



REPUBLIC OF KENYA
COUNTY GOVERNMENT OF NYANDARUA
COUNTY TREASURY



Medium Term

County Fiscal Strategy Paper

2015

**COUNTY GOVERNMENT
OF NYANDARUA**

COUNTY FISCAL STRATEGY PAPER(CFSP)

County Treasury

FEBRUARY 2015

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Foreword

Since the dawn of devolution, just under two years ago, the Nyandarua County government has financed a massive expansion of services to all citizens of the County, with a particular focus on the poor who are largely engaged in the agricultural sector. We have done so in a sustainable way, ensuring that our public finances remained healthy so that we could continue doing our part in building the society envisioned in the Kenya vision 2030.

The 2015 Medium Term Budget Policy Statement provides a roadmap to safeguard the county public finances. Since the three- year moratorium on county debt is still in force, the county government proposes a fiscal package that balances the expenditure ceiling with increased tax revenue over the next two years. This will ensure that there is no budget deficit for the county.

Continued fiscal consolidation will secure the county public finances on a sustainable footing but we will also approach budgeting for the next financial year with a greater focus on long-term expenditure planning and alignment with the national government’s policy objectives.

In considering these proposals, we must emphasize that containing expenditure growth will not compromise front-line services. Key social programmes will be protected and the county government will continue to roll out its capital investment programme especially in the roads sector as well as construction of county buildings to bring services closer to the people.

I would like to thank the Governor and all of my Cabinet colleagues for their contributions to shaping the proposals before us, as well as the input from the public in the county budget and economic forum, which has brought tremendous insight into the process. I would also like to acknowledge the officials of the National Treasury, who are working with their colleagues across the national government to ensure that our public finances remain sound.

Finally, I would like to express my gratitude to all those who have and continue to participate in this year’s budget process including County Assembly Members, the private sector, civil society and development partners who at various stages provided valuable comments.

Hon. Nderi Ndiani

County Executive Committee Member for Finance and Economic Planning

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Acknowledgments

The 2015 County Fiscal Strategy Paper (CFSP) is an initiative of Nyandarua County to ensure effective linkage between policies, planning and budgeting. It provides a fiscal framework for the 2015/16 budget and the medium term. It also sets firm sectoral and programme ceilings in line with indicative ceilings outlined in the CBROP.

The preparation of the 2015 CFSP was a cooperative effort but a core team in the County Ministry of Finance and Planning spent a significant amount of time to put together the report under the leadership and guidance of the County Executive Member for Finance Hon. Nderi Ndiani. In this regard, we are grateful to the following;

- County Finance and Planning team (Muigai Wainaina, Willy Gichora, Simon Irungu, Virginia Muthoni, Melody Njeru, Teresia Muchai and Dedan Kigotho)

The team also acknowledges the contribution made by the Chief Officers, members of the public, the County Budget and Economic Forum and other key stakeholders who provided vital information and took time to review the drafts and provide needed input.

Michael Kamau Kuria

Chief Officer Finance and Economic Planning

Legal Background

The County Fiscal Strategy Paper (CFSP) was prepared by the County Treasury in accordance with Section 117 of the PFMA, 2012. The Act states that a County Treasury;

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

The main objectives of a CFSP are to 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
- the financial outlook with respect to County government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- an assessment of the current financial year and the projected state of the economy for the succeeding three years;
- targets for overall revenues, total aggregate expenditure and domestic and external borrowing for the succeeding financial year and the medium term;
- the total resources to be allocated to individual programmes within a sector indicating the outputs expected from each such programme during that period;
- the criteria used to allocate or apportion the available public resources among the various programmes;
- forecast financial position for the financial year to which the budget relates and the next two financial years;

In summary, this CFSP is expected to set the tone and financial objectives that will guide the preparation and implementation of the 2015/2016 budget as well as provide a summary of the national macroeconomic outlook and how this will affect the County's economic performance.

Chapter One: Sustaining investment and safeguarding the County public finances

In Brief

The growth rate of the national economy is set to improve over the next several years as new energy and transport investments start to operate, exports increase and investment recovers. This is demonstrated in the 2014 National Budget Policy Statement as well as the draft 2015 BPS. However, the budget deficit remains high, debt levels continue to increase and the economy remains vulnerable to global volatility such as tourism slumps and demand for the country's products.

In this national environment, the Nyandarua County Government proposes a package of fiscal measures to establish a sustainable foundation for the county public finances, and to build a platform for investment-led growth in the future. The proposals include strict and conservative spending ceilings, reduced government consumption expenditure, increased capital expenditure and increases in revenue. The most important public spending programmes – those that help poor subsistence farmers – will remain in place and will be shielded from inflation.

These proposals are necessary to sustain social progress and to improve the lives of all County residents.

1.1 Introduction

The 2015 County fiscal Strategy Paper continues in the established fiscal policy which began in 2013. For the 2015/16 financial year, the County Government proposes a series of measures to increase revenue and balance expenditure. These steps are necessary to ensure the sustainability of Nyandarua County's most important public spending programmes in an uncertain economic environment. The proposals complement reforms under way to moderate consumption, boost savings and expand productive investment.

Asustainablefoundationfort
hepublicfinancescanopenth
ewayforinvestment-
ledgrowth

In a mixed economy the burden of development cannot be carried by the Fiscal policy alone

In promoting these objectives, two challenges stand out over the next several years. The first is to encourage greater private-sector investment in the county economy. Private investment has remained subdued since the advent of devolution, and this is reflected in economic performance.

The main reason for this is a dearth of infrastructural development in the history of the county which the current county government has committed to mitigate with massive investment in this sector. The County Government is well aware that the burden of development cannot be carried by the fiscal policy alone but the private sector must be encouraged to invest and thereby create employment and revenue for the county coffers.

Removing obstacles to private investment continues to remain a priority for the County Government.

The second challenge is to convert the county's main economic activities from primary production to value addition which creates more employment while remaining more profitable.

The government's medium-term fiscal strategy (MTFS) for the period 2015-2019 provides a roadmap to address these challenges. It is the second policy framework designed in sync with the 2030 vision of the National Development Plan. The MTFS aims to improve policy coherence, alignment and coordination across government. It highlights the need for partnerships between a capable developmental state, a thriving business sector and a "value-addition" centred economy. It identifies employment, education and enhancing the capacity of the county government as core policy objectives.

MTFS sets out a three-year roadmap to tackle urgent challenges as part of a long-term development plan

MTFS priorities for structural reform over the period ahead include:

- Building the capacity of the counties, through the "back-to-basics" approach, focused on improving service delivery, accountability and financial management.
- Reshaping urban environment through integrated spatial planning
- Improving the quality of the early childhood education system, starting with greater attention to human resources management and annual assessment of learners to benchmark progress.

As noted in County Budget Review and Outlook Paper (CBROP) 2014, the key features of sectoral resource allocation for 2015/16 will be guided by the emerging priorities, county sector plans and the principles of PFMA to ensure effective utilization of public finances. The sector allocations are also informed by the county goals and people's aspirations as captured in the County Integrated Development Plan (CIDP).

1.2 Half-year Budget Performance (2014/15 FY)

County revenue performance remains on an upward trend and expenditure growth remains modest

The Nyandarua County Budget Estimates for the FY 2014/15 was Kshs.3.70 billion comprising of Kshs.2.88 billion (78.0 per cent) for recurrent expenditure and Kshs.820 million (22 per cent) for development expenditure. This budget is financed by Kshs.3.758 billion (102 per cent) from the national equitable share and Kshs.479 million (13 per cent) being balance brought forward from FY 2013/14.

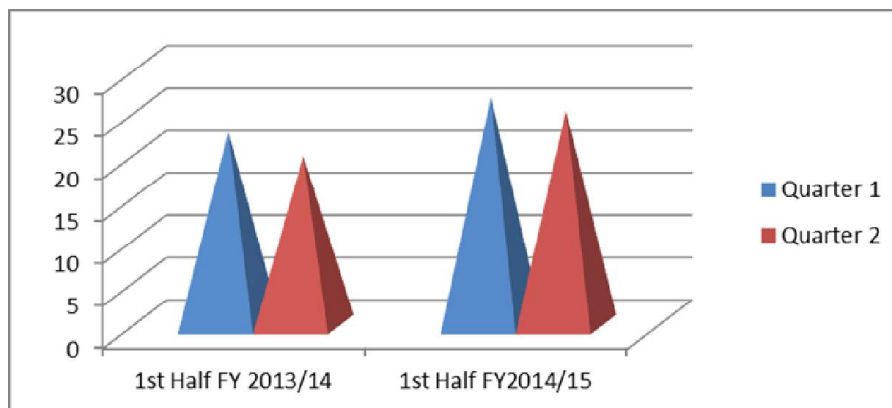
The budget did not factor in conditional and Danida grants to hospitals revenue sources thus the county had a surplus budget.

1.2.1 Revenue

County revenue performance continues on an upward trajectory

In the first half of FY2014/15, the County received Kshs. 1.089billion as national sharable revenue and Kshs.52 million from local sources. The County collected Kshs.26.8 million in the first quarter and Kshs.25.2 million in the Second quarter. The local revenue raised in the first half of FY 2014/15 of 52 million is an improvement from Kshs.42.6 million collected in the same period of FY 2013/14. **Error! Reference source not found.**1 shows the trend of local revenue collection by quarter.

Figure 1: Quarterly Trend in Local Revenue Collection



Source: Nyandarua County Treasury

The County received exchequer issues of Kshs.1.39 Billion, of which, Kshs.1.11 billion (80 per cent) was for recurrent expenditure and Kshs.277 million (20 per cent) was for development activities.

1.2.2 Expenditure

The total expenditure for the first half of FY 2014/15 was

Kshs.1.08billion which was 77 per cent of the total funds released and an improvement from the Kshs.470 million spent in the same period of FY 2013/14. The County spent Kshs.965 million (90 per cent) on recurrent activities and Kshs. 112 million (10 per cent) on development activities. Recurrent expenditure was 69 per cent of the funds released while development expenditure accounted for 8 per cent.

Increase in absorption capacity is a signal of improved budget implementation

The recurrent expenditure for the period under review represented an absorption rate of 34 per cent of the annual recurrent budget, an increase from an absorption rate of 20 per cent realized in the same period of FY2013/14. Development expenditure recorded an absorption rate of 14 per cent of the annual development budget, an improvement compared to the same period in FY 2013/14 when the County had an absorption rate of 2 per cent on development activities.

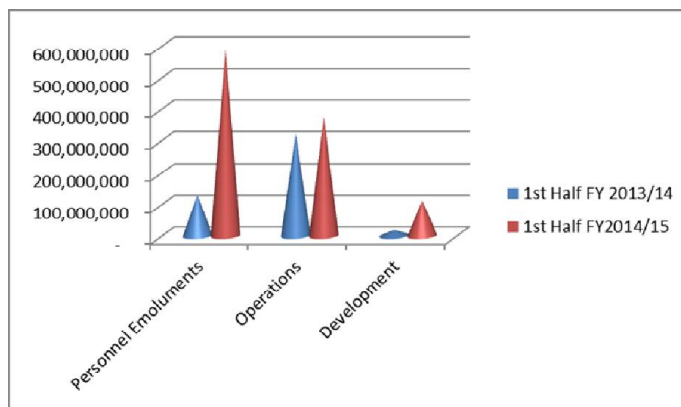
Personnel emoluments continue to take up a significant portion of county resources due to inherited staff from the national government.

Analysis of the recurrent expenditure of Kshs.965 million shows that the County spent Kshs.589 million on personnel emoluments which represents 61 per cent of the total recurrent expenditure and Kshs.376 million on operations and maintenance expenditure which is 39 per cent of the total recurrent expenditure for the first half of FY 2014/15

A comparison of the total expenditure between the period under review and the same period last financial year is shown in

Figure 22. Below

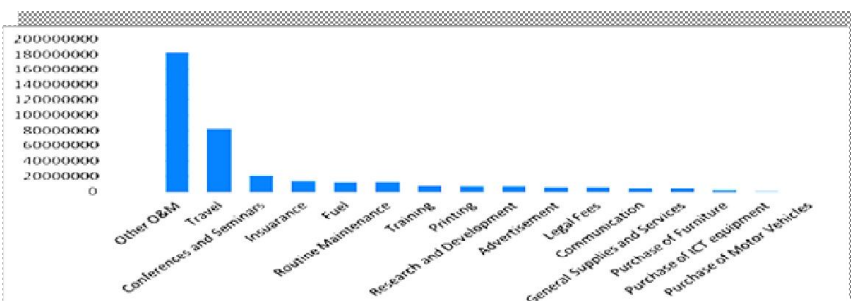
Figure 2: First-Half Nyandarua County Expenditure



Source: Nyandarua County Treasury

Figure 3: Operations and Maintenance Expenditure, Nyandarua County (in Kshs.)

Travel expenditure includes mileage allowance for the County Assembly, inspection visits to projects and capacity development



Source: Nyandarua County Treasury

1.2.3 Departmental Expenditure

Analysis of expenditure by department shows that the County Assembly had the highest absorption rate of the annual budget at 45 per cent while the department of ICT and E-Government had the lowest absorption rate of the annual budget at 1 per cent. The expenditure of various sectors is summarised below in table 1.

Table 1: Expenditure by Department

| COUNTY EXPENDITURE BY DEPARTMENT | | | | | | | | | | |
|------------------------------------|-----------------------------|--------------------|-----------------------------|--------------------|------------------------|--------------------|-------------------------------------|------------|----------------|------------|
| DEPARTMENT | BUDGET ALLOCATION (Kshs...) | | EXCHEQUER ISSUES (Kshs....) | | EXPENDITURE (Kshs....) | | Expenditure to Exchequer issues (%) | | Absorption (%) | |
| | RECURRENT | DEVELOPMENT | RECURRENT | DEVELOPMENT | RECURRENT | DEV. | RECURRENT | DEV. | REC. | DEV. |
| Legal and Public Service | 365,651,988 | 40,050,000 | 139,620,698 | - | 65,755,334 | - | 47.1% | 0% | 18% | 0% |
| Finance & Economic Planning | 342,340,254 | 31,650,000 | 146,390,925 | 11,000,000 | 108,450,936 | 10,418,329 | 74.1% | 95% | 32% | 33% |
| Agriculture Livestock & Fisheries | 317,206,500 | 151,051,600 | 118,210,346 | 44,612,820 | 103,206,229 | 11,804,695 | 87.3% | 26% | 33% | 8% |
| Lands, Housing & Physical Planning | 95,960,364 | 100,500,000 | 37,053,333 | 19,000,000 | 19,072,069 | 3,510,000 | 51.5% | 18% | 20% | 3% |
| Roads Transport & Public Works | 88,050,000 | 230,680,137 | 38,906,000 | 95,200,000 | 16,578,077 | 52,158,919 | 42.6% | 55% | 19% | 23% |
| ICT & E-Government | 87,622,867 | 11,000,000 | 26,709,000 | 2,800,000 | 1,030,574 | - | 3.9% | 0% | 1% | 0% |
| Health Services | 722,620,492 | 56,200,000 | 293,059,056 | 25,073,596 | 301,956,037 | 28,074,332 | 103.0% | 112% | 42% | 50% |
| Education, Gender, Youth, Sports | 115,591,600 | 36,450,000 | 51,154,045 | 14,124,000 | 47,056,960 | 300,000 | 92.0% | 2% | 41% | 1% |
| Industrialization Coop, tourism | 93,173,296 | 81,180,000 | 38,429,163 | 26,480,000 | 15,381,740 | 5,972,500 | 40.0% | 23% | 17% | 7% |
| Water & Environment | 71,507,472 | 81,699,728 | 30,253,500 | 39,600,000 | 23,184,837 | - | 76.6% | 0% | 32% | 0% |
| County Assembly | 582,383,264 | - | 192,356,233 | - | 263,955,018 | - | 137.2% | 0% | 45% | 0% |
| TOTAL | 2,882,108,097 | 820,461,465 | 1,112,142,300 | 277,890,416 | 965,627,810 | 112,238,775 | 87% | 40% | 34% | 14% |

Source: Nyandarua County Treasury

Reprioritization of expenditure from non-core functions to core needs

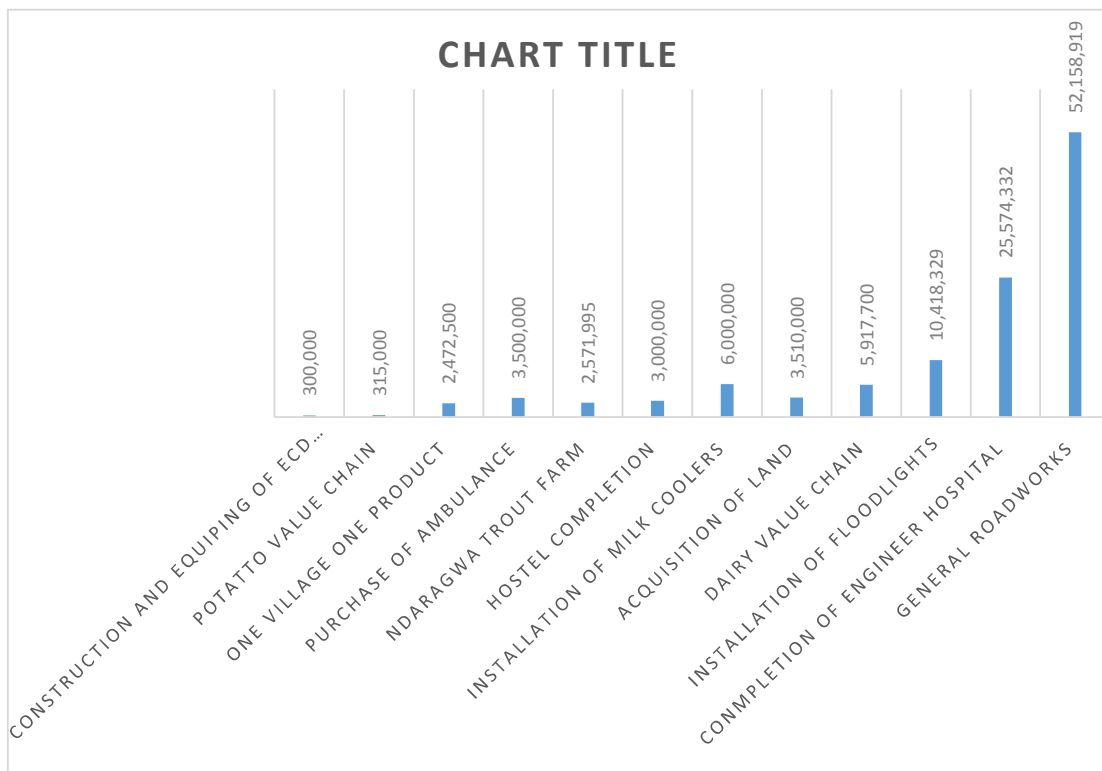
1.2.4 County Assembly Expenditure

The County Assembly spent Kshs.35 million on its legislative, representation and oversight functions representing an absorption rate of 44 per cent of the annual budget. Other expenditures by the Assembly amounted to Kshs. 82.33 Million in the period under review of FY 2014/15 compared to Kshs. 44.36 million spent in the same period of FY 2013/14

1.2.5 County Development Expenditure

Analysis of the development expenditure for the period under review of Kshs.112 million shows the highest expenditure was in general roadwork’s Kshs. 52 million, completion of the Engineer hospital Kshs. 25million and installation of floodlights at Kshs. 10 million as shown in the figure 4 below

Figure 4: Analysis of Development Expenditure, Nyandarua County



Source: Nyandarua County Treasury

1.3 Sustaining public-sector infrastructure investment

Investment by the County Government has risen considerably over the past two years and this is shown in the fiscal framework over the period. This trend has been supported by the sustained expansion of public infrastructure spending. The completion of major transport and logistics projects over the medium term should boost the growth potential of the county economy.

Continued expenditure on infrastructure remains a county priority.

Two things are required to sustain high levels of public-sector capital investment. First, the County Government ministries need to moderate their discretionary spending, which accounts for 100 per cent of consolidated expenditure in 2014/15. They need to approach this from a position of reducing consumption-type of expenditure and applying the resultant savings to development expenditure. Moderating consumption will create fiscal space to sustain investment and reduce over-reliance on national government resource flows.

Reprioritization of expenditure away from present consumption to development is key to meeting county development goals

Secondly, greater space must be created for partnerships that draw private capital into public-sector infrastructure projects. It is therefore imperative that county government agencies begin to examine the viability of public-private partnership agreements within the county under the ambit of the Public-Private Partnership (PPP) Act, 2013.

Private public partnership potential

1.3.1 Fiscal Consolidation

Fiscal consolidation can no longer be postponed. Ensuring continued progress towards an improved prospects for the county residents obliges the government to safeguard the public finances by acting within fiscal limits that can be sustained over the long term. To do otherwise would risk exposing the county to a debt trap, with damaging consequences for development for many years to come.

Continued fiscal consolidation to guarantee the sustainability of Nyandarua county Finances

Over the next two years, the moratorium on county public debt will elapse and expansionary policies will create demand for borrowing resources from various sources. As a result, county public debt may approach the limits of sustainability and debt-service payments may consume a growing share of the county budget, narrowing the space to expand public services and investment. Over time, these conditions will undermine growth and employment. It is therefore imperative that increases in expenditure by the spending agencies be tempered and limited to additional investment rather than increase appetite for consumption.

Proposals enable the county government to remain broadly in line with the balanced budget enumerated in the 2014 CFSP

1.3.2 Spending and revenue measures

Entrenching sustainability in the resource envelope while protecting core social and economic programmes requires a combination of spending and revenue adjustments over the next two years. Moderating expenditure growth, combined with revenue measures to increase revenue, will improve the fiscal position and this approach will enable the government to remain broadly in line with the deficit path announced in the 2014 CFSP, stabilising budget implementation.

Proposed reductions to planned expenditure ceilings will be targeted to avoid cuts in front-line service delivery. Budgets for non-essential goods and services will be frozen, resulting in substantial savings over the next two years. For example, across county departments, planned expenditure on travel and subsistence as well as advertising and communications budgets will be reduced as will spending on consultants.

1.3.3 Wage Bill

Restraining the growth of the County Government's wage bill is an important aspect of this rebalancing. Wage settlements should protect workers' purchasing power, with any upward adjustments matched by productivity improvements. This will remain the main approach to increments in wages for public servants in the county government.

Over the period ahead, the county government will approach budgeting with a greater focus on the scope and quality of long-term expenditure planning.

1.3.4 Improving government services and delivery

Increased public spending has funded a large expansion of the social wage, rising public-sector salaries and increased capital budgets. The county government remains committed to maintaining the value of core social expenditure programmes while sustainably increasing capital investment.

Budgets for health, education and social grants will keep pace with inflation over the medium term. Allocations to technical training and skills development, as well as housing and social infrastructure, will continue to reduce in growth in real terms.

Most priorities of the five-year MTFS are financed within the three-year medium-term expenditure framework (MTEF). Where funds are needed to expand programmes or to introduce new ones, savings must be sourced from within existing baselines.

Wage bill containment will continue guide public sector employee compensation

Chapter Two: Fiscal outlook

In brief

- National Economic growth is expected to improve moderately over the next three years, reaching 7.3 per cent in 2018.
- The medium-term strategic framework prioritises initiatives that will boost investment, including major projects in infrastructure.
- The global rebalancing of trade provides opportunities for Nyandarua County to broaden exports beyond its traditional reliance on agricultural exports.
- Nyandarua County's low level of savings and high investment requirements increase the economy's reliance on and vulnerability to, national capital flows. Proposed fiscal measures will help to address this and ensure the long-term sustainability of the public finances.

2.1 Growth and structural reform

Economic growth is expected to rise gradually over the medium term, up to 2017. The improving outlook will be supported by significant national growth, rising trade with other counties, the easing of transport and logistics constraints as infrastructure projects are completed, a stabilisation of energy supply and a recovery in private investment.

2.2 Structural changes underway in Nyandarua County

CFSP programmes complement structural shifts already underway in the Economy

The County Integrated Development Plan acknowledges that growth and job creation must be underpinned by a shift from consumption to investment. This CFSP outlines programmes and investments to improve productivity and competitiveness, particularly in core productive sectors and new areas with potential, such as mechanized agriculture. These reforms will complement structural shifts that are already under way in the main sectors of the economy.

As a result of some of these structural changes, the labour intensity of production continues to decline. While reductions in labour intensity boost unit labour productivity and can enhance competitiveness, the County Government realizes that the economy is not yet creating jobs at a sufficient pace to absorb new entrants in the workforce, or to substantially reduce unemployment and this will be addressed in the coming budget.

2.2.1 Manufacturing

Manufacturing remains the primary goal of the county government with a view to value addition to primary products found in the county

The manufacturing sector has not yet taken up the mantle in the county, with private investment hampered by electricity and transport constraints, as well as skilled labour. The National government assures the country that these will be addressed shortly and this is found in the 2015 national BPS and Nyandarua seeks to capitalize on this.

Growth in manufactured exports will therefore rise in the medium term, suggesting competitiveness and efficiency gains, partly through upgrading of obsolete milk processing equipment, supported by industrial policies and incentives by the National Government.

2.2.2 Agriculture

Labour-intensive horticultural exports growing as share of total agricultural output

Given the need to revitalize agriculture and to address issues of low productivity, income generation and improvement of livelihoods for the residents of Nyandarua majority of whom are in the farming business, the share of resources to the agriculture sector is projected to increase in 2015/2016. The additional resources should specifically be to adequately fund the following areas in agriculture: supply of farm inputs; increased mechanisation; Micro irrigation projects; Agro processing and linkage to markets; Increased collaboration with relevant Self help Groups and improvement of extension service delivery system and capacity building

Nationally, exports from agriculture are responding to growing demand in sub-Saharan Africa and elsewhere which should help to boost performance over the medium term. The Nyandarua farmer should be in a position to capitalize on this.

Road works to improve access to markets for products as well as reduce costs of inputs and extension services

2.2.3 Transport

Large capital investments under way in transport will result in higher productivity over time. In the case of roads, the new arteries and gravelling of existing links will result in lower costs of production as inputs reach the producer cheaper and more reliably and products get to markets in a more efficient manner in the medium term. The County government will not only sustain investment in this crucial sector, but will also seek to upscale further investment to secure growth in the county economy.

Chapter Three: Fiscal policy

In brief

- The County Government proposes a comprehensive package of measures to balance the budget and have no deficit in the medium term to ensure fiscal sustainability.
- Moderating expenditure growth, combined with tax measures to increase revenue, will improve the fiscal position
- Expenditure on core social and economic programmes will be maintained, with reductions focused on non-essential goods and services.
- Personnel budgets of county government will be tempered and funding for vacancies will be reviewed.
- Riding on the favourable national economic growth, the fiscal proposals will enable the county government to remain broadly in line with balanced budget.

3.1 A sustainable foundation for the public finances

The county government proposes a medium-term fiscal policy package to maintain the sustainable foundation for the public finances established in previous budget documents. The proposals represent a course maintenance in line with moderate economic growth over the past two years and the prudent outlook. Over the MTEF period, county government's fiscal objectives are to:

*Fiscal course maintenance
responds to favourable
economic growth
And moderate outlook*

- maintain the balanced budget in line with the targets announced in the 2014 Budget. This will require lower expenditure growth and tax reforms to increase revenue collection.
- ensure fiscal sustainability, and shift resources away from non-priority payments to service delivery.
- Continue to shift spending towards county government's priorities as set out in past CFSPs and the CIDP.
- Contain growth in budgets for goods and services, and compensation of employees.

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

3.2 Changes to revenue policy and administration

Structural revenue increase is proposed

The county government proposes a structural increase in revenues over the medium term. Policy and administrative reforms will raise at least kshs.235.6 million in 2015/16, kshs.249.7 million billion in 2016/17 and kshs. 264.7 million in 2017/18. The details of proposed changes will be announced in the draft finance Bill, 2015 to be submitted to the County Assembly.

The proposals will enhance the progressive character of the fiscal system, improve tax efficiency and realise a structural improvement in revenue. The short- and long-term implications for economic growth and job creation will be a key consideration.

3.3 Medium-term budgeting

Ensuring no deficit will allow government to build fiscal space in future

Over the next two years, during which there is little scope to augment resources, the budget process will be refocused. A new approach to budget preparation will extend the scope and quality of long-term expenditure planning. A comprehensive assessment will examine baseline estimates for the outer year, emphasising value for money and alignment with longer-term policy priorities. Indicative allocations in the third year of the budget framework have been restrained, and there are substantial unallocated resources. These resources will be available to build a buffer against economic and fiscal shocks in the years ahead.

Table 2: Fiscal Framework for the Medium Term

| Nyandarua County Government fiscal projections 2014/15 – 2016/17 | | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 |
| REVENUE | | | | |
| National Transfers | 3,150,207,289 | 3,758,296,517 | 3,983,794,308 | 4,222,821,967 |
| Local Collections | 138,439,331 | 146,745,691 | 235,550,432 | 249,683,458 |
| Donor Funds | - | - | 8,400,000 | - |
| TOTAL | 3,288,646,620 | 3,905,042,208 | 4,227,744,740 | 4,472,505,425 |
| EXPENDITURE | | | | |
| Recurrent | 2,319,904,433 | 2,733,529,546 | 2,869,154,423 | 3,041,303,689 |
| Development | 569,860,854 | 1,171,512,662 | 1,358,590,317 | 1,431,201,736 |
| TOTAL | 2,889,765,287 | 3,905,042,208 | 4,227,744,740 | 4,472,505,425 |
| Surplus / Deficit | 398,881,333 | 0 | 0 | 0 |

The framework, which takes into account government's fiscal policy package, allows for moderate real growth in spending over the next three years.

Fiscal framework allows for moderate real growth in Spending over medium term

3.4 Risks to the fiscal outlook

The main risks to the fiscal outlook are economic performance, the public-sector wage bill and the unreliability of revenue flows due to disputes with constitutional offices like the office of Controller of Budget(OCOB) and the Commission on Revenue Allocation(CRA) the case in point being the court case by the County Assemblies touching on ceilings imposed by the CRA and OCOB which has greatly hampered revenue flows to the County in the current year.

The gross county wage bill continues to be a significant concern in the implementation of the budget or indeed in the realization of Nyandarua's fiscal goals. The recruitment of any additional staff must therefore be based on the outcome of the on-going job evaluation exercise aimed at staff rationalization to achieve a lean and efficient workforce and a sustainable wage bill.

Fiscal risks still remain in the economy but will progressively be addressed

Another specific concern is the revenue effort and specific and targeted interventions will be designed to ensure that the budget of Nyandarua county remains fully financed and no project or programme is jeopardized by inadequate resources from the side of the County.

Chapter Four: Expenditure priorities and the division of revenue

In brief

- Government proposes expenditure growth of 6 per cent a year over the next three years, reaching kshs. 4.7 billion in 2017/18
- In line with the medium-term strategic framework, the largest allocations over the three-year spending period ahead are to human resource (29 per cent), governance (21 per cent) and infrastructure (14 per cent). Productive (12 percent) and agriculture (11 per cent)
- Spending by function will grow most rapidly in health care and infrastructure development.

4.1 Spending plans for the next three years

In line with the economic outlook discussed in Chapter 2, and the fiscal policy considerations set out in Chapter 3, the county government has adjusted its plans for the three-year spending period ahead. Moderate real growth in spending will enable the county government to finance most of the key priorities of the CIDP as expressed in the County Fiscal Strategy Paper (CFSP).

Maintain the previously announced expenditure ceiling necessitates focus on to spending plans over the next two years, and a comprehensive assessment of baselines

Expenditure will remain focused on infrastructure, human resource development (education and skills development, health and social protection), which will account for about 43 per cent of allocated spending over the medium-term expenditure framework (MTEF) period.. County Government will continue to pursue greater efficiency and value for money in achieving its goals

The projects which were ongoing by the time the County Government came into office and funded under the Local Authority Transfer Fund (LATF) will receive first priority in allocation of funds in the 2015/2016 FY budget. This will ensure that the objectives for which the projects were initiated are met as the projects had been identified through a participatory process(LASDAP) and were therefore priority for the communities.

4.2 Medium Term Expenditure Framework - Policy goals

4.2.1 Education and Skills

Over the next three years, the county government proposes to allocate significant resources to early childhood as well as polytechnic education and skills

Education and health care to remain the main drivers in the social sector with significant resources

development. This will be done to achieve the following targets

- Increase enrollment in youth polytechnics by 10%
- Enhancing enrolment in ECD centres
- Increase the number of ECD centres
- Recruitment of ECD prepratory assistants
- Increasing the number of youth polytechnics

In combination with greater attention to teacher training and human resource management, these approaches will help to improve teaching and learning. The department will also be responsible for talent identification and development, community mobilization and cultural development.

4.2.2 Health

Almost 19 per cent of total spending, will be allocated to health over the MTEF period. This will help achieve long and healthy life for all Nyandarua County citizens. A large share of spending growth covers the expanding provision of preventive and curative healthcare through:

- Transforming J.M. Kariuki (Olkalou) District Hospital to a referral hospital. This will require expansion of the existing infrastructure through construction of a larger laboratory, a renal unit and a theatre among other infrastructures.

In order to fast track the upgrading of the Engineer hospital to level four, the existing infrastructure will also be expanded through completion of the maternity block, completion of the radiology unit and construction of a laboratory.

These expansions in the two hospitals will also allow the county to benefit from the medical equipment to be supplied by the National Government under the Managed Equipment Services(MES) Programme.

- Equipping of existing health facilities

Expenditure growth in this sector is also driven largely by compensation of employees, which has grown since the inheriting of national government staff by the county government over the past two years. This must be managed to ensure continued funding for other essential inputs.

A large share of spending growth covers the expanding provision of curative healthcare. This will help achieve long and healthy life for Nyandarua County Citizens.

4.2.3 Infrastructure

Apart from growing budget allocations, increased attention is needed to improve efficiency in the provision of infrastructure and, crucially, to plan and conduct regular maintenance. This will be done through completion of viable on-going projects as well as the reconstruction, rehabilitation and maintenance of existing county road infrastructure that lies under the jurisdiction of Nyandarua County Government. Complementary investments by the private sector will also be sought under the auspices of the private-public partnerships.

Infrastructural investment to drive economic growth in the county – scaled up in the medium term

4.2.4 Lands , Housing and Physical Planning

The department will be at the forefront in deriving policies and instituting systems to promote improved land use management. Medium-term priorities include:

Town transformation and investment in urban infrastructure

- Land surveying and mapping
- Development of low cost housing
- Development of intergrated physical development plans and policies for all towns.

The County Government also aims to transform the towns encouraging greater intergration of residential areas and thereby building the county seat Ol kalou town.

4.2.5 Industrial Development, Trade cooperatives and Enterprise

This function group promotes industrialisation, economic transformation and sustainable resource management, and will lead to attainment of decent employment through inclusive growth. The Cooperatives Department will undertake the revival of collapsed cooperatives, strengthening of existing cooperatives with the aim of increasing the role they play in marketing of produce, provision of credit facilities and training to the farmers as well as increasing savings and investments .

This function group will facilitate stimulation of growth of MSMEs to generate much needed employment opportunities.

The Entreprise and Industrialization department will place a lot of emphasis on promotion of light industries for value

addition and processing of agricultural output. This will facilitate stimulation of growth of MSMEs to generate much needed employment opportunities.

4.2.6 Agriculture Livestock and Fisheries

Given the need to revitalize agriculture and to address issues of low productivity, income generation and improvement of livelihoods for the residents of Nyandarua majority of whom are in the farming business, the following interventions will be undertaken:

- Supply of farm inputs
- Increased mechanisation
- Agro processing and linkage to markets;
- Increased collaboration with relevant SHS; and
- Improvement of extension service delivery system and capacity building

4.2.7 Water, energy, Environment and natural resources

Funding for social infrastructure such as potable water, and sanitation supports improved quality of household life. The Water Department will ensure provision of adequate water through County and community based water projects, drilling of boreholes, construction and rehabilitation of dams and water pans. Meanwhile the environment department will continuously conduct checks on the general environmental status, inspect and report on adherence to requirements by slaughter houses, food processing firms and road contractors as well as issue environmental restoration orders where necessary such as in cases of encroachment of wetlands.

The department will also promote the use of renewable energy to run the floodlights. This will save the county on huge electricity bills.

4.2.8 Governance and Administration

The County Governance and Administration sector is responsible for all operations relating to the fulfilment of public policy and the major role of the sector is to provide sound policies and a solid framework for quality and efficient service delivery to the public service. The key priorities for the sector include;

- Instituting county public service reforms to ensure efficient and effective service delivery.

- Providing leadership and guidance in human resource management
- Spearheading rapid and sustainable economic development through creative economic planning
- Developing prudent fiscal policies
- Effective management and coordination of government operations
- Implementation of devolution
- Sound public administration policies.

The sector is also expected to promote the effective and efficient allocation and utilization of resources, ministerial rationalization and staff rightsizing;

4.2.9 Tourism, wildlife and sports

This sector has the potential to generate revenue for the county through tourism and sports

The priority in this sub sector will be:

- Gazetment and opening up of lake Olbollosat
- A recreational park at lake Olbollosat
- Rehabilitation of happy valley homes
- Development of nature trails to the Aberdares
- Branding and marketing of Nyandarua
- Development of stadia
- Development of sports academies

Chapter five: **Conclusion**

The fiscal framework presented herein is prepared pursuant to the PFMA and lays ground for the next financial year in terms of preparing the final Estimates as well as prioritization of resource allocation. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds especially on capacity building on different sectors of the County will be crucial in ensuring that the County gets to deliver on its functions

In pursuit of this, effective budget implementation at the county level will be facilitated through capacity building and the development of systems for close monitoring and evaluation of spending entities to ensure that resource application bears the most fruit to the taxpayer. Involvement of all stakeholders in budget execution is also key in enhancing overall budget implementation and the public will be key in shaping the final budget policies and allocations for the 2015/16 Financial year.

The county will also revamp its revenue collecting and management systems with the goal of generating more revenues to strive towards budgetary self-reliance while ensuring the stability of our fiscal framework and financial health of the County.

*Continued stable
macroeconomic management
will secure the financial future
of Nyandarua County*

| Annex 1: Indicative Sector / Programme Allocations 2014/15 and 2017/18 | | | | | |
|---|---|--------------------|--------------------|--------------------|--------------------|
| SECTOR | PROGRAMMES | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| County Bursary | | | 65,000,000 | 68,900,000 | 73,034,000 |
| County Emergency Fund | | - | 41,393,447 | 43,877,054 | 46,509,677 |
| Ward development fund | | | 175,000,000 | 185,500,000 | 196,630,000 |
| County officers mortgage and car loan fund | | | 144,011,801 | 152,652,509 | 161,811,659 |
| County Assembly | | | 480,000,000 | 508,800,000 | 539,328,000 |
| GOVERNANCE AND ADMINISTRATION SECTOR | | | | | |
| Gubernatorial Office | Governors Service Delivery Programme | 86,438,250 | 115,600,000 | 122,536,000 | 129,888,160 |
| | Investment Promotion | 20,300,270 | 4,500,000 | 4,770,000 | 5,056,200 |
| Public Service Board | Human Resource Management/ CPSB | 38,688,003 | 72,045,834 | 76,368,584 | 80,950,699 |
| Office of the County Secretary | Administration and compliance | 10,295,708 | 132,853,698 | 140,824,920 | 149,274,415 |
| County Attorney, E- government and intergovernmental Relations | County legal services | 33,500,000 | 70,088,324 | 74,293,623 | 78,751,241 |
| | Intergovernmental relations | 9,301,782 | 25,034,562 | 26,536,636 | 28,128,834 |
| | ICT E-government services & risk management | 11,000,000 | 82,081,965 | 87,006,883 | 92,227,296 |
| Finance and Economic Planning | Economic Planning and Budgeting | 57,807,500 | 21,234,126 | 22,508,174 | 23,858,664 |
| | Monitoring and Evaluation | 24,700,000 | 29,000,000 | 30,740,000 | 32,584,400 |
| | Community Empowerment and Institutional Support | 12,350,000 | 5,000,000 | 5,300,000 | 5,618,000 |
| | Public Finance Management | 410,400,000 | 183,192,120 | 194,183,647 | 205,834,666 |
| | Revenue collection | | 45,034,650 | 47,736,729 | 50,600,933 |
| Total Sector Allocation | | 781,433,133 | 785,665,279 | 832,805,196 | 882,773,507 |
| AGRICULTURAL SECTOR | | | | | |
| Agriculture, Livestock and Fisheries | Fertilizer subsidy | 213,376,862 | 24,450,000 | 25,917,000 | 27,472,020 |
| | Sustainable land management | 19,283,072 | 36,261,502 | 38,437,192 | 40,743,424 |
| | Infrastructural development | 140,019,215 | 30,200,000 | 32,012,000 | 33,932,720 |
| | Crops value chains | | 154,476,862 | 163,745,474 | 173,570,202 |
| | Animal resources value chains | 28,778,080 | 105,483,072 | 111,812,056 | 118,520,780 |
| | Animal health, pest and diseases control | 66,800,871 | 78,747,295 | 83,472,133 | 88,480,461 |
| Total Sector Allocation | | 468,258,100 | 429,618,731 | 455,395,855 | 482,719,606 |
| INFRASTRUCTURE | | | | | |
| Roads Public Works and Transport | County Roads, Bridges and Drainage works Maintenance(rural) | 267,230,137 | 75,000,000 | 79,500,000 | 84,270,000 |
| | Development & maintenance of foot bridges | | 40,000,000 | 42,400,000 | 44,944,000 |
| | General admin planning & support services | | 120,500,000 | 127,730,000 | 135,393,800 |
| | Development and maintenance of county airstrip | | 25,000,000 | 26,500,000 | 28,090,000 |
| | Development and maintenance of fire & emergency response services | | 25,000,000 | 26,500,000 | 28,090,000 |
| | Development& maintenance of County Roads and Drainage works in | | 10,000,000 | 10,600,000 | 11,236,000 |

| | | | | | |
|--|---|----------------------|----------------------|----------------------|----------------------|
| | major centers | | | | |
| | Development and maintenance of bus parks | | 17,978,770 | 19,057,496 | 20,200,946 |
| | Development and maintenance of boda boda sheds | | 5,000,000 | 5,300,000 | 5,618,000 |
| | Purchase of land for road interconnectivity | | 10,000,000 | 10,600,000 | 11,236,000 |
| Lands ,Housing and Physical Planning | Land Use Administration and Management | 45,600,000 | 43,060,000 | 45,643,600 | 48,382,216 |
| | Land Information and Management System | 62,479,587 | 80,000,000 | 84,800,000 | 89,888,000 |
| | Housing Development and Management | 57,475,000 | 35,000,000 | 37,100,000 | 39,326,000 |
| | General admin planning & support services | 24,225,000 | 42,400,364 | 44,944,386 | 47,641,049 |
| Total Sector Allocation | | 615,300,250 | 528,939,134 | 560,675,482 | 594,316,011 |
| PRODUCTIVE SECTOR | | | | | |
| Industrialization, Cooperatives and Trade | Cooperative development | 67,480,000 | 90,000,000 | 95,400,000 | 101,124,000 |
| | Enterprise Development | 61,513,496 | 15,000,000 | 15,900,000 | 16,854,000 |
| | Industrial development | | 19,700,000 | 20,882,000 | 22,134,920 |
| | Trade Development | | 25,300,000 | 26,818,000 | 28,427,080 |
| | Weights &measures | | 11,197,450 | 11,869,297 | 12,581,455 |
| Tourism wildlife &sports | Tourism Development, Marketing and rehabilitation of tourist sites | | 45,000,000 | 47,700,000 | 50,562,000 |
| | Sports development | | 52,250,000 | 55,385,000 | 58,708,100 |
| Water, Environment and natural resources | Water Resource Management | 148,207,200 | 199,360,000 | 211,321,600 | 224,000,896 |
| | Environmental Conservation | 5,000,000 | 3,500,000 | 3,710,000 | 3,932,600 |
| Total Sector Allocation | | 327,200,696 | 461,307,450 | 488,985,897 | 518,325,051 |
| HUMAN RESOURCE DEVELOPMENT SECTOR | | | | | |
| Health Services | Establishment and Management of Health facilities | 367,029,750 | 40,187,144 | 42,598,373 | 45,154,275 |
| | Preventive Health Care (Solid waste management, cemeteries noise and air pollution) | 84,174,900 | 5,000,000 | 5,300,000 | 5,618,000 |
| | Curative Health Care | 256,047,241 | 741,412,856 | 785,897,627 | 833,051,485 |
| Education, Youth, ,culture and Social Services | Establishment and Management of Education programmes((ECDs &YPs) | 60,700,000 | 189,140,000 | 200,488,400 | 212,517,704 |
| | Cultural Services development | 12,140,000 | 27,000,000 | 28,620,000 | 30,337,200 |
| | Social protection programmes (disability, elderly, OVCs) | | 21,268,898 | 22,545,032 | 23,897,734 |
| | Youth affairs | 64,342,000 | 30,000,000 | 31,800,000 | 33,708,000 |
| | Social Development Services | 12,140,000 | 54,400,000 | 57,664,000 | 61,123,840 |
| Total Sector Allocation | | 930,385,091 | 1,108,408,898 | 1,174,913,432 | 1,245,408,238 |
| GRAND TOTAL | | 3,122,577,269 | 4,219,344,740 | 4,472,505,424 | 4,740,855,750 |

Annexe 2 County Operations

| Nyandarua county government operations 2013/14-2016/17 (Kshs) | | | | |
|--|-------------------------|----------------------|----------------------|----------------------|
| | FY 2013/14 (Actuals) | FY 2014/15 | FY 2015/16 | FY 2016/17 |
| REVENUE | | | | |
| National Transfers | 3,150,207,289 | 3,758,296,517 | 3,983,794,308 | 4,222,821,967 |
| Local Collections | 138,439,331 | 146,745,691 | 235,550,432 | 249,683,458 |
| Donor Funds | - | - | 8,400,000 | - |
| TOTAL | 3,288,646,620 | 3,905,042,208 | 4,227,744,740 | 4,472,505,425 |
| EXPENDITURE | | | | |
| Recurrent | 2,319,904,433 | 2,733,529,546 | 2,869,154,423 | 3,041,303,689 |
| Development | 569,860,854 | 1,171,512,662 | 1,358,590,317 | 1,431,201,736 |
| TOTAL | 2,889,765,287 | 3,905,042,208 | 4,227,744,740 | 4,472,505,425 |
| Surplus / Deficit | 398,881,333 | 0 | 0 | 0 |

Annexe 3: Revenue Projections

| REVENUE SOURCES | 2013/14 (Actual) | 2014/15 | 2015/16 | 2016/17 |
|--|--------------------|--------------------|--------------------|--------------------|
| SINGLE BUSINESS PERMIT | 47,359,340 | 50,200,900 | 53,212,954 | 56,405,732 |
| SALE OF APPLICATION FORMS | 3,417,410 | 3,622,455 | 3,839,802 | 4,070,190 |
| PLOT RATES | 7,843,241 | 8,313,835 | 8,812,666 | 9,341,426 |
| IMPOUNDAGE FEES | 898,305 | 952,203 | 1,009,335 | 1,069,896 |
| LAND RATES | 2,689,959 | 2,851,357 | 3,022,438 | 3,203,784 |
| MISC INCOME | 3,411,455 | 3,616,142 | 3,833,111 | 4,063,097 |
| CATTLE DIPS | 482,405 | 511,349 | 542,030 | 574,552 |
| A. I. SERVICES | 711,250 | 753,925 | 799,161 | 847,110 |
| OPEN AIR MARKET FEES | 9,868,441 | 10,460,547 | 11,088,180 | 11,753,471 |
| MARKET STALL RENT | 1,579,600 | 1,674,376 | 1,774,839 | 1,881,329 |
| GROUND RENT - OTHERS/QUARRIES | 1,845,100 | 1,955,806 | 2,073,154 | 2,197,544 |
| PRODUCE CESS /ROYALTIES | 23,972,894 | 25,411,268 | 26,935,944 | 28,552,100 |
| SLAUGHTER FEES | 1,153,765 | 1,222,991 | 1,296,370 | 1,374,153 |
| BUS AND MATATU FEES | 13,930,310 | 14,766,129 | 15,652,096 | 16,591,222 |
| HIRE OF VEHICLES/MACHINES | 1,187,640 | 1,258,898 | 1,334,432 | 1,414,498 |
| REG./RENEWAL OF GROUPS | 715,970 | 758,928 | 804,464 | 852,732 |
| HOUSE /OFFICE RENT | 985,790 | 1,044,937 | 1,107,634 | 1,174,092 |
| SUB-DIVISION OF LAND | 931,900 | 987,814 | 1,047,083 | 1,109,908 |
| SITE INDICATION | 8,960 | 9,498 | 10,067 | 10,672 |
| SURVEY FEES | 54,000 | 57,240 | 60,674 | 64,315 |
| CHANGE OF USER | 979,000 | 1,037,740 | 1,100,004 | 1,166,005 |
| OCCUPATION LICENCE | 1,448,365 | 1,535,267 | 1,627,383 | 1,725,026 |
| APPR OF BUILDING PLANS | 2,448,622 | 2,595,539 | 2,751,272 | 2,916,348 |
| APPL FOR APPR OF B/PLANS | 234,662 | 248,742 | 263,666 | 279,486 |
| WAY LEAVES | 154,000 | 163,240 | 173,034 | 183,416 |
| CONSERVANCY | 469,204 | 497,356 | 527,198 | 558,829 |
| EXHAUSTER/EXH. MILEAGE | 3,082,700 | 3,267,662 | 3,463,722 | 3,671,545 |
| TRANSFER FEES | 892,060 | 945,584 | 1,002,319 | 1,062,458 |
| PARKING FEES | 796,750 | 844,555 | 895,228 | 948,942 |
| CLEARANCE CERTIFICATES | 1,517,880 | 1,608,953 | 1,705,490 | 1,807,819 |
| ADVANCE/IMPREST RECOVERIES | 287,083 | 304,308 | 322,566 | 341,920 |
| WATER FEE | 177,585 | 188,240 | 199,535 | 211,507 |
| HIRE OF HALL/CHAIRS | 34,700 | 36,782 | 38,989 | 41,328 |
| STORAGE FEES | 2,200 | 2,332 | 2,472 | 2,620 |
| EXTENSION OF LEASE | 10,000 | 10,600 | 11,236 | 11,910 |
| VACCINATION | 1,329,280 | 1,409,037 | 1,493,579 | 1,583,194 |
| ADVERTISEMENT | 734,500 | 778,570 | 825,284 | 874,801 |
| Tender Forms | 519,000 | 550,140 | 583,148 | 618,137 |
| Meat Inspection Fee | 274,005 | 290,445 | 307,872 | 326,344 |
| Alcohol/liquor Act licencing and enforcement | - | - | 80,000,000 | 84,800,000 |
| TOTAL | 138,439,331 | 146,745,691 | 235,550,432 | 249,683,458 |