EMBU COUNTY GOVERNMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision
A Prosperous, Wealthy and Secure County

Mission
To improve livelihoods through provision of suitable infrastructure, investment opportunities, legislation and security, while maintaining sustainable environmental management practices

SEPTEMBER 2015

FOREWORD

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012 section 118. It details the actual fiscal performance in the financial year 2014/15 compared to the budget appropriation for that year. It presents the recent economic developments and actual fiscal performance of the FY 2014/2015 and makes comparisons to the budget appropriations for the same year. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the County Fiscal Strategy Paper (CFSP) 2015.

In this Paper, we will also provide an overview of how the actual performance of the FY 2014/2015 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2015 CFSP. The paper is being prepared at a time when significant progress has been made in operationalizing the County Government.

The County priorities and goals outlined herein are based on the County Integrated Development Plan (2013-2018) with emphasis on investment in: Agriculture and food security, Infrastructure, accessibility of water, accessible health care, education. These priorities shall form the basis for formulation of FY 2016/17 budget in the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

The paper covers the following broad areas in review of the fiscal performance of financial year 2014/2015; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

We are committed to maintain the trend of economic growth and development in line with the expectations and commitments we have made to the people of Embu County. Towards this end, we shall ensure there is transparency and accountability by relaying our performance indicators to the public as well as publicizing other publications as required by the Constitution 2010 and the Public Finance Management Act, 2012.

MR JOHN NJAGI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE, ECONOMIC PLANNING & ADMINISTRATION

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

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. 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 the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii)How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(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 publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government’s recurrent expenditures shall not exceed the county government’s total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government’s budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained 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.

Table of Contents

List of Tables

Abbreviations

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

I. INTRODUCTION

Objective of the BROP

1. The objective of the BROP 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 County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

2. The BROP is a key document in linking policy, planning and budgeting. This year's BROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

3. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2015/2016 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2016/17. However, following the fiscal outcome of 2014/15 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

4. The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2014/15 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in February 2015. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2014/2015

A. Overview

5. The fiscal performance in 2014/15 was fairly satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures with limited structures in the county. The absorption of development expenditure was also low hence requiring more focused efforts towards increasing the percentage of developed funds absorbed. The County had an approved budget estimate of Ksh. 4,990,296,843.00 that was financed by equitable contribution from the national treasury at 67.11%, local revenue at 7.82% grants to the health services 3.72%, Balance brought forward from 2013/14 at 13.95%, donor funds at 0.23% and Appropriation in Aid at 7.17%.

6. On the expenditure side, the County Government incurred high expenditure on salary for the devolved functions staff and establishment of County Government legal institutions that are part and of county structures. The actual recurrent expenditure amounted to Kshs. 3,172,470,171.00 which accounts for 82.56% with development expenditure accounting for 17.44% at Kshs. 670,157,896.55

B. 2014/15 Fiscal Performance

7. The table below presents the fiscal performance for the FY 2014/15 and the deviations from the approved estimates against the actual expenditure.

Table 1: Summary of Approved Budget Estimates FY 2014/15

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
RECURRENT EXPENDITURE 2014/2015				
OFFICE OF THE GOVERNOR	1,902,479,748.00	1,887,257,885.00	15,221,863.00	0.80%
FINANCE AND PLANNING	202,028,494.00	191,318,194.00	10,710,300.00	5.30%
EDUCATION AND ICT	13,861,230.00	9,699,548.00	4,161,682.00	30.02%
HEALTH	366,377,128.00	334,671,316.00	31,705,812.00	8.65%
INFRASTRUCTURE	35,089,000.00	29,054,693.00	6,034,307.00	17.20%
TRADE AND TOURISM	9,237,000.00	3,375,100.00	5,861,900.00	63.46%
AGRICULTURE, LIVESTOCK AND FISHERIES	30,505,384.00	15,198,569.00	15,306,815.00	50.18%
LANDS, WATER AND ENVIRONMENT	14,156,204.00	7,868,469.00	6,287,735.00	44.42%
GENDER, CULTURE ,CHILDREN AND SOCIAL SERVICES	7,664,500.00	4,002,385.00	3,662,115.00	47.78%
INVESTMENT AND INDUSTRIALISATION	3,600,000.00	1,074,746.00	2,525,254.00	70.15%
COUNTY PUBLIC SERVICE BOARD	15,402,000.00	4,927,710.00	10,474,290.00	68.015%
COUNTY ASSEMBLY	416,762,350.00	416,715,819.00	46,531.00	0.01%
LEVEL 5 HOSPITAL	456,992,234.00	262,784,489.00	194,207,745.00	42.50%
YOUTH EMPOWERMENT AND SPORTS	9,555,000.00	4,521,248.00	5,033,752.00	52.68%

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
TOTAL RECURRENT	**3,483,710,272.00**	**3,172,470,171.00**	**311,240,101.00**	**8.93%**
DEVELOPMENT BUDGET 2014/2015				
OFFICE OF THE GOVERNOR	-	-	-	0
COUNTY ASSEMBLY	35,000,000.00	-	35,000,000.00	100.00%
GENDER, CULTURE ,CHILDREN AND SOCIAL SERVICES	39,300,000.00	694,000.00	38,606,000.00	98.23%
YOUTH EMPOWERMENT AND SPORTS	107,767,350.00	79,084,185.00	28,683,165.00	26.62%
FINANCE AND PLANNING	62,404,929.00	45,416,735.00	16,988,194.00	27.22%
INVESTMENT AND INDUSTRIALISATION	13,000,000.00	2,068,192.85	10,931,807.15	84.09%
INVESTMENT AND INDUSTRIALISATION	42,451,000.00	10,210,892.00	32,240,108.00	75.95%
AGRICULTURE, LIVESTOCK AND FISHERIES	103,200,000.00	31,103,488.00	72,096,512.00	69.86%
LANDS, WATER AND ENVIRONMENT	260,994,093.00	120,153,626.00	140,840,467.00	53.96%
HEALTH	156,891,356.00	109,860,893.00	47,030,463.00	29.98%
INFRASTRUCTURE	524,666,343.00	186,796,801.70	337,869,541.30	64.40%
EDUCATION AND ICT	160,911,500.00	84,769,083.00	76,142,417.00	47.32%
TOTAL DEVELOPMENT	**1,506,586,571.00**	**670,157,896.55**	**836,428,674.45**	**55.52%**
TOTAL EXPENDITURE	**4,990,296,843.00**	**3,842,628,067.55**	**1,147,668,775.45**	**23.00%**
LOCAL SOURCES	390,000,000.00	235,697,912.00	154,302,088.00	39.56%
AIA (MINISTERIAL)	358,000,000.00	165,407,191.00	192,592,809.00	53.80%
EQUITABLE SHARE FROM NATIONAL GOVERNMENT	3,349,196,063.00	3,349,196,063.00	-	-
GRANT (LEVEL FIVE HOSPITAL)	185,774,538.00	185,774,538.00	-	-
DONOR FUNDS	11,370,000.00	11,370,000.00	-	-
REFUNDS B/F 2013/2014	695,956,242.00	695,956,242.00	-	-
Total Revenue	**4,990,296,843.00**	**4,643,401,946.00**	**346,894,897.00**	**6.95%**

Source: Embu County Treasury

8. The approved total revenue for the FY 2014/15 was Ksh. 4,990,296,843.00 but the actual revenue received amounted to Ksh 4,643,401,946.00 which is 6.95% less than earlier targeted. This was as a result of local revenue targets that fell short by 39.56% as well as Appropriation in Aid by various departments that fell short by 53.80%.

Revenue

9. Total cumulative local revenue collections amounted to Ksh. 235,697,912.00 compared to a target of Ksh 390,000,000.00 which represents a revenue shortfall of Ksh. **154,302,088.00** that is under collection by 39.56%. National treasury released to the County Government a total

of Ksh. 3,349,196,063.00 as equitable share of the county as per the 2014 County Revenue Allocation Act.

10. The underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. Local revenues collection as per classification is as shown in Table 2 below:

Table 2: Revenue Streams for FY 2014/15

REVENUE STREAMS	FY 2014/15		
	TARGET	ACTUAL	DEVIATION
Single Business permit	111,781,075.20	63,454,991.00	48,326,084.20
House Stall	13,524,710.10	12,295,191.00	1,229,519.10
market Fees	47,536,052.68	26,984,888.00	20,551,164.68
Parking Fees	60,420,980.04	34,299,301.00	26,121,679.04
Cess	80,022,695.84	45,426,647.00	34,596,048.84
Land rates	20,624,847.05	11,708,149.00	8,916,698.05
Enforcement	1,152,305.00	1,047,550.00	104,755.00
Tech. Fees	22,404,695.14	12,718,519.00	9,686,176.14
Admin. Fees	252,328.79	143,240.00	109,088.79
Advert Fees	595,984.96	338,324.00	257,660.96
Slaughter Fees	1,557,517.50	1,415,925.00	141,592.50
MISL	25,288,941.70	22,989,947.00	2,298,994.70
Stock fees	4,460,269.00	2,531,970.00	1,928,299.00
Water Charges	377,597.00	343,270.00	34,327.00
Total	**390,000,000.00**	**235,697,912.00**	**154,302,088.00**

Source: Embu County Treasury

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

11. Nationally, the macroeconomic environment has continued to improve. Going forward, the macroeconomic outlook remains favourable although risks remain. The macroeconomic outlook will also impact on the county economy.

A. Recent Economic Developments

12. Recent developments in the key macroeconomic variables are still encouraging. Growth in real GDP remains resilient. The Real GDP grew by 0.2 percent in the first quarter of 2015 to 4.9 percent compared to 4.7 percent in a similar quarter of 2014. In terms of fiscal years, economic growth projections translate to 6.6 percent in 2015/2016 and 6.9 percent in 2016/2017.

13. Overall inflation decreased to 5.84 percent in August 2015 down from 6.62 percent in July 2015. The decrease in inflation was due to lower food prices and moderating demand pressures, partially offsetting the pass-through effects of exchange rate movements.

Consequently the shilling has lost substantially against the US Dollar and other major international currencies to a maximum rate of Kenya Shillings 105 per US Dollar.

14. The foreign exchange market was volatile in August and early September largely reflecting international developments, in particular the impact of the devaluation of the Chinese Yuan and continued strengthening of the U.S. dollar against most currencies. However, the tight liquidity conditions and direct interventions by the Central Bank of Kenya (CBK) helped stabilize the market. The current account deficit narrowed slightly in July 2015, due to a slowdown in imports and improved exports. In addition, diaspora remittances remain strong.

15. The CBK's foreign exchange reserves stand at USD 6,183.6 million, which together with the Precautionary Arrangements with the International Monetary Fund (IMF) continue to provide an adequate buffer against short-term shocks. Following the first review of these Arrangements in September, the IMF endorsed the country's macroeconomic policies and the measures adopted to address the spillover effects of the volatility in the global markets.

16. Consistent with the monetary policy stance, liquidity conditions remained tight with the average interbank interest rate above the Central Bank Rate (CBR). Consequently, other short-term interest rates have been rising.

17. The banking sector is resilient although liquidity and credit risks remain. The CBK is closely monitoring the sector in view of the risks posed by volatility in the global markets.

18. Global economic growth remains moderate supported mainly by the U.S. economy. However, the slowdown in China has dampened the growth outlook for the global economy and increased volatility in the financial markets. Most emerging and frontier market currencies have depreciated against the U.S. dollar mainly due to the uncertainty around the timing of the increase in U.S. interest rates. The CBK's Market Perceptions Survey of September 2015 showed that private sector firms expect stronger growth in 2015 compared to 2014, supported mainly by public investment in infrastructure and improved confidence in the economy. In addition, the Survey showed that inflation was expected to be stable in the remainder of 2015 supported by lower food and oil prices.

19. The Real GDP grew by 0.2 percent in the first quarter of 2015 to 4.9 percent compared to 4.7 percent in a similar quarter of 2014. The growth was mainly supported by strong expansions of activities of Agriculture, Horticulture, Construction, Electricity and Water, Transport and Storage, Financial intermediation.

20. The agriculture, forestry and fishing sector expanded by 4.4 per cent during the quarter under review compared to 2.2 per cent in 2014 first quarter. This growth was reflected in the increased use of agricultural inputs during the quarter. Increased demand for fertilizer, a key input for agriculture sector, was the most notable as reflected by its import which grew by

18.4 per cent from 224.6 thousand metric tonnes in first quarter 2014 to 265.9 thousand metric tonnes during the first quarter 2015.

Performance within the horticulture subsector was mixed, with cut flower exports rising by 11.7 per cent while vegetable exports declined by 3.3 per cent from 16.6 thousand metric tonnes to 16.1 thousand metric tonnes. During the review quarter, tea production and coffee sales declined by 27.2 per cent and 8.6 per cent, respectively. The fall in tea production is attributed to inadequate rains and frost that was reported in some tea zones. However, export of tea increased by 7.2 per cent to 117.8 thousand metric tonnes during the first quarter of 2015 compared with the same quarter of 2014. Tea and coffee generated an estimated value of KSh 31.3 billion from exports during the review quarter compared to KSh 27.7 billion during the same period in 2014. The high tea prices that prevailed led to high export earnings during the first quarter of 2015 driven by increased demand and low global production of the crop.

21. Construction grew by 11.3 per cent in the first quarter of 2015 compared to a growth of 7.6 per cent in a similar period in 2014. The growth was mirrored in cement consumption which expanded by 15.5 per cent during the review period.

22. Electricity and water: During the review period, the sector expanded by 8.4 per cent compared to a growth of 3.9 per cent in the first quarter of 2014. The growth was attributed to increased reliance on geothermal generation which expanded by 125.6 per cent supported by the commissioning of new plants in 2014, notably Olkaria I and IV with capacity of 280 megawatts. However, generation by thermal and hydro contracted by 52.5 and 15.9 per cents, respectively. Geothermal, hydro and thermal contributed 50.0, 33.7 and 16.3 per cents respectively to the total power generation.

23. Transport and Storage During the quarter under review, the transport sector grew by 6.0 per cent compared to 3.8 per cent growth recorded in the same quarter of 2014.The accelerated growth was attributed to increased demand for freight transport and a fall in oil prices. Consequently, the consumption of light diesel increased from 400.5 thousand tonnes in the first quarter of 2014 to 451.7 thousand tonnes during the review period.

24. Financial Intermediation The sector recorded an improved growth of 9.1 per cent during the review period compared to 8.3 per cent in the same quarter of 2014. Credit from commercial banks to the domestic market rose by 19.1 per cent during the first quarter of 2015 compared to a growth of 20.0 per cent over the same period of 2014. Similarly, credit to the private sector expanded from KSh 1,561.6 billion in the first quarter of 2014 to KSh 1,884.0 billion during the same period of 2015, representing a growth of 20.6 per cent. Credit to the National Government increased by 13.3 per cent to KSh 558.4 billion during the first quarter of 2015 compared to the same period of 2014. Broad money supply grew by 3.0 per cent to KSh 2,398.8 billion in the first quarter of 2015 compared to a growth of 3.2 per cent recorded in a similar period in 2014. During the first quarter of 2015, the average interest rate

on 91-day treasury bills stood at 8.49 per cent, compared to an average of 8.98 per cent rate recorded in a similar period in 2014. Over the same period, the overdraft and maximum lending interest rates dropped from an average of 16.44 and 16.91 per cent to 15.47 and 15.67 per cent, respectively. The interbank rate rose marginally from an average of 6.47 per cent to 6.85 per cent, while the average savings deposit rate dropped from 1.56 per cent in the first quarter of 2014 to 1.53 per cent in the review period.

Stock Market.

25. Activity in the Nairobi securities market was bullish in the first quarter of 2015 with the 20 share index rising from an average of 4,912 points in the first quarter of 2014 to an average of 5,350 point in the same period of 2015, registering a growth of 8.9 per cent.

Balance of Payments;

26. During the first quarter of 2015, merchandise trade deficit worsened by 6.4 per cent to KSh224.1 billion from KSh 210.6 billion recorded in the first quarter of 2014 as shown in Table 5. Imports increased by 3.0 per cent to KSh 355.7billion whereas the value of exports shrunk by 2.3 per cent to KSh 131.5 billion in the quarter under review. The overall balance of payments position deteriorated from a surplus of KSh 8.8 billion in the first quarter of 2014 to a deficit of KSh 14.3 billion during the quarter under review as presented in Table 4. The deterioration in the current account balance was mainly occasioned by the increase in the import bill and the decline in the value of total exports in the same period. As a consequence, the current account balance recorded a deficit of KSh 101.5 billion in the first quarter of 2015 compared to a deficit of KSh 63.8 billion in the first quarter of 2014.International trade in services registered a decrease of 52.9 per cent from a surplus of KSh 50.3 billion in the first quarter of 2014 to a surplus of KSh 23.7 billion in the quarter under review. Inflows from secondary income expanded by 14.2 per cent from KSh 76.0 billion during the first quarter of 2014 to KSh 86.8 billion in the first quarter of 2015. During the quarter under review, diaspora remittances increased by 13.2 per cent to stand at KSh 33.3 billion. Net inflows from the financial account more than doubled from a surplus of KSh 75.7 billion in the first quarter of 2014 to a surplus of KSh 219.3 billion in a similar period of 2015. Gross official reserves posted a deficit of KSh 15.7 billion in the first quarter of 2015 compared to a surplus of KSh 8.1 billion in the first quarter of 2014.

27. In respect to these economic developments at the national level, the Embu County Government is committed to sustainable economic growth by deepening and widening the agricultural base in the county. It is the belief of the County Executive Committee that this is the path towards revitalization of the county economy resulting to increased and sustainable employment as well as economic empowerment of the county citizens. The County Government has taken steps to establish value addition industries in the macadamia, milk and horticulture sub-sectors.

28. To spur economic growth and propel the county to higher levels of development, the county government intends to promote investment opportunities and trade. A major investment conference took place within the county to show potential investors the numerous available opportunities. This will eventually trickle down to virtually all sectors of the economy and increase the county's revenue base.

29. Hotels and restaurant sector is another area which is not fully exploited and if investment is focused on it, more income will be generated to enable the county to grow. The Roads sector has grown over the year with more than 500 kilometers of roads being upgraded from earth to gravel surface and standards. This has led to easy access by farmers from their farms to the market delivering their produce. The cost of transport has reduced thus more income to the farmers leading to improved living standards. The development roads have improved delivery of services. In the energy sector more street lights and high floodlights have been installed. This has led to reduction in crime rate in the county.

B. Macro-economic outlook and policies

Growth prospects

30. The growth remains moderate, with uneven prospects across the main countries and regions. It is projected to be 3.5 percent in 2015, in line with forecasts in the January 2015. Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

31. Global growth is forecasted at 3.5 percent in 2015 and 3.8 percent in 2016, with uneven prospects across the main countries and regions of the world. The distribution of risks to near-term global growth has become more balanced relative to the October World Economic Outlook but is still tilted to the downside. The decline in oil prices could boost activity more than expected. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. In some advanced economies, protracted low inflation or deflation also pose risks to activity.

32. Many emerging market and developing economies face a trade-off between macroeconomic policies to support weak activity and those to contain capital outflows. Global growth is expected at about 3.5 percent in 2015 different to growth in 2014 compared to a growth of 3.0 percent and 3.9 percent registered in 2013 and 2012, respectively.

33. The economic performance in sub-Saharan Africa has been strong in recent years, despite the adverse global environment. The region has proved remarkably resilient to the global crisis in 2008-09 and many countries have experienced sustained increase in per-capita income, lifting living standards and reducing poverty.

34. Against this backdrop, the country remains cautious in macroeconomic forecasts considering the mixed performance of global growth. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. The growth rate is expected to grow at 6.3 percent in 2015 up from 5.6 percent in 2015. Over the medium-term, growth is expected to pick gradually and cross the 8 percent mark by 2018, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 6.1 percent in 2015/16, 6.5 percent in 2015/16, 6.6 percent in 2014/16 and 6.9 percent in 2016/17.

35. Growth will be augmented by production in agriculture following receipt of adequate rain, value addition in agriculture, completion of key infrastructure projects (such as roads and energy), and other initiatives geared towards exports promotion including expansion of regional markets; Special Export Zones, Commodity exchanges among others. Finally, domestic demand is expected to be robust following increased investor confidence with the successful general elections. Stability in the movement of the exchange rate will support the low inflation forecasts.

C. Medium Term Fiscal Framework

36. Kenya will continue to pursue prudent fiscal policy aimed at macroeconomic stability. In addition, the fiscal policy objective will provide an avenue to support economic activity while allowing for the full implementation of the devolved system of government, by supporting devolution through capacity building to effectively deliver public services and ensuring county governments receive adequate resources to fund their functions. All this, will be managed within sustainable public finances.

37. The National Government is committed to a gradual reduction in the overall fiscal deficit (including grants) to 3.5 percent of GDP in the medium term. This will help to bring down the debt-to-GDP ratio to well below 45 percent and contribute to reducing pressure in the current account, in addition to providing adequate room for future countercyclical fiscal policy in the event of a shock.

38. With respect to revenues, the Government continues to maintain a strong revenue effort of between 24-25 percent of GDP over the medium term. Measures to achieve this effort include simplification of the tax code in line with international best practices and improved tax compliance with enhanced administrative measures. In addition, the Government will rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

39. The VAT Act recently passed, is being implemented. The main objective of this Act is to simplify, modernize and reduce cost of compliance. It also provides clarity to various issues and definitions that previously caused confusion as used in the old Act; as well as provide for rising of additional resources through expansion of the tax base, increased efficiency in tax

collection and the sealing of leakages in our revenue collection system. The Government is also reviewing all other tax legislations in order to simplify and modernize them.

40. On the expenditure side, the Government will continue with rationalization of expenditures to improve efficiency and reduce wastage. Expenditure management will be strengthened within the Integrated Financial Management Information System (IFMIS) platform which has been rolled to the county. Above all, the PFM Act, 2012 and its attendant Regulations to be issued soon, is expected to accelerate reforms in expenditure management system.

41. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy Paper. The Government will ensure that the level of domestic borrowing does not crowd out the private sector to allow the expected increase in private investment to pick up.

42. The Government remains committed to accessing international capital markets with caution, including floating additional Sovereign Bond. In the FY2014/15 the Government has raised about USD 1.5 billion through the issuance of a sovereign Bond that has been used to support infrastructural development in the country and the county will benefit from it.

D. Risks to the outlook

43. There are a number risks to the outlook for 2016 and medium-term that are both external and domestic. They include geopolitical uncertainty, political squabbling, unpredictable weather climate and non-compliance to the guidelines provided by the controller of budget.

44. Geopolitical uncertainty on the international oil market will slow down the manufacturing sector. These affect the national government whose effects trickles down to the County. Political squabbling among the legislative and the executive unit poses a risk to county development. This is has however improved. Lack of compliance to the guidelines provided by the controller of budget by the both units at the county. Unpredictable weather conditions remain a major impediment in achieving the set targets. The effects are manifested in low production under the agriculture sector which is expected to spur growth in the county. The forecasted El Nino rains expected to start in the month of October could disrupt food supply chains and exert pressure on food prices in the short term. Insecurity remains a threat to this framework hence investor's confidence has gone down and the effect is expected to spill to the county level. The uncertainty in the proportion of the county allocation from the national resource coupled with overdependence on the same is a major risk to this framework.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2015/16 Budget

45. Given the performance in 2014/15 and the updated macroeconomic outlook, there are a number of risks towards the implementation of FY 2015/16 county budget. These risks include political interference in development planning and implementation which may affect prioritization and the pace of implementation of programmes and projects. The high wage bill may continue to limit continued funding for development expenditure beyond the thirty percent mark. In addition, implementation pace in the spending units caused by failure to adhere to timelines, guidelines and circulars continues to be a concern especially with regard to the development expenditures leading to low absorption rates of development funds

46. Adjustments to the 2015/16 budget will take into account actual performance of expenditure at given time and absorption capacity in the remainder of the financial year. The county Government will scrutinize spending proposals with an intention of cutting those that are non-priority. However, the resources earmarked for development purposes will be utilized in the priority projects and none, whatsoever, can be expended as recurrent. That calls for departments to exercise strict fiscal discipline while focusing on areas that will ignite the economic potential of our county.

47. The County Public Service Board (CPSB) is expected to complete setting up the county organizational structures. Evaluation and harmonization of wage structure for public servants is still ongoing. This is based on the Capacity Assessment and Rationalization of the Public Service (CARPS) programme which was done by Biometric Data Capture exercise and institutional review for all Public Servants working in the National and County Governments. This is expected to improve the planning of salary and wage reviews.

48. Concerning revenues, the county conducted a business survey/census to establish the existing revenue streams. Modernizing revenue administration infrastructure will help in effectively enforcing revenue collection. The county will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the PFM law of 2012. Embracing the Integrated Financial Management Information System (IFMIS) fully in expenditure management and procurement will go a long way in ensuring proper controls of public funds and value for public funds.

49. The county M&E policy will support the implementation established structures for Monitoring & Evaluation. This will track development progress and hence promote transparency, integrity, access to information and embrace accountability principles in public resource utilization.

B. Medium-Term Expenditure Framework

50. The County is reviewing the County Integrated Development Plan (CIDP) which is a five year plan and seeks to guide, harmonize and facilitate development within the county. It is an approach to planning that involves the entire county and its citizens in finding the best programmes to achieve good long-term development. Through this, the county Government has prioritized key strategic interventions across major sectors as a way of accelerating its economic and social transformation so as to improve quality of services to the population. The main areas of interventions cover improvement of various infrastructures, food security through improved production and value addition, improved access to quality health care and empowering youth and women among many others.

51. The priority sectors of Infrastructure, Public Works and Housing, Lands, Water, Environment and Natural Resources and health, will continue to receive adequate resources. These sectors 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.

52. Infrastructure, Public Works and Housing sector has been allocated the largest share of resources in FY 2015/16 accounting for 28.63% of the development expenditure and will continue to rise over the medium term. The sector remains the driver of the economy and its allocation will continue to rise over the medium term while reflecting the county Government's commitment in improving infrastructure countywide such as tarmacking and gravelling of roads as well as installation of street lights. However, the sector faces a number of challenges that limits its optimal operations which include inadequate resources, lengthy procurement process and unclear delineation between the national government and county government roles. Over the medium-term, the sector's priorities will include improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction and expanding access. This budget is bound to go higher with the establishment of the Ward Development Fund which will fund ward priority projects across all sectors. It's expected that most of these priorities may be infrastructural development projects. The Ward Development Fund was allocated 383,793,984 which accounts for 24.37% of the development budget.

53. The Health sector is expected to receive 12.33% of the county development expenditure for the FY 2015/16 in its quest to provide equitable and affordable health care to the citizens. The sector faces numerous challenges, which include inadequate infrastructure for service delivery, shortage of qualified health personnel, and on time delivery of medicines and medical supplies. The County is expected to play a significant role in improvement of access and better health care for the citizens. As such, functions under this sector include county health facilities, ambulance services, promotion of primary health care, licensing and control

of undertakings that sell food to the public, and enforcement of refuse removal, refuse dumps and solid waste disposal.

54. The Lands, Water, Environment and Natural Resources has been allocated the second largest share of resources in FY 2015/16 budget accounting for 6.22% of the overall development expenditure. The sector plays a key role in ensuring that every citizen has access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities by scaling up water storage to improve water security, conservation and management of catchment areas and enforcement of sector laws and regulations.

55. The Agriculture, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector contributes up to 80% of the County’s economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. The challenges facing the sector include unfavourable climatic changes, low production due to poor farming methods, inaccessible markets, low value addition, inadequate funding, and low access to financial services as well as affordable credit.

Reflecting the medium-term expenditure framework, the table 3 provides the tentative projected baseline ceilings for the 2016 MTEF by sector. The sector ceilings include county devolved funds such as Ward Development Fund, education bursary, Women Trust Fund and Youth Trust Fund.

Table 3: Total Expenditure projections

	Approved Budget	**Budget projections**		
Sector	**2015/16**	**2016/17**	**2017/18**	**2018/2019**
Office of the Governor	397,793,204.00	423,854,175.85	425,125,738.38	426,401,115.59
Finance and Economic Planning	124,419,280.00	134,128,629.60	134,531,015.49	134,934,608.54
Education, Technology & ICT	176,542,246.00	187,664,407.50	188,227,400.72	188,792,082.92
Health	1,536,331,821.00	1,643,875,048.47	1,648,806,673.62	1,653,753,093.64
Infrastructure, Public Works & Housing	515,037,465.00	551,090,087.55	553,294,447.90	555,507,625.69
Sports & Youth Affairs	60,462,069.00	64,485,172.45	64,678,627.97	64,872,663.85
Trade, Tourism, Investment & Industrialization	73,305,580.00	78,436,970.60	78,750,718.48	79,065,721.36
Agriculture, Livestock & Cooperative Development	330,202,562.00	353,316,741.34	354,730,008.31	356,148,928.34
Gender, Women, Children, Culture	43,651,349.00	46,270,429.94	46,409,241.23	46,548,468.95
Public Service and Administration	235,992,548.00	247,792,175.40	248,535,551.93	249,281,158.58
Lands, Water, Environment & Natural Resources	170,515,856.00	182,377,311.32	182,924,443.25	183,473,216.58
County Public Service Board	7,067,266.00	8,420,629.30	8,445,891.19	8,471,228.86
County Assembly	483,125,210.00	503,450,218.40	504,960,569.06	506,475,450.76

Ward development projects	383,793,984.00	400,000,000.00	400,000,000.00	400,000,000.00
Embu level 5 Hosp.	337,470,000.00	357,718,200.00	358,791,354.60	359,867,728.66
TOTAL	**4,875,710,440.00**	**5,182,880,197.72**	**5,198,211,682.11**	**5,213,593,092.33**

C. 2015/16 Budget framework

56. The 2015/16 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The projected growth in performances across all the sectors assumes normal weather pattern during the year and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

57. There is need to refocus expenditure from recurrent to development expenditure and more importantly reduce wage related expenditure. The county will seek to broaden the revenue base to generate more revenues so as to cover the huge wage bill as well as create fiscal space, which is obviously important for infrastructure development, where large gaps already remain.

Revenue projections

58. County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2015/16 budget target for revenue collection is expected to be KShs. **379,549,232** This performance will be underpinned by on-going reforms in revenue administration and management which seek to expand revenue base and eliminate revenue collection leakages. The table below highlights the various revenue streams and their expected target over the medium term period.

Table 4: Revenue Projections 2014/15 – 2016/17

Revenue Stream	***2014/15***	***2015/16***	***2016/17***	***2017/18***
Single Business permit	*111,781,075.20*	*108,785,695.50*	*115,312,837.23*	*122,231,607.46*
House Stall	*13,524,710.10*	*13,162,290.59*	*13,952,028.03*	*14,789,149.71*
market Fees	*47,536,052.68*	*46,262,236.63*	*49,037,970.83*	*51,980,249.08*
Parking Fees	*60,420,980.04*	*58,801,888.64*	*62,330,001.96*	*66,069,802.08*
Cess	*80,022,695.84*	*77,878,340.38*	*82,551,040.80*	*87,504,103.25*
Land rates	*20,624,847.05*	*20,072,166.30*	*21,276,496.28*	*22,553,086.06*
Enforcement	*1,152,305.00*	*1,121,426.87*	*1,188,712.48*	*1,260,035.23*
Tech. Fees	*22,404,695.14*	*21,804,320.09*	*23,112,579.29*	*24,499,334.05*
Admin. Fees	*252,328.79*	*245,567.18*	*260,301.21*	*275,919.28*
Advert Fees	*595,984.96*	*580,014.45*	*614,815.31*	*651,704.23*
Slaughter Fees	*1,557,517.50*	*1,515,780.95*	*1,606,727.81*	*1,703,131.48*

Revenue Stream	*2014/15*	*2015/16*	*2016/17*	*2017/18*
MISL	*25,288,941.70*	*24,611,277.95*	*26,087,954.63*	*27,653,231.90*
Stock fees	*4,460,269.00*	*4,340,747.88*	*4,601,192.75*	*4,877,264.32*
Water Charges	*377,597.00*	*367,478.59*	*389,527.31*	*412,898.95*
Total	***390,000,000.00***	***379,549,232.00***	***402,322,185.92***	***426,461,517.08***

Source: County Treasury

Expenditure Forecasts

59. The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan, which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments. In addition, all planning is expected to be inspired by the Kenya Vision 2030 and be aligned to the second Medium Term Plan of Kenya Vision 2030.

60. The County Integrated Development Plan is under review to incorporate new projects and programmes and those that were implemented and were not previously in the CIDP. When the review will be carried out the following priority areas among others, will be the focus during the plan period. The county aims to improve road network in the county by constructing bitumen standard road. Construction of 100km out of the projected 500km has begun as well as grading and regular maintenance of all the feeder roads in the county.

61. In agriculture, which is the backbone of the county, the county government will focus on promoting value addition in macadamia, banana, coffee, milk and honey among other produce. Improved and efficient crop production will be enhanced through irrigation projects and improved machinery for continued and sustained crop production.

62. The county government is also aimed at establishment of proper marketing strategy aimed at opening up of some key tourist destination. In regard to this the county is undertaking tourism infrastructure development in some key areas. In the health sector, the county will continue to focus on adequately equipping, staffing and construction of all health facilities. In Education and ICT, priorities will include introduction of comprehensive ECDE programme in every center and upgrade of technical institutions which will be achieved through Education Support Programme.

63. The other priorities of focus include completion of the Embu stadium and the Talent and Sports Academy in Youth Empowerment and sports. The county has established various development funds including the Ward Development fund, Women Trust Fund, Youth Trust Fund and the County bursary programme. These funds will enhance development in the

wards. In Finance and Planning department the county will enhance revenue collection and administration through e-Revenue, valuation as well as fast track monitoring and evaluation through development of e-promise among others.

Overall Deficit and Financing

64. The PFM Act 2012 (amendment) under section 107 (2A) stipulates that pursuant to Articles 201 and 216 of the Constitution and notwithstanding subsection (2) the CRA shall recommend to the senate the budgetary ceilings on the recurrent expenditures of each county government. It is in the interest of the government that county expenditures be limited to county estimates which should be commensurate with revenue collections, share of the national revenue, grants and any other sources. Therefore, counties are encouraged not to run into deficits while drawing budgets because those budgets are required to be supported by prerequisite revenues. However there is a window for borrowing by the county government on guarantee by the national government.

V. CONCLUSION AND NEXT STEPS

72. The fiscal outcome for 2014/15 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the last CFSP submitted to the County Assembly in February 2015. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national and county strategic objectives pursued by the county Government as a basis of allocation of public resources. These strategic objectives are provided in the CIDP (2013-2018) and MTP II which is developed to implement the Kenya's blue print –Vision 2030.

73. The next County Fiscal Strategy Paper (CFSP) will be finalized by the February 2016 deadline as per the new PFM law.