

NAIROBI CITY COUNTY



COUNTY BUDGET REVIEW AND  
OUTLOOK PAPER

2019

**SEPTEMBER 2019**

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## **LIST OF ABBREVIATIONS**

<b>ADP</b>	ANNUAL DEVELOPMENT PLAN
<b>CBROP</b>	COUNTY BUDGET REVIEW OUTLOOK PAPER
<b>CBK</b>	CENTRAL BANK OF KENYA
<b>CIDP</b>	COUNTY INTEGRATED DEVELOPMENT PLAN
<b>CFSP</b>	COUNTY FISCAL STRATEGY PAPER
<b>DANIDA</b>	DANISH INTERNATIONAL DEVELOPMENT AGENCY
<b>EPZ</b>	EXPORT PROCESSING ZONE
<b>FY</b>	FINANCIAL YEAR
<b>GDP</b>	GROSS DOMESTIC PRODUCT
<b>GOK</b>	GOVERNMENT OF KENYA
<b>ICT</b>	INFORMATION COMMUNICATION TECHNOLOGY
<b>JKIA</b>	JOMO KENYATTA INTERNATIONAL AIRPORT
<b>KENHA</b>	KENYA NATIONAL HIGHWAY AUTHORITY
<b>KURA</b>	KENYA URBAN ROADS AUTHORITY
<b>NCCG</b>	NAIROBI CITY COUNTY GOVERNMENT
<b>NHC</b>	NATIONAL HOUSING CORPORATION
<b>NSSF</b>	NATIONAL SOCIAL SECURITY FUND
<b>PFMA</b>	PUBLIC FINANCE MANAGEMENT ACT
<b>SBP</b>	SINGLE BUSINESS PERMIT
<b>SSA</b>	SUB SAHARAN AFRICA
<b>OSR</b>	OWN SOURCE REVENUES

## 1.1 Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. The law states that

- (1) The County Treasury shall prepare a County Budget Review and Outlook Paper in respect of the County for each of the financial year and submit the paper to the County Executive Committee by the 30<sup>th</sup> September of that year.
- (2) The Budget Review and Outlook Paper shall include:
  - a) Actual fiscal performance in the previous year compared to the budget appropriation for that year;
  - b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
  - c) Information on any changes in the forecasts compared with the County Fiscal Strategy Paper; and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year;
  - d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
- (3.) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.
- (4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall—
  - a) Arrange for the Paper to be laid before the County Assembly; and
  - b) As soon as practicable after having done so, publish and publicize the Paper.

## 1.2 Fiscal responsibility principles in the Public Financial Management Law

In line with the constitution the Public Financial Management Act 2012 sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law under Section 107 states that:

- 1) The County government recurrent expenditure shall not exceed the county government's total revenue.
- 2) Over the medium term a minimum of 30% of the county government's budget shall be allocated to development expenditure.
- 3) The county governments expenditure on wages and benefits to employees shall not exceed a percentage of the county government's total revenue by regulations.
- 4) Over the medium term, the government's borrowings shall only be used only for the purpose of financing development expenditure only; and short term borrowings shall only be restricted to management of cash flows and shall not exceed five (5%) of most recent audited county government revenue,
- 5) The County debt shall be maintained at a sustainable level as approved by County assembly.
- 6) Fiscal Risks shall be managed prudently
- 7) 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.

## **SECTION I: INTRODUCTION**

### **Objectives of County Budget Review and Outlook Paper**

- 1.** The objective of the 2019 County Budget Review and Outlook Paper is to provide a review of the fiscal performance in the financial year 2018/2019 and how this impacts the financial objectives and fiscal responsibility principles. This together with updated macroeconomic outlook provides a basis for the revision of the budget in the context of Supplementary Estimates for FY 2019/2020 and the broad fiscal parameters underpinning the FY 2020/2021 budget and the medium term. Details of the fiscal framework and priorities will be firmed up in the County Fiscal Strategy Paper 2020.
- 2.** The document further provides indicative sector ceilings for the FY 2020/2021 and the Medium Term and this sets in motion the budget preparation for the FY 2020/2021 and the Medium Term. The Sector ceilings are based on the projected resource envelope and will be firmed up in the CFSP 2020.
- 3.** The FY 2020/2021 estimates will be anchored on the CIDP 2018-2023 while taking into account the Nairobi regeneration initiative and in support of the Big Four Plan. Therefore expenditure priorities shall be aligned to programmes that support Big Four Plan and the Nairobi Regeneration agenda within the confines of the constitutional mandate of the Nairobi City County Government (NCCG).
- 4.** The revenue performance the FY 2018/2019 has important implications on the 2019/2020 budget estimates in respect to revenue shortfall. To remedy this 2019 County Budget Review Outlook Paper will focus on instituting structural and administrative reforms to enhance revenue collection, enhancing prudent expenditure management.

### **Organization of the Document**

- 5.** The rest of the document is organized as follows **Section II** provides a review of the fiscal performance in financial year 2018/2019 and its implication on the financial objectives set out in the last CFSP 2019. **Section III**, provides highlights of the recent economic developments and the outlook. **Section IV** provides the resource allocation framework and conclusion is provided in **Section V**.

## **SECTION II: REVIEW OF FISCAL PERFORMANCE IN 2018/2019**

### **DEVELOPMENT PRIORITIES FOR THE FY 2018/2019**

6. Prioritization of resource allocation was based on the County Integrated Development Plan, broad development policies of the County Government in term as well as the medium term priorities identified during the County-wide public consultative forums. The development objectives stipulated in the CFSP for FY 2018/19 were geared towards achieving the following:

#### **Enhancing County Growth through the Physical Infrastructure and Productive Sectors:**

7. The key sectors under this category are; Public Works, Roads & Transport; Energy, Water, Environment & Natural Resources; ICT; Agriculture, Livestock & Fisheries. The County prioritized physical infrastructure and productive sectors due to their key enabling ability to the functioning of all other sectors. In FY 2018/19, the County focused to invest heavily in infrastructure development to spur production, access to essential services and overall economic development. Therefore ongoing physical infrastructure development was prioritized in addition to rehabilitation and maintenance of existing infrastructure.

8. Investment in agriculture not only achieves economic growth but also ensures food security, job creation, income generation and overall poverty reduction. It has major linkages to manufacturing, distribution and other service related sectors. The potential of urban agriculture has not been fully tapped in Nairobi. The County therefore aimed at raising agricultural productivity and increase commercialization of agriculture by providing adequate support to crop, livestock and fisheries development, value addition to agricultural produce, extension services and promotion of agro based industries in the county.

9. **Further** to deliver sufficient water for all and proper sanitation services, the county focused on investing adequate resources in the development and expansion of water infrastructure, enhancing sewerage services and improving efficiency and effectiveness in waste management processes.

## **Improving Service Delivery and promoting Human Development through the Governance, Social and Service Sectors**

**10.** The key sectors under this category were; Devolution and Public service, Health, Education sectors and Housing. In line with the with social pillar of Vision 2030 and MTP III targets, these sectors are key in defining citizens way of life and access to government services. Governance and public administration sector was responsible for all operations relating to the fulfillment of public policy and provision of sound policies and a solid framework for quality and efficient service delivery to the public service; while adhering to the principal of leadership and integrity The sector therefore focused on instituting County public service reforms to ensure efficient and effective service delivery, Providing leadership and guidance in human resource management, effective management and coordination of government operations, and formulation of Sound public administration policies.

**11.** The County also focused to invest sufficient resources to urban planning lands and housing sector in a quest to ensure spatial order, proper land management, and decent housing for all. Housing sector, in collaboration with the national government and other partners, aimed at bolstering housing development to provide adequate, affordable and decent houses in a sustainable environment. This was to be attained through; better development of and access to affordable and adequate housing; housing and land reforms, urban renewal, Land surveying, and mapping.

**12.** The health sector focused on ensuring a healthy and productive population; that can fully participate in and contribute to other sectors of the economy. Strengthening service delivery is crucial to the attainment of the County's strategic objectives and health outcomes. The sector therefore focused on providing preventive and promotive health care services, curative care, upgrading and rehabilitation of health centers, improving ambulatory services

**13.** The County also committed resources to offer quality education, improving access to education, sport facilities and youth development initiatives to be achieved through construction of ECDs, polytechnics, construction of social halls, rehabilitation centers and sport facilities.

### **Strengthening the Economic sectors for prosperity**

**14.** The economic sectors included; Trade, Industrialization & Cooperative, and Finance & Economic Planning. Trade sector has huge potential for wealth creation, FDI and



employment creation. With regard to trade, the county focused on deepening business regulatory reforms, enhance access to credit and training of small and medium business entrepreneurs.

**15. Finance and Economic Planning committed adequate resources** to enhance capacity for policy formulation, planning, budgeting, performance management as well as tracking results for investments in the public sector. This will enable the sector to coordinate revenue mobilization and settle county debts.

## **OVERVIEW OF FISCAL PERFORMANCE**

**16.** Total revenue collections in the financial year 2018/2019 amounted to Kshs 26.1billion against a target of Kshs 32.0billion or 82% of the total. The underperformance of revenues was largely due to the underperformance of Own Source Revenues (OSR) which fell below target of Kshs 15.5billion by about Kshs5.3 billion and non remittance of a few conditional grants by MDAs.

**17.** Total expenditures on a commitment basis amounted to Kshs 26.5 billion against the revised target of Kshs 33.45billion. This was occasioned by the low absorption of both the recurrent and development expenditures. In addition the underreporting of expenditures by especially health facilities also contributed to the lower absorption rates and the gaps maybe narrowed when the financial statements are finalised.

## **REVENUE PERFORMANCE**

**18.** By the end of the financial year 2018/2019, the total revenue including equitable share, conditional grants and own source revenues amounted to Ksh26.1 billion against revised target of Ksh. 32.0 billion. This represents an overall shortfall of Kshs 5.3 billion (**Table1**). The shortfall in the revenue was mainly as a result of underperformance of own source revenues and the non-remittances of a few conditional grants.

**19.** Receipts from the National GOK includes the revenues from the equitable share and conditional grants as outlined in the County Government Revenue Allocation Act 2018. The total amount targeted in the financial year 2018/2019 from the National Government was Kshs 15.794 billion. The equitable share was fully released by National Treasury in line with the CARA 2018. The shortfall of Kshs 572 million in respect of the conditional grants is attributed to non remittance of several grants by the respective MDAs.

**Table 1: Nairobi County Government FY 2018/2019 Revenues in (KSHS) millions**

REVENUE TYPE	Target	Actual	Deviation	% deviation on target
Equitable Share	15,794	15,794	(0)	(0)
Conditional Grants	745	173	(572)	(77)
<b>Own Source Revenues</b>	<b>15,497</b>	<b>10,172</b>	<b>(5,325)</b>	<b>(34)</b>
Total	32,036	26,139	(5,897)	(18)

Source: County Treasury, 2019

## OWN SOURCE REVENUES

20. By the end of June 2018 total cumulative internal revenues amounted to Kshs 10.172 billion against a target of Kshs 15.497 billion. This represented a revenue shortfall of Kshs 5.3 billion (**Table 2**). The underperformance mainly affected the key revenue streams of rates, single business permits, parking fees and billboards that make up the major internal sources contributing over 75% of the internal revenues target

**Table 2: Own Source Revenues Performance for FY 2018/2019 in millions.**

	Revenue Stream	Target	Actual	Deviation on Target	% Deviation on target
1	RATES	3,600	1,994	(1,606)	(44.6)
2	PARKING FEES	3,030	1,933	(1,097)	(36.2)
3	SINGLE BUSINESS PERMITS	2,600	1,991	(609)	(23.4)
4	BLDNG PERMITS	1,500	1,018	(482)	(32.1)
5	BILLBOARDS & ADVERTS	1,000	797	(203)	(20.3)
6	House Rents	560	537	(23)	(4.1)
7	OTHER INCOMES	3,207	1,902	(1,305)	(40.7)
	<b>Total</b>	<b>15,497</b>	<b>10,172</b>	<b>(5,325)</b>	<b>(34.4)</b>

## Rates

21. Total accumulated collections from rates was Kshs 1.99billion against a target of Kshs 3.6 billion (or **44.6 % deviation from the target**).The reasons for the deviation includes but not limited to: poor rates records, poor collection mechanisms and enforcement challenges. As part of the revenue enhancement strategy the county should leverage on digitization of rates to make it easier for customers to obtain bills and pay online. In addition data cleansing of rates records is critical to ensure only accounts that are ratable are found in the records. This is a continuous process that should ensure that all sub counties are regularly updated in the rates records.

## **Parking Fees**

**22.** The total cumulative receipts from parking fees amounted to Kshs 1.93billion against a target of 3.0 billion therefore recording a deviation from target of Kshs 1.09 billion or **32.6 % deviation from target**). In order to optimize revenues from parking fees, there is need to enhance supervision as well as increase enforcement. The demand for parking in the county has outpaced supply and therefore parking demand is relatively price inelastic. Rise in parking fee should therefore attract a commensurate rise in parking revenue.

## **Single Business Permits**

**23.** Total collections from single business permits in FY 2018/2019 amounted to Kshs 1.99 billion against a target of Kshs 2.6billion, **a deviation of 23.4 % from the target**. The underperformance was due to: poor enforcement; invasion by unscrupulous business people; inaccuracy of records on business establishments, undercharging based on e-payment system, and slow pace of devolution of this stream to the sub-counties. However, enhanced enforcement and sealing off the leakages will help improve revenue collection. There is also need to carry out a baseline census on business establishment in the County to establish accurate records for proper projections to enable optimize revenue from this stream,

## **Building Permits**

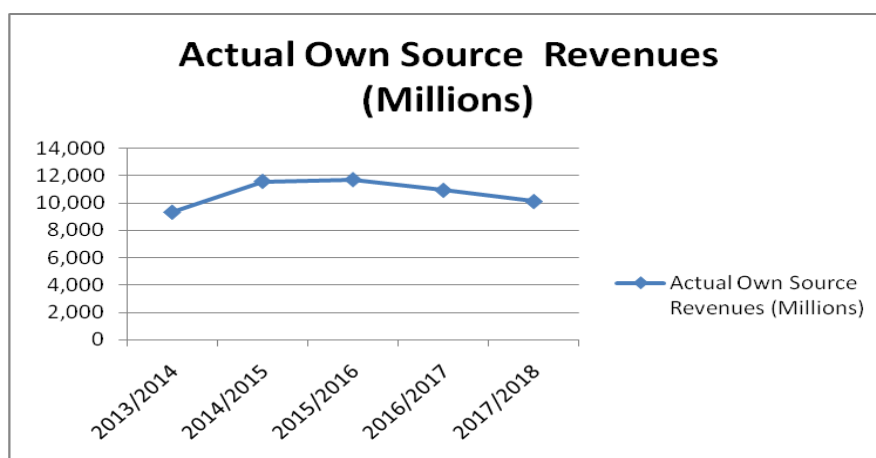
**24.** Total collections in the FY 2018/2019 amounted to Kshs 1.018billion against a target of Kshs 1.5billion ( **or 32.1 % deviation from the target**). The decline and continued low outturns in this stream can still be attributed to non-disclosure and adherence of county building regulations; weak enforcement of building standards and regulations; undervaluation as it's based on user own assessment; collusion & evasion and lack of awareness on requirements for building approval. In order to enhance revenue from this stream, there is need for use technology and increase in enforcement of building regulations.

## **Advertisements & Bill Boards**

**25.** The total accumulated revenues for billboards and advertisements as at June 2019 was Kshs 797million against a target of Kshs 1.0 billion ( **or 20.3% deviation from target**). This revenue stream can be improved by enhancing monitoring all billboards by leveraging on private sector expertise in monitoring billboards. Overall the entire revenue

administration systems requires a major overhaul to enhance improve efficiency and effectiveness in revenue management.

**Figure 1 Actual Revenues from 2013/2014-2017/2018**



## EXPENDITURE PERFORMANCE

**26.** Total expenditures by commitments in financial year 2018/2019 amounted to Kshs 26.5billion against a target of Kshs 33.34billion (**Table 3**). The under absorption was recorded in both recurrent and development expenditures but was more prevalent in development. Out of the total expenditure recurrent expenditures accounted for Kshs 22.3billion (**or 74% of the total targeted expenditure**).

**27.** Wages and salaries to staff including the County Assembly constitutes a bigger percentage of the total recurrent expenditure. This implies that a huge portion of the recurrent expenditure goes to salaries and wages and therefore less resources are available for service delivery. Urgent measures therefore needs to be taken to reduce the wage bill in order to free resources for service delivery

**TABLE 3: Total Expenditure by Commitments FY 2018/2019**

DESCRIPTION	Approved	Actual	Deviation	% Deviation on target
<b>COUNT ASSEMBLY</b>	<b>1,422</b>	<b>1,393</b>	<b>(29)</b>	<b>(2)</b>
Recurrent	1,387	1,365	(22)	(2)
Development	36	28	(8)	(21)
<b>COUNTY EXECUTIVE</b>	<b>31,923</b>	<b>25,132</b>	<b>(6,791)</b>	<b>(21)</b>
SALARIES AND WAGES	13,609	12,899	(710)	(5)
Use of goods and services	7,541	6,064	(1,477)	(20)
DEVELOPMENT EXPENDITURE	6,142	3,981	(2,161)	(35)
<b>Debt Resolutions (Rec &amp; Devt)</b>	<b>4,631</b>	<b>2,188</b>	<b>(2,443)</b>	<b>(53)</b>
<b>TOTAL EXPENDITURES</b>	<b>33,345</b>	<b>26,525</b>	<b>(6,820)</b>	<b>(20)</b>

Source: County Treasury, 2019

28. Total expenditures by sectors amounted to Kshs 26.5billion against a target of Kshs 33.345 Billion ( or 20 % deviation from the target. Development expenditure was the most affected across all sectors as reflected in the (Table 4).

**TABLE 4: Expenditure by Sectors FY 2018/2019 (In Millions)**

Programme	Approved			Revised			Actuals			% Absorption		
	Gross Recurrent	Gross Development	Total	Gross Recurrent	Gross Development	Total	Gross Recurrent	Gross Development	Total	Gross Recurrent	Gross Development	Total
5311: COUNTY PUBLIC SERVICE BOARD	55	5	60	45	0	45	36	0	36	79.1		79.1
5312: OFFICE OF GOVERNOR & DEPUTY GOVERNOR	4,462	90	4,552	7,040	20	7,060	5,462	8	5,470	77.6	40.6	77.5
5313: ICT, E-GOVT & PUBLIC COMMUNICATIONS	239	188	427	268	50	318	198	0	198	73.9		62.3
5314: FINANCE & ECONOMIC PLANNING	2,131	154	2,285	3,100	1,409	4,509	2,298	623	2,921	74.2	44.2	64.8
5315: HEALTH	6,324	601	6,925	6,252	304	6,556	5,756	152	5,908	92.1	50	90.1
5316: URBAN PLANNING AND LANDS	370	133	502	369	86	455	349	37	386	94.5	43.4	84.8
5317: PUBLIC WORKS ,TRANSPORT & INFRASTRUCTURE	1,206	5,405	6,611	1,173	4,411	5,585	1,034	3,185	4,219	88.1	72.2	75.6
5318: EDUCATION, YOUTH AFFAIRS, SPORTS, CULTURE & SOCIAL SERVICES	1,647	473	2,120	1,608	342	1,951	1,477	226	1,702	91.8	65.9	87.3
5319: TRADE, COMMERCE, TOURISM & COOPERATIVES	491	318	809	481	188	669	429	61	490	89.1	32.4	73.2
5320: PUBLIC SERVICE MANAGEMENT	1,113	70	1,183	954	0	954	766	0	766	80.3	-	80.3
5321: AGRICULTURE, LIVESTOCK DEVELOPMENT, FISHERIES & FORESTRY	373	149	522	370	63	433	253	14	267	68.4	21.9	61.6
5322: COUNTY ASSEMBLY	1,387	592	1,979	1,387	36	1,422	1,365	29	1,393	98.4	80.2	98
5323: ENVIRONMENT, WATER, ENERGY & NATURAL RESOURCES	1,357	963	2,320	2,471	245	2,716	2,178	107	2,285	88.1	43.7	84.1
5324: URBAN RENEWAL AND HOUSING	89	321	410	128	85	213	105	32	136	81.7	37.4	64
5325: WARD DEVELOPMENT FUND	26	1,213	1,238	16	86	102	14	66	80	86.3	77	78.4
5326: EMERGENCY FUND	0	80	80	0	80	80	0	27	27	-	34.2	34.2
5327: LIQUOR LICENSING BOARD	205	83	288	205	72	277	232	7	239	113.3	10.4	86.6
<b>TOTAL</b>	<b>21,474</b>	<b>10,836</b>	<b>32,310</b>	<b>25,867</b>	<b>7,478</b>	<b>33,345</b>	<b>21,952</b>	<b>4,574</b>	<b>26,525</b>	<b>84.9</b>	<b>61.2</b>	<b>79.5</b>

Source: County Treasury 2019.

## FISCAL DEFICIT

29. The Revised Budgets for FY 2018/19 was Kshs 32.0 Billion respectively financed from both external and internal revenues. Total cumulative revenue collection was Kshs 26.1 billion therefore recording a fiscal deficit of Kshs 5.8 billion due to shortfalls in both external and local revenues. The County is paying attention to the factors that affected revenue collection with a view to reverse this trend in the FY 2019/2020 while pursuing additional strategies to grow revenues in the medium term.

## OUTSTANDING CREDITORS

30. The provisional debts owed to third parties as at 30th June 2019 stood at Kshs **69.36billion (Table 5)**. This include debts owed to statutory bodies, merchants and litigation, loan from KCB bank, contingent liabilities and loan guaranteed by the government. See Annex III for detailed list of creditors. The debt trend has been increasing from the year 2014 largely due to interests and penalties charged to statutory creditors.

31. The county government should therefore ensure that both the level and rate of growth in debt is fundamentally sustainable since high debt portfolio will continue to impact negatively on the county operations. This can be done by reducing county expenditure at the same time coming up with mechanisms to increase revenue. In addition, more funds should be allocated in the budget for debt serving.

32. Further, the county government should initiate a renegotiation plan with the statutory bodies especially LAPTRUST on interests and penalties for quick servicing of the debt.

**Table 5: Outstanding creditors as at 30th June 2019**

	CREDITOR	30TH JUN, 2019
1	KRA	4,134,476,853
2	NSSF	381,157,936
3	Laptrust	12,916,593,690
4	Lapfund	19,808,830,907
5	Suppliers and Contractors	4,483,243,747
6	Hospital creditors	302,265,325
7	Legal Creditors	1,559,548,405
8	KPLC- Electricity	575,268,699
9	Water Bills	234,997,059
10	KCB Longterm loan	3,024,371,706
11	LAPTRUST(actural deficit & Interest)	2,624,372,573
12	Government guaranteed loans	15,328,285,000
13	Onlent Water (Foreign Loans)	3,815,640,000
14	Employee benefits- Retirees/ Deceased	171,662,290
	<b>TOTAL</b>	<b>69,360,714,191</b>

## **FISCAL PERFORMANCE FOR THE FY 2018/2019 IN RELATION TO FINANCIAL OBJECTIVES**

**33.** The under absorption of both recurrent and development expenditure in FY 2018/2019 has implications on the achievement of the development objectives. To remedy this situation, the County Treasury will be undertaking monitoring and evaluation of the implementation of the 2019/2020 projects/programmes. This will entail evaluation of projects viability in order to ensure that funds are utilized as planned.

### **Adherence to Fiscal Responsibility Principles**

**34.** In line with the constitution the Public Financial Management Act 2012 the government has adhered to the fiscal responsibility principles to ensure prudence and transparency in the management of public resources as follows:

- a) The County government recurrent expenditure shall not exceed the county government's total revenue.

*Total recurrent expenditure amounted to Kshs 21.9 billion against total revenues of Kshs 26.1 billion.*

- b) Over the medium term a minimum of 30% of the county government's budget shall be allocated to development expenditure.

*Although the amount allocated for development was more than 30% of the budget to development, the budget was revised in late June 2019 to accommodate the payment of pending bills in line with the executive order. The development programmes were largely most affected.*

- a) The county governments expenditure on wages and benefits to employees shall not exceed a percentage of the county government's total revenue by regulations.

*Regulation 25(b) of the PFM Regulations 2015 sets the limit for wages and salaries at 35% of the total revenues. However the total expenditure on wages and salaries including Assembly amounted to Kshs 12.9 billion against total revenues of Kshs 26.1 billion which is about 49.4% of total revenues. The county government has frozen employment of new staff save for key specialized areas like health and*

*engineering where shortages are rampant. In addition the county is exploring ways of containing the growing wage bill like early voluntary retirement schemes.*

b) Over the medium term, the government's borrowings shall only be used only for the purpose of financing development expenditure only; and short term borrowings shall only be restricted to management of cash flows and shall not exceed five (5%) of most recent audited county government revenue,

*During the year 2018/2019 the Government did not engage in any long term borrowings. However going forward this is an option that needs to be explored further in order to finance development.*

c) The County debt shall be maintained at a sustainable level as approved by County assembly.

*The County is pursuing debt management strategies in line with the Debt management strategies as outlined in the DMSP 2019.*

d) Fiscal Risks shall be managed prudently

*The County regularly reviews the macro economic forecasts at the national level and the impact on the county projections. Additionally the County is also developing a county specific statistics database in addition to the national statistics to help in regular macroeconomic reviews*

35. The County Government Fiscal Projections in **Table 6** for the Financial Year 2019/2020 to 2022/2023 provide comparisons with the updated projections in the BROP 2018 and the projections for the 2019/2020 and the medium term.



**Table 6: NAIROBI CITY COUNTY FISCAL PROJECTIONS FY 2019/2020 - 2022/2023**

INCOMES	2018/2019		2019/2020				CBROP 19		
	CARA - 2018	Actual	CFSP 19	Approved	Revised	CBROP 19	2020/2021	2021/2022	2022/2023
<b>EXTERNAL SOURCES</b>									
Equitable Share	15,794	15,794	16,500	15,920	15,920	15,920	16,020	16,120	16,220
Compensation For User Fees Forgone	79	79	79	79	79	79	79	79	79
Road Maintenance Levy FY 2018/2019				416	416	416			
Road Maintenance Levy FY 2019/2020	416	-	452	452	452	452	452	452	452
KDSP (Level 1 grant Allocation)	83	-	48	30	30	30	30	30	30
DANIDA -Grant for Universal Healthcare in Devolved Governments	52	52	47	47	47	47	47	47	47
Conditional Grants to Development of Youth Polytechnics	35	-	23	23	23	23	23	23	23
World Bank Loan for Transforming Health System for universal Care System	54	33	96	96	96	96	96	96	96
Agriculture Development Support Project	26	9	21	21	21	21	21	21	21
<b>TOTAL</b>	<b>16,539</b>	<b>15,967</b>	<b>17,267</b>	<b>17,085</b>	<b>17,085</b>	<b>17,085</b>	<b>16,769</b>	<b>16,869</b>	<b>16,969</b>
<b>OWN SOURCE RESOURCES (OSR)</b>									
RATES	3,600	1,994	3,925	3,925	3,925	3,925	4,500	4,800	5,000
SINGLE BUSINESS PERMITS	2,600	1,991	2,892	2,892	2,892	2,892	3,000	3,250	3,500
PARKING FEES	3,030	1,933	2,763	2,763	2,763	2,763	3,000	3,250	3,500
BLDNG PERMITS	1,500	1,018	1,908	1,908	1,908	1,908	2,000	1,800	1,500
BILLBOARDS & ADVERTS	1,000	797	1,425	1,425	1,425	1,425	1,500	1,650	1,800
House Rents	560	537	615	615	615	615	620	625	630
FOOD HANDLERS CERT	230	199	300	300	300	300	450	500	550
FIRE INSPECTION CERT	340	344	450	450	450	450	500	550	600
REGUL. OF BLDNG /CHANGE /AMALG/SUB	180	25	166	166	166	166	180	160	150
WAKULIMA MARKET	125	100	110	110	110	110	216	228	240
OTHER MARKETS	227	92	250	250	250	250	319	328	336
OTHER INCOMES-(Including Liquor Fees)	2,105	1,142	2,512	2,512	2,512	2,512	2,217	2,209	2,247
<b>Total</b>	<b>15,497</b>	<b>10,172</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>18,502</b>	<b>19,350</b>	<b>20,053</b>
<b>Total Revenues</b>	<b>32,036</b>	<b>26,139</b>	<b>34,583</b>	<b>34,401</b>	<b>34,401</b>	<b>34,401</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
Opening Cash Balances	1,309	1,309	700	2,580	2,580	2,580	0	0	0
<b>Total Resources Available</b>	<b>33,345</b>	<b>27,448</b>	<b>35,283</b>	<b>36,981</b>	<b>36,981</b>	<b>36,981</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
<b>EXPENDITURES</b>									
TRANSFERS TO COUNT ASSEMBLY	1,422	1,393	3,201	2,940	2,940	2,940	1,980	2,055	2,132
Recurrent	1,387	1,365	1,671	1,410	1,410	1,410	1,480	1,555	1,632
Development	36	28	1,530	1,530	1,530	1,530	500	500	500
<b>COUNTY EXECUTIVE</b>	<b>31,923</b>	<b>25,132</b>	<b>32,082</b>	<b>34,041</b>	<b>34,041</b>	<b>34,041</b>	<b>33,291</b>	<b>34,164</b>	<b>34,889</b>
SALARIES AND WAGES	13,609	12,899	14,759	13,612	13,612	13,612	14,021	14,441	14,874
Use of goods and services	7,541	6,064	7,841	8,067	8,067	8,067	7,890	8,100	8,200
DEVELOPMENT EXPENDITURE	6,142	3,981	9,148	9,158	9,158	9,158	10,000	10,623	10,815
<b>Debt Resolutions (Rec &amp; Devt)</b>	<b>4,631</b>	<b>2,188</b>	<b>335</b>	<b>3,204</b>	<b>3,204</b>	<b>3,204</b>	<b>1,380</b>	<b>1,000</b>	<b>1,000</b>
<b>TOTAL EXPENDITURES</b>	<b>33,345</b>	<b>26,525</b>	<b>35,283</b>	<b>36,981</b>	<b>36,981</b>	<b>36,981</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
<b>Net Financing</b>	<b>0</b>	<b>923</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Development Expenditure Totals</i>	<i>6,178</i>	<i>4,009</i>	<i>10,678</i>	<i>10,688</i>	<i>10,688</i>	<i>10,688</i>	<i>10,500</i>	<i>11,123</i>	<i>11,315</i>
<i>% of total development expenditure</i>	<i>19</i>	<i>15</i>	<i>30</i>	<i>28.9</i>	<i>28.9</i>	<i>28.9</i>	<i>29.77</i>	<i>30.71</i>	<i>30.56</i>

Source: County Treasury, 2019.

## **SECTION III: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

### **Global Economic Prospects**

**36.** The global economy is estimated to have expanded to 3.7 percent in 2018 compared to a revised growth of 3.6 percent in 2017. This was driven by a rebound in private and public investment, growth in international trade partly as a result of favorable financing costs, rising profits, improved business and consumer confidence and waning effects of the fall in oil and commodity prices during 2014-2016 (Economic Survey, 2018).

**37.** Global growth is expected to slow to 2.9 percent in 2019 as it is constrained by rising trade tensions which will likely have a negative impact on confidence, asset price and global investment and also the tightening financing conditions (Global Economic Prospects-World Bank, 2019).

**38.** Amid recent episodes of financial stress, growth in emerging market and developing economies has lost momentum and is projected to stall at 4.2 percent this year, with a weaker-than-expected rebound in commodity exporters accompanied by deceleration in commodity importers. Downside risks have become more acute. Financial market pressures and trade tensions could escalate, denting global activity (Global Economic Prospects-World Bank, 2019).

**39.** Growth has moderated in most advanced economies, with the notable exception of the United States, where fiscal stimulus is boosting activity. United States growth in 2018 is estimated to have picked up to 2.9 percent from the previous growth of 2.7 percent in 2017. The accelerated growth in advanced economies was attributed by: favorable macroeconomic environment, improved labour markets, accommodative financial conditions, favorable commodity prices and reduced inflationary pressures.

**40.** Growth in low-income countries increased only slightly in 2018 to 5.6 percent but is expected to rise to 5.9 in 2019 and average about 6.3 in 2020-21 (Global Economic Prospects-World Bank, 2019).

**41.** Following strong momentum in 2017, growth in global goods trade slowed during the first half of 2018 and has only partially recovered since then. The deceleration was more pronounced than previously expected, as reflected in decelerating export orders and global manufacturing activity.

**42.** Global inflation rose to 3.1 percent in 2017 compared to 2.8 percent recorded in 2016. This was occasioned by rise in oil prices. The increase in oil prices was mainly on account of reduced supply by leading oil producers following a decision of the Organization of Petroleum Exporting Countries (OPEC) to limit oil production against a strong demand growth in 2017 (Economic survey, 2018)

### ***Domestic Economy***

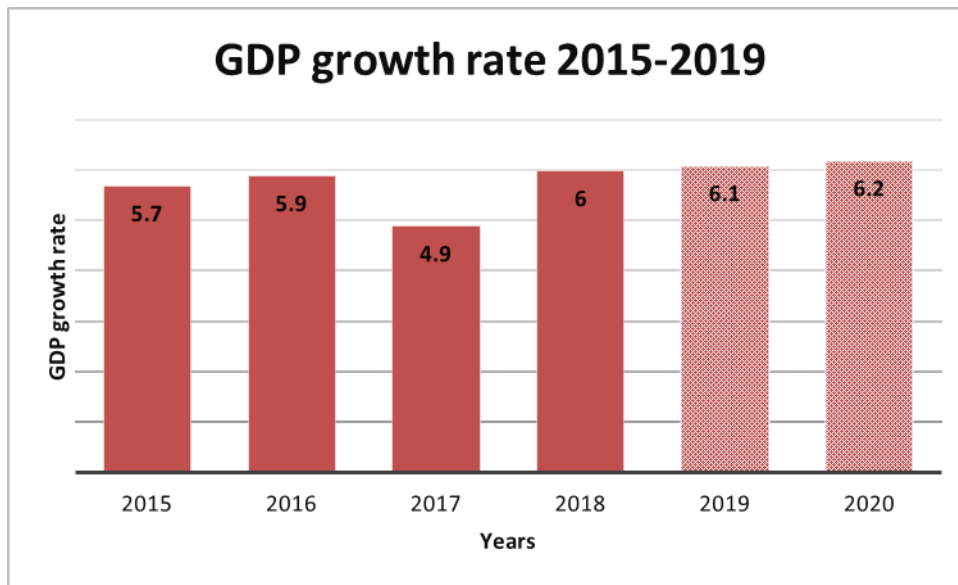
**43.** The Kenyan economy remained resilient in 2018 as economic activities picked up after a slowdown in 2017. The rebound in economic activities is attributed to easing of political uncertainty through the 2018 famous “handshake” improved rains and better business sentiment. The economy grew by 5.8 percent, 6.2 percent, 6.0 percent in the first, second and third quarters of 2018 up from 4.7 percent of similar quarters in 2017. Growth in the first three quarters of 2018 averaged 6.0 percent. Growth in 2018 was supported by rebound in agricultural output, steady recovery of industrial activity and robust performance of the services sector.

**44.** Real GDP is projected to expand by 6.1 percent in FY 2018/2019, 6.2 percent in FY 2019/2020 and 6.4 percent in FY 2020/2021. This growth will be supported by a pickup in agricultural and manufacturing activities underpinned by improved weather conditions, strong service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business and consumer confidence.

**45.** Over the medium term, economic growth is expected to rise gradually to 7.0 percent due to investments in strategic areas under the “Big Four” Plan which aims to enhance 100% food and nutrition security, boost manufacturing sector (15% of GDP), achieve 100% Universal Health Coverage by scaling uptake of NHIF and construction of affordable houses which will ultimately spur growth and create jobs.

**46.** It is expected that continued coordination of monetary and fiscal policies for overall macroeconomic stability will bolster growth, lower fiscal deficits and contain inflation within target range.

*Figure 2.1: Trends in GDP growth rate in percent*



*Source: Kenya National Bureau of Statistics*

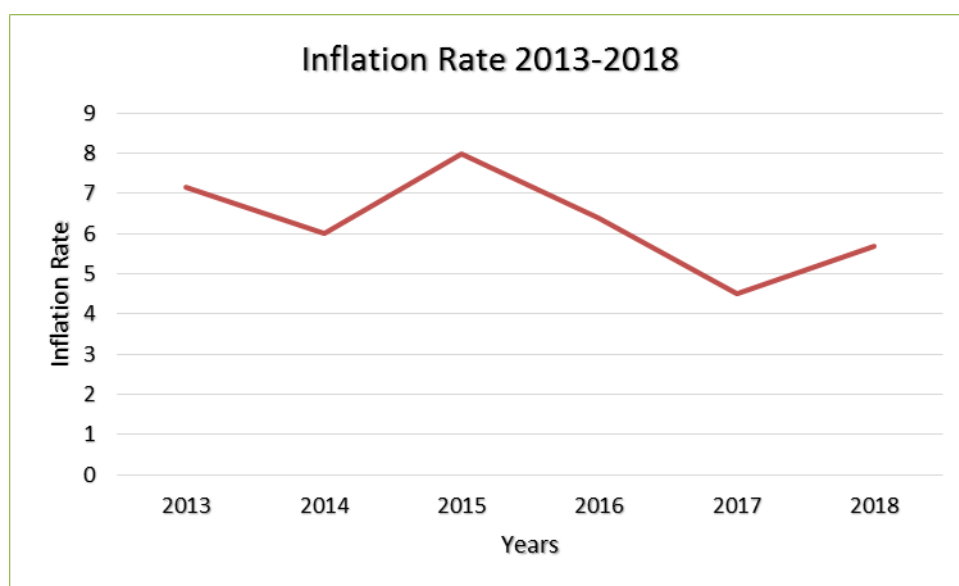
## **Inflation**

**47.** Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies. The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018, supported by improved weather conditions that resulted in lower food prices

**48.** Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather conditions and a decline in energy prices following lower costs in prices of electricity and diesel. However, overall Inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

**49.** Inflation is expected to remain within target in the medium term mainly due to expected lower food prices as a result of favorable weather conditions, the decline in international oil prices, and the recent downward revision in electricity tariffs. The recent excise tax adjustment on voice calls and internet services is expected to have a marginal impact on inflation.

**Figure 2.2: Trend in inflation rate over the five years**



**Source: Central Bank of Kenya**

### **Interest Rates**

**50.** Interest rates have been low and stable for the period 2002 to 2011 due to ample liquidity in the money market. However, interest rates increased in 2012 following tight monetary policy stance in order to ease inflationary pressures. Interest rates remained stable and low in the period 2013-2018 except June - December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The Central Bank Rate was reduced to 9.0 percent on 30th July, 2018 from 9.5 percent in March, 2018 as there was room for easing monetary policy stance to support economic activity.

**51.** The interbank rate remained low at 8.1 percent in December 2018 from 7.7 percent in December 2017 due to ample liquidity in the money market. The interest rates for Government securities have been declining indicating that the implementation of Government domestic borrowing program supported market stability. The 91-day Treasury bill rate declined to 7.3 percent in December 2018 compared to 8.0 percent in December 2017 while over the same period, the 182 day and the 364-day Treasury bills declined to 8.4 percent and 9.7 percent from 10.5 percent and 11.1 percent, respectively.

**52.** Commercial banks' average interest rates remained stable and compliant with the interest rate capping law that was effected in September 2016. The CBR was reduced to 9.0 percent

from 9.5 percent in March 2018 and as a result the lending rate declined to 12.6 percent in October 2018 compared to 13.7 percent in October 2017. The deposit rate also declined to 7.6 percent from 8.2 percent over the same period. Consequently, the interest spread declined from 5.9 percent in October 2017 to 5.0 percent in October 2018. Interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

**47.** Interest rate capping came into effect on September 2016 after concerns by the public regarding high cost of credit. Calls for capping were anchored on high spreads between lending and deposit rates. However, the period has faced notable effects: the capping has undermined the independence of the Central Bank of Kenya thus impacting on the conduct of monetary policy. Capping has also resulted in perverse outcomes leading to deceleration in growth of credit to the private sector.

**48.** Further, capping has led to commercial banks adjusting business models resulting in financial intermediation, directed their lending in favor of government and large corporate borrowers thus shunning small risky borrowers and reduced transparency (banks have exploited existing approval limits to increase non-interest charges on loans). There has been notable decline in profitability and number of loan accounts. Tier 3 banks (small banks) have witnessed capital erosion as a result of reduced earnings which have impacted on capacity to build-up capital.

### **Kenya Shilling Exchange rate**

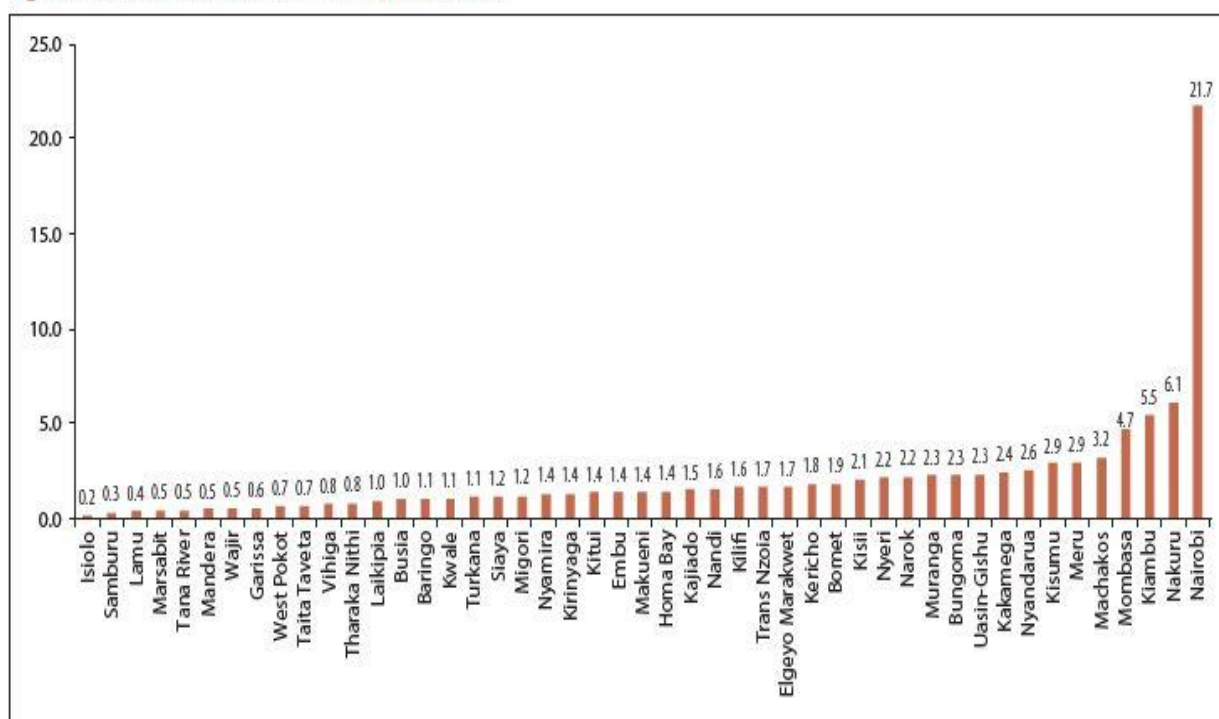
**49.** The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. For instance, against the dollar, the exchange rate has been relatively less volatile exchanging at Ksh 102.3 in December 2018 from Ksh 103.1 in December 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.4 and Ksh 129.7 in December 2018 from Ksh 122.0 and Ksh 138.2 in December 2017.

**50.** The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most sub - Saharan Currencies. This stability reflects strong inflows from tea and horticulture exports, resilient Diaspora remittances and improved receipts from services particularly tourism.

## Nairobi County Economy

**51.** Nairobi City County operates within the global and national economic framework. The global and national economic dynamics impacts both directly and indirectly on county fiscal decisions and operations. Economic growth is a parameter that influences national government transfer to the counties. Therefore the higher the GDP growth, the more allocation is expected to go to the counties.

Figure 3.1: Share of Counties in GDP (2013-2017)



Source: Kenya National Bureau of Statistics, 2019.

Nairobi County's Contribution to the National GDP is estimated at 21.7% with a recorded annual growth rate of 5.6%. The key drivers of the City's economic growth are Manufacturing (25%), Wholesale and retail Trade (19.7%), Transport and storage (12.4%), Real Estate (11.8%), Construction (11.7%) and Financial services (9.6%).

**52.** Exchange rate fluctuations also affect the county processes with currency devaluation making our imports more expensive. Inflation changes the costs of goods and services which in turn affect peoples' purchasing power. Since the inflation is expected to remain within the target in the medium term, the welfare of the people in county will improved and cost of doing business in Nairobi will ease. This will attract foreign and private investment leading to growth of Nairobi county economy.

**53.** Interest rates affect the cost of local borrowing to SMEs. So far interest rate capping has negatively affected access of credit by SMEs as banks have resorted to lending large corporate borrowers and investing in government securities. Considering that SMEs account for a large share of enterprises in Nairobi City County, rationing out the SMEs by banks will adversely impact their contribution to county economic growth.

### **County Specific Outlook**

**54.** The County is organized in ten sectors with specific mandates to deliver services to the people. To spur development every sector will work aggressively in the FY 2019/2020 and the medium term to achieve the developmental objectives outlined in the CIDP 2018-2022.

#### **a) Budget Deficit**

**55.** The fiscal deficit for the FY 2018/19 was at Kshs 5.3 Billion. Low internal revenues and insufficient equitable share from National government have contributed to increased budget deficits in the county. Fiscal deficit have had and will continue to have an impact on county capital investment and savings. With fiscal deficit the county capital investments and savings will be reduced and this will lead to low provisions of quality service delivery.

**56.** In the medium term period, the government will seek to reduce its budget deficit by undertaking revenue administration reforms, seeking alternative capital financing models, and seeking development partners' assistance in financing key infrastructure development. Borrowing in the medium term is not envisaged. Further, the government will seek to reduce recurrent expenditure (O&M) by scaling non-core expenditures.

#### **b) Debt**

**57.** High government debt has had a negative effect both on short and long-term economic growth and development in the national and county governments. Current county debt was borrowed on a commercial basis by the defunct NCC from commercial bank. The debt has effect on current and future capital investment and service delivery in the county. Substantial resources meant for efficient and productive purposes has been committed on debt repayment over the years but due to increased growth in penalties and interests and litigations, the debts position has not eased significantly. The County will focus on implementation of debt management strategies as espoused in the DMSP 2019.



### **c) Wage Bill**

**58.** In 2018/19, the ratio of the wage bill for the County executive alone to total revenues of Kshs 26.1million is about 49.4 %. The effect of this overall is that the fiscal space for development expenditure is crowded with recurrent expenses. The policy suggestions that can be implemented in the short to medium term, in order to tame the rising wage bill include: review of recruitment practices, freeze on employment and salary increments and streamlining payroll and control systems (cleaning of payroll) in the county.

### **d) Population Growth**

**59.** High population growth rate due to rural-urban migration has and will continue to put a great deal of pressure on county government to increase current expenditures rapidly to create jobs for the unemployed. At the same time county government is faced with demands on its capital budgets to spend more for development purposes. In addition, increasing urban population creates demands for social services: water, housing, education, sewerage, public lighting, roads, health, and fire protection among others. A large mass of unemployed or under-employed who live in informal settlement areas in the county do not generate the output or tax revenues which are needed to provide these services. In the medium and long term, the county government will endeavor to create a balance in recurrent and development expenditure to address the issues of population pressure. In addressing labour demands, the government will make investment in labour intensive activities rather than those which are capital intensive, encourage small scale production in informal sector through provision of loan and training schemes and reduce the cost of doing business in terms of government regulation, licensing and control.

**60.** Further, increase in population growth experienced in the county has put pressure on food security more so in informal settlement areas. The county government will invest some of its resources in food and nutrition programmes in informal settlement to address issues of malnutrition and food safety.

### **Risks to the Outlook.**

**61.** Fiscal outturns often differ substantially from budget or other fiscal projections, owing to shocks such as deviations of economic growth from expectations, terms of trade shocks, natural disasters, calls on government guarantees, or unexpected legal claims on the county. In many instances, failure to disclose and prepare for such risks has caused additional Nairobi

county government obligations, larger public debts and occasionally refinancing difficulties and crises.

**62.** Moreover, unexpected spending pressures or revenue losses often require disruptive adhoc adjustments during the fiscal year. Indeed, even in counties where debts and deficits have been reduced, policymakers' attention is turning toward risks—especially from contingent liabilities and off-balance-sheet items—that may not be fully apparent in “headline” fiscal indicators. To address the challenges posed by fiscal risks, several counties have recently increased their disclosure of such risks, so as to foster fiscal sustainability and to reduce borrowing costs and the likelihood of crises.

**63.** The government's approach to managing fiscal risks follows a five-stage process. This is to: (i) identify the source, scale and likelihood of the risk; (ii) disclose the risk to raise awareness and ensure accountability; (iii) mitigate the risk where cost-effective and consistent with broader policy objectives; (iv) provision for risks that cannot be mitigated but whose size and timing are relatively certain; and (v) accommodate residual risks when setting the overall fiscal policy stance. **Risks experienced in Nairobi County government**

### **1. Low absorption capacity**

**64.** Absorption capacity for development budget across sectors remained largely low over the period 2013-2018. This is largely attributable to poor conceptualization of programmes, inadequate capacity for technical designs, low liquidity and inefficient costing of projects.

**Mitigation measure:** The County departments will uphold principles of proper project conceptualization in good time. Secondly, there is need to upgrade technical capacities for design through further training and outsourcing, in order to improve flow and control of resources required for implementation of development programs. The County treasury will need to decentralize fiscal responsibility to delegate to accounting officers at the sector level through issuance of quarterly A.I.Es based on cash flow projections. The costing regime for development programmes requires total overhaul to ensure realistic cost estimates and ultimately value for money.

### **2. Shortfall in internal revenue**

**65.** The main fiscal risk that is likely to be faced by the county government is the shortfall in local revenue flows. Revenue generation from internal sources has continued to face

challenges that must be progressively mitigated in order to achieve county development goals. For instance rates revenues have continued to be below expectation due to high default rates among statutory bodies and land buying companies. The existing valuation roll is not as per market rate therefore the revenue realized from rates is far below expectation. Since the Unified business permit came into being in the calendar 2017 less revenue has been realized compared to the former single business permit.

**Mitigation measure:** In the medium term, the County will undertake measures aimed at expanding the revenue base and increasing tax compliance through integration of technology in revenue collection. Receivables will be targeted as an avenue for raising capital by giving incentives with an aim of getting payments. Issuance of waivers on penalties will also be implemented. The valuation roll is at verge of completion and once the rates are aligned to current market rates the revenue will increase. For the unified business permit it is advisable to separate each revenue charge to lessen the burden of the clients so that the default rate should be low.

**66.** Identified legal gaps will be addressed through proposed legislation particularly for the key revenue streams. The County treasury has initiated consultations on the 2018 Finance bill to address existing flaws in the 2014 Act.

**67.** Finally the County will publicize and streamline the use of electronic payment system to ensure effectiveness in revenue collection. Also spending money at source will be discouraged.

**68.** The following line graphs show the proportion of actual and projected external and internal of total revenues for the years 2016/2017 up to 2020/2021. For the external revenue, there is a declining trend whereas for the external revenue there is a rising trend.

### **3. Fiduciary Risk**

**69.** Risks such as fiduciary risk, development risk and reputation risks are also risk in Nairobi County. This is because risks such as fiduciary risk can lead to corruption and fraud which consequently become a major drain on the effective use of resources in the County.

**. Mitigation measure:** The first step is to upscale risk management through investing in appropriate technology and internal controls. The county should improve service delivery efficiently so as to face lift its image, enhance monitoring/evaluation on development projects

and also training employees on ethics. Costing should be carried out to identify beforehand development project budget estimates for easy accountability.

#### **4. Pending debts/bills**

**70.** The issue of Pending debts/bills continues to be a major economic policy challenge facing the Nairobi County government having inherited a huge debt from the defunct City Council. This has subjected the County to the risk of higher interest rate and other unpredictable cost elements. The debt trend has been increasing from one year to another.

**Mitigation measure:** Establishment of digitized debt servicing management systems to improve accountability and prevent fraudulent loan amounts; Creation of new channels of revenues to ease on the loan amounts required to finance development projects; Utilizing cheap loan opportunities available in the money and or capital markets; Raising money by offering its shares to the public as a financing option.

#### **5. Wage bill**

**71.** Salaries and wages has surpassing the stipulated 35% of the total budget this has led to budget cuts on development programmes.

**72. Adoption of technology.** The county should embrace technology to replace some aspects of human labor e.g. using tools and machinery to carry out environmental duties like slashing and maintaining lawn in the county. This will save the county a lot of money which could have been paid to casual workers. Automation of employees reporting time register is essential for it will curb ghost workers menace hence reducing the wage bill. The paymaster should ensure that all the employees who are deceased and dismissed are struck out of the payroll to avoid unnecessary expenses

## **SECTION IV-RESOURCE ALLOCATION FRAMEWORK**

### **ADJUSTMENTS OF THE 2019/2020 FY BUDGET**

**73.** The implementation of the FY 2019/2020 commenced and already experiencing various challenges due delays in approval of the Division Revenue Bill 2019. The Medium Term Fiscal Framework for FY 2019/2020 will largely focus on the enhancing efficiency and effectiveness in public spending.

**74.** The underperformance of revenues in the Financial Year 2018/2019 has implication on the financial objectives set out in the CFSP 2019. In order to mitigate implications of the revenue shortfall the County will work round revenue administrative reforms to improve revenue collection.

**75.** Expenditure projections for the FY 2019/2020 will be rationalized to accommodate some of the emerging realities such as the pending bills arising from the FY 2018/2019 where implementing agencies had not made adequate allocations that can cater for the pending bills. The FY 2019/2020 budget will be rationalized to accommodate these challenges through tradeoffs and reallocations of the existing budgetary allocations supported by austerity measures on less productive expenditures across the County Government.

### **MEDIUM TERM FISCAL PROJECTIONS**

**76.** In the medium term the total revenues are expected to increase from Kshs 35.2 billion in 2019/2020 to Kshs 37 billion in 2022/2023 fueled by expected growth in the own source revenues. The growth in the Own Source Revenues (OSR) will be fueled by the restructuring of revenue administration systems in regard to local revenues.

**77.** Further in order to reorient more expenditures to development, the government will pursue policies to address the high recurrent expenditures through early retirement programmes, private partnerships and mutual cooperation with National Government and other development partners.

**78.** In the medium term the government expects to maintain a balanced budget. This is because public borrowing is still not an option for counties until when the national government establishes guidelines for public borrowings for public borrowing.

## **2020/2021 FY BUDGET FRAMEWORK**

### **Revenue Projections**

**79.** The FY 2020/2021 targets revenue collection including equitable share, conditional grants and others at Kshs 35.3billion made up of external revenues of Kshs 16.8billion and own sources of revenue of Kshs 18.5 billion. This revenue projection will be underpinned by the ongoing revenue reforms that will include the following:

- Leveraging on ICT to automate all revenue streams
- Public Private Partnerships
- Business Process Re-engineering
- Segmentation of our customers
- Taxpayers awareness and engagement
- Corporatization
- Tax reforms i.e legislating all revenue streams.
- Improving human resource management issues with collectors to ensure a motivated work force is maintained at all times.

### **Expenditure Projections**

**80.** The total expenditure projections for the FY 2020/2021 including the County Assembly is projected at Kshs 35.3billion up of transfers to County Assembly at Kshs 1.9billion, Staff Costs Kshs 14.0 billion, Use of goods and services at Kshs 7.9billion, Development at Kshs 10billion and provision for debt resolutions at Kshs 1.4billion.

**81.** Wages and salaries for all county staff including the County assembly continues to be a major cost to the County. The salaries are projected at Kshs 14.0billion which is about **39% of** the total projected revenues. The county will however continue to pursue policies aimed at bringing the wage bill down to desired levels.

### **Financing of the budget**

**82.** Reflecting on the projected revenues and expenditures the budget is balanced. The government will be investing heavily in revenue generation in order to achieve a balanced budget. As has been stated above improvements in revenue administration through digitization and private sector expertise in enforcement will remain key to achieving the this agenda.

## **MEDIUM TERM EXPENDITURE FRAME WORK**

**83.** Resource allocation will continue to be aligned to the transformation of the government as highlighted in the Budget Policy Statement and County Fiscal Strategy Paper. The FY 2019/2020 medium term expenditure framework will focus on the following key priority areas.

### **4.4.1 Governance, Public Safety and Security;**

**84.** The Government has embarked on a reform agenda to restore good governance, enforce fiscal discipline, seal loopholes for inefficient use of public resources, eliminate corruption and redirect at least 30% of the County's annual budget towards capital expenditure. The outcome of a city administration anchored in the practice of values of transparency, accountability and responsiveness to the people will require a series of legal reforms to put in place sunshine laws and an efficient, well trained and motivated workforce.

**85.** The government shall focus on service delivery re-engineering by leveraging on ICT to decentralize county services closer to the people. Security challenges that undermine the living and business environment will be confronted through decentralization of fire, increased public lighting security and emergency services and establishment of a rapid response team.

### **4.4.2 Housing and Settlement**

**86.** In the medium term, priority will be given in developing an affordable housing plan, public land recovery actualized and a review of County spatial planning framework. Specifically, targeting private partnerships for the redevelopment of 14 of the City's old estates expected to yield a mass of decent, low cost housing for Nairobians and provision of basic sanitation amenities and other economic facilities to make informal settlements livable.

### **4.4.3 Education**

**87.** Accelerated investment in expansion of access to Early Childhood Development Education for the 0.3 million eligible children, collaboration with the National Government and other partners to modernize and expand access to high quality primary and secondary education will be an area of key focus in the medium term. In order to respond to industry deficit in essential technical skills, the Government will design, develop and implement a T-VET master plan for competitive skills development.

#### **4.4.4 Health**

**88.** The government is committed to stem the rising infant mortality rates, halt and reverse declining child nutrition indicators, enhance immunization coverage and eradicate preventable causes of morbidity in the City. This will be achieved through improved access to quality healthcare services, narrowing health personnel: patient ratios and improvement of working conditions and ensure reliable availability of medical and pharmaceutical commodities for both communicable and non-communicable diseases in public health facilities.

#### **4.4.5 Environment, Water, Sanitation and Garbage**

**89.** The aspiration in this pillar is to deliver a clean healthy city in which water is safe, accessible and affordable for all and its supply is regular and reliable; a city in which garbage is collected and safely disposed of and in which the sewage is treated and the environment is green and alive and free of man-made waste.

#### **4.4.6 Traffic and City Transport**

**90.** The target is to achieve a congestion-free City in which pedestrians have safe walkways; children do not suffer injuries from road accidents and public transport is so seamlessly connected that private cars are unnecessary in most parts of the City. Investment in expansion and improvement of road infrastructure, commuter rail and non-motorized transport (NMT) facilities, enacting structural changes to accommodate the deployment of a rapid bus transit system are important components of a sustainable city decongestion strategy.

**91.** In the medium term, a pricing strategy that will suppress demand for on street parking will be evaluated coupled with investment in multi-deck parking infrastructure with a view to improve supply of secure parking spaces for consumers. Specifically the government seeks to revolutionize the public transport scenario through targeted investments in, enforcement of traffic and public order rules, Road improvement, marking and signage, Expansion of Non-Motorized Transport Infrastructure, expansion of Cross City Routes, automation of bus Termini.

#### **4.4.7 Jobs, Business Environment and Wealth Creation**

**92.** The medium term target is to deliver a city where every Nairobi resident has an equal opportunity to find work, earn a decent wage and prosper; a city providing essential needs for its people, their rights protected and in which no one is excluded from a rewarding social and



economic participation. The focus will be in business environment re-engineering to accelerate investment, skill development among the youth, entrepreneurship support, trade and tourism promotion, agribusiness investment and incubating cooperatives for capital formation. The formation of the Nairobi Socio-Economic Council, creation of business information centers, review and upgrading service delivery standards, expansion and development of new markets and leveraging of creative designs to provide inclusive trading spaces for small scale traders. A framework for monitoring job creation across public and private sector entities will be fast tracked. Specifically we target to Expand the formal market space by targeting expansion and rehabilitation of existing markets, Social economic empowerment of Youth and Women through entrepreneurship support, Leveraging on existing Huduma centers to expand and improve on our sphere of service decentralization, provide an enabling environment and regulations for small scale traders to prosper.

#### **4.4.8 Youth, Women, People Living With Disabilities and Social Protection.**

**93.** The Government recognizes that the people of Nairobi are its partners and that their skills, talents and knowledge are the county's most valuable asset. Progressive policies for talent identification, nurturing, development and deployment of such talents, skills and knowledge for maximum returns will be developed and implemented. In particular, creating opportunities for the Youth, Women and people living with disabilities shall be given primacy. In Particular the focus shall be on the following key areas;

1. Investment in Arts and talent to promote innovation, creativity as a source of livelihood.
2. Investment in expansion of existing sports grounds including City Stadium and others at the ward level.
3. Developing and support sporting activities in the County.
4. Expanding the scope of training offered at the County's Vocational and Technical Institutes.
5. Develop and equip community social halls to facilitate online employment for qualified youths.
6. Partner with NITA to fast track training of technical skills for the Youth and Women
7. Ensuring there is a framework for supporting PLWDs, the elderly and homeless

**94.** Reflecting the above medium term expenditure framework for the FY 2020/2021 is the tentative budget ceilings (**Table 7**) for classified by every sector. The ceilings have not been classified into programmes and sub programmes giving the sectors an opportunity to

review the current programmes in light of the new priorities of the current administration.

**Table 7: Tentative Sector Ceilings FY 2020/2021**

SECTOR	Recurrent	Dev	Total	Recu	Dev	Total
5311: COUNTY PUBLIC SERVICE BOARD	52	-	52	52	-	52
5312: OFFICE OF GOVERNOR & DEPUTY GOVERNOR	5,479	628	6,107	5,479	628	6,107
5313: ICT, E-GOVT & PUBLIC COMMUNICATIONS	204	349	553	204	349	553
5314: FINANCE & ECONOMIC PLANNING	2,040	279	2,319	2,040	279	2,319
5315: HEALTH	6,719	658	7,377	6,719	658	7,377
5316: URBAN PLANNING AND LANDS	488	168	656	488	168	656
5317: PUBLIC WORKS ,TRANSPORT & INFRASTRUCTURE	1,141	3,638	4,779	1,141	4,480	5,621
5318: EDUCATION, YOUTH AFFAIRS, SPORTS, CULTURE & SOCIAL SERVICES	1,535	442	1,976	1,535	442	1,976
5319: TRADE, COMMERCE, TOURISM & COOPERATIVES	612	474	1,085	612	474	1,085
5320: PUBLIC SERVICE MANAGEMENT	1,026	91	1,117	1,026	91	1,117
5321: AGRICULTURE, LIVESTOCK DEVELOPMENT, FISHERIES & FORESTRY	361	126	487	361	126	487
5322: COUNTY ASSEMBLY	1,410	1,530	2,940	1,480	500	1,980
5323: ENVIRONMENT, WATER, ENERGY & NATURAL RESOURCES	1,520	463	1,983	1,752	463	2,215
5324: URBAN RENEWAL AND HOUSING	152	500	652	152	500	652
5325: WARD DEVELOPMENT FUND	39	1,304	1,343	39	1,304	1,343
5326: EMERGENCY FUND	100	-	100	100	-	100
5327: LIQUOR LICENSING BOARD	211	39	250	211	39	250
Debt Resolution	2,621	583	3,204	1,380	0	1,380
<b>TOTAL</b>	<b>25,710</b>	<b>11,271</b>	<b>36,981</b>	<b>24,771</b>	<b>10,500</b>	<b>35,271</b>

Source: County Treasury, 2019

## **SECTION V: CONCLUSION**

**95.** The 2020/2021 and the medium term projections takes into account the revenue reform measures being undertaken by the Government in reforming the revenue administration systems. The growth in revenues is moderate as the government reviews the overall financing model of the County.

**96.** Further the Government will be partnering with the National Government with a view to review the revenue sharing formulae to take into account the city status of Nairobi. In order to reduce the wage bill the government is keen on pursuing an early retirement programme on a voluntary basis with possible funding from the National Government. Adjustments to personnel costs will be made once the programme is fully confirmed.

**97.** Going forward, the tentative ceilings for FY 2020/2021 has been presented in sector format to give room for sectors to review the current programs and sub-programmes. Sector working Groups will be expected to critically review all programmes in line with the various policies outlined in this paper and the Governors manifesto. The final ceilings and budget priorities will be firmed up in the County Fiscal Strategy Paper 2020 in February 2020 after a thorough review of all sector priorities.

## ANNEXE I: MEDIUM TERM PROJECTIONS FOR 2019/2020-2022/2023

INCOMES	2018/2019		2019/2020				CBROP 19		
	CARA - 2018	Actual	CFSP 19	Approved	Revised	CBROP 19	2020/ 2021	2021/ 2022	2022/ 2023
<b>EXTERNAL SOURCES</b>									
Equitable Share	15,794	15,794	16,500	15,920	15,920	15,920	16,020	16,120	16,220
Compensation For User Fees Forgone	79	79	79	79	79	79	79	79	79
Road Maintenance Levy FY 2018/2019				416	416	416			
Road Maintenance Levy FY 2019/2020	416	-	452	452	452	452	452	452	452
KDSP (Level 1 grant Allocation)	83	-	48	30	30	30	30	30	30
DANIDA -Grant for Universal Healthcare in Devolved Governments	52	52	47	47	47	47	47	47	47
Conditional Grants to Development of Youth Polytechnics	35	-	23	23	23	23	23	23	23
World Bank Loan for Transforming Health System for universal Care System	54	33	96	96	96	96	96	96	96
Agriculture Development Support Project	26	9	21	21	21	21	21	21	21
<b>TOTAL</b>	<b>16,539</b>	<b>15,967</b>	<b>17,267</b>	<b>17,085</b>	<b>17,085</b>	<b>17,085</b>	<b>16,769</b>	<b>16,869</b>	<b>16,969</b>
<b>OWN SOURCE RESOURCES (OSR)</b>									
RATES	3,600	1,994	3,925	3,925	3,925	3,925	4,500	4,800	5,000
SINGLE BUSINESS PERMITS	2,600	1,991	2,892	2,892	2,892	2,892	3,000	3,250	3,500
PARKING FEES	3,030	1,933	2,763	2,763	2,763	2,763	3,000	3,250	3,500
BLDNG PERMITS	1,500	1,018	1,908	1,908	1,908	1,908	2,000	1,800	1,500
BILLBOARDS & ADVERTS	1,000	797	1,425	1,425	1,425	1,425	1,500	1,650	1,800
House Rents	560	537	615	615	615	615	620	625	630
FOOD HANDLERS CERT	230	199	300	300	300	300	450	500	550
FIRE INSPECTION CERT	340	344	450	450	450	450	500	550	600
REGUL. OF BLDNG /CHANGE /AMALG/SUB	180	25	166	166	166	166	180	160	150
WAKULIMA MARKET	125	100	110	110	110	110	216	228	240
OTHER MARKETS	227	92	250	250	250	250	319	328	336
OTHER INCOMES-(Including Liquor Fees)	2,105	1,142	2,512	2,512	2,512	2,512	2,217	2,209	2,247
<b>Total</b>	<b>15,497</b>	<b>10,172</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>18,502</b>	<b>19,350</b>	<b>20,053</b>
<b>Total Revenues</b>	<b>32,036</b>	<b>26,139</b>	<b>34,583</b>	<b>34,401</b>	<b>34,401</b>	<b>34,401</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
Opening Cash Balances	1,309	1,309	700	2,580	2,580	2,580	0	0	0
<b>Total Resources Available</b>	<b>33,345</b>	<b>27,448</b>	<b>35,283</b>	<b>36,981</b>	<b>36,981</b>	<b>36,981</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
<b>EXPENDITURES</b>									
TRANSFERS TO COUNT ASSEMBLY	1,422	1,393	3,201	2,940	2,940	2,940	1,980	2,055	2,132
Recurrent	1,387	1,365	1,671	1,410	1,410	1,410	1,480	1,555	1,632
Development	36	28	1,530	1,530	1,530	1,530	500	500	500
<b>COUNTY EXECUTIVE</b>	<b>31,923</b>	<b>25,132</b>	<b>32,082</b>	<b>34,041</b>	<b>34,041</b>	<b>34,041</b>	<b>33,291</b>	<b>34,164</b>	<b>34,889</b>
SALARIES AND WAGES	13,609	12,899	14,759	13,612	13,612	13,612	14,021	14,441	14,874
Use of goods and services	7,541	6,064	7,841	8,067	8,067	8,067	7,890	8,100	8,200
DEVELOPMENT EXPENDITURE	6,142	3,981	9,148	9,158	9,158	9,158	10,000	10,623	10,815
Debt Resolutions (Rec & Devt)	4,631	2,188	335	3,204	3,204	3,204	1,380	1,000	1,000
<b>TOTAL EXPENDITURES</b>	<b>33,345</b>	<b>26,525</b>	<b>35,283</b>	<b>36,981</b>	<b>36,981</b>	<b>36,981</b>	<b>35,271</b>	<b>36,219</b>	<b>37,022</b>
<b>Net Financing</b>	<b>0</b>	<b>923</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Development Expenditure Totals</i>	6,178	4,009	10,678	10,688	10,688	10,688	10,500	11,123	11,315
<i>% of total development expenditure</i>	19	15	30	28.9	28.9	28.9	29.77	30.71	30.56

**ANNEXE II: INDICATIVE BUDGET CEILINGS FY 2020/2021**

SECTOR	Recur- rent	Dev	Total	Recur- rent	Dev	Total
5311: COUNTY PUBLIC SERVICE BOARD	52	-	52	52	-	52
5312: OFFICE OF GOVERNOR & DEPUTY GOVERNOR	5,479	628	6,107	5,479	628	6,107
5313: ICT, E-GOVT & PUBLIC COMMUNICATIONS	204	349	553	204	349	553
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<b>TOTAL</b>	<b>25,710</b>	<b>11,271</b>	<b>36,981</b>	<b>24,771</b>	<b>10,500</b>	<b>35,271</b>

Source: County Treasury, 2019

### ANNEXE III: BUDGET CALENDAR FOR 2020/2021

	ACTIVITY	TIMELINESS	RESPONSIBILITY
1	Issuance of 2020/21 Budget Preparation Guidelines	By 30th August 2019	County Treasury
2	Submission of ADP 2020/21 to the County Assembly	By 1st September, 2019	County Treasury
3	Launch of Sector Working Groups	By 13th September 2019	County Treasury
4	Capacity Building	September/October 2019	County Treasury
5	<b>Development of Medium Term Budget Framework</b>		
	Submission of County Budget and review Outlook Paper (CBROP)2019 to County Executive Committee	By 15th October 2019	County Treasury
	Submission of County Budget and review Outlook Paper (CBROP)2019 to County Assembly	By 21st October 2019	County Treasury
6	<b>Preparation of Medium Term Budget Proposals</b>		
	Preparation of draft Sector Reports by all Sectors in accordance with ANNEXE 2	15th October-15th Nov 2019	Sector Working Groups
	Submission of Sector Reports (Draft Budget proposals for 2020/21) to County Treasury for review	16th Nov-20th Nov 2019	Sector Working Groups
	Public Hearings on Sector Reports	21st Nov -23rd Nov 2019	Sector Working Groups, County Treasury
	Review and incorporation of public views in the sector reports	25th -30th Nov 2019	Sector Working Groups
	Submission of Final Sectoral Budget Proposals for FY 2020/21 to County Treasury	1st December-10th December 2019	Sector Working Groups
7	<b>Draft County Fiscal Strategy Paper (CFSP)</b>		
	Conduct MTEF public consultations for consideration in CFSP 2020/2021	By 15th January 2020	County Treasury, Sector Working Groups
	Finalize Draft County Fiscal Strategy Paper 2021	By 1st February 2020	County Treasury
	Submission of draft County Fiscal Strategy Paper to CBEF	By 8th February 2020	County Treasury
	Submission of CFSP to County Executive Committee	By 15th February 2020	County Treasury
	Submission of final CFSP to County Assembly for approval	28th February 2020	County Treasury
8	<b>Preparation and approval of Final Budgets FY 2020/21</b>		
	Issue guidelines on finalization of the FY 2020/21 Budget Estimates	By 5th March 2020	County Treasury
	Submission of Final 2020/2021-2022/23 Budget proposals to County Treasury in accordance with ANNEXE 3 & 4	By 15th March 2020	Sector Working Groups
	Consolidation of Draft Sector Budget Estimates	By 22nd March 2020	County Treasury
	Submission of draft budget estimates to CBEF for consideration	By 5th April 2020	County Treasury
	Submission of draft budget estimates to County Executive Committee	By 12th April 2020	County Treasury
	Submission of Draft Budget Estimates & budget documents for FY 2020/21 to County Assembly	By 30th April 2020	County Treasury
9	<b>Submission of Appropriation Bill 2020 to County Assembly</b>	<b>By 14th June 2020</b>	<b>County Treasury</b>
10	<b>Appropriation Bill 2020 passed by County Assembly</b>	<b>25th June 2020</b>	<b>County Assembly</b>
11	<b>Issuance of General Warrant FY 2020/2021</b>	<b>30th June 2020</b>	<b>County Treasury</b>