

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF NYERI**

**DEPARTMENT OF FINANCE AND ECONOMIC PLANNING**

**COUNTY FISCAL STRATEGY PAPER**

**2014**

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**ECONOMIC TRANSFORMATION FOR A SHARED  
PROSPERITY IN NYERI COUNTY**

**FEBRUARY, 2014**

**Foreword**

The 2014 Nyeri County Fiscal Strategy Paper is the first to be prepared under the new constitution with devolved governance structures. It sets out the priorities of the county in the medium term as outlined in the County Integrated Development Plan (CIDP), 2013 – 2017.

The CFSP outlines the priorities of the county Government and emphasizes areas of interventions that the Government will be rolling out so as to accelerate economic growth and create jobs over the next four years. The emphasis will be on shifting of resources to sectors that have a direct impact of growth and employment creation. Programmes that offer conducive working environment to the private sector will be emphasized to support a strong private sector as an engine to economic growth.

Economic growth prospects remain high as the county continues to invest in infrastructural development. The county's economy is mainly agricultural based and continued investment in the sector will increase levels of income and employment opportunities.

Despite numerous efforts, the county is still experiencing development challenges which may hamper development growth as we move forward. Such challenges include; insecurity, inadequate and high cost of energy, inappropriate agricultural practices, undeveloped and poorly maintained road network.

The county will ensure that the objectives of devolution are achieved through better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030. However, this can only occur if the fiscal discipline in the use of devolved resources is entrenched and national macroeconomic environment remains stable.

The programmes that will be funded in the Budget for 2014/15 and outlined in this County Fiscal Strategy Paper rides on the priorities outlined in the County Integrated Development Plan, 2013-2017. In this regard, this County Fiscal Strategy Paper outlines economic policies and sector development directions as well as department-based expenditure programmes that the county government intends to implement over the next four financial years in order to achieve its development agenda. In the FY 2014/15 budget emphasis will be on shifting of

resources in favour of growth and job creation, and to support stronger private-sector investment in pursuit of new economic opportunities



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## **Acknowledgement**

This is the first County Fiscal Strategy Paper to be tabled in the County Assembly under the Public Finance Management Act, 2012. It outlines the broad strategic economic issues and fiscal framework, together with a summary of

county spending plans, as a basis of 2014/15 budget and the medium-term proposals as enunciated in the County Integrated Development Plan, 2013 - 2017. The document is expected to improve the understanding on how public finances are spent and shape the debate on economic and development matters in the County.

The preparation of the 2014 CFSP was a collaborative effort of the county departments with overall co-ordination by the Finance and Economic Planning as such much of the information in this report was obtained from the departments and we are grateful for their inputs.

A team from the County Treasury and Economic Planning Unit spent valuable time to put together the strategy paper. The officers included, Mr E.G Mukira, R. Kimani, Lucy Kirigo, Gibson Mwangi, Chris Gathogo, Jackline Njuguna, John Mbuthi and Francis Kirira

Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the County Government of Nyeri for their dedication, sacrifice and commitment to public service.



**AG. CHIEF OFFICER  
FINANCE AND ECONOMIC PLANNING**

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### **Legal Basis for the Publication of the County Fiscal Strategy Paper**

The County Fiscal Strategy Paper is published in accordance with Section 117 of the Public Finance Management Act, 2012. The law states that:

- 1) The County Treasury shall prepare and submit to County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly, by 28<sup>th</sup> February of each year.
- 2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- 3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing their budget both for the coming financial year and over the medium term.
- 4) The county treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- 5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of -
  - (a) the commission of revenue allocation;
  - (b) the public;
  - (c) the interested persons or groups;
  - (d) Any other forum that is established by legislation.
- 6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.
- 7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.
- 8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the county assembly.

### **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 ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY IN NYERI COUNTY**

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## **Overview**

1. The 2014 Nyeri County Fiscal Strategy Paper is the first to be prepared under the new constitution with devolved governance structures. As such, it sets out the priorities of the county in the medium term as outlined in the County Integrated Development Plan (CIDP), 2013 – 2017.
2. The national development together with renewed investor confidence will accelerate growth prospects in the county creating more jobs. This will lead to creation of more assets hence sustainable development will be achieved.
3. Economic growth prospects remain high as the county continues to invest in infrastructural development. The county's economy is mainly agricultural based and continued investment in the sector will increase levels of income and employment opportunities.
4. Despite the bold economic reforms undertaken at the national level, the county is still experiencing development challenges which may hamper development growth as we move forward. Such challenges include; insecurity, inadequate and high cost of energy, inappropriate agricultural practices, undeveloped and poorly maintained road network.
5. The county will ensure that the objectives of devolution are achieved through better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030. However, this can only occur if the fiscal discipline in the use of devolved resources is entrenched and national macroeconomic environment remains stable. There is therefore great need to lay a strong economic foundation that will generate the resources for the entire county.
6. The economic and transformation agenda of the County Administration is premised on addressing outstanding constraints and anchor stability for sustained and inclusive economic

growth and development that opens up opportunities for a shared prosperity. It covers five broad areas, namely:

- Investment in health through establishment of level 4 hospitals in all the sub- counties and shifting from curative to preventive services.
- Youth and employment creation where the focus will be on empowerment and skill enhancement to build capacity for wealth creation.
- Upgrade the road network by removing encroachments and gravelling them to all weather standards.
- Increasing production, value addition and guaranteed market for all our agricultural products.
- Creating a conducive business environment that encourages innovation, investment and growth.

7. The economic transformation agenda of the County Government is to strengthen inclusive growth as set out in the Governor’s four point action plan namely;

- Effective and efficient management and administration of county affairs.
- Disaster management and timely response.
- Intergovernmental liaison and people representation at national and international levels.
- Agenda setting in both the legislative and executive functions.

### **Programmes for achieving economic transformation for a shared prosperity**

8. The programmes to be funded in the 2014/15 Budget and outlined in this County Fiscal Strategy Paper rides on the priorities outlined in the County Integrated Development Plan. In this regard, this County Fiscal Strategy Paper outlines economic policies and sector development directions as well as department-based expenditure programmes that the county government intends to implement over the next four years, in order to achieve its development agenda. In the FY 2014/15 budget, emphasis will be on shifting of resources in favour of growth and job creation and to support stronger private-sector investment in pursuit of new economic opportunities.

### **Effective and efficient management and administration of county affairs**

9. The County Government will continue to ensure that the citizens are governed and served in the best way possible towards achievement of sustainable development. Resources will be utilized prudently so as to ensure maximum benefit is achieved by the public.

### **Disaster management and timely response**

10. The County Government will establish a disaster management and response unit with a central command point. This unit will be responsible for mapping of disaster prone areas and come up with measures of risk reduction. The team will be adequately trained and well equipped for timely response.

### **Intergovernmental liaison and people representation at national and international levels**

11. To achieve economies of scale, the government will continue working closely with other neighbouring counties and explore all possible areas of cooperation for the benefits of the citizens of Nyeri. Such areas includes marketing of farm produce e.g. coffee, milk and tea. The County Government will continue to articulate issues of importance at both national and international arena.

### **Agenda setting in both the legislative and executive functions**

12. The two arms of the county government will continue working together in cooperation and consultation to address the social and economic needs of the people. Bills will be professionally drafted so as to achieve coherence in the management of the county affairs.

### **Prioritizing Development**

13. The County Government has 10 departments as per the requirements of the Constitution to have a lean and effective government. The county human resource will be rationalized for effective service delivery. This will remove duplications and overlaps and ensure resources are utilized more efficiently and productively towards county development priorities.

14. In the Fiscal Year 2014/15, the County Government expects to receive support from the National Government so as to improve on service delivery as envisaged in the constitution. In

addition, the County Government will ensure that the funds are prudently managed in line with the fiscal responsibility principles under the Public Finance Management Act 2012. There will be need to invest in capacity building at the County Government.

15. There is need to prioritize resource allocation to the key areas of economic development while ensuring that debt levels are sustainable. The Integrated Financial Management System (IFMIS) Platform that is currently being used by the County Governments will eliminate manual payments systems and save funds that have otherwise been previously lost through manual paper work.

16. In the public sector we have noted the growing challenge of an expanding wage bill. The wage bill has become unsustainable currently taking up almost 70 percent of our revenues. There is therefore, need to develop a wage policy for the County Government. Related to wage pressures is the impact on pensions that would increase the Government's contingent liability.

17. The Salaries and Remuneration Commission (SRC) will in the medium term continue to set the salaries of state officers and recommend salaries of public officers that will ensure fiscal sustainability, among other key public finance principles.

### **Economic transformation policies for a shared prosperity and inclusive growth**

18. In order to achieve the Medium Development Goals (MDGs), the government with the support of Development Partners will direct substantial resources to economic and social sectors such as agriculture, infrastructure, health and education. The targeted social safety net programmes and sustainable employment will guarantee reduction in poverty to majority of our people.

19. Of necessity in the coming year is to continue with the momentum on investment on infrastructure, particularly the road network, irrigation projects across the county especially the 8 mega dams in Kieni, enhancing inter- county relations, targeted support to small and medium enterprises, and support to the Youth, the Women and the Disabled to enable them generate the much needed jobs.

20. Over the next four years, the county will accelerate inclusive growth that will lead to jobs creation for the youth, women and the disabled. The growth, so achieved, will result in poverty reduction and wealth accumulation. This will be achieved through several key pillars as follows:

- Strengthening Integrated Financial Management and Information System (IFMIS) and internal audit.
- Ensuring a conducive business environment. This will enable the private sector conduct their business and attract investment across the county.
- Ensuring fiscal consolidation by enhancing revenue mobilization efforts, cutting unproductive expenditures, providing resources for social safety nets and ensuring debt sustainability.

### **Infrastructure**

21. Over the medium term in order to drive economic growth, job and wealth creation, the focus will be improvement of infrastructure mainly roads and water for irrigation.

22. In particular, transport plans include improvement of local roads so that our people can move goods easily across and outside the county. There is a growing concern of the current shortage of houses within the county resulting from the increasing number of institution of higher learning. In the year 2014/15, we intend to construct about 20,000 units directly by upgrading the existing estates and through PPP. Additionally, the county government will improve access to clean water and electricity, and will provide adequate allocation to programmes that will deal with food shortages in the county.

23. The county will ensure that all the trading centres, public health and education institutions are supplied with electricity. It will also provide walkways for non motorized traffic (people) in our major urban centres. Provision of adequate lighting along our streets and estates in major urban areas will be prioritized.

### **Social Sectors**

#### **Health**

24. On human capital development, the Government is committed to ensuring the highest attainable standards of health. The county will aim to ensure that all the citizens have access to well-equipped health facilities and well trained and motivated health care workers, in addition to developing systems to support and expand health care and improved sanitation. The county will promote reproductive health, behaviour change and mental health. The ambulance services will be adequate, operated and coordinated from a central command. Emphasis will be put to ensure completion of all ongoing and reviving of stalled projects after undertaking a needs assessment survey.

### **Education**

25. The county will ensure ECDE centres and youth polytechnics are fully functional with teachers/ instructors and equipments. The County Government is well aware of the challenges the youth are facing and will create link between education and employment driven by knowledge and technology. ICT techno centres will be established in all the sub- counties for access of information and creation of jobs. The county will construct a modern stadium at Ruringu and promote various sporting activities.

### **Productive sectors**

#### **a. Agriculture**

26. The county will strive to promote a paradigm shift in agriculture by embracing commercialization in farming and lower the cost of production through deliberate efforts to reduce the cost of farm inputs thus increase farmers margins and therefore accelerate rural development. The county will also improve collaboration and partnership with stakeholders and encourage value addition of farm and livestock products before marketing.

27. Inter county partnerships will be promoted to process and market coffee, tea and dairy products. This will allow the farmers to enjoy the benefits of economies of scale.

#### **b. Trade and Industry**

28. The County government will encourage development of cottage industries through provision of working sites, plant and equipment. It will also develop commodity exchange and marketing information systems.

**c. Tourism Sector**

29. The county has vast number of tourists' attraction sites ranging from historical, heritage, wildlife and scenic. It falls within the Mt. Kenya and Aberdare ranges tourist circuits and has two internationally renowned parks namely Aberdares and Mt. Kenya. The county should develop a tourism strategic plan, promote branding and signage of tourism sites.

30. The main tourist attraction sites within the county include; Wildlife; landscape sceneries; Spectacular Waterfalls around central Aberdares; Worlds acclaimed cultural attraction: Entertainment by local community groups; Game viewing lodges within Mt. Kenya National Park; Base for climbing Mt. Kenya and Historical sites and monuments under Kenya Museums.

**Structural Reforms**

31. The County Government will continue to improve the investment climate by addressing bottlenecks on the doing business issues.

**a. Financial Sector reforms**

32. In line with the Vision 2030 objective to create a vibrant and globally competitive financial sector that will promote high level of savings to finance county's overall investment needs, the County Government will continue to implement key reforms in the fiscal regime along the dimensions of access, efficiency, and stability. These dimensions are mutually reinforcing and each needs to be addressed to ensure sustainable development in the county.

The county will continue with the efforts to build the financial capability of the citizens. This will be achieved through training on financial literacy to develop a savings and investment culture.

**b. Strengthening Governance**

33. The Audit unit and IFMIS will be strengthened to ensure prudence in resources management. This will enhance value for money in implementation of projects and programmes in the county.

**c. Devolution**

34. The county government will ensure that the accounting officers understand and cascade downwards the principles of the PFM Act, 2012 through adequate capacity building. It will also ensure that the principle of inclusiveness in the constitution is implemented e.g. through public participation in decision making and ensuring the one third gender rule is adhered to.

**d. Audit of the Integrated Financial Management Information System (IFMIS)**

35. The IFMIS has been implemented at the county level. As a step to ensure integrity of the system, the County Treasury will in the year 2014/15 conduct an audit to ensure that it is operating as initially intended.

## **Outline of the 2014 County Fiscal Strategy Paper**

### ***Recent Economic Developments and Outlook***

36. The next section (II) outlines the economic context in which the 2014/15 budget is prepared. It provides an overview of the recent economic developments.

### ***Fiscal and Budget Framework***

37. Section III outlines the fiscal framework that is supportive of growth over the medium-term, while continuing to provide adequate resources to facilitate development and ensuring that the public debt will be sustainable.

### ***Departmental Allocation of Resources***

38. Section IV provides a framework of managing the county departments and the proposed allocation of resources between departments.



## ***County Budget Framework***

Section V presents the resource envelope and spending priorities for the proposed 2014/15 Budget and the Medium Term. Departmental achievements and priorities are also reviewed for the FY2013/14 .

39. Section VI provides conclusions.

# **II RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

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## ***Overview of Recent Economic Performance***

40. The national economic growth was satisfactory in 2012, despite a somewhat stagnating demand for our exports in traditional markets. Favourable rains contributed to good harvests, hydropower generation and private sector activities benefited from improved macroeconomic environment. Inflation has declined steadily from double digits in 2011 towards the percent target in recent months. Short- term interest rates have also eased in line with the drop in inflation, which has reduced from double digits in 2011 towards the five percent target in recent months

41. The county economy is mainly agricultural and there is some noticeable increase in production which can be attributed to improved agricultural practices and favourable climate. There was a slight increase in hectareage and production achieved in 2012 as compared to the previous year. This could be attributed to favourable weather experienced in year as indicated in the tables below.

**Table 1: Agricultural production trends and value**

	<b>Major Crops</b>	<b>Achieved area (Ha) 2011</b>	<b>Achieved area (Ha) 2012</b>	<b>Achieved production (MT) 2011</b>	<b>Achieved production (bags) 2012</b>	<b>Value in Kshs (2012)</b>
Food Crops	Maize	35,433	36,064	28,346	36,170	43,404,000
	Beans	23,262	26,200	10,700	11,102	27,550,000
Industrial Crops	Tea	6528.9	6601	62	62.9	3,486,000,000

	Coffee	11107.3	11920	12600	36183.8	2,042,000,000
Horticultural crops	Irish Potato	7,297	97,610	542.2	2586.6	1,767,347,800
	Cabbage	904	41,200	12.4	96.99	359,640,000
	Tomatoes	194	8,025	51.3	244.08	235,045,700
	Kales	150	1,902	31.85	130.96	22,416,972
	Carrots	153	3,549	5421	111.80	35,711,051

42. The tea acreage given is for those farmers under the Kenya Tea Development Agency's seven factories in the county. Coffee acreage has increased slightly due to improved payments to farmers as compared to previous years. A lot of unexploited potential exists in the horticultural sector especially if irrigation farming could be enhanced.

The table below shows the county's livestock production for the year 2013. All the products except eggs are measured in kilograms.

**Table 2: Livestock Production**

Product	Production (Kgs)	
	2012	2013
Milk	52,912,220	55,609,499
Beef	1,508,603	1,619,460
Wool	0	0
Chevon	178,857	239,743
Mutton	422,666	426,579
Pork	173,581	165,035
Rabbit meat	29,476	38,750
Poultry meat	252,934	291,573
Camel meat	0	0
Honey	34,120	37,485
Wax	0	0
Eggs (No)	8,806,000	9,345,349

43. In the analysis, a slight increase in production for most of the products has been noted. This can be attributed to changes in weather conditions in the county and better payments to farmers.

## **Fiscal performance and emerging challenges**

### **2013/14 Budget**

The County Assembly approved the 2013/14 budget with expenditures amounting to Kshs. 4,550,415,709, comprising of recurrent expenditure of Ksh. 2,357,619,374, development expenditures of Kshs. 2,192,796,335 and a grant for Nyeri level five hospital of Ksh 382,128,747. These expenditures are expected to be financed by the revenue collected in the county and the allocation through the equity funds.

### ***Implementation progress and emerging fiscal challenges***

44. Budget implementation started at a slow pace in the early months of the financial year, as the new dispensation took shape. Initial transitional issues also slightly affected timely receipt of funds from the national treasury. Fiscal outcome for the first six months of the financial year has been generally satisfactory, with a slight shortfall in revenue collections.

45. Expenditure pressures mainly relate to salary demands from the devolved functions. These pose risks to the stability of the budget for 2013/14 in the face of resource constraints. Going forward, the regulations set by SRC will need to be adhered to so as to eliminate wage pressures after the budget has been prepared.

46. As at end of December 2013, cumulative revenue receipts amounted to Kshs. 147,258,863 against a target of Kshs. 140,221,002 (Kshs. 424,296,914- annual) resulting in an over performance of KSh.7, 037,861.

47. Expenditure execution has lagged behind in the first six months of the financial year on account of delayed release of funds from The National Treasury and inadequate structure systems.

**Table 3: Cumulative Budget Out-turn, July – December 2013**

	Performance July – Dec 2013		
	Target	Achieved	Deviation
Total revenue collected	140,221,002	147,258,863	+5%
Conditional Grants received	-	382,128,747	-

Total Expenditure			
- Recurrent	1,178,809,687	194,357,525	83.5%
- Development	1,096,398,168	69,013,248	93.7%

48. To confront the challenges of revenue shortfall and expenditure pressures, the County Government will step up efforts on revenue administration and mobilization of revenue and introduction of cashless system to eliminate leakages to realize revenue as targeted in the FY 2013/14, as well as rationalize and even cut some expenditures.

49. The major sources of revenue are parking fees, single business permits and land rates. New sources will be identified to widen the base while the A.I.A collected by the departments with devolved functions will be directed to the county fund to bridge the gap. More parking areas will be created as this has proved to be a major source of revenue.

### **III FISCAL AND BUDGET FRAMEWORK**

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#### **Overview**

50. The 2014 County Fiscal Strategy Paper emphasizes on:

- Fiscal consolidation while ensuring that the resources in the county are adequate to promote growth. The County Government is committed to a reduction in the recurrent expenditure to devote more resources to development.
- Continued reforms in expenditure management and revenue administration will be accelerated. This will increase revenue and create fiscal space for spending on infrastructure and other development programmes.
- Efficiency and improving the productivity of expenditure while ensuring that adequate resources are available for operations and maintenance of the lower county government structures.

#### **Observing fiscal responsibility principles**

51. The County Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose unwarranted debt burden to our future generations.

52. In this regard, the County Government will observe the fiscal rules set out in the PFM Act, 2012 so as to entrench fiscal discipline.

53. Fiscal responsibility has become even more important since the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources. In order for spending to increase on a sustainable basis to meet these basic needs, we should be prepared to match the increased expenditure demands with a corresponding increase in revenue yield through efficient collection, widening of revenue bases, and reasonable rates. It is therefore imperative to reform and modernize the fiscal regime to ensure stability of revenue effort, while at the same time continuing to restructure expenditure systems to ensure efficiency and create fiscal space required to fund these basic needs on sustainable basis.

### **Fiscal structural reforms**

On the expenditure side, 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 10 county departments' expenditures.

54. The County Government will institute measures to contain the public wage bill and release needed resources for development funding. These would include payroll cleansing and staff rationalization. The County will encourage proper and transparent use of resources and encourage quality service delivery to the Nyeri people.

### **2014/15 Budget Framework**

55. The County government strategic objectives are outlined in the County Integrated Development Plan on which the 2014/15 budget framework based. The presumed economic growth will assume a normal weather pattern during the year as the county is mainly agricultural based.

## **Revenue Projections**

56. The County Government is expected to institute measures to expand revenue base and eliminate leakages. The modernization of revenue collection from manual to cashless method is expected to simplify revenue collection and enhance the revenue yield. As such, total revenue including FIF/AIA is expected to be Kshs 1.1 billion in the year 2014/2015.

### ***Expenditure Forecasts***

57. The key policy document guiding the County Government's expenditure decisions is the first CIDP (2013-2017), which provides the updated development priorities of the county. In 2014/15, overall development expenditures are projected at 30.5 percent of all the revenue collected.

### ***Recurrent Expenditure***

58. Recurrent expenditures are expected to increase from the current 65.7 percent of total budget in 2013/14 to 69.5 percent in 2014/15, on account of increased labour force upon transfer of function from National to County Government.

59. With respect to goods and services, expenditure ceilings for county departments are determined by the allocation for the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

### ***Development Expenditure***

60. Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure (roads, energy and transport), the minimum for development expenditures including grants is 30 percent of the total revenue in 2014/15. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment as well as facilitate critical interventions to remove binding constraints to growth.

61. With improvement in procurement planning, the absorption capacity of project funds is expected to increase resulting in a higher investment level in infrastructure activities. This will support the delivery of services and encouragement investment by the private sector.

62. In view of challenges which may arise from natural calamities, an emergency provision of five percent of the total county expenditure will be provided in the budget for FY 2014/15.

### **Overall Deficit Financing**

63. The overall budget deficit (including grants) in 2014/15 is expected to be financed through PPP and raising of revenue through bonds.

### **Summary**

64. Fiscal policy will support growth within a sustainable path of public spending by maintaining the county expenditures within the budget limits. Therefore, moderation in county expenditures will help assure debt sustainability and intergenerational equity in line with the constitution and the fiscal responsibility principles in the PFM Act, 2012. Meanwhile, efficiency and economical spending of County Government resources will be enhanced to create room for critical interventions and pro-poor spending.



# **IV DEPARTMENTAL ALLOCATION OF RESOURCES**

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## **Introduction**

65. The 2014 County Fiscal Strategy Paper is being prepared at a time when significant progress has been made in establishing and operationalizing the financial and procurement systems in the county. This progress notwithstanding, in 2013/14, the first financial year of the implementation of the devolved system of governance, the County Government has experienced challenges in planning and budgeting as well as the execution and reporting on budgets.

66. The decision to transfer some of the functions assigned to county governments was gazetted in August 2013, after the County Government had finalised its budget hence necessitating the revision of the budget. Most of these devolved units were not factored in the approved 2013/14 budget. There were insignificant anomalies in the county budget as approved by end of June 2013 largely because the budget was prepared in a rush to meet constitutional deadlines as well as existence of limited capacity in the county.

67. The county has continued to address the capacity gaps through training on IFMIS and PPOA. The County Government will continue to train its staff on all issues that will facilitate efficiency in resource management.

## **Departmental Budgeting**

68. The County Executive Secretary in charge of Finance and Economic Planning will issue guidelines to the county departments on the preparation of 2014/15 budget with specific ceilings. Each department is expected to plan, formulate and execute their budgets. The 2014/15 budget for the county will be prepared in line with the Public Finance Management Act, 2012.

## **Resources available**

### ***Equitable share***

69. This is from the shared national revenue as provided for in Article 202 and 203 of the constitution. The county will receive part of the constitutionally approved share from the consolidated fund as recommended by CRA and approved by National Assembly.

### ***Additional resources***

70. In addition to the equitable share of revenue, the County Government is also expected to get additional resources from the following sources:

- *Additional conditional and unconditional* allocations from share of the national government as contemplated under Article 202(2) of the Constitution.
- *Own revenues* from specific county revenue raising measures through imposition of property taxes, entertainment taxes, as well as any other tax and user fees and charges they are authorised to impose.
- *Borrowing* provided national government guarantee is obtained as well as the approval of the county assembly.
- *Grants and donations* from development partners in accordance with section 138 and 139 of the Public Finance Management Act, 2012.

## Allocation of Revenue among Departments

71. The Table provides estimates of revenue allocation among departments in the county for financial year 2013/14. The allocations comprise of the recurrent and development expenditure.

**Table 4: Cumulative Budget Out-turn, July – December 2013**

Department/ allocation	Recurrent	Development	Total
County Assembly Administration	378,642,996	220,011,335	598,654,331
County Executive	432,822,000	127,000,000	559,822,000
Office of The Governor & Deputy Governor	32,500,000	-	32,500,000
County Executive Administration (Public Admin. Dept)	180,550,291	200,000	180,750,291
Finance And Economic Planning	335,988,359	25,000,000	360,988,359
Agriculture	83,629,565	150,000,000	233,629,565
Water, Environment & Natural Resources	20,213,498	150,000,000	170,213,498
Education & ICT	9,060,045	63,500,000	72,560,045
Public Health & Medical Services	642,177,217	115,900,000	758,077,217
Housing & Physical Planning	7,000,000	100,000,000	107,000,000
Public Works, Roads & Transport	177,771,253	1,166,185,000	1,343,956,253
Trade, Industrialization & Investments	-	25,000,000	25,000,000
Tourism, Culture, Gender, Youth & Sports	-	50,000,000	50,000,000
<b>TOTAL</b>	<b>2,300,355,224</b>	<b>2,192,796,335</b>	<b>4,493,151,559</b>

## Fiscal Discipline

72. The county will pursue prudent management of resources as outlined in the PFM Act, 2012. With departmental and itemised budget, delivery of goods and services in the county will be hastened. This will be made possible by full adoption of IFMIS procedures and ensuring efficiency in procurement procedures.

## **Equity in Allocation of Resources**

73. Though, in recent years there has been notable economic growth in the county, the fruits of this growth have not been shared equitably. Some factors for the skewed economic growth can be attributed to historical and environmental aspects where some parts are newly settled and experiences erratic weather conditions.

The county will continue to pursue policies that promote equity as this will help, directly and indirectly, to reduce poverty. Equity-enhancing policies, particularly investment in infrastructure (Roads and irrigation system) and human capital such as education and health can, in the long run, boost economic growth, which, in turn will lead to alleviation poverty.

74. The county also recognizes that policies that promote equity can boost social cohesion and reduce political suspicions. In such circumstances, well-targeted social safety nets will be introduced to shelter the consumption levels of the poor in the disadvantaged areas of the county.

## **Capacity Building of County Departments**

75. Evidence shows that the county departments are experiencing challenges in the planning and budgeting as well as in the execution and reporting on their budgets. The CES Finance and Economic Planning will continue to provide the necessary support and organising training programmes for the departmental personnel. There is need to deploy requisite professionals to departments to give support in planning and budget making. It is hoped that after staff rationalization, the capacity gaps in the county will be identified and adequately addressed by the human resource department.

## **V 2014/15 EXPENDITURE FRAMEWORK**

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### **Resource Envelope**

76. The resource envelope available for allocation among the spending departments is based on the fiscal and budget framework outlined in Section III:

- Allocation from the equitable share from the Commission of Revenue Allocation will finance over 73 Percent of the county budget. County generated revenue is expected to finance the difference.
- The county will endeavour to entice the private sector through PPP to fund some of the development activities during the year 2014/15.
- County Borrowing, if any to finance any deficit, will be limited to funding development activities only.

### **Spending Priorities**

77. The CIDP has identified priority sectors for funding and this will be adjusted as we progress in its implementation.

78. The PFM Act, 2012 require the County Government to promote budgetary transparency, accountability and effective financial management of the economy and the public sector. Therefore, inefficient and wasteful public expenditure will be eliminated at all levels in order to promote public trust in County Government spending.

79. Overall, the 2014/15 budget will focus on the following:

- The county priority sectors which include agriculture and infrastructure will continue to receive adequate resources. With a combined allocation of 15 % of total discretionary expenditures, the above sectors will receive a significant share of resources in the budget and require them efficiently to generate fiscal space to accommodate other strategic interventions in the county.
- At a total allocation of 10 % of total discretionary expenditures will be allocated to youth and health sectors thus receiving the second largest share of resources after Infrastructure and agriculture. . These sectors are important in supporting social needs in the county.
- Other priority areas including tourism, trade and industry, housing, water and environment.

### **2013/14 Expenditure Estimates**

80. Cumulative expenditure as at end of December 2013 was Kshs 3,401,550 which was mainly used on wages and other operational expenses. On a cumulative basis, local revenue performance during the first half of the financial year was Kshs 147,258,863 which was about 58.8 percent of the half year target.

81. In the course of budget implementation during the first half of the Financial Year, several challenges emerged. They include: Overestimation of the revenue base, inherited staff without clear job description and slow adaptation of the new accounting systems.

### **Medium-Term Expenditure Estimates**

82. Table 5 below provides the projected baseline ceilings for the 2014/15 budget estimates and projections for the year 2015/2016 and 2016/2017 classified by county departments.

**Table 5: Projected budget allocations 2014-2017**

Department/ allocation	2013/2014 budget estimates (Kshs)	2014/2015 budget ceilings (Kshs)	2015/2016 Budget projections (Kshs)	2016/2017 Budget projections(Kshs)
County Assembly	598,654,331			
County Executive	559,822,000			
Office of the Governor & Deputy Governor	32,500,000			
Public Administration and Communication	180,750,291			
Finance And Economic Planning	360,988,359			
Agriculture, Livestock, Irrigation Fisheries and Cooperative development	233,629,565			
Water, Environment , Sanitation & Natural Resources	170,213,498			
Education & Youth and ICT	72,560,045			
Health	758,077,217			
Lands, Housing & Physical Planning	107,000,000			
Public Works,Roads & Transport	1,343,956,253			
Trade, Industrialization & Tourism	25,000,000			
Gender Culture and Social services	50,000,000			
<b>Total</b>	<b>4,493,151,559</b>	<b>4,788,126,959</b>	<b>5,102,467,494</b>	<b>5,437,444,485</b>

**Baseline ceilings**

83. In the recurrent expenditure category, non-discretionary expenditures takes first charge and includes payment of statutory obligations such as wages, salaries, pension, payee among others.

84. Overall, recurrent expenditure on non-discretionary, operations and maintenance account for about 60 percent of the total revenue.

85. About 30 percent of the total revenue is available to fund planned development projects and programmes.

86. Development expenditures are shared out on the basis of the county priorities as outlined in the CIDP as well as other strategic interventions to deal with unemployment and remove

constraints to faster growth as outlined by various policy and concept documents. The following guidelines are used:

- *On-going projects*: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
- *Strategic policy interventions*: priority is also given to policy interventions covering the county, social equity and environmental conservation.

### **Finalization of spending plans**

87. The finalization of the preparation of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As detailed budgets are scrutinized and the resource envelope firmed up, it is likely that additional resources may become available during supplementary budgeting. The County Government will utilize these resources to implement various sector development directions in the CIDP.

	<b>Priority Areas of Consideration for Additional Resources</b>
1.	Intervention identified during the stakeholders consultative forums for 2014 county budget process.
2.	Strategic intervention in the area of agriculture (especially irrigation programmes and other food security enhancing programmes), infrastructure (especially rural/feeder roads), health youth, tourism, housing, trade and industry to enhance sustainable development in the county.
3.	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.



## **Details of Departmental Priorities**

88. The County Integrated Development Plan for 2013– 2017 ensures continuity in resource allocation based on prioritized project and programmes which has been aligned to the Vision 2030 and strategic policy initiatives of the County Administration to accelerate growth, employment creation and poverty reduction.

### ***Governor's Office***

89. The office has the responsibility of ensuring smooth, efficient and effective delivery of services to the public.

90. The vision is to have a people oriented and transformative governance for results.

91. The mission is to provide overall leadership in governance, sustainable development and efficient service delivery.

92. The priorities of this office is to ensure; Effective and efficient management and administration of county affairs; Disaster management and timely response; Intergovernmental liaison and people representation at national and international levels; Agenda setting in both the legislative and executive functions.

### ***Finance and Economic Planning***

93. This department consists of Finance, Economic Planning and the County Treasury sub-sectors.

94. The vision is to be a leading public sector in policy formulation, implementation, coordination, supervision and prudent resource management.

95. The mission is to provide overall leadership and policy direction in resource mobilization, management and accountability for quality public service delivery.

96. In the medium term the department priorities will be to: Enforce compliance in revenue collection to achieve increase of 100 percent revenue collection from the current 0.5B to 1B by

2014 and sustain an annual increment of 30 percent in the subsequent years; Enhance public private partnerships so as to spur growth; Introduce non-cash revenue collection system; Establish and equip Information and Documentation Centres (IDC) to link the county functions; Establish and integrate an effective citizen driven public participation mechanism; Put in place M & E system and Develop a mechanism for dissemination and follow-up on the findings.

### ***Agriculture, Livestock, Fisheries, Irrigation and Cooperative Development***

97. This department comprises of Agriculture, Livestock, Fisheries, Irrigation and Cooperative Development sub- sectors.

98. The vision of the department is to be an innovative, commercially-oriented with modern agriculture, livestock and fisheries development practices.

99. The mission of the department is to improve livelihood of county citizens through promotion of competitive agriculture, sustainable livestock, fisheries and irrigation development.

100. The department priorities include; Commercialization of farming; Lower the cost of production; Improved working condition; Advocate for farmer friendly legislation; Improved collaboration and partnerships with stakeholders; Encouragement of value addition of farm produce; Restocking of rivers and dams and Establishment of a fish cooling and processing plant.

### ***Health Services***

101. This department explores Preventive, Promotive, Curative and Rehabilitative issues of health.

102. The vision of the department is to have an efficient and high quality health care system that is accessible, equitable and affordable for every citizen.

103. The mission is to promote and participate in the provision of integrated and high quality preventive, promotive, curative and rehabilitative health care services to all citizens.

104. The county health priorities in the medium term will be to: Carry out health needs assessment; Organize ambulance services to be coordinated from a central command; Establish

an integrated health management system; Promoting reproductive health, behavior change and mental health.

### ***Public Administration, Information and Communication***

105. This department consists of Public Administration, Information and Communication sub sectors. It aims at ensuring a harmonious coexistence between various actors in development of the county.

106. The Vision is to have a secure, just, cohesive, democratic, accountable, transparent and conducive environment for a prosperous county.

107. The mission is to ensure effective and accountable leadership, promote a just, democratic environment and establish strong governance institutions to empower citizens for the achievement of socio-economic and political development.

108. The medium term priorities will be to: Establish an effective citizen driven public participation mechanism; Establish a County Policing Authority; Ensure effective administration and governance of county affairs; Enhance and establish legal, institutional regulatory and policy framework.

### ***Water, Sanitation, Forestry, Wildlife, Environment and Natural Resources***

109. The department consist of Water, Sanitation, Environment and Natural Resources, Forestry and Wildlife subsectors.

110. The vision is to have sustainable access to clean, safe and adequate water in a secure environment.

111. The mission is to promote, conserve, protect the environment and improve access to water for sustainable development.

112. The department priorities in the medium term will be: To increase the tree cover by 10 percent; Promote green economy; Construct 8 multi- purpose mega dams; Expand the domestic water coverage; Construct 4 water treatment plants; and Exploitation of ground water.

### ***Trade, Industrialization and Tourism***

113. The department consists of Trade, Industrialization and Tourism sub-sectors.

114. The vision is to have a globally competitive economy with sustainable and equitable socio-economic development where citizens operate freely.

115. The mission is to promote, coordinate and implement integrated socio-economic policies and programmes for a rapidly industrializing economy.

116. The priority of the department in the medium term will be: To promote creative and innovative financing sector; Encourage development of cottage industries; Development of commodity exchange and marketing information systems.

### ***Public Works, Roads Transport and Energy***

117. This department consists of Public Works, Roads, Transport and Energy sub sectors.

118. The vision is a world class provider of cost-effective physical infrastructural facilities and services.

119. The mission is to provide efficient, affordable and reliable infrastructure for sustainable economic growth and development for the people through construction, modernization, rehabilitation and effective management.

120. The department priorities in the medium term will be to: Achieve connectivity and smooth flow of motorized and non- motorized traffic; Maintenance of existing road network; Upgrading of existing roads to bitumen or gravel standards; Ensure adherence to construction codes and specifications through regular supervision and inspections; Research and exploit alternative and renewable sources of energy.

121. Others include: To ensure all the trading centres, public health and education institutions are supplied with electricity; Develop parking guidelines and regulations; provide adequate lighting along the streets and estates in major urban areas; Promote production and utilization of

energy from biodegradable waste materials in learning and health institutions and Establishment of a County Roads Board and Fund.

***Education, ICT, Youth Affairs and Sports***

122. This department consists of Education, ICT, Youth Affairs and Sports sub-sectors.

123. The vision is to have a globally competitive education, training, ICT, research and innovation service for sustainable development.

124. The mission is to provide, promote and coordinate quality education and training, integration of science, technology, and youth and sports development for sustainable socio-economic development.

125. The priorities in the medium term will be: Engaging stakeholders in resource mobilization; Strengthening the programmes in youth polytechnics and capacity building of instructors; Advocating for full mainstreaming of ECDE; Establishing one ICT / techno centre and Promote sports activities.

***Land, Housing and Physical Planning***

126. The subsectors include lands, housing and physical planning.

127. The vision is to have a livable and functional human settlement that support economic prosperity and sustainable optimal land use.

128. The mission is to promote efficient and optimal land use through planning for sustainable development.

129. The priorities of the sector in the medium term is to; Promote Appropriate Building Technology; Formulate and enforce a county housing policy; Establish county housing and property boundary disputes mechanism; Provide and improve basic infrastructure within informal settlements; Refurbish strategic institutional houses; Promote partnership with the stakeholders in housing; Ensure that all urban areas; upcoming market centres, colonial villages and informal settlement have physical development plans; Develop a GIS data based system and county spartial plans; Reorganize land uses and enforce development control standards; Geo reference and digitize map records.

### ***Gender, Culture and Social Services***

130. This department consists of Gender, Culture, Children, Labour and Social Services sub sectors.

131. The vision is to achieve sustainable and equitable socio-economic development.

132. The mission is to formulate, mainstream and implement responsive policies through coordinated strategies for balanced socio and economic development.

133. In the medium term the department aims to: Decrease the number of OVC and Children in Need of Care and Protection; Identify and establish the number of OVCs in the county; Adoption of a System's approach to child protection; Enhancement of the capacity of cultural practitioners; Provide strategic resources for creative and cultural industries; Enhance and establish legal, institutional regulatory and policy framework on labour relations; Conserve, preserve and promote our cultural heritage for sustainable development and Development of cultural centre with a talent academy and a cultural tourist class hotel.

## VI CONCLUSION

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134. In 2014/15 budget, expansion of infrastructure, while maintaining reasonable growth on social development continues to be a priority. Allocation of funds to the county departments will generally reflect the critical needs of the county residents.

135. The set of policies outlined in this County Fiscal Strategy Paper reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act, 2012. They are also consistent with the county sector development direction in the medium term as a basis of allocation of public resources. These strategic objectives are provided in the CIDP and the departmental strategic plans.

Annex 1: Revenue collected in the first 6 months of 2013/2014

<b>Source of revenue</b>	<b>Revenue collected (Kshs) July – Dec. 2013</b>
Land Rates	8,860,664
Business Permit	9,359,917
Temporary Occupation License (Tol)	983,247
Debt Clearance Certificate Fee	1,116,250
Application Fee	1,247,850
Plot Transfer Fee	413,900
Business Subletting/ Transfer Fee	404,490
Slaughter Hse	1,081,410
Miscellaneous Income(E.G Stand Premium)	353,385
Commission Charges/ Lands	538,975
Court Fines	14,500
Salary Recoverly	16,115
Water Charges	253,250
Document Search Fee	154,560
Agency Fee( Fees From Khc, Insurance Firms, Etc.)	50,532
Customers Deposits(Other Than Water & Sewarage)	216,505
Cheque Clearance Fee	10,200
Ambulant Hawkers Licences (Other Than Bss Permits)	378,030
Impounding Charges	1,761,050
Sales of Council's Minutes/ Bylaws/ Tender	673,200
Quarry Extration Fees/Produce	10,588,089
Refund (Imprest,Surcharge,Etc)	871,085
Consent To Charge Fee/Property Cert. Fee (Use As Collateral)	726,200
Benevolent Fund	389,800
Market Fees & Stalls Rent	16,378,531
Parking Fees	53,549,156
Other Property Charges, Occupation Cert.	502,997
Ground Rent- Current Year	589,604
Ground Rent-Other Years	763,136
Social Hall Hire	11,200
Stadium Hire	1,634,500
Customers Deposits ( Other Than Water & Sewerage)	52,542
Housing Estates Monthly Rent	7,139,587
Training/Learning Center Fee/Reg.	209,050
Nursery School Fee	183,030
Burial Fees	53,100
Garbage Dumping Fee	36,000
Refuse Collection Fees	6,047,785
Buildings Plan Approval Fee	2,904,266
Building Inspection Fee	986,200
Right of Way/Way-Leaves Fee (KPLC, Telkom, Etc.)	9,000
Sign Boards & Advertisement Fees	6,432,632
Plot Subdivision Fees	309,300
Fire Fighting Services	679,000
Lease of Water Distribution Network	8,325,043
<b>Totals</b>	<b>147,258,863</b>