

REPUBLIC OF KENYA

COUNTY GOVERNMENT OF TAITA TAVETA



The land of opportunities

COUNTY FISCAL STRATEGY PAPER

Social and Economic Empowerment of the people of Taita Taveta County.

February 2014

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The document is also available on the County website: www.taitataveta.go.ke

FOREWORD

This is the first County Fiscal Strategy Paper, prepared by the county government of Taita Taveta under the overall leadership of its governor, H.E. Eng. John Mtuta Mruttu with the aim of advancing the county's social and economic growth strategy. The preparation of this strategy paper is yet another effort to ensure effective linkage between policy, planning and budgeting. It does so by specifying the broad strategic priorities and policy goals that will guide the County in preparation of its 2014/15 financial year budget and over the medium term.

This strategy paper takes cognizance of the fact that it is only by addressing various challenges that continue to hold back the county from achieving its full potential. Some of the challenges are underpinned by the international and the national social and economic challenges. Therefore the County Fiscal Strategy Paper is critical in positioning the County social and economic growth strategy and also by building on past successes that the county will establish a strong basis for social and economic transformation.

The strategy for this transformation agenda covers nine broad areas namely:

- Extracting our underground immense wealth and exploiting it to create tangible wealth, providing employment opportunities for our citizens and spurring economic transformation.
- Investing in agricultural transformation to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth; a food insecure county is an insecure county. Invest in transformational methods of agriculture, with the main objective of feeding its people and creating wealth for the population. Especially, this sector's potential to create wealth remains untapped. The county government will therefore ensure this potential is fully exploited. The market for agricultural products is immense, both local and international
- Investing in livestock farming and value addition. This is a whole industry with potential to feed the whole county in addition to providing employment to our idle youth.
- Investing in education. In our county the education standards are shamefully low. Devolved or not there is need to make a deliberate effort in enhancing the standards of education. Substantial resources should be invested here for this county to have a face in the country.
- Investing in quality and accessible healthcare services as well as social safety net to reduce the burden on the households and complement and sustain our long term growth and development; our old and young people need proper medical care.
- Tourism, culture, art, social services and natural resources; awaken this sleeping giant to provide jobs and grow the economy. Though a large proportion of the revenue realized by national government emanate from this county, the proportion

that remains in this county is negligible. Deliberate effort must be made to ensure that the county benefits from this resource.

- creating conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;
- Land is a core factor of production. Inventory of all public land in order to identify opportunities for attracting local, national and international investors will be done. In addition physical infrastructure projects particularly on roads, water, energy and ICT have a multiplier effect to other development sectors and therefore are key strategic projects
- Further entrenching devolution for better service delivery and enhanced rural economic and social development.

Hence, apart from providing the county resource envelope and presentation of a fiscal framework for the next budget (2014/15) and the medium term, the strategy paper gives the indicative ministerial (departmental) ceilings in line with sector key strategic objectives as they link with the above key broad areas of focus. Resource allocation has therefore been premised on the county strategic priorities and on the principle of "funds follow functions". These priorities are as set out in the Taita Taveta County Integrated Development Plan (CIDP) 2013-2017, the county's first such plan which was developed through a participatory process.

Linkage of this strategy paper with the CIDP has helped to meet a key requirement of the Public Finance Management Act, 2012 which calls for congruence between the county fiscal strategy papers and national development goals including the Vision 2030, the Millennium Development Goals (MDGs) and international agreements which Kenya as a country is signatory to. Closely related to this is the requirement that the strategy paper be prepared against the backdrop of the national government's Budget Policy Statement (BPS).

The main aim of the fiscal framework is to ensure efficiency and effectiveness in the implementation of the development policies identified in the CIDP. Proper linking of policy, planning and budgeting is one of the strategic reforms in expenditure and financial management and this will be deepened together with containment of growth of non-priority expenditures in order to free up resources for dedication to key areas such as the social sectors, agriculture and physical infrastructure, which are essential to ensure sustainable economic growth and development.

In pursuit of this, the county government is committed to addressing the challenges experienced in the implementation of the 2013/14 budget. This involves the following: initiating an early comprehensive effort on costing all existing policies, programs, and projects; building links between recurrent and development budget; and developing a monitoring system that provides a clear and strong link between expenditure and results.

We work within the context of a global village and hence what is happening in other countries has its effects to our economy. If global economic conditions continue to improve and the country's macroeconomic stability is sustained, it is expected this will have a positive impact on the county economy. This is partly due to the fact that the agriculture and livestock production form a significant part of the economy with some of products from the sector finding their way as exports to some of the economies of developed countries currently recovering from recession.

This fiscal strategy paper has been prepared against the backdrop of a great rift between Parliament (both legislative houses) on the one hand and the county governments (individually and collectively) on the other. This if not checked may turn out to be a great threat to devolution.

Despite this, the government of Taita Taveta County is committed to ensuring that implementation of devolution is a huge success. In this regard, the need for continued fiscal discipline and prudent utilization of public resources is emphasized. This therefore calls for greater transparency and accountability in public finance management by all in the county.

The unveiling of this fiscal strategy paper with a budget estimate of **Ksh 3,599,653,992.00** for the 2014/2015 fiscal year is a clear demonstration of our commitment to the pursuance and realization of our county vision of **being a prosperous county that supports modern quality life for her people**. I therefore wish to call upon all our stakeholders including the national government to continue supporting us on the basis of mutual respect, cooperation and consultation.

Flora Maghanga-Mtuweta

County Executive Committee Member for Finance and Planning

ACKNOWLEDGEMENT

The 2014 County Fiscal Strategy Paper is the first of its kind under the devolved system of Governance in Taita Taveta County, which aims at ensuring an effective linkage between policies, planning and budgeting. It provides a more updated indication of the resource envelop after the County Budget Review and Outlook Paper (CBROP) and also makes reference to the Budget Policy Statement (BPS) which provides the National Fiscal and economic framework.

The CFSP presents a fiscal framework for the next budget over the medium term. It also sets firm Sectoral and programme ceilings that firms up the indicative ceilings outlined in the CBROP.

The preparation of the 2014 CFSP was a collaborative effort. A core team in the County Treasury spent a significant amount of time to put together the report under the leadership and guidance of the County Executive Member for Finance and Planning, Hon. Flora Maghanga-Mtuweta. The team comprised of Finance staff led by Mr. Leonard Langat the Chief Finance Officer assisted by Benjamin Odago and Martin Kinyua from the Planning Unit.

Further, I would like to express my gratitude to all those who have and continue to participate in this year's budget process including County Budget and Economic Forum(CBEF), County Assembly Members, the private sector, civil society, NGOs and development partners who at various stages provided valuable comments.

Last but not least, I acknowledge the contribution made by the Members of the public who took time to review the drafts and provide the much needed input.

Bonaventure F. M. Mwakio

County Chief Officer, Finance and Planning

Taita Taveta County

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LIST OF ACRONYMS AND ABBREVIATIONS

BPS	Budget Policy Statement
CA	County Assembly
CBEF	County Budget and Economic Forum
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CARB	County Allocation of Revenue Bill
CG	County Government
CRA	Commission on Revenue Allocation
COB	Controller of Budget
DORB	Division of Revenue Bill
FY	Financial year
PBB	Programme Based Budgeting
PPP	Public Private Partnership
PFMA	Public Financial Management Act
TA	Transition Authority
LATF	Local Authority Transfer Fund

1.0 CHAPTER ONE: OVERVIEW

1.1. Introduction

The Public Finance Management Act, 2012 Sections 117 and 118 provide guidelines for the preparation of the County Fiscal Strategy Paper (CFSP) and the County Budget Review and Outlook Paper (CBROP) respectively.

The law requires the CFSP to present the fiscal objectives for the following financial year and to detail the broad strategic priorities and policy goals that will guide the County government in preparing its budget.

On that note this CFSP is in essence a communication to the spending agencies, and other stakeholders on the financial status and objectives of the County as well as stipulating the total limits within which the County can spend in the 2014/15 financial year. This is founded on the expected flows from the national government as well as the revenues mobilized locally. The County does not intend to contract any debt for the for the first three years as it strive to set up systems that promote and instil fiscal discipline, accountability and ensure the financial health of the County.

This CFSP promotes fiscal discipline and enhances transparency in resource allocation should work towards reducing poverty levels and stimulating employment by re-orienting expenditure to the high impact areas and reducing on non-priority spending.

Significant areas of concern include promotion of food security, providing reliable source of energy and provision of basic services like health and water

Early childhood education shall be given priority as it sets the foundation of an educated County as well as creation of employment for the youth of the County. This is investing in the future of the county. This is critical as Taita Taveta County's unemployment statistics lie slightly above the national figures as the demographic composition of the economically active in the County show that the youth constitute the higher proportion of the unemployed. What this means is that if express measures are not taken to address this, the County may ultimately be faced with an aging workforce as well as a large segment of the population that is economically marginalized and hence spurring insecurity to unprecedented levels.

In this regard, the County government shall be committed to provide targeted interventions to mitigate the plight of our people while ensuring stable and sustainable economic growth. In pursuit of this, the County must ensure commitment in investing and developing sectors that will ensure maximum absorption of its work force and also maximum economic stimulation and growth in addition to instilling prudent use of resources across the various spending agencies.

1.2 County Treasury

The County Treasury comprises of:

- a) County Executive Committee (CEC) member for finance.
- b) The County Chief Officer, Finance
- c) Departments responsible for financial and fiscal matters including Accounting unit, County Revenue Management Unit, County Budget and Expenditure Management Budget, and County Audit Unit.

Its mandate involves the following:

- i. monitor, evaluate and oversee the management of public finances and economic affairs of the county government
- ii. Developing and implementing financial and economic policies in the county
- iii. Mobilising resources for funding the budgetary requirements of the county government and putting in place mechanisms to raise revenue and resources
- iv. Preparing the annual budget for the county and co-ordinating the implementation of the budget
- v. Mobilising resources for funding the budgetary requirements of the county government and putting in place mechanisms to raise revenue and resources;
- vi. Managing the county government's public debt and other obligations and developing a framework of debt control for the county;
- vii. Consolidating the annual appropriation accounts and other financial statements of the county government ;
- viii. Acting as custodian of the inventory of the county government's assets ;
- ix. Ensuring compliance with accounting standards prescribed and published by the Accounting Standards Board from time to time;
- x. ensuring proper management and control of, and accounting for the finances of the County government and its entities in order to promote efficient and effective use of the county's budgetary resources;
- xi. Maintaining proper accounts and other records in respect of the County Revenue Fund, the County Emergencies Fund and other public funds administered by the county government;
- xii. Monitoring the county government's entities to ensure compliance with public finance management Act 2012 and effective management of their funds, efficiency and transparency and, in particular, proper accountability for the expenditure of the funds;
- xiii. assisting county government entities in developing their capacity for efficient, effective and transparent financial management
- xiv. Providing the National Treasury with information which it may require to carry out its responsibilities under the Constitution and the PFM Act;

- xv. Issuing circulars with respect to financial matters relating to county government entities; advising the county government entities, the County Executive Committee and the county assembly on financial matters;
- xvi. Strengthening financial and fiscal relations between the national government and county governments and
- xvii. Reporting regularly to the county assembly on the implementation of the annual county budget.

1.3 Rationale for the Fiscal Strategy Paper

Under the guidance of the County Treasury, the county government is required to prepare a County Fiscal Strategy Paper (CFSP) that articulates priority economic and social policies and structural reforms as well as sectoral expenditure programs to be implemented in the coming financial year. Specifically, the CFSP should provide for the following:

- 1) 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.
- 2) Show linkage with the national objectives as contained in the Budget Policy Statement (BPS) for the FY under consideration.
- 3) Give the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term, and
- 4) Provide a basis for stakeholder engagement in the formulation and implementation of county priorities and budgeting.

1.4 The Role of Stakeholders

Stakeholder	Role
County executive committee	Provides policy direction and leadership
Ministries/departments	Policy implementation
Commission on revenue allocation	Make recommendations concerning the basis for the equitable sharing of revenue raised by the national government between national and county governments, and among the county governments. Make recommendations on matters concerning the financing of, and finance management by county governments as required by the constitution. Determine publish and regularly review policy that sets out criteria for identifying marginalized areas.
Public	Participation in policy making, identification and prioritization of projects and programs.
Other interest persons or groups	Participation in policy making, advocacy and agenda setting.
County Assembly	Approves policy documents.

1.5 Legal Framework

The Constitution of Kenya 2010 provides for a devolved system of government in which the sovereign power of the people is exercised at the national and county levels. Article 202 (1) of the Constitution requires that the national and county governments share revenues raised nationally equitably.

Article 203(2) requires that for every financial year, the equitable share of revenue raised nationally that is allocated to county governments be at least fifteen per cent of all revenue collected by the national government.

Article 202 (2) provides that county governments may be given additional funding from the national government share through either conditional or unconditional grants.

Section 15 (2) (a) and Section 107 (2) (b) of the Public Finance Management Act, 2012 requires that over the medium term, a minimum of 30 per cent of the national and the county government budgets be allocated to the development expenditures.

The public Finance Management Act 2012 Section 117 empowers County Treasury to prepare County Fiscal Strategy Paper. Section 117 (1) stipulates that The County Treasury shall prepare and submit to the County Executive Committee (CEC) the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly, by the 28th February of each year.

In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of:

- (a) The Commission on Revenue Allocation (CRA);
- (b) The public;
- (c) Any interested persons or groups; and
- (d) Any other forum that is established by legislation.

1.6 PFMA Regulations

Not later than the 15th day of February of each year in the case of the National Treasury and 28th day of February in each year in the case of each County Treasury, the National or County Treasury as the case may be, shall submit to Parliament or their County Assembly, a budget policy statement or county fiscal strategy paper for the next three years.

The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

Once the Budget Policy Statement (BPS) or County Fiscal Strategy Paper as the case may be are adopted they will serve as the basis of ceilings specified in the fiscal framework, grounded in a budgetary strategy.

The fiscal framework may be revised as a result of the following:

- (a) A fundamental revision of macroeconomic aggregates;
- (b) A significant and unexpected worsening of some of the macroeconomic indicators; or
- (c) Change of government.

1.7 Fiscal responsibility management

PFM Act 2012 section 107 states that; in managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:

- (a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
- (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
- (d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- (e) The county debt shall be maintained at a sustainable level as approved by county assembly;
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

The PFM act and regulation provides for the effective management of public finances by the national and county governments; the oversight responsibility of Parliament and county assemblies; the different responsibilities of government entities and other bodies, and for connected purposes.

In summary, this section provides a snapshot summary of the overview of devolved system of governance, the object and purpose of the existing laws in regulating and prescribing the structure and functioning of public finance management, the preparation and implementation of the public policies, budgets, the accounting and reporting of all financial transactions, the conduct of fiscal relations between the national and county governments, and financial control in line with the service delivery objectives covered in the development plans and programs, in order to ensure

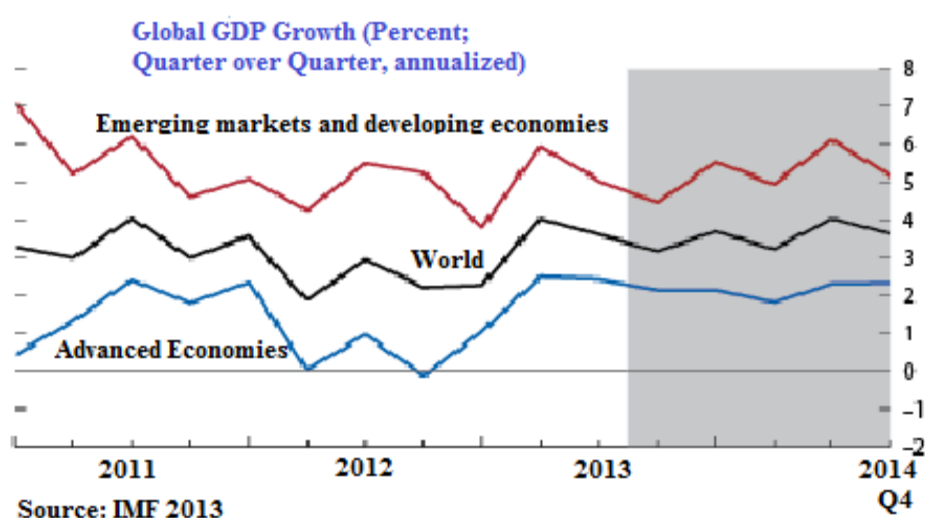
accountability, transparency and the effective, economic and efficient collection and utilization of public resources.

2.0. CHAPTER 2: ECONOMIC ENVIRONMENT AND OUTLOOK

2.1. Global environment

The global economic recovery is now on an improvement path, although downside risks remain. According to the IMF's world economic outlook for October 2013, world output (GDP) is projected to expand by 3.6 percent in 2014 and accelerate to 4.1 percent in the medium term.

Table 2.1.1



Advanced economies are gradually strengthening with policy makers having successfully defused two of the biggest short-term threats to global recovery, the threat of a Euro area break-up and a sharp fiscal contraction in the United States. Growth in the U.S economy has been hobbled by excessive fiscal consolidation as well as political uncertainty. The core economies of Europe show some signs of recovery though progress on improving competitiveness and increasing exports is not yet strong enough to offset depressed internal demand.

Growth in emerging market economies - Brazil, Russia, India, China, South Africa (BRICS) - for 2013 has been revised downwards to 4.5 percent down from 5.3 percent. This slowdown reflects both cyclical factors and a decrease in potential output growth. As commodity prices stabilize and financial conditions tighten, potential growth is lower, leading in some cases to a sharp cyclical adjustment. For instance, growth in China is

experiencing a slowdown, a state which will obviously affect many other economies, notably commodity exporters among the emerging market and developing economies.

Understandably, emerging market and developing economies are facing new policy challenges. The appropriate policy mix and the pace of adjustment will differ across economies in view of the differences in output gaps, inflation pressure, central bank credibility, room for fiscal policy maneuvering, and the nature of vulnerabilities.

In Sub-Saharan Africa, commodity related projects are expected to support higher growth and forecasts include no further disruptions. Growth in sub-Saharan Africa for 2013 has been revised to 5.0 percent down from 5.6 percent forecast earlier. This is as a result of weaker growth prospects in many countries caused by spillovers from sluggish external demand, reversal of capital flows and decline in commodity prices.

2.2 National Economy: Growth, Challenges and Prospects

Real GDP is expected to grow by 5.8 percent in 2014 up from 4.6 percent in 2012 and an estimated 5.1 percent in 2013, while over the medium-term, growth is expected to pick-up gradually and cross the 7 percent mark by 2017 of course given that global conditions remain on the improvement path and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 5.5 percent in 2013/14, 6.1 percent in 2014/15, 6.6 percent in 2015/16 and 6.9 percent in 2016/17.

This level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with other measures specified, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the ongoing initiatives to deepen regional integration.

A global prospects coupled with a boost in investor confidence (particularly so following the recent peaceful elections) means that the prospects for the Kenyan economy remain bright. Kenya is well integrated with the world economy and the positive developments are likely to impact positively on our growth prospects, assuming normal weather patterns and a sustained investors' confidence. Furthermore, continued implementation of robust economic policies and structural reforms as well as sound economic management is expected to yield efficiency and translate to faster growth of our economy and creation of more jobs in Kenya.

Kenya today is already a “*frontier*” economy. The impressive turnaround in its performance is the outcome of important changes in the economic, political, and social landscape over the past few years. At the *economic* level, prudent policies have helped anchor the conditions for strong and stable growth. Fiscal discipline has improved both the external and domestic debt positions. A more modern framework for monetary policy has helped keep inflation expectations in check, despite adverse shocks. And stronger supervisory powers (including effective regulation of financial and money markets) have maintained financial stability, even as the financial system is expanding rapidly and capital markets opening up. As a result, Kenya has built a strong external position and is now in a favorable condition to tap international financial markets with the planned Eurobond issue.

Regional integration has opened up new markets, supported the emergence of a middle class, and enabled domestic demand to become an engine of growth. Over the past several years, Kenya has embarked upon a successful journey that has transformed its economy. This has been achieved with the leadership and support from the public sector, but also largely through the efforts of a vibrant private sector. This partnership has increasingly helped to lift the Kenyan people out of poverty and generate job opportunities.

Some of the challenges that may impact the growth prospects of the country in the next budget cycle include continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector. Public expenditure pressures, especially recurrent expenditures also pose a fiscal risk. Wage pressures and implementation of the Constitution of Kenya, 2010 and the devolved government may limit continued funding for development expenditure. The continued high capital imports and high investment demand to finance infrastructure investments and mineral explorations within the country will continue to drive the level of current account balance.

2.3. Likely impact on economic performance of the county

The recovery of the advanced economies from recession is expected to have a positive impact to the county. As an agricultural based economy, the county is expected to benefit from these advanced economies as more agricultural produces will find its way in these economies. In addition, positive economic outlook may attract more tourists in to the country and the county too.

The economic growth of the county will highly depend on the increased investment of the key sectors like road infrastructure, agriculture and livestock sector, health and human capital investment (education). The opening up of new roads as well as continuous improvement is expected to increase production in agriculture, livestock and open up new

areas for investments in the county. Marketing of farm produces will be improved and this will have direct impact to the income of the local population.

The infrastructural investments are also expected to spur consumption at the household level thus boosting the revenue streams of the county in long term.

2.4 National objectives and economic policies

In the medium term, the National Government through the Second Medium Term Plan (2013-2017) for Vision 2030 will be implementing a number of key strategic objectives that also have a bearing on county affairs. They include: Constitution and Devolution, National cohesion, Security, Drought emergencies and food security, Equity in access to opportunities and lower cost of living, Health, Education, Infrastructure, Industrialisation, improved trade, Investment to support growth/ land reforms, Competitiveness and Rebalancing Growth, Strengthening social protection, Governance and Public Financial Management Reforms and Arts Sports and Culture

2.5. County economic performance and prospects

Overview of county economy

During the period July to December of the financial year 2013/2014 the County Government expenditure units consisted of the County Assembly and County Executive. The County Executive comprises of eleven administrative units which are: Education; Health Services; Lands; Administration and Devolution and Public participation; Water; Agriculture; Livestock, Veterinary and fisheries; Finance and Planning; Environment, Mining and natural resources; Community affairs, trade and Industry ,Tourism Culture and Social services; Public works and Infrastructure, The 2013/14 financial year was the period when the financial systems, processes and procedures of Taita Taveta County were being established. It was the period when the foundation stones were being laid. In addition the County was able to budget, approve and implement the budget 2013/2014.

It is important to note that the first four months of the County's existence (March to June 2013), the budget was implemented as approved by the 10th Parliament on behalf of the 47 Counties. The budget that was approved by the previous Parliament was to ensure that Counties are operational soon after their formation on 4th March 2013. This period was examined in detail in the CBROP.

There have been challenges in the implementation of the budget which are examined in this chapter and measures to address them have been and will continue to be taken to ensure that Taita Taveta County steers a path to fiscal sustainability and financial prudence in the use of resources.

Growth prospects and challenges

Most of the expenditures that the County intends to make in the future should be geared towards spurring economic growth in light of the changing economic conditions. For instance, provision of water services is set to improve with extensive investment in water projects throughout the county; expansion of agricultural extension services, as witnessed in the current partnership with Jomo Kenyatta University-Taita Taveta Campus, will ensure that Taita Taveta County plays its part in making food security a reality while providing employment to the population; and strategic initiatives to cushion the poor with emerging challenges associated with inflation and access to services will seek to bring about equity in the County.

Over the medium term, Government's recurrent expenditure will need to be moderated so as to guard against necessitating debt that will not only pose fiscal risk but also be burdensome to our future generations. In particular, every effort should be made to contain wages and salaries by the executive and other public entities by limiting the size of public service. Pursuing a sustainable level of debt once counties are allowed to borrow is also vital as a means to provide room for the private sector to expand business and create the much needed jobs within an environment of low inflation, and stable interest rates and exchange rate.

In light of apparent fiscal constraints, tough choices are therefore required to ensure that available resources are directed towards those priority programs that have the highest socio-economic impact on our economic development. This is especially more urgent with respect to the public sector wage bill that, if not appropriately managed, will become the main macroeconomic challenge for Taita Taveta County. Existing staff should be realigned with the new functions to ensure a more productive workforce. An employment freeze will be put in place until an audit of staff in relation to functions is completed by each Sector.

2.6. Strategic Priorities and Policies

In the next budget cycle for 2014/2015, the following strategic priorities shall be pursued;

The Strategy for economic transformation covers nine broad areas:

- Extracting our underground immense wealth and exploiting it to create tangible wealth, providing employment opportunities for our citizens and spurring economic transformation.
- Investing in agricultural transformation to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth; a food insecure county is an insecure county. Invest in transformational methods of agriculture, with the main objective of feeding its people and creating wealth for the

population. This sectors potential remains untapped. Its potential to create wealth remains unexploited. The government will ensure this sector is exploited. The market for agricultural products is immense, both local and international

- Investing in livestock farming and value addition. This is a whole industry with potential to feed the whole county in addition to providing employment to our idle youth.
- Investing in education. In our county the education standards are shamefully low. Devolved or not there is need to make a deliberate effort in enhancing the standards of education. Substantial resources should be invested here for this county to have a face in the country.
- Investing in quality and accessible healthcare services as well as social safety net to reduce the burden on the households and complement and sustain our long term growth and development; our old and young people need proper medical care.
- Tourism, culture, art, social services and natural resources; awaken this sleeping giant to provide jobs and grow the economy. Though a large proportion of the revenue realized by national government emanate from this county, the proportion that remains in this county is negligible. Deliberate effort must be made to ensure that the county benefits from this resource.
- creating conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;
- Land is a core factor of production. Inventory of all public land in order to identify opportunities for attracting local, national and international investors will be done. In addition physical infrastructure projects particularly on roads, water, energy and ICT have a multiplier effect to other development sectors and therefore are key strategic projects
- Further entrenching devolution for better service delivery and enhanced rural economic and social development.

2.7. Linkage of county priorities to national objectives

The Kenyan Vision 2030 identified 3 pillars for socio economic transformation; economic, social and political pillars.

The Economic pillar has the mission of “Moving the Economy up the value chain”. The National Medium Term Plan 2013-2017 has identified seven priority sectors to raise the national GDP growth rate to 10 per cent. The sectors under this pillar include Tourism, Agriculture and Livestock, Wholesale and retail trade, manufacturing, Business process Outsourcing and Financial services and Oil and Mineral resources.

Under this pillar, the county envisage to undertake investments in agriculture, agribusiness and SME support, tourism development, road infrastructure and provision of conducive environment for business.

Social pillar aims at building a just and cohesive society that enjoys equitable social development in a clean and secure environment. It has the following sectors; education and training, health, environment, water and sanitation, population, urbanization and housing and gender, vulnerable groups and youths.

To achieve the aim of the social pillar, investments in education, health, youth development, irrigation and water sectors shall be undertaken.

The political pillar has a mission of ensuring that all the Kenyans move to the future as one nation. It envisages a democratic political system that is issue based, people centred, and result oriented and accountable to the public. The projects and programmes under this pillar aims at strengthening national cohesion and integration, judicial transformation, promoting transparency, leadership and integrity in the conduct of public affairs and entrenching the rule of law.

Citizen participation in policy making decisions is key to the sustainability of projects and programmes as this enhances ownership. In support of the political pillar of vision 2030, citizen participation shall be sought. This increases transparency and social accountability thus boosting public confidence in public affairs. Capacity building programs tailored for the public shall be undertaken.

Land reforms in the county need to be undertaken to boost development initiatives and enable accessibility of bank funds through loans. This is one of the foundation for achieving Vision 2030. The land reforms include formation and strengthening of land control board for the county and land adjudication.

2.8. Risk to implementation of priorities

Operating in a political system may pose implementation challenges as political scenarios changes and their unpredictability becomes a major risk in the operationalization of the policies and programs planned in the medium term.

Natural calamities also pose the greatest risk to the county's development agenda. The most common disasters include human-wildlife conflicts, flooding and drought. These calamities can delay programs or lead to collapse of projects. Without proper contingency plans, funds meant for other programs can be redirected to mitigate against the effects of disasters.

Revenue flow has been unpredictable. The release of the equitable share from the national government has not been regular leading to delays in budget implementation.

High Inflation rate might destabilize the budgets thus inflating the cost of the projects. This is more pronounced for projects and programmes that rolls over more than one financial year

The gross county wage bill continues to be a concern in the implementation of the budget or indeed in the realization of the 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. The existing staff must all be subjected to a job fit analysis and placed in the right position. In addition an exercise to align the county salary structures with national and council structures must be done. All the staff should be given new contracts with clear performance targets. Staff that do not fit in any position must be retrained to fill the existing positions or retrenched. An employment freeze should be observed until such a time when the personnel and recurrent cost attain the 20% mark in proportion to the total revenue.

Lack and delay in the enactment of relevant legislation to operationalise the county Government institutions and programmes implementation.

3.0 CHAPTER THREE: FISCAL POLICY AND BUDGET FRAMEWORK

3.1. Overview

The fiscal policy strategy recognizes that available resources are scarce and hence the need to focus on the county government's priority programs. It will therefore focus on: (i) maintaining a strong revenue base; (ii) containing growth of total expenditures while ensuring a shift in the composition of expenditure from recurrent to capital expenditures; (iii) ensuring a significant shift in resource allocation towards CIDP priority social and economic sectors.

3.2. Fiscal Policy

The Taita Taveta County Medium-Term Fiscal Framework 2014/15 – 2017/18 is targeted at supporting growth and employment as well as ensuring provision of essential County services. The framework further continues with the fiscal balance that started in 2013/14 revised budget, which ensures a balanced budget while simultaneously ensuring that the level of expenditure continues to sustain growth through continued public investment in infrastructure.

The overall budget deficit is therefore expected to remain at zero in the short term as the freeze on county borrowing holds. It is, however, possible that the deficit may slightly rise towards the tail end of the medium term in the event that a comprehensive fiscal analysis indicates the necessity of borrowing to fund expanded development programmes. This will entirely depend on a needs analysis and an assessment of the financial health of the County to ensure that the borrowing is both affordable and sustainable. In the longer term, however, efforts will be made to maintain the budget deficit at less than 5 percent of total expenditure to secure Taita Taveta's fiscal sustainability. The County aims at targeting Public-Private partnerships (PPP) in the implementation of the big infrastructural projects.

This policy will be achieved through the County Government's commitment to ensure a strong revenue base with measures started in the County Finance Bill 2013/2014 and which are in line with best practices. This will help improve compliance in payment, minimize delays, and strive towards the revenue potential of the County. Efforts will therefore continue to be made to rationalize existing tax incentives, expand the tax base and eliminate the possibility of exemptions.

Further, fiscal policy requires that plans be linked with results through Programme Based Budgeting (PBB).

Programme based budgeting is a framework for planning, management and monitoring budgets that relates the purposes of resource allocations to effectiveness in achieving desired outcomes. It has the following advantages:

- It presents more useful information on service delivery & allow for transparency and accountability in service delivery
- It helps in determining whether allocations reflect priorities
- It is useful in planning the delivery of services
- It assists in monitoring the use of resources within each program
- It can be used in identifying areas where savings can be made or where more funds are needed.

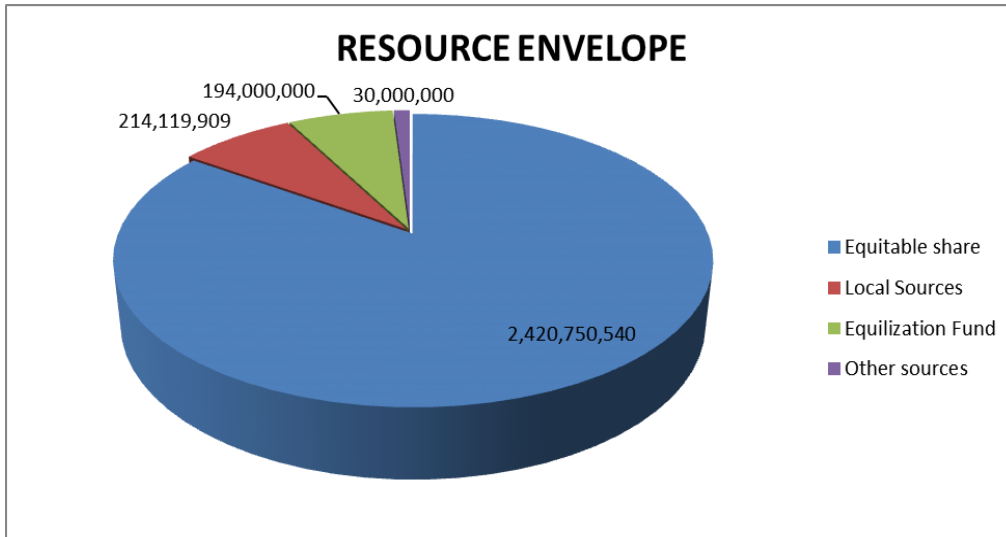
3.3. Fiscal performance

Taita Taveta County, before the advent of devolution was dependent on the National government for a significant part of its revenue and revenues from the central government formed about 60% of the total county revenues. Revenues mobilized within the county ranged between Kshs 110 million and 144 million. The most significant single source of revenue has been the single business permit which is collected during the third quarter of every financial year at which period licences expire and business seek to have them renewed.

a) Resource Envelope 2013/2014

The resources accruing from the National Government for the financial year 2013/2014 were shillings Two Billion, Four Hundred Twenty Million and Seven Hundred Fifty Thousand Five Hundred and Forty (**Kshs. 2,420,750,540.00**). Additionally we estimated the revenue from the local sources to be Shillings Two Hundred and Fourteen million, One Hundred and Nineteen Thousand Nine Hundred and Nine (**Kshs.214,919,909.00**) and Thirty Million (**Kshs.30,000,000.00**) was to emanate from the devolved functions. Taita Taveta County also expects to receive Shillings One Hundred and Ninety Four Million (**Kshs.194,000,000.00**) from the Equalization Fund.

Figure 1: County Resource envelope.



Source: Taita Taveta County Treasury.

During the period July to December, 2013 the county received Kshs. **653,534,100** from equitable share of national revenue which was 59% of the expected Kshs **1,113,489,800**. Internal revenue collected was shillings Fifty Six million, Seven Hundred and Fifty Five Thousand, One Hundred and Fifty Two (**Kshs.56,755,152.00**) which represented 46% of the expected **Kshs122,059,955**. The county share from National Government for the Month of November and December, 2013 amounting to shillings four hundred and fifty nine million, nine hundred and nineteen thousand seven hundred (**Kshs.459,919,700.00**) was received on 3rd February, 2014 in our county Exchequer account held at Central Bank of Kenya.

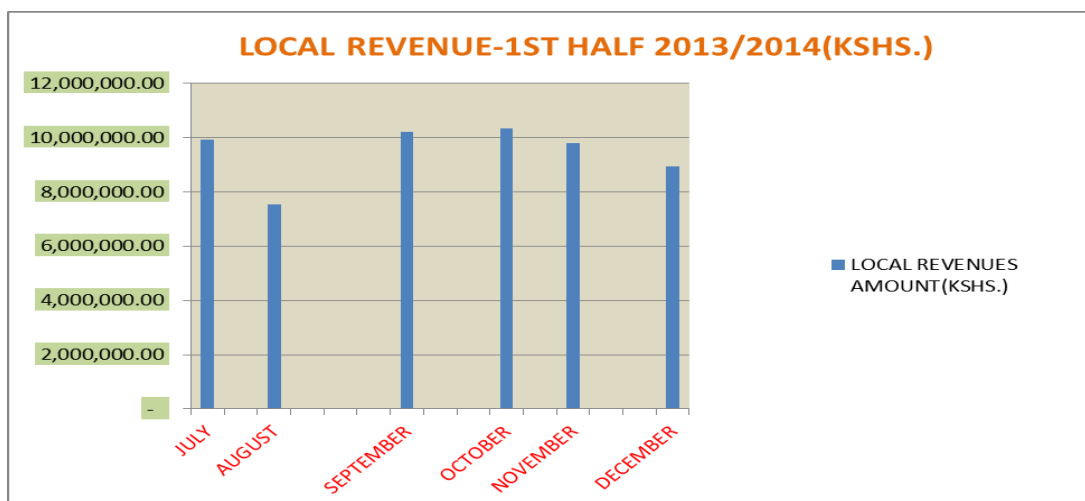
- **Internal revenue collection**

Taita Taveta County Government used both laiforms and manual systems in revenue collection. The revenue collected was deposited into the Taita Taveta County revenue account and swiped on weekly basis to Taita Taveta County Exchequer account held at Central Bank of Kenya.

A total of **kshs 63,751,877** was collected by January 2014 which amounts to 26% of the total estimated local revenue of kshs. **244,119,909.00** for the FY 2013/14.

The figure below depicts county revenue collection during the first half of 2013/14 FY.

Figure2: local revenue collection



Source: Taita Taveta County Treasury.

The County's projections for local revenue, is informed by what the defunct local authorities that were amalgamated into the Taita Taveta County Government used to collect. Nevertheless the county Government intends to close leakages, increase the revenue bases and address other non-compliance challenges in order to boost the revenue collection.

Revenue collection	2012/13	2013/14	2014/15	2015/16	2016/17
Voi Municipal Council	63,286,449	76,286,449	134,311,355	147,742,490	162,516,739
Taita Taveta County Council	30,543,400	47,543,400	64,821,545	71,303,700	78,434,070
Taveta Town Council	85,035,571	90,290,060	180,469,009	198,515,910	218,367,501
Grand Total	178,865,420	214,119,909	379,601,909	417,562,100	459,318,310

The diminishing revenue efforts in 2013/14 were occasioned by:

- Late passage of 2013/2014 Finance Bill.
- Inadequate vehicles and other equipment for supervision.
- Inadequate staff.
- Court cases restraining the government from collecting revenues from the major revenue earners.
- Restructuring of defunct councils into the county government systems.
- Incitement against paying by some leaders citing lack of legal framework to collect.

The County government will do its part in striving to meet and supersede the revenue totals met by the defunct local authorities and reduce absolute dependency on the exchequer in providing budgetary support.

The apparent receding revenue collection evident from figure 2 is occasioned by the fact that the second quarter of the Fiscal year always generates less revenue. This is normally compensated by improved revenue collection in the third quarter due to revenues from single permits, land and plots rates which are normally paid at the beginning of the calendar year.

The County government is however cognizant of inherent revenue gaps and structural inefficiencies in the collection of revenue and intends to design and implement measures to improve on the collection, recording and accounting for all County revenue sources as well as reporting mechanism to bring revenue collection at par with national practice.

The County government is confident that the revenue targets set will be met and/or superseded and thereby provide a platform for self driven expenditure and dissuade any tendency to resort to alternative financing of expenditure in the medium term.

The main reason for this expected surge in revenue is the anticipated renewal of single business permits, upon passage of the Finance Bill by the County Assembly of Taita Taveta, which should set in during the last quarter of financial year 2013/14 and therefore ensure that the budget for the financial year is balanced.

In future the County Government of Taita Taveta will have to explore other sources of revenue such as, borrowings, grants and donations. However, the county government should obtain a guarantee from the National Government and approval of the county assembly in the case of borrowings.

b) Expenditure Analysis

The first period of expenditure under review was the tail end of the 2012/13 financial year where the resources were voted on behalf of the County through the Transition County Appropriation Act, 2012 by the National Assembly under the Constitutional Transition

provisions. During this period the county was allocated **Kshs.124,608,716.00** which was meant to facilitate operations, provide for personnel emoluments, and enable a limited amount of operation and maintenance while the respective counties prepare their substantive budgets for the financial year 2013/14.

At the end of the 2012/2013 financial year the County government had returned unspent funds totalling **Kshs. 26,031,408.00**(21%) to its exchequer account held at Central Bank. This was largely due to delay in disbursement of funds by the National Government. The last disbursement of **Kshs.37 million** was received on 28th of June, 2013, 2 days to close of financial year. In addition the long procurement processes occasioned by stipulations of the Public Procurement and Disposal Act, 2005 also made it difficult to absorb the resources in the given period.

After the passage of the 2013/14 budget, the County government of Taita Taveta had three exchequer releases for the period July to December 2013. These funds were requisitioned in the month of September, October and December, 2013, as per the table below, mostly to cater for the County's recurrent services. It is important to note that during this period, the budget of Taita Taveta County was balanced and the financial position of the County was secure. During this period the County could not effectively access development expenditure from the exchequer because of the controller of budget restriction and the stringent procurement processes.

Table 1: Exchequer releases

	EXCHEQUER WITHDRAWALS UPTO DEC, 2013		
MONTH	RECURRENT	DEVELOPMENT	TOTAL
SEPTEMBER	154,902,670.00		154,902,670.00
OCTOBER	61,803,547.00	17,913,620.00	79,717,167.00
DECEMBER	225,464,839.00	59,561,408.00	285,026,247.00
DECEMBER	205,735,550.00		205,735,550.00
TOTAL	647,906,606.00	77,475,028.00	725,381,634.00
PERCENTAGE	89.32	10.68	100.00

Source: Taita Taveta County Treasury.

Expenditure Analysis for the period JULY 2013-JANUARY 2014

ITEM	DEPT	BUDGET 2012/13	BUDGET 2013/14			ACTUAL EXPENDITURE		
		ACTUAL EXP	REVISED REC	REVISED DEV	TOTAL	Recurrent Actual exp	Dev. Actual Exp	TOTAL EXP
1	COUNTY ASSEMBLY	33,854,718.00	317,430,935.55	108,444,475.00	425,875,410.55	67,529,855.00	-	67,529,855.00
2	COUNTY EXECUTIVE	50,315,311.30	284,726,496.86	41,254,440.79	325,980,937.65	307,853,453.00	720,000.00	308,573,453.00
3	CPSB		20,949,162.50	-	20,949,162.50	-	-	-
4	COUNTY TREASURY	31,407,278.19	42,909,799.28	69,926,075.00	112,835,874.28	9,459,403.00	-	9,459,403.00
5	PLANNING		5,528,321.80	5,332,550.00	10,860,871.80	1,597,003.00	-	1,597,003.00
6	AGRICULTURE		73,111,873.40	46,703,422.03	119,815,295.43	33,372,003.97	3,306,265.00	36,678,268.97
7	WATER SERVICES		22,104,680.30	143,408,367.80	165,513,048.10	9,190,407.00	5,812,161.00	15,002,568.00
8	YOUTH TRAINING		32,721,724.93	12,443,640.00	45,165,364.93	-	-	-
9	YOUTH DEVELOPMENT		6,673,204.00	-	6,673,204.00	-	-	-
10	COOPERATIVE DEVELOPMENT		7,043,960.00	-	7,043,960.00	-	-	-
11	LANDS & PHYSICAL PLANNING		4,253,216.50	9,514,600.00	13,767,816.50	963,299.00	911,250.00	1,874,549.00
12	HOUSING		2,076,076.68	-	2,076,076.68	135,600.00	-	135,600.00
13	PUBLIC WORKS		22,651,059.57	-	22,651,059.57	1,029,998.00	-	1,029,998.00
14	INFORMATION		801,744.55	-	801,744.55	-	-	-

15	GENDER		17,098,052.00	64,357,762.00	81,455,814.00	5,340,924.00	210,000.00	5,550,924.00	
16	CULTURE SERVICES		2,930,000.00	-	2,930,000.00	-	-	-	
17	EDUCATION		104,550,025.00	67,446,560.00	171,996,585.00	464,840.00	-	464,840.00	
18	FISHERIES		7,883,301.00	3,904,410.10	11,787,711.10	4,300,421.49	-	4,300,421.49	
19	HEALTH		539,990,588.62	108,000,665.75	647,991,254.37	191,654,955.76	-	191,654,955.76	
20	PUBLIC HEALTH		3,101,442.54	-	3,101,442.54	1,298,140.00	-	1,298,140.00	
21	LIVESTOCK PRODUCTION		27,117,194.00	41,161,687.43	68,278,881.43	16,764,182.49	21,800,000.00	38,564,182.49	
22	VETERINARY SERVICES		30,779,439.50	4,265,740.00	35,045,179.50	40,752.00	-	40,752.00	
23	COUNTY SPORTS		3,877,425.00	-	3,877,425.00	365,600.00	-	365,600.00	
24	TRADE DEVELOPMENT		7,406,230.60	19,000,000.00	26,406,230.60	1,075,900.00	-	1,075,900.00	
25	LAND RECLAMATION & WATER STORAGE		975,000.00	-	975,000.00	-	-	-	
26	TRADE WEIGHTS & MEASURES DEPT		1,582,740.00	-	1,582,740.00	-	-	-	
27	FORESTRY		1,814,973.44	-	1,814,973.44	-	7,300	7,300	
28	FORMER LOCAL AUTHORITIES		222,965,643.20	89,904,066.20	312,869,709.40	50,538,593.00	-	50,538,593.00	
29	FLOOD MITIGATION (VOI & TAVETA)		-	30,000,000.00	30,000,000.00	-	-	-	
30	SEED MONEY FOR MINING DEV		6,632,000.00	13,368,000.00	20,000,000.00	-	-	-	
31	SEED MONEY FOR TOURISM DEV		2,500,000.00	15,868,000.00	18,368,000.00	-	-	-	

32	ROADS		-	117,000,000.00	117,000,000.00				
33	EQUILIZATION OF WARDS INFRASTRUCTURE		-	80,000,000.00	80,000,000.00		93,450.00	93,450.00	
	TOTAL			1,829,076,310.82	1,091,304,462.09	2,920,380,772.92	702,975,330.71	32,860,426.00	735,835,756.71

3.4. Fiscal reforms

To ensure continued strong revenue performance underpinned by improved tax payer service delivery, and a level ground floor facilitating trade and business growth various tax reforms will be implemented in the medium term. Some of these reforms include:

- Introduction of parking fees in the town centres.
- Introduction of electronic revenue collection of taxes, rates and fees.

3.5. The 2014/15 Budget Framework

Taita Taveta County intends to use a programme based budget in the 2014/15 financial year so as to achieve the following objectives:

- i. Making public management results-oriented
- ii. Improving efficiency/effectiveness of activities;
- iii. Using performance information for setting targets and priorities;
- iv. Guiding resource re-allocation with greater information;
- v. Making efficiency savings wherever necessary.

The 2014/15 budget framework for Taita Taveta County is set against the background of the medium-term macro-fiscal framework set out above and the National Government's national strategic objectives as outlined in the updated Vision 2030 MTP. Real GDP at national level is expected to increase by 4.6 percent in FY 2014/15 and this projected growth assumes normal weather patterns during the year. Inflation is expected to ease to below the 5 percent target during the financial year, reflecting implementation of a prudent monetary policy and easing of both food and oil prices and stabilization of the shilling exchange rate.

Taita Taveta County should seek to play its role in complementing and supporting these fundamentals to ensure that the Country as a whole is a better place for its citizens. This should be done in recognition that no County or indeed country is an island and interdependence and is requisite in the fiscal sustainability of all the 47 devolved units of

the Country. Indeed the Constitution recognizes this in Article 209 (5) and Taita Taveta is committed to ensuring this in the 2014/15 budget framework.

a. Recurrent Expenditure

Recurrent expenditures are expected to remain stable at 68% of total expenditure in the medium term as recruitment in key and essential areas takes place. This will however, not be done at the expense of development expenditure which will remain at 32% of total expenditure in the medium term. The recurrent expenditure will therefore remain stable on account of adjustment of one-off items and conservative growth estimates in both revenue collections as well as equitable allocations from government and should therefore taper off and allow additional allocations to development and capital investment by the County government. This will go a long way in supporting robust economic growth in the County while ensuring prudence and caution in the application of resources.

b. Development Expenditure

Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure development expenditure will also remain stable at 32% of total expenditure. It is important to note that the fiscal framework for 2014/15 to the medium term does not take into account debt financing of county functions and therefore all development expenditure is expected to be funded either from local revenue sources or from releases from the exchequer.

The table below gives the county budget for 2013/14 and also the projections for 2014/15 and the medium term.

Fiscal projections 2013/14-2016/17

	FY 2013/2014	FY 2014/2015	FY 2015/2016	FY 2016/2017
	Kshs	Kshs	Kshs	Kshs
Equitable revenue from National Government	2,420,750,540.00	2,817,804,460	3,240,475,129	3,726,546,398.
Own Revenue collection	244,119,909.21	379,601,909	417,562,100	459,318,310

Total County allocations	2,664,870,449	3,197,406,369	3,658,037,229	4,185,864,708
Rural Electrification		93,181,516	107,158,743	123,232,554.91
Allocations loans and Grants		91,802,418	105,572,781	121,408,697.81
Equalization Fund	194,000,000.00	217,263,689	269,237,896	309,623,580
Sub-total	194,000,000	402,247,623	481,969,420	554,264,833
Grand Total Revenue	2,858,870,449	3,559,653,992	4,140,006,649	4,740,129,541
EXPENDITURE				
RECURRENT	1,865,409,314.45	2,346,356,916	2,605,123,322	2,975,,013,715
DEVELOPMENT	799,461,134.76	851,049,453	1,052,913,907	1,210,850,993
Sub-total	2,664,870,449	3,197,406,369	3,658,037,229	4,185,864,705
Rural Electrification		93,181,516	107,158,743	123,232,555
Allocations loans and Grants		91,802,418	105,572,781	121,408,698
Equalization fund	194,000,000	217,263,623	269,237,896	309,623,580
Sub-total	194,000,000	402,247,623	481,969,420	554,264,833
Grant Total Expenditure	2,858,870,449	3,559,653,992	4,140,006,649	4,740,129,541

4.0 CHAPTER FOUR: MEDIUM TERM EXPENDITURE FRAMEWORK

4.1. Resource Envelope

The key features of sectoral allocation for the 2014/15 financial year and the medium term are anchored on the need to finance investment and to directly support economic growth and reduce poverty. The key resource allocation mechanism will therefore focus on measures to:

- (i) Increase employment especially for the poor in the county
- (ii) Improve the quality of life, and
- (iii) Improve governance and instil prudent use of resources.

As noted in CBROP 2013/2014, the key features of sectoral resource allocation for 2014/15 will be guided by the emerging priorities, County 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) 2013-2017, which is aligned to the goals and the objectives of the second Medium Term Plan 2013-2017 and the Vision 2030 blueprint.

Allocations will be informed by core needs identified through analysis by fiscal experts in the county as well as from insightful and welcome submissions from the county public and submissions by individuals and organizations on the 2014/15 budget proposals. In this regard, the areas that are identified to receive additional funds are the “high impact” areas or chronically neglected, but important, areas of public spending such as increased funding for roads and energy infrastructure, health facilities, water and for the provision of extension services for agriculture.

i. Reorienting Expenditures

- **Agriculture**

Given the need to revitalize agricultural expenditures in the County and to address low agriculture productivity, poverty and unemployment in rural areas, the share of resources allocated to the agriculture sector is projected to increase sharply from 3.1% to 13% of the

total expenditure outlay in the financial years 2013/14 and 2014/15 respectively and these additional resources should specifically be to adequately fund extension services in order to support both crop and livestock production in the medium term. This should be done in collaboration with Kari to ensure that modern farming methods are entrenched to maximize both real output and quality for the Taita Taveta Farmer.

- **Health**

In recognition of the challenges affecting the Taita Taveta health sector in spite of the investment during the 2013/14 financial year, there is further need to ensure that the health facilities already constructed under the CDF framework are taken up and capacitated by the County government promptly. This will ensure additional support to the existing facilities and provide access to the population within a minimum of 5 kilometres to every facility. It is for this reason that the resources accruing to the Human resources sector are set to increase slightly from 21.4 to 23.1% of the total expenditure outlay in the financial years 2013/14 and 2014/15 respectively. With these additional resources the County should expect to have a smoothly running health system with the requisite construction /renovation of the county hospitals and health centres as well as the introduction paediatric wings in county health facilities.

- **Industry, Cooperatives and Tourism**

The resources for the productive sector are set to increase from 5 to 9.3 percent of the total expenditure outlay in the financial years 2013/14 and 2014/15 respectively and the additional resources are targeted for urgent investment in cooling plants to ensure the preservation of fresh produce and secure market prices for the farmers. This is to address the plight of the Taita Taveta farmer which is the poor pricing of produce at the producer level owing to the perishability of produce and impeded access to markets. This is also targeted to extend to marketing for products from fish & potato farming, bee keeping and construction of abattoirs, cattle dips, cereal driers and milk coolants.

ii. Expenditure rationalization

As explained in the CBROP, there are several common non-core expenditures in the budget for 2013/14 financial which were necessary to have the county government up and running such as the purchases of vehicles and equipment, construction of buildings, recruitment and remuneration of staff, among others.

These expenditures were largely one-off and therefore may not need to be provided for in the near future and as a result, the outlook for 2013/14 promotes a reorientation of expenditure focus to poverty reduction as well as employment creation.

In pursuit of this, significant efforts have been taken to critically examine the respective allocations for each sector and single out expenditures that can be re-designated to key areas and the result is expenditure reductions for items such as printing, routine maintenance of vehicles, hospitality supplies, among others without crippling the targeted ministries or spending units and re-designating the resultant savings to the core areas for 2014/15.

4.2. Ministerial Expenditure Priority Sectors and their Justification

As explained above, the sectoral priorities are derived from emerging priorities, county 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) 2013-2017, which is aligned to the goals and the objectives of the second Medium Term Plan 2013-2017 and the Vision 2030 blueprint. Each section describes the specific key priorities and the sector targets during 2014/15 fiscal year. Every Sector is expected to design clear targets and timelines which will guide the implementation of the stipulated programmes.

i. Agriculture sector

This is one of the main pillars of growth and employment creation in Taita Taveta County in the medium term. To strengthen the performance of the sector, measures will be put in place to train farmers in agri-business and link them to the available sources of credit which is expected to transform the sector to make it more competitive.. In addition to this, a deliberate effort will be made to reduce over-reliance on rainfed agriculture. The sector is

therefore expected to target an increase in the acreage under irrigation as well as fostering and instituting projects targeting the improving livestock husbandry and fodder supply.

Over the medium term, the key priorities in the sector include improving the delivery of research, extension and advisory support services the delivery of services to less accessible areas, enhancing quality assurance and export trade in livestock and livestock products and development of fish marketing systems. Other priorities include; strengthening managerial, governance, marketing and research capacity of co-operative society for value addition processing improving agricultural input markets and supporting diversification of output markets.

To finance this planned expenditure allocations to the sector are set to remain at 13% of the total expenditure outlay in the medium term which should be prudently and cautiously applied to ensure maximum utility of the finite resources available in the Taita Taveta County Revenue Fund.

ii. Governance and Administration

The Governance and Administration sector of Taita Taveta County 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 of the sector will 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, prudent fiscal and monetary policies, and effective management and coordination of government operations. The sector is also expected to promote the effective and efficient allocation and utilization of resources, ministerial rationalization and staff rightsizing;

To finance this planned expenditure allocations to the sector are set to remain at 22% of the total expenditure outlay in the and it is important to note that this sector has taken the lead in excising and shedding off non-priority expenditure to free up resources for dedication to direct service delivery. It is for this reason that the allocation for this sector is set to reduce in the 2014/15 financial year from 25.2% to 22.1% in the financial year 2013/14.

iii. Infrastructure

The infrastructure sector of Taita Taveta will be charged with the completion of viable on-going and/or stalled projects as well as the reconstruction, rehabilitation and maintenance of existing degraded county road infrastructure that lies under the jurisdiction of Taita Taveta County Government. The Sector will also be specifically charged with provision of new infrastructure to disadvantaged areas that have the potential for poverty reduction as well as employment creation. The sector will also have the responsibility of establishing and making operational ICT units within ministries and installing Local Area Networks (LANs) in various government buildings to spur Taita Taveta towards the goal of becoming a paperless county. The sector will also be at the forefront in devising policies and instituting systems to promote improved land use management as well as developing and managing land information and management systems.

Towards these ends, the infrastructure sector is allocated 17.3% of the total expenditure outlay in the medium term and this is after a 28.2 allocation of resources in the 2013/14 financial year. This is on account of the reduction of one-off purchases of heavy equipment such as road- graders and haulage trucks for murram which will neither require replacement immediately nor in the medium term.

iv. Human resource development

The focus of the human resource development sector should be two pronged with the first goal being developing and strengthening primary health care services, both preventive and curative with the goal of providing accessible and affordable healthcare to the people of Taita Taveta. These services will be based on the network of public health facilities that are well equipped and manned.

The second focus of the county will be to increase pre-primary school (ECDE) net enrolment and gross completion rate in the medium term in addition to achieving gender parity at ECDE institutions and improving on the transition rates between ECDE and primary education which is under the purview of the government.

It is for these profound responsibilities in investing and securing in the future of Taita Taveta County that this sector is provided with 23% of the resources from financial year 2014/15 into the medium term. This is an increment from 21% of resources provided during the 2013/14 financial year signifying the magnitude of the task facing and not least the results expected from this sector.

v. Productive Sector

The productive sector on the other hand is expected to focus on sector targets to increase the number of tourists' arrivals in the County of Taita Taveta, reduce incidences of human-wildlife conflict by working hand in hand with the Kenya Wildlife Service in the implementation of the Wildlife Conservation and Management Act, 2013. The sector is also responsible for diversifying and developing source markets for Taita Taveta County Produce, as well as tourism products and circuits and providing an enabling environment for promotion of new industries while facilitating the access to credit for Micro and small enterprises in Taita Taveta County.

In pursuit of this and to ensure the effective execution of its mandate, this sector has an allocation of 9.3% of total expenditure outlay for Taita Taveta in the medium term. This is a significant increment from 5.6% in the financial year 2013/14.

4.5. Baseline Budget Ceilings

The 2014/15 budget ceilings

2014/2015 BUDGET CEILINGS		2014/2015	%	2015/2016	2016/2017
Revenue		Ksh		Ksh	Ksh
Equitable revenue from National Government	2,420,750,540.21	2,817,804,460		3,240,475,129	3,726,546,398.35
Rural Electrification		93,181,516		107,158,743	123,232,554.91
Allocations loans and Grants		91,802,418		105,572,781	121,408,697.81
Total County allocations	2,420,750,540	3,002,788,394		3,453,206,653	3,971,187,651
Equalization fund	194,000,000.00	217,263,689		249,853,242	287,331,228.70
Own Revenue collection	244,119,909.21	379,601,909		269,237,896	309,623,579.93
Grand total Revenue 2014/2015	2,858,870,449	3,599,653,992		3,972,297,791	4,568,142,460
COUNTY ASSEMBLY	417,474,217.00	600,000,000	17.60%	480,095,350	552,109,651.98
COUNTY EXECUTIVE	532,544,570.69	-	-	553,950,950	637,043,592.21
OFFICE OF THE GOVERNOR		131,969,288	3.90%		
COUNTY ADMINISTRATION AND DEVOLUTION		337,093,323	9.90%	86,250,000	99,187,500.00
CPSB	20,449,162.50	47,384,590	1.40%	25,104,563	28,870,246.91
COUNTY TREASURY		84,885,000	2.50%		

	68,585,874.28			84,199,946	96,829,937.42
PLANNING	10,860,871.80	11,594,285.19	0.34%	13,333,428	15,333,442.17
AGRICULTURE	91,480,295.43	92,859,011.05	2.72%	112,306,448	129,152,414.76
WATER SERVICES	158,013,048.10	165,517,007.64	4.94%	193,985,864	223,083,743.12
YOUTH TRAINING	45,165,364.93	89,668,654.58	2.60%	55,447,588	63,764,725.69
YOUTH DEVELOPMENT	6,673,204.00	17,387,600.00	0.51%	8,192,407	9,421,268.34
COOPERATIVE DEVELOPMENT	7,043,960.00	7,819,767.62	0.23%	8,647,569	9,944,703.82
LANDS & PHYSICAL PLANNING	9,677,816.50	18,097,756	0.53%	11,881,042	13,663,197.79
HOUSING	2,076,076.68	26,573,500	0.78%	2,548,711	2,931,017.17
PUBLIC WORKS	22,651,059.57	47,379,764	1.39%	27,807,737	31,978,898.04
INFORMATION	801,744.55	-	-	12,484,268	14,356,907.64
ICT		47,031,300	1.38%	17,250,000	19,837,500.00
<i>GENDER</i>	<i>81,455,814.00</i>	<i>80,989,328</i>	<i>2.37%</i>	<i>99,999,820</i>	<i>114,999,793.40</i>
CULTURE SERVICES	2,930,000.00	2,832,500	0.08%	3,597,036	4,136,591.09
EDUCATION	135,996,585.00	350,946,091	10.30%	184,207,193	211,838,272.08
FISHERIES	11,787,711.10	10,132,000	0.33%	14,471,269	16,641,959.29

MEDICAL SERVICES AND PUBLIC HEALTH	604,242,696.91	892,405,652.7	26.1%	737,995,417	848,694,729.87
LIVESTOCK PRODUCTION	59,748,881.44	64,805,000	1.60%	73,351,147	84,353,819.37
VETERINARY SERVICES	32,045,179.50	31,639,446.14	0.93%	39,340,497	45,241,571.36
COUNTY SPORTS	3,877,425.00	14,334,000	0.39%	4,760,149	5,474,171.24
TRADE DEVELOPMENT	13,406,230.60	29,939,149	0.82%	16,458,256	18,926,994.57
LAND RECLAMATION & WATER STORAGE	975,000.00	-	-	1,196,966	1,376,510.69
TRADE WEIGHTS & MEASURES DEPT	1,582,740.00	-	--	1,943,062	2,234,521.57
FORESTRY	1,814,973.44	-	-	2,228,165	2,562,390.10
FORMER LOCAL AUTHORITIES	267,141,946.19	-	-	327,958,746	377,152,558.08
FLOOD MITIGATION (VOI & TAVETA)	30,000,000.00	-	-	36,829,717	42,354,175.01
ENVIRONMENT, MINING AND NATURAL RESOURCES	20,000,000.00	69,563,280	1.81%	24,553,145	28,236,116.68
SEED MONEY FOR TOURISM DEV	18,368,000.00	-	-	22,549,608	25,932,049.56
ROADS	80,000,000.00	147,868,000.00	4.33%	98,212,580	112,944,466.70
COUNTY EMERGENCY FUND		12,000,000.00	0.82%		
COUNTY POLICING AUTHORITY		6,350,000.00	0.23%		
GRATUITY FUND		49,815,360.00	1.36%		
RURAL ELECTRIFICATION		93,181,516.00	2.54%	107,158,743	123,232,554.91

LOANS AND GRANTS		91,802,418.00	2.50	105,573,931	121,410,020.31
	2,858,870,449.21	3,599,653,992.00	100.00	3,972,297,791.04	4,568,142,459.69

5.0 CHAPTER FIVE: CONCLUSIONS

5.1. Overview

The 2014/15 budget will be prepared amid positive economic outlook of the country where the GDP is projected to grow at a rate of 6.1 percent. This level of growth is expected to be felt in the county as the benefits trickle down. At the county level, this growth will be exhibited by increased production in agriculture, reduced effects of hunger and increased income for the local population.

Infrastructural investments and expansion of activities in other major sectors is expected to spur economic activities of other sectors of the economy. Domestic demand is also expected to rise due to the ongoing initiatives of government spending.

The county however, will put up stringent measures to control recurrent expenditures with an intended objective of saving. The saving generated will be reallocated to finance development projects in key sectors of the economy through supplementary budget. Savings will also be realised through measures targeting increased revenue collection.

The county government has adopted a new set of fiscal principles clearly aimed at improving the sustainability of the county's finances. These principles are:

- Maintaining a deficit free budget thus no debt foreseen in the 2014/15 budget;
- Discretionary deductions shall be given first priority during the budgeting process. These include official's salary, collective agreement, state or statutory deductions;
- Maintain a competitive tax environment for business;
- Target funding of large projects in phases in accordance and fulfilment of MTEF process.
- **The development expenditure shall be maintained at a level of not less than 40 percent of the total budget.**

Despite the challenges associated with devolution and new structures of the county, the county government has clearly demonstrated its ability to manage expenditure. The hiccups that were met in the fiscal year 2013/14 have provided good lessons and experience to carry forward to the next fiscal year. Therefore, improvement in absorption capacity of the funds shall be expected.

Natural disasters especially drought, crop diseases and animal disease remains the biggest threat to the economic growth of the county.

5.2. Way forward

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 2014/15 Financial year.

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

