



COUNTY GOVERNMENT OF KITUI

**COUNTY MINISTRY OF FINANCE AND ECONOMIC
PLANNING**

County Budget Review and Outlook Paper

SEPTEMBER, 2014

FOREWORD

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with Public Financial Management Act, 2012 is the first to be prepared under the devolved governance structure. It presents the recent economic developments and actual fiscal performance of the FY 2013/2014 and makes comparisons to the budget appropriations for the same year.

In this paper also, we show how the actual performance of the local and national economy in 2013/14 FY affected our compliance with the fiscal responsibility principles and financial objectives. The funds absorption rates for the 2013/14 FY were 17.64% and 83.5% for development and recurrent respectively leading to an average of 50.58%.

A review of the 2013/14 FY performance results in various lessons which are not limited to:

- a) Procurement process takes time. The preparatory work necessary to be able to advertise tenders must be started before or very early in the FY to be able to implement projects within the FY.
- b) The Community Level Infrastructure Development Programme project implementation process is lengthy covering over twelve steps/processes. Unless the process for this programme is started within the first quarter of the FY, projects may not be implemented within the FY.
- c) The IFMIS system allows full commitment of LPOs. Funds committed are not available for any other project even if that project has not started unless the LPO is cancelled and de-committed. There were challenges with connectivity leading to system downtime.
- d) Staff capacity is critical for the implementation of projects and to ensure quality work.
- e) Construction of buildings has a lengthy process before the tendering process commences including preparation of building plans, architectural drawings etc. Funds should only be allocated to these projects based on what is possible to accomplish within the FY.
- f) That revenue collection using manual systems is prone to many weaknesses. There are also many casual collecting revenue. The plan is to automate the process.
- g) Projects to be undertaken in partnership with companies will require longer periods because the boards of those companies must approve the project before starting the implementation process.

Kitui County has huge investment potential which has attracted both local and international companies and individuals willing to invest in the County (with one contract for coal mining already signed), highlighting the bright prospects of the local economy. The county is also strategically located between the two major transport corridors; the Mombasa – Nairobi – Malaba and the proposed LAPSSET corridor. Its proximity to the two corridors presents a great investment opportunity as well as competitive advantages to potential investors.

The development of the Kitui Vision for Socio Economic Transformation, a long term development blue print, with a core element of the six economic and investment zones will guide the county's socio economic development in the next one decade thereby creating investment opportunities in all the six zones.

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ACKNOWLEDGEMENT

Preparation of CBROP is in line with the PFMA 2012 and requires strict deadlines. The preparation of the paper required consultation among all departments of the county treasury.

The team spirit of county treasury made it possible to come up with a well consolidated paper. I wish to appreciate the Acting Head of Accounting Mr. Henry Waweru for consolidating the annual financial statement which was used in preparation of this paper; the head of revenue Mr. John Makau for consolidating the revenue part of the document; Mrs June Munyao the Chief Finance Officer for preparing the expenditure analysis and Mr. Joel Muyanga Assistant Director Economic Planning for consolidating the document.

I want also to recognise the role played by all the senior staff of county treasury who contributed during series of meetings under my leadership to prepare a quality paper. This includes Mr. Fidelis Mwaniki, Mr. Enock Nguthu, Solomon Mvinga, Festus Mulu and Samuel Mwangi.

It's my hope that the lessons learned in 2013/2014 Financial year will act as springboard in 2014/2015 FY.

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ABBREVIATIONS

AD	Assistant Director
AIA	Appropriation-In-Aid
AMS	Agricultural Mechanization Services
BPS	Budget Policy Statement
CAATs	Computer Aided Audit Tools
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFAs	Community Forest Associations
CFSP	County Fiscal Strategy Paper
CG	County Government
CLIPD	Community Level Infrastructure Projects Development
CO	Chief Officer
CoK 2010	Constitution of Kenya 2010
CRA	Commission for Revenue Allocation
CT	County Treasury
DD	Deputy Director
ECDE	Early Childhood Development Education
EZs	Economic Zones
GDP	Gross Domestic Product
GIS	Geographical Information System
IDCs	Industrial Development Centres
IFMIS	Integrated Financial Management Information System
KES	Kenya Shilling
KEWI	Kenya Water Institute
KMTC	Kenya Medical Training College
KTTC	Kitui Teachers Training College
LAN	Local Area Network
LAPSSET	Lamu Port South Sudan Ethiopia Transport (Corridor)
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NCD	Non Communicable Diseases
PPP	Public Private Partnerships
REA	Rural Electrification Authority
SEKU	South Eastern Kenya University
SGR	Standard Gauge Railway
SRC	Salaries and Remuneration Commission
VPN	Virtual Private Network

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

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

1. A County Treasury shall –
 - a) prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
 - b) Submit the paper to the County Executive Committee by 30th September of that year.
2. In preparing the county Budget Review and Outlook Paper ,the County Treasury shall specify –
 - a) details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
 - b) updated economic and financial forecasts with sufficient information to show changes from the most recent County Fiscal Strategy Paper;
 - c) information on –
 - i. any changes in the forecasts compared with the County Fiscal Strategy Paper;
 - ii. how actual financial performance for the previous financial year may have affected compliance with fiscal responsibility principle, or the financial objective in the County Fiscal Strategy Paper for that year; and
 - d) Reasons for the deviations from the financial objectives in the County Fiscal Strategy Paper together with proposal to address the deviations and estimated time for doing so.
3. The County Executive Committee shall consider the County Budget Review Paper with a view to approving it, with or without amendments, within fourteen day after its submission.
4. 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 publicise the Paper.

Fiscal Responsibility Principles for the National and County Governments

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. The PFM act, 2012, (Section 15) states that:

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

I. INTRODUCTION

Objective of the CBROP

1. 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 set out in the last CFSP. This together with updated revenue and expenditure provides the basis for the revision of the current budget in the context of Supplementary Estimates and broad fiscal parameters underpinning the next budget and medium term. The details of the fiscal framework and medium term policy priorities will be clearly outlined by the next CFSP to be released in February.
2. The CBROP is a key document that links policy, planning and the budgeting. The county has finalised the process of preparing its five year development plan – County Integrated Development Plan (CIDP 2013/14 -2017/18) which is linked to the broad national plan (Kenya Vision 2030 and its five year medium term plans) to guide the budgeting and programming for 2013/2014 financial years onwards. This CBROP is based on the current administrative structure and incorporates the priorities of the CIDP as well as other emerging challenges that transition to the devolved system entails. Its themes are framed around the county ministries that form the sectors of the county to develop projects and programs for each sector covering 2014/15 to 2016/17 Medium Term Expenditure Framework (MTEF).
3. The PFM Act 2012 sets a high standard for compliance with the MTEF budgeting process. It is expected that the sector ceiling for the second year of the MTEF provided in the previous CFSP will form the indicative baseline sector ceiling for the next budget of 2015/16. However, given the underperformance of some county ministries during 2013/14 resulting in minimal absorption of development funds, some changes are inevitable to accommodate the anticipated resource requirement.
4. The rest of the paper is organised as follows: Section II provides a review of the fiscal performance in FY 2013/14 and its implications on the financial objectives set out in the last budget submitted to the County Assembly in April 2013. This is followed by brief highlights of the recent economic developments and updated revenue and expenditure in section III. Section IV provides the resources allocation framework, while Section V conclusions.

II. REVIEW OF FISCAL PERFORMANCE

A. Overview

5. The fiscal performance in 2013/14 for the County was largely affected by delay in recruitment of key management staff responsible for budget implementation. Most senior management level officers like the Chief Officers and all directors in various county ministries assumed offices in January 2014, severely affecting the budget absorption period. These, coupled with initial challenges associated with setup and start up issues; the performance of the County in terms of services delivery was mixed.

6. The county ministries handling devolved functions were not able to collect revenue from the devolved services except ministry of health and sanitation (which collected and spend the funds under national government structure), Agriculture Water and Irrigation and Environment Energy and Mineral Investments. This was due to legal challenges that required first the County Assembly to pass Finance Bill 2013 into law allowing the county to collect revenue from devolved functions. Delay in passing this bill into law had negative impact on the projected revenue and overall service delivery for the county.

7. The expenditure side of the county government was also severally disrupted by salary reviews and budgetary shift of the burden to pay salaries for devolved units that the national government required reimbursed from July to September 2013. The effect of these was negative on the development of the county as more resources had to be allocated to the recurrent vote over the medium term to shoulder those huge expenditures on personnel emoluments and other operational expenses.

B. 2012/13 Fiscal Performance

8. The table below presents the fiscal performance for the FY 2013/14 and the deviations from the original budget estimates.

Table 1: Revenue and Expenditure Summary for 2013/2014 FY

	2012/2013	2013/14		Deviation
	Actual	Actual	Targets (SBE)	(%)
A. TOTAL REVENUE AND GRANTS				
1. Revenue	555,192,250	5,281,296,235	5,961,400,000	(11)
Equitable share	335,453,940	4,825,624,355	5,315,000,000	(9)
Own generated Revenue				
Former Local Authorities	219,738,310	254,673,492	240,000,000	6.11
Devolved Functions	-	2,598,388	208,000,000	(99)
Others*	-	198,400,000	198,400,000	-
2. Grants		-	527,625,500	
Kenya Municipal Program (KPM)	-	-	519,000,000	(100)
Health Sector Support Fund (DANIDA)	-	-	8,625,500	(100)
TOTAL	555,192,250	5,281,296,235	6,489,025,500	(19)
B. EXPENDITURE				
1. Recurrent	350,600,050	3,021,765,215	3,618,264,706	(16)
Salaries and Wages	70,278,200	1,847,402,868	1,783,122,271	-
O&M/Others	280,321,850	1,174,362,347	1,835,142,435	(36)
2. Development	61,592,200	506,281,457	2,870,760,794	(82)
Total	412,192,250	3,528,046,672	6,489,025,500	(46)

C. SURPLUS/DEFICIT	143,000,000	1,753,249,563	-	
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Notes*

- i. Equitable share: this is the amount of funds the county government expected to receive from the national government, as shared out using the Commission on Revenue Allocation formula. The county received all money expected from equitable share. Some receipts were in July KES 264,043,684 on 3/7/2014. The money the National Treasury was holding as reimbursement for devolved function salaries was sent to CRF on 9/7/2014 total KES 214,335,200 against expected 225,641,794 leaving a balance of KES 11,307,594.
- ii. Others include KES 31,805,759 collected between May and June 2013, which was not spent in that financial year. It also includes KES 143m from the Exchequer which remained unspent at the closure of 2012/13 financial year and KES 92m expected from LATF for projects initiated by the former local government ministry through the local authorities (only KES 25m was received and included in the revised budget).

Revenue

a. Equitable Share

9. The total disbursement to the county revenue fund account during the financial year 2013/2014 was KES 4,825,624,355, amounting to 91% (or 9% deviation) of the total equitable the county expected to receive from National Treasury. The county therefore did not receive KES 1,084,310,978 from the national government within the period, which constituted 20.2% of the budgeted resources, comprising of:-

- i. KES 264,043,684 that the National Treasury had not disbursed to County Treasury as at June 30th;
- ii. A total of KES 527,625,500 grant from donors channelled through National Treasury which again was never disbursed;
- iii. KES 225,641,794 that National Treasury erroneously recovered from our June disbursement. This amount was made to cover the balance of reimbursement to the National Treasury for salaries paid to devolved staff between July and September 2013, which had been settled in full by then; and
- iv. KES 67m that the National Treasury did not disburse for projects identified under the defunct Local Authorities Transfer Fund (LATF) for projects identified in 2012/13 FY.

The following is the disbursement schedule from the National Treasury during 2013/14 FY.

Table

Table 2: Disbursement from the National Treasury

Month	Amount Due	Date Received	Amount
August	451,801,336	30/8/2013	451,801,336
September	451,801,336	17/9/2013	451,801,336
October	531,530,983	11/04/2013	531,530,983
November	425,224,787	21/12/2013	425,224,787
December	584,684,082	29/01/2014	584,684,082
January	531,530,983	13/03/2014	531,530,983

Month	Amount Due	Date Received	Amount
February	531,530,983	05/05/2014	531,530,983
March	478,377,885	16/5/2014	478,377,885
April	478,377,885	16/5/2014	478,377,885
May	372,071,688	16/5/2014	146,429,895
	JUNE PART PAYMENT	23/6/2014	214,334,200
Total received by 30th June 2014			4,825,624,355
June	478,377,885	03/07/2014	264,043,685
Reimbursement on money deducted by National Treasury which had already been remitted back as salaries for devolved staff.		09/07/2014	214,334,200
	5,315,309,833		5,304,002,240
Deficit			11,307,593

b. Own Generated Revenue

10. Overall, the county was able to collect KES 257,271,880 over the financial period from the former local authorities' sources and devolved functions. This being 57.43% of the targeted revenue collection and representing 7% above target collection for defunct local authorities (254m against a target of 240m) and under performance of 99% for the devolved functions (collected 2m against a target of 208).

11. In terms of comparison to the previous period, revenue from defunct local authorities jumped 15% over the period from KES 219m in 2012/13 to KES 254m in 2013/14 FY.

Table 3: Revenue generated from local sources and devolved departments

Revenue Stream	Actual 2012/13 (KES)	Actual 2013/14 (KES)	Deviation (KES)
From Defunct Local Authorities			
Land Rates	28,932,722	21,850,734	(7,081,988)
Single Business Permits	65,968,544	72,285,394	6,316,850
House and Stalls Rents	5,154,970	4,860,979	(293,991)
Markets	28,410,161	44,298,900	15,888,739
Cess	49,773,274	61,179,768	11,406,494
Penalty Charges	3,281,300	59,795	(3,221,505)
Parking Fees	11,304,685	13,880,695	2,576,010
Street Parking	6,839,438	7,060,460	221,022
Sign Board & Advertising	2,945,575	3,542,784	597,209
Transportation Fees	2,502,660	3,794,650	1,291,990
Slaughter Fees	7,742,590	3,812,810	(3,929,780)
Burial Fee	19,300	15,300	(4,000)
Registration Fees	569,200	2,527,600	1,958,400
Impounding Charges	403,800	502,340	98,540
Application Fees	1,914,780	1,839,495	(75,285)
Plot Transfer/Subdivision	265,450	403,300	137,850
Sale of Minutes/Bylaws	950	10,000	9,050
Consent To Charge/Certificate	615,770	47,347	(568,423)
Building Plan Approval	1,315,786	2,433,687	1,117,901
Toilet Fees	352,300	283,855	(68,445)

Revenue Stream	Actual 2012/13 (KES)	Actual 2013/14 (KES)	Deviation (KES)
Search of Record Charges	3,300	11,000	7,700
Sale of Tender Documents	635,600	9,775,530	9,139,930
Mining Prospecting Fees	160,866	8,246	(152,620)
Change of User	185,880	16,500	(169,380)
Survey Fees	249,800	85,220	(164,580)
Photocopy	152,549	18,163	(134,386)
Sale of Seedlings	18,910	440	(18,470)
Hiring Charges	3,000	7,500	4,500
Alteration of Building Plans	0	11,000	11,000
Lease Charges	0	20,000	20,000
Water Charges (Mutomo B/Hole)	4,800	0	(4,800)
Disposal of Idle Assets	10,350	0	(10,350)
Donation (Co-Operative Bank)	0	30,000	30,000
SUB-TOTAL	219,738,310	254,673,492	34,935,182
Devolved functions			
Agriculture Water Irrigation		2,586,288	
Environment Energy & Mineral Investment		12,100	
TOTAL		257,271,880	

Expenditure

12. The approved budget for the county was KES6,489,025,500, comprising 56% recurrent (or KES3,618,264,706) and 44% development (or KES2,870,760,794). Thus, the budget was 14% above the recommended ceiling for funds allocation between recurrent and development, which is expected to be maintained over the medium term. The recurrent budget was further split between Personnel Emoluments (PE) and Operations and Maintenance (O&M).

13. The total expenditure for both recurrent and development vote amounted to KES3,528,046,674, representing an under spending of KES 2,960,978,825.66million (or 45.6% deviation from approved budget). The large absorption gap resulted from delay in recruitment of key staff necessary to initiate procurement of development works and start up challenges that faced the county governments nationally. The unabsorbed fund include KES 527m grant that was never disbursed, KES 489m (225 recovered from June disbursement and 264m disbursed in July) that was never received from exchequer and KES 206m that was never realised by the county government despite being in approved budget.

14. The county managed to spend KES 506,281,457 on development budget, representing an absorption rate of about 18% (or an under spending of 82%) of the total development vote. This has been attributed to challenges identified earlier (delay in recruiting key staff in the county). It was also blamed on institutional set up challenges associated with putting up required structures to facilitate work flow. Nonetheless, the implementation of these programs is expected to move fast in the current financial year having finalised all the necessary documentation and procedures in the last financial year.

Table 4: Development Expenditure by County Spending Units

vote	Spending Entity	Budget Estimates	Revised Estimates	Expenditure	Balance	Absorption Rate
1	Office of the Governor ⁱ	802,246,241	563,565,858	113,265,536	450,300,322	20.1
2	Ministry of Agriculture, Water & Irrigation	437,723,200	573,403,050	78,709,600	494,693,450	13.73
3	Ministry of Basic Education, Training, Skills Development	84,362,000	73,362,000	36,067,372	37,294,628	49.16
4	Ministry of Lands, Infrastructure & Urban Development	938,417,451	985,673,489	191,925,259	793,748,230	19.47
5	Ministry of Health & Sanitation	105,000,000	115,000,000	28,366,219	86,633,781	24.67
6	ministry of Trade, Industry, IT & Co-operatives	131,261,076	134,126,076	-	134,126,076	-
7	Ministry of Culture, Youth, Sports & Social Services	18,700,000	109,700,000	20,679,350	89,020,650	18.85
8	Ministry of Environment, Energy & Tourism	150,000,000	150,000,000	8,111,782	141,888,218	5.41
9	Ministry of Natural Resources & Tourism	20,000,000	21,500,000	-	21,500,000	-
10	Ministry of Finance and Economic Planning	48,000,000	48,000,000	7,637,625	40,362,375	15.91
11	County Assembly	96,430,321	96,430,321	21,518,714	74,911,607	22.32
	TOTAL	2,832,140,289	2,870,760,794	506,281,457	2,364,479,337	17.64

The low absorption rate in development has been analysed by individual spending unit as shown below.

1. Office of the Governor

S/N	Planned Projects/Programmes	Reasons for Low Absorption	Measures you have put in place to ensure the same is not repeated in 2014/2015 FY
1	Community Level Infrastructure Development Project (CLIDP) – Ksh.250M	- the absorption rate was 30 % - there was long process through the various stages of CLIDP projects implementation including project identification, designs, BQ preparation, open tender advert, printing tender documents for sale, technical evaluation and tender	- early identification of CLIDP projects - work closely with LIUD to produce accurate BQs - Advertise the projects in October 2014 - Liaise with procurement department for early technical

ⁱ Office of the Governor includes County Public Service Board and Ministry of Admin & Coordination of County Affairs

		committee awards - projects were advertised in April 2014 - in some wards we did not find contractors interested in the tenders - projects were very many and technical evaluation as well as tender awards took long to complete - closure of financial year 2013/2014 led to delay in issue of LSO	evaluation and award of tenders - close follow up during project implementation
2	Pro-Poor Support Program – Ksh.150M	- the absorption rate was 64% - implementation of the program started late into the financial - beneficiary identification took time as county government was doing this for the first time	- undertake careful planning of all the activities and provide adequate time - early identification of beneficiaries - Quick implementation of all activities at all the stages of the process
3	Disaster Management and Emergency Response – Ksh.50M	- absorption rate was 22% - disasters cannot be anticipated but are responded to when they happen	- undertake early planning for disasters - Be always prepared for disasters - Respond to disasters promptly
4	Construction of County Headquarters building – Ksh.120M	- absorption rate was 2% - process of identifying land took long - Lengthy tendering process - took long for consultant to complete the building designs and obtain necessary approval.	- Land was identified and project awarded to a contractor is now is on site - close supervision of the project to ensure early completion
5	Construction of Governor Residence – Ksh.85M	absorption rate was 0% - process of identifying land took long - Lengthy tendering process - took long for consultant to complete the building designs and obtain necessary approval	- To fast-track process of identifying land - obtain building designs by end of Oct 2014 - Fast-track procurement process to award project to a suitable contractor - Closely monitor project implementation for faster completion
6	Construction of a reception office – Ksh.2M	- absorption rate was 100% - the building will be ready to use after some adjustments	- Projected completed on time

2. Administration and Coordination of County Affairs: **Reported under Governor's Office**

3. **Agriculture, Water and Irrigation**

No	Planned projects /programmes	Reasons for low absorption	Measures in place to ensure the same is not repeated in 2014/2015
1	Farm inputs support /seeds purchase and distribution(October/November 2013 rainy season) (43,000,000)	complete	N/A

No	Planned projects /programmes	Reasons for low absorption	Measures in place to ensure the same is not repeated in 2014/2015
2	Completion of Administration block and conference hall at Kitui ATC (11,055,238.20)	Complete	N/A
3	Farm inputs/seeds purchase and distribution(March/May rain season 2014) (58,000,000)	Was overtaken by events due to cumbersome procurement procedure	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
4	Drip irrigation kitchen gardening for malnutrition and poverty reduction (35,000,000)	Implementation was delayed due to cumbersome procurement procedure	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
5	Purchase of tractor (3,767,750)	Complete	N/A
6	Local Goats Improvement Project (3, 886,760)	Implementation was delayed due to cumbersome procurement procedure	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
7	Indigenous Poultry Improvement Project (9,261,960)	Quotations were misplaced at procurement office	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
8	Rehabilitation of 20 Communal Cattle Dips (10,000,000)	In appropriate advertisement that did not attract suppliers which lead to re-advertisement	Advertisements should be well thought before advertisements
9	Promotion of fish farming (23,201,000)	-Quotation for liners were misplaced at procurement office	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
10	Irrigation Schemes (52,667,000)	Implementation was delayed due to cumbersome procurement procedure	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
11	Kamula Earth dam (4, 100,000)	The Project is Complete	N/A
12	Kanduti pipeline extension (1,975,699)	complete	N/A
13	Construction of Kaasala pipeline phase 1 (1,999,395)	complete	N/A
14	Katumbi pipeline extension (1,200,000)	LSO pending	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
15	Construction of Nguuni –Kanyaa pipeline (1,786,646)	Complete	N/A
16	Construction of Mukelenzuni pipeline extension (1,989,740)	Complete	N/A
17	Iiani – Nzawa pipeline extension (3,500,000)	LSO commitment	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays

No	Planned projects /programmes	Reasons for low absorption	Measures in place to ensure the same is not repeated in 2014/2015
18	Syongila – Mulutu-Ithiani pipeline extension (16,000,000)	Complete	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
19	Kakululo Pipeline Extension (3,500,000)	Implemented	N/A
20	Kitamaa pipeline extension (2,500,000)	Contract document missing.	Procurement department should be responsive to Ministerial demands in order to avoid unnecessary implementation delays
21	KakeaniNzau pipeline extension (2,000,000)	Procurement delay	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
22	Nzanzeni pipeline extension (2,500,000)	Implemented	N/A
23	Thua- Zombe Pipeline extension (1,800,000)	LSO misplaced	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
24	Ngelani pipeline extension (2,000,000)	Implemented	N/A
25	Mosa – Kilivi pipeline extension (1,500,000)	Implemented	N/A
26	Ikuyuni Pipeline extension (2,300,000)	Implemented	N/A
27	Maseki pipeline extension (2,000,000)	Technical recommendations as the initial proposal was a non-viable borehole	Feasibility study affront
28	Katana pipeline extension (2,000,000)	Technical recommendations as the initial proposal was a non-viable borehole	Feasibility study affront
29	Kawambemba pipeline extension (4,000,000)	Project unviable	Feasibility study affront
30	Ukuuni-Kivou secondary school pipeline extension (2,500,000)	Implemented	N/A
31	KyamatuMuthungue Pipeline Extension (2,500,000)	Implemented	N/A
32	Rehabilitation of Ndalani Earth dam (1,996,808)	Complete.	N/A
33	WinzyeiEarthdam (3,500,000)	Implemented	N/A
34	YalataniEarthdam (3,500,000)	Implemented	N/A
35	MalalaniEarthdam (3,500,000)	Implemented	N/A
36	Kawelu (Malawa- Nu) Earthdam (3,500,000)	Implemented	N/A
37	KwaNginduEarthdam (3,500,000)	Implemented	N/A
38	Drilling of Mitamisiyi Borehole (1,545,500)	Complete	N/A

No	Planned projects /programmes	Reasons for low absorption	Measures in place to ensure the same is not repeated in 2014/2015
39	Drilling of Kalisasi borehole (1,504,300)	Complete	N/A
40	Drilling of Athi Borehole (1,380,000)	Technically changed from borehole to relief well.	Proper projector targeting
41	Drilling of Kitamwiki Borehole (1,996,808)	Contract cancelled	Feasibility studies affront
42	Drilling of Kitulani bore hole (1,996,808)	Complete	N/A
43	Imumba borehole (3,500,000)	LSO misplaced	The Ministry will form a procurement committee to be liaising with the Procurement department in order to avoid unnecessary implementation delays
44	Kavoo borehole (3,500,000)	Implemented	N/A
45	Maseki borehole (3,500,000)	Not viable	Feasibility studies affront
46	Kavililo/ Kaikungu borehole (3,500,000)	Complete	N/A
47	Mulinduko borehole (3,500,000)	Implemented	N/A
48	Mbooni borehole (2,000,000)	Implemented	N/A
49	Subsidization of 2No. WSP's (Water Company's) (72,000,000)	Complete	N/A
50	Rehabilitation of existing boreholes, pipelines for community water supplies (Emergencies) (16,000,000)	Implemented	N/A
51	Purchase of drilling rig (48,000,000)	Project re-advertised due to non-responsiveness of supplier	Procurement to conduct due diligence
52	Supply and delivery of water chemicals (aluminium sulphate, hypochloride and hydroxide) (1,911,200)	Complete	N/A

5. Basic Education, Training and Skills Development

S/ No	Planned Projects/Programme	Reasons for low absorption	Measures put in place to avoid a repeat in 2014/2015 FY
01	40 ECDE Classrooms 10,705,372 million	-Some contractors took too long to start & complete the projects	- Early commencement of procurement process -B.Q'S are ready & request for quotations will start by 15 th October 2014. - Contractors will be strongly advised to adhere to timelines provided in the Contract forms.
02	8 Youth Polytechnic Workshops 5 million	-Contractors took too long to start and complete the projects	-Early preparation for implementation of the projects -BQ'S are ready Procurement process already started-Request for quotations underway
03	ECDE Desks 20,362,000	Tenders were not advertised on time	Distribution of Desks has started in Kitui west, Kitui Central,

			-Mwingi North & Kitui East. -Contractors have been given a time line within which to complete the work (by 30 th October,2014)
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5. Land Infrastructure and Urban Development

S/No.	Planned projects/ Programme	Reasons for low absorption	Measures you have put in place to ensure the same is not repeated in 2014/ 2015 FY
1	Roads	The BQs were prepared late due to lack of technical staff .The tendering process was delayed and tenders were awarded in the last quarter of the financial year 1)some works like drift works could not be started on time due to flowing water in some rivers 2) The time allocated for some projects was not sufficient. 3) some contractors did not report to site on time for various reasons like inadequate finances 4)the conditions on the ground varied significantly especially concerning earthworks 5) Shortage of road construction machine. The ones available have to be shared by many contractors hence causing delay. 6) Lack of security for implementation of projects in some areas. It took time before coordination with the national government to address the problem. 7) Bad terrain that caused some contractors having to wait for road formation in some parts before transporting materials to their sites to commence work.	The county has hired enough technical personnel hence the designs and all required documents will be prepared on time. 1)We will allocate projects in good time in connection with the weather 2)we will vet thoroughly the financial capacity of contractors before awarding them contracts 3) Proper site survey to avoid too much work that is not expected. 4) The county has bought equipment's to reduce the work to be contracted. 5) The county has established a plan with the security forces on how to ensure there are officers available in the required sites. 6)the county
s2	Renovation of buildings	The BQs were prepared late due to lack of technical staff else the tendering process was delayed by the time the tenders were awarded the financial year was almost complete hence the projects could not be completed and payments done on time.	The county has hired enough technical personnel hence the designs and all required documents will be prepared on time.
3	Civil works in Kitui and Mwingi	The BQs were prepared late due to lack of technical staff else the tendering process was delayed, by the time the tenders were awarded the financial year was almost complete hence the projects could not be completed and payments done on time.	The county has hired enough technical personnel hence the designs and all required documents will be prepared on time.
4	Physical planning	1.) There was no adequate technical staff to undertake most of the planning work like preparation of market plans and creation of Development Plans which the money was budgeted for. 2) The department is under equipped and the	The county has employed physical planners who will do planning in time and requisite other services. These services will include: -Creation of layout plans for the small market centres.

		funds allocated in the budget were not enough to purchase the equipment. 3) Funds allocated were not enough to undertake production of a comprehensive Digital Development plan for a town.	-Development of Development plans for major trading centres. -Inspection, approval and control of development within the county. -Working with the consultants to create digital maps for the county and creation of an overall county geo data base.
5	Street lighting	The BQs were prepared late due to lack of technical staff else the tendering process was delayed, by the time the tenders were awarded the financial year was almost complete hence the projects could not be completed and payments done on time.	Designs have been done waiting tendering.
6	Adjudication	Valuation of land was not realistic and owners declined to sell.	The county to employ valuers.
6	Housing	The BQs were prepared late due to lack of technical staff else the tendering process was delayed. by the time the tenders were awarded the financial year was almost complete hence the projects could not be completed and payments done on time.	The county has employed technical staff who will move the process fast.

6. Health and Sanitation

MINISTRY OF HEALTH AND SANITATION PROJECTS			
S/N o.	Project Name	Reasons for low Absorption	Measures you have put in place to ensure the same is not repeated in 2014/2015 FY
1	Kitui district hospital Car Park Construction	Absorption rate was 100%	The project was completed on time
2	Kitui District Hospital mortuary Car park Construction	Absorption rate was 100%	The project was completed on time
3	Kitui District Hospital Water tank	Absorption rate was 100%	The project was completed on time
4	Kitui District Hospital renovation	Absorption rate was 100%	The project was completed on time
6	Kitui District Hospital Theatre gas piping installation	This is a highly specialized project which required designs by a Medical engineer. The county did not have a medical engineer.	-Liaising with the national Ministry of Health Medical engineering department to get prototype theatre designs. -liaise with LIUD to employ more engineers with training in medical equipment
7	Mwingi Hospital Mortuary Renovation	There were some unclaimed bodies in the mortuary. It took long to dispose the bodies. The work could not start before the bodies were disposed.	Regular disposal of all unclaimed bodies after expiry of the statutory period.

8	Mwingi Hospital ward Renovation	The hospital had challenges in relocating patients from the wards due to shortage of ward space. The wards were inadequate for the large patient numbers. Hence project could not start on time.	An extra ward to be built this financial year to reduce the congestion.
12	Mutitu Mortuary Construction	-Delay in design and production of Bills of Quantities (BoQs). -Long time taken in procurement processes	-Liaise with LIUD to produce designs and BoQs early. -Liaise with Procurement department to have early technical evaluation and award of tenders.
13	Kyuso Mortuary Construction	-Delay in design and production of Bills of Quantities (BoQs). -Long time taken in procurement processes	-Liaise with LIUD to produce designs and BoQs early. -Liaise with Procurement department to have early technical evaluation and award of tenders.
14	Mutomo mortuary Construction	-Delay in design and production of Bills of Quantities (BoQs). -Long time taken in procurement processes	-Liaise with LIUD to produce designs and BoQs early. -Liaise with Procurement department to have early technical evaluation and award of tenders.

7. Trade, Industry, IT and Cooperative

S/ No	Planned projects/programmed	Reasons for low absorption	Measures you have put in place to ensure the same is not repeated in 2014/15
1	Mobile telephony infrastructure in partnership with Safaricom Limited (90 M)	<p>The project was to be carried out through partnering with Safaricom Limited (Mobile Network Operator / Service Provider) whereby the County Government of Kitui was partly to contribute towards the cost of provision of this service.</p> <p>However, Safaricom officials indicated that the funding of such projects is drawn from the Universal Fund that is administered by the Communications Authority of Kenya and therefore could not partner with the County Government.</p> <p>During the supplementary budget the entire money was re-voted for Data Centres, ICT office equipment, and County Integrated Management Information System.</p> <p><u>Data Centre / ICT Equipment</u> Award of the tender was done but the commitment of the funds through LSO couldn't be done since 2013/14 Financial Year was closing.</p> <p><u>County Integrated Management Information</u></p>	<ul style="list-style-type: none"> • Clear and full information from Development partners/Investor will be sought in advance on the kind of partnership or investment engagement/ policy. • Procurement process will be fast-tracked to avoid future delays • Procurement plan will also be keenly followed

		System Tender had been evaluated by the end of the financial year awaiting the award this financial year.	
2	ICT networking (28M)	<ul style="list-style-type: none"> Office accommodation was a challenge to some Ministries slowing down the implementation of the project. Further the scope of work changed because some of the buildings proposed for LAN/WAN setup are rentals. The focus changed to Government owned buildings. The County Website Design, Development, Hosting and Maintenance which was part of the mentioned amount was finally fully funded by USAID and is operational 	Ministries have settled in terms of office accommodation and this challenge is not expected in future.
3	ICT Digital Village (3M)	The office space for the digital village was at first a challenge but through a partnership with Catholic Diocese an ICT Centre was established at Kitui Polytechnic.	Mode of establishment through Public Private partnerships would be explored further in future
4	Honey Processing (9,126,076)	<ul style="list-style-type: none"> Identification of strong cooperatives to take over the management of the factories took some time Agreement on the exact location of the factories availability of land had not been determined and also proper structures in terms of staffing were not yet in place to oversee the initial stages of implementation 	Assessment of locations would be done and public participation would be used in determining the location of these projects.
5	Office renovation (4.5 M)	There was delay in surveying the required aspects of renovation by the office accommodation team.	As users we would establish our works requirements and carry them out accordingly.

8. Culture, Youth, Sports and Social Services

S/ No	Planned Project/s &/or Programmes	Reasons for Low Absorption	Measures to Ensure the same is not repeated in 2014/2015 FY
1	Construction of Resource Centres, Mwingi, Kyoani, Mutonguni (70,000,000)	Delay was due to land ownership issues	Land ownership issues now resolved
2	Upgrading Kitui town Stadium (8,000,000)	<ul style="list-style-type: none"> -Implementation of the program started late into the financial year -delayed tendering process 	-Tendering process is ongoing, Process of BQs and tendering have already been initiated and contractor is on site

S/ No	Planned Project/s &/or Programmes	Reasons for Low Absorption	Measures to Ensure the same is not repeated in 2014/2015 FY
3	Rehabilitation of Kitui Recreation Park (2,000,000)	-Implementation of the program started late into the financial year - tendering process took long than anticipated	-Tendering process has already been initiated
4	Local Infrastructure savings and investment programme for youth (55,000,000)	Youth identification, sensitization and mobilization took long.	Beneficiaries are already selected and work starts Monday 13 th October 2014.
5	Kitui 7s Rugby Tournament (development of playing ground and other facilities, Ithookwe play grounds) (20,0000)	Two thirds of the funds are utilised. some contractors delayed in completing their works hence could not be paid	The ministry plan to have All the contractors on site by December 2014 to enable them complete their work by June 2015
16	Up grading of Nguutani playing ground (100,000)	Work done and funds fully utilised	N/A
29	Reintegration and rehabilitation of Ex-offenders through income generation activities (1,700,000)	delayed due to slow Mobilization of the beneficiaries, tendering	Tendering process initiated and beneficiaries already identified

9. Energy, Environment and Mineral Resources

S/ No	Planned Activity	Reasons for low absorption	Measures put in place to ensure the same is not repeated in 2014/2015 FY
1	Rural Electrification programme (150m)	<ul style="list-style-type: none"> Project partnership between REA and County Governments is being piloting in Kitui county for the first time in the Country Sometime was taken in development and signing of agreement documents More time was also spent during procurement 	<ul style="list-style-type: none"> Rural Electrification Authority (REA) has send field staff with a vehicle to help in fast tracking of the project The agreement signed between the County Government of Kitui and REA is binding and thus things will roll up quite easily during 2014/15 FY More contractors have been engaged and assigned specific lines to work on

10. Tourism and Natural Resources

S/no	Project name	Reason for low absorption	Measure you have put in place to ensure the same is not repeated in 2014/2015 FY
1	Construct a revenue Gate at Adamson's Bridge	Long procurement procedure lead to revolting. Dispute between County	Adaptation of the new system of procurement (IFMIS). Agreement reached on by the two

		government and KWS on location of gate.	parties on where to locate the gate.
	Construction of revenue gate at Masyungwa	Long procurement procedure delayed implementation.	Fast tracking in procurement procedures through new system and staff being trained on how to do online procurement.
2	Grading of Ciampiu to Kibuka waterfalls	Already done but cost charged to different ministry.	Clear documentation and invoicing. Improve on monitoring and evaluation.
3	County feasibility study on potential tourism attraction sites	Project completed but cost of Ksh 1.7M not reflected	Follow up on the invoicing.
4	Development of Nzambani Rock	Legal challenges on ownership of Nzambani rock	Perusing the legal advice from the experts Engaging the community in revoking the lease.
5	Miss Tourism county edition	On going	

11. Finance and Economic Planning

S/no	Project name	Reason for low absorption	Measure you have put in place to ensure the same is not repeated in 2014/2015 FY
1	Refurbishment of non-residential buildings	These funds were set aside to renovation offices for county treasury staff, but office space identification and acquisition has been slow.	We intend to start by identifying the spaces first, the allocate funds rather than hold funds while looking for the spaces.
2	Preparation of CIDP	The procurement process and the actual work by the consultants took longer than projected at the start of the financial year	The department has learned from this experience and would in future manage all consultancies closely and diligently to avoid a repeat of the same. We also intend to include penalty clause in our contracts with consultants
3	Holding investors conference	The investors' conference has been tied to preparation of both CIDP and the long term plan, both of which are yet to be finalised.	The department has put in place measures to manage consultancy works being handled by independent consultants to avoid unnecessary delay that can occasion huge costs.

15. Recurrent expenditure for period amounted to KES3,021,765,217, representing about 83.51% of the recurrent total budget. This utilisation rate is completely reverse of what happened in development, pulling up the overall absorption rate to 50.58%.

Table 5: Recurrent Expenditure by County Spending Units

vote	Spending Entity	Budget Estimates	Revised Estimates	Expenditure	Balance	Absorption Rate (%)
1	Office of the Governor	799,009,140	614,333,823	614,461,303	-127,479	100
2	Ministry of Agriculture, Water & Irrigation	331,752,914	330,041,135	282,794,225	47,246,910	86
3	Ministry of Basic Education, Training, Skills Development	309,266,411	362,723,122	224,542,555	138,180,567	62
4	Ministry of Lands, Infrastructure & Urban Development	397,793,686	361,681,767	248,531,356	113,150,411	69
5	Ministry of Health & Sanitation	852,866,709	984,833,098	876,283,361	108,549,737	89
6	Ministry of Trade, Industry, IT & Co-operatives	47,769,445	33,028,621	29,721,152	3,307,469	90
7	Ministry of Culture, Youth, Sports & Social Services	77,760,527	63,797,882	48,834,943	14,962,938	77
8	Ministry of Environment, Energy & Tourism	40,567,768	36,814,267	26,935,899	9,878,368	73
9	Ministry of Natural Resources & Tourism	42,680,000	24,759,301	7,793,994	16,965,307	31
10	Ministry of Finance and Economic Planning	198,164,904	187,777,238	127,945,563	59,831,675	68
11	County Assembly	618,474,448	618,474,448	533,920,866	84,553,582	86
	TOTAL	3,716,105,952	3,618,264,702	3,021,765,217	596,499,485	83.5

C. Implications of 2013/2014 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2014 CFSP

16. The performance of 2013/2014 has affected the financial objectives set out in the 2014 CFSP and the budget for FY 2014/15 in a number of ways:

- i. the base for revenue and expenditure projections has been changed due to adjustments in both revenue and expenditure shifts, implying the medium term projections have to be re-adjusted;
- ii. Noting that the previous period under review was affected by set up challenges, under spending in the development vote has been rolled over to 2014/15, putting the proportion of development to recurrent at par; and
- iii. The slow take-off of the execution of the 2013/14 budget by county ministries has also informed resource allocation across the ministries based on the county experience of departmental resource absorption.
- iv. Budget deficit on the supply side will spill over 2014/2015 budgets. The projects which were to be implemented will be implemented in the current financial year putting constraint on human capital.

17. The outcome of the national economic performance for the last two months indicates our national economy is still resilient, as evidenced by the response of the Kenya's first sovereign bond. However, volatility in our main foreign exchange earners

such as tourism and export of tea and coffee leaves some doubts on our growth forecast. Adverse weather forecast by the meteorological department also does increase the uncertainty over our growth forecasts. Drought is one of the main challenges that can adversely affect the performance of our local economy and there is need to devise ways of circumventing, given that farming is the main source of livelihood. Nevertheless, we remain optimistic that financial objectives outlined in CFSP 2014 will be achieved albeit with challenges.

18. Our local revenue projections will remain as set out in our CFSP, given that main sources of revenues will not be severely affected by any foreseeable shock. Nonetheless, poor crop yields resulting from inadequate rains will definitely undermine the growth forecast in general. It should not escape our attention that revenue collection from the devolved functions is not picking up as projected, which could result in financing gap. This issue will need to be addressed if deficit financing or downward revision of the budget is to be avoided.

19. The delay in passing of the Finance Bill has had impact on the operations of the county government and this impact has been taken into account while preparing our projections. The effect on revenue expected from devolved functions on the budget has been to reduce our allocation for development as such funds could not be re-voted for utilisation in the current financial year. This, in essence has resulted in downward review of our development allocation.

20. Given that agriculture is going to be the main driver of our local economy in the medium term, measures have been put in place to improve productivity particularly to address food security and support favourable growth prospects. This is signalled by the amount allocated to agriculture and production sectors to boost output in 2013/14 FY and over the medium term. Targets here include support to farmers through provision of farm inputs, provision of post-harvest advice/services and investment in non-rain fed agriculture. Other interventions include increased funding for acquisition of necessary machineries to revamp the agricultural mechanisation services.

III. RECENT COUNTY ECONOMIC DEVELOPMENTS

Recent Economic Developments

21. The macroeconomic environment as reported at the national government continued to improve over the period to June 2014. Going forward, the macroeconomic outlook remains favourable although risks still lurk, as fluctuation of key macroeconomic variables such as inflation and interest rates elicit some economic excitement. Economic recovery around our trading and donor partners like the euro zone is a good sign for our economy.

22. In the first quarter of 2013, the County economy was characterized by harsh atmospheric conditions due to failure of the April rains. This resulted in an uptick in food inflation, as the prices of agricultural and livestock products responded to perceived short. The slow recovery of the Euro zone and the sluggish growth in the other major development and trading partners has played out to dampen the prospects of economic boom. Most of the economies in Europe, which are the major consumers of our exports, are still on the recovery trend.

23. Due to the inflationary pressures from food and non-food sectors, the cost of living generally over the medium term has been trending up, eroding the purchasing power of the real wage. The overall inflation increase was generally volatile oil prices in the international markets, which has resulted to upwards revision of local pump prices and rising commodity prices as reflected by the Consumer Price Index (CPI) base movements.

24. Several planned projects and programmes at the National or County level had impacts in the Kitui County economy. The African Development Bank (AfDB) Water and Sewer System funded project continued to be implemented over the period, with major progress realised over the period. This project is being implemented by the national government on behalf of the county and contracted to Sino Hydro Co., Ltd. The objective of the project is to increase water supply to Kitui County towns and construct a sewer system for Kitui Town.

25. It should also be mentioned that blocks C and D of Mui Coal Basin, which is divided in to four zones; namely A, B, C and D, was concessioned to Flenxi Mining Co., Ltd, a Chinese company to start mining and an agreement signed with the Kenya Government on 23rd December 2013. This agreement also envisages other infrastructural projects that will spur economic growth not only around the coal belt, but across county.

26. Some of the major investments expected to flow in after the coal mining kicks off include the construction of a 900MW coal fired electricity generating plant. This is intended to provide electricity to the mining company and feed the excess generation to the national grid to boost national installed capacity. With this coal mining started, water will be tapped from Tana River to the site, and supply the surrounding areas. Land

survey, demarcation and adjudication of the land within this belt will have to be done and valuation undertaken to facilitate compensation of the land owners.

27. The Standard Gauge Railway (SGR) which runs from Mombasa to Uganda and the Rwanda was commissioned within this period. This major transport system, expected to transform transport business has a T junction at Mtito Andei to Mui coal basin. The intention of this T junction is to provide means for transporting coal from the mining site to the port for export as well as supplying other coal fired power generation plants.

28. The Lamu Port Southern Sudan Ethiopia Transport corridor (LAPSSET), which was officially launched by the immediate former president, Mwai Kibaki on 2nd March 2012 is also another mega project being implemented by the national government that expected to have great impact on the economic growth of Kitui County. This project which is planned to have a highway, a railway and a pipeline passes to the north of the county, and could provide a major economic opportunity for the county such as the export of livestock to the Middle East. It is envisaged that preparatory activities were being implemented for the take-off of the project over the period under review.

29. Another major project likely to have impact on the live of the Kitui residents is the recently inaugurated River Athi – Mutomo – Ikutha – Kanziko water project. This project is funded jointly by the World Vision Kenya and the County Government of Kitui to the tune of KES 650m. This project is expected to reduce domestic water problem that residents of Kitui South Sub County have been grappling with for decades.

30. Over the period under review, this emergence of institutions of higher learning in the County (Universities and middle level colleges) resulted in massive influx of people in the County especially the Towns of Kitui, Mwingi and Kwa Vonza. On the supply side, this has constrained sectors like housing, transport, agriculture, health, education among others creating investment opportunities. In effect, market prices for the housing and land has gone up.

Macroeconomic stability (Inflation, Interest rates, Exchange rates)

31. Though the management of these variables is the sole responsibility of the National Treasury as alluded to earlier, their impact on the national economy is an aggregation of the effects to individual counties, which is of great concern to the counties as the National Treasury itself. The inflation rates over the medium term improved significantly from a high of about 18.3% in January 2012 to a low of 7.4% in June 2014. However, over the period under review, the inflation rate (month-on-month) remained relatively steady at around 7%. It is expected that this decline will be sustained over the medium term period to achieve a target level of 5%. Sustaining inflation rates at this or even lower level is critical for the nation and the county to achieve their fiscal objectives, given that inflationary pressures have had adverse budgetary effects in the past.

32. The interest rates have declined significantly over the medium term. Central Bank of Kenya base lending rate has been declining since June 2012 from 18% to 8.5% in May 2014. The average interbank rate came down from 17.1% in June 2012 to

7.8% in May 2014. This has the effect of stimulating private credit that is required to accelerate private development. This will be important for the county since the main target of the county will be private investors who may need to raise funds either from commercial banks or the stock exchange.

33. This is understood in the premise that part of the County economy is dependent on trade in livestock, construction of real estate and commerce in agricultural produce (cereals), which need credit from commercial banks.

Medium Term Fiscal Framework

34. Over the medium term, the county will pursue prudent fiscal policy aimed at maintaining stability in the revenue segments while still improving the business environment. Expenditures controls will continue to be implemented, and where financial prudence requires austerity measures to be put in place, necessary policies will be prepared to avert any financial crisis.

35. Debt management policies under the PFM Act 2012 require that counties avoid borrowing within the first few financial years. It is therefore not in the county's plan to finance any short fall in budget through loan, whether recurrent or development. However, where necessity dictates otherwise, all necessary precautions will be employed to avoid debt traps.

36. The revenue target for the county is still below 10% of the budget. This is a major risk to the county's operations as delay in disbursement could paralyse operations. The total revenue target cannot cover five payroll expenses. Monthly collections from all the sources also cannot meet the monthly salary expenditure. These call for urgent measures to improve administrative efficiency and widen the revenue base to ensure county operations are cushioned from disruptions in case of disbursement delays.

37. It is clear from the delay in passing of Finance Bill 2013 that revenue collection suffers when necessary bills and policies are not prepared approved and/or passed on time. All laws that allow the county to collect levies should be prepared and appropriately approved on time to maximise on the revenue collection period. Delay in passing bills into laws shortens implementation period, thus affecting resource mobilisation time.

38. On the expenditure side, the county will continue to rationalise expenditures to bring efficiency and step wastage. Accelerating implementation of expenditure management reforms as contained in the PFM Act 2012, and its regulations alongside full adoption of the Integrated Financial Management Information System (IFMIS) platform is expected to improve financial management capacities of the Treasury department.

39. There are claims from contractors and suppliers of services left by the former local authorities, which have not been verified for authentication. Transition Authority (TA) has not given counties any direction on the inherited debts and hence, apart from a

moratorium imposed on the counties not to pay any claim. It is considered opinion that TA should provide guide on the modalities of handling such cases to mitigate against interest payment on claims verified as genuine.

40. The national government enacted a law to allow Public – Private – Partnership (PPP). However, the technicalities involved require experts with training and experience on the same to initiate and negotiate such contracts. This is a viable option that the county will explore over the medium term, in consultation with the National Treasury which hosts the national secretariat on PPP. Long term projects such as solar power generation, water supply sewer system management and other infrastructure projects are some of examples of viable projects.

County Economic Outlook

41. At the national level, the economy continued to show improvement from the previous years over the period under review. However, some sectors like tourism and financial sectors (stock exchange) were very volatile and responsive to the security issues that heightened with the terrorists attack at the Westgate. This, together with subsequent security alerts issued by the foreign governments resulted in both investors and tourists scare, occasioning some capital flight and loss of revenue through cancelled bookings in the tourism sector.

42. It is envisaged that going forward Kitui County will join the tourism circuit so as to reap benefits from the tourism sector. Initial stages towards this will involve rehabilitation of all the tourist sites including Nzambani rock, South Kitui national park, Kora and Mwingi game reserves. The Tourism department has partnered with Kenya Wildlife Services to market tourism within the parks and reserves. It is anticipated that aggressive marketing and rebranding of our tourists destination can increase the number of tourists visiting our county.

43. Kitui County being a semi-arid area, mining and service sectors are the key focus drivers of economic development. Investor confidence and predictable political climate is pertinent in order to achieve sustainable economic development. The much hyped coal mining as well as limestone mining are key resource potentials the County is banking on to grow its economy and tilt the scales of poverty. With keen interest now at an advanced stage, the growth prospect for the county looks bright.

Risks to Economic Outlook

44. One of the major risks facing this outlook, just as many other counties is the weak revenue base that cannot cushion the county from cash flow delays from the National Treasury. Most of the counties experienced problem in payment of salaries for the months of July and August this year following a delay by the national treasury to release funds. This problem could have been averted if all the counties were able to collect own revenue adequate to shoulder monthly payroll burden.

45. Other risks to the economic outlook for 2014/2015 and the medium term include continued weak growth in advanced economies that will impact negatively on our tourism and export activities especially when Kitui County expects to reap much from the mining and tourism sectors. The low absorption rate that prevailed over the 2013/14 budget implementation period poses serious threat to growth forecasts if it is replicated in 2014/15 FY. This fear could become real given the July – August experience on funds disbursement delays.

46. Public expenditure pressures especially recurrent expenditures, mainly salaries and other personnel emoluments posed fiscal risks. The wage bill in particular limited the funds available to development, curtailing the ability of the county to expand its infrastructure and fulfil other developments as outlined in the budget. This is in cognizance of the fact that staff of the defunct local authorities were automatically inherited and therefore paid by the County Government. Moreover, the 40 elected members of Kitui County Assembly were paid from the local revenues of the county.

47. The national as well as the county are dependent on the rain fed agriculture. Erratic weather pattern that is so characteristic in our county derailed the County development agenda with substantial resources channelled to emergency relief services. This is so real given that the December 2012 and April 2013 rains did not do well in most parts of the county.

48. Other risks that the economic outlook may be prone to include lack of goodwill from the political class, low staff morale that will affect revenue performance, delay in enactment of bills into laws, liquor licensing structure and resistance from the devolved functions staff to collect revenue.

IV. RESOURCE ALLOCATION FRAMEWORK

Adjustments to 2014/15 Budget

49. Given the performance in 2013/14 and the updated macroeconomic outlook of the national economy, the risk to the FY 2014/15 include instabilities in growth of the advanced economies that support our coffee and other exports; volatility in tourism sectors which is a major foreign exchange earner and geographical turbulence in the international oil market. Expenditure pressures at the national government resulting from wage expenditures, devolution and constitutional implementation are likely to impact negatively on the county cash flows. This situation may become an impediment if the scenario of July and August persists into the future.

50. At the local level, the county reported very low rates of development funds absorption (about 18%) in the 2013/14 FY. Even though reasons adduced were realistic and commensurate with performance in other counties, close monitoring of the situation is warranted to avoid a repeat of such performance. This requires proactive style of management geared towards Result Based Management to stem the risks as they emerge and take necessary steps on time.

51. The experience on the budget implementation so far suggests that departments will have to adjust their budget to align resources to needs. Supplementary budget will have to be prepared to rationalise expenditures and where possible cut spending in non-priority areas. However, resources allocated to development will not be re-allocated to recurrent expenses and any movement of resources is expected to remain within recurrent budget.

52. In order to achieve the revenue targets set out in the 2014/15 budget, the revenue department of the County Treasury will have to go extra miles in revenue collection. The supervision of revenue collection is essential to seal off all possible revenue leakages and loss through non-collection. Other measures necessary to realise the budget are to speed up the preparation and approval of bills required to collect revenues i.e. Finance Bill 2014, Liquor Licensing and Trade and Licence Bill.

53. With respect to revenues, the County Government managed to collect KES 257m against a projection of KES 448m. This resulted from 7% collection above for revenues targeted from former local authorities' sources (254.6m against target of 240m) and 2.5m collection from revenues expected from devolved functions(health, liquor licensing, veterinary etc.). There is potential to increase the revenue base by around 20% in the medium term, mainly through improvement in collection efficiency. Measures to achieve this effort include, but not limited to, modifying the mode of revenue collection from manual to electronic, reducing revenue leakages, staff optimization and facilitation.

54. The county government has taken the necessary steps to ensure that revenues expected from devolved functions transferred from national government are collected and remitted to the county revenue fund. This will reduce the projected target shortfall,

and provide fund needed for development. However, this transition was not without challenges as identified earlier that some units collected and spent the funds through the national government system.

55. On the expenditure side, the County Government continued to rationalize expenditures to improve efficiency and reduce wastage. In the medium term, expenditure management is expected to improve with the implementation of the Integrated Financial Management Information System (IFMIS) platform. Above all, the PFM Act, 2012 is expected to guide and accelerate reforms in expenditure management system necessary for the efficient utilisation of resources.

Medium Term Expenditure Framework

56. Looking forward, and in view of the outlook, MTEF budgeting will involve expenditures rationalisation to move resources from non-priority sectors to accommodate priority needs. Over the medium term, the budget will draw largely from the CIDP that was concluded in July and has identified strategic sectors and programs the county will need to invest in to address the development challenges of the county as follows:-

- i. The Energy, Infrastructure and ICT sector receive the largest share of resources. This sector is the driver of the economy and reflects Government's commitment in improving infrastructure, such as roads, energy and ICT infrastructure. The allocation to the sector will continue to rise
- ii. The social sectors, comprising education and health, will continue to receive adequate resources. Both sectors (education and health) are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.
- iii. Agriculture, water and Irrigation sector has received a huge allocation consistent with the county policies to improve food security and water availability in the county. Kitui is ranked as food insecure and water deficit, a picture that county government is fighting to change.
- iv. Other priority sectors including youth, women and disadvantaged groups have been incorporated in various development programs, which will continue to attract funding.

57. Specifically, the County government has prioritized key strategic interventions across major sectors as a way of accelerating county's economic and social transformation so as to improve quality of services to the population. The main areas of interventions cover food security, improved access to quality health care and water, empowering youth and women as well as putting in place a transformative education system. Resources earmarked for these interventions are ring fenced over the medium term and are carried forward (re-voted) at the end of the financial year to ensure these interventions are fully implemented.

58. To address structural reforms on County Budgeting, the following will be implemented over fiscal cycle;

- i. The expenditure side of the County budget, the County Government will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the PFM Act, 2012. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) to cover the expenditures of the 12 County spending units.
- ii. The County Government will institute measures to contain the public wage bill and eliminate other unnecessary expenditures. This will free some resources that will be channelled to development financing. Some of the measures proposed here would include payroll cleansing, staff rationalization and streamlining expenditures to county priorities.

Budget Framework 2015/16

59. The 2015/16 budget framework is built around the fiscal and medium term framework set out above. Stability in macroeconomic variable such as interest rates, inflation and unemployment in the global and the local economy is set to accelerate recovery and simulate growth at the county economy. The projected growth assumes normal weather pattern during the year, that will determine food security and guarantee funds set aside for development will not be diverted to fight hunger. At national level, inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as stable exchange rates. All these macroeconomic parameters have adverse ripple effects to the county economy.

60. County generated revenue is projected to grow at the rate of 10% over the medium term from KES 650m in 2014/15 to 800m in 2016/17. This is in line with the county plan to improve revenue collection to tame the risks associated with funds disbursement delay, as experienced by most of the counties during July and August this financial year. However, this own revenue will still not be able to cushion the county from cash flow problems associated with delay in funds release and other measures need to be identified to strengthen revenue base of the county.

V. CONCLUSION AND WAY FORWARD

61. The implications of 2013/14 budget implementation have left departments with lessons learnt, especially on absorption of development budget. Some departments were not able to absorb even one per cent of the funds allocated for development activities.

62. 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. They are also consistent with the national strategic objectives pursued by the national government as a basis of allocation of public resources. These strategic objectives are provided in the plans developed to implement the Kenya's blue print-Vision 2030. The first MTP period ended and the successor MTP (MTP II) was launched in October 2013.

63. In view of the experience of the last financial budget implementation, it should be realised that rationalised budgeting will translate to higher absorption rate as department will not need to wait for supplementary budget to move resources from non-priority areas.