REPUBLIC OF KENYA

COUNTY GOVERNMENT OF TAITA TAVETA

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2014

Foreword

This 2014 County Budget Review and Outlook Paper (CBROP) prepared in accordance with the PFMA, 2012 is the second to be prepared under this County Government's administration. It presents the recent economic developments and the actual fiscal performance of the 2013/14 and how this affects the financial objectives set out in the 2014 County Fiscal Strategy Paper (CFSP). The updated macroeconomic outlook therein also provides us with a basis to revise the 2014/15 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next budget, 2015/16 under the Medium Term Framework.

The county Government has made tremendous investments in the productive sectors which include Agriculture, Livestock and Fisheries Trade, Tourism and Mining. Some of the investment Agriculture includes construction and retaliation of irrigation, facilities purchase of tractors for the purpose of increasing acreage for food crop production. The county has also rehabilitation the Bachuma Multiplication Centre, scaling -up of Artificial Insemination services and embarked on a programme of re-stocking fish ponds

The county government has also embarked on an intensive programme of revitalizing the trade and tourism sub- sectors. Programmes which have been initiated include construction of market facilities, promotion of tourism opportunities in the county and strengthening of co-operative organizations. To streamline the mining sector, the county government has embarked on a process of developing a county policy. The policy is meant to ensure that both local people and county government reap maximum benefits from the minerals.

A lot has been achieved in creating an enabling environment and making the county economy competitive .Key to this, is improvement of infrastructure .The county government has purchase road maintenance machines which will be used to improve roads and other public facilities. The county government has also witnessed initiation of key national government infrastructure projects which include the commencement of construction of Taveta-Mwatate Road, Standard Gauge railway facilities and allocation of funds for expansion of Ikanga Airstrip.

The county government has also been in the forefront in addressing issues of poverty and employment .Priority initiatives in this areas include rolling –out of DATU fund to benefit Women, Youth and People with disability and County Education Bursary funds A lot has been achieved in the social service sector which mainly consists of health, education and water. The allocation on health was 26.46 per cent of total budget, while education and water had 5.88 per cent and 6.28 per cent respectively. Main outlets of health funds included provision of medical equipment in hospital, purchase of drugs and rehabilitation of health facilities. In education, the county government provided funds for construction of Early Childhood Development facilities, remuneration of teachers and rejuvenating the youth training programme through improvement of training and learning facilities. The Water sector had a fair share of investment which was mainly in construction and rehabilitation of water facilities, and purchase of a water boozer to which will also go a long way in improving water trekking during the dry periods.

Commitment towards strengthening devolved institutions is reflect in the amount set aside for County Assembly (CA) and Administration and Devolution county department. The CA budget was 15.03 per cent of total county budget while the funds for administration and devolution which also incorporated the management and service delivery in our urban areas was 10.27 percent of the county budget.

While the national macroeconomic environment has improved significantly since March 2013, there are still challenges that limited the achievement of set targets at the county level. These challenges include:

- High and unsustainable public sector wage bill.
- Rigidities and bureaucracies that limit the attainment of a favorable investment climate
- Inadequate laws to spur growth in the productive sector
- Poor road infrastructure
- High cost and inadequate supply of energy
- Irregular flow of funds from National Government

As a County, we went through more challenges in the 2013/14 financial year and we however ended it satisfactorily. Taita Taveta County has continuously tried its best to comply with the requirements of the Constitution of Kenya, 2010, the PFM Act, 2012 as well as meeting the general aspirations of the People of Taita Taveta.

We are committed to continue maintaining the trend of stable fiscal performance and ensure transparency and accountability at all levels of governance by documenting and relaying performance through the CBROP and other publications as required by the Constitution and the PFM Act, 2012.

It's worth appreciating the fact the impact and effects of some investments of being made through budget will take time to be realized. In County Budget Strategy paper expected in February we will refocus our priorities based on lessons learnt and various consultations we have had with stakeholders and citizens.

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Abbreviations and Acronyms

AiA	Appropriation in Aid
BOPA	Budget Outlook Paper
BPS	Budget Policy Statement
CA	County Assembly
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
BPS	Budget Policy Statement
EAC	East African Community
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NFA	Net Foreign Assets
NDA	Net Domestic Assets
PERs	Public Expenditure Review
PFMA	Public Financial Management Act
PPP	Public Private Partnership
SWGs	Sector Working Groups
VAT	Value Added Tax

LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2014 Taita Taveta CBROP is the second one to be prepared after the 2013 CBROP. The County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012 which requires the County Treasury to**;**

1. Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
2. Submit the paper to the County Executive Committee by the 30th September of that year.

In preparing the 2014 County Budget Review and Outlook Paper, the County Treasury has sought to specify the following;

(a) The details of the actual fiscal performance in 2013/14.

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

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

FISCAL RESPONSIBILITY PRINCIPLES

In line with the Constitution, the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM Act, 2012 (Section 107) states that:

1) Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure

2) The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the total revenue as prescribed by County Executive Member for Finance.

3) Over the medium term, the County is not allowed to borrow any funds.

4) Fiscal risks shall be managed prudently

5) A reasonable degree of predictability with respect to the level of rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

In line with broad principles of macroeconomics which include the government's role in public finance, that is, economic stabilization and also playing ,allocative and distributive functions, this CBROP focus on the allocative function where the county budget is being developed to influence socio-economic development through implementation of transformative projects. The other focus of this policy document is on the distributive side of ensuring there is conformity with the principles of taxation in revenue collections. The CBROP will therefore not dwell on the stabilization function of determining monitoring policies which is a national function.

I. INTRODUCTION

Background

This 2014 County Budget Review and Outlook Paper (CBROP) is the second to be prepared under the Public Financial Management Act, 2012 and the second in the Taita Taveta County Government. In line with the law, the 2014 CBROP contains a review of the fiscal performance of the financial year 2013/14, updated macroeconomic forecast 2014/15, and deviations from the last County Fiscal Strategy Paper (CFSP) submitted to County Assembly.

Objective of CBROP

1. The objective of the 2014 CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last CFSP. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the next CFSP to be prepared in February 2015.

2. The 2014 CBROP is a key document in linking policy, planning and budgeting. This year's CBROP is embedded on the Taita Taveta County Integrated Development Plan 2013-2017 priorities, in addition to taking into account emerging challenges.

3. The PFM law has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2015/16.

REVIEW OF FISCAL PERFORMANCE IN 2013/14

A. Overview

The fiscal performance in 2013/14 was generally satisfactory, despite the challenges with dwindling revenue collection in the 1^{st} and 2^{nd} quarters and mounting expenditure pressure. Significant improvement in revenue collection was realized in the 3^{rd} and 4^{th} quarters, after deliberate measures by the County Treasury to reinforce and ensure compliance in revenue collection.

On the expenditure side, the County Government had to incur higher expenses on the recurrent vote lines in terms of salaries and cost of operationalizing the various departments and agencies.

Despite the pressing recurrent needs occasioned by fact that some staff and recurrent costs of the devolved functions had not been factored in the Taita Taveta Budget 2013/2014, we managed to invest 25.8% of the total county budget in development.

Expenditure and Revenue

Revenue

During the period under review the expected county revenue base was KES 2,858,870,449.21 comprising of equitable share from national Government, Internally generated revenue and equalization fund. The equitable share of revenue received from the National Government was KES 2,420,750,540. . The County however did not receive the equalization fund amounting to KES 194,000,000 owing to lack of national legislation. During the period under review the County did not receive any conditional grants or loans to finance its budget.
The total cumulative internal revenue collection for the period under review amounted to KES 147,253,830. Compared to the targeted amount in the County budget of 244,119,909.11, this represented 60.32% of the target and a shortfall in revenue collection of KES 96,866,079.11. This shortfall in revenue generation can be attributed to administrative and structural challenges such as delay in passage of the 2013/14 County Finance Bill, inadequate staff for revenue collection and enforcement and the restructuring of the defunct local authorities into the County Government system.

During the period under review, the leading sources of internal revenue were: Cesses (KES 23,565,633); single business permits (KES15, 951,034); bus park fees (KES 14,346,480) and market fees (KES 13,448,984). The total revenue generated from devolved functions was KES 20,392,132 against a target of KES 30,000,000.

The overall county receipts from both national share and local sources thus amounted to KES 2,318,507,271.

Expenditure

The total actual expenditure for 2013/14 amounted to KES 2,006,467,470 which represents an absorption rate of 86.5%.

Recurrent expenditure for the period amounted to KES 1,492,426,539 representing 74.4% of the total expenditure. The largest proportion of recurrent expenditure comprised of wages and salaries, which accounted for 64.3%. On the other hand, development expenditure incurred during the period amounted to KES 518,462,647 accounting for 25.6% of the total expenditure. Although the county had budgeted to spend KES 1,087,304,462, as stated earlier the equalization funds were never received. In addition projects worth KES 368,859,063 were rolled over to the current financial year (2014/15) due to a number of factors including lengthy procurement processes and delays in disbursement of funds from the national government.

C. Implication of 2013/14 fiscal performance on financial objectives contained in the 2014/15 County Fiscal Strategy Paper

The County's 2013/14 fiscal performance affected the County Fiscal Strategy Paper for 2014/15 in the following ways:

(i) The county revenue and expenditure projections have changed implying the need to review the fiscal aggregates for the current budget and the medium term.
(ii) Arising from (i) above and taking into account the fact that execution of the budget was not fully realized due to aforementioned factors , the baseline ceilings for spending by county departments should be adjusted and then firmed up in the 2015/16 County Fiscal Strategy Paper.
(iii) Non-realization of local revenue collection targets in 2013/14 has implications on the base that was used to project the revenue for the FY 2014/15 and the medium term. Therefore, in updating the fiscal outlook a new base should be taken into account. In addition, the County Finance Bill 2014/15 is expected to address the challenges relating to revenue collection, compliance and enforcement, consequently boosting the revenue yield for FY 2014/15.

Given the above deviations, the revision in revenues and expenditures will be based on the proposed policies outlined in this CBROP which reflect the changed circumstances to be firmed up in the context of the next County Fiscal Strategy Paper. The County Government will not deviate from the fiscal responsibility principles as outlined in the PFM Act, but will make appropriate modification to the financial objectives contained in the last County Fiscal Strategy Paper to reflect the changed circumstance.

II. RECENT NATIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK AND THEIR EFFECT TO THE COUNTY

The National macroeconomic environment has continued to improve, especially in the second half of 2014. Going forward, the macroeconomic outlook remains favourable although risks remain. The national economic developments and macroeconomic outlook has a positive and direct bearing on the performance of the County. Some of these developments and outlook have been briefly outlined below:

A. Recent Economic Developments

Growth in Real GDP remains resilient but downside risks remain

Real GDP grew by 4.5 percent in the 1st quarter of 2014, compared to 3.5 percent during a similar period in 2013 which had been affected by the uncertainties after the General Elections. This growth is mainly attributed to impressive recovery in sectors such as Electricity and Water, Transport and Communication, Agriculture and Forestry. Financial Intermediation, Building and Construction, as well as Wholesale and Retail sectors registered remarkable growth.

Inflation has consistently dropped

Overall inflation has consistently fallen from the high of 19.7 percent in November 2011 to 6.1 percent in August 2012 and later 5.6 percent in August 2013. Although the latest KNBS report (August 2014) shows that the rate of inflation stands at 6.7 percent, the overall outlook is more favorable especially after the reduction in fuel pump prices by the Energy Regulatory Commission, declining maize and sugar prices, the falling global prices and a stable exchange rate. Inflation is expected to remain within the target level of 5 percent.

The exchange rate has firmed up

The exchange rate has stabilized over the past one year. Against the US dollar, the shilling exchanged at KES 83-87 range for the greater part of 2013. Similarly, it has remained stable against other major international currencies. The strengthening of the shilling against major international currencies reflects increased capital inflows occasioned by improved investor confidence and implementation of appropriate macroeconomic policies.

Interest rates have stabilized

Reduction of inter-bank interest rates has resulted in low interest rates the 91-day Treasury bills and bonds rates. Average lending rates by commercial banks have also reduced drastically to a range of 9.8-16.1 in August 2014. This is expected to have significant impact cost of exports and budgeting

Implementation of 2014/15 budget is progressing well after a slow start

Initial challenges faced with movement to the new IFMIS platform have now been addressed and financial operations are continuing in earnest at both National and County levels. Adoption of programme-Based Budgeting has also enhanced implementation of projects and programmes. However, expenditure pressures have continued to persist with salary demands from the health.

B. Macroeconomic outlook and policies

The updated macroeconomic framework is cautious given the weaker-than expected recovery in global output and performance in the first and second quarters of 2013.

Growth prospects

Growth in a number of major emerging market economies has been slow but consistent. Global growth is expected to be about 4.6% in 2013 compared to a growth of 5.3% in 2012. Against this backdrop and given the weaker-than-anticipated first quarter growth performance, our updated macroeconomic framework is cautious.

Improvement in the investment climate, coupled with further structural and legal reforms are expected to improve competitiveness of the private sector and promote overall productivity in the economy. The successful floating of the ambitious Euro-bond by the Government also has some positive bearing to the growth prospects of our economy. Successful implementation of the devolved system of governance is also expected to boost investor confidence and increased private investment.

Inflation outlook

Ample supply of food with normal weather conditions combined with stable energy prices will support our inflation forecast to be around the 5 percent target in year ahead and medium term.

C. Medium Term Fiscal Framework

We will continue to pursue prudent fiscal policy to assure fiscal stability. In addition, our fiscal policy objective will provide an avenue to support economic activities. With respect to revenue, the County Government will maintain a strong revenue effort at 10-12 percent of the total County Resources envelop. Measures to achieve this effort include: Carrying out a baseline survey to determine the County's potentiality of revenue; Employing permanent revenue collectors; undertake supplementary valuation roll to capture all unrated Areas; enhancing checks and balances in revenue collection; involvement of stakeholders and political leaders in decision making; reviewing and renegotiating of the current existing revenue collection agreements; promotion of Private-Public Partnerships (PPPs) educating the public on the need to pay their fees and rates

To address the high wage bill, the county will undertake capacity assessment and staff rationalization programme to ensure optimal level of staff and at the same time increasing efficiency

D. Risks to the outlook

The risk to the outlook for 2014 and medium-term include:

1. Unfavourable weather conditions should there be any drought in 2014 and years ahead.
2. Other disasters such as floods, pest and diseases outbreak
3. Increase in wage bill resulting from upward Salaries and allowances reviews
4. Political and legal decisions and actions that might affect collection of revenue,

Should these risks materialize the government will undertake appropriate measures to mitigate the impact on the budget.

III. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/15 Budget

Given the overall fiscal performance in FY 2013/14 and the updated macroeconomic outlook, the risks to the FY 2014/15 budget, Expenditure pressures with respect to increase in staffing in health and Pre-primary Education. The county government has also taken up almost all devolved functions meaning the operation and maintenance expenses will increase In addition, low absorption rate by the spending departments continue to be a source of concern especially with regard to the development expenditures. These risks will be monitored closely and the County Government will take appropriate measures in the context of the next Supplementary Budget. Adjustments to the 2014/15 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Due to the resource constrains, the County Government will rationalize expenditures by cutting those that are non-priority.

On the Revenue side, the Revenue Management Section is expected to take corrective measures to reverse the revenue lose.

B. Medium-Term Expenditure Framework

In view of the recent macroeconomic circumstance and limited resources, county MTEF budgeting will entails adjusting non-priority expenditures to cater for the priority sectors as outlined in the CIDP, County Annual Development Plan and MTPII (2013-2018).

The priority sectors, education, health and infrastructure, will continue to receive adequate resources. These sectors are already receiving a significant share of resources in the budget and are required to utilize their allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors. Other sectors including agriculture and livestock will receive increasing share of resources to boost agricultural productivity with a view to deal with threats in food security in the county.

Other priority sectors including Infrastructure improvement, Water development and youth empowerment will continue to receive adequate resources.

C. 2015/16 Budget framework

The 2015/16 budget framework is set against the background of the updated medium-term macro-fiscal framework set out above. Real GDP is expected to increase by 6.9% in FY 2015/16 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as the shilling exchange rate.

Revenue projections

The 2015/16 budget will target local revenue collection including Appropriation-in- Aid (AIA) of between 10-16% of total County Revenue base. As noted above, this performance will be underpinned by implementation of The County Finance Bill, on-going reforms and revenue enhancement.

Expenditure Forecasts

*Recurrent expenditures**:*** The absolute expenditure is expected to increase owing to ongoing staff recruitment and office establishments. The recurrent expenditure ratio to total county budget is however expected to decline significantly from 74.4% FY 2013/14 to 60.2 % in the FY 2015/16.

Development Expenditures: The ceiling for development expenditures including donor funded projects is expected to increase to KES 1,575,928,518.4(39.8% of Total County's Revenue base) from KES 1,363,318,057 (37.7% of County Resources Envelop) in the FY 2014/15 and KES 518,462,647(25.6%) in 2013/14. Most of the savings are expected to support critical infrastructural development that will attract private sector investment.

Overall Deficit and Financing

It is expected that the 2015/16 budget will remain balanced with zero deficit as is the 2014/15 budget. Austerity measures will be put in place to ensure that only when macro-fiscal conditions and PFM laws allows the deficit does not exceed 5% of the County's Resources envelop. Such a deficit will be financed through loans and grants.

IV. CONCLUSION AND NEXT STEPS

The fiscal outcome for 2013/14 together with the updated forecasts have had ramification on the financial objectives elaborated in the 2014/15 County Fiscal Strategy Paper submitted to the County Assembly in February. Going forward, the policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law.

The policies and proposed sector ceilings annexed herewith based on 2014/15 approved celling which were discussed by County Assembly will guide the County Departments in preparation of the 2015/16 budget.

The 2015/16Fiscal Strategy Paper (CFSP) will be finalized by December 2014, well ahead of the February 2015 deadline for submission as per the new PFM law.

ANNEX 1: Proposed 2015/16Sector Ceilings

Vote	Title	Approved Budget 2014/15	Proposed 2015/16 ceilings
1	County Assembly	600,000,000	648,000,000
2	Administration & Devolution Headquarters	356,493,344	385,012,812
3	Governor & Deputy Governor's Office	126,859,798	137,008,582
4	County Public Service Board	47,384,590	51,175,357
5	Finance & Economic Planning	257,190,242	277,765,461
6	Agriculture	114,333,303	123,479,967
7	Livestock, Fisheries& Veterinary	129,564,122	139,929,252
8	Water And Irrigation	230,620,684	249,070,339
9	Education	355,474,000	383,911,920
10	Health Services	977,212,330	1,055,389,316
11	Community Affairs, Trade and Industry	191,571,417	206,897,130
12	Lands & Physical Planning	21,960,666	23,717,519
13	Public Works and Infrastructure	362,087,997	391,055,037
14	Mining, Environment, & Natural Resource	49,763,280	53,744,342
	Total	**3,820,515,773**	**4,126,157,035**