REPUBLIC OF KENYA

MAKUENI COUNTY

BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER, 2014

Foreword

This County Budget Review and Outlook Paper (BROP), prepared in accordance with the Public Financial Management Act, 2012 is the Second to be prepared by the County Government. It presents the recent economic developments and actual fiscal performance of the FY 2013/2014 and outlook of the FY2014/15 & 2015/16.

The Paper also provides an overview of how the actual performance of the FY 2013/2014 affected compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2014 CFSP.

It also outlines the interventions the County Government will put in place in an aim to ensure it fully achieves the transformational agenda as spell out in the FY2014/15 Budget. This is will be done through harvesting water throughout the county to prove the necessary water for domestic use and irrigation. This interventions are geared towards reducing poverty by ensuring each household earns a minimum of Kshs 500 per day, stimulating growth and creating jobs, enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our county.

Alidan Mbinda
EXECUTIVE COMMITTEE MEMBER - FINANCE

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Abbreviations and Acronyms

BPS	Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CG	County Government
ECF	Extended Credit Facility
FY	Financial Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MDAs	Ministries, Departments and Agencies
NG	National Government
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NFA	Net Foreign Assets
NDA	Net Domestic Assets
PFM	Public Financial Management
SRC	Salaries and Remuneration Commission
SWGs	Sector Working Groups
TA	Transition Authority
WEO	World Economic Outlook
VAT	Value Added Tax
V 2030	Vision 2030

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

The Budget Review and Outlook Paper (BROP) is prepared in accordance with the provisions of Section 118 of the Public Finance Management Act (PFMA), 2012. The said provisions state as follows:

118. (1) A County Treasury shall—

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

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

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

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

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

(c) information on—

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

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

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

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

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

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

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

Fiscal Responsibility Principles in the Public Financial Management Law

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

County Treasury to enforce fiscal responsibility principles.

107. (1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

(2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles—

(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 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;

(d) over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) the county debt shall be maintained at a sustainable level as approved by 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.

(3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

(4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

I. INTRODUCTION

Background

1. This County Budget Review and Outlook Paper (CBROP) is the second to be prepared under the Public Financial Management Act, 2012 within the devolved units of County Governments.

Objective of CBROP

2. The objective of the CBROP is to provide a review of the previous fiscal performance (FY2013/14) and how this impacts the financial objectives and fiscal responsibilities set out in the 2014 County Fiscal Strategy Paper. This together with updated macroeconomic outlook provides a basis for revision of the current budget and outlines broad parameters underpinning the next budget.

3. The CBROP is a key document in linking policy, planning and budgeting. This year's CBROP is embedded on the priorities of the County Government in achieving County transformational development agenda as outlined in the Makueni 2014/15 budget, the National Government Budget, the Makueni County Integrated Development Plan and the Vision 2030. The CBROP focuses on interventions in the following main areas; providing water for domestic use and irrigation, reducing poverty, stimulating growth and creating jobs, enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our county.

4. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings provided in the 2014 CFSP will form the indicative baseline sector ceilings for the next budget of 2015/16.

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

II. REVIEW OF FISCAL PERFORMANCE IN 2013/14

A. Overview

6. The implementation of 2013/14 budget was hampered by various challenges such as; delays in approving the budget, delays in passing bills by the assembly e.g on business empowerment, youth & gender, negative politicking affecting level of investments in the county & also project implementation, shortfall in local revenue collection, delays in appointment of accounting officers and other requisite staff together with delays in setting up structures to facilitate proper running of the County Government.

7. Due to various challenges experienced in the first year of running the county government the revenue collected fell short of the estimated target by Kshs 162,196,237.26 (46.16 % deviation from the revised target).

8. The absorption rates for recurrent and development expenditure for the FY2013/14 budget was 95% & 32% respectively.

9. On the expenditure side, the Government had to incur higher expenditure on items to facilitate proper running of the county such as vehicles, setting up of offices (purchase of office furniture & stationery, renovations of offices). Supplementary Estimates were approved by the County Assembly in June 2014.

B. 2013/14 Fiscal Performance

10. The table below presents the fiscal performance for the FY 2012/13 and the deviations from the Original and Revised budget estimates.

Table 1; Deviations from the Original and Revised budget estimates

		2012/2013 Actual (000)	2013/2014		Deviation	% growth	2013/2014 as a % of Budget		2012/2013 as a % of Budget
			Actual(000)	Target			Actual	Target	
A	TOTAL REVENUE AND GRANTS	613,303	4,555,426	4,717,623	(162,196)	595.85	96.5	100.0	100.00
1	Revenue	613,303	4,555,426	4,717,623	(162,196)	595.85	96.5	100.0	100.00
	Local Revenue	170,501	189,187	351,383	(162,196)	10.96	4.01	7.45	21.12

	National Shareable Revenue	224,836	4,366,239	4,366,239	-	584.89	92.5	92.55	78.88
	LATF	156,373							
	Transiton Authority Funds	61,592							
2	**Grants**		-	**354,912**	**(354,912)**	-	-	-	
	Conditional Grants -			354,912	(354,912)	-	-		
B	**Expenditure**		**3,328,577**	**4,717,623**	**(1,389)**		**70.5**	**100**	
1	Recurrent		2,738,060	2,881,468	(143,408)		57.9	61.0	
	Development		590,517	1,836,154	(1,245,637)		12.5	38.9	

Source; County Treasury

Revenue

11. Total cumulative revenue collected during the period under the review amounted to Kshs 4,555,426,819.00 compared to the target in the revised budget of Ksh 4,717,623,056.26 and in the original budget of Ksh 4,716,239,078.00. This represents a revenue shortfall of Ksh 162,196,237.26 (or 3.44 % deviation from the revised target).

12. Local revenue collection totalled Ksh 189,187,741.00 against the revised target of Ksh 351,383,978.26, reflecting an under collection from local sources of Kshs 162,196,237.26. (or 46.16 % deviation from the revised target). Similarly, expected conditional grants amounted to Ksh 354,912,725.00 at the beginning of the plan period. However the expected amount was never received during the period under review.

13. The F.Y 2013/2014 local revenue collection has been on an upward trend except the second quarter which saw a tremendous decrease. This was occasioned by a directive suspending revenue collection in the month of October 2013 as a result of rejection of the Finance Bill 2013 by County Assembly and non-disclosure of revenue from devolved departments as shown in Table 2 below.

SOURCE 2013/2014	Q1 2013/2014	Q2 2013/2014	Q3 2013/2014	Q4 2013/2014	Total 2013/2014
Barter M. Fee	6,028,981	4,017,135	5,523,460	7,089,348	22,658,924
Conservancy Fee	925,065	188,020	1,611,755	1,927,061	4,651,901
Parking	3,171,669	1,976,650	4,861,110	6,377,545	16,386,974

Plot Rent Fee	1,516,467	633,027	3,666,081	2,534,896	8,350,471
Permits	12,879,543	2,129,750	22,515,561	29,627,131	67,151,985
Penalty Fee	1,700,432	327,895	262,070	573,021	2,863,418
Stock Market Fee	2,070,320	963,530	1,583,960	2,334,155	6,951,965
Plan Approval Fee	875,465	840,668	816,768	820,637	3,353,538
Cess	2,338,730	902,560	1,817,775	1,806,423	6,865,488
Kiosk Renewal Fee	1,019,190	199,400	1,098,850	1,598,415	3,915,855
Other Plot Dues	453,750	155,910	1,013,590	2,280,926	3,904,176
Others	1,338,159	1,161,715	5,648,321	7,191,991	15,340,186
Stock Movement Fee	318,755	76,480	325,990	1,370,950	2,092,175
Liquor Licensing	3,989,008	11,007,359	1,895,445	4,143,700	21,035,512
Sale Of Tenders-Assembly	730,000	-	0	31,000	761,000
Sale Of Tenders-Executive	-	-	0	414,260	414,260
Min Of Agriculture Revenue	-	-	0	2,489,913	2,489,913
TOTAL	**39,355,534**	**24,580,099**	**52,640,736**	**72,611,372**	**189,187,741**

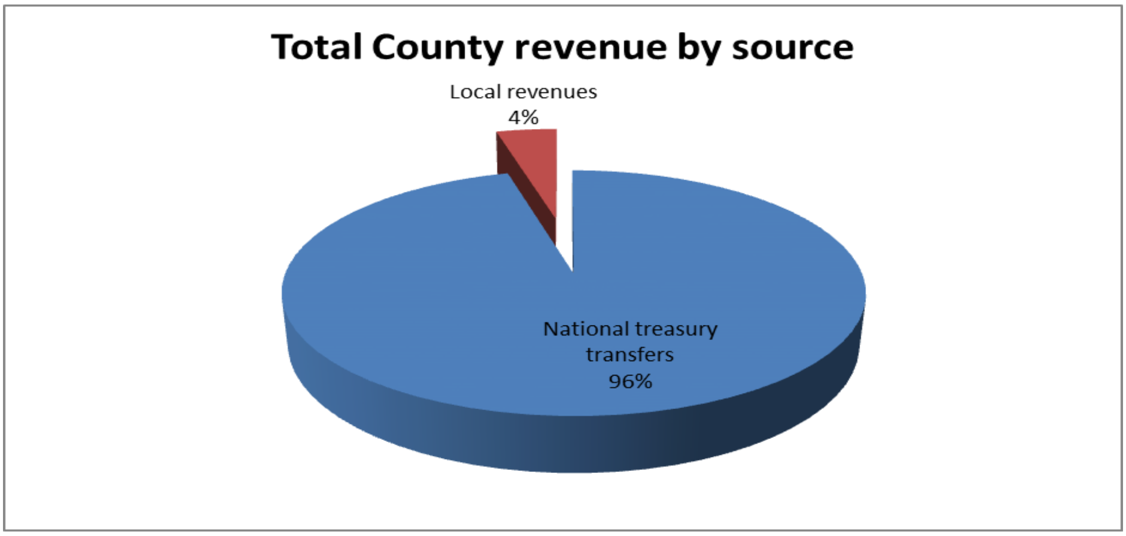
14. The local revenue collection shows a total general upward trend between F.Y 2012/2013 and F.Y 2013/2014 despite a combined downward trend in quarter one, two and three of Kshs 18,177,679.00. The downward trends were offset by a Kshs 36,864,231 upward trend in quarter four giving a net positive trend of Kshs 18,686,552 as shown in table 3 below.

Financial Year	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	Total Actual
2012/2013	39,610,012.00	31,080,950.00	64,063,086.00	35,747,141.00	170,501,189.00
2013/2014	39,355,534.00	24,580,099.00	52,640,736.00	72,611,372.00	189,187,741.00
Deviation	**(254,478.00)**	**(6,500,851.00)**	**(11,422,350.0)**	**36,864,231.00**	**18,686,552.00**

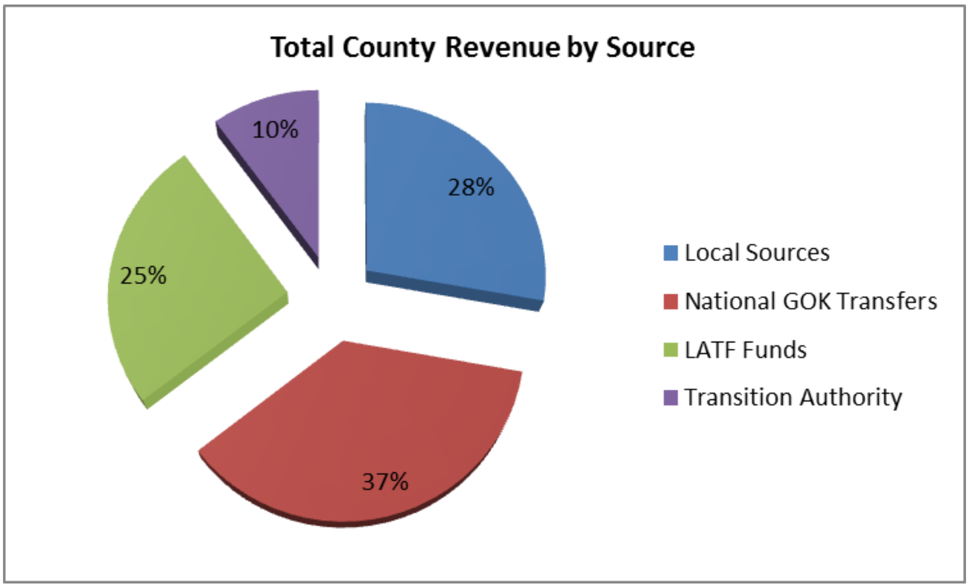
Source: County Treasury

15. The Makueni 2013/2014 budget was financed by local revenue collected and the National Shareable Revenue transfers from the national government. As a proportion of the total budget, local revenue averaged 4.01 percent in the period under review, compared to 21 percent in the FY 2012/13. Similarly, the National Shareable Revenue transfers averaged 96.59 percent in the period under review, compared to 79 percent in the FY 2012/13 as shown below.

FY 2013/2014



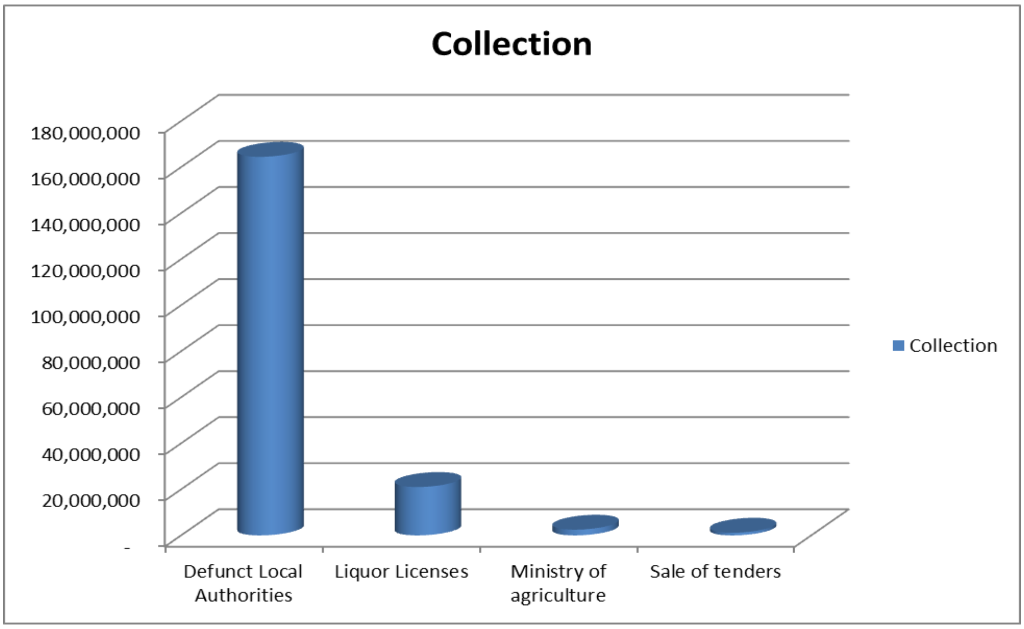
F.Y 2012/2013



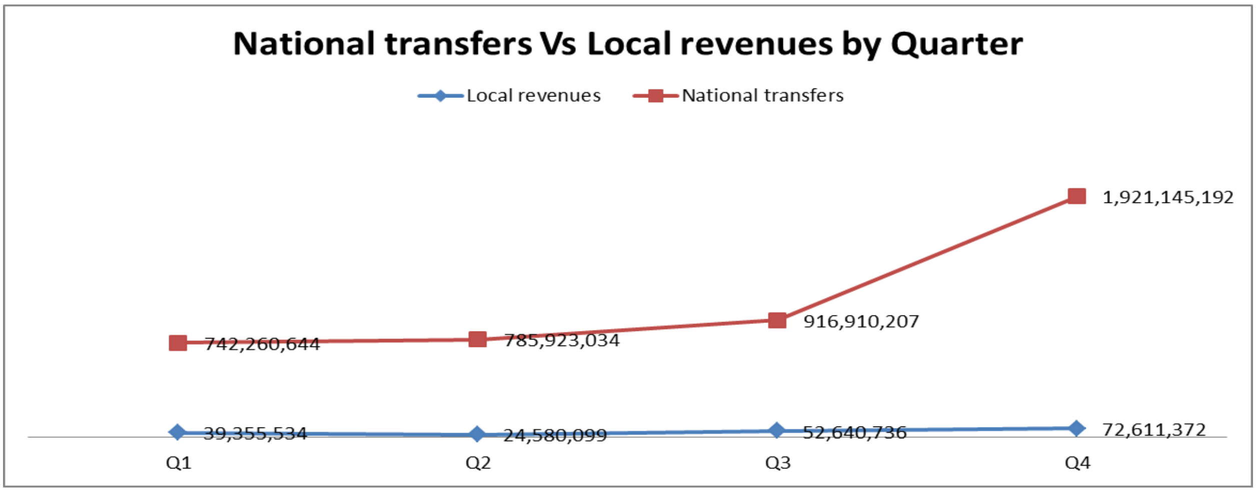
16. The revenue collected in the FY 2013/14 was raised from 4 main sources as indicated below;

NO.	Source	COLLECTION
1.	Defunct Local Authorities	Kshs 164,487,056.00
2.	Liquor Licenses	Kshs 21,035,512.00
3.	Ministry of agriculture	Kshs 2,489,913.00
4	Sale of tenders	Kshs 1,175,260.00
	Total	**KSHS 189,187,741.00**

FY 2013/14 local revenue sources



17. The exponential increase in the proportion of the National Shareable Revenue transfers was occasioned by the full implementation of Article 203 (2) &(3) of the Constitution of Kenya 2010 that requires that for every financial year, the equitable share of the revenue raised nationally that is allocated to county governments shall be not less than fifteen per cent of all revenue collected by the national government calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly as shown below.



18. Unfavourable macroeconomic conditions (inflation, post election shocks) in the first half of 2013/14 combined with administrative challenges in revenue collections are the key factors behind the revenue shortfall. Meanwhile, the non-performance in revenue from devolved departments reflects non-disclosure or utilization at source by the relevant departments.

19. The Treasury will continue to enforce the various Circulars and regulations issued, as provided for in the PFM Act, for government agencies and Ministries to report on their quarterly expenditure and revenue returns.

20. In addition, The County Government intends to mitigate cases of deficits in the future by instituting strategies to counter challenges that hinder revenue collection such as; Publication of all plot rates defaulters and Issuance of notices of re-possession and auction of all plots with outstanding arrears, Invoicing of single business permits in good time, public education on the Makueni County Government finance ACT, banking of revenue collected by the devolved units in the County Revenue Accounts, Automation and full enforcement amongst others.

Expenditure

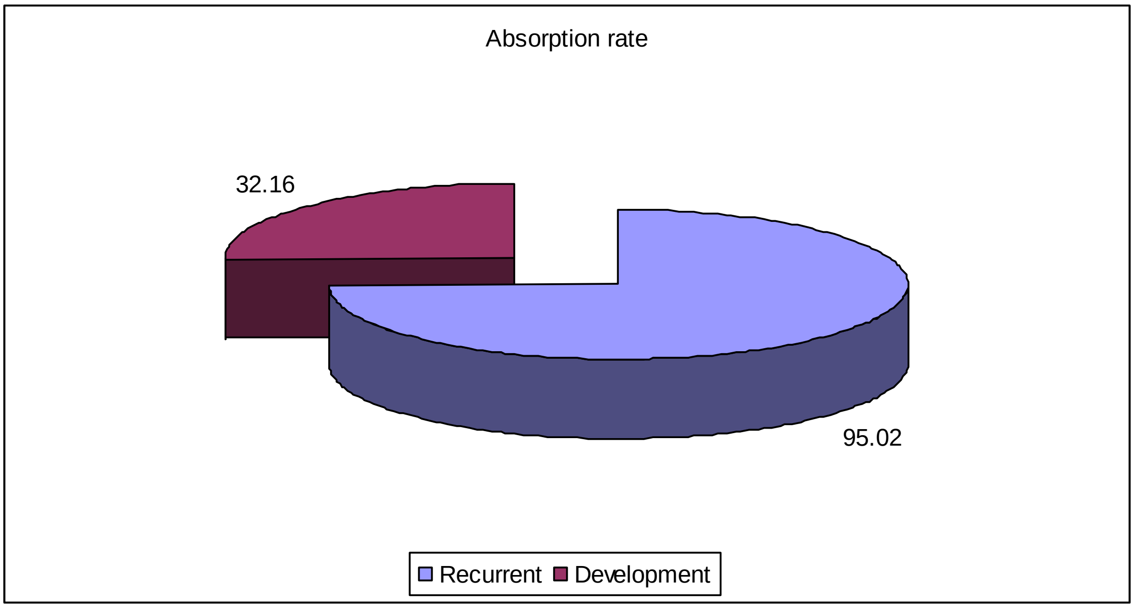
21. The implementation of the FY2013/14 budget was affected negatively by various factors such as; delays in approving of the budget, delays in appointment of accounting officers and other requisite staff together with delays in setting up structures to facilitate proper running of the County Government

22. The table 4 below presents the fiscal performance for the FY 2013/14 and the deviations from the Original and Revised budget estimates.

	2013/14		Deviation (000)	2013/14 as a % of Budget	
Expenditure	Actual (000)	Targets (000)		Actual	Targets
Recurrent	2,738,060	2,881,468	(143,408)	57.9	61.0
Development	590,517	1,836,154	(1,245,637)	12.5	38.9
Total	3,328,577	4,717,623	(1,389,045)	70.5	100.00

23. Total expenditure amounted to Ksh 3,328,577,439 against a target of Ksh 4,717,623,056.26 representing an under spending of Ksh 1,389,045,616.58 (or 29.4 percent deviation from the revised budget. However most of these unspent funds had already been committed by the closure of the FY). The under spending led to lower absorption in development expenditures by the various departments.

Graph on absorption rates



24. The recurrent absorption rate for the FY 2013/14 was 95% whereas development expenditure absorption was 32%. The low absorption of development expenditure was partly attributed to delays in procurement procedures. The County Government had to readvertise for the prequalification of contractors and this largely affected implementation of development projects in the third quarter as evident in the graph below;

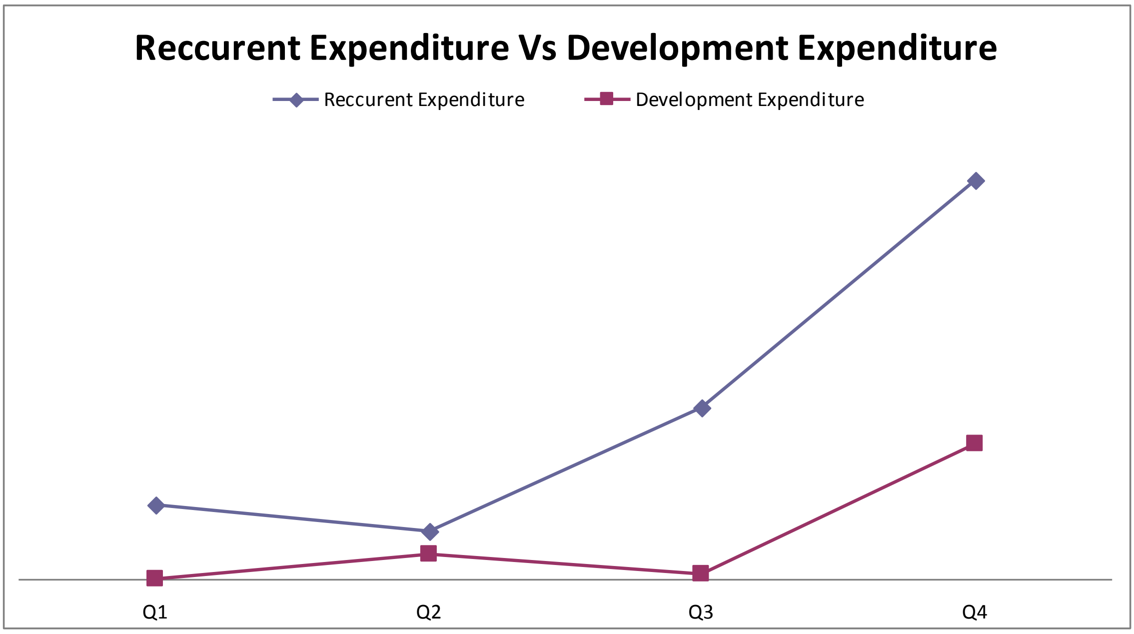


Table 5; Analysis of Recurrent & Development expenditures against the targets. Table : Expenditure Ksh million

		2013/14		
	2012/2013 Actual	Actual	Targets	Deviation
RECURRENT				
Wages and Salaries		1,535,642,635.91	1,592,127,871.75	(56,485,235.84)
Operation and Maintenance		1,202,417,691.06	1,289,340,554.11	(86,922,863.05)
DEVELOPMENT				
Development Projects		590,517,112.71	1,836,154,630.40	(1,245,637,517.69)
TOTAL EXPENDITURE		**3,328,577,439.68**	**4,717,623,056.26**	**(1,389,045,616.58)**

25. Recurrent expenditure amounted to Ksh 2,738,060,326.97 against a target of Ksh 2,881,468,425.86, representing an under-spending of Ksh 143,408,098.89 (or 4.9 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 86,922,863.05), wages and salaries (Ksh56,485,235.84).

26. Development expenditure incurred amounted to Ksh 590,517,112.71 compared to a target of Ksh 1,836,154,630.40. This represented an under-spending of Ksh 1,245,637,517.6989 (or 67.8 percent deviation from the approved development

expenditure). The underperformance in development expenditure was trigged by; delays in passing of the 2013/14 budget, delay in appointment of accounting officers, lengthy procurement procedures and delay in disbursement of funds to County by the National Treasury. This directly affected the implementation of development projects.

Overall balance and financing

27. Reflecting the above performance in revenue and expenditure, the 2013/14 budget amounted to Ksh 4,716,289,185.96 with a revised budget of Kshs 4,717,623,056.26. The budget was financed with transfers from national government being 93% and revenue from local sources being 4% of the total budget. The revenue shortfall (3%) accounted for difference in financing

Implication of 2013/4 fiscal performance on financial objectives contained in the 2014 CFSP.

28. The performance in the FY 2013/14 has affected the financial objectives set out in the February 2014 County Fiscal Strategy Paper and the Budget for FY 2014/15 in the following ways: (i) the base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregatesfor the current budget and (ii) To take into account the slow take off in the execution of the FY 2014/15 budget by departments, the baseline ceilings for spending agencies will be adjusted and then firmed up in the next CFSP in February 2015.

29. The under-spending in both recurrent and development budget for the FY 2013/14 additionally has implications on the base used to project expenditures in the FY 2015/16 and the medium term. Appropriate revisions have been undertaken in the context of this BROP. The slow implementation of development projects remains a challenge. The County Treasury will work closely with the implementing agencies to improve resource absorption. This will be done by constituting and operationalisation of the County Efficiency Monitoring Unit which will fastrack implementation of the budget.

30. The county Government will also focus on strategies that will boost the levels of development in the county through initiatives such as; embracing public private partnerships, leasing of equipment's to carry out projects and soliciting for funds from other development partners.

31. There have been minimal absorption rates on development expenditure in the first quarter of 2014 because of lack of an approved budget. However the County Government will hasten the pace of implementation of projects once the budget is approved. The county is however fastracking the implementation of the projects funded in the FY2013/14.

Table 6 provides comparison between the updated fiscal projections in the BROP 2013 and the CFSP 2014 for the FY 2014/15 and in the medium term.

Table 6: Updated Fiscal Projections against CFSP 15 Projections, 2013/14-2016/17

	2013/14	2014/15		2015/16	2016/17
	BROP 13	CFSP 14 (R)	BROP 14	CFSP	CFSP
	('000' Million)	('000' Million)	('000' Million)	BROP 15 ('000' Million)	BROP 16 ('000' Million)
Revenue & grants					
Transfers from National GOK	4,366,289	5,082,646	5,193,526	5,712,879	6,284,166
% of Budget	86.1	92	91.85	90.85	90.85
Revenue from local sources	350,000	420,000	500,899	550,989	606,087
% of Budget	6.9	8	8.76	8.76	8.76
Donor Funds	354,912		21,750	23,925	26,317
% of Budget	7		0.38	0.38	0.38
Recovery Income from C.A Scheme	5,071,201	5,502,646	5,716,175	6,287,793	6,916,572
	2,822,394	3,478,694	3,572,426	3,929,669	4,322,636
Expenditure					
Recurrent	2,248,807	2,023,952	2,143,748	2,358,123	2,593,935
% of Budget	44.34	36.78	37.50	37.50	37.50
Development	5,071,201	5,502,646	5,716,175	6,287,793	6,916,572
% of Budget	4,366,289	5,082,646	5,193,52	5,712,879	6,284,166
	86.1	92.36	90.85	90.85	90.85
Budget Balance (-Deficit, +Surplus)	-	-	-	-	-
% of GDP	-	-	-	-	-

32. Given the above deviations, the revision in revenues and expenditures will be based on the revised macroeconomic assumptions contained in this BROP and which will be firmed up in the context of the next County Fiscal Strategy Paper. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modification to the financial objectives contained in the latest CFSP to reflect the changed circumstance.

33. Adjustments to the ceilings will also be geared to ensure realization of the transformation targets of providing water for domestic use and irrigation, reducing poverty, stimulating growth and creating jobs, enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our county.
In addition, continued planning in the local towns, preparation and implementation of the Makueni County Investment policy is expected to improve the investors' confidence in the county and thus increase the level of investments hence boosting revenues needed to support development agenda of the county.

34. The revenue performance in the FY2014/15 is expected to be boosted by sale of sand and hardcore to be used in the construction of the standard gauge railway. It is also expected to increase opportunities of investments in the county through the opening up of the various sub stations along the line. This therefore increases the fiscal aggregates for the FY 2014/15 budget and the corresponding budgets in the medium term.

35. The construction of Konza city will also attribute positively to the growth of the county's economy and also provision of employment to a large percentage of the County's youth. The city will also contribute to the marketing of the county as an investment destination of choice worldwide.

111. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

36. The macroeconomic environment has continued to improve. Going forward, the macroeconomic outlook remains favorable although risks remain.

A. Recent Economic Developments

37. Recent developments in the key macroeconomic variables are encouraging. Growth in real GDP remains resilient but downside risks remain. The country's

Gross Domestic Product (GDP) expanded by 4.7 per cent in 2013 compared to 4.6 per cent in 2012.

38. This performance was supported by, 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 and the general growth in the Construction sector.

39. The main sectors that drive the economy recorded positive growths of varying magnitudes as shown below

	Sector	2012	2013
1.	Agriculture & Forestry	24.6	25.3
2.	Wholesale and retail trade, Repairs	10.5	10.2
3.	Transport & Communication	9.6	9.1
4.	Manufacturing	9.5	8.9
5.	Education	6.1	6.7
6.	Financial Intermediation	5.2	4.8
7.	Construction	4.2	4.4

40. Despite the positive growth of the economy's main driving sectors, the country's Gross Domestic Product (GDP) expanded by 4.7 per cent in 2013 against a target of 5.0 per cent due to the following factors;

i. Depressed performance of the rains that affected the agriculture sector which is the single largest contributor to our GDP.
ii. Decline in exports resulting to worsening of trade balance
iii. Comparably higher interest rates.
iv. Reduced spending by government agencies, during the transition.
v. Risk aversion in the lead up to the general election in the first quarter
vi. Insecurity concerns

41. The overall Annual Average inflation decreased to 5.7 percent in 2013 up from 9.3 percent in 2012 on account of improved supply of basic foods, lower international oil prices and lower costs of electricity.

42. The interest rates posted promising results as indicated by the Central Bank Rate which reduced from 11.0 per cent in December 2012 to 8.50 per cent during the first half of 2013. Likewise, The overdraft and maximum lending interest rates dropped by 1.28 and 1.16 percentage points, to 16.51 per cent and 16.99 per cent, respectively in December 2013, largely due to the lower inflationary pressure and the CBR reduction.

PERFORMANCE OF SELECTED ECONOMIC SECTORS

43. Growth in the agricultural sector decelerated in 2013 to 2.9 per cent from a revised growth of 4.2 per cent in 2012 partly due to inadequate rainfall received in some grain growing regions Livestock output increased by 5.0 per cent during the review year.

44. The manufacturing sector grew by 4.8 per cent in 2013 compared to a revised growth of 3.2 per cent in 2012. The accelerated growth was partly due to increased investor confidence, Easing of inflationary pressure and Stable exchange and lending interest rates.

45. Total output value from the transport sector expanded by 3.3 per cent in 2013 with Road transport accounted for 64.3 per cent of this. Cargo handled at the Port of Mombasa increased by 1.8 per cent to 22.3 million tonnes while Railway freight tonnage dropped from 1.4 million tonnes in 2012 to 1.2 million tonnes in 2013. On the other hand, the Total volume of white petroleum products through Pipeline increased from 4.9 Million cubic metres in 2012 to 5.2 Million cubic metres in 2013.

46. Communications sector value added grew by 6.2 per cent in 2013 compared to a growth of 8.6 per cent recorded in 2012 with the number of mobile connections rising from 30.4 million in 2012 to 31.2 million in 2013 and internet subscriptions rising significantly from 8.5 million in 2012 to 13.3 million in 2013 The amount of money transacted through the mobile money transfer service also grew remarkably from KSh 672 billion as at June 2012 to KSh 914 billion as at June 2013.

47. The number of international visitor arrivals decreased from 1.7 million in 2012 to 1.5 million in 2013. The decline in international arrivals may be attributed to travel advisories by traditional tourist markets due to security concerns.

48. In 2013, there was reduced volatility in prices of global crude oil leading to increase in Net domestic sales of petroleum fuels from 3.6 million tonnes to 3.7 million tonnes in the same period.

49. Domestic demand for electricity increased by 8.0 per cent leading to significant increase in the number of connections under the Rural Electrification Programme (REP) by 18.5 per cent to stand at 453.5 thousand customers.

50. During the year under review, building and construction sector expanded by 5.5 per cent up from a growth of 4.8 per cent registered in 2012.

51. The total number of persons engaged in both formal and informal sectors increased from 12.8 million in 2012 to 13.5 million in 2013, translating to 742.8 thousand new jobs. The formal sector recorded 116.8 thousand new jobs out of which the public sector contributed 26.3 thousand jobs.

Economic Outlook for 2014/2015

52. The macroeconomic stability witnessed in 2013 continued into the first quarter of 2014 and is expected to be maintained through the rest of the year. Operationalization of the development budget in the counties is expected to spur further economic growth

53. Private consumption is also likely to improve given the stable interest rates and low inflation regime. Recent discoveries of petroleum oil and natural gas are likely to trigger more foreign direct investment inflows.

54. The manufacturing sector's performance is projected to maintain its current growth path given the positive growth within the region. Similarly, the financial intermediation sector is likely to maintain its momentum in 2014 mainly on account of enhanced performance and innovations in the sectors.

55. Investments in the construction industry is likely to remain robust against a background of stable interest rates coupled with the ongoing government infrastructural projects and the private sector's resilient participation especially in the real estate development.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2014/15 Budget

56. Given the performance in 2013/14 and the updated macroeconomic outlook, the risks to the FY 2014/15 budget include; Uncompleted 2013/14 development projects, delays in approving of the 2014/15 budget, delays in timely release of funds by the National Government and delays in approval of Finance Bill. In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures and uptake of resources. These risks will be monitored closely and the Government would take appropriate measures in the context of the next Supplementary Budget.

57. The 2014/15 budget is meant to radically improve the economy of the Makueni citizenry. The budget will be geared to ensuring each household earns a minimum of Kshs 500 per day and thus reduce the 64% poverty levels. This will be achieved through harvesting water throughout the county by constructing, expanding water harvesting structures. This in turn is expected to increase the area under irrigation in the county and thus increased agricultural productivity. Each of the County's department is supposed to realign its budget towards this strategic objective.

58. Adjustments to the 2014/15 budget will also 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 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 none, whatsoever, can be expended as recurrent. Utilization of the Emergency fund will be within the criteria specified in the PFM Act.

59. Wage bill and rationalisation issues will be the major challenges in the implementation of the budget. It is expected that the ongoing biometric registration of civil servants will work along way in improving service delivery.

60. On the revenue side, the County Treasury will institute strategies to enhance revenue collection such as; Publication of all plot rates defaulters and Issuance of

notices of re-possession and auction of all plots with outstanding arrears, Invoicing of single business permits in good time, public education on the Makueni County Government finance ACT, banking of revenue collected by the devolved units in the County Revenue Accounts, Automation and full enforcement amongst others.

61. The County Treasury will also increase capacity, deepen local revenue streams and strengthen controls over collections through target setting, proper supervision and enforcement and mapping all available revenue streams. The department will also put in place measures to ensure all revenue collected by the devolved units is banked in the County Revenue accounts and thus eliminate non disclosures of revenue.

B. Medium-Term Expenditure Framework

62. Going forward, and in view of the macroeconomic outlook, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. Priority to financing will be given to sectors that are geared towards realizing the county's transformational agenda of Poverty reduction, job creation and improvement of citizen's welfare.

- The Environment, Water & Irrigation sector will continue to receive significant resources in an aim to ensure each and every citizen of the county gets access to water for domestic and irrigation use.
- The Health & Education sectors are already receiving a significant share of the resources in the budget and they are required to utilize the allocated resources more efficiently to ensure efficient service delivery. Allocation to these sectors will also be enhanced with time.
- The share of resources going to Energy, Infrastructure and ICT will rise over the medium term.

63. The County Government has developed a programme aimed at harvesting water across the county. The programme is intended to run from November 2014 to April 2016 (18 months). The programme will entail expanding and rehabilitating existing water structures and also building new structures. This is aimed at providing water to households in the county for domestic and irrigation purposes. This in turn is expected to improve the living standard of the Makueni citizenry by ensuring each household earns at least ksh 500 per day.

64. These interventions are geared towards reducing poverty, stimulating growth and creating jobs, enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our county. .

65. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2015 MTEF, classified by sector.

Table 7: Total Expenditure Ceilings for the MTEF period 2013/2014(Kshs.)

		TOTAL EXPENDITURE				PERCENTAGE SHARE OF TOTAL EXPENDITURE			
		2014/15 ESTIMATES	2015/16 CEILINGS	PROJECTIONS				PROJECTIONS	
	DEPARTMENT			2016/17	2017/18	ESTIMATES 2014/15	CEILINGS 2015/16	2016/17	2017/18
1	Department of legal services	42,903,750.31	47,194,125.34	51,913,537.88	57,104,891.66	0.75%	0.75%	0.75%	0.75%
2	Department of ICT	80,436,414.51	88,480,055.96	97,328,061.56	107,060,867.72	1.41%	1.41%	1.41%	1.41%
3	County Public service board	53,843,701.00	59,228,071.10	65,150,878.21	71,665,966.03	0.94%	0.94%	0.94%	0.94%
4	Department of lands	131,986,892.50	145,185,581.75	159,704,139.93	175,674,553.92	2.31%	2.31%	2.31%	2.31%
5	Office of Governor	160,186,383.40	176,205,021.74	193,825,523.91	213,208,076.31	2.80%	2.80%	2.80%	2.80%
6	Department of trade	190,343,214.00	209,377,535.40	230,315,288.94	253,346,817.83	3.33%	3.33%	3.33%	3.33%
7	Department of gender	202,294,712.46	222,524,183.70	244,776,602.07	269,254,262.28	3.54%	3.54%	3.54%	3.54%
8	County Public service	264,355,703.68	290,791,274.05	319,870,401.45	351,857,441.60	4.62%	4.62%	4.62%	4.62%
9	Department of finance	331,056,433.02	364,162,076.32	400,578,283.95	440,636,112.35	5.79%	5.79%	5.79%	5.79%
10	Department of education	456,933,740.84	502,627,114.92	552,889,826.42	608,178,809.06	7.99%	7.99%	7.99%	7.99%
11	Department of transport	378,061,293.94	415,867,423.33	457,454,165.67	503,199,582.23	6.61%	6.61%	6.61%	6.61%
12	Department of agriculture	438,492,634.40	482,341,897.84	530,576,087.62	583,633,696.39	7.67%	7.67%	7.67%	7.67%
13	Department of water	812,887,164.27	894,175,880.70	983,593,468.77	1,081,952,815.64	14.22%	14.22%	14.22%	14.22%
14	Department of health	1,716,437,733.94	1,888,081,507.33	2,076,889,658.07	2,284,578,623.87	30.03%	30.03%	30.03%	30.03%
15	Department of Devolution & Public Service	11,353,231.00	12,488,554.10	13,737,409.51	15,111,150.46	0.20%	0.20%	0.20%	0.20%
16	County Assembly	418,682,593.00	460,550,852.30	506,605,937.53	557,266,531.28	7.32%	7.32%	7.32%	7.32%

17	Car Loan Fund interest payment	25,920,000.00	28,512,000.00	31,363,200.00	34,499,520.00	0.45%	0.45%	0.45%	0.45%
	TOTAL	**5,716,175,596.27**	**6,287,793,155.90**	**6,916,572,471.49**	**7,608,229,718.64**	**100%**	**100%**	**100%**	**100%**

C. County Budget and the Transfer of Functions

66. Allocation of funds and transfer of service from the National Government during this transition to devolved system is a major challenge. However the county government will continue to develop the requisite policies and laws to ensure all devolved functions are implemented as envisaged in order to enhance service delivery.

D. 2015/16 Budget framework

67. The 2015/16 budget framework will be guided by the county integrated development plan, the county's transformational agenda as outlined in the 2014/15 budget & Kenya Vision 2030. The projections assume normal weather pattern during the year and improved private sector investors' confidence in the county. There is anticipated stable national macro-economic conditions which will directly affect the county performance. This includes low, stable inflation & interest rates and low oil prices.

Revenue projections

68. The FY 2015/16 budget targets increased revenue (equitable share & local sources collection) from Kshs. **5,716,175,596.27** in the FY2014/2015 budget to over Kshs. **6,287,793,155.90**

Expenditure Forecasts

69. In FY 2015/16, overall expenditures are projected at Kshs. **6,287,793,155.90**, up from the estimated Kshs. **5,716,175,596.27** in FY 2014/15 budget.

Recurrent expenditures

70. The recurrent expenditure in FY 2015/2016 is expected to be maintained at 62.5% of the total budget just like in the FY2014/2015 budget. The County wage bill is expected to rise to over 39% of the total budget to accommodate for more staff being employed.

71. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2014/2015 budget as the starting point. Then an adjustment factor is applied to take into account the general increase in prices.

72. The contribution to civil servants medical insurance is expected to rise significantly in the FY 2015/16. The medical insurance allocation for FY 2014/15 was for the newly appointed County Staff and the former Local authority's staff only while the projection of FY 2015/16 provides for the entire county staff including those seconded from the national government and also takes into account the general increase in prices.

Development expenditures

73. The ceiling for development expenditures including donor funded projects will increase from Kshs. 2,143,748,726.12in the FY 2014/2015 to Kshs. 2,358,123,598.73 FY 2015/2016. This represents 37.5% of the total budget.

Overall Deficit and Financing.

74. The projected FY 2015/16 budget is a balanced budget with the projected revenue equivalent to the projected expenditures.

V. CONCLUSION AND NEXT STEPS

75. The National Budget Review Outlook will have a key input into the Makueni county BROP due to the macro-economic dynamics in the country. It is expected that it will give an elaboration of the County Government budgeting system and BROP.

76. The fiscal outcome for 2013/14 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the CFSP submitted to County Assembly. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act. They are also consistent with the County strategic objectives pursued by the County Government as a basis of allocation of public resources. These strategic objectives are provided in the plans developed to implement the County Integrated Development Plan & Transformational agenda as outlined in the FY2014/15 budget.

77. The sector ceilings annexed herewith will guide the department's ministries in preparation of the 2015/16 budget.

78. The next County Fiscal Strategy Paper (CFSP) will be finalised by the February 2015 deadline as per the PFM Act.

Annex 1;. Total Sector Ceilings for the MTEF Period 2015/16 – 2017/18 (Kshs Million)

SECTOR		ESTIMATES FY2014/15	CEILING FY 2015/16	PROJECTIONS 2016/17	2017/18
Agriculture and Rural Development	SUB - Total	**570,479,526.90**	**627,527,479.59**	**690,280,227.55**	**759,308,250.30**
	Rec. Gross	270,979,526.90	298,077,479.59	327,885,227.55	360,673,750.30
	Dev. Gross	299,500,000.00	329,450,000.00	362,395,000.00	398,634,500.00
Energy, Infrastructure and ICT (EII)	SUB - Total	**458,497,708.45**	**504,347,479.30**	**554,782,227.23**	**610,260,449.95**
	Rec. Gross	160,797,708.45	176,877,479.30	194,565,227.22	214,021,749.95
	Dev. Gross	297,700,000.00	327,470,000.00	360,217,000.00	396,238,700.00
General Economic Commercial and Labour Affairs (GECLA)	SUB - Total	**190,343,214.00**	**209,377,535.40**	**230,315,288.94**	**253,346,817.83**
	Rec. Gross	56,893,214.00	62,582,535.40	68,840,788.94	75,724,867.83
	Dev. Gross	133,450,000.00	146,795,000.00	161,474,500.00	177,621,950.00
Health	SUB - Total	**1,716,437,733.94**	**1,888,081,507.33**	**2,076,889,658.07**	**2,284,578,623.87**
	Rec. Gross	1,465,287,826.25	1,611,816,608.88	1,772,998,269.76	1,950,298,096.74
	Dev. Gross	251,149,907.69	276,264,898.46	303,891,388.30	334,280,527.14
Education	SUB - Total	**456,933,740.84**	**502,627,114.92**	**552,889,826.42**	**608,178,809.06**
	Rec. Gross	258,181,371.20	283,999,508.32	312,399,459.15	343,639,405.07
	Dev. Gross	198,752,369.64	218,627,606.60	240,490,367.26	264,539,403.99
Public Administration & Internal Relations (PAIR)	SUB - Total	**1,308,301,795.41**	**1,439,131,974.95**	**1,583,045,172.45**	**1,741,349,689.69**
	Rec. Gross	1,200,801,795.41	1,320,881,974.95	1,452,970,172.45	1,598,267,189.69
	Dev. Gross	107,500,000.00	118,250,000.00	130,075,000.00	143,082,500.00
Social Protection Culture and Recreation	SUB - Total	**202,294,712.46**	**222,524,183.70**	**244,776,602.07**	**269,254,262.28**
	Rec. Gross	57,290,263.67	63,019,290.04	69,321,219.04	76,253,340.94
	Dev. Gross	145,004,448.79	159,504,893.67	175,455,383.03	193,000,921.34
Environmental Protection, Water and Housing	SUB - Total	**812,887,164.27**	**894,175,880.70**	**983,593,468.77**	**1,081,952,815.64**
	Rec. Gross	102,195,164.27	112,414,680.70	123,656,148.77	136,021,763.64
	Dev.	710,692,000.00	781,761,200.00	859,937,320.00	945,931,052.00

	Gross				
Total	**Total**	**5,716,175,596.27**	**6,287,793,155.90**	**6,916,572,471.49**	**7,608,229,718.64**
	Rec. Gross	3,572,426,870.15	3,929,669,557.17	4,322,636,512.88	4,754,900,164.17
	Dev. Gross	2,143,748,726.12	2,358,123,598.73	2,593,935,958.61	2,853,329,554.47