



POSITION PAPER ON BUDGET POLICY STATEMENT 2015

January 28, 2015

The Institute of Certified Public Accountants of Kenya (ICPAK) is the professional organization for Certified Public Accountants in Kenya established in 1978 by the Accountants Act, CAP 531. ICPAK is dedicated to development and regulation of the accountancy profession in Kenya so as to enhance its contribution and that of its members to national economic growth and development. In this regard, ICPAK wishes to advise the public that an Accountant by Law is an individual who has qualified by passing the three levels of the CPA examinations and is duly registered by the Institute of Certified Public Accountants of Kenya.

1.0 OBJECTIVE

This paper reviews and makes various proposals on the Draft Budget Policy Statement (BPS) 2015 in cognizant to the constitutional requirement of public participation and in the latter and spirit of Article 217.2(d) that explicitly requires professional bodies to make submissions on the allocation and division of revenue.

2.0 INTRODUCTION

The National Treasury is required under section 25(2), and (9) of the Public Finance Management Act (2012) to prepare and submit the Budget Policy Statement to Parliament by 15th February each year, and subsequently publish and publicize it not later than 15 days after its submission to parliament. In accordance with section 25(3) the Budget Policy Statement sets out the broad strategic priorities and policy goals that will guide the national government and the county governments in preparing their budgets both for the following financial year and over the medium term.

The 2015 Budget Policy Statement (BPS), the second to be prepared under the Jubilee Government, reaffirms the broad policies and strategies outlined in the 2014 BPS, under a five pillar transformation program covering:

- (i) creating a conducive business environment;
- (ii) investing in agricultural transformation and food security;
- (iii) investing in first-class transport and logistics;
- (iv) investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households; and
- (v) Supporting devolution for better service delivery and enhanced economic development.

3.0 STRUCTURE AND CONTENTS

The BPS 2015 is organized as prescribed under Section 25 (4) of the Public Finance Management Act 2012. It has included an assessment of the current state of the economy and the financial outlook over the medium term, including the macroeconomic forecasts and provided the financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term.

On the economic front, the economy is estimated to have expanded by 5.5 percent in the third quarter of 2014 compared to a revised estimate of 6.2 percent in the same period of 2013. The growth was mainly supported by robust growths in; construction (11.0 percent), finance and

insurance (9.9 percent), wholesale and retail trade (7.2 percent); information and communication (6.6 per cent); and agriculture and forestry (6.2 per cent).

The BPS 2015 further affirms the five pillars earlier outlined in the 2014 budget Policy Statement.

4.0 ICPAK INPUTS & AREAS OF CONCERN

ICPAK commends the proposed reforms that would enhance economic growth and prudence in public finance management. Following a critical analysis of the document, ICPAK is of considered view on the following proposed reforms:

	PROPOSED REFORM IN BPS 2015		ICPAK COMMENTS
Pillar I: Creating a Conducive Business Environment for Employment			
1.	(16) Governance	The Ethics and Anti-Corruption Commission will develop in 2015 a Medium Term Governance Strategy for a Shared Prosperity. And for accountability, a framework for national corruption reporting will be developed and made operational in 2015	The government should come strong on bringing to book those who have grabbed or misappropriated public assets and or grossly violated the set code of conduct.
2.	(18) PFM Oversight Institution	Further capacity building and system development will be undertaken, in FY 2015/16, by the National Treasury, Office of Controller of Budget, Office of the Auditor General and Public Procurement Oversight Authority.	The four institutions should be sufficiently resourced to effectively discharge their mandate.
3.	(19) Expenditure Management	The National Treasury will institute and strictly enforce the following measures: <div><div>(i) Undertake a rationalization of public expenditures to identify and remove expenditure overlaps and waste;</div><div>(ii) Develop asset leasing policy and framework that</div></div>	This is a commendable move. The government should further direct efforts in implementing the Public Sector Remuneration and Benefits policy framework.

		<p>entrenches at least 40 percent local content;</p> <p>(iii) Conduct every year, at least one Public Expenditure Tracking in any sector where there are value for money concerns;</p> <p>(iv) Make fully operational the Integrated Financial Information Management System (IFMIS) in all MDAs and County Governments</p>	
4.	(20) Tax and Revenue Reforms	<ul style="list-style-type: none"> ▪ Simplification of the tax systems and enactment of modern tax laws for better compliance and ease of doing business <ul style="list-style-type: none"> i) the Excise Duty Bill, and Tax Procedure Bill will be submitted to National Assembly; t ii) review of the Income Tax Act will be completed by end-2015 and submitted to National Assembly in early 2016; ▪ Digitization of revenue collections, enhanced taxpayer recruitment and education program, strategic tax audit and risk profiling, and a simplified tax regime for the informal sector. ▪ Submission for enactment of the two Bills on re-organization of Kenya Revenue Authority into two 	<p>This is also commendable.</p> <p>The enactment of Excise Duty Bill and Tax Procedures Bill should be expedited.</p> <p>The gazettelement and operationalisation of the Tax Appeals Tribunal Act 2013 should also be considered.</p>

		semi-autonomous but inter-dependent agencies of the Inland Revenue Agency and the Customs and Border Protection Agency.	
5.	(22) Financial Sector Reforms	<p>The recently established Nairobi International Financial Centre Authority will be made fully operational;</p> <p>The new Central Bank of Kenya Bill and Financial Services Authority Bill - bringing together the four financial regulators, will be submitted to the National Assembly in 2015 for debate and enactment</p>	Enactment of the Central Bank Bill and Financial Services Authority Bill should be expedited.
6.	(26) Further Public Sector Reforms	The Government will overhaul, by end of 2015, the legal and regulatory framework governing the parastatal sector so as to strengthen governance, improve accountability, and reduce budgetary transfers for current spending.	This process has been long overdue since the release of the Parastatal Sector Reforms report. Reforms in this sector should take into account recommendations of the Parastatal Sector Reforms Report
Pillar II: Agricultural Transformation and Food Security			
9.	(33) Investing in agricultural transformation	The Ministry of Agriculture will develop a comprehensive transformation strategy focusing on unlocking agricultural productivity among smallholder and livestock farmers before end-May 2015.	The government should consider subsidization of farm inputs and establishment of storage and marketing infrastructure.
10.	(48) Empowering the Youth and Women for Employment Creation	<ul style="list-style-type: none"> ▪ Uwezo Fund key priority; ▪ The National Youth Service will continue to be positioned as the premiere institution for this national youth transformation and re-socialization agenda; ▪ The requirement for at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability will be entrenched in law, strictly enforced and access made much 	This is a good proposal. Need for capacity building of the Youth, women and other vulnerable groups to better take advantage of these opportunities.

		easier through digitization.	
Pillar V: Further Entrenching Devolution for Better Service Delivery			
	(78) Entrenching Devolution for Better Service Delivery	The strategy to further entrench devolution for better service delivery aims at strengthening institutions and capacity to link inter-governmental fiscal transfers with revenue raising capacity of the county government in order to enhance political and financial accountability necessary for efficiency and effectiveness in service delivery, alleviation of poverty and convergence in county development.	<p>Need for concerted efforts amongst all stakeholders including professional associations in capacity building of County Governments.</p> <p>The unbundling of functions should be concluded to guide the implementation of the devolved system of government.</p>
Other cross-cutting issues highlighted in the BPS 2015			
	(154) Strengthening Legal Framework for Public Finance Management	The National Government has also drafted and submitted to Parliament two key Public Finance Bills required under the Fifth Schedule of Constitution 6 that is 6 the Public Audit Bill, 2014 and the Public Procurement and Asset Disposal Bill, 2014. In addition, the PFM Regulations, 2014 have been submitted to Parliament for consideration and approval. It is expected that the two Bills and the PFM Regulations will be passed by Parliament in 2015. These pieces of legislations if enacted will go a long way in further strengthening the legal framework for public finance management	<p>Enactment of PFM Regulations 2014 has really delayed, yet it's they provide the operational principles for the PFM Act 2012.</p> <p>This should be done and a follow-up capacity building, especially for County Governments carried out.</p>
	(155) IFMIS to all 47 County Governments	The National Government has rolled out IFMIS to all the 47 County Governments.	<p>In ICPAK's baseline survey on devolution, Counties reported technical challenges in the utilization of IFMIS.</p> <p>The National Government should further capacity build counties on IFMIS;</p> <p>Further develop the modules on areas such</p>

			as revenue management
	Division of Revenue of Revenue between the National and County Governments	<p>In estimating the County Governments' equitable share of revenue raised nationally to be allocated to counties in the financial year 2015/16, the baseline cost of devolved functions is derived from the Division of Revenue Act, 2014 and comprises of the equitable share of Ksh 226.66 billion.</p> <p>This baseline cost of devolved functions takes into account the functions gazetted for transfer by the Transition Authority vide gazette notices dated February 2013 and August 2013.</p> <p>In order to arrive at the County Governments' equitable share of revenue for the financial year 2015/16, the adjusted baseline of the estimated cost of devolved functions (FY 2014/15) was increased by an agreed rate of revenue growth. After making the adjustment the County Governments' equitable share of revenue in the financial year 2015/16 is estimated to be Ksh. 253.5 billion</p> <p>In addition, County Governments, pursuant to Article 202(2) of the Constitution, will receive conditional grants from the national Government:</p> <ul style="list-style-type: none"> ▪ Conditional Grant in support of Free Maternal Health Care of Ksh 4.618 billion; 	<p>Comprehensive costing of functions should be done to rightly account for all the devolved functions;</p> <p>Governance and accountability systems including punitive measures should be put in place to curb wastage at the County level. This includes thorough implementation of the Auditor General's and Controller of Budget recommendations on public resource utilization.</p>

		<ul style="list-style-type: none"> ▪ Conditional Grant to facilitate the leasing of health care equipment of Ksh 1.98 billion. ▪ Allocation for level-5 hospitals of Ksh 2.064 billion. ▪ Conditional Grant from the Road Maintenance Fuel Levy Fund of Ksh. 3.3 billion. <p>NB:- In the financial year 2015/16, the funds allocated to County Governments are estimated at about Ksh 274.1 billion.</p>	
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5.0 GENERAL INFORMATION

Revenue Projections (145)

The FY 2015/16 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,340.5 billion (26.0 percent of GDP) from Ksh 1,162.7 billion (20.3 percent of GDP) in FY 2014/15.

Expenditure Forecasts (146)

In FY 2015/16, overall expenditure and net lending are projected at Ksh 1,875.9 billion or 28.8 per cent of GDP) from the estimated Ksh 1,717.9 billion (30.0 per cent of GDP) in the FY 2014/15 budget. Recurrent expenditures will amount to Ksh 939.4 billion (14.4 percent of GDP) compared with Ksh 904.7 billion (15.8 percent of GDP) in FY 2014/15. Development expenditure is therefore projected at Ksh 675.2 billion (10.4 percent of GDP).

6.0 APPENDICES

Appendix 1: Equitable Revenue Share to County Governments FY 2015/16

Budget Item	Amount in Ksh Million
Baseline (Allocation for FY 2014/15)	226,660
Baseline Adjustments	
Add:	
1. Allocations for Personnel Emoluments for staff transferred to CGs from the State Department of Livestock Development	1,466
3. Allocation for village polytechnics currently under the Ministry of Education	935
4. Transfer of Funds relating to a county function transferred to county governments in 2014 (Agricultural Training Centres/Agricultural Mechanisation Stations) vide TA gazette notice dated March 2014	545
Adjusted Baseline	229,606
Additional Revenue Measures	
Add:	
1. Adjustment for Revenue Growth (Agreed Revenue growth factor = 10.41%)	23,902
Equitable Revenue Share allocation for FY 2015/16	253,508

Source: National Treasury

Appendix 2 : Medium Term Sector Ceilings 2014/15-2017/18(Ksh Million)

SECTOR		ESTIMATES 2014/15	CEILING 2015/16	PROJECTIONS		% SHARE OF TOTAL EXPENDITURE			
				2016/17	2017/18	ESTIMATES 2014/15	BPS CEILING 2015/16	PROJECTIONS	
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	60,224	61,237	62,424	61,608	5.1%	4.6%	4.6%	4.4%
	Rec. Gross	15,957	16,430	16,889	17,974	1.3%	1.2%	1.2%	1.3%
	Dev. Gross	44,266	44,807	45,535	43,634	3.7%	3.4%	3.3%	3.1%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	256,894	401,411	376,581	348,164	21.7%	30.1%	27.6%	24.8%
	Rec. Gross	35,593	36,216	36,333	36,492	3.0%	2.7%	2.7%	2.6%
	Dev. Gross	221,301	365,196	340,248	311,672	18.7%	27.4%	24.9%	22.2%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	16,248	14,795	15,216	15,546	1.4%	1.1%	1.1%	1.1%
	Rec. Gross	6,654	6,841	7,062	7,292	0.6%	0.5%	0.5%	0.5%
	Dev. Gross	9,594	7,954	8,154	8,254	0.8%	0.6%	0.6%	0.6%
HEALTH	SUB-TOTAL	47,362	48,407	49,841	51,627	4.0%	3.6%	3.6%	3.7%
	Rec. Gross	26,061	28,011	28,758	29,576	2.2%	2.1%	2.1%	2.1%
	Dev. Gross	21,301	20,396	21,083	22,051	1.8%	1.5%	1.5%	1.6%
EDUCATION	SUB-TOTAL	308,351	324,359	356,928	380,572	26.1%	24.3%	26.1%	27.1%
	Rec. Gross	273,380	288,373	319,047	339,457	23.1%	21.6%	23.4%	24.2%
	Dev. Gross	34,971	35,986	37,881	41,115	3.0%	2.7%	2.8%	2.9%
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	130,855	138,220	146,110	171,859	11.1%	10.4%	10.7%	12.2%
	Rec. Gross	119,157	125,663	132,386	156,495	10.1%	9.4%	9.7%	11.1%
	Dev. Gross	11,697	12,557	13,724	15,364	1.0%	0.9%	1.0%	1.1%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	196,918	180,399	189,240	200,715	16.7%	13.5%	13.9%	14.3%
	Rec. Gross	94,228	87,123	89,573	92,075	8.0%	6.5%	6.6%	6.6%
	Dev. Gross	102,690	93,276	99,667	108,640	8.7%	7.0%	7.3%	7.7%
NATIONAL SECURITY	SUB-TOTAL	90,721	90,072	91,124	93,856	7.7%	6.7%	6.7%	6.7%
	Rec. Gross	90,721	90,072	91,124	93,856	7.7%	6.7%	6.7%	6.7%
	Dev. Gross	-	-	-	-	0.0%	0.0%	0.0%	0.0%
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	24,053	24,680	25,287	26,708	2.0%	1.8%	1.9%	1.9%
	Rec. Gross	11,085	11,234	11,479	11,750	0.9%	0.8%	0.8%	0.8%
	Dev. Gross	12,968	13,446	13,808	14,958	1.1%	1.0%	1.0%	1.1%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	50,807	50,977	53,073	54,381	4.3%	3.8%	3.9%	3.9%
	Rec. Gross	14,704	14,826	14,950	15,111	1.2%	1.1%	1.1%	1.1%
	Dev. Gross	36,103	36,152	38,123	39,271	3.1%	2.7%	2.8%	2.8%
TOTAL	TOTAL	1,182,433	1,334,559	1,365,823	1,405,036	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	687,541	704,789	747,600	800,078	58.1%	52.8%	54.7%	56.9%
	Dev. Gross	494,892	629,769	618,223	604,958	41.9%	47.2%	45.3%	43.1%