REPUBLIC OF KENYA
MACHAKOS COUNTY GOVERNMENT

THE COUNTY TREASURY

MEDIUM TERM
FISCAL STRATEGY
PAPER

ACHIEVING EQUITABLE SOCIAL AND ECONOMIC DEVELOPMENT IN MACHAKOS COUNTY

FEBRUARY 2014
Foreword

This Fiscal Strategy Paper, the first since the operationalization of the County Governments, sets out county policy goals and strategic priorities that will be the basis for formulation of County’s Financial Year 2014/15 budget and the Medium Term. The Paper is prepared in accordance with the Public Finance Management Act, 2012.

The paper is being prepared at a time when significant progress has been made in operationalizing the County Government by appointing the County Executive, the County Public Service Board and operationalizing the County Assembly which are necessary institutions in facilitating effective service delivery in the County.

The County priorities and goals outlined herein are based on the County Integrated Development Plan and the Governor’s Manifesto, with emphasis on investment in: Agriculture and food security, Infrastructure, accessibility of water, accessible health care, education, increased investor and business confidence necessary to encourage investment, growth and employment creation. These priorities shall form the basis for formulation of FY 2014/15 budget and the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

The paper covers the following broad areas in review of the fiscal performance of financial year 2013/2014; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework.

The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

ELIZABETH NZYOKA

EXECUTIVE COMMITTEE MEMBER/ FINANCE AND REVENUE COLLECTION
Legal Basis for the Preparation of the Fiscal Strategy Paper

The Fiscal Strategy Paper is published in accordance with section 117 of the Public Finance Management Act, 2012 which states that:

1) The County Treasury shall prepare and submit to County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly, by 28th February of each year.

2) The County Treasury shall align its County Fiscal Strategy Paper with the National objectives in the Budget Policy Statement

3) In preparing the County Fiscal Strategy Paper, the County Treasury 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

4) The County Treasury shall include in its Fiscal Strategy Paper, the Financial Borrowing for the Financial year and over the Medium Term

5) In preparing the Fiscal Strategy Paper, the County Treasury shall seek and take into account views of:
   
   i. The Commission On Revenue Allocation
   ii. The Public
   iii. Any interested persons or groups: and
   iv. Any other forum that is established by legislation

6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the County assembly, the County assembly shall consider and may adopt it with or without amendments
7) The County Treasury shall consider any recommendations made by the County Assembly in finalizing the budget proposal for the financial year concerned.
8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County Assembly.
Fiscal Responsibility Principles in the Public Finance Management Law

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

i. The County Government’s recurrent expenditures shall not exceed the county government’s total revenue

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

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

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

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

vi. The fiscal risks shall be maintained prudently; and

vii. 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.
Overview

The Fiscal Strategy Paper identifies the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for Financial Year 2014/2015 and the Medium Term.

The paper discusses the performance of the Financial Year 2013/14 budget which forms the basis for projecting the financial outlook with respect to the County Government revenues and expenditures for financial year 2014/2015 and over the medium term.

The County priorities outlined in the paper shall form the basis for formulation FY 2014/15 budget and the Medium Term. The fiscal framework ensures adherence to principles of public finance and fiscal responsibility principles as set out in the Constitution and the Public Finance Management Act 2012 respectively. Specifically, the development to recurrent expenditures has been maintained within the required ratios of 30:70. Further the expenditures are fully funded from the allocation from the National Government and county own revenue. In achieving county goals, prudence in use of public resources will be exercised.

The paper covers the following broad areas; review of the fiscal performance of financial year 2013/2014; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework.

The priorities outlined in the Paper are in line with the priorities set out in the Budget Policy Statement, namely:

i. Creating conducive business environment
ii. Investing in Agricultural transformation and food security
iii. Scaling up investment in key infrastructural sectors, and
iv. Investing in quality and accessible health care and education

The broad key strategic priorities identified for implementation in the medium term are in line with the focus areas of the Medium Term Plan which include: employment creation, expansion and improvement in quality education, health and other social services, use of alternative energy, increased investment and modernization of Infrastructure.

In order to achieve the set objectives, the county will employ greater transparency, effectiveness, efficiency and economy in management of public resources in order to ensure fiscal discipline.
Performance of FY 2013/14 Budget

This section covers the performance of the FY 2013/14 budget for the period July 2013 to January 2014.

County revenue for the said period was mainly from the National Government allocation as provided in the County Allocation of Revenue Act, 2013 and County revenue. County own revenue consists of property rates, entertainment taxes and fees and charges as provided in the County Finance Act, 2013.

The expenditure units were the County Assembly and the County Executive consisting of the Governor's office, the Deputy Governor's office which includes Department of Public Service, Labour and ICT; and 10 (ten) County Departments namely:

- Department of Roads, Transport, Public Works and Housing
- Department of Land, Energy, Environment and Natural Resources
- Department of Health and Emergency Services
- Department of Water, Irrigation and Sanitation
- Department of Trade, Economic Planning and Industrialization
- Department of Decentralized Units, Urban Areas and Municipalities
- Department of Education, Youth and Social Welfare
- Department of Tourism, Sports and Culture
- Department of Agriculture, Livestock and Co-operative Development
- Department of Finance and Revenue Collection
The table below summarizes the performance of FY 2013/14 budget as at end January 2014.

Table 1: Performance of FY 2013/14 budget as at end January 2014.

<table>
<thead>
<tr>
<th>Amount in Kshs '000'</th>
<th>Approved Budget</th>
<th>Performance to End January 2014</th>
<th>Actual performance including commitments</th>
<th>% utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Total revenue</td>
<td>8,016</td>
<td>3,930</td>
<td>2,422</td>
<td>62%</td>
</tr>
<tr>
<td>1.1 National Government allocation</td>
<td>5,422</td>
<td>2,530</td>
<td>1,820</td>
<td>72%</td>
</tr>
<tr>
<td>1.1.1 Equitable share</td>
<td>4,900</td>
<td>2,275</td>
<td>1,782</td>
<td>78%</td>
</tr>
<tr>
<td>1.1.2 Level 5 hospital</td>
<td>108</td>
<td>48</td>
<td>38</td>
<td>79%</td>
</tr>
<tr>
<td>1.1.3 Donor Financed</td>
<td>414</td>
<td>207</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>1.2 Own revenue</td>
<td>2,594</td>
<td>1,400</td>
<td>602</td>
<td>43%</td>
</tr>
<tr>
<td>2 Total Expenditures</td>
<td>8,016</td>
<td>3,840</td>
<td>2,393</td>
<td>62%</td>
</tr>
<tr>
<td>2.1 Recurrent</td>
<td>3,856</td>
<td>967</td>
<td>1,095</td>
<td>113%</td>
</tr>
<tr>
<td>2.2 Development</td>
<td>4,159</td>
<td>2,873</td>
<td>1,298</td>
<td>45%</td>
</tr>
<tr>
<td>3 Budget Deficit=1-2</td>
<td>0</td>
<td>90</td>
<td>29</td>
<td>0</td>
</tr>
</tbody>
</table>

The budget approved by the County Assembly for the financial year 2013/14 amount to **Kshs 8.0 billion**. The recurrent and development expenditures accounted for 47.5% and 52.5% of the total budget respectively. Total expenditures for personnel emoluments amount to **Kshs.1.4 billion** translating to 36.8 percent of the total recurrent expenditures and 17.5 percent of the total budget.

**Revenues**

The approved expenditures were to be financed from two main sources: the allocation from the National Government and County own revenue. These were projected at **Kshs. 5.4 billion** and **Kshs. 2.6 billion** respectively. The allocation from the National Government was as follows; equitable share, **Kshs. 4.9 billion**; financing of Level 5 Hospital, **KShs.108 million**; and Donor Financing of **Kshs. 414 million** as indicated in Table 1 above.
Performance of Revenue

As at the end of January 2014, cumulative revenue receipts amount to **Kshs. 2.4 billion** against a target of **Kshs. 3.9 billion** translating to 62 percent of the set target.

The underperformance was mainly caused by delayed disbursement of revenue from National Government scheduled to have been released during the month of January, non-disbursement of donor funds for programmes and low collection of County own revenue.

To date, no donor financing has been released but it’s expected that the rest of the allocation from National Government will be released by end of financial year.

Low collection of revenue was due to delay in automation of revenue collection, recruitment of enforcement officers and provision of vehicles for supervision. The revenue system has so far been procured and is now operational. All these challenges have been addressed and the revenue performance is expected to improve for the rest of the financial year.

Expenditure Performance

The County recorded a performance (including commitments) of 62 percent of the approved expenditures for the first seven months of the financial year. The recurrent expenditures exceeded the set targets while the development expenditures were at 45% of the approved budgets. Low utilization of the development budget is attributed to delayed procurement of goods and services caused by delayed release of funds by the National Government.

Fiscal outlook to end June 2014

Expenditures

The budget approved by the County Assembly did not provide for wage bill of the devolved functions. The understanding as at the time of preparing the budget was that the wage bill for the devolved staff would be catered for by the National Government.

This amount is estimated at **Kshs 1.5 billion** for all the devolved functions with the health workers requiring close to **Kshs. 1.0 billion** by end of June 2014.

Further the County Treasury has received requests for funding of new programs amounting to **Kshs. 2 billion** mainly in infrastructure, energy and agriculture departments.

Revenues

Despite the low performance of revenues, the county remains optimistic that the revenue target for financial year 2013/2014 will be met. This is based on the upward trend on collection of
revenue for the first half as illustrated in Figure 1 below. The allocation from National Government is expected as per the County Allocation of Revenue Act, 2013.

Figure 1: Performance of revenue July 2013-January 2014: Amounts in Kshs. Million

To confront the challenges of revenue shortfall against expenditure pressures, the county will step up efforts on collection of revenue to eliminate leakages.

Measures would include enhanced monitoring and enforcement on revenue collection full implementation of County Finance Act, 2013 and full operationalization of the Revenue Management System.

The County shall further rationalize and even cut down some expenditures so as to create savings for the additional expenditures. Specifically, a 50% cut on recurrent budget will be applied to provide for the additional expenditure requirements for the wage bill. The additional funding requirement on development expenditures will be met through reallocations from programs with low absorption capacity which shall not adversely affect the priorities intended to be achieved by the budget.
Strategic priorities over the Medium Term

Budget estimates for the FY 2014/2015 and over the Medium Term, shall be based on the priorities outlined here in which are guided by the County Integrated Development Plan and aimed at accelerating growth, employment creation and poverty reduction.

County fiscal policies will remain supportive of growth while at the same time continuing with the fiscal discipline to ensure mobilization of adequate revenue to support all the county expenditures.

Main areas of intervention over the medium term will include:

— Continuing investment in Infrastructure
— Boost Agricultural Productivity
— Maximizing the use of County’s Natural Resources
— Provision of Water and Sanitation
— Public Service, Labour and ICT
— Supporting Investment and Trade
— Provision of Health and Emergency Services
— Promotion of Tourism and Culture
— Promotion of Education, Youth Empowerment and Social Protection
— Provision of Security as a foundation for other sectors to thrive in

Boost Agricultural Productivity

Investing in Agricultural sector not only achieves economic growth but also ensures food security, job creation, income generation and overall poverty reduction. The sector is the mainstay of the County economy with linkages in manufacturing, distribution and other service related sectors. The County therefore aims at raising agricultural productivity and increase commercialization of agriculture. This will be achieved through improvement of land use and crop development, enhanced accessibility to affordable farm inputs, adding value to agricultural produce and link the farmers to markets for their produce, extension services, use of environmentally friendly products, promotion of agro based industries and development of post - harvest farm management systems.
Continuing Investment in Infrastructure

Infrastructure is key achieving investment, increased production, access to essential services and overall economic growth.

The County will address infrastructure challenges by accelerating ongoing infrastructure development by developing, maintaining and rehabilitating infrastructure facilities, improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting and construction.

This will be achieved through continued provision of significant resources to support provision of energy, roads, Information Communication and Technology, and rails. This will ensure increased Private sector participation in the relevant sectors with the Public Private Partnerships Legislation further improving investment climate, productivity and competitiveness.

Priority programmes in this sector include: Rehabilitating rural access roads, Road Network expansion and upgrading programme, maintenance of existing road network, developing new and renewable energy technologies, development and maintenance of airstrip and Develop high technology ICT infrastructure

Supporting Investment and Trade

Trade is a key productive sector due its immense potential for wealth and employment creation as well as poverty reduction. Given its catalytic effect to sustained inclusive growth and huge potential for job creation and poverty reduction, the County Government will deepen business regulatory reforms, enhance access to credit, facilitate capacity building and simplify and modernize regime for small and medium businesses in order to amplify their multiplier effect on employment opportunities and accelerating growth.

Further, the county will focus on industries that are labour intensive, with the potential to export and increase market opportunities for small and medium industries.

Strategic efforts will be made to diversify markets by providing an environment conducive for business and ensuring that there is investor confidence. This will be achieved through development of policy, legal and institutional reforms for the development of the sector, fair trading licenses, support entrepreneurship and industrial development and promote exports. In addition specific measures will be undertaken to provide incentives to both local and international investors in order to position Machakos County as the premier investment hub in the country. Other measures will include maintaining law and order and providing security.
Local businesses will be promoted through promotion of agro-based industries, training of entrepreneurs and enhanced licensing of businesses.

**Security Programme**

Security is a foundation of good governance, individual social welfare and economic development by creating investor and business confidence. The county will implement this programme in partnership with the national government. The programme is expected to enhance the provision of efficient and effective services to the people of Machakos and facilitate an enabling environment for other sectors to thrive in. The programme is in line with Vision 2030 as it provides the security force with vehicles, modern equipment and technology.

**Provision of Health and Emergency Services**

In line with Vision 2030, the county shall ensure provision of equitable and affordable healthcare at the highest affordable standards. In the medium term, the County government will seek to address health related challenges through continued investment in training of health professionals, providing high quality preventive, curative and rehabilitative healthcare services to all, sanitation infrastructure and improvement in the working conditions of medical practitioners. Emphasis will be laid to preventive health which is crucial for the control of diseases.

Achievement of this will involve construction and upgrading of health facilities, hiring of additional health workers and procurement of medical inputs, management of childhood illnesses through sensitization and provision of immunization services and create awareness through campaigns.

**Provision of water and Sanitation**

The County Government will ensure increased access to water through expansion of the existing irrigation schemes, construction of dams along permanent rivers and seasonal rivers, drilling of shallow water wells and boreholes, purification and desalination of saline water and development of water storage capacity inform of construction and supply of tanks and finally ensure sanitation improvement.

**Maximizing the use of the County's Natural Resources**

Efficient use of natural resources is central to economic social and cultural development. Due to the finite nature of these resources they should be conserved and utilized in a sustainable manner. The County shall undertake strategies aimed at conserving the environment and natural resources and also ensure provision of reliable and affordable energy through exploration of
environmentally friendly and renewable energy sources; and rehabilitation and protection of water resources.

Public Service

Further the County will promote best labour practices in recruitment, allocating, motivating and effectively utilizing human resources for improved public service delivery and promote public service integrity.

Promotion of Tourism and Culture

Tourism and culture development have been a source of revenue to our county. The county will develop tourism infrastructure that can serve both local and international visitors. This will include improving the quality of tourism facilities and developing areas with greatest potential to attract tourists. Such programs include rehabilitation of existing caves, construction of monuments of our heroes and heroines, marketing the existing tourism attractions and promoting our cultural heritage.

Promotion of Education, Youth Empowerment and Social Protection

Over the medium term the county shall endeavor to increase access to quality early childhood education through subsidized cost of education, sustained school feeding programme and training of the staff. The county will also ensure renovations of ECD centers in rural areas and village polytechnics, ensuring improved and effective youth participation in all structures of decision making and establishing disaster management committees.

In order to support the vulnerable in the County, a social protection programme has been introduced and shall continue to be implemented in the medium term. The programme covers the elderly, women, youth, disabled and needy children.

Medium Term Fiscal Framework

Improvements recorded by the National Government inform of easing of inflation, lower interest rates and stable exchange rates are expected to spill over to the county inform of improved economic growth with the national growth projected at 5.8%, 6.4% and 7% in 2014, 2015 and 2016 respectively.

Revenue Projections

County’s sources of revenue include:
• **Equitable share**
The equitable share is an unconditional allocation to the County Governments from the revenue generated by the National Government as provided for by the constitution. The County is fully responsible for these funds and is directly accountable to the County Assembly on how the resources under her control are spent.

Equitable share from the National Government is estimated at **Kshs. 5.9 billion** during the FY 2014/15. This is derived from the draft Budget Policy Statement and will be firmed up when the BPS is finally approved by the National Assembly.

• **Conditional and Unconditional grants:**
These may be given as additional allocations from the National Government's share to which the National Government may or may not attach conditions in the FY 2013/14. These expenditures may include allocation on devolved functions which are not yet transferred to the County, allocation for level 5 hospital and allocations from development partners.

Conditional grant to Level 5 hospital has been retained at **Kshs. 108 million**.

• **Own revenues**
The county shall impose property rates, entertainment taxes, as well as other tax and user fees and charges as they shall be approved by the County Assembly.

County own revenue is projected at **Kshs. 2.6 billion**. This is based on the current trend of revenue collection and other revenue measures to be instituted. Total revenue available to fund the expenditure is therefore projected at **Kshs. 8.6 billion** in FY 2014/15 increasing to **Kshs. 9.4 billion** and **Kshs. 10.3 billion** in FY 2015/2016 and FY 2016/2017 respectively.

**Expenditures**

**Recurrent expenditures**

**Kshs. 3.8 billion** is projected to be spent on Recurrent Expenditures in the FY 2014/2015. Personal Emoluments account for **Kshs. 2.7 billion** with health workers salaries accounting for over **Kshs. 1.0 billion** in the financial year 2014/15.

Recurrent expenditures are projected to increase to **Kshs. 3.9 billion** and **Kshs. 4.0 billion** in FY 2015/16 and FY 2016/17 respectively. This translates to 44 percent of the total budget, reducing
to 39 percent in FY 2016/17. Personal emoluments are projected at 31 percent of the total budget and are projected to reduce to 27 percent in FY 2016/17.

**Development expenditures**

Total development expenditures shall account for 56 percent in FY 2014/15 increasing to 61 percent in FY 2016/17. These expenditures will go towards implementation of the county development programs as stated in section iii above

The outturn below provides the foregoing

Table 2: Medium Term Fiscal Framework: FY2014/15 to FY2016/17

<table>
<thead>
<tr>
<th>Expenditure Estimates</th>
<th>Medium Term Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013/14</td>
</tr>
<tr>
<td>1 Total revenue</td>
<td>8,016</td>
</tr>
<tr>
<td>National Government</td>
<td></td>
</tr>
<tr>
<td>1.1 Allocation</td>
<td>5,422</td>
</tr>
<tr>
<td>1.1.1 Equitable share</td>
<td>4,900</td>
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<td>2 Total Expenditures</td>
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<tr>
<td>2.1 Recurrent</td>
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</tr>
<tr>
<td>2.2 Development</td>
<td>4,159</td>
</tr>
<tr>
<td>3 Budget Deficit=1-2</td>
<td>0</td>
</tr>
</tbody>
</table>
Criteria for Resource Allocation

Overall, the expenditure projections are based on the following principles:

- **Mandatory obligations**: this takes first charge and includes salaries for County officers. The expenditures are based on the current wage bill with a growth of 10% to take care of any pending recruitment.

- **Operations and maintenance**: Departments are allocated funds for basic operations and maintenance calculated at 30% of the total personnel emoluments.

- **Development expenditure**: Development expenditure will be funded from the equitable share of the national revenues. Development expenditures are shared out on the basis of the County Integrated Development Plan, the Governors manifesto and other intervention to deal with unemployment and remove constraints to faster growth. In determining the departmental ceilings on development expenditure, the following guidelines shall apply:
  
  — *Completion of on-going Programs and projects*: emphasis is given to completion of on-going projects and in particular projects with high impact on food security, poverty reduction, employment and wealth creation.
  
  — *Strategic policy interventions*: Priority is also given to policy interventions to achieve social equity, environmental conservation and other priority areas.

**CONCLUSION**

The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.