THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF MURANGA

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2018

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Foreword

The County Budget Review and Outlook Paper (CBROP) 2018 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012 which requires the county government to prepare a budget review and outlook paper in respect for each financial year; and submit it to the County Executive Committee by 30th September.

The paper reviews fiscal performance of the county for the 2017/18 financial year while comparing it with the appropriated budget. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2018; and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It further gives reasons for any deviation from the county financial objectives in the fiscal strategy paper together with proposals to address the deviations.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters for preparation of the next budget. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities outlined in section 107 of the PFM Act 2012 that will contribute towards the realization of aspiration of the residents of Murang'a county.

David W.Waweru
County Executive Committee Member
Muranga County Government - County Treasury

Acknowledgement

The County Budget Review and Outlook Paper is a critical Document prepared by the County Treasury. Its major aim is to evaluate the fiscal performance of the County Government for the previous financial year; and also gives the County Government an opportunity to look forward in to the medium term on its available resource envelope and thus evaluate its fiscal capacity.

This year the County Treasury has finished reviewing the budget for the year 2017/2018 and will seek to ride on its past experience. Therefore, the County Treasury shall seek to ensure equitable development for all the citizens of Murang'a County.

In the preparation of this document I wish to appreciate the efforts of various stakeholders among them; the Budget section led by Emilio Wanjohi, and assisted by Anne Wanjiku, Yvonne Wangari, Samuel Ngugi, and Samuel Kinyanjui; the team from Economic planning led by Stephen Kuria Mwangi, Justin Gatuita, Gabriel Wachira, Alex Mwangi and Walter Ojwang. Finally, I would like to thank Agile and Harmonized Assistance to Devolved Institutions (AHADI-KENYA) who have done a lot in Capacity building for the County to enable the County Treasury compile this document.

God bless you abundantly.

PETER G. KAHORA
Chief Officer-Economic planning

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CRA	Commission of Revenue Allocation
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
GDP	Gross Domestic Product
IBEC	Inter-Governmental Budget and Economic Council
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PE	Personnel Emoluments
PFM	Public Finance Management
PWD	People with Disabilities
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group

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Preamble

Legal Basis for Preparation of the County Budget Review and Outlook Paper

The Budget Review and Outlook Paper (CBROP) is prepared in accordance with Section 118 of the Public Finance Management (PFM) Act 2012. The law stipulates that:

1) A county Treasury shall;

a. Prepare a CBROP in respect of the County for each year; and

b. Submit the paper to the County Executive Committee (CEC) by 30th September of that year.

2) In preparing its CBROP, the County Treasury shall specify;

a. The details of the 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 (CFSP)

c. Information on:

(i) Any changes in the forecasts compared with the CFSP; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or financial objectives in the CFSP for that financial year; and

d. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

3) The CEC shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.

4) Not later than seven days after the CBROP is approved by the CEC, 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 publicise the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution of Kenya 2010, the PFM Act, 2012 sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. Section 107 of the PFM Act, 2012 states that: The County Government's recurrent expenditure shall not exceed the County Government's total revenue;

1) Over the medium term, a minimum of thirty (30) per cent of the County Government's budget shall be allocated to the development expenditure;
2) The county Government's expenditure on wages 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;
3) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure;
4) The County debt shall be maintained at a sustainable level as approved by County Assembly;
5) The fiscal risks shall be managed prudently; and
6) 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.

1.INTRODUCTION

This section highlights the objectives of the paper, its significance in the budget making process and a brief description of the structure.

The County Budget Review and Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the county for the financial year 2017/2018; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2018 and reasons for such deviations.

1.1 Objective of CBROP

The objective of CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in the CFSP. This together with macroeconomic outlook provides a basis for revision of the current budget in the context of the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed in the CFSP.

Specifically the CBROP provides:

i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
iii. Any changes in the forecasts compared with the CFSP;
iv. Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

The CBROP is a policy document and links planning with budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF) as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2019/2020 budget and in the medium term to guide Sector Workings groups (SWGs) before being affirmed in the CFSP 2019.

1.3 Structure

This paper has four other sections. Section Two reviews the county's fiscal performance for the previous year. It is divided into three sub-sections, namely, The Overview, Fiscal Performance and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections of Recent Economic Developments, Economic Outlook & Policies, Medium Term Fiscal Framework and Risks to the Outlook. Section four sets out how the county government intends to operate within its means. It establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. In addition, it has four sub-sections: adjustment to the proposed budget; the medium term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. And lastly, section five gives a conclusion of the entire paper.

2. REVIEW OF COUNTY FISCAL PERFORMANCE IN 2017/18 FY

This section details the county's fiscal performance for the financial year 2017/18 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 Overview

The County Government had a total budget of KShs. 8.3 Bn. This comprised of recurrent budget of KShs. 5.28Bn and Development budget of KShs. 3.02 Bn. The county expected to receive KShs. 6.52 Bn as Equitable Allocation from the National Government as allocation of the year 2017/2018 and balance brought forward from the year 2015/16 of KShs. 328.46M, generate KShs. 1.07 Bn as local revenue and Grants of KShs. 717.67M.

However, the County received KShs. 5.442B as equitable allocation from the National Government, collected KShs. 454.6M in local revenue and received grants of KShs. 336.92M.

2.2 Fiscal Performance

Overall revenues decreased by 19.29% as per table 2.1 below on summary of County Fiscal Performance.

The fiscal year 2017/2018 was a very challenging year on the fiscal performance of the County Government, due to the prevailing political environment. Exchequer releases experienced major slack and were not forthcoming as expected. Local revenues experienced the most challenge as a result of drought that prevailed during the year and a waiver advanced to the youth and the aged that was abused by the public.

Table 2.1: Summary of County Fiscal Performance

	2016/17 FY	2017/18 FY			
	Actual	**Approved**	**Actual**	**% Deviation**	**Growth %**
TOTAL REVENUE & GRANTS	**7,059,700,000**	**8,304,237,369**	**6,233,631,964**	**-19.29%**	**-12%**
Unspent Bal from Previous FY	496,520,000	328,460,000	328,460,000	**0.00%**	**-33.8%**
Revenue (Total)	**7,556,220,000**	**8,304,237,369**	**6,233,631,964**	**-19.29%**	**-18%**
Equitable Share Allocation	5,780,000,000	6,520,578,512	5,442,118,512	**-12.11%**	**-6%**
Local Revenue	506,690,000	1,065,988,857	454,597,965	**-57.35%**	**-10%**
Grants (Total)	773,010,000	717,670,000	336,915,487	**-30.17%**	**-56%**
Total Expenditure	**6,430,000,000**	**8,300,237,369**	**6,233,631,964**	**-24.90%**	**-3%**

Recurrent	4,390,000,000	5,280,000,000	4,788,535,052	**-9.31%**	**9%**
Development	2,040,000,000	3,020,237,369	2,762,867,417	**-8.54%**	**35%**
Unspent Bal Current FY	328,460,000		750,000,000		

2.1.1 Revenue Performance

The table below shows analyses of the various revenue streams as well as their performance over the period 2014 to 2018.

Table: 3.1: Analysis of County Revenue Streams

ANNUAL COMPARATIVE LOCAL REVENUE COLLECTIONS (FIGURES IN KSHS,)				
SOURCE	**2014/2015**	**2015/2016**	**2016/2017**	**2017/2018**
LICENCES	91,352,399	101,037,870	101,119,123	100,095,924
PLOT RENT/LAND RATES	43,097,517	48,341,146	45,816,216	37,600,098
MARKET FEES	44,983,309	50,231,815	35,292,095	27,204,081
PENALTIES	4,560,415	2,701,982	2,806,646	
BUILDING MATERIAL CESS (sand,stones)	72,851,539	70,653,549	58,177,928	45,758,290
BUS PARK FEES	33,519,865	34,140,150	26,907,130	16,185,040
PARKING FEE	17,777,510	21,439,740	19,233,498	10,202,620
MOTOR BIKES	10,748,905	10,998,690	4,740,250	2,365,460
LIQOUR LICENCE	18,401,900	39,136,100	31,093,760	25,642,410
PLAN APPROVAL	11,919,366	21,248,784	16,962,594	12,434,670
CONSERVANCY	12,274,260	13,484,790	12,155,100	8,563,200
OTHER CESS REVENUE	2,816,099	1,077,920	2,321,190	719,900
SALE OF FORMS	11,346,485	11,425,650	5,727,400	5,192,420
TENDER FORMS	542,300	146,500	35,000	20,340
ADVERVISEMENTS	6,050,775	9,438,404	10,082,140	10,371,043
SELF HELP GROUP	2,383,150	1,899,470	1,764,900	1,705,070
LAND SUBDIVISION/TRANSFER	9,230,830	11,282,340	9,492,012	7,015,130
HOUSE/STALLS RENT/S.HALL	5,996,130	5,881,123	5,813,211	5,976,080
OTHER LAND BASED REVENUE	4,151,395	3,429,400	2,056,700	1,669,776
MORGUE FEES	1,689,550	1,715,000	3,016,490	2,020,870

SLAUGHTER FEES	1,166,685	779,660	594,850	466,850
IMPOUNDING	3,752,750	5,736,400	2,063,160	830,490
COFFEE CESS	1,418,875	11,686,680	10,500	
EDUCATION & POLYTECHNICS	937,490	660,650	154,300	144,000
FIRE		156,650	401,000	
OTHERS	29,774,015	27,994,702	32,978,275	982,060
SUB-TOTAL	442,743,514	506,725,165	430,815,468	
B) DEVOLVED FUNCTIONS				
HOSPITALS	80,248,600	85,933,391	62,167,855	68,928,546
NHIF			3,437,000	
PUBLIC HEALTH	15,982,120	26,148,580	22,342,165	21,484,306
LIVESTOCK (A.I)	10,547,820	5,302,745	1,888,460	1,102,360
MEAT INSPECTION	9,612,880	9,867,840	9,011,605	6,284,060
VET.CLINICAL SERVICES	2,858,080	2,230,630	915,315	220,370
FISHERIES	98,040	103,790	99,850	126,000
COOPERATIVES	1,028,890	579,970	452,690	481,890
HOUSING & PHYSICAL PLANNING	1,665,396	736,956	160,000	646,990
WEIGHT & MEASURES	992,580	1,353,880	1,122,850	601,950
MARIIRA FARM	9,422,172	2,301,710	2,918,385	472,067
WATER	277,315	521,373	244,135	482,621
NEEMA		6,000	8,200	
SUB-TOTAL	132,733,983	135,086,865	104,768,510	
TOTAL	**575,477,497**	**641,812,030**	**535,583,978**	**423,996,982**

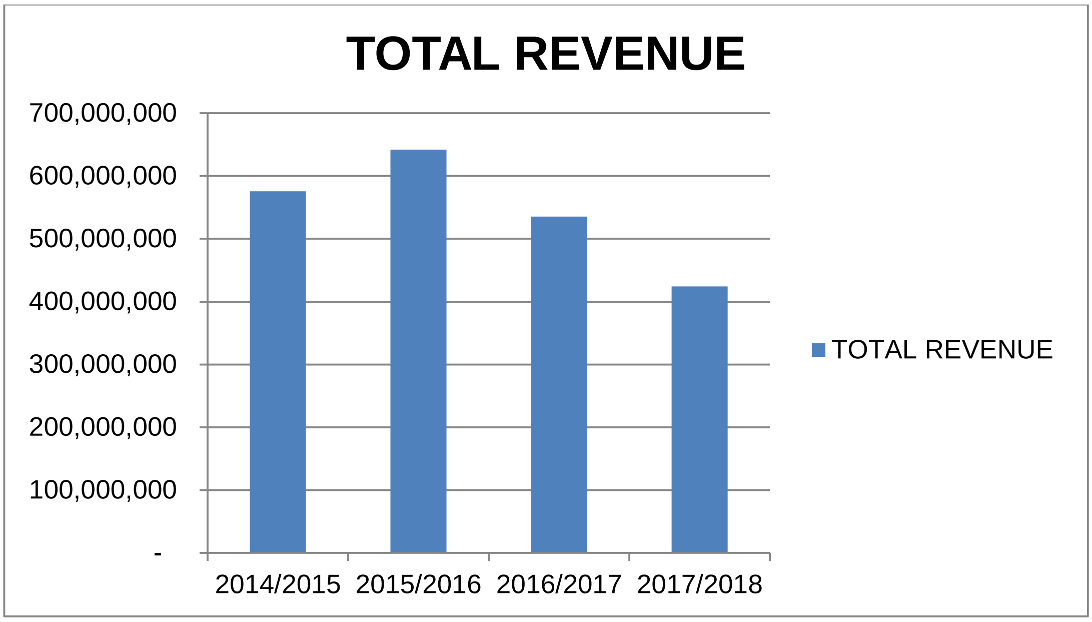
TOTAL REVENUE
700,000,000
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
100,000,000
-
2014/2015
2015/2016
2016/2017
2017/2018
TOTAL REVENUE

Table 2.2 Revenue Performance per stream

MURANGA COUNTY GOVERNMENT					
CUMMULATIVE LOCAL REVENUE COLLECTION FROM JULY 2017 TO JUNE 2018					
A) NORMAL	Quarter 1	Quarter 2	Quarter 3	Quarter 4	TOTAL
LICENCES	2,862,045		55,310,320	45,948,180	105,095,924
LICENCES PENALTIES	167,125		137,600	517,310	961,145
PLOT/LAND RATES	1,974,438		29,314,771	6,986,117	40,600,098
LAND RATES	61,030		133,419	206,725	561,904
MARKET FEES	6,740,190		6,983,686	7,177,580	27,204,081
BUILDING MATERIALS & OTHER CESS	11,063,540	11,673,950	13,643,270	9,377,530	45,758,290
BUS PARK FEES	3,640,090		3,965,220	4,924,230	16,185,040
PARKING FEE	3,563,860		5,805,820	4,975,060	18,202,620
MOTOR BIKES	149,420		1,400,890	688,750	2,365,460
LIQOUR LICENCE	1,698,110		849,450	21,269,350	25,642,410
PLAN APPROVAL	3,557,031		3,591,041	3,421,980	12,434,670
CONSERVANCY	477,560		7,516,400	3,436,140	11,563,200
OTHER CESS REVENUE	39,920		593,880	33,950	719,900
SALE OF FORMS	415,390		4,421,620	1,492,920	6,592,420
TENDER FORMS	4,000		2,000	5,340	20,340
ADVERVISEMENTS	904,200		3,735,563	6,287,080	11,371,043
SELF HELP GROUP	361,300		607,400	442,900	1,705,070
LAND	1,410,560		1,906,900	2,045,170	7,015,130
HOUSE/STALLS	1,150,850		1,563,750	1,635,930	5,976,080
OTHER LAND BASED	668,200		360,100	417,876	1,669,776
IMPOUNDING FEES	111,500		374,600	675,590	1,430,490
MORGUE FEES	715,320		448,850	431,050	2,020,870
SLAUGHTER FEES	103,000		115,000	120,200	466,850
EDUCATION &	33,500		44,400	49,200	144,000
FIRE FIGHTING	25,000		110,500	85,000	287,000
OTHERS	259,121		160,200	133,530	695,060
SUB-TOTAL	42,156,300		143,096,650	122,784,688	346,688,871
B) OTHER	-	-	-	-	-
HOSPITALS	5,785,705	9,576,145	14,948,597	16,864,099	47,174,546
MOTUARY FEES	-	-	-	-	-
NHIF	-	-	4,000,000	21,754,000	25,754,000
PUBLIC HEALTH	1,937,620	1,063,650	11,517,400	7,043,570	21,562,240
LIVESTOCK (A.I)	244,020	197,990	103,540	556,810	1,102,360
MEAT INSPECTION	2,048,780	2,185,300	2,488,180	2,561,800	9,284,060
VET.CLINICAL SERVICES	-	174,900	45,470	-	220,370
FISHERIES	24,500	-	101,500	-	126,000

COOPERATIVES	22,015		285,350	166,545	481,890
LAND ,HOUSING &	138,900		146,060	218,120	646,990
TRADE -WEIGHT &	202,620		28,310	139,860	601,950
MARIIRA FARM	134,824		68,463	200,015	472,067
NEMA	-	-	-	-	-
WATER	114,771		34,050	185,800	482,621
SUB-TOTAL	**10,653,755**		**33,766,920**	**49,690,619**	**107,909,094**
TOTAL	**52,810,055**		**176,863,570**	**172,475,307**	**454,597,965**

During the financial year 2017/2018 the County did not achieve the set targets, this can be attributed to the following challenges:

- Prolonged political activities which disrupted business activities.
- Delay in the passing of County legislations for instance the finance bill which was to expand the revenue base and review some rates upwards.

2.1.1 Expenditure Performance

The County had a budget of KShs. 8,304,237,369 Comprising of KShs. 3,020,237,369 in development and KShs. 5,280,000,000 in recurrent. Out of this the County achieved an overall absorption rate of 75%. The absorption rate for Development expenditure was 91.5% and the recurrent one was 90.7%.

2.1.1.1 Budget absorption and comparison between CFSP 2017 Ceilings and FY 2017/18 budget

The absorption rates per department and program are as shown in the table in Annex 1 of this document in the format illustrated by table 2.3.

There was an overall variation between the indicative ceilings approved through the County Fiscal strategy paper (CFSP) due to an increase in the actual total budget estimates versus the total budget amount estimated in the CFSP.

The County registered an overall budget absorption rate of 76.4%.This was partly caused by a cautionary initiative by the County treasury to rein in on its expenditure given the slow exchequer releases and the likelihood of not meeting its local revenue targets.

2.1.1.2 Recurrent and development expenditure

The ratio between recurrent and development was 60:40 respectively. This was in compliance with the fiscal responsibility principle that at least 30% of a County government's expenditure should be allocated to Development.

Actual expenditure on recurrent was KShs. 4,788,000,000 and on Development was KShs. 2,762,867,417 representing a ratio of 63:37. The change in the ratio was occasioned by an increase in the Medical Practitioners' salaries and allowances without a commensurate additional allocation from equitable allocation from the National Government.

Over the medium term it is the intention of the County government to achieve its fiscal responsibility mandate of 35% on personal emoluments as a percentage of the County Government's total revenue.

2.1.2 Implications for the FY 2017/18 performance

The performance of the fiscal year 2017/2018 was unique due to the prolonged electioneering period. The slack experienced in exchequer releases during the period is not expected in the subsequent years.

The County Government has increased efforts on revenue collection through enhanced enforcement, review of its fees and charges through the expected enactment of the finance bill. Further, the County expects to ride heavily on alternative funding such as donor funding and in that light, the County is working at preparing proposals on direct donor funding.

As such there are no expected major variations from CFSP 2018 as shown in the table in Annex 2 showing projections for the MTEF period of FY 2019/20, FY 2020/21 and FY 2021/22.

3. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

This section presents Recent Economic Developments; Medium Term Fiscal Framework; and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future. In this section, the County Treasury discusses its assessment of the prospects for growth after analyzing the recent economic events and circumstances.

3.1 Recent Economic Developments

3.1.1 GDP

The Kenyan economy is on a recovery path and is projected to recover to 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent in the 2018 Budget Policy Statement. This strong growth momentum is reflected in the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The outlook is supported by a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country

3.1.2 Inflation

The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall Month-on-month and year-on-year inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by Government. This decline reflected a decrease in food prices such as carrots, loose maize grain, loose maize flour, tomatoes, cabbages, and beans which outweighed the rise in international oil prices. However, energy prices continued to exert upward pressure on overall inflation due to higher fuel and electricity prices. In the twelve month to August 2018, the average annual inflation rate was at 4.7 percent compared to 8.3 percent in the same period in 2017.

The recent enactment of 8% VAT on Petroleum products, exposes the economy to cost push inflation. Cost push inflation has the likely effect of increasing the cost of goods, which in return would reduce demand and production and contracting of GDP and as a result raising the level of unemployment in the economy. As such, there is need to carefully assess both the short term and the long term effects of enactment of the tax.

3.1.3 Interest rates

Short term interest rates have remained fairly low and stable. The CBK lending rate was reduced to 9.0 percent on 30th July 2018 from 9.5 percent in March 2018 in order to support economic activity. The interbank rate remained low at 6.8 percent in August 2018 from 8.1 percent in August 2017 due to ample liquidity in the money market. The 91-day Treasury bill rate declined to 7.6 percent in August 2018 compared to 8.2 percent in August 2017 while over the same period, the 182 day and the 364 day Treasury bills averaged 9.0 percent and 10.0 percent from 10.3 percent and 10.9 percent, respectively.
The lending rates declined to 13.3 percent in May 2018 from 13.7 percent in May 2017 while the average commercial banks' deposit rate increased to 8.1 percent in May 2018 from 7.4 percent in May 2017. As a result the interest rate spread narrowed to 5.2 percent from 6.3 percent over the same period.

3.1.4 Agriculture

Agricultural sector improved to a growth of 5.2 percent in the first quarter of 2018 compared to a growth of 1.0 percent in a similar quarter in 2017. The improved growth was as a result of favorable weather conditions that increased production of key food crops and livestock products especially in the dairy subsector. Similarly, production of tea and horticultural crops improved during the period and mitigated the impact of the decline in the production of coffee thereby anchoring the growth in the exports subsector. The contribution of Agricultural sector to overall GDP growth was at 1.3 percentage points in the first quarter of 2018, an improvement from the 0.3 percentage points in the same quarter in 2017

3.1.5 Exchange rates

The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate strengthened to Ksh 100.6 in August 2018 from Ksh 103.6 in August 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.2 and Ksh 129.7 in August 2018 from Kshs. 122.2 and Kshs. 134.2 in August 2017, respectively. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most Sub-Saharan African currencies. This stability is a reflection of the strong inflows from tea and horticulture exports, strong diaspora remittances and tourism receipts.

The projected stability in GDP growth has strengthened the county's economy which mainly relies on agricultural products such as coffee, tea, avocadoes, and the dairy sector among others. Also, the reduced inflation and interest rates from 8.0 per cent to 4.0 per cent and 13.7 per cent to 13.3 per cent respectively have contributed to the overall growth in per capita earnings in the county and made the commercial sector to be vibrant. Production of key food crops and livestock products has also increased due to the favorable weather conditions prevailing in the county.

3.2 County Economic Outlook and Policies

The national GDP growth is likely to be translated into the county environment, therefore, the county will register higher growth fueled by the expansion in Agricultural commodities due to the favorable weather conditions expected throughout the year and reduced inflation and interest rates. The Kenya Shilling exchange rate is expected to remain stable and competitive against major international currencies hence improving earnings by farmers such as avocadoes, coffee and tea which are mainly exported. The rise in revenue projections in the national government will stabilize revenue transfers to the county government.

Transfer to County Governments:
With ordinary revenue projections slightly rising from 16.6 percent of GDP in FY 2017/18 to 18.4 percent of GDP in the FY 2018/19, and at the same time expenditures under the Consolidated Fund Services (CFS) increasing from 4.4 percent of GDP in FY 2017/18 to 4.6 percent of GDP in FY 2019/20, each level of Government is expected to broadly support the fiscal consolidation. In this respect therefore, the National Government expenditures funded from domestic resources are projected to decline by 1.2 percent of GDP. Similarly the allocation to County Governments is projected to decline by 0.4 percent of GDP, from 3.7 percent in FY 2018/19 to 3.3 percent in FY 2019/20. The nominal year-on-year growth of allocation to the county governments is projected to remain stable.

3.3 Medium Term Expenditure Framework

The county government will operate within a framework of balanced budget in the medium term with occasional short term borrowing as may be necessary for cash flow management purposes. The government's fiscal policy objective in the medium term will be to focus resources to priority and growth potential areas including; water, infrastructure, agriculture and livestock production, and health.

Revenue mobilization initiatives will be strengthened to enhance revenue performance. To realign local revenue performance to positive growth trajectory, the government will ensure adequate legislations to guide revenue collection and management, improve enforcement for compliance, and broaden tax base. The county government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions.

The fiscal policy will address itself to licensing, attracting investors, taxation and sustainable use of resources as well as other revenue raising measures. In the medium term the county government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The government will continue to monitor expenditures closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will broadly be categorized into development and operations. The county government will also upscale implementation of programmes targeting the vulnerable including the youth, women and people living with disabilities (PWDs) to enhance their participation in the socio-economic development of the county.

The County Government does not anticipate any long term borrowing in the medium term. However, in case there will be need for long term borrowing, then it will be done within the framework for Sub-Nationals approved by the Inter-Governmental Budget and Economic Council (IBEC) and the guidelines issued by Commission for Revenue Allocation (CRA). Further, any borrowings shall be used for financing development projects only. The county government will maintain a sustainable debt level as approved by county assembly. The fiscal responsibility principles will remain the guiding framework for its public finance management discourse.

3.4 Risks to the outlook.

Internationally, risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

Nationally, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

In the county, the likely risk may emanate from high inflation rate that may render some cost estimates unrealistic, adverse weather conditions negatively affecting agricultural production, late disbursement of funds by the National Treasury making funds absorption targets levels not to be realized, inadequate resources to support some of the development projects/programmes that may lead to non-completion within the planned time frames, unrealized targets on own revenue collection, disharmony between critical stakeholders leading to derailment of programmes and shifting departmental priorities necessitating changes to the current outlook.

The County Government will monitor the above risks and take appropriate measures to mitigate against them and ensure county economic stability.

4. RESOURCE ALLOCATION FRAMEWORK

This section seeks to establish the resource envelope expected to be foreseen by the county and how it will be allocated across all the sectors for 2019/20 FY and the Medium Term.

4.1 Adjustment to the FY 2018/19 Budget

The 2018/19 budget has been prepared with a major emphasis on cost cutting and stringent, prudent expenditures on very critical and essential activities.

The National Government in its recently concluded Supplementary budget averred that in its cost cutting measure, it would cut the equitable allocation to County Governments in general by an estimated KShs. 8 Bn. In the event, this proposal is implemented it will lead to County Governments scaling down on their budget estimates.

Other than the above proposed reduction, the County treasury does not foresee the possibility of any radical adjustment to the budget estimates unless that occasioned by catastrophic calamities posing threat to human life.

4.2 Medium Term Expenditure Framework

The County treasury shall continue to prudently manage its expenditure by monitoring the existing macroeconomic indicators, rationalizing costs and expenditures and assessing its fiscal capacity more so on the revenue side.

In the light of this, the County Government shall continue to diversify its revenue base and review rates where necessary while also seeking alternative funding.

Annex 3 of this document provides indicative sector ceilings for the 2019/2020 – 2021/22 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

4.3 The Proposed 2019/20 Budget Framework

4.3.1 Revenue Projections

The County is optimistic that in the fiscal year 2019/2020 its total revenue will reach KShs. 9.7 Bn comprising of:

	REVENUE	AMOUNT
i.	Equitable Allocation	7,579,677,983
ii.	Local Revenue	1,000,000,000
iii.	Grants	1,112,179,834
	Total	**9,691,857,817**

The expected share of Equitable allocation is expected to increase since going by the efforts the County Government has made in revenue enhancement the county expects to increase its revenue collection. Therefore, the County expects to benefit from a raise as a result of the reward advanced to fiscal effort by the County Government. Further, going by past history, the total amount of revenue allocated to County Governments has been on the rise and the fiscal year 2019/2020 we expect an increase albeit marginal.

The local revenue figure shall continue to be the minimum expected revenue target for the County Government and all effort will be made to see to it that the target is surpassed.

The County hopes that all the grants received in the current year will still be received in the subsequent years. The increase in the Grants by about KShs. 300M will result from the County benefitting from Kenya Devolution Support Program Level ii and the National Agricultural Rural Inclusive Growth Project (NARIGP).

4.3.2 Expenditure Forecasts

Table 6 below indicates the projections for expenditure in the medium term period.

Table 4.6 Summary of Expenditure Projections 2019/20 FY and MTEF

Revenue Type	Approved Budget Estimates	Projected Estimates		
	2018/19 000,000,000	**2019/20** 000,000,000	**2020/21**	**2021/22**
Personnel Emoluments	3.32	3.6	3.6	3.6
Operations &Maintenance	1.6	1.6	2.2	2.8
Development	3.9	4.4	4.7	5.3
Un spent Bal FY				
Total	**8.8**	**9.6**	**10.6**	**11.7**

4.4 Projected Fiscal Balance

The proposed 2019/20 county budget is balanced; however, any shortfall in revenue that may occur within the year will be addressed through a supplementary budget. In addition to this, any unforeseen occurrences that will change any of the underlying assumptions of this CBROP will be addressed appropriately.

5. CONCLUSION

This CBROP is unique in that it forms the first part of the budget cycle involved in the implementation of the newly approved County Integrated Development Plan for the Planning period 2017 to 2022. In view of this, it is of critical importance that all stakeholders use it as a peer review mechanism to build on their future development plans.