REPUBLIC OF KENYA



COUNTY GOVERNMENT OF MACHAKOS

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2017

Foreword

The County Budget Review and Outlook Paper (CBROP) 2017 has been prepared in accordance to section 118 of the Public Finance Management Act, 2012. It reviews the fiscal performance of the FY 2016/17, makes comparisons to the budget appropriations of the same year and provides an overview of how the fiscal performance impacts compliance with the fiscal responsibility principles and the financial objectives outlined in the PFM Act 2012 and the County Fiscal Strategy Paper (CFSP) 2017. The CBROP also provides information on local and national economic developments as well as giving financial forecast for the medium term.

In reviewing the fiscal performance, this paper analyzes the performance of the total county revenue (both exchequer releases and own revenue) i.e. the total budgeted revenue vis-a-vis actual revenue, causes of variations in the actual versus budgeted revenue, strategies to enhance revenue collection and finally an analysis of departmental expenditures.

This paper has also provided an overview of how the actual performance of the FY 2016/17 budget affected the financial objectives detailed in CFSP of 2017. The performance of the FY 2016/17 has formed the basis for projecting the FY 2017/18 budget based on the recent economic development. The projected revenue and expenditure for FY 2017/18 will be attained with strict expenditure controls and enhanced revenue collection measures. The strict controls will enhance fiscal discipline; ensure proper management of public resources and expedite the provision of public goods and services.

The County Government of Machakos is committed towards maintaining the growth trajectory achieved in the first term of devolution. This growth is people centered and aimed at addressing the needs of the citizens identified through the various stakeholder participation forums. Priority will be given to expenditure on critical sectors, enhancing revenue collection and driving growth through targeted high returns spending. Transparency and accountability are therefore integral elements in the realization of the county's development agenda. The County Executive will for this reason ensure that they involve and relay the county performance indicators to all stakeholders as required by the constitution of Kenya 2010 and the Public Finance Management Act, 2012.

Eng. Francis Maliti
H.E Deputy Governor
Ag.County Executive Committee Member- Finance and Revenue Management

Table of Contents

Foreword 1

Table of Contents 2

Abbreviations and Acronyms 4

Legal basis for preparation of the County Budget Review and Outlook Paper (CBROP) 5

Adherence to Fiscal Responsibility Principles 5

Objective of the County Budget Review and Outlook Paper 6

Outline of the 2017 County Budget Review and Outlook Paper 7

I. Review of Fiscal Performance in FY 2016/17 7

A. 2016/17 FY Fiscal Performance 7

Performance of Revenues 7

Expenditures 10

B. Fiscal Performance for FY 2016/2017 in relation to Fiscal Responsibility Principles 11

C. Fiscal Responsibility Principles 14

II. Recent Economic Development and its outlook 16

A. Global economy 16

B. National Economy 17

C. County Economic Environment 18

D. Risks to the Economic Outlook 19

III. Resource Allocation Framework 20

A. Medium Term Expenditure Framework 20

B. Approved Budget FY 2017/18 23

IV. Conclusion 24

Annex 1: Total County Own Revenue by Source 25

Annex 2: Total County Own Revenue by Month 25

Annex 3: Summary of Approved Budget by Department 26

i. Recurrent Estimates 26

ii. Development Estimates 27

Annex 4: Budget Expenditure 2016/2017 28

Annex 5: Budget Calendar for the FY 2018/19 MTEF Budget Process.....30

Abbreviations and Acronyms

CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
PFM	Public Financial Management Act

Legal basis for preparation of the County Budget Review and Outlook Paper (CBROP)

The County Budget Review and Outlook paper (CBROP) 2017 is prepared in accordance with section 118 of the Public Finance Management Act, 2012. The laws states that:

i. The County Treasury shall prepare and submit to County Executive Committee (CEC) for approval by 30th September in each financial year, a County Budget Review and Outlook Paper
ii. The County Executive shall in turn approve the CBROP with or without amendments within fourteen days after submission
iii. The County Treasury shall arrange for the paper to be laid before the County Assembly not later than seven days after the CEC has approved it
iv. The County Treasury shall publish and publicize the paper after approval by CEC as soon as practicable.

Adherence to Fiscal Responsibility Principles

The Constitution of Kenya 2010 and PFM Act, 2012, set out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act, 2012 section 107 states that;

i. The county government's recurrent expenditure shall not exceed the county government's total revenue
ii. Over medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure.
iii. The county expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly.
iv. Over medium term the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
v. The County debt shall be maintained at a sustainable level as approved by the County Assembly.
vi. Fiscal risks shall be managed prudently

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 future.

Objective of the County Budget Review and Outlook Paper

The objective of the County Budget Review and Outlook Paper is to provide;

i. A review of the County Fiscal performance for the FY 2016/17 as compared to the appropriation of that year and how this impacts the financial objectives and fiscal responsibilities principles set out in the 2017 County Fiscal Strategy Paper (CFSP)
ii. An outline of sector performance and review of budget utilization.
iii. An updated economic and financial forecast with sufficient information to show changes from the forecasts in the most recent County Fiscal strategy paper.
iv. Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the estimated time it would take to address the deviation.

Outline of the 2017 County Budget Review and Outlook Paper

This Paper is structured into four sections as follows;

1. Section I provides a review of the fiscal performance in the FY 2016/17 and implications on the financial objectives set out in the 2017 CFSP.

2. Section II highlights the recent economic development and the updated macroeconomic outlook.

3. Section III outlines proposed resources allocation to various priority programmes in the medium term, and

4. Conclusion in section IV.

I. Review of Fiscal Performance in FY 2016/17

5. The fiscal performance for the FY 2016/17 was largely within target despite shortfalls in the County's own revenue and late disbursement of funds from National Government.

A. 2016/17 FY Fiscal Performance

Performance of Revenues

6. The County Government's expenditure for the financial year 2016/2017 was to be financed from two main revenue sources namely; National Government allocation and County own revenue. The National Government allocation includes; equitable share, conditional grant and donor funding.

7. The targeted national government allocation amounted to Kshs. 8.01 billion while the targeted county own revenue amounted to Kshs. 2.8 billion. This translated to 74% and 26% of the Total Budget Estimates for the FY 2016/2017.

8. During the period under review, actual revenue from the aforementioned sources amounted to Kshs. 9.67 billion against a target of Kshs. 10.8 billion, translating to a performance rate of 89%.

Table 1: *Summary of Revenue Received in the FY 2016/2017 by Items*

No	Source	Amount (Kshs)
1.	Exchequer Releases	7,303,464,454
2.	National Government Level 5 Hospital Funding	365,317,919
3.	Returned CRF Issues	339,888,586
4.	Doctors, Nurses, Clinical Officers and Other Health Officers Allowances	156,588,000
5.	Kenya Roads Board Fuel Levy Fund	112,217,668
6.	Free Maternity Programme	88,707,500
7.	Health User Fees Forgone	24,764,876
8.	DANIDA	13,350,000
9.	Coffee Cess Allocation	6,636,751
10.	County Own Revenue	1,262,634,850
	Total	9,673,569,604

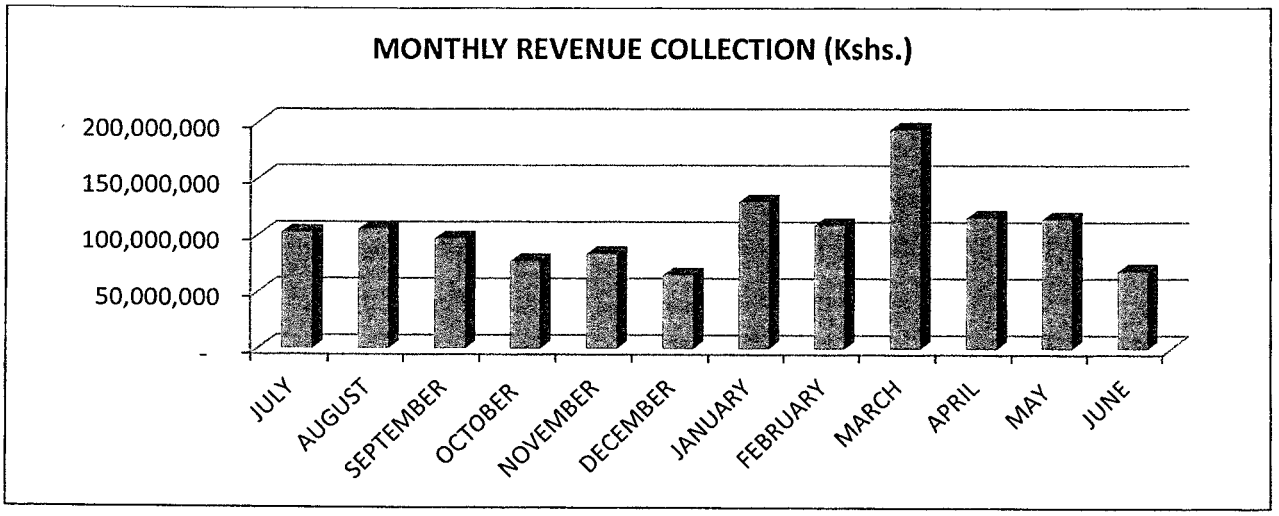
Source: Consolidated Financial Statements, County Government of Machakos, October 2017

9. From the Kshs. 9.67 billion revenue received by the County Government of Machakos, Kshs. 8.41 billion was received from the national government allocations while the remaining Kshs. 1.262 billion was received from county own revenue collections. This translated to 87% and 13% of total revenue received.

10. The county government targeted to collect own revenue amounting to Kshs. 2.8 billion. However, it only managed to collect Kshs 1.26 billion translating to 44% of the targeted county own revenue. A breakdown of this amount by source and by month is given in Annex 1 and 2 respectively.

11. The months of January and March recorded the highest revenue collections. This is because most business permits are renewed in January and compliance is checked in March.

Figure 1: *Total Monthly Revenue Collections FY 2016/17 in Kshs.*



Source: *County Treasury, 2016/17*

12. The County Government of Machakos plans to institute measures to expand its revenue base through assessment of the existing revenue streams' potential, identification of new revenue sources and elimination of revenue leakages.

13. In addition, the County Government intends to mitigate cases of deficits in the future by instituting strategies to counter challenges that hinder revenue collection. These interventions will amongst others include;

    i. Establishing a resource mobilization unit,
    ii. Developing of a PPP framework to enhance collaboration with the National Government and other non-state actors,
    iii. Exploiting dormant revenue streams
    iv. Continuous mapping of all available revenue streams.
    v. Disposal of non-serviceable assets as per the Public Procurement and Disposal Act, 2015.
    vi. Incorporating hospital fees and charges in the County Finance Act in line with the Hospital Fund Management Act.

14. To eliminate leakages and non-disclosure of revenue, the County Government will institute the following measures;

    i. Strengthening the implementation of cashless revenue collection,
    ii. Setting of monthly revenue targets and subsequent monitoring,

iii. Continuous redeployment, rotation and capacity building of revenue collection staff,

iv. Sensitizing all citizens on the benefits of paying County rents, rates and fees, Installation of CCTV cameras in selected revenue collection points, and

v. Enactment and enforcement of revenue related Acts e.g. Sand Harvesting Act, Liquor Act etc.

15. The County Treasury has already set up a fully operational one stop shop in Mavoko Sub County to enhance the access and delivery of County Government Services and increase revenue collection from the existing revenue streams. Plans are underway to replicate this concept in all the remaining Sub County headquarters.

Expenditures

16. The total approved budget for the FY 2016/17 was Kshs. 10.8 Billion out of which Kshs. 7.3 Billion was for recurrent expenditures and Kshs. 3.5 billion for development expenditures. This translated to 67.5 per cent and 32.5 per cent of the total budget respectively.

17. As indicated in Table 2 below, the total expenditure during the year amounted to Kshs. 9.466 Billion against a target of Ksh. 10.833 Billion translating to an execution rate of 86 percent for the period under review.

Table 2: *Performance of Budget for FY 2016/17*

Particulars	FY 2016/17 Budget Estimates	FY 2016/17 Revised Estimates	FY 2016/17 Actual Performance	Percentage
1.0 Revenue				
1.1 Total County Revenue	10,876,000,000	10,883,133,809	9,673,569,604	89
2.0 Expenditures				
2.1 Recurrent	7,539,572,768	7,374,291,558	7,309,297,598	99
2.2 Development	3,336,427,232	3,508,842,251	2,157,209,129	61
Total Expenditure	10,876,000,000	10,883,133,809	9,466,506,727	86
3.0 Balance			207,062,877	

Source: County Treasury

Table 3: *Classification of Expenditures for the FY 2016/2017*

No	Expenditure Type	Amount (Ksh)
1.	Compensation of Employees	5,153,173,804
2.	Use of Good and Services	1,409,457,448
3.	Transfer to Other Government Units	819,347,253
4.	Social Security Benefits	147,209,336
5.	Acquisition of Assets	1,928,515,433
6.	Other Payments	8,803,454
	Total Payments	9,466,506,727
	Total Revenues	9,673,569,604
	Surplus/Deficit	207,062,876

Source: Consolidated Financial Statements, County Government of Machakos, October 2017

18. From table 3 above, a total of Kshs. 207.06 million was carried forward to FY 2017/18

19. The county recurrent expenditure for the FY 2016/17 amounted to Kshs. 7.3 billion against a target of Kshs. 7.37 billion representing a 99% execution rate.

20. Development expenditure for the same period amounted to Kshs. 2.1 billion against a target of 3.5 billion, translating to 61% of the appropriated development expenditure.

21. Comparing the performance of National Government Allocation and County Own Revenue collection for the FY 2016/2017 against the actual targets, there was a shortfall in budget financing amounting to Kshs. 1.2 billion.

B. Fiscal Performance for FY 2016/2017 in relation to Fiscal Responsibility Principles

22. To effectively implement the FY 2016/2017 budget, departments developed Programme Based Budgets and resources were allocated to enhance delivery of their mandates. Table 4 below provides departmental budget allocation, expenditure and absorption rate for the same period.

Table 4: *FY 2016/2017 Budget Allocation and Expenditure*

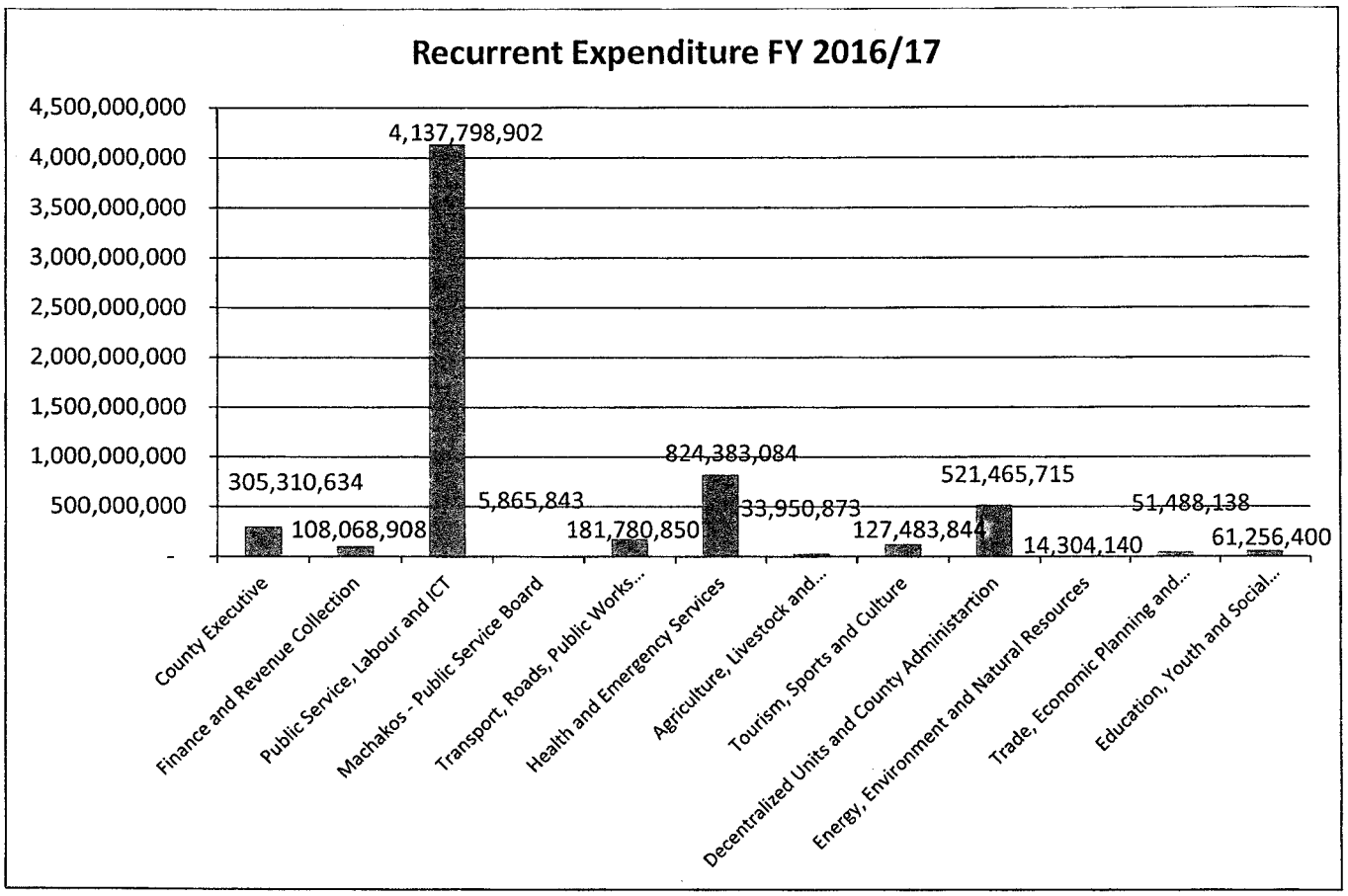
Department	Approved Budget FY 2016/17	Revised Budget FY 2016/17	Actual Performance FY 2016/17
County Executive	565,631,493	421,031,462	342,685,149.75
Finance and Revenue Collection	414,317,429	164,298,951	111,640,693.30
Public Service, Labour and ICT	635,439,742	4,240,062,652	4,156,404,885.75
Machakos - Public Service Board	63,292,001	18,189,463	5,865,842.50
Transport, Roads, Public Works and Housing	825,617,276	1,246,923,706	1,007,144,479.75
Health and Emergency Services	2,895,088,473	1,560,790,874	1,134,055,482.95
Agriculture, Livestock and Cooperative Development	577,646,966	128,928,616	70,544,688.45
Tourism, Sports and Culture	234,721,867	177,403,411	238,065,515.30
Decentralized Units, Urban Areas and Munucipalities	2,081,885,096	1,323,660,536	1,117,531,606.45
Lands, Energy, Environment and Natural Resources	121,412,721	65,157,393	32,737,139.75
Trade, Economic Planning and Industrialization	1,108,258,355	265,107,750	234,525,962.85
County Assembly	1,102,741,272	1,035,099,438	936,140,268.00
Education, Youth and Social Welfare	249,947,309	236,479,557	79,165,012.20
TOTAL	**10,876,000,000**	**10,883,133,809**	**9,466,506,727.00**

Source: County Treasury, 2016/2017

23. From table 4 above, the Public Service, Labour and ICT Department had the highest expenditure in the FY 2016/2017. This is because all staff salaries (except those under county assembly) were paid from this budget line.

24. The Ministries of Public Service, Labor and ICT; Health, and Emergency Services and Decentralized Units and County Administration incurred the highest recurrent expenditure as at 30th June 2017. They accounted for 57%, 11% and 7% of total recurrent expenditure respectively. This was mainly due to staff compensation, purchase of drugs and other medical supplies and the coordination of day to day operations in the county.

Figure 2: *Recurrent Expenditure (in Kshs) by Department FY 2016/2017*

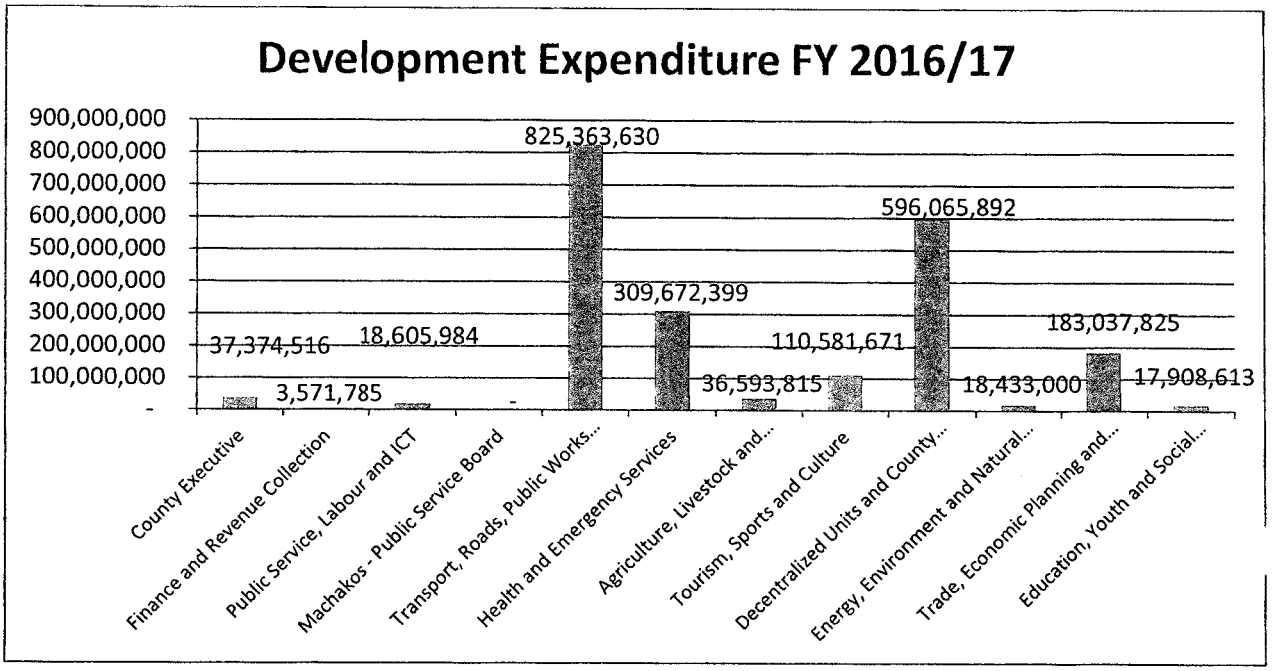


Source: County Treasury, 2016/17

25. On the other hand, the Ministries of Transport, Roads, Public Works and Housing; Decentralized Units and County Administration and Health and Emergency Services accounted for the largest share of the total development expenditure at 38%, 28% and 14% respectively.

26. The Ministry Transport, Roads, Public Works and Housing had the highest development expenditure as a result of the construction of two major roads in the County, the Masinga-Kivandini Road and Kakuyuni Road.

Figure 3: *Development Expenditure (in Kshs) by Department FY 2016/2017*



Source: County Treasury, 2016/17

27. A table showing the total budget expenditure by ministries and type (recurrent and development) is provided in Annex 4.

28. The fiscal performance in the FY 2016/17 has affected the financial objectives set out in the February 2017 CFSP and the Budget for FY 2017/2018 in the following ways ;

    i. The underperformance of county revenue in the FY 2015/16 and 2016/17 had implications on the resource envelop for the FY 2017/18. The base for revenue and expenditure projections had to be changed implying the need for adjusting the fiscal aggregates for the current Financial Year 2017/18 and the medium term. Using the trends in the two financial years, the county revenue was downscaled from Kshs. 10.8 billion in 2016/17 to Kshs. 9.9 billion in 2017/18.

C. Fiscal Responsibility Principles

29. The County Government has in line with the Constitution and PFM Act , 2012 adhered to the fiscal responsibilities as set out in the law as follows;

i. *The county government's recurrent expenditure shall not exceed the county government's total revenue*

The total recurrent expenditure in the FY 2016/17 amounted to Kshs. 7.3 billion. This was lower than the total county revenue of Kshs. 9.6 billion for the same period.

ii. *Over medium term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*

The county budget for the FY 2016/17 was Kshs. 10.8 billion. A total of Kshs. 3.5 billion was allocated for development expenditure. This translated to 32.5% hence above the 30% threshold.

iii. *The county expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly.*

Further to the Act, the PFM Regulations stipulate that the County Government's expenditure on wages and benefits for County public officers shall not exceed thirty five (35) percent of the county's total revenue.

In regards to wages and benefits, the county government spent Kshs. 5.15 billion against a county's budget of Kshs. 10.8 billion translating to 47%. In a bid to lower the county's wage bill, the County Public Service Board has embarked on a staff audit programme to enhance rationalization in the public service sector.

iv. *Over medium term the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.*

During the period under review, the County Government did not borrow any amounts to supplement the budget. Should the need to borrow arise over the medium term, all borrowings will be used to finance development expenditures.

v. *Fiscal risks shall be managed prudently*

The County Government has taken into account the fiscal risks arising from unforeseen occurrences .In this regard, the county has in every Financial Year factored funds in the budget to cater for urgent and unforeseen expenditure in the form of emergency funds and budgetary reserves.

vi. *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 future.*

On the principle of maintaining a degree of predictability with respect to level of fees and charges the County is charging, the County Government has adopted public participation in preparation of tax policies and incorporated citizen views on the various levels of taxes to be charged. Once the Finance Bill is approved, the County Government also publicizes its contents to the various stakeholders. This has simplified all rates being charged under various categories in the Finance Act.

II. Recent Economic Development and its outlook

30. This section highlights the recent economic developments at the global, national and county level and the impact that these occurrences have had on the county economic development.

A. Global economy

31. The global economy is estimated to have expanded by 2.9 per cent in 2016 compared to a growth of 3.1 per cent in 2015. Advanced economies grew by 2.1 per cent in 2016.

32. The United States of America recorded a growth of 1.5 per cent in 2016 compared to 2.6 per cent in 2015. This was mainly due to weak exports, subdued investments and uncertainty surrounding the 2016 elections. Growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption. In Japan, growth was boosted by private consumer spending, signaling improved consumer purchasing power after two years of contraction. Global inflation was estimated at 2.9 per cent compared to 2.8 per cent recorded in 2015(Economic Survey, 2017).

33. The Sub-Saharan Africa's real gross domestic product is estimated to have grown by 1.5 per cent in 2016 compared to 3.8 per cent growth registered in 2015.

34. In emerging markets and developing economies, headline inflation remained steady as currencies remained broadly stable, or appreciated in some cases.

35. Growth of the global trade slowed in 2016 to 1.9 percent from 2.6 per cent growth in 2015. Global unemployment rate was estimated at 5.7 per cent in 2016 compared to 5.8 per cent in 2015.

B. National Economy

36. Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015.

37. Accommodation and food services recorded improved growth of 13.3 per cent in the year under review compared to a contraction of 1.3 per cent in 2015. The other sectors that registered significant improved performance in economic activities were in the information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

38. On the other hand, growth in construction; mining and quarrying; and financial and insurance activities decelerated in 2016. From the demand side, growth was buoyed by consumption in both the public and private sector.

39. Annual average inflation eased to 6.3 per cent in 2016 compared to an average of 6.6 per cent in 2015. This was mainly due to decline in prices of transportation; housing and utilities; and communication.

40. The Shilling strengthened against the Pound Sterling, South African Rand, Ugandan Shilling, Tanzanian Shilling and the Rwandan Franc but weakened against the US Dollar, Euro, and the Yen in 2016. The capping of interest rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR) resulted in a significant decline in interest rates during the month of September to 13.84 per cent compared to 16.75 in a similar month in 2015.

41. Domestic credit slowed from a growth of 20.8 per cent in 2015 to 6.4 per cent in 2016 mainly on account of a decline in credit to the private sector.

42. The current account deficit narrowed to KShs. 370.8 billion in 2016 from a deficit of KShs. 421.1 billion in 2015. The fiscal deficit in 2016/17 as a percentage of GDP is expected to rise to 9.9 per cent compared to 8.6 per cent in 2015/16 (Economic Survey Report, 2017).

C. County Economic Environment

43. Machakos County is not isolated from the effect of global and national economic issues that do arise. The performance of the county's economy depends highly on the country's economic performance.

44. The county has established a strong foundation for economic growth and developed policy measures aimed at consolidating the development gains that have been achieved so far.

45. To improve access to clean water in the County, a comprehensive water programme was rolled out. The programme entailed rehabilitation of existing boreholes, dams and water pans, water harvesting and drilling of boreholes and connecting them to households

46. Tremendous progress has been made in the health sector. To add to the gains achieved by providing ambulances to every location, provision of drugs to health facilities, recruitment of additional health workers, speeding up the completion of ongoing construction of community hospitals, rehabilitation of level 4 hospitals and equipping health facilities, especially the community hospitals, with X-ray equipment, mini theatre, maternity and inpatient admission wards were prioritized.

47. The road network in the county has improved through construction of new main and access roads, rehabilitation of existing roads and maintenance of existing infrastructure facilities. The improved road network has improved accessibility to health centers, market places as well as movement of human capital to all parts of the county.

48. Significant efforts have been made to boost the agricultural sector which is the main stay of the County economy. These efforts include; fueling of tractors for free service to farmers, provision of extension services and supply of subsidized seeds and fertilizer to farmers. This has led to improved production in the agriculture sector. However strategies to ensure value addition of both agriculture and livestock products need to be put in place.

49. During the period under review, the tourism sector has improved. The popularity of Machakos County as a sport tourism destination soared. Several sporting and entertainment events have been conducted in the county. They include Tour de Machakos, Kenya Premier League Matches, Harambee Stars matches, film festivals etc.

D. Risks to the Economic Outlook

50. Although the macroeconomic outlook for the County looks favorable in the immediate future, various risks exist that threaten the attainment of the targeted growth prospects. They include ;

i. The extended election period which has been characterized by slow economic activity

ii. The vulnerability of Kenya's macroeconomic stability as a result of strong dollar, high current account deficit and weak regional and global economy which have an effect on sustained economic growth. Low economic growth in Kenya will subsequently translate to low growth in Machakos.

iii. The weak global economy coupled with fluctuating international agricultural commodity prices will negatively impact exports hence economic growth.

iv. Public expenditure pressures pose fiscal risks to the attainment of development goals. With the commitment to improve infrastructure, education and access to clean water and healthcare within Machakos county, the share of resources going to these priority sectors will rise over the medium term

v. Erratic weather patterns that can affect agriculture productivity given the reliance on rain fed agriculture. This will lead to poor economic performance and depressed livelihood.

vi. Low revenue inflow has a negative impact on the economic activities at the county resulting to slow economic growth.

51. The County Government will closely and continuously monitor these risks to ensure that they are attended to in a timely and appropriate manner.

52. Going forward, there is need to safeguard County economic stability and invest in strengthening public service delivery to reduce poverty and unemployment.

53. The County will therefore put in place legislation and mechanism that will enhance revenue collection, prioritize expenditure on high return sectors, minimize or eradicate expenditure wastages and manage the wage bill.

III. Resource Allocation Framework

A. Medium Term Expenditure Framework

54. The medium term budget frame work for the FY 2017/18-2019/20 ensures continuity in resource allocation based on prioritized programmes. The allocation of resources in the medium term will be based on;

i. PFM Act, 2012 principles
ii. Ongoing projects
iii. Emerging priorities
iv. Programmes prioritized in the Second County Integrated Development Plan (CIDP)
v. Cost effectiveness and sustainability of the programme
vi. Budget ceilings allocated by the Commission of Revenue Allocation
vii. Equitable share of revenue allocation from the National Government
viii. Degree to which the programme address the strategic objectives of the county.
ix. Degree to which the programme is addressing the core function and responsibilities of the ministry.
x. Third Medium Term Plan of Vision 2030

55. The resource allocation framework therefore, continues to be aligned to development programmes that target the following areas;

i. Improvement of Infrastructure

Infrastructure is essential for a successful good business climate. The transport sector is an important component of the economy and a common tool used for development. In a global economy where economic opportunities have been increasingly related to the mobility of people, goods and information, a strong relationship appears between the quantity and quality of transport infrastructure and the level of economic development. When the transport systems are efficient, they provide economic and social opportunities and benefits that result in positive multipliers effects such as better accessibility to markets, employment and additional investments. Also, an efficient transportation system reduces costs in many economic sectors.

During the FY 2017/18 resources will be set aside to develop and effectively manage a sufficient and robust quality road system that will require minimum maintenance.

ii. Access to Clean Water and Basic Levels of Sanitation

Access to clean water and proper sanitation is vital for enhancing prosperity, sustainable development and poverty eradication. To ensure access to clean drinking water and basic levels of sanitation for all residents of Machakos County, the implementation of the ongoing comprehensive water program will be fast tracked. This will ensure that the drilling of new boreholes, construction of new dams and water pans as well as refurbishing and desilting existing ones and distribution of elevated tanks are done within the stipulated time frames.

iii. Access to Quality Health Care Services.

To improve the quality of healthcare services provided to the citizens of Machakos County and eliminate health disparities through quality care for all, access to quality healthcare is critical. The County Government will invest in completion of community hospitals and refurbishment of level 5 and 4 hospitals

iv. Sustainable Environmental Conservation

The county government has taken a proactive leadership role in environmental protection and conservation. Environmental protection and conservation is vital

towards climate change mitigation and adaptation. In the FY 2017/18 the following programmes will be implemented:

i. Purchase of tree seedlings and tree planting activities
ii. Purchase of solid waste management equipment
iii. Establish tree nurseries to be distributed to farmers at subsidized prices.

v. Revenue Management and Enhancement

The ability of the County Government of Machakos to provide the required services depends on revenue availability from the National Government disbursements and locally raised sources. In the FY 2017/18, resources have been set aside to develop an innovative, effective and efficient revenue collection system to enable the attainment of revenue targets. This will be done through expanding the revenue base and enforcing strict control measures to ensure minimal revenue leakages.

vi. Creating Conducive Business Environment

Reducing the cost of doing business and improving security in Machakos County are essential towards encouraging investments, enhancing economic growth and promoting employment creation. The County Government will invest in:

a) Promotion of fair trade practices through calibration and verification of weight and measures equipment and ensuring consumer awareness
b) Formulation and implementation of sound economic policies
c) Conducting feasibility studies to determine viability of new industries
d) Promotion of private sector development through enterprise and entrepreneurship development
e) Promotion of the informal sector through the construction of Jua Kali sheds.
f) Periodic monitoring & evaluation of projects and programmes

vii. Ensuring Food Security

Agriculture is the main economic stay in the county. The sector has however been characterized by low productivity due to; over reliance on rain fed agriculture, use of inappropriate/outdated technology, inaccessible farm inputs and weak extension services. The County will continue investing in this sector through subsidy system, increase cultivated land, provision of tractors, free seed, subsidized

fertilizer and construction of silos. In addition, the government will put in place structures to tap on the potential of livestock, dairy and poultry keeping.

viii. Improving Education

Education is a fundamental factor in development of a country. No country can achieve sustainable economic development without substantial investment in human capital. Education improves the quality of people's lives, raises their productivity and creativity and promotes entrepreneurship and technological advancement. Education therefore plays a very crucial role in securing economic and social progress and improving income distribution.

To improve the education sector, the county government will implement programmes to:

i. Promote access to quality education for children and youth, inclusive of life skill development
ii. Construction and refurbishment of youth centers, ECDE classes and vocational training institutions
iii. Purchase of ECDE educational aids and related material
iv. Support technical and vocational education and training and apprenticeships with a specific emphasis on youth and women;

B. Approved Budget FY 2017/18

56. In the FY 2017/18, the County Assembly has approved a budget amounting to Kshs. 9.9 billion out of which Kshs. 7 billion and Ksh. 2.9 are recurrent and development expenditures respectively. The summary of the approved expenditures by programme is as per annex 3.

C. Revenues FY 2018/19

57. The FY 2018/19 budget targets a total of Ksh 9.9 billion of which of 1.7 billion will be from the local revenue collection and Ksh 8.2 from National Government. The performance of the local revenue will be underpinned by the measures that have been put in place to enhance revenue collection and the Finance Act, 2017 when enacted. The various sources of the local revenue are as per annex 4.

D. Adjustments of FY 2017/18 Budget

58. The budget for FY 2017/18 was prepared under a very tight fiscal framework and therefore adjustments will be met through internal re-allocations. Only unforeseen, unexpected and emergency expenditures may be forwarded for consideration by County Treasury and their additional budgetary requests to be done within the overall fiscal framework which may entail rationalizing the budgets to realize savings.

59. Given the fiscal performance of the FY 2016/17 there are some inherent risks that may affect the implementation of FY 2017/18 budget framework. They include; underperformance of local revenue, extended election period, delayed exchequer releases and huge wage bill.

60. The County will put strategies in place to address the risks facing the implementation of FY 2017/18 budget.

IV. Conclusion

61. The Fiscal outlook presented herein will seek to achieve the objectives outlined in the PFMA, 2012. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds by the various departments will be crucial in ensuring the county delivers her functions.

62. The County Government of Machakos also appreciates that increased revenue collections translate to better delivery of public services. Enhancing collection of County's Own revenue will therefore be prioritized over the medium term.

Annex 1: Total County Own Revenue by Source

Revenue Streams	Annual Targeted Revenue (Kshs) FY 2016/17	1st Quarter Actual Revenue (Kshs)	2nd Quarter Actual Revenue (Kshs)	3rd Quarter Actual Revenue (Kshs)	4th Quarter Actual Revenue (Kshs)	Annual Total Revenue (Kshs) FY 2016/17
Building Plan Approval	594,765,751	66,346,260	52,813,472	49,905,233	55,671,126	**224,736,091**
Quarry	259,382,215	95,198,761	58,597,279	56,342,235	49,712,976	**259,851,251**
Health Revenue Account	316,353,943	34,235,489	21,031,258	10,823,428	25,318,631	**91,408,806**
Land Rates & Debt Clearance Cert	438,821,019	23,906,055	27,903,298	83,010,081	24,944,437	**159,763,871**
Bus park/ Off Street Parking	140,406,768	20,650,299	21,225,102	20,854,607	16,421,956	**79,151,964**
Single Business Permit	307,351,330	17,768,179	7,891,125	107,615,499	47,141,422	**180,416,225**
Market Fees	83,369,224	12,502,411	11,287,205	10,669,823	10,211,956	**44,671,395**
Sand Harvesting	352,426,194	7,012,935	9,753,522	20,536,320	22,022,468	**59,325,245**
House Rent	40,399,666	2,908,356	1,929,562	30,350,144	14,369,259	**49,557,321**
Liquor	113,126,269	2,506,500	3,858,900	23,159,891	19,798,679	**49,323,970**
Cess	54,475,352	2,046,959	1,990,346	2,975,335	2,910,203	**9,922,843**
Refuse/Conservancy	16,186,794	2,007,755	2,042,120	6,026,725	3,358,600	**13,435,200**
Enforcement Mgt. Unit	8,691,809	1,395,610	1,718,125	1,240,770	2,028,634	**6,383,139**
Miscellaneous	117,868,021	14,273,551	1,730,245	7,901,668	4,692,062	**28,597,526**
Tourism	8,607,136	669,350	710,800	94,505	30,300	**1,504,955**
Procurement Unit	3,433,826	591,950	308,123	324,815	30,254	**1,255,142**
Interest earned from MCA loans & Britam Refunds	-	-	-	-	-	**3,329,906**
Total	**2,858,995,221**	**304,020,420**	**224,790,482**	**431,831,079**	**298,662,963**	**1,262,634,850**

Annex 2: Total County Own Revenue by Month

MONTH	AMOUNT
July	102,452,769
August	105,410,250
September	96,946,515
October	77,053,318
November	83,696,363
December	65,003,365
January	129,812,435
February	109,002,471
March	193,805,287
April	116,026,793
May	114,646,699
June	68,778,585
TOTAL	**1,262,634,850**

Annex 3: Summary of Approved Budget by Department

i. Recurrent Estimates

Portfolio code	Ministry details	Approved Expenditure 2016/17	Approved Expenditure 2017/18	Projections 2018/19	Projections 2019/20
R0001	Office of the Governor	514,566,239	585,926,041	612,502,843	643,127,985
R0002	Ministry of Public Service, Labor and ICT	631,356,636	507,242,701	532,604,836	559,235,078
R0003	Ministry of Trade, Economic Planning and Industrialization	114,738,030	112,884,198	118,528,408	124,454,828
R0004	Ministry of Finance and Revenue Management	344,631,624	352,141,946	369,749,043	388,148,295
R0005	Ministry of Decentralized Units, County Administration, Environment and Solid Waste Management	905,674,168	482,274,006	506,387,706	531,707,091
R0006	Ministry of Agriculture, Livestock, Fisheries, Water and Irrigation	716,940,965	454,388,393	447,959,330	470,357,301
R0007	Ministry of Health Services and Emergency Services	2,662,983,755	2,920,121,503	3,066,127,578	3,219,433,957
R0008	Ministry of Transport, Roads, Public Works and Housing	270,016,530	218,263,625	229,176,806	240,856,147
R0009	Ministry of Education , Youth and Social Welfare	175,400,000	185,688,612	194,973,043	204,721,695
R0010	Ministry of Land, Urban Development, Energy and Natural Resources	179,269,435	90,988,738	110,458,247	117,675,777
R0011	Ministry of Tourism, Culture, Sports and Co-operative Development	133,187,852	76,327,869	80,144,263	84,151,476
R0012	County Public Service Board	55,648,859	41,011,797	42,919,587	45,098,956
R0013	County Assembly	945,666,902	974,670,184	1,023,403,693	1,074,573,878
	TOTAL NET EXPENDITURE RECURRENT	**7,650,080,995**	**7,001,929,613**	**7,334,935,383**	**7,703,542,464**

ii. Development Estimates

Portfolio code	Ministry details	Approved Expenditure 2016/17	Approved Expenditure 2017/18	Projections 2018/19	Projections 2019/20
D0001	Office of the Governor	51,065,254	22,500,000	26,859,000	25,139,625
D0002	Ministry of Public Service, Labor and ICT	48,333,106	20,700,000	21,735,000	22,821,750
D0003	Ministry of Trade, Economic Planning and Industrialization	872,713,406	729,215,785	51,939,075	54,536,028
D0004	Ministry of Finance and Revenue Management	75,743,805	22,500,000	28,259,936	29,672,933
D0005	Ministry of Decentralized Units, County Administration, Environment and Solid Waste Management	155,952,942	39,708,931	31,722,300	33,308,415
D0006	Ministry of Agriculture, Livestock, Fisheries, Water and Irrigation	923,008,348	227,188,894	1,115,923,313	1,144,128,125
D0007	Ministry of Health Services and Emergency Services	212,764,568	609,596,132	639,988,526	671,987,952
D0008	Ministry of Transport, Roads, Public Works and Housing	838,039,804	819,406,530	819,406,530	870,876,856
D0009	Ministry of Education , Youth and Social Welfare	67,197,309	18,970,000	41,056,000	20,914,425
D0010	Ministry of Land, Urban Development, Energy and Natural Resources	91,501,306	206,061,879	217,939,973	280,229,064
D0011	Ministry of Tourism, Culture, Sports and Co-operative Development	102,134,015	25,389,630	26,659,112	27,992,067
D0012	County Public Service Board	7,293,002	6,014,148	6,314,855	6,630,598
D0013	County Assembly	157,074,370	241,000,000	253,050,000	265,702,500
	TOTAL NET EXPENDITURE RECURRENT	**3,602,821,234**	**2,988,251,929**	**3,280,853,619**	**3,453,940,340**

Annex 4: Budget Expenditure 2016/2017

RECURRENT BUDGET PERFOMANCE FY 2016/2017			
Department	**Approved Budget FY 2016/17**	**Revised Budget FY 2016/17**	**Actual Performance FY 2016/17**
County Executive	514,566,239	378,655,606	305,310,634
Finance and Revenue Collection	338,573,624	142,712,947	108,068,908
Public Service, Labour and ICT	587,106,636	4,195,855,515	4,137,798,902
Machakos - Public Service Board	55,648,859	12,681,321	5,865,843
Transport, Roads, Public Works and Housing	259,396,473	64,669,560	181,780,850
Health and Emergency Services	2,680,808,755	1,024,662,653	824,383,084
Agriculture, Livestock and Cooperative Development	463,112,170	64,891,733	33,950,873
Tourism, Sports and Culture	132,587,852	77,569,028	127,483,844
Decentralized Units, Urban Areas and Munucipalities	1,129,491,502	279,162,610	521,465,715
Lands, Energy, Environment and Natural Resources	69,870,000	24,199,393	14,304,140
Trade, Economic Planning and Industrialization	179,993,756	63,414,690	51,488,138
County Assembly	945,666,902	853,539,368	936,140,268
Education, Youth and Social Welfare	182,750,000	192,277,134	61,256,400
TOTAL RECURRENT BUDGET	**7,539,572,768**	**7,374,291,558**	**7,309,297,598**

DEVELOPMENT BUDGET PERFOMANCE FY 2016/2017			
Department	**Approved Budget FY 2016/17**	**Revised Budget FY 2016/17**	**Actual Performance FY 2016/17**
County Executive	51,065,254	42,375,856	37,374,516
Finance and Revenue Collection	75,743,805	21,586,004	3,571,785
Public Service, Labour and ICT	48,333,106	44,207,137	18,605,984
Machakos - Public Service Board	7,643,142	5,508,142	0
Transport, Roads, Public Works and Housing	566,220,803	1,182,254,146	825,363,630
Health and Emergency Services	214,279,718	536,128,221	309,672,399
Agriculture, Livestock and Cooperative Development	114,534,796	64,036,883	36,593,815
Tourism, Sports and Culture	102,134,015	99,834,383	110,581,671

Decentralized Units, Urban Areas and Munucipalities	952,393,594	1,044,497,926	596,065,892
Lands, Energy, Environment and Natural Resources	51,542,721	40,958,000	18,433,000
Trade, Economic Planning and Industrialization	928,264,599	201,693,060	183,037,825
County Assembly	157,074,370	181,560,070	
Education, Youth and Social Welfare	67,197,309	44,202,423	17,908,613
TOTAL DEVELOPMENT BUDGET	**3,336,427,232**	**3,508,842,251**	**2,157,209,129**
TOTAL COUNTY BUDGET	**10,876,000,000**	**10,883,133,809**	**9,466,506,727**

Annex 5: Budget Calendar for the FY 2018/19 MTEF Budget Process

No.	ACTIVITY	RESPONSIBILITY	DEADLINE
1.	Issue guidelines for preparation of 2018/19 County Budget (Budget Circular)	County Executive Committee Member for Finance	30th August 2017
2.	Submission of Annual Development Plan (ADP) to the County Assembly for approval	County Executive Committee Member for Planning	1st September, 2017
3.	Expenditure Reviews	County Executive Committee Member for Planning	30th September, 2017
4.	Draft County Budget Review and Outlook Paper (CBROP)	County Treasury	15th September, 2017
5.	Submission CBROP to the County Executive Committee for deliberation and approval	County Executive Committee Member for Finance	30th September, 2017
6.	Deliberation and approval of CBROP by the County Executive Committee	County Executive Committee Member for Finance	14th October, 2017
7.	Submission of approved CBROP to County Assembly	County Executive Committee Member for Finance	21st October, 2017
8.	Issue guidelines for reviewing 2017/2018 County Budget (Supplementary)	County Treasury	5th December, 2017
9.	Submission of Supplementary Budget Proposals to the County Treasury	All Accounting Officers	18th December, 2017.
10.	Submission of Supplementary Budget Proposals to County Executive Committee	County Executive Committee Member for Finance	15th January, 2018
11.	Submission of Supplementary Budget Proposals to County Assembly	County Executive Committee Member for Finance	19th January, 2018
12.	Public Participation for FY 18/19 Budget	County Treasury	22nd January, 2018
13.	Draft County Fiscal Strategy Paper (CFSP) circulated to stakeholders	County Treasury	15th February 2018
14.	Submission of the CFSP to County Assembly	County Executive Committee Member for Finance	28th February, 2018
15.	Submission of Budget Estimates proposal for FY 2018/19 to County Treasury	All Accounting Officers	15th March, 2018.
16.	Consolidation of Budget Estimates for FY 2018/19	County Treasury .	5th April, 2018.
17.	Submission of County Budget Estimates and other supporting documents to County Executive Committee.	County Executive Committee Member for Finance	10th April, 2018
18.	Submission of County Budget Estimates and other supporting documents to County Assembly	County Executive Committee Member for Finance	30th April, 2018
19.	Submission of Cash Flow projections to County Treasury	All Accounting Officers	20th May, 2018
20.	Submission of Cash Flow projections to Controller of Budget	County Executive Committee Member for Finance	15th June, 2018
21.	Approval of the Appropriation law and any other laws required to implement the Budget for FY 2018/2019	County Assembly	30th June 2018