LAIKIPIA COUNTY GOVERNMENT

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW OUTLOOK PAPER

SEPTEMBER 2013

Foreword

This is the first county budget outlook paper (CBROP 2013) since March 4th general election a first of its kind under the new constitution that heralded the new governance structures of devolved governments. The Constititution and Public Financial Management Law enacted in 2010 and 2012 respectively ushered in aparadigm shift in budget making. Apart from introducing reforms in our public financial management system, the law entrenched the Medium Term Expenditure Framework budgeting.

The county budget outlook reveiw paper sets out the background and broad fiscal parameters for the 2014/15 budget and the medium-term, consistent with County Government strategies and policies. The CBROP 2013 is prepared taking into account resources required for the implementation of a devolved government, which, among other things, provides for fiscal decentralization of resources to the county entities and reforms to several institutions. The ensuing MTEF resource allocation therefore will be critical in laying the foundation and setting the stage for full operationalization of the newdevolved units within Nakuru County.

2. The link between policy, planning and budgeting will become even moreimportant under the new constitution and County government act. As such, CBROP will continue to play a criticalrole in the preparation of budgets and management of public resources in a devolvedsystem. To strengthen the budget preparation process, the County government will continue to embrace performance budgeting and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money.

3.The County Budget Review and Outlook Paper (CBROP) provides basis to revise the 2013/14 budget in the context of the Supplementary Estimates, aswell as set out the broad fiscal parameters for the next budget and medium term.Very briefly, we went through the challenges of last financial year and closed the year satisfactory despite failure by national treasury to disburse the last tranche of LATF to the defunct local authorities and significant expenditure reprioritization as as result of increase in salaries as a result of CBA registredin the industrial court. The outcome has had implications on the base in which the fiscal projections for the current financial year were based on. More details will be provided in the first County Fiscal Strategy Paper expected in January 2014.

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Executive Member Finacial Planning & County Developement

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Abbreviations and Acronyms

BSP	Budget Strategy Paper
CBROP	County Budget Review and Outlook Paper
CBA	Comprehensive bargain agreement
CFSP	County fiscal stategy paper
CILOR	Contribution in lieu of rates
CPID	County intergrated development plan
FIF	Facility improvement funds
FY	Financial Year
LATF	Local authority transfer fund
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
PERs	Public Expenditure Review
PFM	Public Financial Management
PPP	Public Private Partnership
CSWGs	County Sector Working Groups

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

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

1. The County Treasury shall prepare and submit to County Executive committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shallinclude:

a) Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;

b) Updated economic and financial forecasts with sufficient information toshow changes from the forecasts in the most recent County Fiscal strategy paper

c) Information on how actual financial performance for the previous financial yearmay have affected compliance with the fiscal responsibility principles or thefinancial objectives in the latest County Fiscal strategy paper; and

d) The reasons for any deviation from the financial objectives together withproposals to address the deviation and the time estimated to do so.

2. County Executive committee shall consider the County Budget Review and outlook Paper with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the CBROP has been approved by Executive committee, the CountyTreasury shall:

a) Submit the paper to the Budget and appropriation Committee of the County Assembly to be laid before the County assembly; and

b) Publish and publicise the paper not later than fifteen days after laying the Paper before County Assembly.

Responsibility Principles in the Public Financial Management Law

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

1) The county government's recurrent expenditure shall not exceed the county government's total revenue
2) Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure
3) The County government's expenditure on wages and benefits for public officersshall not exceed a percentage of the County government revenue as prescribedby the regulations.
4) Over the medium term, the County government's borrowings shall be used onlyfor the purpose of financing development expenditure and not for recurrentexpenditure.
5) Public debt and obligations shall be maintained at a sustainable level as approved by County Government (CG)
6) Fiscal risks shall be managed prudently
7) A reasonable degree of predictability with respect to the level of tax rates and taxbases shall be maintained, taking into account any tax reforms that may be madein the future

I. INTRODUCTION

Background

1. This County Budget Review and Outlook Paper (CBROP)is the first to be prepared under the Public Financial Management Act, 2012 within the devolved units of County Governments. In line with the law, the CBROP contains a review of the fiscal performance of the financial year 2012/13, and deviations from the Approved 2012/2013 Budget .

Objective of CBROP

2. The objective of the 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 County Fiscal Strategy Paper This together with updated 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. Details of the fiscal framework and the medium term policy priorities will be firmed up in the first CFSP.

3.The CBROP will be a key document in linking policy, planning and budgeting. The County Government has embarked on preparing the First County intergrated development plan and Medium Term Expenditure Framework (MTEF) that will guide budgetary preparation and programming from 2014 onwards. In the interim, this year's CBROP is embedded on the first (MTEF) priorities, in addition to taking into account emerging challenges and transition to a devolved system of government. The launch of, the Sector Working Groups will see the formulation of the programmes for the Medium Term Expenditure Framework (MTEF) focusing on developing of new programmes for the next MTEF 2014/15 – 2016/17.

4. The new PFM law enacted in 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings on the onset will form the indicative baseline sector ceilings for the next budget of 2014/15. However, following the gazettement of more devolved functions by legal notice 16 and the updated Legal Notice 157 of 2013 these sector ceilings have been modified as indicated in the annex of this CBROP.

5. The updated National economic outlook will be firmed up in the first CFSP to reflect any changes in economic and financial conditions. Due to the need to finalise the CFSP after the release of the National Budget policy Statementin February of 2014, the first CFSP will be submitted to County Assembly by February 2014 .This will in time for the deadline of February 2014 under the PFM law.

6. The rest of the paper is organised as follows. The next section provides areview of the fiscal performance in FY 2012/13. This is followed by brief highlights of the recent Fiscal developments and updated economic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes. County Budget Review and Outlook Paper, 2013

II. REVIEW OF FISCAL PERFORMANCE IN 2012/13

A. Overview

7. The fiscal performance in 2012/13 was twofold, covering two period before and after the March 4th general elections.The former period was undertaken in the context of the four defunct local authorities and the later within the context of the devolved units of the County government.

8. Due to the transitional challenges experienced in second half of the financial Year 2012/13 and changes in disbursement in government funding to the defunct local authorities, budget implementation fell short of the approved budget estimates on account of development expenditure.

9. On the expenditure side, the defunct local authority had to shelve implemetation and payment of capital projects due to non disbursement of the last tranche of LATF**.**The County Government also had to incur higher expenditure on salary awards as a result of Comprehensive Bargain Agreement registered in the industrial court for employees of defunct local authorities.

B. 2012/13 Fiscal Performance

10. Table 1 presents the fiscal performance for the FY 2012/13 and the deviations from the Approved budget estimates.

Expenditure	Nyahururu Municipal	Nanyuki Municipal	Rumuruti Town	Laikipia County Council	TOTAL
PERSONNEL COST	88,542,675.00	107,138,755.00	23,001,051.00	77,415,855.00	296,098,336.00
OPERATING COST	23,898,795.00	43,679,817.00	15,663,384.00	46,558,696.00	129,800,692.00
REPAIRS AND MAINTENANCE	5,377,024.00	23,799,785.00	5,210,000.00	20,103,255.00	54,490,064.00
					-
LASDAP PROJECTS	1,532,485.00	33,758,974.00	8,374,000.00	15,306,490.00	58,971,949.00
DEBT RESOLUTION				-	
		-	-	-	-
(A) TOTAL EXPENDITURE	119,350,979.00	208,377,331.00	52,248,435.00	159,384,296.00	539,361,041.00

SOURCE OF FUNDING					
GOVERNMENT TRASFERS/LATF	**19,157,736.00**	**79,630,576.00**	**21,438,384.00**	**88,241,185.00**	**208,467,881.00**
CILOR	**15,697,797.00**	**12,457,388.00**		**3,992,910.00**	**32,148,095.00**
DONORS		**-**	**-**	**-**	**-**
LOCAL REVENUE	**67,632,972.00**	**103,337,944.00**	**3,320,000.00**	**50,186,255.00**	**224,477,171.00**
(B) TOTAL INCOME	**102,488,505.00**	**195,425,908.00**	**24,758,384.00**	**142,420,350.00**	**465,093,147.00**
(A-B)SUPLUS D/DEFICIT	**- 16,862,474.00**	**12,951,423.00**	**27,490,051.00**	**16,963,946.00**	**74,267,894.00**

Source;laikipia County Treasury Financial statements 2012/2013

Revenue

11. Total cumulative revenue collection from the four defunct local authorities including LATF was Ksh 465,093,147 compared to the target in the Approved budget of Ksh 585,258,858. This represents a revenue defecit of Ksh 120 million (or 20 % deviation from the approved target). The local revenue received for the period July 2012 to June 2013 amounted to Kshs. 235,956,965 against a target of Kshs 247,827,760 reflecting an under collection of Ksh11,870,795 a performance of 5.03 per cent. Revenue generated locally for former Nanyuki Municipal Council recorded the highest amount of Ksh 103,337,944 million and former Rumuruti Town Council contributed the lowest amount of Ksh 3.32 million.The highest actual to target revenue collection was attained by Defunct Rumuruti Town Council at 26.87% and the lowest being Defunct Laikipia County Council at 67.96%. LATF disbursement was kshs 899 million against a target of 1.1 billion representing a shortfall of kshs **291,485,917**. Similarly, contribution in lieu of rates amounted to Ksh **9,930,000**against a target of Ksh **19,815,983** representing apayment rate of 50 percent ofthe budgeted amount.

This is depicted in the table below

REVENUE

ENTITY	2012/13 BUDGET	ACTUAL	DEVIATION	% OF TARGET
Nyahururu Municipal Council	158,062,865.00	72,559,574.00	85,503,291.00	**54.09**
Laikipia County Council	156,627,815.00	50,189,250.00	106,438,565.00	**67.96**
Nanyuki Municipal Council	218,319,743.00	115,795,332.00	102,524,411.00	**46.96**
Rumuruti Town Council	52,248,435.00	38,208,019.00	14,040,416.00	**26.87**
TOTAL	**585,258,858.00**	**276,752,175.00**	**308,506,683.00**	**52.71**

Table 2. ***Defunct local authority Budgeted vs Actual local revenue FY 2012/13*** **in Ksh millions**

LOCAL REVENUE	Nyahururu Municipal	Laikipia county	Rumuruti town	Nanyuki Municipal	TOTAL
Property Rates	14,620,000.00	12,508,395.00		31,686,622.00	
Cess and other levies	15,584,000.00	5,835,443.00	12,766,299.00	18,876,295.00	
Single Business Permits	12,510,000.00	14,291,928.00		11,107,100.00	
CILOR		3,992,910.00		12,457,388.00	
Market & Slaughter house Fees	3,115,079.00	1,349,045.00		2,187,505.00	
House & stall Rent	5,500,000.00	491,920.00		8,270,276.00	
Other fees and Charges		7,774,640.00	1,030,000.00	266,640.00	
Lease Income			50,000.00		
Miscellaneous Revenue	4,800,000.00	3,941,974.00		30,943,506.00	
Total Own Source Revenues	**56,129,079.00**	**50,186,255.00**	**13,846,299.00**	**115,795,332.00**	**235,956,965.00**

Source;Laikipia County Treasury Financial statements 2012/2013

Table 3. Local sources of Revenue

LOCAL REVENUE	Nyahururu Municipal	Laikipia county	Rumuruti town	Nanyuki Municipal	TOTAL
Property Rates	14,620,000.00	12,508,395.00		31,686,622.00	**58,815,017.00**
Cess and other levies	15,584,000.00	5,835,443.00	12,766,299.00	18,876,295.00	**53,062,037.00**
Single Business Permits	12,510,000.00	14,291,928.00		11,107,100.00	**37,909,028.00**
CILOR		3,992,910.00		12,457,388.00	**16,450,298.00**
Market & Slaughter house Fees	3,115,079.00	1,349,045.00		2,187,505.00	**6,651,629.00**
House & stall Rent	5,500,000.00	491,920.00		8,270,276.00	**14,262,196.00**
Other fees and Charges		7,774,640.00	1,030,000.00	266,640.00	**9,071,280.00**
Lease Income			50,000.00		**50,000.00**
Miscellaneous Revenue	4,800,000.00	3,941,974.00		30,943,506.00	**39,685,480.00**
Total Own Source Revenues	**56,129,079.00**	**50,186,255.00**	**13,846,299.00**	**115,795,332.00**	**235,956,965.00**

Source;Laikipia County Treasury Financial statements 2012/2013

Table 4: LATF, Ksh millions

ENTITY LATF	TARGET	ACTUAL	DEVIATION	% OF TARGET
Nyahururu Municipal Council	27,863,471.00			
Laikipia County Council	105,049,030.00			
Nanyuki Municipal Council	79,630,576.00			
RumurutiTown Council	35,284,683.00			
TOTAL	**247,827,760.00**			

13. The local revenue collection targets were attained and surpassed however its impact was nuliffied by non disbursement of a simillar amount in form of LATF and CILOR. However, with concerted effort and the pending finance bill the county is in a postion to increase it current revenue by 60% - 70%. In addition the County progressed with the Mapping out of County resources to widen its tax base in addition to harmonizing its fees and charges .

Expenditure

15. Total expenditure and debt repayment amounted to Ksh 539,361,041 against a target of Ksh 477,154,624 representing an overspending of Ksh 62,206,417 (or 13 percent deviation from the approved budget). The shortfall was attributed the transitional arrangements for county governments this was largely cushioned by increased actual revenue collection from set targets. Despite the fact fact that the county spend the tageted figure it involve a major reprioritization of

item including increase in salary and debt repayemt which was not initially in the approved estimates, leaving out little fund for capital projects.

Table 6: 2012/2013 Expenditure

Expenditure	Nyahururu Municipal	laikipia county council	Nanyuki municipal	Rumuruti town	County government	(A)TOTAL TARGET	(B) ACTUAL TOTAL
PERSONNEL COST	89,232,606.00	30,698,461.00	107,138,755.00	23,001,051.00		**250,070,873.00**	**296,098,336.00**
OPERATING COST	53,052,392.00	17,042,299.00	43,679,817.00	15,663.00		**113,790,171.00**	**129,800,692.00**
REPAIRS AND MAINTENANCE	19,807,921.00	3,370,000.00	23,799,785.00	5,210,000.00		**52,187,706.00**	**54,490,064.00**
TOTAL RECURRENT						-	
						-	
LASDAP PROJECTS	23,833,418.00	4,900,000.00	33,758,974.00	8,374,000.00		**70,866,392.00**	**58,971,949.00**
						-	
DEBT RESOLUTION						-	
						-	
(A) TOTAL EXPENDITURE	**185,926,337.00**	**56,010,760.00**	**208,377,331.00**	**36,600,714.00**	-	**486,915,142.00**	**539,361,041.00**

16. Recurrent expenditure amounted to Ksh 480,389,092 against a target of Ksh416,048,750, representing an overspending of Ksh 64 million(or 15 percent deviation from the approved recurrent expenditure). The overspending was inrespect of personel costs (Ksh 46 million), for operating costs by (Ksh 16 million) and maintainance expenses by(kshs 2 million).

18. Development expenditure was Ksh 58 million compared to a target of Ksh 70 million This represented an under-spending of Ksh12 million (or 20 percent deviation from the approved development expenditure). The underperformance in development expenditure reflects low absorption by defunct local authorities , delay in procurement and uncertainity of LATF disbursements.

19. Overall, the expenditure out-turn for FY 2012/13 is preliminary. Firm data willbe available on availabilty of audited accounts later in the year when external auditors opinion are firmed up. Thus, it should be noted that external auditors opinions on financial statemena plays a significant role on the final status.

Overall balance and financing

20. Reflecting the above performance in revenue and expenditure, overall fiscal balance on a accrual basis (including debts) was ksh 539 FY 2012/13 against the approved budget targeted of Ksh 486 Overall fiscal deficit (ksh 53 million) .

C. Implication of 2012/13 fiscal performance on financial objectives containedin the 2013/14 approved budget

22. The performance in the FY 2012/13 has affected the financial objectives set out in the revised Budget for FY 2013/14 in the following ways:

I. The economic assumptions underpinning the 2013/14 budget and medium termwill need to be modified in light of the lower-than-envisaged local revenue potential as realistic projections may fall betweem 40%- 70% increase

II. The base for revenue (CRA allocations) and expenditure (on devolved functions) projections has changed implying the need for adjustment in the fiscal aggregates forthe current budget and the medium-term;

III. Arising from (i) and (ii), as well as taking into account future increase in devolved functions by the National government , the baseline ceilings for spending departments and agencies will be adjusted and then firmed up in the firstCounty fiscal strategy paper in January 2014.

23. While our county remain peaceful after the general elections and with resilient economic activities the depressed local revenue outcome of the first quarter of 2013 and the inflational trend arising from the national government policies calls for caution in the growth forecast. According to latest quarterly GDP data released by KNBS in September 2013, the inflation rose by compared to a growth .This is expected to erode the tax base upon which revenue projections for FY 2013/2014 were made . The elasticity of revenue with respect to output fluctuation is equal to or greater than one. A decline in GDPgrowth leads to a proportionate decrease in revenue. This means that out revenue projections needs to be cautious and in line with the revised macroeconomic assumptions.

25. Actual performance in 2012/13 has implications in the base used to project the revenue for these tax items in the FY 2013/14 and the medium term. Therefore, in updating the fiscal outlook

the new base has been taken into account. In addition, the proposed Finance bill is expected toaddress the challenges relating toloss of revenue through corruption and evasion and make the revenue collection more efficient and easy to comply with by tax payers. This is expected toenhance revenue yield from various sources.

26. The under-spending in both recurrent and development budget by the defunct local authorities for the FY2012/13 has no implication on the base used to project expenditures in the FY 2013/14 and the medium term due to increase in devolved functions

27. Measures to revamp agriculture through extension servives and provision of supplies are expected to support our favourable growth prospects. In addition, we also expect our County to benefit from favourable economic activities in the sub counties including tourism, hospitality industry, and extraction activities, which is projected to be a major source of County economy. Meanwhile, peace and stability in the County is expected to boost ivestments in the private sector and boost consumption tostimulate growth.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

29. The economic environment has continued to improve, after the uncertainity in the first quarter of 2013. Going forward, the economic outlook remains favourable although risks remain.

A. Recent Economic Developments

30. Growth remained resilient, Laikipia county has seen increased economic activities including a robust construction industry, increased hospitality services supported by opening of more hotels, expansion in the horticultural sector, increase in sports tourism covering rugby,golf and football .

31Foreign investors indicators

Against the backdrop of finite funding from the national treasury and the County local sources the implementation of the 2013/2014 County infrastructural programme recently received a boost from foreign donors. In this respect the County will benefit from improvement in infrastructure in various sectors including education, roads and the health sectors.

Implementation of 2013/14 budget is progressing well after a slow start

32. Challenges in the movement to new IFMIS platform coupled will drawn out disbursement of C.R.A delayed implementation of the FY 2013/14 budget by almost ten weeks. This has now been addressed and Countygovernment operations are continuing in earnest. However, expenditure pressures have emerged with salary and operational demands from the health and Agricultural sectors which were further devolved on 9th of August vide legal notice 157 of 2013.These poses risk to the stability of the budget for 2013/14 in the face of reduced revenue collection in the 1st quarter.

33. Revenue collection was was Kshs 51 Million in the first three month of the fiscal year 2013/2014 year against a target of 185million a shortfall of kshs 134 million. Enhanced administrative measures to address local revenue shortfall will therefore be required.

B. Economic outlook and policies

34. The updated Economic framework is cautious given the weaker-than-expectedrevenue performance in the first quarter of 2013/2014. Against this backdrop the County Government will continue with its policy of expenditure rationalization with a view to funding only core services and reducing costs through the elimination of duplication and inefficiencies.

Improvement in investment climate, coupled with administrative and legal reform is expected to improve the competiveness of the county as leading business hub and adestination of choice for both domestic and foreign tourist.

35 Growth prospects

There is much economic activity in other sectors than agriculture. One of the fastest growing activities is horticulture, especially flower farming. Kenya has proven to be a very competitive exporter of cut-flowers. New farms continue to be established, each one of them easily providing direct employment to 250 to 1,000 people. The county government on assuming office embarked on strategizing on how to revive the cooperative sector which will see farmer embarks on growing of the crops and keeping of livestock which were the main stay of the county economy in the past. There is much economic activity in other sectors than agriculture. The County boasts 20 industrial plants and over 6,000informal sector enterprises. A number of Banks and financial institution and institution of higher learning are increasingly setting base within the county a pointer to an accumulation of financial and human capital.

C. Medium Term Fiscal Framework

36. We will continue to pursue prudent fiscal policy to assure economic stability. In addition, our fiscal policy objective will provide an avenue to support economic activity while allowing for implementation of the programmes within sustainable public finances.

37. With respect to revenue, the County Government hope to maintain a strong revenue effortat 60 and 70 percent of estimated revenue of 360 million in the first and second half of fiscal year 2013/2014. Measures to achieve this effort include automation of tax collection points in line with modern technology and improved tax compliance with enhanced administrative measures. The County Government will harmonize existing tax regimes offer tax reliefs incentives, widen the tax base In addition to the proposed 2013 finance bill that is under the consideration by County Assembly, the county Government is reviewing all other tax legislations in order to simplify and modernize them as indicated in the FY 2013/14 Budget Speech.

37. Following the devolution of the tourism sector,the Government is engaging with stakeholders to develop a comprehensive policy and legislative framework covering licensing, revenue sharing, taxation and sustainable use of the resources. This will ensure that we derived maximum benefit from county parks and its heritage sites including conserverncies, Thomson falls among

others. In addition the county is counting on a draft bill to be introduced in the senate which will stipulate royalties to be paid to counties from natural resources found within its locality with high prospects expected in the power generation sector in form of solar power.

38. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with adoption of the Integrated Financial Management Information System (IFMIS) across the county level. Above all, the new PFM Act, 2012 is expected to accelerate reforms in expenditure management system.

39. The fiscal stance envisages borrowing from Domestic Sources. Borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy Paper.

D. Risks to the outlook

40. The risk to the outlook for 2013 and medium-term include further weakening in National economic growth from 4.4 to 4.3 percent in the second quarter of 2013,as a result of slowdown in tourism sector. Tourism being one of the major main stay in the County economy, and with the proposal of the bed ocupancy charges as a source of revenue in the proposed 2013 finance bill the inherent risk is bound to impact adversely on County revenue propspects. Also, reversal in the current easing of flower import tarriff by the european union will impact on county revenue as it is a major component. Finally, the frequent sine die adjournment of sitting of members of county assembly to advocate for improved remuneration caused delays in implementation of budget as important legislations including finance bill and supporting laws are shelved curtailing the legality of County governments in revenue collection . Should these risks materialize the county government will face bottlenecks in service delivery.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2013/14 Budget

41. Given the performance in 2012/13 and the updated economic outlook,the risks to the FY 2013/14 budget including a weaker revenue performance in 2012/13and the medium term. Expenditure pressures with respect to salary demand of devolved functions including health agriculture,trade and water sectors which continue to persist, and so are operational demands for thse sectors. In addition, implementation pace in the spending unitscontinues to be a source of concern especially with regard to the delayed disbursement of funds and the implentation of Intergrated Financial management system from the national treasury.These risks will be monitored closely and the County Government would take appropriate measures in the context of the nextSupplementary Budget.

42. Adjustments to the 2012/13 budget will take into account actual performanceof expenditure so far and absorption capacity in the remainder of the financial year Because of the resource constrains, the County Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or reprioritizing development and operational expenditures in order for the Government to live within its means. Utilization of emergency funds will be within the criteria specified inthe new PFM Act 2012.

43. Any review of salaries and benefits for the public sector workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations on Pay Review and Determination, In addition to the County public service board harmonizing the salaries of employees of former defunct local authorities and central government for the devolved government.

44. In addition, the County Government will consider making decision to put on hold approval of any policy and proposed legislation, which establishes a new County sector agency with personnel and wage implications. All such establishments should await comprehensive restructuring of the county Government in accordance with the Constitution.

45. On the Revenue side, the County Treasury is expected to institute corrective measures to reverse the revenue lose local sources. Options could include enhanced compliance audit of large Outstanding Property tax payers, targeted automation of highly potential but leaking revenue sources, and speedy implementation of collection of other sources of taxes such as liquor licenses,park fees ,flower cess, royalties, advertisement and rental chrages.

46. Devolved ministries collecting revenue will be expected to surrender them to the County revenue fund account as soon as possible.

B. Medium-Term Expenditure Framework

47. Going forward, and in view of the recent devolved functionsand limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County intergrated development plan (2014-2017) is currently under preparation and will guide resource allocation, going forward. In the Meantime, the resource allocation will be based on the updated First County government budget approved in june 2013

48. The priority social sectors, including roads education and health, will continue to receive adequate resources. Both sectors (Roads and health) 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. The economic sectors including agriculture and livestock will receive increasing share of resources to boost agricultural productivity with a view to deal with value addition and threats in food security in the country.

49.With the County Government's commitment in improving infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, streetlighing and waterwill continue to rise over the medium term. This will help the sector provide reliable

security and boost the 24 hour economy and as well as increased access to water and development of

irrigation projects countrywide.Other priority sectors including health, internal security,education and youth which will continue to receive adequate resources.

50. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2013 MTEF, classified by sector. The sector ceilings include sub county funds

ANNEX TABLE 4 TOTAL EXPENDITURE CEILINGS FOR mtef Period 2014/2015-2016/17

Sector	2013/14	2014/15	2015/16	2016/17
County Assembly Services	505,811,280	400,000,000	493,500,000	518,175,000
Office of the governor	1,344,286,976	1,834,163,310	1,890,000,000	1,984,500,000
Finance Management Services	254,800,400	100,000,000	147,000,000	154,350,000
County Public Service Board	20,500,000	15,500,450	17,500,000	17,500,000
Agriculture and Livestock Fisheries, Environment	113,100,000	154,499,650	142,506,000	149,631,300
Education and ICT	199,000,000	80,261,900	126,000,000	165,375,000
Gender Youth and Sports	23,000,000	150,350,000	26,565,000	27,893,250
Industrialization and Enterprise Development	48,500,000	150,642,000	56,017,500	58,818,375
Water	392,300,000	200,000,000	157,500,000	165,500,000
Finance and Economic Planning	390,000,000	352,344,680	210,000,000	220,500,000
Health and Sanitation	379,700,000	359,636,310	367,500,000	385,875,000
Infrastructure	392,700,000	402,601,700	630,000,000	661,500,000
	4,063,698,656	**4,298,764,211**	**4,264,088,500**	**4,509,917,925**

C. County Budgets and the Transfer of Functions

51. A key challenge in developing the 2013/14 MTEF budget is the allocation of funds for transfered functions to the County. The County Governments come into operation after elections in March 4th 2013 and there wasnot enough information for Counties to develop their plans and budgets for 2013/14.the confusion was further compound by lack of clear information on C.R.A Allocation to counties. The release of two legal notices on devolved governments legal notice 16 and 157 of february and august 2013 forced the revision of the budget

52. As such, it will be critical to have the amount allocated by CRA non to counties early enough. The national government through the Transition Authority should ensure service delivery to the County Governments is not disrupted in line with provisions in the Constitution.. County Government on the other hand should ensure that institutions are constituted and their capacities strengthened in order to enable them perform their assigned functions effectively and efficiently.

53. Although asymmetric transfer of functions is provided for in the Constitution,the national government shouldtrasfer equivalent funding. This will avoid a situation wherebycounties have more functions transferred to them without consumurate funding.

D. 2014/15 Budget framework

54. The 2014/15 budget framework is set against the background County intergrated development plan and themedium-term fiscal framework set out above.

Revenue projections

55. The 2014/15 budget will target revenue collection including Facility improvement funds (F.I.F) of Kshs 700 million which translates to 15 percent of total expenditure. As noted above, this performance will beunderpinned by on-going reforms in tax policy and revenue

administration. As such, total revenues including Local revenue, CRA allocations and FIFs are expected to be Ksh 4.4 billion.

Expenditure Forecasts

56. In 2014/15, overall expenditures are projected to increase by 20 percent (or kshs 700 million) up from the estimated Ksh4 billion inthe FY 2012/13 budget owing to more functions being devolved.

*Recurrent expenditures*are expected to decrease slightly from 70 percent of total expenditure in the FY 2014/15 to 65 percent of total expenditure in the FY 2014/15, on account of growth in nominal total expenditure.

- Debt repayments is expected to increase relative to total expenditure to 5 percent in 2014/15 from .5 percent in 2013/14,
- The wage bill is expected to stabilize at 35 percent of total expenditure in the FY2014/15.
- Transfers to County assembly and level four hopitals will remain at the 2012/13 nominal value.
- Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2013/14 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

The ceiling for ***development expenditures*** excluding donor funded projects will increase in nominal terms to Ksh 1.350billion (30 percent of total expenditure). Most of the outlays are expected to support critical infrastructures that will crowd in private sector investment.

56. A emegency provision of Ksh 70 million and Ksh 30million for renewal of assets will be provided in the budget for 2014/15.

V. CONCLUSION AND NEXT STEPS

57. The set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the County intergrated development planand the fiscal responsibility principles

outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the County Government as a basis of allocation of public resources. Details of the strategic objectives are provided in the first County intergrated development plan. . The policies and sector ceilings annexed herewith will guide the County sector working groups and line ministries in preparation of the 2014/15 budget.

58. As budgetary resources are finite,it is critical that CSWGs and Ministries prioritize their programmes within the available ceilings to ensure that use of public funds are in line with county government priorities. There is also need to ensure that currents resources are being utilised efficiently and effectively before funding is considered for programmes. CSWGs needs to carefully consider detailed costing of projects, strategic significance, deliverables(output and outcomes), alternative interventions, and administration and implementation plans in allocation resorces.

59. The First County fiscal strategy paper(CFSP)will be finalised by December 2013, well ahead of the February 2014 deadline as per the 2012 PFM law. Finalization by this date will allow County Assembly to consider the CFSP .

ANNEX TABLE 2: TOTAL EXPENDITURE CEILINGS FOR mtef Period 2014/2015-2016/17

Sector	2013/14	2014/15	2015/16	2016/17
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