

REPUBLIC OF KENYA



**COUNTY GOVERNMENT
OF**

BUSIA

**MINISTRY OF FINANCE
AND**

ECONOMIC PLANNING

**BUSIA COUNTY BUDGET REVIEW AND OUTLOOK
PAPER**

SEPTEMBER 2013

Foreword

The Public Finance Management Act, 2012 ushered in a paradigm shift in budget making. Apart from introducing reforms in our public financial management system, the new law entrenched Stages in County government budget process in Section 125.

The County Budget Review and Outlook Paper (CBROP) presents the fiscal outcome for 2012/13 and how this affects the financial objectives set out in the 2013 Budget. The updated macroeconomic outlook therein also provides us with a basis to revise the 2013/14 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.

Within a short period, we went through the challenges of last financial year and closed the year satisfactorily, despite the challenges faced in the process of transiting from the previous Government Structures to the currently devolved County Government. The outcome has had implications on the basis on which the fiscal projections for the current financial year were prepared since the County Governments came into existence on the 4th March, 2013 just four months to the end of the FY 2012/2013. Under these circumstances, we remain steadfast in maintaining macroeconomic stability, even in the face of expenditure pressures associated with implementation of the Constitution and the challenges faced by the County Governments with regard to receiving funding from the National Government.

Having just taken off, the County of Government of Busia will expedite the assumption of the devolved functions by putting in place the necessary structures for a devolved system while maintaining fiscal discipline. More important, greater transparency and high quality management of public finances at the County will be necessary to achieve the aspirations of the people for better governance.

The fiscal framework presented in this 2013 CBROP provides a strong basis for building our common future under the new constitutional dispensation. More details will be provided in the County Fiscal Strategy Paper 2014.

LENARD WANDA OBIMBIRA
EXECUTIVE MEMBER FINANCE AND
ECONOMIC PLANNING.

TABLE OF CONTENTS

I. INTRODUCTION.....	1
Background	1
Objective of CBROP.....	1
II. REVIEW OF FISCAL PERFORMANCE IN 2012/13.....	2
A. Overview.....	2
B. 2012/13 Fiscal Performance	3
C. Implication of 2012/13 fiscal performance	7
III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK.....	8
A. Recent Economic Developments.....	8
B. Medium Term Fiscal Framework.....	9
C. Risks to the outlook	10
IV. RESOURCE ALLOCATION FRAMEWORK.....	10
A. Adjustment to 2013/14 Budget.....	10
B. Medium-Term Expenditure Framework	11
V. CONCLUSION.....	13

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

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

- 1) The County Treasury shall prepare and submit to County Executive Committee for approval, by 30th September 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.
 - 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 County Fiscal Strategy Paper; and
 - d. The 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.
- 2) 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
- 3) Not later than seven days after the County Budget Review and Outlook Paper (CBROP) has been approved by the County Executive Committee, the County Treasury shall:
 - a. Submit the paper to the Budget Committee of the County Assembly to be laid before County Assembly; and
 - b. Publish and publicize the paper not later than fifteen days after laying the Paper before the Assembly.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the Public Finance 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:

1. The County government's recurrent expenditure shall not exceed the county government's total revenue.
2. Over the medium term a minimum of thirty percent of the County government's budget shall be allocated to the development expenditure.
3. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government's total revenue as prescribed by the County Executive Member Finance regulations and approved by the County Assembly.
4. Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
5. The County debt shall be maintained at a sustainable level as approved by county assembly
6. Fiscal risks shall be managed prudently
7. 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

I. INTRODUCTION

Background

1. Busia County is one of the 47 counties and it is located in Western part of Kenya. It borders Siaya, Kakamega and Bungoma Counties, part of Lake Victoria and Eastern part of Uganda. The County has a surface area of 1,695 square kilometers (km²). The County is endowed with many resources, but has been a low producer of goods and services, a situation that has contributed to the prevailing high poverty levels (66.5%). The factors that have led to the low productivity include the values, attitudes and work ethics that run counter to the spirit of entrepreneurship and wealth creation. This County Budget Review and Outlook Paper (CBROP) is the first to be prepared by the County Government of Busia under the Constitution 2010 and the Public Finance Management Act, 2012. In line with the law, the CBROP contains a review of the fiscal performance of the financial year 2012/13 since the inception of the county government.

Objective of CBROP

2. The objective of the CBROP is to 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 2014.

3. The CBROP will be a key document in linking policy, planning and budgeting. The Busia County Government embarked on preparing the County Integrated Development Plan (CIDP) that will guide budgetary preparation and programming from 2014 -2017. In the interim, this year's CBROP is embedded on the Transition Authority Budget which was approved by the National Assembly, Defunct Local Authorities Budgets 2012/13 in addition to taking into account emerging

challenges in the transition to a devolved system of government. Following the coming into existence of the County Governments after the 4th March 2013 General Election, the County Government of Busia is preparing a County Integrated Development Plan reviewing programmes for the last Medium Term Expenditure Framework (MTEF) focusing on updating and developing new programmes for the next five years.

4. The updated macroeconomic outlook will be firmed up in the County Fiscal Strategy Paper to reflect any changes in economic and financial conditions. The Public Finance Management Act, 2012 provides a deadline of February 28th for County Governments to come up with CFSP hence this was not done this year since the County governments came into existence long after the deadline.

II. REVIEW OF FISCAL PERFORMANCE IN 2012/13

A. Overview

1. The fiscal performance in 2012/13 was generally satisfactory, despite the wait and see attitude that had been taken by stakeholders awaiting the outcome of the general election and the uncertainty about the fate of the staff that worked under the defunct Local Authorities. Revenue collection for the period under review was satisfactory as a rise in the revenue collected was realized.
2. On the expenditure side, the County Government had to incur higher expenditure on salary awards as the salary increment which had been awarded to the defunct Local Authorities staff who had been seconded to the County had to be implemented. Adjustments to the original budget provided by the Transition Authority were approved by the County Assembly in June 2013 in the context of the Supplementary Estimates.

B. 2012/13 Fiscal Performance

1. Table 1 and 2 below present the fiscal performance for the FY 2012/13 and the deviations from the Original and Revised budget estimates.

2. The total cumulative revenue collection from local sources for the period between March 2013 to June 2013 was Kshs. 86,692,512 compared to a target of Kshs. 62,736,248 that the seven defunct Local Authorities had budgeted to collect in the same period. This represents a deviation of 38% of revenue collection. The performance in revenue was largely on account of enhanced revenue collection through several fronts i.e. sealing of leakages, enhanced supervision and reshuffle of staff within the Sub counties.

From the National Government, the county received disbursements of Kshs. 81,957,315 in the month of April, Kshs. 61,592,200 in the month of May and Kshs.61, 343,764 in the month of June 2013 for the period under review representing a sum total of Kshs.204, 893,279.

(Table 1) Revenue

Table 2: County Government Revenue in, Kshs.		
	2012/2013 Actual 4 Months	Estimated 2012/2013
		4 months
Total Revenue		
A) Revenue from Local Source		
1. Site Value/ Land rates	1,425,535	1,690,429
2. Market fees	6,236,506	6,208,164
3. Vehicle Parking fees	35,487,191	32,199,000
4. Single Business Permit	16,797,906	10,598,832
5. Kiosk rent	80,950	667,804
6. Plot rent	235,649	570,478
7. Approval of Plan	465,360	196,667
8. Office Rent	245,400	163,530
9. Cess receipts	6,056,894	7,361,997
10. Stall Rent	8,200	1,030,758
11. Nursery fees	25,420	16,667
12. Stock Auction/Auction fees	553,770	616,667
13. Conservancy fees & charges	233,707	477,540
14. Hire of hall	23,500	70,000
15. Administrative fee		424,900
16. Hire of tractor		17,948
17. Game parks/Nature reserve fees		616,667
18. Private rental	128,500	50,000
19. Registration of groups	0	16,667
20. Advertisement/ Signboard	148,400	196,190
21. Hides & Skin	665	6,667
22. Application of plots		48,677
23. Stadium hire	0	50,000
24. Burial fee	1,700	0
25. Transfers	66,899	23,333
26. Impounding / Clamping fees	30,200	33,333
27. -Mortuary fees	30,000	50,000
28. Sale of Tenders	582,000	0
29. Miscellaneous Income	17,638,840	
SUB TOTAL	86,269,485	63,402,915
B) Revenue from National Government	204,893,279	LATF 52,823,252
		204,893,279

TOTAL INCOME	291,162,764	321,119,446
---------------------	--------------------	--------------------

Source: County Treasury

3. Total expenditure for the period under review amounted to Ksh 305,073,907 against a target of Kshs. 535,336,734, representing an under spending of Ksh 230,262,827 (or 43 percent deviation from the revised budget). The shortfall was attributed to delays by the National Treasury to release funds to Counties, the lengthy procurement procedures which had to be followed and failure by the National Government to release LATF funds (Kshs.52,823,252) which had been expected by the Local Authorities to the Counties.

Expenditure

(Table2).

	FY 2012/2013			% change Actual / Target
	Actual March- June	Targets March- June	Deviation	
1.RECURRENT				
a) EXECUTIVE				
Salaries and Wages	140,546,978	154,225,718	13,678,740	8.9
Operations and Maintenance	78,919,422	54,543,594	(24,375,828)	-44.7
b) ASSEMBLY				
Salaries and Wages	4,726,717	81,998,601	77,271,884	94.2
Operations and Maintenance	38,489,323	50,351,084	11,861,761	23.6
Total Recurrent	262,682,440	341,118,997		
2.DEVELOPMENT				
Infrastructure Development	42,391,467	194,217,738	151,826,271	78.2
TOTAL EXPENDITURE	305,073,907	535,336,735	230,262,827	43

Source: County Treasury

4. Recurrent expenditure amounted to Ksh 262,682,440 against a target of Ksh

341,118,997 representing an under-spending of Ksh 78,436,556 (or 22.9 percent deviation from the approved recurrent expenditure).

5. Development expenditure was Ksh 42,391,467 compared to a target of Kshs.194,217,738. This represented an under-spending of Ksh 151,826,271 (or 78.2 percent deviation from the approved development expenditure). Funding from the National Government accounted for most of the under-spending in the development votes. Local Authority Transfer Fund (LATF) monies had been expected to fund the projects that had been budgeted for by the defunct Local Authorities but these funds were not disbursed.

C. Implication of 2012/2013 fiscal performance on financial objectives

1. The performance in the FY 2012/13 has affected the financial objectives set out in the Budget for FY 2013/14 in the following ways: (i) the macroeconomic assumptions underpinning the 2013/14 budget and medium term will need to be modified in light of the slower-than-envisaged real GDP growth and the significant deceleration in inflation; (ii) the base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term; and (iii) arising from (i) and (ii), as well as taking into account the slower pace of execution of the budget by the departments resulting from the uncertainty surrounding release of funds by the National Treasury, the baseline ceilings for spending agencies will be adjusted and then firmed up in the County Fiscal Strategy Paper 2014.

2. Given the above deviations, the revision in revenues and expenditures will be based on the revised macroeconomic assumptions which will be firmed up in the context of the County Fiscal Strategy Paper 2014. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modification to the financial objectives to be contained in the CFSP to reflect the changed circumstances.

3. Busia County being an Agricultural economy, endeavors to revamp agriculture through Mechanization of Agriculture, Input access, soil testing and sampling, establishment of farmed fish auction centres, upgrading of Busia and Malaba export and import fish handling centres, revival of ginneries, alongside other activities that have been given priority in the FY2013/2014 Budget are expected to spur economic activities and support favorable growth prospects in the county. Meanwhile, stability in interest rates and exchange rates is expected to promote access to credit for private sector and boost investments and consumption to stimulate growth and hence enable the county to realize an increase in the local sources of revenue.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The macroeconomic environment has continued to improve, after the wait and see attitude adopted awaiting the outcome of the general election, going forward, the macroeconomic outlook remains favorable.

A. Recent Economic Developments

1. The National Government Budget Statement for the fiscal year 2013/2014 projects real GDP to grow by 5.2 percent in 2013 up from a growth rate of 4.6 percent in 2012. In Busia County, this is expected to be driven by: Improving productivity and competitiveness; supporting SMEs through financial and skill development; continued investment in key infrastructure projects in the roads and energy sub- sectors; boosting food security; maintaining a stable macroeconomic environment ; sealing revenue leakages in revenue collection system and supporting devolution through capacity building.
2. Growth remained resilient, data from the Kenya Bureau of statistics (KNBS) shows that the economy registered a strong growth rate of 5.2 percent in the first quarter of 2013 up from 3.9 percent in a similar quarter of 2012. The same could have been reflected in our county. This mainly reflected the current macroeconomic stability characterized by a low and stable inflation rate and a stable exchange rate.

Implementation of 2013/14 budget

1. Challenges with regard to funding of County Governments by the National Government delayed implementation of the FY 2013/14 budget by two months. This has now been addressed after the County received its first disbursement of Kshs.290, 054,354 for recurrent expenditure and county government operations are continuing in earnest.
2. Revenue collected for the first two months of the year was Kshs.43, 077,654 against an annual target of Kshs. 229,799,000 from the local

sources. This is an indication that with enhanced administrative measures to seal revenue source leakages, coupled with review of rates and increase in sources of revenue, the county's collection will definitely exceed its target by a huge margin.

B. Medium Term Fiscal Framework

1. Our prudent fiscal policy objective will provide an avenue to support economic activities, while allowing for implementation of the Governor's manifesto within sustainable public finances.

2. With respect to revenue, the County Government will maintain a strong revenue effort over the medium term. Measures to achieve this effort include simplification of the taxes, fees and charges with an effort to encourage compliance and enhanced administrative measures for example automation of revenue collection points. In addition, the County Government will introduce tax incentives and expand the tax base as envisaged in the Busia County Finance Bill 2013 that is under consideration by the County Assembly and review all other tax legislations in order to simplify and modernize them as will be indicated in the FY 2014/15 Budget Statement.

3. As a County we do recognize the vast natural resources at our disposal. Our County Government is engaging with stakeholders to develop a comprehensive policy and legislative framework covering ways of attracting investors, licensing, revenue raising measures, taxation and sustainable use of the resources. This will ensure that we derive maximum benefit from these natural resources.

4. 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 Information System (IFMIS) across departments and subsequently at the sub county level following decentralization. Above all, the Public Finance Management Act, 2012 is expected to accelerate reforms in expenditure management system.

C. Risks to the outlook

The risk to the outlook for the year 2013 and medium-term include further weakening in global economic growth and unfavorable weather conditions should there be any drought, floods in Budalangi in the year and years ahead, resurgence of threats of terrorism since the county has two border towns, emergence of alternative competitive markets in the great lakes i.e. in neighboring Uganda where the prices of commodities are lower, risk of power failure that is common in the county, crop failure, high cost of production, in addition to the VAT Act which has placed a lot of burden to the common Mwananchi. Finally, Challenges faced by the County Government with regard to transition to a decentralized system of government could weaken investor confidence and slow down growth. Should these risks materialize; the County government in consultation with the National government will undertake appropriate measures to safeguard macroeconomic stability.

D. Opportunities

Renewed investor confidence with the new county government especially within the energy sector, tourism, agriculture and ICT coupled the general public enthusiasm to devolution.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2013/14 Budget

1. Adjustments to the 2013/14 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Because of the resource constraints, 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. Utilization of contingencies/ emergency funds will be within the criteria specified in the new PFM law.
2. Any review of salaries and benefits for the County workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations and the County Public Service Board which will be guided by the SRC and article

B. Medium-Term Expenditure Framework

1. Going forward, and in view of the recent macroeconomic circumstance and limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County Integrated Development Plan CIDP (2013-2017) is currently under preparation and will guide resource allocation, going forward. In the Meantime, the resource allocation will be based on the updated First Medium Term Plan developed in November 2011:

□□ The priority social sectors, early childhood education, vocational training and health, will continue to receive adequate resources. Both sectors (education and health) are already receiving a significant share of resources in the budget and are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

□□ The economic sectors including agriculture , livestock and fish farming will receive increased share of resources to boost agricultural productivity with a view to deal with threats in food security in the county.

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

□□ Other priority sectors including Community Development, Gender, Sports, Culture and youth development, ICT, Lands ,Housing Cooperative development, Tourism, Trade and industry will also continue to receive adequate resources.

2. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2014 MTEF, classified by sector.

TABLE 6: Medium Term Sector Ceiling 2013/14 - 2016/17, Ksh million								
Total Expenditure, Ksh Million					Percentage Share of Total			
NAME OF SECTOR	2013/14	2014/15	2015/16	2016/17	2013/14	2014/15	2015/16	2016/17
	Printed	Ceiling			Printed	Ceiling		
S01 FINANCE AND ECONOMIC PLANNING	408	448.8	493.68	543	13.33%	12.17	12.17	12.1
S02 AGRICULTURE AND ANIMAL RESOURCES	214.5	472	569.2	726.12	7%	12.8%	13.87	15.6
S03 EDUCATION AND VOCATIONAL TRAINING	333.3	366.63	403.3	443.63	10.89%	9.94%	9.82%	9.56
S04 COMMUNITY DEVELOPMENT, GENDER, SPORTS CULTURE AND SOCIAL	122.9	160.19	176.2	193.82	4%	4.34%	4.29%	4.2
S05 PUBLIC WORKS, TRANSPORT AND	353.1	438.41	482.25	530.5	11.54%	11.9%	11.74	11.42
S06 LABOUR, PUBLIC SERVICE, ICT, PUBLICITY AND INTERGOVERNMENTAL RELATIONS	423.28	302	332.2	365.42	13.83%	8.2%	8.1%	7.87
S07 LANDS, HOUSING AND URBAN	197.55	217.3	239.03	262.93	6.45%	5.89%	5.82%	5.7
S08 WATER, ENVIRONMENT AND NATURAL	90.17	248.37	273.2	300.52	3%	6.73%	6.65%	6.5
S09 HEALTH AND SANITATION	758.6	834.46	917.9	1009.69	24.8%	22.63	22.35	21.75
S10 TRADE, COOPERATIVES, TOURISM AND	158.87	199.76	219.7	265.84	5.19%	5.42%	5.35%	5.73
TOTAL	3,060.27	3,687.92	4106.66	4,641.4	100%	100%	100%	100%

V. CONCLUSION

The fiscal outcome for 2012/13 together with the updated macroeconomic forecast have had ramification of the financial objectives. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and 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 National Government as a basis of allocation of public resources.

The County shall also endeavor to mobilize more resources through enhanced revenue collection, private public partnership and creation of conducive environment for investor attraction.

Meanwhile, preparation of the County Integrated Development Plan (CIDP) that will guide the county's budgetary provisions for the next five years is under way.