

GOVERNMENT OF MURANGA

FINANCE AND PLANNING

BUDGET REVIEW

AND OUTLOOK PAPER

SEPTEMBER 2013

Foreword

The 2013 election as stipulated in the constitution created Devolved Governments that moved services closer to the people, effective march 2013 the new entities were to operate under various legislation among them Public Finance Management Act, County Government act, Urban Towns and Cities among others. All these laws contemplate that County Governments will approach budgeting and resource allocation in a structured and well planned manner so that priorities are well informed by the local needs and the public adequately participate in planning to ensure that there is ownership of the programmes being implemented and as well create partnerships that will bring social economic gains.

Murang'a County BROP is prepared in a way that enable review of the period march to june 2013, give an insight into the broad areas that the County consider strategic if the resident are to reap the real benefits of devolution and highlight on the plans that will be implemented within the year 2013/14, due to the ever present challenges of inadequate resources the first year of the County Government call only build a foundation. A County Integrated Development Plan is being develop to firmly entrench Murang'a County development aspiration into an implementable blue print. This BROP will form a strong basis for analyzing future years as measurable objectives for review may be missing due nonexistence of reliable County specific data on various aspect and also when we consider that the county is only a few months old. All efforts to build an institution that avails reliable measures of the levels of local development in various sectors should be made; this will not only make it possible to asses progress but also give useful projections to aid planning. The Central Government and Local Leadership will play a critical role in achieving 2013/14 County budgetary objectives.

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Abbreviations and Acronyms

AI- Artificial insemination

BROP-Budget Review and Outlook paper

BPS-Budget Policy Statement

GDP-Gross Domestic Product

GOK-Government of Kenya

ICT-Information Communication Technology

MFET-Medium Term Expenditure Framework

PFM-Public Finance Management

BACKGROUND

Legal basis for the production of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper (BROP) is prepared in accordance with section 26 of the Public Finance Management Act, 2012. The law states that:

1. The county Treasury shall prepare and submit to county executive for approval, by 30th September in each financial year, a BROP which shall include:
 - a. Actual fiscal performance of the previous financial year compared to the budget appropriation for the year.
 - b. Information on how actual financial performance for the previous financial year may have affected compliance to with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement (BPS)and
 - c. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.
2. County Executive shall consider the BROP with a view to approving it , without amendments, not later than fourteen days after its submission.
3. Not later than seven days after the BROP has been approved by County executive, the County Treasury shall:
 - a. Submit the paper to the budget committee of the county Assembly to be laid before each house of the assembly; and
 - b. Publicise the paper not later than fifteen days after laying the paper before the county assembly.

INTRODUCTION

BACKGROUND

1. This Budget Review and Outlook Paper (BROP) is the first to be prepared under the Public Financial Management Act, 2012. In line with the law, the BROP contains a review of the fiscal performance of the financial year 2012/13

OBJECTIVES OF BROP

2. 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 Budget Policy Statement (BPS). This together with updated macro-economic 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 plans. Details of the fiscal framework and the medium term policy priorities will be firmed up in the next BPS.
3. This BROP will be a key document in linking policy, planning and budgeting. Muranga county government has embarked on preparing the first county Integrated development Plan (CIDP) that will guide budgetary preparation and programming from 2014 onwards. This year's BROP is embedded on the first Muranga CIDP priorities. The county will launch the MTEF Sector Working Groups which will be reviewing programmes focusing on County development programmes for the next MTEF 2014/15 – 2015/17.

The PFM law enacted in 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the Second Year of the MTEF to be provided in this year BPS will form the indicative baseline sector ceilings for the next budget (2014/15).

II. REVIEW OF FISCAL PERFORMANCE IN 2012 /2013

A. Overview

This BROP is the first one for Muranga County; the county has been in existence for a few months and therefore lack fiscal background or budget to compare with. The short period up to June 2013 lacked any significant activities due to the fact that only locally collected revenue amounting to Ksh **137,113,410** and National Treasury disbursements totaling **Ksh 201,712,526.00** was given for the purpose of office renovations salaries and purchase of working equipments. In total ksh.338,825,936 was available for spending.

It is also important to note that the expenditure incurred between the month of march- June, 2013 was ksh237,481,597.10 As noted from above, we did not have a county budget by then but expenditures were incurred within the transitional Authority budget to make things move.

B. 2012/2013 Fiscal Performance

Revenue

The total revenue collected locally was ksh.137, 113,410 and there was no county revenue collection target given that the County was still in her formative stage. The sources exploited, receipt books and human resources used were basically what was inherited from defunct local authorities with a bit of support from the transitional authority team. It is therefore not possible to make an analysis on performance.

Expenditure

The total expenditure for 2012/2013 financial year amounted to ksh 237,481,597.10.

The total expenditure was kshs 237million, recurrent expenditure stood at ksh. 179,099,601.5 Out of which ksh 85,942,691.5 was for operations and maintenance, wages and salaries was ksh 93,156,910 with development expenditures totaling to Kshs 58,381,994.

Overall balance and financing

An observation of the figures highlighted above indicate that not all available cash was expended, challenges in passing an appropriation bill at a time when the county was setting up County assembly committee and conducting initial training as well as absence of a County development plan delayed the spending.

B. Implication of 2012/2013 fiscal performance on financial objectives contained in the 2013/2014 BPS

The county government was not in place during 2012/2013 financial year, therefore no BPS was prepared as outlined in the PFM Act. We are therefore unable to evaluate the performance so as to see what the implications of fiscal performance on financial objectives. We may also not talk of macroeconomic assumptions as a county because we are yet to start computing the same at this level. The issue of under-spending or overspending cannot be analyzed given that the County operated for only four months and without a well planned all inclusive budget.

Despite the absence of a BPS the county was able to put in place a One Year Plan that demands a lot of investment in agriculture, Infrastructure, Health, Water and Irrigation sectors. Revamping agriculture through introduction of modern methods of animal husbandry, new Crop varieties and value addition will spur economic growth of Muranga County and make it a net exporter of food.

III. RECENT ECONOMIC DEVELOPMENT AND OUTLOOK

As a county which is still young, we have not started computing/ measuring the county GDP, inflation, interest rates, exchange rates. Therefore we may not have much to talk about all sectors of the county economy pegging them on these macroeconomic parameters.

Implementation of 2013/2014 Budget

Implementation of the current budget is progressing well but at a slow pace, the requirement that Capital expenditure be budgeted and spent on the basis of an approved Integrated Development plan, also the National Treasury disbursement to counties were not well set and communicated in good time, it is to be noted that the first disbursement was made in September, but despite the few challenges mentioned we expect to implement all the budgeted programmes in fulfillment of our mandates to the residents of the county and the various stakeholders.

Revenue collection between the months of July to some part of September has improved a marginally when compared to what was collected between the months of July to August 2013 but more effort will continue to be made in rationalizing the traditional sources, capturing new sources , improving collection efficiency and reducing the cost of collection. The process of making County Laws that will net the not previously exploited sources are ongoing.

On investment, creating an enabling environment will go a long way in attracting private investors and partners to the county; this will improve the local economy and the business climate in general. The heightened productivity will spur growth, improve living standards of the residents and set a firm base for competing with other counties for investment opportunities.

Looking ahead, Muranga County do recognize the serious need to mobilize resources from all relevant stakeholders and invest in among other areas, agriculture and related industries, water, Information technology, infrastructure, and Hospitality industries. The first county Integrated

Development Plan, second medium Term Plan and Vision 2030 will articulate key priority areas and measures to take in spurring the county growth, taking into account limited public resources.

C. Medium Term Fiscal Framework

The county came into being on 5th of March as provided by article 6 of the Constitution, and section 176 of the county government Act, it is important that a medium term plan (5 year) is finalized in the first year of existence so as to provide strategies that will enable consolidation of efforts to actualize meaningful County development. A transitional one year development plan has been finalized and stakeholder's consultation is on-going for the development of county vision and five year integrated development plan.

With respect to Financial resources mobilization, the County will continue putting more effort on revenue collection by sealing leakages, developing new sources automating the system and seeking private entities for partnership, other external development partners and as well as lobbying the National Government for support over the medium term period. The county government will in addition harmonize the rates and other fees paid across the county for fairness and equity.

On the expenditure side, Muranga government will continue with rationalization of expenditure to improve efficiency and minimize wastage. Expenditure management will be strengthened with the adherence of implementation of Integrated Financial Management Information System (IFMIS) across the county ministries and departments.

Risks to the Outlook.

The likely risks of the outlook for 2014 and medium term include:

- low economic growth of the national economy, leading to inadequate funding to the counties,
- erratic weather conditions negatively affecting agricultural production,

- Late disbursement of funds by the National Treasury making funds absorption targets levels not to be realized.
- Under funding of some of the development projects/programmes leading to non completion within the planned time frames.
- Late preparation of CIDP
- Lack of clear structures at county level leading to bottle necks in information flows and programmes implementation.
- Lack of MTEF sector working groups to be setting county priorities and re-prioritization
- Unmet targets on revenue collection
- Disharmony between critical stakeholders leading to derailment of programmes

IV. RESOURCE ALLOCATION FRAMEWORK 2013/2014

A. Adjustment to the 2013/2014 Budget

Given that the county is new in existence and most Departments are at their inception stage, there is a critical need to keenly track the trend of development and adjust accordingly to release or increase financial resources as time goes by. This will be effected during the fourth coming supplementary budget.

Adjustments to the 2013/2014 budget will take into account actual performance of expenditure so far and absorption capacity in the remaining months of the financial year. Due to the scarcity of resources, the county government will put more emphasis to avail resources on key priority areas of development.

On the revenue side, the government of Muranga is expected to institute corrective measures to seal the leakages so that the expected target is met to achieve the county development objectives set.

The County expects to receive kshs 3,917,437,529 as the equitable share of devolved fund and raise kshs 1.3 billion from the local sources in within the financial year. The funds will be applied in financing various sectors as per the County government mandates. The first year challenges for the county Government include; lack of effective legal frame work to enforce local revenues, late disbursement of National Government transfers, inadequate technical capacity among others.

Available financial resources and their allocation to various departments/ sectors is as shown below;

DEPARTMENT	TOTAL ALLOCATION	ALLOCATION PERCENTAGE (%)
	Kshs(000)	
County Assembly	567,796.00	10.1
COUNTY CORDINATION AND ADMINISTRATION	206,882.	3.7
FINANCE AND PLANNING	470,867.	8.4
AGRICULTURE,LIVESTOCK AND ENVIROMENT	899,967.	16.0
TRANSPORT AND INFRASTRUCTURE DEVELOPMENT	778,867.	13.9
HEALTH WATER AND SANITATION	927,783.	16.5
LAND HOUSING AND PHYSICAL PLANNING	284,093.	5.1
PUBLIC SERVICE BOARD	351,478.	6.3
AGRO-MARKETTING AND COOPERATIVE	408,866.	7.3
TRADE ,ENTERPRISE, INDUSTRIES AND RESOURCES MOBILITION.	183,093.	3.3
EDUCATION, IMFORMATION AND TECHNOLOGY	267,980.	4.8
YOUTH CULTURE	274,193.	4.9
<u>TOTAL COUNTY BUDGET</u>	<u>5,621,869</u>	<u>100</u>

Overall Programmes Financing

	Kshs (000)
TOTAL INCOME	5,621,869
SALARIES AND WAGES	1,604,405
OPERATION AND MAINTENANCE	2,069,720
TOTAL RECURRRENT EXP	3,760,869
CAPITAL DEVELOPMENT	1,861,000
TOTAL EXPENDITURE	5,621,869
<u>SURPLUS DEFICIT</u>	<u>0</u>

The County intends to implement all planned programmes 100% as the approved Budget is well balanced. It's expected that proper plans are implemented to enable realization of locally generated revenues to forestall a potential deficit. It's important to mention that the devolved Government demarcation of mandates remains unclear in some areas to this day, especially on funding for County roads and procurement of drugs for Hospitals and Health centers Civic education and therefore deeper consultation to clear issues should be given a priority so that we can move forward.

B. Medium Term Expenditure Framework

Going forward, with the limited resources, The MTEF budgeting will be adjusting non-priority expenditures to cater for priority sectors. The first Muranga CIDP currently under preparation will be a guiding document for resource allocation for the next five years. In the meantime the resource allocation will be based on the one year strategic plan which was developed by June 2013. The priority sectors include;

Agriculture and Irrigation

Muranga county Government recognizes that agriculture is the backbone of the local economy and as such requires a lot of attention and support; to ensure that the true value from the sector is unlocked the following activities are proposed in the medium term; Value addition/agro processing, Agro industrial centre, Branding and Promotion of local consumption

In addition Cow ownership programme that if well planned and implemented will create gainful employment for the youth and at the same time avail raw materials and market for related industries. Artificial Insemination (AI) programme, a fruit processing plant are earmarked for construction within the financial year to value add farming produce.

County public service -Human Capital

A county public service board has been set up to manage the human capital needs of the county with priorities that may include; developing a Human Resource Information System, developing a clear organization structure, Performance management systems, Implementation of a reward system, Staff rationalization, Training and capacity building of staff through institutions e.g. Muranga University, Outsourcing of services and Recruitment of young dynamic personnel. The priorities for year one is to Set up a County Training Centre and engage HR Consultancy to assist the county overcome some of the pressing challenges.

Education and Information Communication Technology (ICT)

ICT

High in priority is the development of an ICT Roadmap/Strategy and development of a County website and automation of Revenue collection services. A reasonable budget for this programmes has been catered for within the years plan to enable the county set up a communication centre.

Education

The county has seen the educational standard deteriorate in recent years to level that majority of our resident have lost faith in our public schools. To revitalize this sector the county Government has allocated resources to be used in among other programmes in facilitating the recently launched Mentorship programme, Standardized County examinations and Teachers/Pupils Motivational programme.

Roads and Infrastructure

The county transport infrastructure in in an appalling condition and may require massive investment to rehabilitate and develop. The county Government recognizes the challenges involved in maintaining the roads network especially when the area hill topography is considered. Of concern also is the transport network that functionally remains with the National Government especially the Muranga- kenol road and the railway line passing through the county. Muranga County will continue to lobby for repair of the National Highways within her borders while providing reasonable funds for maintenance of County Roads, a reasonable budget has been set aside in the financial year.

County Transport

To improve and create order in the sector the county governments intends to develop Guidelines for an effective County transport system, pass a County bill to regulate the matatu industry within the county, Provide sheds for BodaBoda in recognition of their more central role in the transport industry. A feasibility study for Kabirwa airstrip is also underway with a view of coming up with strategies for raising funds to develop it.

Health

This sector is critical if the county is to develop, a sickly population cannot effectively contribute to the County Growth, plans to rationalize and upgrade health centers /hospitals, setting up of an Ambulance and rescue services and Mobile clinics are underway. In addition revamping of Public health Programmes e.g. nutritional awareness and hygiene are being considered.

Water and Sanitation

The County can be termed as well-endowed in water sources with Aberdare forming a crucial National and County water catchment. However the sector suffers the challenges of distribution and Poor water infrastructure (pipeline). There is also need to implement a conservation programme for the existing sources. Utilization of available water resources for revenue generation will be prioritized especially where the resource is exported to our neighboring Counties.

Cooperatives

A strategy of Strengthening the existing cooperatives and developing new ones will be given special attention, an urgent need to train and build capacity, strengthen leadership and governance, and formulate laws to regulate the sector will not be overlooked.

Youth Culture and Social Projects

The county will build on the existing sporting facilities by giving a face lift to the existing stadiums, avail sport minibuses, and also sponsor a County Soccer Tournament and marathon.

Proposals to upgrade and rehabilitate Mukurwe wa Nyagathanga to make it a tourist attraction site will greatly up rift the county image.

2014/2015 Budget Framework

The 2014/2015 budget will be set against the background of the county integrated development plan2013-2017.

Revenue collection projections

The 2014/2015 budget will target revenue collection of ksh. 1.6 billion and disbursement from the National government of ksh.4.1 billion. The total local revenue collection and

the disbursement from the National Government combined will be expected to raise ksh. 5.7 billion.

Expenditure Forecasts

In 2014/215, overall expenditures are projected to be about ksh. 5.7 or slightly above the projected total income of the county.

CONCLUSION

The prepared budget is broadly in line with the one year plan, County integrated development plan and vision 2030, it is expected that all relevant parties will play their assigned roles to ensure that Muranga County achieves the set objectives and effectively contribute to the achievement of National Government objectives. This outlook is prepared on the premise that the National Government will disburse the Devolved funds in good time for programmes to be undertaken failure to transfer the whole amount as initial notified will severely hamper the implementation of the County budget. Going forward the National Government should closely partner with counties in developing county entities that measures social economic variable so that achieved milestones can be measured ie rate of inflation per county, poverty levels, County GDP among others.