

**REPUBLIC OF KENYA**



# **COUNTY GOVERNMENT OF NYERI**

**DEPARTMENT OF FINANCE AND ECONOMIC PLANNING**

## **COUNTY BUDGET REVIEW AND OUTLOOK PAPER 2015**

**SEPTEMBER, 2015**

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

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

- 1) A County Treasury shall;
  - a) prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
  - b) submit the paper to the County Executive Committee by 30<sup>th</sup> September of that year.
- 2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify-
  - a) the details of actual fiscal performance in the previous financial 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 (CFSP);
  - c) information on-
    - i) any changes in the forecasts compared with the CFSP 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 CFSP for that year; and
  - d) reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
- 3) The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the CBROP is approved by County Executive Committee, the County Treasury shall:
  - (a) arrange for the CBROP 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 Financial Management Law**

Section 107(2) of the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

- (a) the county government's recurrent expenditure shall not exceed the county government's total revenue;
- (b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) the county government's expenditures on wages and benefits shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly
- (d) over the medium term, the county government's borrowings shall be used only for the purpose for financing development expenditure and not for recurrent expenditure;
- (e) the county debt shall be maintained at a sustainable level as approved by the County Assembly.
- (f) the fiscal risks shall be managed prudently; and
- (g) 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.

# INTRODUCTION

## Background

1. This County Budget Review and Outlook Paper (CBROP) is prepared in line with the provisions of the Public Financial Management Act, 2012. It contains a review of the fiscal performance of the financial year 2014/15, updated macroeconomic forecast and information on the changes in the forecasts compared with the financial year 2015/16 county budget.

## Objectives of CBROP

2. To provide a review of the previous fiscal performance and how it impacts the financial objectives and fiscal responsibility principles as set out in PFM Act, 2012. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy paper, 2016.

3. The CBROP will be a key document in linking up of policy, planning and budgeting. It will be embedded on the Kenya's Vision 2030, Second Medium Term Plan (MTP) priorities and the Nyeri County Integrated Development Plan (CIDP). Sector Working Groups will be formed to undertake performance reviews of programs currently being undertaken and also develop and prioritize programs for the Medium Term period of FY 2015/16 – FY 2017/18.

4. The updated outlook will thereafter be firmed up in the County Fiscal Strategy Paper (CFSP), 2016 to reflect any changes in economic and financial conditions. In accordance with Section 117 of the Public Finance Management Act, 2012, the CFSP will be submitted to the County Assembly not later than 28<sup>th</sup> February 2016.

5. The rest of the paper is organized as follows: the next section provides review of the fiscal performance in the FY 2014/2015 and its implications on the financial objectives set out in the last CFSP submitted to the county assembly in February, 2015. This is followed by brief highlights on recent economic developments and outlook, resources allocation framework while section V concludes.

## II REVIEW OF FISCAL PERFORMANCE IN 2014/15

### A. Overview

6. The fiscal performance in 2014/15 was generally satisfactory despite the mounting expenditure pressures. The pressure was a result of the huge wage bill and the introduction of the E-procurement system for which the county staff had limited capacity. To address this, the County Treasury has requested for continuous capacity building support from the National Treasury.

7. On the expenditure side, the County Government had to incur higher expenditure on salaries than originally budgeted. In order to finance these additional expenditures pressures in the face of financing constraints, the County Government reallocated funds from the development budget to cater for this. Adjustments of the original budget were approved by County Assembly in June, 2015 in the context of a Supplementary Estimates. However it is important to note that despite the changes in specific items, the total budgeted amount remained the same.

### B. 2014/15 Fiscal Performance

8. Table 1 below presents the fiscal performance for the FY 2014/15 and the deviation from the original and revised budget estimates.

**Table 1: Fiscal Performance**

	Approved Appropriation	Amended Appropriation	Actual Performance	Deviation
REVENUE	2014/15(Ksh)	2014/15(Ksh)	2014/15(Ksh)	2014/15(Ksh)
Balance B/F			54,209,031	54,209,031
Advance by National treasury in July, 2014			300,000,000	300,000,000
Equitable Share	3,882,059,730	3,882,059,730	3,582,449,453	(299,610,277)
Level V Hospital	197,575,455	197,575,455	197,575,455	0
Danida grant-Health Facilities	20,550,000	20,550,000	20,550,000	0
Local Revenue	1,344,316,527	1,344,316,527	680,700,067	(663,616,460)
Other refunds			162,507,905	162,507,905
KeRRA			46,439,630	46,439,630
<b>Total Revenue</b>	<b>5,444,501,712</b>	<b>5,444,501,712</b>	<b>5,044,431,541</b>	<b>(400,070,171)</b>
Salaries & Wages	2,458,165,603	2,454,675,722	2,624,124,731	169,449,009
O&M/ Others	1,350,949,450	1,412,273,114	1,316,018,264	(96,254,850)
Development	1,635,386,659	1,577,552,876	1,019,696,611	(557,856,265)
<b>Total Expenditure</b>	<b>5,444,501,712</b>	<b>5,444,501,712</b>	<b>4,959,839,606</b>	<b>(484,662,106)</b>

Source: County Treasury

In the table above, Ksh. 54,209,031 was the balance brought forward from financial year 2013-2014. The county was also advanced with Ksh. 300,000,000 by the National Treasury in the month of July 2014 resulting to a balance of Ksh. 3,582,449,453 as equitable share received later (an excess of Ksh.389, 723 against the expected amount). Nyeri Level V Hospital received Ksh.197, 575,455 as conditional grant while the Health centers and dispensaries benefited with Ksh 20,550,000 from Danida. Local revenue collection totaled Kshs 680,700,067 while direct deposits to the County Revenue Fund Account amounted to Kshs 162,507,905. The county also received Ksh. 46,439,730 from the Kenya Rural Roads Authority to support the grading and gravelling of roads in Mukurweini during the Beatification of Sister Irene Nyaatha.

**Table 2: Recurrent Budget**

<b>Head</b>	<b>Approved Appropriation</b>	<b>Amended Appropriation</b>	<b>Actual Performance</b>	<b>Deviation</b>
	<b>2014/15 (Ksh)</b>	<b>2014/15(Ksh)</b>	<b>2014/15(Ksh)</b>	<b>2014/15(Ksh)</b>
County Assembly	356,182,593	356,182,593	256,611,006	(99,571,587)
Finance and Economic Planning	486,738,851	542,157,540	481,306,101	(60,851,439)
Office of the Governor	100,236,675	102,603,558	84,048,783	(18,554,775)
County Secretary	64,744,930	64,909,030	57,435,074	(7,473,956)
Public Administration, Information and Communication	157,555,978	158,555,978	135,790,660	(22,765,318)
Water, Forestry and Wildlife, Environment and Natural Resources	157,068,238	157,068,238	94,141,727	(62,926,511)
Trade, Industrialization Development and Tourism	45,335,920	46,135,920	22,142,979	(23,992,941)
Gender, Culture and Social Development	49,468,000	49,468,000	30,309,040	(19,158,960)
County Public Service Board	34,357,664	34,357,664	29,029,602	(5,328,062)
Public Works, Roads, Transport	106,360,440	106,360,440	80,944,728	(25,415,712)
Lands, Physical Planning and Development	46,498,444	47,139,045	25,248,447	(21,890,598)
Agriculture, Livestock Development, Fisheries and Co-operative Development	314,585,644	314,585,644	244,881,668	(69,703,976)
Health Services	1,771,343,076	1,766,343,076	1,660,769,002	(105,574,074)
Education, Youth Affairs, ICT and Sports	78,788,600	81,232,110	57,383,848	(23,848,262)
Energy	39,850,000	39,850,000	28,374,076	(11,475,924)
Unjournalised salaries			451,726,254	451,726,254
Repayment to National Treasury			200,000,000	200,000,000
<b>TOTAL</b>	<b>3,809,115,053</b>	<b>3,866,948,836</b>	<b>3,940,142,995</b>	<b>73,194,159</b>

**Source: County Treasury**

**Table 3: Development Budget**

<b>Head</b>	<b>Approved Appropriation</b>	<b>Amended Appropriation</b>	<b>Actual Performance</b>	<b>Deviation</b>
	<b>2014/15 (Ksh)</b>	<b>2014/15(Ksh)</b>	<b>2014/15(Ksh)</b>	<b>2014/15(Ksh)</b>
County Assembly	30,000,000	30,000,000	24,891,500	(5,108,500)
Finance and Economic Planning	90,190,112	81,372,169	51,059,750	(30,312,419)
Office of the Governor	37,300,000	19,933,117	15,800,000	(4,133,117)
County Secretary	76,311,419	102,147,319	62,452,891	(39,694,428)
Public Admin. Information and Communication	34,880,600	33,880,600	12,305,886	(21,574,714)
Water, Forestry and Wildlife, Environment and Natural Resources	110,129,222	95,129,222	40,192,603	(54,936,619)
Trade, Industrialization t and Tourism Dev.	39,154,080	38,354,080	9,001,250	(29,352,830)
Gender, Culture and Social Development	26,600,000	23,972,507	3,857,244	(20,115,263)
County Public Service Board	0	0	0	0
Public Works, Roads, Transport	510,950,000	510,309,399	344,045,779	(166,263,620)
Lands, Physical Planning and Development	24,306,203	24,306,203	2,827,513	(21,478,690)
Agriculture, Livestock Development, Fisheries and Co-operative Development	109,624,000	109,624,000	55,513,465	(54,110,535)
Health Services	352,641,463	337,668,210	276,627,670	(61,040,540)
Education, Youth Affairs, ICT and Sports	67,710,000	45,266,490	11,762,114	(33,504,376)
Energy	125,589,560	125,589,560	109,358,946	(16,230,614)
<b>TOTAL</b>	<b>1,635,386,659</b>	<b>1,577,552,876</b>	<b>1,019,696,611</b>	<b>(557,856,265)</b>

**Source: County Treasury**

### **Revenue**

Total revenue received amounted to Kshs. 5,044,431,541 compared to the target in the budget of Ksh 5,444,501,712. This represent a revenue shortfall of Kshs 400,070,171.

9. Local revenue collection totaled Kshs 680,700,067 against the target of Kshs 1,344,316,527 reflecting an under collection of Kshs 663,616,460 for the period under review. This, compared to 2013/2014 performance represent a 57.5% increase from a collection of Ksh.432, 229,360.

The increase in local revenue collection can largely be attributed to enhancement of the cashless system which sealed some of the leakages and introduction of new streams through the Revenue Administration Act, 2014. The county is also in the process of identifying mechanisms to address long term fees and charges defaults mainly the land rates through cleansing of data to know who the actual rate payers are. The county is also in the process of updating the valuation roll for all ratable properties within the county. A rating bill is also in the offing for purposes of regulating and generation of revenue for ratable properties.

**Table 4: Revenue 2014/15**

ACCOUNT DESCRIPTION	BUDGET	ACTUAL	DEVIATION Kshs.
Balance B/F	-	54,209,031	54,209,031
Equitable Share	3,882,059,730	3,582,449,453	(299,610,277)
Other Transfers (Health Conditional Grants)	218,125,455	218,125,455	0
Advance by National treasury on July 2014	-	300,000,000	300,000,000
Other refunds(Direct remittance to the County Revenue Fund Account)	-	162,507,905	162,507,905
KeRRA	-	46,439,630	46,439,630
CILOR Current Year	54,754,000	0	(54,754,000)
Liquor License	75,000,000	7,721,640	(67,278,360)
Co-operative Audit	1,800,000	1,124,730	(675,270)
Agricultural Mechanization Station	8,700,000	1,377,286	(7,322,714)
Wambugu Agricultural Training Centre	11,456,000	6,310,097	(5,145,903)
Veterinary Charges	21,747,900	4,219,324	(17,528,576)
Slaughtering Fees	2,200,000	2,546,655	346,655
Slaughter House Inspection Fees	18,600,000	502,065	(18,097,935)
Coffee Cess	6,000,000	412,380	(5,587,620)
Weights and Measures	700,000	844,960	144,960
Business Permits	100,000,000	91,089,689	(8,910,311)
Market Entrance/Stalls/Shop Rents	10,000,000	37,195,141	27,195,141
Bed Occupancy	24,500,000	0	(24,500,000)
Ambulant Hawkers Licenses (Other than BSS Permits)	500,000	930,050	430,050
Hospital Services	330,600,000	208,849,349	(121,750,651)
Public Health	6,000,000	8,857,634	2,857,634
Garbage Dumping Fee/waste disposal charges	100,000	1,122,600	1,022,600
Refuse Collection Fee	30,500,000	29,924,645	(575,355)
Debts Clearance Certificate Fee	1,485,000	1,669,800	184,800
Application Fee	7,150,000	12,730,279	5,580,279
Business Subletting / Transfer Fee	500,000	445,900	(54,100)
Impounding Charges/Court Fines, penalties, and forfeitures	4,000,000	4,644,221	644,221
Sales of Council's Minutes / Bylaws	250,000	275,900	25,900
Tender Documents Sale	2,000,000	2,079,300	79,300
Customers Deposits (Other than Water & Sewerage)	500,000	733,596	233,596
Benevolent Fund	1,000,000	1,384,000	384,000
Parking Fees	150,000,000	101,689,700	(48,310,300)
Parking Clamping/Penalties/Offences fees	3,000,000	2,878,970	(121,030)
Land Rates	173,471,049	55,915,332	(117,555,717)
Other Property Charges	3,000,000	828,360	(2,171,640)
Ground Rent - Current Year	10,000,000	2,951,344	(7,048,656)
Ground Rent - Other Years	2,000,000	2,515,800	515,800
Temporary Occupation License (TOL),New occupation, Space Rent, Retainers fees	2,000,000	1,800,600	(199,400)
Plot Transfer Fee	1,000,000	784,900	(215,100)
Cess(Quarry, produce, Kaolin, etc)	30,000,000	26,871,880	(3,128,120)
Housing Estates Monthly Rent	12,385,000	12,627,716	242,716
Housing Estates Monthly Rent (Kiawara, Majengo &	800,000	1,246,844	446,844

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Approvals(extension of users, pegging for kiosk, subdivision, transfer, amalgamation, survey, Occupation cert, boundary dispute etc)	70,000,000	2,387,500	(67,612,500)
Sign Boards & Advertisement Fee	30,000,000	18,161,780	(11,838,220)
Buildings Plan Approval Fee	50,000,000	9,278,560	(40,721,440)
Buildings Inspection Fee	50,000,000	2,594,920	(47,405,080)
Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	5,000,000	1,200,000	(3,800,000)
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,800,000	1,216,300	(583,700)
Fire-Fighting Services	2,000,000	1,276,000	(724,000)
Stadium Hire	1,290,000	1,116,000	(174,000)
Other incomes	26,527,578	6,366,320	(20,161,258)
<b>TOTAL LOCAL SOURCES</b>	<b>5,444,501,712</b>	<b>5,044,431,541</b>	<b>(400,070,171)</b>

**Source: County Treasury.**

### **Expenditure**

10. Total expenditure amounted to Ksh 4,959,839,606 against a budget of Ksh 5,444,501,712. Recurrent expenditure amounted to Kshs 3,940,142,995 against a budget of Ksh 3,866,948,836 representing an overspending of Kshs 73,194,159. The overspending was as a result of overstretched wage bill in the county. Development expenditure incurred amounted Ksh 1,019,696,611 compared to a revised estimate of Ksh 1,577,552,876. The underspending was as a result of shortfall in local revenue collection to finance the entire budget estimates.

### **C Implication of 2014/15 fiscal performance on fiscal responsibility principle and financial objectives contained in the CFSP 2014**

11. The underperformance of own county revenue in the FY 2014/15 has implications on the resource envelop and the bases used to project the revenue for the tax items in the FY 2015/16. Therefore in projecting the revenue for FY 2015/16 a new approach, based on the historical trends of revenue generation has been taken into account.

12. The approach on revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term and to take into account the slow take off in execution of the FY 2015/16 budget by County departments, the baseline estimates for spending will be adjusted, as we move along, and then firmed up in the next County Fiscal Strategy Paper, 2016.

13. Accordingly, our revenue projections will be adjusted in line with the existing macroeconomic situation while taking into account the historical trends in revenue generation and expenditure bases. Consequently, the MTEF estimates provided in the CFSP, will reflect the

prevailing macroeconomic forecast. However, taking into account that the key macro variables remain as projected in the CFSP of February 2015, there will be slight adjustments to these estimates through a supplementary budget.

14. The overspending in the recurrent expenditure and underspending in development expenditure for the FY 2014/15 has implications on the projected expenditures in the FY 2015/16 and the medium term mainly due to the pending bills amounting to over 542m. Corrective revisions will be undertaken during the preparation of the supplementary budget for 2015/16 and the projected expenditure in the last CFSP will be modified to reflect the revisions. Further, arising from the SRC circular on house allowances, additional resources amounting to Kshs. 72m will be provided under Personal Emoluments (PE) during 2015/2016 supplementary budgeting. Therefore, in updating the fiscal outlook, the new and emerging realities have been taken into account. In addition; effects, arising from the enactment of the County Revenue Administration, Act, 2014 is expected to boost revenue collection through improved efficiency as well as easing compliance by the payers. A better approach will be devised where the time wasted in queuing will be reduced by having a one shop service.

15. The County Government has prioritized infrastructure development, through gravelling of roads, and will institute appropriate approaches in implementation in this sector so as to support County growth prospects. Meanwhile, stability in interest rates and exchange rates is expected to promote access to credit for private sector and boost investments and consumption to stimulate development in the County.

### **III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

16. The performance of the county is dependent on the country's economic performance as well as formulation and implementation of prudent policies by the County Government (CG). Generally the county operated under a stable macroeconomic environment despite the volatility in the exchange rates with far reaching ramifications on the county's development.

17. Nationally, the macroeconomic environment has continued to improve. Going forward, the macroeconomic outlook remains favourable although risks remain on exchange rates and interest rates.

## **A. Recent National Economic Developments**

18. Recent developments in the key macroeconomic variables are encouraging. The country's Gross Domestic Product (GDP) is expected to grow by 6.5 percent in 2015 up from 5.3 percent in 2014 and 5.7 percent in 2013. This performance was supported by;-

- The stable macroeconomic environment for the better part of the year.
- Low and stable inflation supported by improved supply of basic foods, lower international oil prices and lower costs of electricity.
- Infrastructural development
- Construction industry development

19. The inflation rate in Kenya was recorded at 5.84 percent in August 2015, a decline from 7.3 percent in 2014. This was largely attributed to improved supply of basic foodstuffs and stable domestic prices of petroleum products as well as the Consumer Price Index (CPI) base effects. However, the shilling exchange rate has weakened against major international currencies and the official foreign exchange reserves are at uncomfortable levels.

20. Short term interest rates weakened consistently with the tightening of monetary policy stance. Central Bank Rate (CBR) increased from 8.5 per cent in 2014 to 11.50 per cent in 2015.

21. The anticipated level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial sub sector, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the ongoing initiatives to deepen regional integration.

## **B. County Recent Economic Developments**

22. The County Government is committed to sustain economic growth through improvement of its markets in towns and trading centres which act as major outlets for the agricultural produce from farmers. This will ensure that all markets/trading centres have proper sanitary facilities to prevent any possible outbreak of diseases as per the "Clean Nyeri Initiative". Nyeri County in collaboration with other counties within the region have come together to form a trading bloc

known as the Mt. Kenya and Aberdares trade bloc whose aim is to eliminate tariff barriers and carry out such other economic activities.

23. The County Government is also keen on improving the delivery of health services to reduce morbidity and increase productivity of our population. It has installed and commissioned a Renal Dialysis Unit at the County Referral Hospital which is now fully operational. The costs for these services have been reduced from Kshs. 10,000 to Kshs. 5,500. Patients who previously had to travel for treatment at the Kenyatta National Referral Hospital can now be treated at the County Referral Hospital.

24. The county government is committed to providing adequate domestic and irrigation water. In the FY 2015/2016 a total of Kshs. 136.8m has been provided for water supply systems and irrigation purposes. Provision of domestic water shall be extended to an additional 3,000 households. Under irrigation and in collaboration with National State Agencies, we intend to provide irrigation to an additional 5,000 households. This shall have the effect of increasing the incomes and ensuring food security to our people.

25. The county government has been implementing programs to cushion some special groups. The county will continue to explore ways and means, with other stakeholders, of rehabilitating homeless children and families. Further, a mentorship programme to make our secondary boys and girls becoming credible leaders and responsible citizens has been ongoing and would wish to reach as many youth as possible. Towards the support of the girl child from poor families, the County Government purchased 50,000 sanitary towels to distribute for free. This has reduced absenteeism in schools, thus, giving these girls greater self-confidence and improve their performance in schools. This initiative is expected to continue this Financial Year.

26. Entrepreneurship is key in driving our economy and creating jobs. In this regard it is the deliberate initiative of the County Government to strive to empower various groups to become independent entrepreneurs. As required by law, the County has reserved sixteen procurement categories for special groups which include youth, women and persons with disabilities.

27. As we address the infrastructural and other social needs of our people, the issue of food security is also of great concern. This year 23,480 of people received food relief. It was categorized as follows:- 1,460 50kg bags of maize issued to 7,300 people, 700, 50kg bags of

beans issued to 9,300 people, 720, 50kg bags of rice issued to 4,000 people and 1,440 litres of cooking oil issued to 2,880 people. This is a trend that must not be allowed to recur and should, therefore, be reversed.

28. To guarantee high quality and quantity of agricultural production it is essential that the quality of the seed used by the farmers is certified. To facilitate this, the county has procured certified seeds to be at the disposal of farmers.

29. In recent years fish farming (aquaculture) has emerged as a major economic activity for the ordinary farmers. Many farmers in Nyeri County have fish farms which were developed through the Economic Stimulus Programme. The County's new Fish Processing Plant, at Wamagana, Tetu, was recently handed over to the County Government. To support its operationalization, the County Government recently bought a refrigerated truck and deep freezers at a cost of Kshs. 5.4million.

30. Recently, during the "Blessed Sister Nyaatha's" ceremony, the County Government in collaboration with the National Government lit up Nyeri CBD and its environs, parts of Karatina, and parts of Mukurweini town. It is the intention of the County Government to ensure that all our towns, trading centers, streets and estates are well lit to improve on security and business environment.

31. The department of Lands and Infrastructure acquired four graders, two excavators and two rollers to be used in the improvement of feeder roads throughout the County. In addition, the department also rehabilitated one old grader which is now fully operational. A programme of grading roads has already taken off and is expected to cover all the thirty Wards.

## **C. Economic Outlook**

### **Growth prospects**

32. The National GDP rate which is at 6.5 percent is expected to rise to 6.8 percent over the medium term. The county's economy is expected to grow within the same range, as the national, over the medium term.

33. Growth will be augmented by production in agriculture sector following expansion of irrigated area, value addition, completion of key infrastructure projects (such as roads and

energy), and other initiatives geared towards trade promotion including expansion of local markets. Finally, domestic demand is expected to be robust following increased investor confidence as witnessed in the construction of shopping complexes in major towns.

### **Inflation outlook**

34. Nationally, despite the increase in inflation in the recent past, inflation has reverted back to 5.84 percent currently. The county is assumed to be affected by the same rate since it is a major exporter of coffee and tea and also a major tourist hub which are normally affected by price instabilities in the global markets.

35. The County Government is pursuing various methods to intervene in issues of price fluctuations through pooled marketing of tea and coffee. Further, through the support of the existing marketing channels, the county government has continued to support milk value addition.

### **D. Medium Term Fiscal Framework**

36. Prudent fiscal policy is key to maintaining economic stability in our county. The County Government of Nyeri is committed to operating within the approved fiscal framework. The government will also put more emphasis on efficiency and effectiveness in public spending while improving revenue performance so as to promote strong, sustainable and inclusive growth. The economic agenda will continue being premised on inclusive and sustainable growth that opens economic opportunities and provide a better future for all residents of Nyeri County.

37. The E-procurement will ensure prudence in spending as it will automatically control the commitments based on available resources. Further, through the E-procurement, competition among the suppliers will ensure the government gets value-for-money.

38. On the Revenue front, the County Government will expand the revenue base through increased efficiency in collection of the fees and charges and the sealing of possible leakages in our system. Simplification and modernization as well as enhancement of the cashless revenue collection measures, in line with international best practices and improving on enforcement and compliance, will be emphasized. The departments will be called upon to take responsibility of the revenue streams domiciled in them and stem any possible corruption that might be affecting

revenue generation. In the long term, department's budget will be linked to revenue generated as a way of providing some incentives. The possibility of privatization of the enforcement, through setting of specific targets will be explored.

39. In the medium term a revenue collection and credit management policy will be developed and enacted. The enforcement team will also be restructured while all the petitioners will be approached to settle issues of misunderstanding out of court for mutual benefit.

40. To order to improve efficiency in revenue mobilization the following measures will be undertaken. The department of Lands and Infrastructure will continue cleansing the land ownership data so that we can know the actual rate payers and also request the property owners to regularize their property including TOL. Further, capacity building will be enhanced for the staff in revenue collection department and provide them with reliable transport covering all the sub counties besides setting targets. A revenue collection incentives programme will be explored in the long run.

41. The departments will also ensure the identified revenue streams are not in conflict with any other existing law or the legal framework is in place to facilitate demanding the payment.

42. On expenditure, the county shall adopt prudent rationalization to improve efficiency and reduce wastage. Expenditure management will be strengthened with full implementation of the Integrated Financial Management Information System (IFMIS) and e-procurement. The county will continue building capacity of its personnel to enable the staff to adapt to the new systems.

43. In order to reduce the costs and lengthy procurement processes, shared services will be sourced jointly while in the long run the government will consider the possibility of operationalization of the abandoned fuel pump station at the public works yard so that purchases can be done in bulk and at the depot rates and supply to all departments.

44. Other cost reduction strategies will include performance contracting with clear strategies on areas to cut costs. Further, the government will continue to seek external funding from bilateral and multilateral donors such as UNDP, USAID among others, either individually or through the Council of Governors to reduce the pressures on the budget.

45. In future budgeting process, a provision to pay pending debts will be provided to avoid disorganizing the department's budget implementation plans

#### **E. Risks to the Fiscal Framework**

46. The risks to the outlook for FY 2015/16 and medium-term include further weakening in global economic environment and specifically the Kenya shilling against major currencies. These developments affect the national economy whose effects trickles down to the county.

47. Unfavorable weather conditions including erratic rainfall pattern and the expected El nino phenomenal will have an adverse effects on agricultural production and the infrastructure thus a major risk.

48. Weak revenue base thereby leading to over-reliance on the equitable share from national resources coupled with the uncertainty in the proportion of the county allocation is a major risk to this framework.

49. There is also the risk of low resource absorption mainly caused by delays in releasing of funds from the National Treasury.

50. The capacity of the staff in resources management and mobilization, monitoring and evaluation and reporting is a risk to the framework. The government will continue building the capacity of the staff while enlisting the support of the Ethics and Anti-Corruption Commission (EACC) in assessing the risk areas in budget implementation.

## **IV. RESOURCE ALLOCATION FRAMEWORK**

### **A. Adjustment to 2014/15 Budget**

51. With reference to the performance of county budget in 2014/15 and the national macroeconomic outlook, the risks to the FY 2015/16 budget include limited development expenditure that will impact negatively on the county's economic growth. Expenditure pressures, especially recurrent, pose a fiscal risk. Wage pressure from the devolved national government units is the main reason for inadequate allocations to development expenditure. Further, the national resources equitable share does not take into account the peculiarities' of the counties and continue using unfavorable parameters.

52. Adjustments to the 2015/16 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 expenditure pressures, the county government will rationalize expenditures by cutting those that are non-priority. However, the resources earmarked for development purposes will be utilized in the said projects and will not be expended as recurrent.

53. The County Public Service Board (CPSB) will continue working in line with Salary and Remuneration Commission (SRC) recommendations on remuneration structure of county personnel and job evaluation. The two bodies will work towards adopting a new wage policy aimed at limiting the public wage bill as well as job evaluation and harmonization of wage structure for public servants. This will improve on planning of salaries and wages reviews because it will be predictable and based on some policy measures unlike the current practice.

54. Through CARPS resources will be provided to implement voluntary retirement programme. Further, some unnecessary offices will be abolished to release for development activities though the higher house allowances introduced through an SRC circular will negate the gains as more resources will be provided under the Personal Emoluments thus exacerbating the wage bill.

55. On revenue, the county has enacted a revenue administration act and the finance bill, 2015 has been forwarded to the County Assembly for enactment. Both the act and the bill will need careful interpretation to the players to avoid eroding the expected gains through a few informed

business persons and individuals who would want to take advantage of the new laws for their own benefit at the expense of the general citizenry. Enhanced compliance, expansion of revenue base, rationalization of existing incentives and identification of new revenue sources are some of the measures required to boost revenue collection.

56. Additionally, in the financial year 2014/2015, the revenue target for the county was not met because of legal hurdles relating to legislation as well as overestimation of the projected revenue amount. This would be avoided in the current financial year (2015/2016) so as to ensure optimal revenue collection in line with the county capacity. Similarly, full automation of revenue collection system and processes will be enhanced to fully eliminate existing leakages.

57. In adjusting the 2015/2016 budget, comparison between the targeted and actual expenditure performance in 2014/2015 financial year per sector will be taken into consideration, as it will establish the real funds absorption capacity of the various departments and other units. In adjudicating this process, budgetary allocations will be based on the departmental capacity on utilization and the county development agenda.

58. Further, adjustment to the budget will be guided by the County Integrated Development Plan (CIDP) 2013-2017, annual development plan 2015/2016 and departmental strategic plans, as this will ensure that the expenditure rationalization process (prioritization and reprioritization) is aligned to the development agenda of the county. Rationalization of expenditure will be guided by the actual/availed exchequer disbursements, local revenue collection, revised timeframes for implementation of programmes and emerging issues/concerns. However, county strategic priority areas such as flagship programmes and projects would always have higher allocation of resources.

59. During adjustments, legal apportionment between the recurrent and development expenditures will always be taken into consideration as spelt out in the PFM Act 2012. According to the provisions of the PFM Act Section 107(2) (a), it is stated that, —*the county government's recurrent expenditure shall not exceed the county government's total revenue*¶. In section 107(2) (b), it is added that, —*over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*¶. Reference to the legal framework will ensure compliance to all statutory requirements in handling of public funds.

## **B. Medium-Term Expenditure Framework (MTEF)**

60. Going forward, and in view of the county's economic outlook, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County Integrated Development Plan (CIDP) 2013-2017, together with the county department's sectoral plans priorities will guide resource allocation. Enhancement of public participation in setting of priorities will ensure increased ownership of development by the public.

61. The priority county sectors of health, agriculture and infrastructure will continue to receive adequate resources. These sectors are already receiving a significant share of county resources and are required to utilize them more efficiently to generate fiscal space to accommodate other strategic interventions in the county.

62. The county is also keen to increase the acreage of land under irrigation and enhance security operations through establishment of community policing units that are fully functional. Other priority areas include: Land demarcation, mapping and spatial planning of urban and market centres and establishment of empowerment centres for the youth and women.

63. Specifically, the county government has prioritized key strategic interventions across all the sectors as a way of accelerating economic and social transformation to improve quality of life of its citizenry. The main areas of interventions cover food security, improved access to quality health care, and improved mobility by maintenance of rural access roads, empowering youth and women as well as enhancing efficiency in revenue collection and administration. Resources required for these interventions are planned for in the CIDP and ADP 2015-2016. In the FY 2015/16, Ksh billion 6.2 has been projected as the county budget up from Ksh 5.44 billion in FY 2014/15, which reflects a 12 percent increase.

64. Reflecting the above medium-term expenditure framework, the table 5 below provides the tentative projected baseline ceilings for the 2014/15-2017/18 MTEF budget, classified by departments including ceilings as per the County Fiscal Strategy Paper (CFSP) 2014.

**Table 5: MTEF Ceilings**

Department/ Unit	2014/2015 budget estimates (Kshs)	2015/2016 budget ceilings (Kshs)			Projections 2016/2017	Projections 2017/2018
		Recurrent	Development	Total Budget	Total Budget	Total Budget
County Assembly	386,182,593	506,000,000	150,000,000	656,000,000	583,800,000	612,990,000
Office of the Governor	137,536,675	100,236,675	-	100,236,675	108,779,827	114,218,818
County Secretary	141,056,349	97,811,352	8,000,000	105,811,352	111,101,920	116,657,016
Public Administration, Information and Communication	192,436,578	157,555,978	43,900,000	201,455,978	268,057,029	281,459,881
Finance and Economic Planning	576,928,963	486,738,851	210,877,245	697,616,096	739,021,103	775,972,158
Agriculture, Livestock Development, Fisheries and Co- operative Development	424,209,644	314,585,644	155,668,532	470,254,176	526,579,300	552,908,265
Water, Forestry and Wildlife, Environment and Natural Resources	267,197,460	137,804,000	146,662,780	284,466,780	271,980,088	285,579,092
Education, Youth Affairs, ICT and Sports	146,498,600	64,396,430	116,931,730	181,328,160	190,394,568	199,914,296
Health Services	2,123,984,539	2,014,297,388	271,492,571	2,285,789,959	2,400,079,457	2,520,083,430
Lands, Physical Planning and Development	688,115,087	107,554,835	581,182,847	688,737,682	723,174,566	759,333,294
Trade, Industrialization Development and Tourism	84,490,000	45,335,920	133,098,823	178,434,743	194,442,789	204,164,929
Gender, Culture and Social Development	76,068,000	49,468,000	29,279,929	78,747,929	86,580,074	90,909,077
Energy	165,439,560	39,850,000	138,242,610	178,092,610	202,093,286	212,197,950
County Public Service Board	34,357,664	34,357,664	5,000,000	39,357,664	47,562,288	49,940,402
<b>Total</b>	<b>5,444,501,712</b>	<b>4,155,992,737</b>	<b>1,990,337,067</b>	<b>6,146,329,804</b>	<b>6,453,646,294</b>	<b>6,776,328,609</b>

65. The County budget for Financial Year 2015/16 was prepared by the County Department of Finance and Economic Planning before being submitted to the County Assembly for approval.

### C. 2015/16 Budget framework

66. The 2015/16 budget framework is set against a background of the updated medium-term county fiscal framework. Real national GDP is expected to increase to 6.8 percent in FY 2015/16 underpinned by continued good performance across all sectors of the economy. This is expected to bear a direct effect on the county's performance. The projected growth assumes no major

damages on infrastructure and crops from the El nino induced rains normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food prices at both the county and national levels, as well as stable interest rates.

### ***Revenue projections***

67. The 2015/16 budget targets revenue collection of 10.4 percent increase from the FY 2014/15 target of Ksh.1.34 million. As noted above, this performance will be underpinned by improvement in revenue collection system which is automated. In partnership with Equity Bank, we have rolled out “smart cards” that are currently being used on the Point-of-Sale (PoS) machines in Nyeri town for purposes of parking. The cash payment and manual receipting in Nyeri town is now coming to an end. We are currently piloting these measures in Karatina and Othaya towns, with a view to fully rolling them out by the end of October, 2015. The non-waiver of interests and penalties is also a revenue raising strategy that the County Government has adopted to get citizens to own payment of their rents and rates. This revenue stream has been holding a huge portfolio of arrears and penalties.

### ***Expenditure Forecasts***

68. In 2015/16, recurrent expenditures are projected at 68 percent of county’s annual budget, Ksh 4.286 million, as compared to Kshs 3.866 million for the FY 2014/15 budget. Development expenditure is expected to increase from 28.9 percent of the county budget in the FY 2014/15 to 31.8 percent in the FY 2015/16, on account of devoting more resources to development as required by the PFM Act.

69. Expenditure ceilings on goods and services for departments are based on allocations in the FY 2014/15 budget as the starting point. Stringent measures need to be put in place to ensure more resources are allocated to development expenditure over the medium term for attainment of the PFM Act, 2012 minimum requirement of thirty percent. Most of the outlays are expected to support critical infrastructure.

## ANNEX REVENUE PERFORMANCE IN FY 2014/2015

ACCOUNT DESCRIPTION	PROJECTED ESTIMATE	ACTUAL PERFORMANCE
	Kshs	Kshs
CILOR Current Year	54,754,000	0
Liquor License	75,000,000	7,721,640
Co-operative Audit	1,800,000	1,124,730
Agricultural Mechanization Station	8,700,000	1,377,286
Wambugu Agricultural Training Centre	11,456,000	6,310,097
Veterinary Charges	21,747,900	4,219,324
Slaughtering Fees	2,200,000	2,546,655
Slaughter House Inspection Fees	18,600,000	502,065
Nyeri Slaughter House	480,000	341,200
Kiganjo Slaughter House	120,000	80,000
Sale of Fertilizer		3,537,000
Tea Cess	8,000,000	0
Coffee Cess	6,000,000	412,380
Revolving fund Coffee(% of gross sales)	30,000,000	0
Weights and Measures	700,000	844,960
Business Permits	100,000,000	91,089,689
Market Entrance/Stalls/Shop Rents	10,000,000	37,195,141
Bed Occupancy	24,500,000	0
Ambulant Hawkers Licenses (Other than BSS Permits)	500,000	930,050
Hospital Services	330,600,000	208,849,349
Public Health	6,000,000	8,857,634
Burial Fees	120,000	101,900
Public Toilets	500,000	393,760
Garbage Dumping Fee/waste disposal charges	100,000	1,122,600
Refuse Collection Fee	30,500,000	29,924,645
Debts Clearance Certificate Fee	1,485,000	1,669,800
Application Fee	7,150,000	12,730,279
Business Subletting / Transfer Fee	500,000	445,900
Document Search Fee	150,000	187,200
Agency Fee (Fees from KHC, Insurance Firms, etc.)	10,000	9,788
Cheque Clearance Fee	5,000	6,150
Impounding Charges/Court Fines, penalties, and forfeitures	4,000,000	4,644,221
Sales of Council's Minutes / Bylaws	250,000	275,900
Tender Documents Sale	2,000,000	2,079,300
Sale of Old Office Equipment and Furniture		0
IFAD Hall	50,000	35,000
miscellaneous Income	50,000	22,950
Interest from Investments		289,372
Customers Deposits (Other than Water & Sewerage)	500,000	733,596
Benevolent Fund	1,000,000	1,384,000
Central Kenya show annual permit	500,000	0
Grants		500,000
Parking Fees	150,000,000	101,689,700

Parking Clamping/Penalties/Offences fees	3,000,000	2,878,970
Land Rates	173,471,049	55,915,332
Other Property Charges	3,000,000	828,360
Ground Rent - Current Year	10,000,000	2,951,344
Ground Rent - Other Years	2,000,000	2,515,800
Stand Premium/Commissioner of Lands	100,000	62,000
Temporary Occupation License (TOL),New occupation, Space Rent, Retainers fees	2,000,000	1,800,600
Hire of Plant & Machinery		0
Plot Transfer Fee	1,000,000	784,900
Cess(Quarry, produce, Kaolin, etc)	30,000,000	26,871,880
Housing Estates Monthly Rent	12,385,000	12,627,716
Housing Estates Monthly Rent (Kiawara, Majengo & Kingongo ph. 3)	800,000	1,246,844
Approvals(extension of users, pegging for kiosk, subdivision, transfer, amalgamation, survey, Occupation cert, boundary dispute etc)	70,000,000	2,387,500
Sign Boards & Advertisement Fee	30,000,000	18,161,780
Buildings Plan Approval Fee	50,000,000	9,278,560
Buildings Inspection Fee	50,000,000	2,594,920
Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	5,000,000	1,200,000
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,800,000	1,216,300
Fire-Fighting Services	2,000,000	1,276,000
Social Hall Hire	100,000	125,000
Nursery Schools Fee (KRT)	150,000	214,600
Nursery Schools Fee(Kingongo)	150,000	154,400
Nursery Schools Fee (Nyakinyua)	150,000	142,000
Stadium Hire	1,290,000	1,116,000
Registration of School, Training/Learning Center Fee	730,000	40,000
Sale of flowers, plants, firewood, produce e.t.c	150,000	0
Exhauster services Charge	200,000	124,000
Lease of Water Distribution Network	20,973,951	0
Private borehole operators	1,200,000	0
Quarry /mining charges-annual license fee	1,000,000	0
Tree cutting permits	100,000	0
Water bowser/water vendor licenses	480,000	0
Tipping charges	150,000	0
Use of public toilets	1,000,000	0
Polluters of environment penalties	500,000	0
<b>TOTAL LOCAL SOURCES</b>	<b>1,384,907,900</b>	<b>680,700,067</b>