NYAMIRA COUNTY GOVERNMENT

COUNTY TREASURY

BUDGET REVIEW AND OUTLOOK PAPER

2013-2014

SEPTEMBER 2014

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ACRONYMS AND ABBREVIATIONS

ADP	Annual Development Plan
AiA	Appropriation in Aid
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CGN	County Government of Nyamira
CIDP	County Integrated Development Plan
CO	Chief Officer
CPI	Consumer Price Index
ECM	Executive Committee Member
FY	Financial Year
GDP	Gross Development Product
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management
SP	Strategic Plan
VAT	Value Added Tax
WEO	World Economic Outlook

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 sections 125-131.

The County Budget Review and Outlook Paper (CBROP) presents the fiscal performance for the last financial year 2013/14 against the Budget appropriation for that year and how the actual performance may have affected compliance with the fiscal responsibility principles or the financial objectives.

The updated macroeconomic outlook therein also provides us with a reason for any deviation from the financial objectives in the County Fiscal Strategy paper together with the proposals to address the deviations and the time estimated for doing so.

In the previous financial year, we were able to develop the County Integrated Development Plan (CIDP), departmental strategic plans and work plans, all meant for implementation of the budget for that financial year. The delayed approval of the CIDP led to the low absorption of funds, making the implementation of the planned projects in that financial year to spill over to the current financial year. Also, delayed disbursement of funds from the National government adversely affected budget implementation.

We closed the financial year satisfactorily, despite the teething problems and challenges faced in the process of implementing and putting in place the County Government structures.

John Omanwa
Executive Committee Member- Finance and Economic Planning

Acknowledgement

This CBROP was prepared by the County Planning Unit, County Treasury and other sectors who gave much needed support that informed the preparation of this document. It was made successful by contributions of various participants, whom should be highly recognized and appreciated for their efforts. All departments led by the executive members contributed enormously towards the preparation of the report. The county treasury enabled development of the CBROP through provision of relevant information and statistics, which aided in financial analysis in the various chapters.

The county planning unit provided technical expertise in compilation of the document, with support from the various departments which provided the needed information timely. During the preparation process, the county economic and budget forum members contributed immensely and their efforts are hereby appreciated.

In particular, I wish to appreciate the County Executive Committee member for Finance and Economic Planning, Mr. John Omanwa for playing a supervisory role through initiation and facilitation of the process. Other members who require special appreciation include the economic adviser Mr. Joseph Amwoma, Ag. County secretary Mr. Eric Onchana and the county economists Mr. Paul Onyango, Mr. Simon Mungai, Mr. Nathan Onduma and Mr. Nicodemus Mutinda for their effort.

Richard K. Okeyo
County Chief Officer – Finance and Economic Planning

Fiscal Responsibility Principles in the Public Financial Management Act 2012

The public Financial Management Act 2012, Section 107 states that the 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;

(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.

Legal Basis for Preparation 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 which states that:

1) The County Treasury shall prepare and submit to the County Executive for approval, by 30th September in each financial year, a 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 macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent 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) 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.

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 publicize the Paper.

CHAPTER ONE

INTRODUCTION

1.1 Background

Nyamira County is one of the 47 counties of the Republic of Kenya as provided in the new constitution that was promulgated on 27th August 2010. The County borders Homabay County to the north, Kisii County to the west, Bomet County to the south east and Kericho County to the east. The County covers an area of 899.4km2. The county lies between latitude 00 30‘and 00 45‘south and between longitude 340 45‘and 350 00‘east. The County head quarter is in Nyamira town. The County is divided into five sub-counties namely Nyamira, Nyamira north, Borabu, Manga and Masaba north. The county has four constituencies namely; West Mugirango, Kitutu Masaba, North mugirango and Borabu, and a total of twenty county assembly wards.

Nyamira County had a population of 598,252 persons of which 284,048 were males and 311,204 were females according to the 2009 housing and population census report. The county inter census population growth rate is estimated at 1.83 percent. The settlement pattern in the County is greatly influenced by the rainfall patterns, topography, infrastructural development, proximity to urban centers, the availability of natural resources and security. However, majority of the County populace is in the rural areas. The County is endowed with many resources, but has been a low producer of goods and services, hence lacking value addition, a situation that has contributed to very low prices for these goods and services.

This County Budget Review and Outlook Paper (CBROP) is the first to be prepared by the County Government of Nyamira under the Constitution of Kenya 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 2013/14.

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 Second County Fiscal Strategy Paper (February2015).

The CBROP will be a key document in linking policy, planning and budgeting. The County Integrated Development Plan (CIDP) and the Medium Term Expenditure Framework (MTEF) will guide budgetary preparation and programming. The formation of the Sector Working Groups (SWGs) by the Executive Committee has enabled the County Treasury to formulate guidelines for the Medium Term Expenditure Framework (MTEF) focusing on developing of new programmes for the next MTEF Period 2014/15–2016/17.

1.2 Objective of the CBROP

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 section 107 of the Public Finance Management Act. 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 CFSP.

The CBROP is a key document in linking policy, planning and budgeting. The County Government has prepared its first County Integrated Development Plan (CIDP) for 2013-2017 and is in the process of preparing sectoral strategic plans. These gives programmes to be delivered with details for each programme of the strategic priorities to which the programme will contribute; the services or goods to be provided; measurable indicators of performance where feasible; and the budget allocated to the programme. The two documents are anchored on the Kenya Vision 2030 and guides budgetary preparation and programming from 2013 onwards.

The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2014/2015-2016/2017 MTEF period will be modified because of the expanded mandate of some sectors, the need to comply with instructions issued by the office of the Controller of Budget and Commission on Revenue Allocation among others and the need to direct resources to the County Strategic priority areas.

1.3 The structure of the CBROP

The CBROP has five chapters. Chapter one includes introduction and objectives of CPROB. Chapter two provides a review of the fiscal performance in FY 2013/2014 and its implications on the financial objectives as set out in the CIDP. This is followed by brief highlights of the recent economic development and updated macroeconomic outlook in chapter three. Chapter four provides the resources allocation framework while chapter five concludes.

CHAPTER TWO

REVIEW OF FISCAL PERFORMANCE IN THE FINANCIAL YEAR 2013/2014

2.1 Overview

The fiscal performance in 2013/14 was generally satisfactory, despite the challenges of not realizing the projected revenues and mounting expenditure pressures. The County Government anticipated collecting Kshs. 100,000,000 in FY 2013/2014 from local sources, but only Kshs. 94,025,895 was realized. The Finance bill came into effect towards the end of the third quarter of the financial year 2013/14 thus it was not applicable to the previous quarters, this hampered revenue collection. The exchequer release was short by Kshs. 278,482,887. As a result, the County Government was not able to implement all the planned projects and programmes.

On the expenditure side, the County Government had to incur higher expenditure on personnel emoluments. This is because the County Government inherited staff from the defunct local authorities and those from the National government whose functions were devolved besides employing its own staff.

There was also the challenge of managing the varied work ethics and attitudes of employees from the defunct local authorities, national government and those employed by the county. Besides, the absorption of all these employees, a majority who did not have clear job descriptions led to increased wage bill and maintenance costs which affected budgetary allocations for the proposed projects. The county government therefore faced challenges in human resource capacity and compliance.

In addition, delayed release of funds from the National Government to County Government was another challenge in the implementation of the planned projects and programmes in all sectors. This led to incomplete projects while at the same time causing pending bills. The lengthy public procurement procedures also delayed the implementation of projects and programmes within stipulated time frames.

2.2 Fiscal Performance for 2013/14 Financial Year

2.2.1 Revenue

Table 1 presents the revenue analysis for the FY 2013/14 as realized from local sources and the equitable share from the national government with deviations from the revised budget estimates.

Table 1: Revenue Analysis for 2013/14

Revenue Source	2013/2014		Deviation	Percentage Deviation
	Actual (Kshs)	Target(Kshs)		
Equitable share	3,038,643,767	3,317,126,654	(278,482,887)	(8)
Revenue from local sources	94,025,895	100,000,000	(5,974,105)	(6)
Total Revenue	**3,132,669,662**	**3,417,126,654**	**(284,456,992)**	**(8)**

Source: Nyamira County Treasury

Revenue collected from local sources amounted to Kshs. 94,025,895 against the target of Ksh.100,000,000 reflecting an under collection of Ksh.5,974,105 (6 per cent shortfall). Total actual Exchequer releases from National Government was Kshs.3,038,643,767 against a target of ksh.3,317,126,654 indicating a shortfall of Kshs. 278,482,887 (8 percent). This was the conditional grant budgeted for but was not received.

During the period under review, the actual revenue from local sources collection did not match the set out targets. The deviations between the targets and actual collections are illustrated in table 2 below.

Table 2: Revenue Outturns for FY 2013/14

Revenue Source	Target (Kshs)	Actual (Kshs)	Deviation (Kshs)	Deviation %
Market Dues	26,000,000	14,925,075	-11,074,925	(42.6)
Matatu Parking	5,000,000	17,885,771	12,885,771	257.7
Private Parking	1,500,000	656,500	-843,500	(56.2)
Agriculture Cess/Toll Fee	3,500,000	4,676,730	1,176,730	33.6
Motor Bike Stickers	2,780,000	3,249,360	469,360	16.9
Cattle Movement charges	500,000	572,010	72,010	14.4
Cattle fees	1,000,000	913,720	-86,280	(8.6)
Slaughter charges	300,000	232,220	-67,780	(22.6)
Isolated Plot rent	500,000	423,000	-77,000	(15.4)
Plot Rent	3,450,000	622,119	-2,827,881	(82.0)
Shop Rent	2,500,000	1,037,980	-1,462,020	(58.5)
Market Stall Rent	650,000	768,270	118,270	18.2
Advertisement charges	450,000	552,652	102,652	22.8
Single Business Permit (S.B.P)	37,500,000	14,415,502	-23,084,498	(61.6)
S.B.P Application fees	7,000,000	1,838,500	-5,161,500	(73.7)
School Registration fees	400,000	444,110	44,110	11.0
Development application fees	1,000,000	785,140	-214,860	(21.5)
Building Plan application fees	1,100,000	1,296,541	196,541	17.9

Structural Approval fees	500,000	480,014	-19,986	(4.0)
Tender fees	300,000	384,010	84,010	28.0
Storage charges	120,000	114,000	-6,000	(5.0)
Kiosk fees	100,000	75,810	-24,190	(24.2)
Impounding Charges	50,000	132,769	82,769	165.5
Land application fees	150,000	144,720	-5,280	(3.5)
Land Rates	350,000	369,319	19,319	5.5
Administration Charges	100,000	170,332	70,332	70.3
Survey fees	100,000	65,940	-34,060	(34.1)
Land Control Board fees	300,000	262,630	-37,370	(12.5)
Change of User	50,000	30,650	-19,350	(38.7)
Land Transfer Charges	50,000	43,400	-6,600	(13.2)
Weights and Measures	200,000	155,370	-44,630	(22.3)
Public Health	-	24,570,241	24,570,241	100
Physical Planning	500,000	546,920	46,920	9.4
Veterinary Services	2,000,000	1,184,570	-815,430	(40.8)
TOTAL	**100,000,000**	**94,025,895**	**-5,974,105**	**(6.0)**

Source: Nyamira County Treasury

Table 2 above shows that the county government was not able to collect targeted revenue in the FY 2013/14 because of administrative challenges in revenue mobilization. Key factors behind the revenue shortfall include leakages as result of inadequate enforcement and compliant mechanisms, low revenue base, political interference causing unrest, delayed County Finance Bill and use of manual systems.

2.3 Recurrent and Development Expenditures

2.3.1 Recurrent Expenditures

During the period under review, the recurrent expenditure for the County Government was Ksh.2,057,673,361 against a target of Ksh. 2,097,105,522 representing an under spending of Ksh. 39,432,161 (or -1.88 percent deviation from the revised budget). The shortfall was attributed to lower absorption in the recurrent expenditure by the County departments partly attributed to shortfalls in ordinary revenues. This is presented in tables 3 in the page 7 below.

2.3.2 Development Expenditures

Development expenditure incurred amounted to Ksh.1,324,154,802 compared to a target of Ksh. 1,320,021,132. This represented an over-spending of Ksh. 4,133,670 (or 0.31 percent deviation from the revised development expenditure). The over-performance in development expenditure reflects high absorption by County departments, and high over commitments to some departments. Table 4 in page 8 below represents development expenditure in the period under review.

Table 3: Recurrent Expenditure Analysis for Financial Year 2013/14

Sector	Target (Kshs)	Payments (Kshs)	Commitments (Kshs)	Actual Expenditure (Kshs)	Deviation	Deviation as % of Target
County Assembly	489,632,222	508,584,600	-	508,584,600	18,952,378	3.87
Administration and Public Service	456,944,750	460,568,799	-	460,568,799	3,624,049	0.79
Finance and Economic Planning	60,631,150	69,078,370	-	69,078,370	8,447,220	13.93
Agriculture, Livestock and Fisheries	84,115,000	83,892,000	-	83,892,000	(223,000)	(0.27)
Environment, Energy, Natural Resources and Mining	10,400,000	7,483,907	-	7,483,907	(2,916,093)	(28.04)
Education and ICT	31,269,555	29,535,182	-	29,535,182	(1,734,373)	(5.55)
Health Services	844,819,000	793,830,336	-	793,830,336	(50,988,664)	(6.04)
Lands, Housing and Physical Planning	8,360,250	8,360,250	-	8,360,250	-	-
Water, Sanitation and Irrigation	1,484,000	1,484,000	-	1,484,000	-	-
Roads, Transport and Public Works	12,600,000	12,084,000	-	12,084,000	(516,000)	(4.10)
Trade, Tourism, Industrialization and Cooperative Development	24,314,900	9,314,900	-	9,314,900	(15,000,000)	(61.69)
Youths, Sports, Gender, Culture and Social Services	23,534,695	19,709,017	-	19,709,017	(3,825,678)	(16.26)
County Public Service Board	49,000,000	53,748,000	-	53,748,000	4,748,000	9.69
Total	**2,097,105,522**	**2,057,673,361**	-	**2,057,673,361**	**(39,432,161)**	**(1.88)**

Source: Nyamira County Treasury

Table 4: Development Expenditure Analysis for Financial Year 2013/14

Sector	Target (Kshs)	Payments (Kshs)	Commitments (Kshs)	Actual Expenditure (Kshs)	Deviation	Deviation as % of Target
County Assembly	80,500,000	33,259,339	0	33,259,339	(47,240,661)	(58.68)
Administration and Public Service	102,900,000	101,991,843	12,420,842	114,412,685	11,512,685	11.19
Finance and Economic Planning	18,000,000	9,343,765	0	9,343,765	(8,656,235)	(48.09)
Agriculture, Livestock and Fisheries	101,085,000	77,953,487	21,257,265	99,210,752	(1,874,248)	(1.85)
Environment, Energy, Natural Resources and Mining	38,000,000	604,000	33,676,070	34,280,070	(3,719,930)	(9.79)
Education and ICT	53,200,000	615,040	80,468,575	81,083,615	27,883,615	52.41
Health Services	276,738,000	156,151,403	185,154,071	341,305,474	64,567,474	23.33
Lands, Housing and Physical Planning	23,039,750	12,735,297	0	12,735,297	(10,304,453)	(44.72)
Water, Sanitation and Irrigation	132,200,035	441,616	132,841,615	133,283,231	1,083,196	0.82
Roads, Transport and Public Works	383,179,297	83,770,114	308,961,852	392,731,966	9,552,669	2.49
Trade, Tourism, Industrialization and Cooperative Development	80,079,050	14,051,240	48,505,368	62,556,608	(17,522,442)	(21.88)
Youths, Sports, Gender, Culture and Social Services	19,600,000	3,200,000	0	3,200,000	(16,400,000)	(83.67)
County Public Service Board	11,500,000	6,752,000	0	6,752,000	(4,748,000)	(41.29)
Total	**1,320,021,132**	**500,869,144**	**823,285,658**	**1,324,154,802**	**4,133,670**	**0.31**

Source: Nyamira County Treasury

2.4 Implications of 2013/14 Fiscal Performance

The performance in the FY 2013/14 has affected the financial objectives set out in the February 2014 CFSP and the Budget for FY 2014/15 in the following ways:

(i) 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

(ii) To take into account the slow take off of execution of the FY 2013/14 budget by County departments, the baseline Estimates for spending will be adjusted and then firmed up in the next County Fiscal Strategy Paper.

Accordingly, our revenue projections will remain in line with the initial macroeconomic assumptions taking into account the revised revenue and expenditure base. Consequently, the MTEF estimates provided in the CFSP will reflect the macroeconomic forecast. However, taking into account that the key macro variables remain as projected in the CFSP of February 2014, there will be slight adjustments to these estimates.

The overall revenue underperformance in 2013/14 has implications in the base used to project the revenue for these revenue items in the FY 2014/15 and the medium term as has been alluded to earlier in this report. Therefore, in updating the fiscal outlook the new base has been taken into account. In addition; effects, arising from the enactment of the County Finance Bill is expected to boost revenue through improving efficiency in revenue administration as well as ease compliance by revenue payers.

The under-spending and overspending in the recurrent and development expenditures respectively for the FY 2013/14 additionally has implications on the base used to project expenditures in the FY 2014/15 and the medium term. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the budget outturn for 2013/14.The County Treasury will work closely with the implementing sectors to improve resource absorption. The county government will also ensure adherence to the fiscal responsibility principles while making appropriate modifications to the financial objectives contained in the latest CFSP to reflect the changed circumstances.

The County Government has prioritized agriculture through value addition of Agricultural products and will institute appropriate measures in this sector to support County growth prospects. 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 development in the County.

CHAPTER THREE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The macroeconomic environment has continued to improve, and going forward, the macroeconomic outlook remains favourable although downside risks remain.

3.1 Recent Economic Developments

As per the National Treasury Budget Review, the prospects for the Kenyan economy remain bright. Kenya is well integrated with the world economy and the positive developments are likely to impact positively our growth prospects, assuming normal weather patterns while recent successful general elections is expected to boost investors' confidence. Furthermore, continued implementation of robust economic policies and structural reforms as well as sound economic management is expected to yield efficiency and translate to faster growth of our economy and creation of more jobs in Kenya.

Real GDP is expected to grow by 5.8 percent in 2014 up from 4.6 percent in 2012 and an estimated 5.1 percent in 2013, while over the medium-term, growth is expected to pick-up gradually and cross the 7 percent mark by 2017, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 5.5 percent in 2013/14, 6.1 percent in 2014/15, 6.6 percent in 2015/16 and 6.9 percent in 2016/17. Inflation has declined steadily from double digits in 2011 towards the 5 percent target in recent months. Short-term interest rates have also eased in line with the drop in inflation, while the shilling exchange rate has stabilized against major currencies.

This anticipated level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the ongoing initiatives to deepen regional integration.

The recent economic developments at the national level have implications on the development at the county. This is because they affect and determine how the county's strategic priorities are implemented.

3.2 Medium Term Fiscal Framework

The 2014 Medium-Term Fiscal Framework aims at striking an appropriate balance between fiscal consolidation and supporting the devolved system of government, all these within sustainable public finances. The National Government will pursue prudent fiscal policy aimed at macroeconomic stability as envisaged in the 2014 Budget Policy Statement which emphasizes the following:

- Fiscal consolidation while ensuring that the resources to County and National Governments are adequate to promote growth.

- Reduction in the recurrent expenditure to devote more resources to development. The National Government is expecting the overall budget deficit to ease from 8.9 percent in 2013/14 to 6.3 percent in 2014/15, and further to 4.9 per cent by 2016/17;
- Continued reforms in expenditure management and tax administration so as to improve revenue collection and thus create fiscal space for spending on infrastructure and other priority development programmes.
- Efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and devolved system of governance.
- Increase the absorption of resources from external sources from the current levels of below 60 percent to over 80 percent. This will give the envisaged impetus to economic growth and further improve the credibility of our budget. This will be done through strengthening the current ongoing reform engagements with development partners, as well as strengthening project planning and management. This is also expected to benefit from the ongoing review of the public procurement law which is intended to eliminate inherent delays embedded in the current procurement process.

At the County level, the County government of Nyamira shall continue to ensure prudent macroeconomic stability within sustainable public finances by providing support to economic activities and allowing for the full implementation of the devolved systems of government by ensuring that sectors receive adequate resources to fund their functions. The high wage bill in the sectors of Health and Agriculture continue to pose a challenge to the County government.

On the Revenue front, the County Government will expand the revenue base through increased efficiency in tax collection and the sealing of leakages in our revenue collection system, simplification and modernization of revenue collection measures in line with international best practices and improving on enforcement and compliance with enhanced administrative measures.

On the expenditure side, the County Government will continue with optimization of expenditures to improve efficiency and increase absorption. Expenditure management will be enhanced within the Integrated Financial Management Information System (IFMIS) platform.

3.3 Risks to the Outlook

National Level	**County Level**
➢ Weak growth in advanced economies that will impact negatively on our exports and tourism activities; ➢ Geopolitical uncertainty on the international oil market will slow down the manufacturing sector; ➢ Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the new Constitution	➢ weak revenue base thereby leading to over-reliance on the equitable share from national government; ➢ High cost of fuel leading to high cost of doing business and hence reduced savings; ➢ Wage pressure from staff from devolved functions and those inherited from local authorities, pending bills and debt from unpaid salary arrears from

and the devolved government may limit continued funding for development expenditure; ➢ The high current account deficit will continue to pose a risk and vulnerability to Kenya's macroeconomic stability. Kenya's large and persistent current account deficit of over 10 percent of GDP in the last three years raises a major concern for sustained economic growth.	the defunct local authorities. These will continue to limit funding for development in the next MTEF budgets; ➢ The high current account deficit at the National level will be felt at the County government by the way it affects the equitable share and the delays in exchequer releases to the Counties;

Should the above risks materialize, the County Government in consultation with the National government will undertake appropriate measures to safeguard macroeconomic stability and mitigate and reduce their impact. This includes involving development partners.

CHAPTER FOUR

RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustment to the FY 2014/2015 Budget

First and foremost, any budgetary adjustments ought to consider county resource availability through revenue collection and exchequer allocations. The process of revenue collection will be empowered through ensuring timely development of legislations that affect revenue collection as well as its enhancement and enforcement. In the concluded financial year 2013/2014, the revenue target for the county was not met because of loopholes in revenue collection as well as poor legislation. This would be avoided in the current financial year (2014/2015) so as to ensure optimal revenue collection. Plans are underway to automate the revenue collection system as a bid to seal revenue leakages. An enforcement unit has been set to make sure compliance to revenue submission is actualized. In the mean time, the finance bill 2014/2015 is being generated and its completion and approval will spur revenue collection.

Also, 2013/2014 was faced with high recurrent expenditure going to salaries and remunerations, threatening allocations to the development expenditure. Any adjustment to the 2014/15 budget emanating from harmonization of salaries or staff rationalization in the county shall be legal and as advised by the salaries and remuneration commission of Kenya. The county also appreciates the ongoing capacity assessment and rationalization of the public service exercise, being conducted by the Ministry of Devolution and Planning. Adjustments to the budget emerging from this exercise will be as advised by the Ministry of Devolution and Planning through the entity carrying out the assessment exercise.

In adjusting the 2014/2015 budget, comparison between the targeted and actual expenditure performance in 2013/2014 financial year per sector will be taken into consideration, as it will establish the real funds absorption capacity of the various departments. In adjudicating this process, budgetary allocations will be based on the departmental capacity of utilization.

Further, adjustment to the budget will be guided by the County Integrated Development Plan (CIDP) 2013-2017, annual development plan 2014/2015 and strategic plans, as this will ensure that the expenditure rationalization process (prioritization and reprioritization) is aligned to the development agenda of the county. Rationalization of expenditure will be guided by the actual/availed exchequer disbursements, local revenue collection, revised timeframes for implementation of programmes and emerging issues/concerns. However, county strategic priority areas such as flagship programmes and projects would always have higher allocation of resources.

During adjustments, legal apportionment between the recurrent and development expenditures will always be taken into consideration as spelt out in the PFM Act 2012. According to the provisions of the PFM Act Section 107(2) (a), it is stated that, "*the county government's* *recurrent expenditure shall not exceed the county government's total revenue*". In section 107(2)(b), it is added that, "*over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*". Reference to the legal framework will ensure compliance to all statutory requirements in handling of public funds.

4.2 Medium-Term Expenditure Framework

In expediting the medium-term expenditure framework, county priorities will prevail in resource allocation against other allocations and more so the development projects and programs. Rationalized expenditure will ensure that there is no wastage of resources and hence improve on efficiency. Prudent expenditure management will be realized through utilization of the Integrated Financial Management Information System (IFMIS) which has already been operationalized in the county treasury. Spending will also be controlled by already generated documents such as cash flow projection plans, procurement plans and annual development plans. In this case, CBROP will link expenditure to the planned activities. The county treasury will ensure that budget and planning relate as expected, with support from other institutions such as office of the controller of budget, the commission on revenue allocation and the county assembly.

To achieve development for all, the county expenditure flows into three sectors as indicated below;

Table 5: Sector Working Groups

S/N	Sector	Departments
1	Finance	Finance and Economic Planning Gender, Youth, Sports, Culture and Social services County Public Service Board Executive and Public Service Trade, Tourism, Industrialization and Cooperative development
2	Agriculture	Lands, physical planning and Housing development Water and Irrigation Environment, Energy and Natural resources Agriculture, Livestock and Fisheries
3	Infrastructure	Transport, Roads and Public works Health services Education and ICT

All sector working groups have aligned their priorities towards implementation of the county development agenda which gives key emphasis on the following thematic areas.

- Developing agribusiness through commercialized farming and culture change
- Enhancing infrastructure and ensuring optimal land use

- Extending and improving the quantity and quality of basic services such as water, education, energy and health care
- Good leadership and governance
- Promotion of women and youth enterprise development
- Development and strengthening public private linkages

Under infrastructural development, health sector has received highest funding in the current financial year, with an allocation of Ksh. 1,209,212,969/=. This has been attributed to high number of staff coupled with the need for infrastructural development in the health facilities as well as provision of quality health care services. To support the county economic activities, the other infrastructural departments (transport, roads, public works, education and ICT) also received considerable allocation since they serve as the drivers of the county economy. For self sustainability of the county economy, the sector will continue receiving high attention and thus ensuring substantial allocation of resources in future.

Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline estimates for the 2014/15-2016/17 MTEF period classified by department.

Table 6: Total departmental Estimates for MTEF FY 2014/15

S/N	Department	Estimates 2014/15		Projections 2015/16		Projections 2016/17	
		Recurrent Expenditure Kshs.	Development Expenditure Kshs.	Recurrent	Development	Recurrent	Development
1	County Assembly	514,519,998	75,450,000	565,971,998	82,995,000	622,569,198	91,294,500
2	Administration and Public Service	495,652,271	150,000,000	545,217,498	165,000,000	599,739,248	181,500,000
3	Finance and Economic Planning	77,620,388	29,700,000	85,382,427	32,670,000	93,920,669	35,937,000
4	Agriculture, Livestock and Fisheries	132,791,516	87,428,550	146,070,668	96,171,405	160,677,734	105,788,546
5	Environment, Energy, Natural Resources and Mining	20,506,042	50,593,500	22,556,646	55,652,850	24,812,311	61,218,135
6	Education and ICT	173,796,274	31,195,000	191,175,901	34,314,500	210,293,492	37,745,950
7	Health Services	1,064,169,058	145,043,911				

				1,170,585,964	159,548,302	1,287,644,560	175,503,132
8	Lands, Housing and Physical Planning	49,885,724	42,170,000	54,874,296	46,387,000	60,361,726	51,025,700
9	Water, Sanitation and Irrigation	67,181,210	58,039,650	73,899,331	63,843,615	81,289,264	70,227,977
10	Roads, Transport and Public Works	37,115,338	279,095,000	40,826,872	307,004,500	44,909,559	337,704,950
11	Trade, Tourism, Industrialization and Cooperative Development	47,419,900	79,977,500	52,161,890	87,975,250	57,378,079	96,772,775
12	Youths, Sports, Gender, Culture and Social Services	59,399,700	47,247,324	65,339,670	51,972,056	71,873,637	57,169,262
13	County Public Service Board	53,055,700	-	58,361,270	-	64,197,397	-
	Total Budget Estimates	**2,793,113,119**	**1,075,940,435**	**3,072,424,431**	**1,183,534,479**	**3,379,666,874**	**1,301,887,926**

4.3 Budget framework for FY 2014/2015

The 2014/15 budget framework is set against the background of the updated medium-term macro-fiscal framework as set out in the constitution 2010, the PFM Act 2012 and the County Government Act 2012.

Therefore, preparation of the 2014/2015 budget is informed by County Integrated Development Plan, Annual Development Plan, departmental strategic plans, County Fiscal Strategy Paper and other circulars originating from the controller of budget, Commission on Revenue Allocation and the County Assembly.

4.4 Revenue Projections

The County Government has projected to raise revenue from various local sources of **Kshs.219,053,554.** To achieve this target, the county intends to automate the revenue collection systems, build staff capacity and move towards sealing revenue leakages. Further 3,650,000,000/= (three billion, six hundred and fifty million) from the National Government. Thus the county government expects a total revenue of Ksh.3,869,053,554/= (three billion, eight hundred and sixty nine million, fifty three thousand, five hundred and fifty four).

4.5 Expenditure Forecasts

The County Government will spend **Kshs.1, 602,402,333** on salaries and allowances out of its total allocation of **Kshs. 3,279,083,556** excluding **Kshs. 589,969,998** allocation for the County Assembly. This comprises 49 per cent of the total expenditure. It is therefore apparent that salaries and allowances will take almost 50 per cent of the total expenditure estimates. Development Programmes have been allocated **Kshs. 1,000,490,435** being 30.5 percent of the total budget allocation for the County Executive. This leaves only 20.5 percent for administrative costs.

Wage Bill- the wage bill is high and likely to be unsustainable in the long run. Health sector alone will take **Kshs. 884,987,382** of the wage bill which is **27 per cent** out of the 49 per cent allocation for salaries and allowances. For this reason, the County Government will take deliberate measures to contain the raising wage bill by freezing recruitment of non-essential positions, consolidate the current workforce through restructuring and staff rationalization across departments.

Here below is the summary of the of proposed departmental budget allocation for the financial year. 2014/2015

Table 7: Departmental expenditure allocations

S/N	Department/Entity	Recurrent Expenditure Kshs.	Development Expenditure Kshs.	Total Expenditure Kshs.
1	County Assembly	514,519,998	75,450,000	**589,969,998**
2	Administration and Public Service	495,652,271	150,000,000	645,652,271
3	Finance and Economic Planning	77,620,388	29,700,000	107,320,388
4	Agriculture, Livestock and Fisheries	132,791,516	87,428,550	220,220,066
5	Environment, Energy, Natural Resources and Mining	20,506,042	50,593,500	71,099,542
6	Education and ICT	173,796,274	31,195,000	204,991,274
7	Health Services	1,064,169,058	145,043,911	1,209,,212,969
8	Lands, Housing and Physical Planning	49,885,724	42,170,000	**892,055,724**
9	Water, Sanitation and Irrigation	67,181,210	58,039,650	**125,220,860**
10	Roads, Transport and Public Works	37,115,338	279,095,000	**316,210,338**
11	Trade, Tourism, Industrialization and Cooperative Development	47,419,900	79,977,500	**127,397,400**
12	Youths, Sports, Gender, Culture and Social Services	59,399,700	47,247,324	**106,647,024**
13	County Public Service Board	53,055,700	-	**53,055,700**
	Total Budget Estimates	**2,793,113,119**	**1,075,940,435**	**3,869,053,554**

CHAPTER FIVE

CONCLUSION AND WAY FORWARD

The fiscal outcome for 2013/14 together with the updated macroeconomic forecast has had implication on the financial objectives elaborated in the last CFSP. 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 Act 2012. They are also consistent with the County strategic objectives pursued by the County Government as a basis of allocating of public resources.

The strategic objectives are provided in the CIDP, departmental SPs, ADP and CFSP developed to implement the County priority projects and programmes as envisaged in the aspirations of Vision 2030.The policies and sector estimates provided in this CBROP will guide the sectors in preparation of the 2015/16 and 2016/17 budgets.

The three sector working groups formed by the County Executive Committee will participate in the budget making process. They will be instrumental in the preparation of the next CFSP of February 2015 that will inform the preparation of the next financial year budget.