed from a growth of 20.8 per cent in 2015 to 6.4 per cent in 2016 mainly on account of a decline in credit to the private sector.
42. The current account deficit narrowed to KShs. 370.8 billion in 2016 from a deficit of KShs. 421.1 billion in 2015. The fiscal deficit in 2016/17 as a percentage of GDP is expected to rise to 9.9 per cent compared to 8.6 per cent in 2015/16 (Economic Survey Report, 2017).

### C. County Economic Environment

43. Machakos County is not isolated from the effect of global and national economic issues that do arise. The performance of the county's economy depends highly on the country's economic performance.
44. The county has established a strong foundation for economic growth and developed policy measures aimed at consolidating the development gains that have been achieved so far.
45. To improve access to clean water in the County, a comprehensive water programme was rolled out. The programme entailed rehabilitation of existing boreholes, dams and water pans, water harvesting and drilling of boreholes and connecting them to households
46. Tremendous progress has been made in the health sector. To add to the gains achieved by providing ambulances to every location, provision of drugs to health facilities, recruitment of additional health workers, speeding up the completion of ongoing construction of community hospitals, rehabilitation of level 4 hospitals and equipping health facilities, especially the community hospitals, with X-ray equipment, mini theatre, maternity and inpatient admission wards were prioritized.
47. The road network in the county has improved through construction of new main and access roads, rehabilitation of existing roads and maintenance of existing infrastructure facilities. The improved road network has improved accessibility to health centers, market places as well as movement of human capital to all parts of the county.

