EMBU COUNTY GOVERNMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision
A Prosperous, Wealthy and Secure County

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

SEPTEMBER 2014

FOREWORD

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012 section 118 and is the first in the current dispensation. It details the actual fiscal performance in the financial year 2013/14 compared to the budget appropriation for that year. It presents the recent economic developments and actual fiscal performance of the FY 2013/2014 and makes comparisons to the budget appropriations for the same year. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the County Fiscal Strategy Paper (CFSP) 2014.

In this Paper, we will also provide an overview of how the actual performance of the FY 2013/2014 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2014 CFSP. The paper is being prepared at a time when significant progress has been made in operationalizing the County Government by appointing the County Executive, the County Public Service Board and operationalizing the County Assembly which are necessary institutions in facilitating effective service delivery in the County.

The County priorities and goals outlined herein are based on the County Integrated Development Plan with emphasis on investment in: Agriculture and food security, Infrastructure, accessibility of water, accessible health care, education. These priorities shall form the basis for formulation of FY 2015/16 budget and the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

The paper covers the following broad areas in review of the fiscal performance of financial year 2013/2014; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

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

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

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

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

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

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

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

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

(c) Information on:

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

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

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

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

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

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

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

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

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

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

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

6) The fiscal risks shall be maintained prudently; and

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

Table of Contents

List of Tables

Abbreviations

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

I. INTRODUCTION

Objective of the BROP

1. The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

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

3. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2014/2015 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2015/16. However, following the fiscal outcome of 2013/14 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

4. The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2013/14 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in February 2014. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2013/2014

A. Overview

5. The fiscal performance in 2013/14 was fairly satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures with limited structures in the county. The County had approved estimate for Ksh. 4,023,446,410.00 that was financed by equitable contribution from the national treasury at 69.77%, local revenue at 15 14% grants to the health services 13.85%, and the balance of 1.24% from balance of 2012/2013 budget fund balance.

6. On the expenditure side, the County Government incurred high expenditure on salary for the devolved functions staff and establishment of County Government legal institutions that are part and of county structures. On the side of expenditure the county government did not do well, since only Ksh. 2,745,450,987.00 (68%) out of the Ksh. 4,023,446,410.00 was spent out of which 95% was recurrent expenditure and only 5% was spent on development.

B. 2012/13 Fiscal Performance

7. The table below presents the fiscal performance for the FY 2013/2014 and the deviations from the approved estimates against the actual expenditure.

Table 1: Summary of Approved Budget Estimates FY 2013/14

RECURRENT EXPENDITURE 2013/14				
DEPARTMENT	**APPROVED**	**ACTUAL**	**DEVIATIONS**	**% DEVIATION**
County Assembly	484,396,570.00	379,829,548.00	104,567,022.00	21.59%
Office Of The	1,813,331,427.00	1,935,626,424.00	(122,294,997.00)	6.74%*
County Public Service	32,025,525.00	15,454,316.00	16,571,209.00	51.74%
Finance & Planning	81,660,957.00	65,986,971.00	15,673,986.00	19.19%
Agriculture	15,682,116.00	12,744,916.00	2,937,200.00	18.73%
Education	45,476,160.00	83,818,253.00	(38,342,093.00)	84.31%*
Youth Services	30,046,017.00	23,471,680.00	6,574,337.00	21.88%
Health Services	276,088,438.00	50,562,524.00	225,525,914.00	81.69%
Infrastructure	14,959,000.00	9,504,148.00	5,454,852.00	36.47%
Trade Investment and	20,939,481.00	20,434,730.00	504,751.00	2.41%
Total Recurrent	**2,814,605,691.00**	**2,597,433,510.00**	**217,172,181.00**	**7.72%**
DEVELOPMENT BUDGET 2013/2014				
DEPARTMENT	**APPROVED**	**ACTUAL**	**DEVIATIONS**	**% DEVIATION**
County Assembly	2,000,000.00	-	2,000,000.00	100.00%
Office of Governor	66,300,000.00	2,646,210.00	63,653,790.00	96.01%
Finance and planning	-	-	-	
Agriculture	177,419,103.00	16,081,435.00	161,337,668.00	90.94%
Youth Services	24,594,000.00	-	24,594,000.00	100.00%
Health services	137,700,000.00	18,675,859.00	119,024,141.00	86.44%

RECURRENT EXPENDITURE 2013/14				
DEPARTMENT	**APPROVED**	**ACTUAL**	**DEVIATIONS**	**% DEVIATION**
Infrastructure	668,910,964.00	106,259,773.00	562,651,191.00	84.11%
Trade and Investment	52,800,000.00	4,354,200.00	48,445,800.00	91.75%
Education	79,116,652.00	-	79,116,652.00	100.00%
Public service Board			-	
Total Development	**1,208,840,719.00**	**148,017,477.00**	**1,060,823,242.00**	**87.76%**
Total Expenditure	**4,023,446,410.00**	**2,745,450,987.00**	**1,277,995,423.00**	**31.76%**
Financed by:				
Local Sources	439,611,586.00	168,486,515	271,125,071.00	61.67%
AiA (Ministerial)	169,422,720.00	0	169,422,720.00	100.00%
Equitable Share	2,807,082,690.00	2,807,082,690	0.00	0.00%
Grant (Level Five	259,887,438.00	259,887,438.00	0.00	0.00%
Donor Funds	297,310,964	0	297,310,964.00	100.00%
Refunds B/F	50,131,012	68,265,374	(18,134,362.00)	36.17%**
Expenditure	**4,023,446,410**	**3,303,722,017**	**719,724,393.00**	**17.89%**

Source: Embu County Treasury *Refers to overspending *More money received than expected

8. The approved total revenue for the FY 2013/14 was Ksh. 4,023,446,410 but the actual revenue received amounted to Ksh. 3,303,722,017 which is 17.89% less than earlier targeted. This was as a result of local revenue targets that fell short by 61.67%. The various ministries did not raise their respective AiAs while donor funds were not received thus affecting the total revenue. The actual usage of development expenditure stood at Ksh. 148,017,477 which fell short by 87.76% but is expected to change in the current FY 2014/15.

Revenue

9. Total cumulative local revenue collections amounted to Ksh. 168,486,515 compared to a target of Ksh 439,611,586 which represents a revenue shortfall of Ksh. 271,125,071 that is under collection by 61.67%. National treasury released to the County Government a total of Ksh. 3,066,970,129 as equitable share of the county as per the 2013 County Revenue Allocation Act.

10. The underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings mainly due to delayed approval of the county revenue bill 2013/2014 and the uncertainty brought about by the devolved system of government. Local revenues collection as per classification is as shown in Table 2 below:

Table 2: Revenue Streams for FY 2012/14

REVENUE STREAMS	**TARGET 2013/2014**	**ACTUAL 2013/2014**	**DEVIATION**
Single Business	146,444,990.95	55,643,804.00	90,801,186.95
House Stall	15,176,496.01	5,766,520.00	9,409,976.01
market Fees	66,555,979.87	25,288,867.00	41,267,112.87
Parking Fees	77,471,815.40	29,436,490.00	48,035,325.40

REVENUE STREAMS	TARGET 2013/2014	ACTUAL 2013/2014	DEVIATION
Cess	58,502,069.16	22,228,672.00	36,273,397.16
Land rates	31,174,256.96	11,845,091.00	19,329,165.96
Enforcement	2,612,253.70	992,562.00	1,619,691.70
Tech. Fees	3,079,503.41	1,170,100.00	1,909,403.41
Admn. Fees	2,120,320.08	805,645.00	1,314,675.08
Advert Fees	269,499.32	102,400.00	167,099.32
Slaughter Fees	2,329,563.66	885,150.00	1,444,413.66
MISL	33,786,592.25	14,287,684.00	19,498,908.25
Water Charges	88,245.23	33,530.00	54,715.23
Total	**439,611,586.00**	**168,486,515**	**271,125,071.00**

Source: Embu County Treasury

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

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

A. Recent Economic Developments

12. Recent developments in the key macroeconomic variables are encouraging. Growth in real GDP remains resilient but downside risks remain. In the first quarter of 2014, the Kenyan economy is estimated to have expanded by 5.2 percent compared to 4 percent over a similar quarter of 2013. During the second quarter of 2014, the economy is estimated to have expanded by 4.3 per cent compared to the growth of 4.4 per cent experienced during the same quarter of 2013.

13. Overall inflation increased to 8.29 percent in September 2014 up from 6.67 percent in August 2014 and 5.32 percent in September 2014 on account of upwards revisions in local pump prices and food items as well as the CPI base effects. However, the shilling exchange has firmed up against major international currencies and the official foreign exchange reserves are at a comfortable level.

14. Short term interest rates declined consistent with the easing of monetary policy stance. In particular, the interbank rate has remained within the CBR corridor prescribed in the monetary policy operating framework. The uptake of bank credit by the private sector increased by 13.5 per cent in the twelve months to July 2014 compared to 16.7 per cent target growth and 12.7 per cent growth in year to June 2013. The credit to the private sector was channeled to the productive sectors of the economy.

15. Growth in Real GDP remains resilient but downside risks remain. Real GDP grew by 4.3 percent in the second quarter of 2014, compared to 4.4 percent during a similar period in

2013. The growth was mainly supported by strong expansions of activities of Electricity and Water, Financial intermediation, Agriculture and Forestry. Agriculture and forestry is estimated to have expanded by 4.6 percent in the second quarter of 2014 compared to 2.9 percent growth during a similar quarter in 2013.Most of the agricultural crops recorded improved production.

16. Manufacturing sector grew by 4.8 percent in the second quarter of 2014, compared to 4.3 percent in 2013. The growth was mainly driven by manufacture of non-food products which recorded significant growth of 7.2 percent. Production of motor vehicle tires, toilet soap, cement, soft drinks, wheat flour and milk expanded significantly. However, processing of sugar, coffee and beer declined during the second quarter compared to a similar period in 2014.

17. Hotels and Restaurant sector's economic slowdown experienced during the first quarter of 2014 spilled over into the second quarter mainly due to low booking by international visitors as a result of uncertainties due to travel advisories by traditional tourist markets due to security concerns. Consequently, the sector contracted by 13.3 percent compared to a lower contraction of 11.4 per cent realized in the same quarter in 2013.

18. Overall, following the outcome of the first and second quarters, it is expected that the growth projection of 5.6 percent for 2015 will be achieved. Favorable weather and implementation of the development programmes as outlined in FY2014/15 would safeguard our positive growth projections. Similarly, with world and sub-Saharan Africa growth projected respectively at 3.3 percent and 5.4 percent in 2014 and 4.0 percent and 5.7 percent in 2015, we expect our exports to benefit from this favorable growth, while declining interest rates and stable exchange rate are expected to boost investor confidence.

Gradual ease of monetary policy……

19. A gradual easing of the monetary policy stance was adopted by the MPC in July 2014 following the decline in inflation and stability in the exchange rate. The MPC remained vigilant to developments in the domestic and international markets and took appropriate measures to sustain price stability. In addition, sustained Open Market Operations was undertaken to ensure stability in the interbank market and that of short-term interest rates.

20. Overall inflation increased to 8.29 percent in September 2014 up from 6.67 percent in August 2014 and 5.32 percent in September 2014 on account of upwards revisions in local pump prices and food items as well as the CPI base effects. However, the shilling exchange has firmed up against major international currencies and the official foreign exchange reserves are at a comfortable level. Between July and August 2014, food prices increased marginally by 0.10 percent, while cost of fresh packet milk went up by 2.71 percent. Prices of food and non-alcoholic beverages recorded the highest increase (9.74 percent, from 8.44 percent in the previous month).

21. Despite the increase in inflation in the last four months, inflation is expected to revert back to target of 5 percent with a 2.5 percent band in the medium term especially with the prudent monetary and fiscal policies that are in place and containment of recurrent expenditures by the government. Nevertheless, there are risks with fuel prices remaining high as world oil prices remain persistently high due to political instabilities in oil rich countries.

22. The fall in inflation from a peak of 19.7 percent in November 2011 to the current 6.67 percent in August 2014 has allowed room for easing of the monetary policy to support growth. The Central Bank has since reduced the CBR gradually from a high of 18 percent in December 2011 to the current 8.5 percent in September 2014. This as expected led to reduction in interest rates and enhanced access to credit by the private sector. The private sector credit uptake has picked up and is channeled to productive sector.

The shilling exchange rate has firmed up against major international Currencies

23. The Kenya Shilling exchange rate has stabilized against major world currencies following increased short term capital inflows and remittances, disbursements under the Extended Credit Facility programme and Central Bank activity in the foreign exchange market. In June/July, the shilling depreciated against the US dollar to exchange at KSh 85.5 and Ksh 86.9 following increased demand by importers, and payments of dividends to external shareholders of business companies. The shilling has stabilized against the US dollar in August/September at around Ksh 87.50.

Interest rates have stabilized

24. Short term interest rates declined consistent with the easing of monetary policy stance. Average interbank interest rate increased from 7.14 percent in June 2014 to 7.93 percent in July/August 2014 on account of build-up of Government deposits and skewed distribution of liquidity in the interbank market.

25. Commercial bank lending interest rates have gradually declined through August 2014 (to 16.95 percent from 19.7 percent in September 2014) as signaled by the CBR largely to support credit uptake by the private sector for sustained recovery of the economy. The average deposit declined to 6.36 percent in August 2014 from 7.40 percent in September 2014. Interest rate spread between the average lending and deposit rates decreased to 10.60 percent from 12.33 percent in September 2014. In the medium term, interest rates are expected to remain relatively stable, Consistent with expected stability in most of the macroeconomic fundamentals.

Stock market remains vibrant

26. Activity in the stock market has been vibrant in the year to August 2014. The NSE share index improved from 3,866 points in August 2014 to 4,698 points in August 2014,

representing an increase of 22 percent. Market capitalization, a measure shareholders' wealth improved by 45.88 percent in the year to August 2014 to close at KSh. 1,682 billion from KSh. 1,153.0 billion in August 2014.

Surplus in Balance of Payments but Current Account deteriorates

27. The overall Balance of Payments surplus narrowed to US$ 625 million in the year to July 2014 from US$ 873 million in the year to July 2014. This reflects less than proportionate improvement of the capital and financial account (3.1 percent) as compared to the deterioration in the current account deficit (10.0 percent).

28. The current account deficit widened to US$ 4,571 million in the year to July 2014 from US$ 4,168 million in the year to July 2014. The decline of the current account balance was as a result of faster growth in the merchandise import bill; importation of machinery and transport equipments that increased to US$ 4,913 Million in July 2014 from US$ 4,196Million in July 2014. The services account registered a decline of 2.8 percent in the period, from US$ 6,174 million in July 2014 to US$ 5,957 million in July 2014.

29. As a result, with a surplus in the overall balance of payments, official foreign exchange reserves held by the Central Bank of Kenya rose by 15.8 percent to US$ 6,096 million (or 4.2 Months of import cover) in July 2014 from US$ 5,262 million (or 4.2 months of import cover) in July 2014. The improvements in reserves reflected build up of foreign exchange by CBK and receipt of disbursements under the ECF.

30. Total expenditure by August 2014 was Ksh 150.5 billion compared to a target of Ksh 229.4 billion with the bulk of this amount in the development, both domestically and foreign financed, which is as a result of procurement procedures that have to be followed for implementation of projects. We therefore expect higher absorption rate in the coming months. Meanwhile, domestic borrowing remains on track as interest rates stabilize in the domestic money market.

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

32. To spur economic growth and propel the county to higher levels of development, the county government intends to promote investment opportunities and trade. A major investment conference took place within the county to show potential investors the numerous

available opportunities. This will eventually trickle down to virtually all sectors of the economy and increase the county's revenue base.

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

B. Macro economic outlook and policies

Growth prospects

34. The global growth is projected to remain subdued at slightly above 3 percent in 2014, the same as in 2013. According to the IMF's latest World Economic Outlook (WEO) update released in July 2014, downside risks to global growth prospects still dominate. While earlier risks remain, new risks have emerged, including the possibility of a longer growth slowdown in emerging market economies, especially given risks of lower potential growth, slowing credit, and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the United States leads to sustained capital flow reversals.

35. Many emerging market and developing economies face a trade-off between macroeconomic policies to support weak activity and those to contain capital outflows. Global growth is expected at about 3.1 percent in 2014 similar to growth in 2014 compared to a growth of 3.9 percent and 5.3 percent registered in 2012 and 2011, respectively.

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

37. Against this backdrop, the country remains cautious in macroeconomic forecasts considering the mixed performance of global growth and SSA growth. Nonetheless, with the improved weather conditions, ease of inflation, lower interest rates and stable exchange rates, we expect growth of 5.6 percent in 2015 up from 4.6 percent in 2014. Over the medium-term, growth is expected to pick gradually and cross the 7 percent mark by 2017, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 5.9 percent in 2014/15, 6.3 percent in 2015/16, 6.6 percent in 2014/16 and 6.9 percent in 2016/17.

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

Inflation outlook

39. Despite the increase in inflation in the recent past, inflation is expected to revert back to target of 5 percent with a 2.5 percent band in the medium term.

40. The monetary policy framework has delivered price stability, benefiting from the financial innovation and development that has been unprecedented in Kenya. However, the supply side shocks remain a threat to price stability. The creation of buffers to support the supply side of the economy – reserves for food, oil and foreign exchange-will provide an intervention mechanism for moderating overall inflation. In addition, commodity exchanges/warehousing receipt will also encourage surpluses to be generated in the sector to enhance productivity and the food buffers.

41. The Kenyan Government is committed to pursuing a managed float exchange rate regime with interventions limited to smooth out erratic factors in the interbank market for foreign exchange. Stability in the movement of the exchange rate will support the low inflation forecasts.

C. Medium Term Fiscal Framework

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

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

44. With respect to revenues, the Government continues to maintain a strong revenue effort of between 24-25 percent of GDP over the medium term. Measures to achieve this effort include simplification of the tax code in line with international best practices and improved tax compliance with enhanced administrative measures. In addition, the Government will

rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

45. The VAT Act recently passed, is being implemented. The main objective of this Act is to simplify, modernize and reduce cost of compliance. It also provides clarity to various issues and definitions that previously caused confusion as used in the old Act; as well as provide for rising of additional resources through expansion of the tax base, increased efficiency in tax collection and the sealing of leakages in our revenue collection system. The Government is also reviewing all other tax legislations in order to simplify and modernize them.

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

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

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

D. Risks to the outlook

49. The risk to the outlook for 2015 and medium-term include continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector. These affect the national government whose effects trickles down to the County.

50. Political squabbling among the legislative and the executive unit poses a risk to county development. This is highly manifested by lack of compliance to the guidelines provided by the controller of budget by the both units at the county. Unpredictable weather conditions remain a major impediment in achieving the set targets. The effects are manifested in low production under the agriculture sector which is expected to spur growth in the county. Insecurity remains a threat to this framework hence investor’s confidence has gone down and the effect is expected to spill to the county level. Finally, the uncertainty in the proportion of

the county allocation from the national resource coupled with overdependence on the same is a major risk to this framework.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/15 Budget

51. Given the performance in 2013/14 and the updated macroeconomic outlook, there are a number of risks towards the implementation of FY 2014/15 county budget. These risks include political interference in development planning and implementation may affect prioritization and the pace of implementation of programmes and projects. The increased wage bill may limit continued funding for development expenditure beyond the thirty percent mark. This is more prevalent in the health sector with personal emoluments amounting to about Kshs. 863M which accounts for 21.49% of the total county budget. In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures leading to low absorption rates of development funds. Failure to adhere to timelines, guidelines and circulars may on the other hand lead to reduced pace of implementation of programmes. These risks will be monitored closely and the county Government would take appropriate measures in the context of the next Supplementary Budget.

52. 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. In the face of the huge wage bill, the county Government will rigorously scrutinize spending proposals with an intention of cutting those that are non-priority. However, the resources earmarked for development purposes will be utilized in the said projects and none, whatsoever, can be expended as recurrent. It is therefore imperative to exercise strict fiscal discipline while focusing on areas that will ignite the economic potential of our county.

53. The County Public Service Board (CPSB) is now operational and is expected to set up the county organizational structures. The work towards performing evaluation and harmonization of wage structure for public servants is underway. This is being done through the Capacity Assessment and Rationalization of the Public Service (CARPS) programme which commenced a Biometric Data Capture exercise and institutional review for all Public Servants working in the National and County Governments. This is expected to improve on planning of salaries and wages reviews because it will be predictable and based on some policy measures unlike the current practice.

54. On the revenues side, the county is expected conduct a business survey/census to establish the existing revenue streams. Modernizing revenue administration infrastructure will help in effectively enforcing revenue collection. The county will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the

PFM law of 2012. Embracing the Integrated Financial Management Information System (IFMIS) fully in expenditure management will go a long way in ensuring proper controls of public funds.

55. The county is in the process of drafting an M&E policy that will support the implementation of a computerized ePROMIS system as well as establish structures for M&E. Monitoring and Evaluation will track development progress and hence promote transparency, integrity, access to information and embrace accountability principles in public resource utilization.

B. Medium-Term Expenditure Framework

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

57. The priority sectors of Infrastructure, Public Works and Housing, Lands, Water, Environment and Natural Resources and health, will continue to receive adequate resources. These sectors are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

58. Infrastructure, Public Works and Housing sector has been allocated the largest share of resources in FY 2014/15 accounting for 22.41% of the development expenditure and will continue to rise over the medium term. The sector remains the driver of the economy and its allocation will continue to rise over the medium term while reflecting the county Government's commitment in improving infrastructure countywide such as tarmacking and gravelling of roads as well as installation of street lights. However, the sector faces a number of challenges that limits its optimal operations which include inadequate resources, lengthy procurement process and unclear delineation between the national government and county government roles. Over the medium-term, the sector's priorities will include improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction and expanding access.

59. The Lands, Water, Environment and Natural Resources has been allocated the second largest share of resources in FY 2014/15 budget accounting for 16.6% of the overall development expenditure. The sector plays a key role in ensuring that every citizen has access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities by scaling up water

storage to improve water security, conservation and management of catchment areas and enforcement of sector laws and regulations.

60. The Health sector is expected to receive 14.1% of the county development expenditure for the FY 2014/15 in its quest to provide equitable and affordable health care to the citizens. The sector faces numerous challenges, which include inadequate infrastructure for service delivery, shortage of qualified health personnel, and on time delivery of medicines and medical supplies.

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

62. The County is expected to play a significant role in improvement of access and better health care for the citizens. As such, functions under this sector include county health facilities, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public, and enforcement of refuse removal, refuse dumps and solid waste disposal. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2015 MTEF, classified by sector. The sector ceilings include devolved funds.

Table 3: Total Expenditure projections

TOTAL EXPENDITURE						% Share
	Sector	**Budget**	**Projections**			
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2015/16**
1	Office of the Governor	112,319,766	344,707,499	359,607,499	395,568,249	7.71%
2	Finance, Economic Planning & Administration	581,830,096	189,534,328	199,534,328	219,487,761	4.24%
3	Education, Technology & ICT	221,736,804	273,714,196	279,644,516	307,608,968	6.12%
4	Health	1,137,788,251	1,235,381,30	1,377,862,66	1,515,648,93	27.62%
5	Infrastructure, Public Works & Housing	329,957,189	562,121,456	587,621,456	646,383,602	12.57%
6	Sports & Youth Affairs	128,847,080	100,337,216	112,757,216	124,032,938	2.24%
7	Investment & Industrialization	89,283,124	63,250,996	83,250,996	91,576,096	1.41%
8	Agriculture, Livestock & Cooperative Development	683,666,565	432,354,408	575,054,408	632,559,849	9.67%
9	Gender, Women, Children,	43,167,695	50,250,000	62,450,996	68,696,096	1.12%
10	Trade and Tourism	49,283,124	90,733,584	112,933,584	124,226,942	2.03%
11	Lands, Water, Environment & Natural Resources	245,492,696	217,969,197	323,864,207	356,250,628	4.87%

		TOTAL EXPENDITURE				% Share
	Sector	Budget	Projections			
		2014/15	2015/16	2016/17	2017/18	2015/16
12	County Public Service Board	39,531,027	31,944,045	34,144,045	37,558,450	0.71%
13	County Assembly	352,762,748	480,841,198	485,933,029	534,526,332	10.75%
14	Ward development projects		400,000,000	400,000,000	440,000,000	8.94%
	Total	**4,015,666,165**	**4,473,139,42**	**4,994,658,94**	**5,494,124,84**	**100.00%**

C. 2015/16 Budget framework

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

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

Revenue projections

65. County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2015/16 budget target for revenue collection is expected to be KShs. 531,930,019.06 which is 11.89% of the total county revenue. This performance will be underpinned by on-going reforms in revenue administration and management which seek to expand revenue base and eliminate revenue collection leakages. The table below highlights the various revenue streams and their expected target over the medium term period.

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

Revenue Streams	Target 2013/2014	2014/2015	2015/2016	2016/2017
Single Business permit	146,444,990.95	161,089,490.05	177,198,439.05	194,918,282.95
House Stall	15,176,496.01	16,694,145.61	18,363,560.17	20,199,916.19
market Fees	66,555,979.87	73,211,577.86	80,532,735.64	88,586,009.21
Parking Fees	77,471,815.40	85,218,996.94	93,740,896.63	103,114,986.30
Cess	58,502,069.16	64,352,276.07	70,787,503.68	77,866,254.05
Land rates	31,174,256.96	34,291,682.66	37,720,850.93	41,492,936.02
Enforcement	2,612,253.70	2,873,479.07	3,160,826.98	3,476,909.68
Tech. Fees	3,079,503.41	3,387,453.75	3,726,199.12	4,098,819.03
Admn. Fees	2,120,320.08	2,332,352.08	2,565,587.29	2,822,146.02

Advert Fees	269,499.32	296,449.25	326,094.17	358,703.59
Slaughter Fees	2,329,563.66	2,562,520.03	2,818,772.03	3,100,649.23
MISL	33,786,592.25	37,165,251.48	40,881,776.63	44,969,954.29
Water Charges	88,245.23	97,069.76	106,776.73	117,454.41
Total	**439,611,586.00**	**483,572,744.60**	**531,930,019.06**	**585,123,020.97**

Source: County Treasury

Expenditure Forecasts

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

67. However the County Integrated Development Plan should be reviewed annually to incorporate new projects and programmes. When the review will be carried out the following priority areas among others, will be the focus during the plan period. The county aims to improve road network in the county by constructing 500km to bitumen standard as well as grading and regular maintenance of all the feeder roads in the county.

68. In agriculture, which is leading income earner in the county, the county government will focus in promoting value addition of macadamia, tea, coffee, milk and honey among other produce. Improved crop production will be achieved by constructing major dams at Irangi, Karurumo and Manyatta to harvest runoff water to boost water for irrigation.

69. The county government will also focus to open up and promote tourist attraction in the county. To achieve this, the county government will develop Mwea and Mt. Kenya tourist circuits by developing game parks and constructing the Kianjiru planetarium as well as constructing tourist hotels through Public Private Partnerships (PPPs). There will be preservation of local culture and construction cultural sites. In the health sector, the county will focus in adequately equipping and staffing all the existing health facilities including the teaching and referral hospital as well as sub county hospitals. In Education and ICT, priorities will include setting up of a Digital Village, Day care centres in all sub counties, and Technical Institutes.

70. The other priorities of focus include industrial park and incubation centre in investment and industrialization, completion of the stadium and development of Talent and Sports Academy in Youth Empowerment and sports. The county will also focus on development of Gender Resource Centre, Children protection centre and cultural centres. In Finance and

Planning department the county will enhance revenue collection through e-Revenue as well as fast track monitoring and evaluation through development of e-PROMIS.

Overall Deficit and Financing

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

V. CONCLUSION AND NEXT STEPS

72. The fiscal outcome for 2013/14 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the last CFSP submitted to the County Assembly in February 2014. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national and county strategic objectives pursued by the county Government as a basis of allocation of public resources. These strategic objectives are provided in the CIDP (2013-2017) and MTP II which is developed to implement the Kenya's blue print –Vision 2030.

73. The next County Fiscal Strategy Paper (CFSP) will be finalized by the February 2015 deadline as per the new PFM law.