COUNTY GOVERNMENT OF KIRINYAGA

DEPARTMENT OF FINANCE, ECONOMIC PLANNING, MARKETING AND INFORMATION COMMUNICATION TECHNOLOGY

COUNTY FISCAL STRATEGY PAPER 2017

November, 2016

Kirinyaga County Fiscal Strategy Paper, 2017/18

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FOREWORD

The County Government of Kirinyaga aligns its Integrated Development Plan with the Kenya's vision 2030 and thus, the paper gives significant cognizant to the 3 Pillars (Economic, Social and Political pillars) of Kenya's Vision 2030. The envisioned development blueprint is rolled out in Successive five year Medium Term. For purposes of clarity, this County Fiscal Strategy Paper bases its framework from the Second Medium Term whose implementation timeframe covers between 2013 -2017.

This Fiscal Strategy Paper is the forth to prepare since the operationalization of the County Governments and sets out county policy goals and strategic priorities that will form the basis for budgeting for the financial Year 2017/18 and the Medium Term. It has been prepared in accordance with the Public Finance Management Act, 2012 and PFM Regulations, December 2015.

It outlines County priorities and goals based on the County Integrated Development Plan (CIDP) with emphasis on investment in: (1) Agriculture, Veterinary, Livestock and Fisheries resources,(2) Infrastructure (3) accessibility of water (4) accessible to health care (4) Trade and Cooperatives, and Access to Free ,Quality education. These priorities shall form the basis for resource allocation.

The paper therefore links planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework. It also covers the following broad areas in review of the fiscal performance of financial year 2016/17; overview of the recent economic developments and economic outlook; review of fiscal performance and emerging challenges; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework.

The County derives 90% of its revenue from the National Equitable Share, to decrease dependency on equitable share while at the same time ensuring sustainable financing, major emphasis will be given towards growing the local revenues. This can only be achieved through (1) growing the revenue base (2) enforcement of existing regulations including partnering with other Enforcement Agencies like KRA to streamline Revenue Collection and (3) Restructuring Operations within the Revenue Department (e.g. by Operationalizing the Automated Revenue Collection System and Occasionally reshuffling revenue collectors) to optimize revenue collection. The set objectives will only be realized if proper planning is done and fiscal discipline which ensures transparency, effectiveness and efficiency in public financial management is maintained.

To steer the county forward through numerous strategies geared toward improved service delivery, the County Executive headed by the Governor shall receive 4.10% of the County recurrent allocation and 7.92% of development allocation. The constitution of Kenya 2010, bestores critical decision making rights regarding development on members of the Public through Public Participation. It is from this Public Participation Forum that the Public "Wanjiku" in line with the County Integrated Development Plan and the ADP prioritized 32.38 percent allocation of estimated development budget to routine improvement of vital link and access roads, plus bridges. The opening up of access roads and construction of Bridges will particularly boost access of markets for Agricultural produce thus curbing post-harvest loses.

The County is cognizant of the fact that it is tasked with ensuring good Health and general wellbeing of its citizens. It is for this reason that the county has allocated 9.07% of Recurrent allocation towards cushioning Health Recurrent expenditures and 17.37 percent of development estimates towards improving Health Services and Increasing the number of Health Facilities so as to improve access to Health Services by all. Further, the county has set aside 12.33 percent, quantifying to a rough figure of Kshs 172.4 Million, towards ensuring that the Citizens access clean and safety water both for drinking and irrigation. With regard to energy and electricity, the county will continue to supplement effort of the National Government's Rural Electrification Program (Rural Electrification Project) with its own expenditure towards lighting our markets and shopping centers in its bid to improve security and enhance Trade beyond the normal trading hours.

Riding on the potential that the county has in Agriculture, animal production and value addition, the County envisions to allocate development resources amounting to about 6.23 percent of the entire development budget towards Provision of Certified seeds to farmers, Provision of subsidized fertilizers and other farm inputs, mechanization of Agriculture, Disease & Pest control and boost Dairy farming through installation of milk coolers and Improve A.I. services.

Hon. Murimi Murage

County Executive Committee Member & Head of the County Treasury

ACKNOWLEDGEMENT

A lot of effort and personal dedication have been spent, beyond office hours to ensure the 2017 County Fiscal Strategy Paper (CFSP) is prepared and submitted on time, as scheduled in the PFM Act. These efforts have been dedicated to the timely preparation of this CFSP, personal effort without which, actualization of this MTEF Policy document would not have been possible. Thus due gratitude is given where it is due.

The County Budget and Economic Forum (CBEF) role has been crucial in putting together this policy document. Their professional approach and input was priceless. Special gratitude goes to the preparation coordinating team that worked tirelessly throughout to transform raw data gathered from Public Participation Forums to this refined document. These officers include Mwangi Naftaly (Director, Budget) Mbugua J. N. (Director Economic Planning) Zephania Kiongo (Head of County Treasury- Accounting), James Gitahi (County Budget Coordinator-Office of Controller of Budget), James Kimaru, Gachomo Paul, Naomi Mumbi, Melody Njeru, Njau Sylvester (From Economic Planning Department).

Likewise, Special thanks go to the invisible hands of various County officials who worked behind the scenes during the Public Participation forums. While it is not possible to list all of them, we acknowledge officers from Procurement departments, Sub-County Administrators, Ward Administrators and all interns from Economic Planning and Budgeting departments.

To these officers and all others not individually mentioned who took part in this exercise, you remain a credit to this county.

Eliub Comba Muriithi

Chief Officer – County Treasury

ABBREVIATIONS

ATC	Agricultural Training College
BPS	Budget Policy Statement
CA	County Assembly
CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CRA	Commission on Revenue Allocation
CBEF-	County Budget and Economic Forum
CE	County Executive
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CBR	Central Bank Rate
ECDE	Early Childhood Education
DANIDA	Danish International Development Agency
FY	Financial Year
GDP	Gross Domestic Product
G-Pay	Government Payment System
ICT	Information Communication Technology
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
KARI	Kenya Agricultural Research Institute
KRA	Kenya Revenue Authority
MTP	Medium Term Plan
MTEF	Medium Term Expenditure Framework

M&E	Monitoring and Evaluation
PFM	Public Finance Management
PPP	Public Private Partnership/ projects
SME	Small and Medium Enterprises
SDG	Sustainable Development Goals
PBB	Program Based Budgeting
SBP	Single Business Permit

1.0 INTRODUCTION

1.1 Overview & Legal Basis for County Fiscal Strategy Paper

The 2016 County Fiscal Strategy Paper is the third to be prepared by the County Government of Kirinyaga since the onset of devolution. This CFSP is anchored to the National Government Budget Policy Statement under the theme "Enhancing Economic Transformation under Shared Prosperity". This CFSP will provide basis for preparation of the budget estimates for 2016/17 and MTEF budget for 2016/17-2018/19.

The preparation of the County Fiscal Strategy Paper (CFSP) is guided by **Section 117 of the Public Finance Management Act, 2012 and the County Government Public Finance Management Regulation Numbers 25-28 of 2015**, which requires the County Treasury to prepare and submit CFSP to County Executive Committee for approval. After approval by the Committee, the County Treasury is obligated to submit the approved copy to the County Assembly, latest 28th of February. The County assembly is expected to adopt the CFSP, with or without amendments within fourteen days.

The Preparation of CFSP seeks the views of Key Individual Government institutions listed as The Commission on Revenue Allocation (CRA), County Departments, Controller of Budget, National Treasury (BPS), forums recognized by legislation (e.g. CBEF), Other stakeholders and most importantly the Public who by law (The Public Finance Management Act 2012 Section 125 (2)) are the main stakeholders during the Budget Making process. Other than aligning the County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement, the CFSP shall specify the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for the coming financial year and over the medium term. Other requirements includes but not limited to:

- The financial outlook with respect to County Government revenues, expenditures and borrowing for the coming financial year and over the medium term.

- The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County Assembly.

1.2 Fiscal Responsibility Principles

In line with the Constitution, The Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. Section 107(1-2) of Public Finance Management Act states that: In managing the County Government's public finances, the County Treasury shall enforce the following Fiscal
Responsibility principles-

1. Over the medium term, a minimum of 30 percent of the national and county budgets shall be allocated to development expenditure

2. The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the County Government Public Finance Management 2015 regulations.

3. 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.

4. Over the medium term, the national and County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. Note that the County Government of Kirinyaga is yet to borrow funds from financial institutions.

5. Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for the National Government and the County Assembly for the County Governments.

6. Fiscal risks shall be managed prudently; and

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. The Kirinyaga County Finance Act 2015 is currently in force.

1.3 Outline of the 2016 Kirinyaga County Fiscal Strategy Paper

The whole of this CFSP is organized as follows;

Chapter 1 gives an Introduction on the various laws & regulations governing the preparation of the CFSP, plus the fiscal responsibility principles governing the budgeting process.

Chapter 2 outlines the economic context in which the 2016/17 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global, national and County domestic scene.

Chapter 3 is about Fiscal Policy and Budget Framework, and it outlines the fiscal framework that is supportive of growth over the medium-term, while continuing to provide adequate resources to facilitate execution of policy priorities of the County Government of Kirinyaga. The chapter also gives an overview of the 2015/16 budget and its compliance with the fiscal responsibility principles.

Chapter 4 gives a detailed analysis of the Medium Term Expenditure Framework. It presents the resource envelope and spending priorities for the proposed 2016/17 MTEF Budget and the Medium Term. Sector achievements and priorities are also reviewed for the MTEF period.

2.0 RECENT ECONOMIC DEVELOPMENT AND OUTLOOK

2.1 County Economic developments

The county government has channeled a lot of resources towards improvement of lives of county residents, most notably in the health, education and water sectors. The government has also put tremendous efforts in ensuring that public transport in county roads have been improved significantly.

2.1.1 Agriculture, veterinary livestock and Fisheries

At least 80% of Kirinyaga County residents rely on agriculture as their source of revenue as well as providing for their daily food basket. In order to strengthen this important sector, the county government has continuously tailored services that are aimed at equipping farmers with vital skills to be competitive either in agribusiness or subsistence farming.

The county government has over the past three years ensured that subsidized fertilizer is timely available to farmers at affordable prices.

The government has also in partnership with KARI purchased high quality seeds that are distributed to farmers. Through the multiplication programme, the farmers are able to increase their harvests significantly. The high quality seeds purchased are well suited to prosper in not favorable climatic conditions and early maturing. This effectively cautions farmers from losses especially in times of unpredictable weather changes.

The government together with other stakeholders has intensified farmers training across the county to equip them with necessary skills and emerging agricultural technologies. The department of agriculture has held annually an agricultural exhibition at Kamweti ATC to give farmers an opportunity to showcase their agricultural produce.

Various fish farming groups in the county have been issued with fish fingerings to empower their business startup. The government has also issued freezers to enable them get competitive prices without the risk of heavy losses.

The county government also supported various flower farmers with startup seeds to empower them to embrace the promising and flourishing flower business.

In livestock, the government has, with partnership with the veterinary association, conducted county wide vaccination programmes. In addition, in efforts to deal with external parasites, the government has rehabilitated cattle dips across the county.

In attempt to reduce post-harvest losses to farmers, the government has installed a grain storage facility in Kanyekiini ward.

To the daily farmers, the county procured milk cooling plants in Kariti and Kiini wards to support farmers get competitive prices.

To banana farmers, the government launched a tissue culture banana programme and distributed highly productive tissue culture bananas in Mutira ward. This will go a long way in helping farmers adopt new agricultural technologies that greatly improve productivity.

To the tea farming zones, the government has rehabilitated tea buying centers in Kerugoya, Inoi, Karumandi wards. This will help farmers operate in acceptable conditions as well as ensuring that the products meets required health standards

Towards improving coffee farming, the government has launched high yielding coffee seedlings to farmers. The farmers through various trainings were sensitized on the importance of adopting recently researched seedlings to take advantage of advancing technologies

Together with development partners like the GiZ, the government has implemented micro-irrigation products in Kariti and Mutithi wards to support farmers in reducing the dependence on rain reliant agriculture

2.1.2 County Health Services

The county government realizes that the economic wellbeing of the county is firmly anchored in the health of it residents. Towards this end, the government has allocated huge resources towards availability of drugs and other assorted medical equipment in all county health facilities.

In order to make medical services close to the people, the government embarked at rehabilitating the existing health facilities, construction and equipping of new dispensaries, purchase of new equipment together with rehabilitation of existing facilities. The county government has started over 90 projects some of which are complete and others in advanced stages.

To cater for emergency services, the government procured and commissioned 4 more ambulances to supplement the already existing ambulances.

Due to all these efforts, the county has seen skilled deliveries improve to over 93% of them being conducted by trained health workers in health facilities.

In order to improve service delivery in the new health facilities, the government has recruited over 470 new health workers in various cadres to improve to the robust work force in the sector.

2.1. Education

The roles of the counties towards education in the devolution context is in pre-primary education, village polytechnics and home craft centers.

In improving the pre-primary education, the government identified various gaps that needed to be addressed. The ECDE centers existing didn't have adequate staffing with the number of children already high. The government has addressed this challenge by recruiting over 400 care givers to serve in the ECDE centers. This has seen the enrollment to ECDE centers increase by more than 50%.

In order to consolidate the gains achieved in the ECDE centers in enrollment levels, the county government has provided ECDE instructional materials to over 200 ECDE centers across the county.
To cater for the increasing enrollment to these ECDE centers, the government has so far constructed over 14 new ECDE classrooms with an extra 13 ECDE classrooms under construction. The government further intends to construct over 20 new ECDE classrooms within the 2016/17 FY

In improving the sanitary environment to the kids, who are prone to health problems, the government has constructed over 77 exhaustible ECDE toilets in various centers across the county. In addition, to enhance the physical growth to the kids, the government has installed playfield facilities in the ECDE centers.

In the polytechnics and home craft centers, the county government is in cognizant that these institutions play vital roles in impacting hands-on skills to the youths. Towards this effect, the government has operationalized 11 no. of Vocational Training Centers. Further, the county has established ICT centers in 5 county polytechnics. To enhance the quality and competitiveness of courses offered in these polytechnics, the government has purchased essential tools and equipment to the polytechnics. In the home craft Centres in the county offering programmes such as brick making, weaving and cookery; the county government has provided them with basic facilities and equipment.

In an attempt to guarantee education to the bright students in secondary schools and institutions of higher learning who hails from economically challenged families, the county government has continued to provide bursary. In the last two financial years, a total of Ksh. 139 Million has been disbursed towards this course. In the current 2016-17 FY a total of Ksh. 90 Million has been set aside towards the bursary fund.

2.1.4 Water, Environment and Natural Resources

Provision of clean water supply, conservation of natural resources is one of the key priority areas of the county in achieving the long term strategic objective. In the past three years, the county government has strived to allocate resources towards improving the water network in the rural areas, both for domestic consumption and irrigation farming.

Through this department, the government has funded over 140 water projects across Kirinyaga County. The project entails; funding water piping projects, drilling of boreholes and construction of water intakes to increase water volumes. Among the notable projects is the Kutus- Mwea water project that aims at increasing significantly water supply to urban areas like Ngurubani which has perennial water problems. Water harvesting has been identified as a reliable way to address water shortage. In this light, the county government have issued water storage tanks to homesteads especially in Kanyekiini ward to enable residents have access to clean water.

In ensuring a clean habitable environment especially in our urban areas, the county government has ensured that garbage accumulation is dealt with. The government procured additional 4 garbage trucks to efficiently enable transportation of garbage.

Afforestation has been identified as an effective measure to improve the forest cover and conserve our water catchment areas. The county government has initiated, funded and advocated for tree planting programmes across the county. Farmers have also been advised to embrace agroforestry as a measure to improve the total forest cover.

2.1.5 Trade, cooperatives, tourism and industrialization

The county government is committed to providing an enabling environment for a vibrant economy through promotion of trade and investment opportunities in the county.

To ensure that traders works in clean environment, the government has rehabilitated various markets around the county by laying of cabro blocks, constructing market sheds, fencing the markets and construction of sanitation blocks. Among the notable markets are Kerugoya market, Kianyaga market, Kagumo market, Kiangai market. One of the flagship projects is the construction of Kagio market which is the hub for agricultural produce in the county. Construction of modern market will help in unlocking the economic potential of the area given its strategic placing and easiness in attracting great volume of traders from around the country.

Construction of Market sheds and roofing in various markets like Kutus market has helped traders work in decent conditions and boosted the volume of trade.

In efforts to guarantee security in the market places, the county government has installed floodlights around the market traders. This has enabled traders to extend their working hours and take advantage of extra customers to increase on their incomes.

In promoting trade investment opportunities, officials in this department have participated in investment exhibitions that brings both local and international investors together. These expos provides a platform to showcase various products and opportunities in the county.

2.1.6 Transport and Infrastructure

The county government realizes that having a well maintained rural road network is a key component to unlocking the potential of key agricultural areas and increase integration of the areas. Towards this, the county government has constantly allocated resources towards transforming rural feeder roads to all weather roads.

The county government has also built or rehabilitated footbridges in various wards across the county to address the movement challenges across rivers. Most notably are construction of footbridges in Murinduko ward, Kangai ward, Gathigiriri wards, Kariti ward. Further, the county government has built bridges to open up areas and improve public transport. Most notably are the bridges in Kangai ward (Mung'ang'a) and box culver in Wamumu ward among others

2.2 National Economic and Fiscal Overview

Kenya's overall economic performance has remained robust over the past two years, and it is expected to continue into the medium term at a rate of 6% in 2017, according to the latest economic update by the National Treasury.

According to the National Treasury, this growth is mainly supported by improved performance in the agricultural sector, mining and quarrying, wholesale and retail trade. Also supporting is growth in other sectors like construction, manufacturing and financial sectors.

Overall, Kenya's performance has outpaced the regional average for eight consecutive years, and the country remains a bright spot across Sub-Saharan Africa. Kenya experienced strong economic performance in 2015, and has exceeded the average growth for Sub-Saharan Africa countries consistently since 2009, the report notes.

This positive trend was reinforced by the latest World Bank Group's Ease of Doing Business report where Kenya moved up to the 92nd spot compared to 113 in the previous year. Kenya is now among the top five economies in Sub-Saharan Africa where it is easiest to do business. This improvement in the country's business climate is largely due to the implementation of reforms to ease the process of doing business.

Nonetheless, the KEU notes that the country remains vulnerable to both external and domestic risks ranging from adverse weather that could curtail agricultural growth, uncertainties around the 2017 elections that could unduly dampen investor confidence, to weaker than expected global demand which could subdue the country's exports.

The National Assembly passed an amendment to the The Banking Act which caps the lending rates at maximum 4% above the Central Bank Rate and deposits at 70% of the CBR. The effects of the rate regulation remains to be seen and could vary from intended affordable loans to the low income households and small businesses, to reduced profitability for the banking sector which can result in job losses and strict lending rules particularly to the SMEs.

According to the Kenya National Bureau of Statistics inflation in October 2016 rose to 6.47 % and the annual average inflation rate at 6.5 % to October 2016. This is within the government's target range of 2.5 % on either side of 5.0 %. This is largely driven by increase in food commodities. However Kenya, continues to benefit from stable macroeconomic environment and good monitory policy action

2.3 County Economic and Fiscal Overview

The national economy has an impact on the Kirinyaga County economy. This is a factor that cannot be overlooked when developing county's economic policies. Growth of the national economy is directly linked to the counties. An expanding national economy will lead to higher revenues and ultimately higher allocations to the county governments in terms of equitable share and other conditional grants. Higher economic growth also raises household incomes. This percentage increase in their purchasing power will help grow the local economy by raising the demands for goods and services.

The performance of the economies of Kenya's trading partners affects the county economy directly through demand for goods and services produced in the county and indirectly through increased investments in the national economy. The growth of major trading partners may also positively affect the county economy if that affords them to invest directly in the county.

The Kenya Shilling exchange rate has continued to display relatively low volatility compared to major regional currencies. Ours is an agricultural led economy, and as such, this will lead to lower cost of crude oil, farm inputs and other essential agricultural and industrial inputs including essential medical supplies to our county. A stable exchange rate reflects competitive prices for our county farm products for tea and coffee as well as other horticultural product.

Europe, USA, Middle East and Egypt are the major consumers of some of the products produced in the county, mainly tea and coffee. The price of tea in the global market has been falling despite increasing production which has affected the county economy. On the other hand, coffee production has declined greatly due to mismanagement of cooperatives. Improvement in the global economy will therefore increase demand for exports originating from the county. The county can therefore benefit from these prospects if its products are competitive.

Fiscal policy will continue to support economic activities while allowing implementation of the County Integrated Development Plan (CIDP). In the last three financial years, the County Government has oriented expenditure towards priority programmes in infrastructure, health, education, agriculture, and water. This process will be strengthened by continued optimal resource allocations to these sector priorities to accelerate socio-economic development.

Going forward, the county treasury, through the enactment of Finance Act has established systems to attain sound economic policies. The county government will seek to expand the revenue base without necessarily imposing undue burden on the residents. This will be achieved by increasing efficiency in revenue collection. Increasing the capacity in adopting the Automation of revenue collection to promote efficiency of revenue agency and to reduce leakage of revenues and also through continuous capacity building of revenue officers so as to cope with dynamics of time and technology

2.4 Review and Outlook for the Medium Term

2.4.1 Fiscal Performance review

Kirinyaga County 2015-16 budget amounted to Ksh. 4.77 Billion. Allocation to recurrent expenditure amounted to Ksh. 68.4% (3.27 Billion) while development expenditure was allocated a total of 31.6% (1.51Billion). The development allocation marginally meets the legal threshold as stipulated in the PFMA that at least 30% of total budget be allocated to development expenditure

Fiscal performance for the 2015-16 FY was however not without challenges. The county collected a total of Ksh.390.38 million in local revenue. This represented a shortfall of 22% on the local revenue. The conditional grants received amounted to Ksh. 118.03 Million against a projected receipt of Ksh.120.74 million. This indicates a 2.2% shortfall from the targeted receipt.

The 2016-17 FY budget amounts to Ksh. 4.4 Billion. In this FY, recurrent expenditure is allocated 69.31% (Ksh.3.06 Billion) whereas development expenditure is allocated 30.69% (1.358 Billion). This allocation once again indicates the county's commitment to adherence to fiscal responsibility principles. The budget is projected to be financed by KSh.3.818 Billion (86%) from transfer from National

Government, Kshs. 460Million as projected revenue collection for the FY and Kshs. 146.7 million as Conditional grants.

Total expenditure for the quarter amounted to Kshs. 443.7 million. However the expenditure constitutes Kshs. 430 Million in recurrent expenditure and Kshs.13.7 million in development expenditure. The quarter is characterized by low absorption of development expenditure which is mainly attributed to lengthy tendering process.

2.4.2 Outlook for the Medium Term

To adhere to the fiscal responsibility principles, the County Treasury will ensure that budget allocations will strive to allocate more resources to the development agenda as well as cutting on recurrent expenditure. In addition Departmental expenditures should be for votes in the budget and within the ceilings.

Going forward, the County Government will put in measures to ensure that budget revisions are kept at minimum and be undertaken in good time to allow time for budget execution.

To address the challenges of revenue shortfalls and expenditure, the County Government will step up efforts on revenue administration and mobilization to eliminate leakages and increase revenue collection targeted in 2016-17 FY as well as rationalize expenditure so as to minimize budget deficit. The following measures are underway in addressing the challenges in Revenue collection shortfall. The Government seeks to recruit and train public prosecutors so as to enable the County to enforce collection of penalty fees and charges.

Efforts are also being made to increase the percentage of rates and rents collected through enforcement. Increasing revenue base is one of the effective ways of increasing revenue collection. To this effect the county government has embarked on a rigorous exercise to register more business premises to widen the revenue base. In addition, in collaboration with the KRA, the county government will ensure that those with outstanding rates and rents will not be cleared before they comply.

Furthermore, payments will no longer be made by the county treasury to those suppliers listed as rates/rent defaulters Increasing the capacity and coverage of automated revenue collection system; frequent monitoring of revenue collection processes and procedures; step up reinforcement of revenue collection function; creation of structured markets (i.e. fenced markets); training and capacity building of revenue officers; sensitization of the public on the importance of paying taxes to the county.

2.5 CFSP compliance to Fiscal Responsibility Principles

In compliance with section 107 (2) (a) of PFMA 2012 and the PFMA Regulations 2015 section 25 (1) (d), (e) the County Government has continued to maintain a balanced budget in terms of available revenue equals the expenditure. Therefore the government doesn't envisage borrowing to finance the budget.

The County Government has also continuously complied with section 25 (1) (g) (h) of the Regulations. The Government has over the past three years allocated over 30% towards development expenditure in the budgets. During the 2015-16 FY, development expenditure was allocated 31.6% (Ksh. 1.51Billion). During this current FY 2016-17, development expenditure has been allocated 30.69% (Ksh. 1.358 Billion). Going forward, in the 2017-18 FY, the County Government will also allocate 30% towards development expenditure

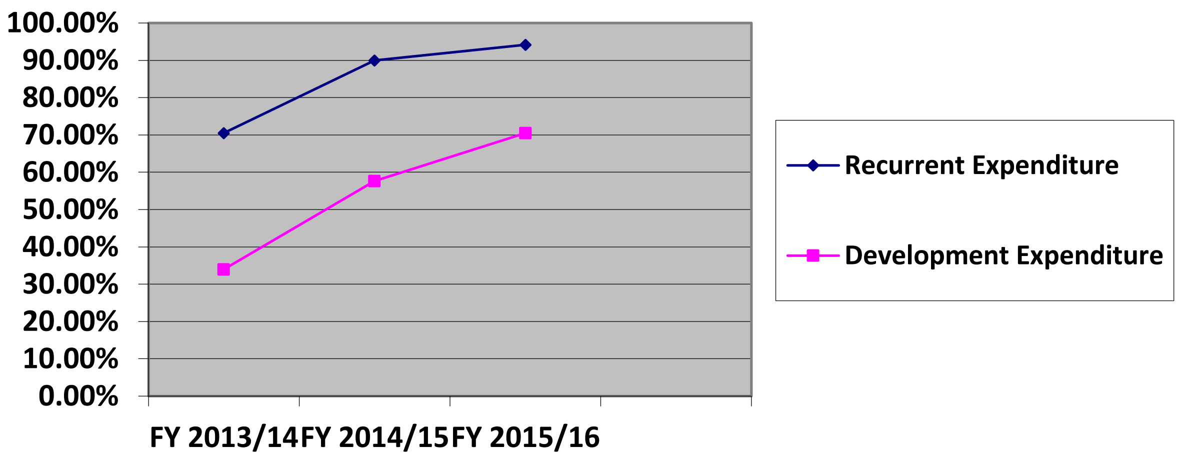
3.0 FISCAL POLICY AND MANAGEMENT

3.1 Overview

Over the Medium Term the County aims to build a strong fiscal discipline which will build the County's financial management capacity leading to sound governance. In order to maintain a sustainable growth the County Government will adopt the Medium Term Fiscal Policy. This is in line with the fiscal responsibilities and principles which will go a long way in ensuring prudent management of public resources.

3.2 Fiscal Discipline Measures

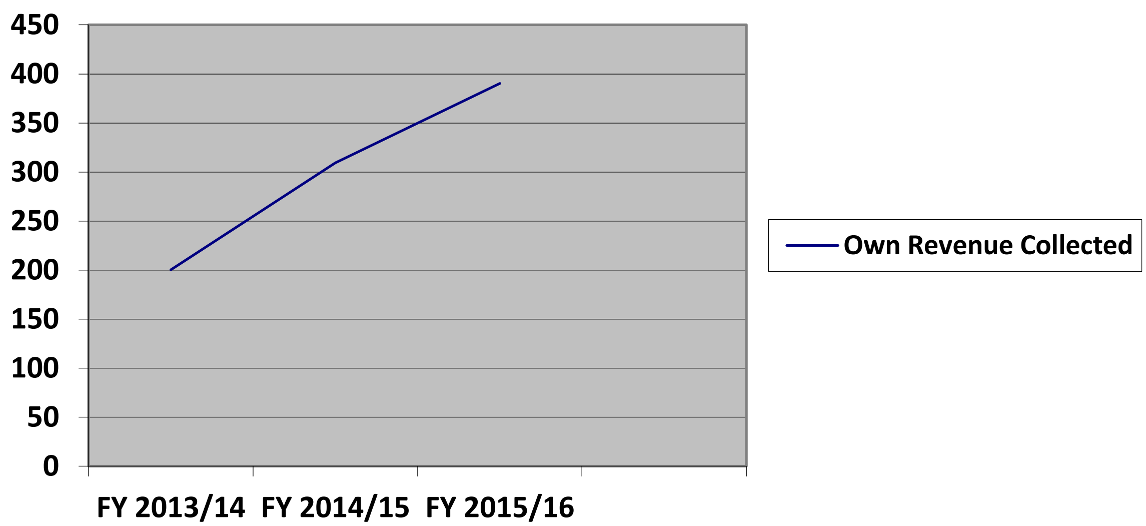
1. Structural Balance between Recurrent and Capital Expenditure: Over the medium term development expenditure will be maintained at least 30% of the total budget which is line with the Public Finance Management Act Section 15(a). The County is working to ensure compliance with this principle will also translate into actual development spending of similar proportion. It is important to note that over the medium term the County's absorption rate (capacity) has been increasing.



Recurrent expenditure in the FY 2015/16 represented 94.2 per cent of the approved annual recurrent budget, an increase from 90.0 per cent spent in a similar period of FY 2014/15 and 70.5

per cent in the FY 2013/14 .On the other hand, development expenditure recorded an absorption rate of 70.5 per cent, an improvement from 57.6 per cent spent in a similar period of FY 2014/15 and 34.0 per cent in the FY 2013/14.

2. Fiscal discipline will be achieved by ensuring there is a balanced budget such that expenditure decisions will be based on available resources envelope. In this context, it is important that among other measures, the County:
   i) Accurately forecast own-source revenue to avoid negative impacts on the budget
   ii) Adhere more strictly to expenditure ceilings set out in the County Fiscal Strategy Paper
3. Own Revenue Generation: The County Government over the Medium Term seeks to maximize own revenues to check on overreliance on national transfers which will caution the county against fiscal pressure especially due to financing of infrastructural needs. Kirinyaga County own revenue collection has been increasing over the Mid Term years and the County is working to maintain the trend.



Own County Revenue Collection in the FY 2015/16 amounted to KShs390.37 Million an increase from KShs 309.37 Million in the FY 2014/15 and KShs 200.36 Million in the FY2013/14

4. The County Government will ensure compliance with Public Management System over the medium term which include

- Compliance to the public finance principles set by article 201 of the Constitution and sections 35 and 105 the PFM Act;

- Fidelity to the timelines in the budgeting process such as development of County Integrated Development Plans, County Fiscal Strategy Papers, Debt Management Strategy Papers, County Budget and Outlook Paper among others as outlined by the law which will contribute to fiscal efficiency at the County level.
- An effective internal audit system;
- Compliance to public procurement and disposal Act 2015 laws and regulations;
- Fiscal transparency: Availability of fiscal data to the public

5. The County Government will exercise allocative efficiency where the County Government will continue to channel resources towards achievement of strategic priories outlined in the County Integrated Development Plant and County Fiscal Strategy Paper.

6. Prudent management of fiscal risks: The County Government is required in the Public Finance Management Act 2012, to disclose all the specific fiscal risks which may affect the County's economic environment and prudently manage these risks.

3.3 Statement of Specific Fiscal Risks

In compliance with PFMA Regulations 2015 section 25 (2), the County Government has identified potential risks that can affect the fiscal outlook in the medium term.

The negative trend in meeting revenue targets poses a risk in realization of the medium term expenditure framework. However the county government will strive to implement the outlined measures to enhance collection.

The County Government highly relies on the equitable share as the major source of revenue. This highly undermines the county Government's autonomy as well as posing fiscal risks and shocks in the event of unforeseen changes to the source of revenue

The main county's economy driver is in the agriculture sector. Recent weather predictions by Kenya Meteorological Department points out that there will be sustained draught or irregular weather patterns which can negatively affect revenues to farmers especially in the tea and coffee sectors. However, the county government has recently allocated a lot of resources towards water distribution both for domestic use and irrigation purposes to areas where horticultural agribusiness is the main economic activity.

Compliance with the set ceilings among the county government entities poses a risk in implementation of the 2017-18 MTEF. This risk can however be avoided by entrenching fiscal discipline among the entities.

Political risk is imminent with the next general elections scheduled for August 2017 fast approaching. Political stability is a crucial factor in ensuring macroeconomic stability in Kenya. Transfer of funds from the national government will depend on various factors such as smooth transition to the next government.

County governments have been mandated to rehabilitation of rural access roads through grading and murruming. This rehabilitation is highly affected by adverse weather conditions most notably heavy rains. The roads will need interventions from time to time which is unsustainable.

The Salaries and Remuneration Commission undertook a job evaluation exercise in the public sector with the objective of attaining harmonized grading structure and address any remuneration disparities and inequalities. The new proposed grading structure which takes effect in the beginning of 2017-18 FY could pose fiscal risks in terms of personnel emoluments which could push further to the already high personnel costs

The county governments together with the national government implements projects, for instance the street lighting project. The County Government will undertake the maintenance of the lighting including the bills. Sustainability of the projects increases the recurrent expenditure on the county budget. More sustainable approach such as solar lighting should be adopted.

4.0 MEDIUM TERM EXPENDITURE FRAMEWORK

4.1 Resource Envelope

As in the Previous Financial Years, Resource Envelop projections for the 2017/18 FY and in the Medium Term will depend on Conditional and unconditional transfers from the National Treasury as contained in the County Allocation of Revenue Act 2017, plus local revenue to be collected as per the County Finance

Act.

In the intent of coming up with budget departmental ceilings, It is to be noted that some of the conditional transfers from the National Treasury for various projects in the County will not be included in the Budget Estimates for the county but will be in the National Government Budget Estimates. These includes conditional allocations in the Third Schedule of County Allocation of Revenue Bill, 2016 under loans and grants, like Road Maintenance Fuel Levy Fund, free maternal health care, compensation of forgone user fees, DANIDA grant to supplement financing of county health facilities and any other grants in case there are such estimates..

It is therefore expected that the loans and grants as found in the third schedule will have their financing agreement managed by the National Government but with involvement of County Governments in the Project Steering Committees and Project Implementation Units for each programme/project. The framework for the implementation of such projects /programmes will be clearly spelt out and agreed upon between national Government and the county government prior to the release of the funds and implementation of the projects.

Table 1 : Resource Envelope

KIRINYAGA COUNTY GOVERNMENT			
REVENUE SOURCES			
DESCRIPTION	**FY 2015/2016**	**FY 2016/2017**	**FY 2017/18**
Equitable Share	3,538,217,626	3,817,781,963	4,200,000,000
Allocation for Free Maternal Healthcare	50,716,400	45,389,754	
Allocation - User Fees Foregone	12,308,920	11,625,078	
Allocation of Roads Maintenance Fuel Levy Fund for Repair and Maintenance of County Roads	44,947,130	58,660,195	
Allocation Financed by Grant from Government of Denmark to Supplement Financing of County Health facilities (DANIDA)	12,770,000	6,385,000	

Allocation Financed by Grant from Government of Denmark to Supplement Financing of County Health facilities (DANIDA) - B/F	5,195,000		
Local Revenues	500,000,000	460,000,000	460,000,000
World Bank Devolution Support Programme Grant		24,601,287	
Rolled over Funds	613,337,632		
TOTAL REVENUES	**4,777,492,708**	**4,424,443,277**	**4,660,000,000**

Source: County Treasury

The Kirinyaga County equitable share is just 1.36% of the total sharable revenue based on the Revenue Sharing Formula. The Commission on Revenue Allocation recommended that **Kshs 331,599 million** as National equitable revenue and **Kshs 35,963 million** as sharable conditional grants for 2017/18. The Budget Policy Statement indicates that Kirinyaga County will only access **Kshs 4,074.34 million** as equitable share and Conditional Grants amounting to **Kshs 292.04 million**. This Paper therefore considers **Kshs 4,270.63 million** as the Total sharable revenue from National Government. At this point it is worth noting that this figures (as highlighted by BPS) are subject to change and that CARA 2017 shall set out the actual Revenue sharable amongst the counties and hence the Equitable Revenue Allocation for Kirinyaga County. Allocation from the national equitable share will finance over 85 percent of the county budget. County locally generated revenue is expected to fund the rest at a projected estimate of **Kshs 460 million**. The County will however endeavor to encourage the private sector through Private Public Partnership Projects (PPP) as well as endure to look for donor funding in the financial year 2017/18.

4.2 MTEF Priorities

4.2.1 National Priorities

The national government's Budget Policy Statement shows that national priority sectors will continue to be consistent with the previous financial years within the medium term.

The budget policy statement reflect significant capital investments in the areas of (1) Energy, Infrastructure, ICT (2) Environment protection, water and Natural resources and development expenditure in general. This reflects the priority assigned to the development in contributing the growth objectives.

4.2.2 County Priorities

In the recurrent expenditure category, non-discretionary direct cost expenditures take priority. These include payment of statutory obligations such as wages, salaries, pensions, amenities and rent. This non–discretionary cost expenditures are estimate to amount to about Kshs 2.0 billion.

County Government plans to set aside Kshs 300 million towards provision of Car loans and Mortgage scheme for the civil servants.

About 30 percent of the total revenue will be available to fund development projects and programs. Development expenditures will be shared out on the basis of the county priorities as outlined in the CIDP as well as other interventions to deal with unemployment, improve security, increase investment and ensure faster growth in key industries in the county. The following guidelines are used:

1. **Ongoing Projects:** Emphasis is to be given to completion of on-going projects in the County in particular infrastructure projects as well as other projects with a high impact on poverty reduction and equity, employment and wealth creation.

2. **Strategic Policy Interventions:** priority is also to be given to policy interventions covering the County in particular social equity, environmental conservation and value chain addition.

Other factors will include;

(1) Level and extent of Devolved Functions as per Legal Notice Number 16 and 153 of 2013
(2) County Sector priorities and objectives as per the County Integrated Development Plan (CIDP)

(3) National Government Policies – Vision 2030, Budget Policy Statement.

(4) Public interest projects- include proposals made by members of the Public during Public Sector Reviews forums held at ward levels between 24th and 30th August 2016.

4.2.2.1 Proposed Capital investment for FY 2017/18 (Proposed Flagship Projects)

Sector	Name	Activity
Health Sector	**Kerugoya County Referral Hospital Ward**	**Construction of a Ward**
	Sagana Sub- County Hospital Theatre	**Construction of a Theatre**
	Kerugoya Medical Supplies Warehouse	**Establishment of Medical Supplies Warehouse**
	Ambulance/ Utility Vehicles	**Acquisition of Ambulances**
	Automation/ ERP/HMIS	**Installation of HMIS**
Trade	**Kutus Market**	**Rehabilitation and Upgrading of the Market.**
	Ngurubani Market	**Rehabilitation and Upgrading of the Market.**
	Kirinyaga County Trade Development Fund	**Establishment of Kirinyaga County Trade Development Fund**
	Value Addition	**Develop and Operationalize value addition program including installation of Milk Packaging Machine and Macadamia Processing Machines**
Gender	**Talent Academy**	**Construction of a Talent Academy**
	Kutus Stadium	**Rehabilitation and Upgrading of the Stadium**
	Vulnerable Group Fund	**Establishment of County Vulnerable Group Fund**

Education	**Milk Program**	**Establish a milk program at ECDE institutions**
	County Library	**Construction and Equipping a County Library at Kutus Note: Site location has been Swapped from Kamiigua Polytechnic to Kutus**
Water	**Mwea Makima Water Project (phase two)**	**Completion of Mwea Makima Water Project**
Agriculture, Veterinary, Livestock and Fisheries	**Animal Feeds Factory**	**Establishment of a County Animal Feeds Factory**
	Extension Services	**Provision of AI Services**
Lands	**Kerugoya/ Kutus Municipality Urban Board**	**Establishment and Operationalization of the Kerugoya/ Kutus Municipality Urban Board**
	Wang'uru and Sagana/ Kagio Town Committees	**Establishment and Operationalization of Wang'uru and Sagana/ Kagio Town Committees**
	County Headquarters Land	**Purchase of Land to extend the County Headquarters Land**
Executive	**Governors Residence**	**Construction of Governors Residence**
	County Disaster Operations Center	**Establishment of County Disaster Operations Center**
	County Executive Registry	**Establishment of County Executive Registry**

4.3 MTEF SECTORAL PRIORITIES AND RESOURCE ALLOCATION

4.3.1 Overview

The sectoral allocation for the 2017/18 financial year and the medium term are pegged on the necessity to finance investment that directly support economic growth and reduce poverty. The sector priorities have been aligned to the County Annual Development Plan (ADP) 2017/2018.The sector allocations are also informed by the County goals and people's aspirations as captured in the County Integrated Development Plan (CIDP) 2013-2017, which is aligned to the goals and the objectives of the second Medium Term Plan 2013-2017 and the Kenya Vision 2030. The key resource allocation will therefore focus on measures to:

i. Install key infrastructural projects in the Health, Roads and Water sectors;
ii. Deliver essential public services to the people;
iii. Improve the quality of life; and
iv. Improve governance and instill prudence in the use of resources.

4.3.2 Details of Sectoral Priorities and Resource Allocation

4.3.2.1 Office of the Governor

The major role of the sector is to provide leadership and policy direction to ensure efficient and effective service delivery. The key priorities of this sector are:

- Instituting county public service reforms to ensure effective and efficient service delivery
- Providing leadership and guidance in human resource management
- Development of appropriate county organization structures
- Enhancement of transparency and accountability in all county entities
- Effective management and coordination of county government operations

The Governance sector has been allocated 4.10% of the total recurrent allocation and 6.92% of the total development allocation in order to fulfill its mandate.

4.3.2.2 Agriculture sector

In order to revitalize the agricultural sector and increase productivity, the county government will focus on executing the following priority areas:

- Supply of certified seeds and other farm inputs
- Supply of subsidized fertilizers
- Capacity building of farmers
- Construction of market sheds to enhance markets for agricultural produce
- Agricultural Infrastructure Development
- A.I Improvement Services

Improving performance in agriculture is one of the main pillars of growth and employment creation in the county over the medium term. In order to strengthen the performance of the sector, the sector will put in place measures to supply inputs to the farmers, train farmers on agri-business and link them to the available sources of credit which is expected to transform the sector to make it more competitive. In addition, to reduce reliance on rain-fed agriculture, the sector is also expected to target an increase in the acreage under irrigation as well as fostering and instituting projects targeting improving livestock productivity.

To implement the above priorities the sector has been allocated **1.19%** of the recurrent budget and **6.23%** of the development budget in the medium term.

4.3.2.3 Health Sector

The health sector is a vital service delivery sector with the mandate of delivering quality health care to the community with particular mid-term focus on:

- Maternal and child healthcare;
- Prevention, management and control of communicable and non-communicable diseases;
- Health promotion through provision of community health education and training of community health workers; and
- Promotion of public health interventions on environmental health and safety

The aforementioned priority areas are in line with the third Sustainable Development Goal (SDG) that seeks to ensure healthy lives and promote well-being for all at all ages. Due to the critical role that the sector holds in the county, it has been allocated 9.07% of the total recurrent budget and 17.37% of the total development budget.

4.3.2.4 Finance, Economic Planning, Marketing and ICT

The major role of this sector is to monitor, evaluate and oversee the management of public finances and economic affairs of the County Government. It also ensures that the county has sound financial policies that will spur its economic growth. To this end, the sector has singled out the following key priority areas to implement over the medium term:

- Coordination of the MTEF process and ensure prudent fiscal policies are developed;
- Enhancement of revenue collection mechanisms
- Automation of County Government systems

- Promotion of effective and efficient utilization of public finances through ensuring compliance of relevant laws and regulations by county government entities
- Supply chain management
- Coordination of the County Monitoring and Evaluation framework

In order to implement the programmes in this sector, it has been allocated 5.06% of the recurrent budget and 1.67% of the development budget.

4.3.2.5 Co-operative Development, Tourism, Trade and Industrialization Sector

The resources for this sector are targeted for the following key priority areas:

- Capacity building of all co-operatives to ensure effective and efficient management;
- Construction and rehabilitation of markets across major centres which will lead to improved business environment through access to market infrastructure;
- Tourism development and marketing

In order to achieve the above priorities, the county has set aside 0.47% of the recurrent budget and 4.87% of the development target.

4.3.2.6 Transport and Infrastructure Sector

The infrastructure sector is charged with the responsibility of improving both the quality and quantity of infrastructure for sustained socio-economic growth. Priorities for this sector include:

- Construction, rehabilitation and maintenance of existing road infrastructure that lie under the jurisdiction of Kirinyaga County Government ;
- Development and maintenance of civil works
- Construction and maintenance of footbridges
- Develop and maintain emergency response services

For the sector to carry out its activities, it has been allocated 1.16% of the recurrent expenditure and 32.38% of the development expenditure. This sector has been allocated the largest proportion of the development budget due to its huge capital outlays and its potential to spur countywide economic growth.

4.3.2.7 Education and Public Service Sector

The education sector has continually worked towards ensuring a conducive learning environment for the ECDE pupils and impacting skills among the youth. The sector will therefore work towards :

- Increasing ECDE net enrolment and gross completion rates;
- Improving access and enrolment in vocational training centers;
- Awarding bursaries to needy students

In order to achieve the aforementioned priorities, the sector has been allocated 4.14% of the recurrent budget and 4.63% of the development budget.

4.3.2.8 Gender, Youth, Culture and Social Services Sector

This sector seeks to promote the socio-economic development of the community through focusing on the following priority areas:

- Establishment of sports and sporting facilities
- Talent and cultural services and development
- Gender and social services development
- Control of drugs and substance abuse

The sector has been allocated 0.71% of recurrent budget and 5.54% of development budget in order to achieve its objectives.

4.3.2.9 Environment, Water and Natural Resources Sector

This sector will play a major role in ensuring:

- Provision of adequate, safe and reliable water through county and community based water projects
- Development of forests, re-afforestation and agroforestry
- Environmental conservation

In order to implement its programmes, the sector has an allocation of 1.32% of total revenue expenditure and 12.33% of the county development outlay.

4.3.2.10 Lands, Housing and Physical Planning

The lands, housing and physical planning sector endeavors to promote improved land use management. To this end the sector has been allocated 0.31% of the recurrent budget and 5.30% of the development budget.

4.4 Departmental Ceilings

From the resource envelope of **Kshs. 4.7 billions**, at least 30% (1.4 billion shillings) will be channeled to development expenditure, in fulfillment of the PFM Act's fiscal responsibility principles. This is the minimum expenditure to be allocated to all county sectors with development budgets, including the County Assembly.

The remaining 70% (Kshs 3.3 billion shillings) will be channeled towards cushioning the recurrent costs.

The basis of division of revenue between the County Assembly and the County Executive shall be guided by recommendations made by the Commission of Revenue Allocation (CRA) and/or Act passed in the Senate. The ceilings provide the County Assembly with an approximate recurrent of Kshs. 540 Million for the 2017/18 FY.

The Executive arm of the government will be the beneficiary of the difference between the total estimated recurrent amounting to **Kshs 3.3 billion** and the estimated County Assembly recurrent of **Kshs 540 million**. The salaries are estimated at **Kshs 2.0 billion**. The county has also allocated significant allocation towards Education so as to provide an allowance for the Bursary Program.

Table 2: Departmental Ceilings

Cost Centers	FY 2016/2017		FY 2017/2018	
	Recurrent Expenditure	Development Expenditure	Recurrent Expenditure	Development Expenditure
County Personal Emoluments + Pension liabilities	Kshs. 2.0 billion		Kshs. 2.0 billion	
Pension and Gratuity Arrears	KSh. 350 Million			
Car and Mortgage scheme for county civil servants	**KShs. 100 Million**		Kshs 300 million	
County Assembly	**Kshs 500 Million**	**KShs. 80 Million**	**Kshs 540 Million**	**Kshs 70 Million**
	Kshs	**Kshs**	**%**	**%**
Office Of The Governor	132,896,981	149,843,258	4.10	7.92
Finance, Economic Planning	164,304,900	12,682,329	5.06	0.67
Health	294,302,643	328,785,308	9.07	17.37
Agriculture	38,568,939	117,877,101	1.19	6.23
Water& Enviroment	42,888,939	233,400,729	1.32	12.33
Infrastructure	37,531,151	612,704,573	1.16	32.38
Trade & Co- Operatives	15,315,575	92,213,818	0.47	4.87
Physical Planning &Housing	10,009,971	100,388,998	0.31	5.30
Education	134,434,992	87,638,907	4.14	4.63

Gender & Social Services	23,102,394	104,905,990	0.71	5.54
GRAND TOTAL (Kshs)	**3,244,787,083**	**1,892,441,011**	**3,311,443,669.10**	**1,419,190,143.90**

5.0 SUMMARY & CONCLUSION

In FY 2017/18, the key sectors of Agriculture, Health, Infrastructure, Water & Natural Resources continues to be priorities as is outlined in the medium term. These four priority departments have a combined development ceiling of **68.31%.** Allocation of funds to the County departments will generally go a long way in absorbing the critical economic shocks of the county residents thus driving the County economy up by creating greater supply hence improving the per capita income of households.

The county has rolled out the Car loan and Mortgage schemes for the County Civil servants as advised by Salaries and remuneration commission and has so far disbursed an estimate of **Kshs 100 Million** towards the scheme. The County has proposed a provision of **Kshs 300 Million** towards the Scheme for the **FY2017/18**

The set of policies outlined in the County Fiscal Strategy Paper reflects the circumstances that are in line with the fiscal responsibilities as outlined in the PFM Act, 2012. The use of the Integrated Financial Management Information System (IFMIS), E-Procurement and Performance Monitoring Tools will make it possible for the County to track the resources to results achieved in a more efficient manner.

The county has already drafted a policy that outlines the framework for an elaborate M&E system and is awaiting approval by the Cabinet and later on the County Assembly. The M&E system will form the basis of tracking the quality of development done within the county. Flagship projects within the current Medium Term include but not limited to completion of the County Headquarters at Kutus town, development of the County Spatial Plan.

The county government has adopted Program Based Budgeting (PBB) which goes a long way in ensuring that all County resources are managed openly and accountably and most importantly, that the resources are linked to specific projects outputs and outcomes.