

MURANG'A COUNTY GOVERNMENT

ALL CORRESPONDENCE TO BE ADDRESSED
TO THE COUNTY SECRETARY



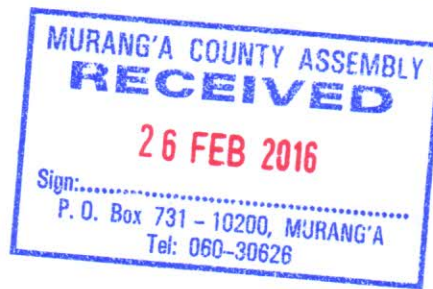
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Friday, February 26, 2016

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The Clerk
Murang'a County Assembly
P.O. Box 731 -10200
MURANG'A




Dear Sir,


RE: SUBMISSION OF FISCAL STRATEGY PAPER AND DEBT MANAGEMENT PAPER 2016

Receive herein Murang'a County Fiscal Strategy Paper and Debt Management Paper 2016 for your consideration and tabling in the County Assembly.

Yours faithfully


George Kamau
CECM -FINANCE, IT AND PLANNING



The paper should be tabled this week in view of its significance to Budget making

29/02/2016



MURANG'A COUNTY ASSEMBLY
RECEIVED
26 FEB 2016
Sign:.....
P. O. Box 731 - 10200, MURANG'A
Tel: 060-30626

COUNTY GOVERNMENT OF MURANG'A

COUNTY FISCAL STRATEGY PAPER

2016

MURANG'A COUNTY ASSEMBLY
CLERK
29 FEB 2016
.....
FORWARDED TO THE
HON. SPEAKER FOR APPROVAL

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Foreword

This paper (CFSP) is the third for Murang'a County and is meant to create a firm base for the 2016/17 budget as also outline our policy direction in county development. As highlighted in the 2015/2016 CFSP the County leadership remains committed to implementing programmes that will improve the social economic environment of the county to the extent possible given the meager financial resource at their disposal.

In the last three years we have continued to pump resource in five broad categories ie;

(1) Investing in agricultural transformation through extension services and farmers support, Value addition of agricultural produce and marketing of County products. (11) Roads and Infrastructure development and Rehabilitation, development of water distribution systems, and road network to enhance intra-county transport and syndication with neighboring counties.

(111) Creating conducive business environment by maintaining friendly legislative environment, facilitate formation of producers cooperatives and offer support to existing cooperatives.

(1v) Investing in quality and accessible healthcare services, availing quality and timely social interventions by, rationalizing and upgrading health centers, rolling out ambulance facilities and improving our response to local disasters.

(V) Further entrenching devolution for better service delivery, enhanced social economic development, training, capacity building and adoption of new technologies, revitalizing Early Childhood Education Development centers and polytechnics

While much have already been accomplished in the above highlighted areas, gaps still remain in many of our core areas of attention. We shall dedicate our time and resource in sealing the loose ends ensuring that the County remain an enviable place to live , invest and visit. We seek your concerted effort to help us in achieving these set objectives.



George Kamau
CECM- FINANCE, IT AND PLANNING.

I. OVERVIEW

Section 117 of the PFM Act 2012, requires that the County Treasury prepares and submit the approved Fiscal Strategy Paper to the county assembly, by the 28th February of each year. In preparing the County Fiscal Strategy Paper, the County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement and shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term. This County Fiscal Strategy Paper the signals the strategic direction Murang'a County Government intends to take in service delivery by articulating on the planned programmes. In addition the County plans are broadly presented in terms of revenues, expenditures and borrowing for the coming financial year and over the medium term.

II. RECENT ECONOMIC DEVELOPMENTS

OVERVIEW

The Kenya economy has continued to grow at a rate above 5% which compare positively with our neighbors. In 2014 it grew by 5.3 percent, 2015 is projected to grow by 5.6 percent and over 6 percent in the medium term.

According to figures released by KNBS the County's macroeconomic stability has been preserved, with inflation remaining on average and within target. Overall month on month inflation was at 8.0 percent in December 2015 from 6.0 percent in December 2014. This was attributed to the increase in prices of several food items which outweighed the decreases as well as increase in the Alcoholic Beverages & Tobacco.

The Kenya Shilling exchange rate has stabilized against the hard currencies and improved reasonably against our neighbors. Short term interest rates have declined following improved monetary conditions that led to increased liquidity in the money market. The interbank rate was at 6.2 % as of January 2016 while the 91 day Treasury bill rate was 11.4 percent at the same period.

Growth Update

The sustained stable macro environment will continue to positively affect our county in terms of growth, conducive environment for business and the general purchasing power. A number of county initiatives and residents economic activities will remain exposed not only to the Country wide shocks but also the global ones given that the county cannot individually deal with the contributing factors. It is however hoped that the National Treasury and the CBK will continuously monitor and manage the environment effectively.

Our current budget and the medium term plans will continue driving huge investment especially in the Dairy, Agriculture, Health, and Transport infrastructure. This spending will have a positively macroeconomic impact in our local economy. We shall continue implement project that benefit a wide cross section of residents whether directly or in- directly and dedicate our efforts to improving the local economy, and lift the bottom of the pyramid occupants.

The county's earning have positively improved as evidenced by the provisional statistics being prepared in partnership with the National Bureau of Statistics(KNBS). The price of Coffee, Tea, Milk and Avocados amongst other farm produce which forms the bulk of our earnings are expected to remain on a positive trend.

FISCAL PERFORMANCE IN FY 2015/2016 AND EMERGING CHALLENGES

The County 2015/2016 budget was prepared targeting to realize Kshs 5,355,997,309 and Kshs 850million as locally generated revenues. While the equitable share of figures will certainly be received, the equitable share disbursement continues to come late and thereby affecting our planned cash flows. On local revenue the realized budget is as per the schedule below;

| <u>YEAR</u> | <u>2013/2014</u> | <u>2014/2015</u> | <u>2015/2016</u> |
|--------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <u>July-December</u> | <u>Kshs</u> <u>186,371,235</u> | <u>Kshs</u> <u>207,439,286</u> | <u>Kshs</u> <u>220,434,061</u> |
| <u>Increase/Decrease</u> | = | <u>21,068,051</u> | <u>12,994,775</u> |
| <u>% Growth</u> | | <u>11.3%</u> | <u>6.2%</u> |

| <u>YEAR</u> | <u>2013/2014</u> | <u>2014/2015</u> | <u>2015/2016</u> |
|-------------------------------|-----------------------------------|-----------------------------------|---|
| <u>Actual</u> | <u>Kshs</u> <u>419,989,717</u> | <u>Kshs</u> <u>562,227,534</u> | <u>Kshs</u> <u>650,000,000</u> <u>(Projected</u> <u>revenue)</u> |
| <u>Budgeted Local Revenue</u> | <u>800,000,000</u> | <u>850,000,000</u> | <u>850,000,000</u> |
| | | | |

Noting from the above schedule the projected growth of local revenue may not be realized as the rate of growth for the half year is not very robust. It is worth noting that some new sources anticipated may not be realized given that processing of the supporting County legislation has delayed among other issues that we are currently addressing. Specifically the County is fast tracking the enactment of Finance Act 2015, Property Rating Act, Trade licensing Act and Revenue Administration Act.

Plans are underway to prepare a supplementary budget to review the figures downward and re-adjust some departmental priorities.

MACROECONOMIC POLICY FRAMEWORK AND MEDIUM TERM OUTLOOK

External Environment

According to World Bank projections the global growth rate for 2015 is projected at 3.1 percent, a slowdown from a growth of 3.4 percent realized in 2014. Prospects across the main countries and regions remain uneven; the recovery in advanced economies is expected to pick up slightly, while activity in emerging market and developing economies is projected to slow especially for some large emerging market economies and oil-exporting countries. In 2016 growth is expected improve to 3.6 percent due to the recovery in growth in advanced economies.

Sub-Saharan

Growth in Sub-Saharan Africa is expected to weaken from 5.0 percent in 2014 to 3.8 percent in 2015. The slowdown in 2015 is primarily driven by the repercussions of declining commodity prices, particularly those for oil, as well as lower demand from China, the largest single trade partner of sub-Saharan Africa, and the tightening of global financial conditions for the region's frontier market economies. Among the region's oil importers a majority will continue to experience solid growth, especially low-income countries, where investment in infrastructure continues and private consumption remains strong. The growth will pick up in 2016 to 4.3 percent, driven by sustained infrastructure investment; buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support.

Kenya's Growth Prospects

According to the National Treasury, the Country economic growth prospects for FY 2016/17 and the medium term takes into account developments in the global environment and internal risks while accommodating the Government's national strategic objectives as outlined in the second Medium Term Plan (MTP) for the period 2013-2017 of Vision 2030 and the broad development policies of the Jubilee Government.

Real GDP was estimated to have expanded by 5.9 percent in FY 2014/2015, and of grow by 6.3 percent in FY 2015/2016 and 6.4 percent by FY 2016/17. This robust broad based and sustained growth will be supported by increased production in agriculture, completion of infrastructural projects to boost economic activity while continuing with other infrastructural investment projects and recovery of Tourism. The economy will also benefit from increased investments and domestic demand, following enhanced investor confidence and the on-going initiatives to deepen regional integration.

The projected growth assumes normal weather pattern in 2016 and the medium term. Inflation is expected to revert within 5.0 percent target and interest rates and shilling exchange rate expected to be stable

County Growth Prospects

Agriculture and Forestry

During the third quarter 2015, the sector is estimated to have expanded by 7.1 per cent compared to 6.8 per cent recorded in similar quarter of 2014. The growth was supported by increase in the production of most major crops and the dairy sub-sector against a background of improved weather conditions. However, external demand for horticultural produce was negatively impacted on by the strengthening of the Kenyan Shilling against the Euro during the period under review.

The Country's production of tea and coffee increased during the review quarter. Tea exports increased to 95.8 thousand metric tonnes from 90.7 thousand metric tonnes in the corresponding quarter of 2014. The auction prices of tea increased by 45.5 per cent during the review period, to average at US\$ 3.2 per kilogram. Over the same period, coffee auction sales recorded a marginal increase to stand at 8,015 metric tonnes compared to 7,930 metric tonnes. These changes compare with murang'a County growth provisional estimates.

The medium term fiscal framework aims at strengthening local economy through provision of an enabling and conducive environment for businesses and agricultural related industries while offering enhanced social economic support to the residents especially the disadvantaged members of the society.

The County treasury is contemplating a range of measures that when implemented will ensure that local revenue continue to grow at not less than 20% per annum while sustaining the % of the development expenditure at not less than 30%. The equitable share of the National Government transfers are predicted to continue growing at around 5% in the medium term.

Risks to the Outlook

The risks to the economic outlook for 2016/17 and the medium-term include continued uneven and sluggish growth in advanced economies that will impact negatively on our exports and tourism activities. This may in turn affect National Government projections of Revenue and therefore County sharable allocations.

Expenditure pressures, especially recurrent expenditures, continue to pose risk to the County's fiscal plans. This particularly relates to employees emoluments based on the wagebill that the counties inherited on their inceptions.

Late disbursement of funds by the National Treasury due to unrealized targets on revenue collection making funds absorption targets levels not to be realized.

Disharmony between critical stakeholders leading to derailment of programmes coupled with shifting departmental priorities may necessitating changes to the current outlook.

III. POLICIES TO ACHIEVE MEDIUM TERM OUTLOOK

The 2016 Fiscal strategy paper is the third to be prepared by the County Government of Murang'a . It endeavors to outline the policies that will help achieve medium term outlook and also sets out the priority programmes of the County to be implemented through the

Medium Term Expenditure Framework (MTEF)

The broad strategic priorities and policy goals to guide the county in preparing its budget for the coming financial year and over the medium term are embedded in the five strategic pillars that are outlined below. The pillars sets the framework for achieving accelerated social economic transformation, in the long-term. Each of the five pillars below is critical to the county is development agenda and resources will continue to be channeled towards their achievement.

- Pillar I: Investing in agricultural transformation through extension services and farmers support, Value addition of agricultural produce and marketing of County products.

In line with this pillar the county has continued to roll out project that will change the dynamics and entrench agriculture as a rewarding enterprise through value addition. In furtherance of this a number of initiatives are ongoing among them dairy value chain, Coffee, Tea, French beans and avocados, programs. The county will continue to intervene in all the upstream production activities and the downstream market activities for realization of this objective.

- Pillar II: Roads and Infrastructure development and Rehabilitation, development of water distribution systems, and road network to enhance intra-county transport and syndication with neighboring counties.

We have continued channeling adequate resources to this sector with a view to opening up the market potential of the county. Roads construction and rehabilitation will continue being prioritized alongside domestic water distribution and irrigation.

- Pillar III: Creating conducive business environment by maintaining friendly legislative environment, facilitate formation producers cooperatives and offer support to existing cooperatives.

- Pillar IV: Investing in quality and accessible healthcare services, availing quality and timely social interventions by, rationalizing and upgrading health centers, rolling out mobile clinic and ambulance facilities and improving our response to local disasters. The

operationalization of Kenol eye and dental hospital, Construction of Kirwara hospital, Murang'a Hospital Renal unit are among the many initiatives under this pillar.

Pillar V: Further entrenching devolution for better service delivery, enhanced social economic development, training, capacity building and adoption of new technologies, revitalizing Early Childhood Education Development centers and polytechnics

As outlined in the county planning framework, we shall continue to implement the priority programmes and projects. The MTEF allows for rolling over of programmes beyond one financial year where necessary due to time span requirements or financing constraints. We trust all sectors and department will appreciate the flexibility offered by this implementation strategy and not be tempted to try implementing all activities/programmes all at once.

Sectoral Priorities

We remain cognizant of the critical role that the County continues to play in serving the residents and especially in provision of the constitutionally mandated services. We shall diligently continue to fulfill our role within sectors and departments as appropriate. The following are the sectors and their identified challenges that will largely define the programmes to be financed in 2016/2017. Specific resource allocation to programmes within the sectors will be concluded through deeper stakeholder's engagements as resource remains stretched and cannot therefore be shared to the satisfaction of all.

The 2016/2017 expenditure priorities has been generated through a public participatory process that started with CIDP development, preparation of ADP and the budget and CFSP public hearing meetings just concluded, the request are being quantified into realistic budgets that will fit into programmes as per sectors programmes framework and ceilings, below are the main highlights of programmes to be implemented in 2016/2017 as summarized after a very participative process.

AGRICULTURE, LIVESTOCK AND FISHERIES

Low Productivity in Agriculture and Livestock

This sector contributes to the livelihood of over 80 per cent of the county residents. The main challenges include

- Poor farming methods leading to soil erosion and Leaching
- High cost of farm inputs
- Deforestation;
- Unplanned quarrying and Sand harvesting;
- Poor drainage in some areas leading to soil acidity
- Overgrazing;
- Poor soil conservation methods
- Frequent drought
- High cost of AI services
- Unorganized livestock market
- Poor soil fertility.

To address the problems the County will continue implementing programmes that will help curb or mitigate against the already identified challenges. Specifically of food efforts will continue to be made to enhance extension support services, subsidize farm inputs and discourage further sub-division of land. Several irrigation projects already initiated will continue to be supported while extension services on food preservation, storage and marketing as well as animal production and health will be intensified.

Murang'a County has been regularly affected by livestock and crop disease outbreaks. Diseases such as foot and mouth and anthrax have affected and led to deaths of livestock and people in the county. The veterinary sub sector will continue to undertake farmer's education and vaccination drives. In summary the following programmes have been earmarked for funding;

- Cash Crop Development Program

- Food Security Program
- Livestock and Fisheries Development Program
- Veterinary services

FINANCE,IT AND ECONOMIC PLANNING

Challenges facing this sector include:

- Low awareness of the best practices in financial management
- Underdeveloped information and communication resources
- Inadequate planning skills

Strategies are underway to build capacity by implementing the following programmes

ICT Development programme

Financial Management programme

ENVIRONMENT

Environmental conservation and management is important to county development. The county will strive to ensure that the populace lives in a clean, secure and sustainable environment. Other interventions include promoting environmental conservation; improving pollution and waste management; promoting Public-Private Partnership (PPP) to improve water distribution, sanitation and delivery. Specific strategies include promoting environmental conservation, improvement of pollution and waste management, public-private sector partnerships in environmental issues, improving efficiency in water and sanitation.

Outstanding challenges to be addressed are;

- Low level of environmental conservation awareness
- Inappropriate industrial and farming practices locally and globally
- Limited training opportunities;
- Farmers intruding to the riparian zones;

- Weak community monitoring of environmental management activities;
- Weak enforcement of both NEMA and Forest Acts;
- Lack of early disaster warning system;
- Poor facilitation of environment and disaster management committees;
- Lack of climate change experts at county level
- Unreliable data;

The county has developed plans to counter many of the already identified challenges through implementation of the following programmes;

Waste Management Programme

Pollution Control Programme

Environmental Conservation Programme

Environmental Leadership and Governance

TRADE, INDUSTRY AND TOURISM

Though the county is agricultural rich poor marketing systems continues to contribute to low incomes farmers receive for their produce in. Middlemen have been taking advantage of the poor marketing channels to exploit farmers. A number of cooperative societies have undergone long periods of mismanagement. A number of farmers, produce animal and horticultural produce but lack proper and organized marketing. The following already started programme will continue to be implemented;

Trade and Industries Development Program

Consumer Protection and Agribusiness and Marketing program

Tourism Development Program

Milk Value Chain and other development programme

EDUCATION AND TECHNICAL TRAINING

In previous years before the inception of the County Government, the county has experienced declining standards of education due to various factors among them the following;

- Inadequate education facilities;
- Under developed education infrastructure;
- High dropout rates due to social economic problems

The county has developed measures that will continue being implemented to rejuvenate the sector in addition to programmes being rolled out by the National Government. Of utmost priority is the need to rehabilitate ECDE centres and polytechnics while at the same time offering financial support to the disadvantaged and roll out of the ECDE feeding and school milk program . Other support including County Exams and primary school boarding facilities which will continue receiving attention. Specifically the following programmes will continue to be implemented;

- Education intervention Programmes
- Youth Polytechnics & Vocational training
- Early childhood Development

INFRASTRUCTURE, TRANSPORT WATER AND ENERGY

A well developed road and infrastructure is critical to growth and development of all other sectors as this provide critical linkages for transporting goods and services. The county continues to face challenges among them;

- Poor intra-county road network and related infrastructure
- Increased demand for domestic and irrigation water;
- Insufficient water for irrigation;
- Decreasing levels of water in the rivers;

- High cost of developing gravity schemes and bore holes;
- Undeveloped Trading Markets.

To overcome the listed challenges the county will continue to provide finance for the ongoing and additional projects within the highlighted programmes as below;

- Water development programme
- Road Development programme programme
- Market & Urban Development programme
- Energy Development programme

LANDS, HOUSING AND PHYSICAL PLANNING

The Muranga County Spatial Plan will provide the needed overall integrated spatial framework for coordinating the various development efforts by different agencies so as to have sustainable development within the county.

Existing challenges include;

- Lack of spatial distribution of County resources data
- No existing data on fragile ecosystems and intervention plans for their protection and conservation;
- No integrated spatial framework to guide the sustainable utilization of the regional resources and to bring services closer to the people.

The following programmes will be implemented in the financial year 2016/2017

- Estate management and Housing programme
- Land valuation and administration programme
- Land survey and GIS programme
- Development control and planning programme

HEALTH AND SANITATION

The county population has in the past suffered from inadequate access to quality Health care services due to myriad of factors among them;

- Lack of drugs in hospital and health centres
- Low awareness on health living
- Long distances to health facilities
- Inadequate or lack of specialized medical equipments

Plans have been developed to improve the management of health services by implementing the following programmes.

- Curative health Programme
- Promotive and services programme
- Medical equipments and health Infrastructure support programme
- Health administration planning and support programme
- Public Health and sanitation programme
- Alcoholic drinks control and management programme

DEPARTMENT OF SOCIAL SERVICES

This sector has continued to reel under various challenges as listed below

- Unemployment
- Drug and substance abuse
- Negative Peer pressure and idleness
- Gender inequalities in resource allocations and leadership
- HIV and AIDS pandemic
- Dilapidated cultural sites

In overcoming the challenges the sector has plans to impliment the following programmes

- Cooperative Development programme
- Alcoholic rehabilitating programs
- Sport Development programme
- Culture Development programme
- Social Development programme
- Youth Empowerment programme

PUBLIC SERVICE AND ADMINISTRATION

The sector is mandated with management of human resources within the county general coordination and the dissemination of national values as provided in the constitution.

The existing challenges include;

- low employee morale
- Inadequate staff capacity

The sector will undertake the following programme in an effort to improve;

- County Executive Coordination
- Human Resource management and devt
- National Value and Governance
- County Public administration

IV. BUDGET FOR THE FY 2016/17 AND THE MEDIUM TERM

2016/2017 FISCAL FRAME WORK

The 2016/2017 budget will be prepared based on priorities as set out in the CIDP, Annual Development Plan 2016-2017 and budget public participation meetings conducted within the month of February 2016.

The expenditures shall be matched with revenues to give a balanced budget with no anticipated borrowings above what is allowed for cash flow management.

Revenue collection projections

The 2016/2017 budget will target revenue collection of ksh 700 million and the Equitable County allocation of about ksh.5.8 billion. The total local revenue collection and the disbursement from the National Government combined will be expected to raise ksh. 6.5 billion. Below is tabulation on revenues projection and growth in the medium term

| Year | 2013/2014 | 2014/2015 | 2015/2016 |
|----------------------------|--------------------|--------------------|--------------------------------|
| Local Revenue Actuals | Kshs 419,898,717 | Kshs 562,227,534 | Kshs850,000,000 (projected) |
| Equitable Share Actuals | Kshs 3,917,437,529 | 4,673,246,797 | Kshs 5,355,997,309 |
| Other Grants and Donations | - | - | 452,714,691 |
| Total | Kshs 4,337,336,246 | Kshs 5,235,474,331 | Kshs 6,658,712,000 |

| Year | 2016/2017 | 2017/2018 | 2018/2019 |
|----------------------------|--------------------|--------------------|--------------------|
| Local Revenue | Kshs 680,000,000 | Kshs 780,000,000 | Kshs 936,000,000 |
| Equitable Share | Kshs 5,779,189,434 | Kshs 6,357,108,377 | Kshs 6,992,819,215 |
| Other Grants and Donations | Kshs.244,837,124 | Kshs.244,837,124 | Kshs.244,837,124 |

| | | | |
|-------|--------------------|--------------------|--------------------|
| Total | Kshs 6,704,676,558 | Kshs 7,381,945,501 | Kshs 8,173,656,339 |
|-------|--------------------|--------------------|--------------------|

Other Transfers

Section 190 of the Public Finance Management Act, 2012 requires the Cabinet Secretary for Finance to prepare and submit to Parliament a County Allocation of Revenue Bill, setting out the division of county Governments share of revenue among counties. A County Governments can also get additional conditional allocations from the loans and grants. As per the published information by the National treasury through the budget policy statement, and the draft Allocation of Revenue Bill, Murang'a County Government share for 2016/17 is as per the table below.

| | Conditional Allocation-Maternal Health | Conditional Allocation-Medical Equipment Leasing | Share of Road maintenance Fund | Compensation for User fees foregone | Other Loans and Grants |
|-------------------|--|--|--------------------------------|-------------------------------------|------------------------|
| 2015/16 | 80,802,400 | 94,744,680 | 68,038,977 | 21,971,530 | 0 |
| 2016/17 | 80,840,000 | 40,823,386 | 88,797,208 | 21,971,530 | 12,405,000 |
| Percentage growth | 5% | -57% | 30.5% | 0% | |

Expenditure Forecasts

In 2016/217, overall expenditures are projected to be about ksh. 6.6 billion. The County will prepare a balanced budget. Departmental expenditures will be as proposed by users and stakeholders but within the approved sector ceilings.

FINANCIAL RESOURCES ALLOCATION CEILINGS

The 2016/2017 budget will be guided by the below resource envelop for Sectors/departments. It is to be noted that the National Treasury and the CRA ceiling will guide on the County Assembly allocation.

| DEPARTMENT | TOTAL BUDGET 2015/2016 | 2015/2016 % ALLOCATION | 2016/2017 % ALLOCATION | CEILING IN KSH. |
|---|-----------------------------------|---------------------------------------|---------------------------------------|--------------------------------|
| | Kshs | | | |
| Office of the Governor | 224,472,000 | 3.4% | 3.3% | 213,174,701 |
| County Assembly | 844,574,000 | 12.7% | 10% | 645,983,943 |
| Finance, ICT and Planning | 1,115,443,000 | 16.8% | 6% | 387,590,366 |
| Agriculture Livestock and fisheries | 243,607,000 | 3.7% | 7% | 452,188,760 |
| Energy Transport and Infrastructure Development | 753,222,000 | 11.3% | 17.1% | 1,104,632,543 |
| Commerce, Trade, Industry & Tourism | 152,130,000 | 2.3% | 1.5% | 96,897,591 |

| | | | | |
|--|----------------------|--------------------|--------------------|-----------------------------|
| Health and Sanitation | 1,554,253,000 | 23.3% | 28% | 1,808,755,041 |
| Land Housing and Physical Planning | 114,564,000 | 1.7% | 2% | 129,196,788 |
| Public Service and Administration | 753,025,000 | 11.3% | 10.9% | 704,122,498 |
| Education and Technical Training | 264,800,000 | 3.9% | 6% | 387,590,366 |
| Youth, Culture Gender, Social Services and Co-operatives | 501,393,000 | 7.5% | 6% | 387,590,366 |
| Environment and Natural Resource | 91,725,000 | 1.4% | 1.5% | 96,897,591 |
| County Public Service Board | 45,504,000 | 0.7% | 0.7% | 45,218,876 |
| <u>TOTAL COUNTY BUDGET</u> | 6,658,712,000 | <u>100%</u> | <u>100%</u> | <u>6,459,839,434</u> |

REFORMS INITIATIVES BY THE NATIONAL GOVERNMENT

According to the National Government Budget Policy Statement, notable amongst recent developments that will directly affect counties is the finalization of the Public Finance Management (PFM) Regulations, for the County Governments. The Regulations entrench the fiscal responsibility principles set out in the Public Finance Management Act (PFMA), 2012.

The Regulations also strengthen intergovernmental fiscal relations as well as public expenditure controls and reporting frameworks. Going forward, the National Treasury will roll out a programme to sensitize key state and public officers of the National and the County Governments on the provisions of the PFM regulations, 2015.

The Public Procurement and Asset Disposal Act, 2015 has been passed by Parliament, and the National Treasury has commenced work on related Regulations. According to the Act, County Treasuries are responsible for implementing the policy relating to procurement and asset disposal, and their duties include promoting preference and reservations schemes for small and micro enterprises (SMEs) and other disadvantaged groups, and for ensuring local residents access a minimum of 25 percent in public procurement within the county.

The Public Audit Bill, 2015, which is a requirement under the Fifth Schedule of the Constitution, has been passed by Parliament. The Bill is intended to:

- i) ensure that public entities adhere to the principles of public finance management under Article 201 of the Constitution;
- ii) operationalize provisions of Articles 229 and 252 of the Constitution; and,
- iii) promote effectiveness, efficiency, accountability and transparency in usage of public resources at both levels of Government.

The Integrated Financial Management Information System (IFMIS) has been implemented in the National and the County Governments. Counties are making progress in implementing the system, with users trained on its functionalities. Notwithstanding occasional connectivity and user capacity issues, counties are using the system to prepare budgets and most have uploaded their procurement plans. Government suppliers have been trained in responding to tenders online. Different investigative and prosecution agencies also have access to the system.

In FY 2015/16, the focus has been to stabilize implementation of IFMIS modules in the counties, especially the end-to-end transactions using electronic procurement, and to roll out the system to County Assemblies. Full IFMIS e-procurement utilization is expected to entrench efficiency, effectiveness and accountability of public funds by ensuring that

procurement is aligned with planning. This will lead to savings, thereby unlocking funds to implement priority development projects. Further, by bridging procuring entities' resource allocation decisions to their programme objectives, IFMIS usage will promote Programme-Based Budgeting (PBB), which enables effective results monitoring.

According to the Budget Policy Statement of the National Treasury, Consolidated financial statements, as required by sections 163 and 164 of the PFM Act, 2012 (PFMA), have been prepared for all 47 counties for the 2014/15 Financial Year. In spite of the above progress, several challenges have emerged over the last two FYs, revealing areas in county financial management which require further strengthening in the medium term. A number of these issues are articulated in the Auditor-General's Reports on the Financial Operations of County Governments for FY 2013/14 and in the interim (unaudited) reports for 2014/15. These include:

- a) irregular procurement characterised by inadequate procurement documentation and records, non-adherence to specifications in tender documents as well as lack of skilled procurement personnel and inadequate inventory and stores management systems;
- b) payment of debts inherited from defunct Local Authorities (LAs) without validation of the liabilities by the Transition Authority;
- c) weaknesses in revenue management and accounting practices;
- d) mismanagement of imprest and advances to county personnel; and
- e) irregular recruitment of personnel especially casual labour.

The 2016 Budget Policy Statement contains strategic priorities and policy goals addressing the above issues and providing guidance over the medium term in promoting sound intergovernmental fiscal relations and county financial management. These priorities and goals emanate from County Governments' PFM experience over the last two financial years.

Cash Disbursement to County Governments

According to the Budget Policy Statement of the National treasury 2016/2017 Counties continues to accumulate huge balances on their Revenue Funds Accounts in a way that is not

health for the economy. To deal with this situation plans are in place to automate funds requisition going forward.

Fiscal Responsibility Principles

In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act Section 107 provides that;

- 1) Over the medium term, a minimum of 30 percent of the national and county budgets shall be allocated to development expenditure
- 2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations.
- 3) The county government's expenditure on wages and benefits for its public officers 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.
- 4) Over the medium term, the national and County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- 5) Public debt and obligations shall be maintained at a sustainable level as approved by county assemblies for the County Governments.
- 6) Fiscal risks shall be managed 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.

Compliance with Fiscal responsibility

The County will continue to undertake measures to enhance compliance with fiscal responsibility principles. Among the urgent reforms being initiated include;

Proper planning and expenditure management occupy a central role in ensuring the county continue to offer quality services effectively and economically, the county has continued to allocated resource to areas that have the greatest impact, the county also has ensured a sustained allocation of more than 30% to development programmes.

Our wage bill remains reasonably high when compared as a percentage of the total expenditure: we are however currently engaging all relevant stakeholders with a view to implementing various strategy among then staff rationalization will lower the ratio to the desired level in the same line County regulation to guide on the ideal personnel ratio will be developed. The outcomes and recommendations of the CARPS exercise will be studied and where practicable implemented.

Automation

To benefit from IT in processes improvement; the county is currently just about to roll out a program that will complement IFMIS in financial management by handling the revenue aspect.

Deficit Financing and Borrowing Policy

The County Treasury will continue thoroughly matching revenue to expenditures and it is not anticipated that the County will prepare budgets that are principally deficit budget. In case of unplanned deficit arising in a given year through non realization of some revenue, then the following year's budget will be utilized to finance and clear the deficit. There exist

no plans to engage in borrowing within the short term other than what can be purely for cash flow management but within the provision of section 142 of the PFM Act.

Stringent measures are being implemented to ensure that budget implementation plans are rigidly linked to cash flow so as to avoid situations where normal supplies balances can accumulate to unmanageable levels.

CONCLUSION

As we move to the next phase of translating our plans into an implementable budget. It is our sincere hope that all stakeholders will remain selfless in the spirit on ensuring that we fit in the dreams and aspirations of Murang'a people. Let's join hands and deliver to our constituent the services that will make them remain proud of devolution.

Finally I wish to thank each one of you for your efforts in making Murang'a a better place and a leading County in delivering the constitutionally mandated services.



George Kamau
CECM- FINANCE, IT AND PLANNING