REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYERI

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2016

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FOREWORD

The Nyeri County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. The CBROP, 2016, captures updated economic and financial forecasts with sufficient information that will inform the budget proposals for the next financial year. It also reviews previous year's budget and provides an outlook for the forthcoming budget year.

In reviewing the fiscal performance, this paper analyzes the performance of the county own revenue in the FY 2015/16. It has included the total revenue collected in comparison to the projected revenue for the same year. In addition, the causes of the underperformance in revenue mobilization are also highlighted. Included in the analysis is also performance of county departments' expenditure for the period under review.

This paper has also provided an overview of how the actual performance of the FY 2015/16 affected the financial objectives as detailed in the County Fiscal Strategy Paper (CFSP), 2016. The anticipated performance of the FY 2016/17 budget will form the basis for projecting the FY 2017/18 budget based on the recent economic developments. It is anticipated that, the projected revenue and expenditure for 2016/17 will be achieved through strict expenditure controls and enhanced revenue collection measures. This will be achieved through fiscal discipline to ensure proper management of public resources and delivery of expected outputs.

To ensure transparency and accountability the executive will involve and communicate our performance indicators to all stakeholders as required by the Kenya Constitution 2010 and Public Finance Management Act, 2012. This will enable all stakeholders to keep abreast of the all the development programmes being carried out in the county.

Dr. Charles Githinji, PhD.
Ag. County Executive Secretary
Finance and Economic planning

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

The Nyeri County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012 which states that:

1) A County Treasury shall;
   a) prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
   b) submit the paper to the County Executive Committee by 30th September of that year.
2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify-
   a) the details of actual fiscal performance in the previous financial 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 the financial objectives in the CFSP for that 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 County Executive Committee 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 County Executive Committee, the County Treasury shall:
   (a) arrange for the CBROP to be laid before the County Assembly; and
   (b) as soon as practicable after having done so, publish and publicize the paper.

Fiscal Responsibility principles in the Public Financial Management Law

Section 107(2) of the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

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

INTRODUCTION

Background

1. The County Budget Review and Outlook paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012.The Act requires that every county prepares a CBROP by 30th September of that financial year and submit the same to the County Executive Committee (CEC).The CEC shall in turn:

- Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments. Not later than seven days after the CEC has the approved the paper, the county treasury shall;
- Arrange for the paper to be laid before the county Assembly
- As soon as practicable after having done so, publish and publicize the Paper.

Objectives of CBROP

2. The objectives of this County Budget Review and Outlook Paper is to provide;

- A review of the county Fiscal performance in the financial year 2015/16 compared to the appropriation of that year and how this affected the economic performance of the county.
- An updated economic and financial forecast with sufficient information to show changes from the forecasts in the County Fiscal strategy paper, 2016.
- Information on any changes in the forecasts compared with the county fiscal strategy paper.
- Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

3. The CBROP will be a key document in linking up of policy, planning and budgeting. It will be embedded on the Kenya's Vision 2030, Second Medium Term Plan (MTP) priorities and the Nyeri County Integrated Development Plan (CIDP). Sector Working Groups will be formed to undertake performance reviews of programs currently being undertaken and also develop and prioritize programs for the Medium Term period of FY 2016/17 – FY 2018/19.

4. The updated outlook will thereafter be firmed up in the County Fiscal Strategy Paper (CFSP), 2017 to reflect any changes in economic and financial conditions. In accordance with Section 117 of the Public Finance Management Act, 2012, the CFSP will be submitted to the County Assembly not later than 28th February 2017.

5. The rest of the paper is organized as follows: the next section provides review of the fiscal performance in the FY 2015/2016 and its implications on the financial objectives set out in the last CFSP submitted to the county assembly in February, 2016. This is followed by brief highlights on recent economic developments and outlook, resources allocation framework while section V concludes.

REVIEW OF FISCAL PERFORMANCE IN 2015/16

A. Overview

6. The implementation of the 2015/16 budget was faced by numerous challenges. First the local revenue collection was less than projected due to various reasons as expounded in this paper. In addition there were other expenditure pressures in the FY 2016 as a result of the large pending bills from the FY 2014/15 and the slow uptake of the E-procurement system and other changes in the IFMIS system. Therefore there is need for continuous capacity building and support of the county staff by the National Treasury.

7. In order to realign the county budget and revenue projections within the prevailing economic trends and the provisions of County Allocation of Revenue Act, 2015, the County Treasury prepared a supplementary budget where the local revenue was revised downwards from a projected estimate of Kshs. 1.49 billion to Kshs 1.082 billion. The supplementary recurrent estimates amounted to Kshs 4,419,610,946 while the development amounted to Kshs 1,857,937,767. These adjustments on the original budget were approved by County Assembly in January, 2016.

B. 2015/16 Fiscal Performance

8. Table 1 below presents the fiscal performance for the FY 2015/16 i.e. the approved budget, actual budget performance and the deviations from supplementary estimates of the same period under review.

Table 1: Fiscal Performance in Financial Year 2015/2016

Revenue Sources and Expenditure	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage Performance
Balance B/F			5,664,988	5,664,988	
Equitable Share	4,341,891,811	4,449,219,647	4,449,219,647	0	100
Level V Hospital	316,867,785	368,620,571	368,620,571	0	100
Free Maternity	82,091,800	82,091,800	63,295,000	(18,796,800)	77
User fee foregone	-	16,166,813	16,166,813	0	100
Danida grant-Health Facilities	22,930,000	22,930,000	22,930,000	0	100
Road maintenance fuel levy fund	55,000,508	56,519,885	56,519,885	0	100
Refunds from the national Government	-	200,000,000	200,000,000	0	100
Local Revenue	1,488,358,136	1,082,000,000	709,554,435	(372,445,565)	66
Total Revenue	**6,284,210,040**	**6,277,548,716**	**5,891,971,339**	**(385,577,377)**	94
Salaries & Wages	2,813,301,016	2,852,247,375	2,709,954,968	(142,292,407)	95
O&M/ Others	1,473,452,677	1,567,363,574	1,249,005,239	(318,358,335)	80
Development	1,997,456,347	1,857,937,767	1,162,398,537	(695,539,230)	63
Total Expenditure	**6,284,210,040**	**6,277,548,716**	**5,121,358,744**	**(1,156,189,972)**	82

Source: County Treasury

9. In the table 1 above, Kshs. 5,664,988 was the balance brought forward from financial year 2014-2015. The county was also received Ksh. 4,449,219,647 as equitable. Nyeri Level V Hospital received Ksh.368, 620,571 as a conditional grant while the health centers and dispensaries benefited with Ksh 22,930,000 from Danida.

10. Local revenue collection totaled Kshs 709,554,435. The county also received Ksh 63,295,000 as Free Maternity Fees, Ksh. 16,166,813 as User fees foregone disbursed from the Ministry of Health into the County Revenue Fund Account and Kshs. 56,519,885 from the Kenya Road Board for maintenance of roads. An amount of Kshs. 200,000,000 which had been erroneously deducted from the FY2014/15 disbursement by the National Treasury was released in the FY2015/16 and thus part of revenue to finance the budget.

Table 2: Performance of Recurrent Budget in FY 2015/2016

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	547,580,707	567,580,707	512,171,883	(55,408,824)	90
Office of the Governor	81,066,924	106,874,442	73,094,564	(33,779,878)	68
County Secretary	110,811,352	145,080,596	115,102,587	(29,978,009)	79
Public Administration, Information and Communication	416,335,949	420,580,785	379,102,587	(41,478,198)	90
Finance and Economic Planning	262,008,880	345,052,950	261,861,669	(83,191,281)	76
Agriculture, Livestock Development and Fisheries Development	296,488,588	306,499,780	258,130,486	(48,369,294)	84
Water, Forestry and Wildlife, Environment and Natural Resources	136,804,000	134,144,141	92,046,210	(42,097,931)	69
Education and ICT	54,093,002	69,819,787	50,439,167	(19,380,620)	72
Health Services and Sanitation	2,014,297,388	1,914,297,274	1,855,316,856	(58,980,418)	97
Lands and Infrastructure Development	107,554,835	114,054,835	93,025,828	(21,029,007)	82
Trade, Culture, Industrialization, Co-operative Development and Tourism	75,282,976	81,282,976	36,443,984	(44,838,992)	45
Special Programmes	71,221,428	76,171,428	50,263,020	(25,908,408)	66
Energy	78,850,000	100,849,019	71,842,862	(29,006,157)	71
County Public Service Board	34,357,664	37,322,229	30,348,887	(6,973,342)	81
Un-journalized salaries			79,769,617	79,769,617	
TOTAL	**4,286,753,693**	**4,419,610,949**	**3,958,960,207**	**(460,650,742)**	**90**

Source: County Treasury

Table 3: Performance of the Development Budget in FY 2015/2016

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	155,000,000	90,000,000	30,672,225.75	(59,327,774.25)	34
County Secretary		5,000,000	4,954,894.80	(45,105.20)	99
Public Administration, Information and Communication	43,000,000	30,000,000	16,697,260.90	(13,302,739.10)	56
Finance and Economic Planning	210,877,245	182,377,245	113,426,674.00	(68,950,571.00)	62
Agriculture, Livestock Development and Fisheries Development	111,668,532	94,048,955	44,551,082.60	(49,497,872.40)	47
Water, Forestry and Wildlife, Environment and Natural Resources	146,662,780	145,662,780	99,879,963.55	(45,782,816.45)	69
Education and ICT	138,771,730	134,670,692	104,875,659.00	(29,795,033.00)	78
Health Services and Sanitation	281,492,571	273,162,876	197,512,195.20	(75,650,680.80)	72
Lands and Infrastructure Development	599,852,127	633,417,653	429,975,568.00	(203,442,085.00)	68
Trade, Culture, Industrialization, Co-operative Development and Tourism	164,598,823	152,193,020	37,119,448.60	(115,073,571.40)	24
Special Programmes	40,439,929	32,365,216	7,857,393.00	(24,507,823.00)	24
Energy	100,092,610	85,039,330	74,876,171.60	(10,163,158.40)	88
County Public Service Board	5,000,000	0	0	0	0
TOTAL	**1,997,456,347**	**1,857,937,767**	**1,162,398,537.00**	**(695,539,230)**	63

Source: County Treasury

The fiscal performance was generally impressive though under the development vote 63 percent was not the expected results. The poor performance under this vote is attributed, to some extent, to delays in disbursement of funds and also end - to - end procurement process (e-procurement).

Revenue

11. Total revenue received amounted to Kshs. 5,891,971,339 compared to the target in the budget of Ksh 6,277,548,716. This represent a revenue shortfall of Kshs 385,577,377. Local revenue collection totaled Kshs 709,554,435 against the target of Kshs 1,082,000,000 reflecting an under collection of Kshs 372,445,565 for the period under review. This, compared to FY 2014/2015 performance represent a 4.24% increase from Kshs. 680,700,067.

The increase in local revenue collection can be attributed to the issuance of waiver on land rate penalties by the County Government and enhancement of the cashless system which sealed some of the leakages. The land rates collected in the month of June, 2015 was Kshs. 10,180,964 as compared to Kshs **26,225,187** achieved during the month of June, 2016, the waiver period.

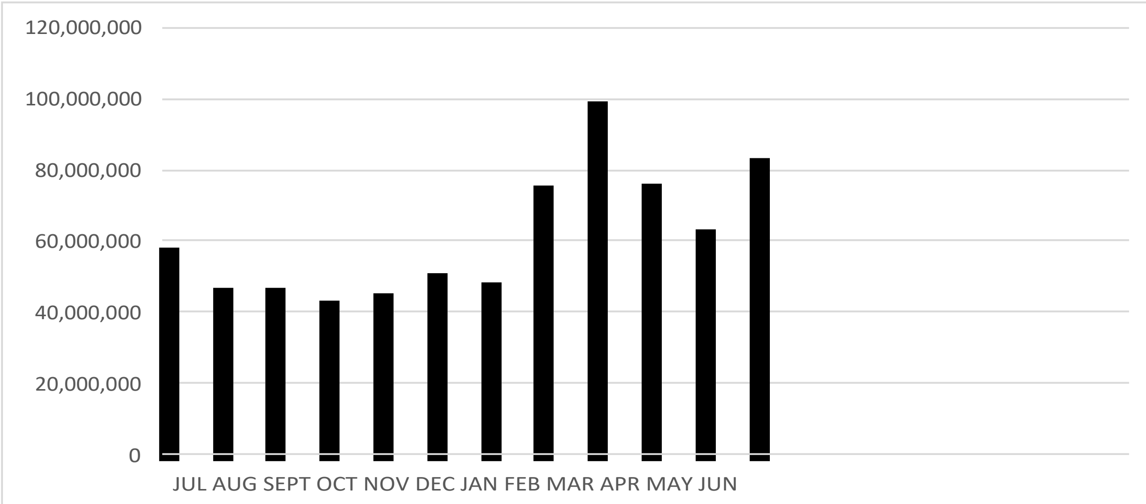
Table 4: Local Revenue Performance – FY 2015/16

ACCOUNT DESCRIPTION	BUDGET KSHS.	ACTUAL KSHS.	PERCENTAGE ACHIEVED	DEVIATION KSHS.
DEPARTMENT OF PUBLIC ADMINISTRATION & ICT.				
Liquor License	47,889,046	35,391,800	73.9	(12,497,246)
AGRICULTURE, LIVESTOCK FISHERIES AND COOPERATIVE DEVELOPMENT				
Co-operative Audit	1,574,622	1,724,300	109.5	149,678
Agricultural Mechanization Station	1,928,200	1,854,400	96.2	(73,800)
Wambugu Agricultural Training Centre	8,834,136	5,617,416	63.6	(3,216,720)
Veterinary Charges	5,743,179	3,858,302	67.2	(1,884,877)
Slaughtering Fees	3,751,267	2,434,115	64.9	(1,317,152)
Slaughter House Inspection Fees	630,484	1,009,140	160.1	378,656
Sale of Fertilizer	0	2,993,500		2,993,500
Coffee Cess	392,000	0	0.0	(392,000)
TRADE, INDUSTRIALIZATION & TOURISM				
Weights and Measures	1,182,944	975,000	82.4	(207,944)
Business Permits	161,954,610	94,132,281	58.1	(67,822,329)
Market Entrance/Stalls/Shop Rents	87,721,130	35,805,344	40.8	(51,915,786)
Bed Occupancy	0	40,920		40,920
Ambulant Hawkers Licenses (Other than BSS Permits)	1,301,430	342,440	26.3	(958,990)
Impounding Charges/Court Fines, penalties, and forfeitures	4,003,200	5,150,180	128.7	1,146,980
Customers Deposits (Other than Water & Sewerage)	970,075	675,625	69.6	(294,450)
Application Fee	23,487,754	14,827,185	63.1	(8,660,569)
Business Subletting / Transfer Fee	394,660	37,800	9.6	(356,860)
HEALTH AND SANITATION SERVICES				
Hospital Services	278,859,938	205,117,487	73.6	(73,742,451)
Public Health	46,395,572	6,889,140	14.8	(39,506,432)
Burial Fees	142,660	114,700	80.4	(27,960)
Public Toilets	551,264	174,125	31.6	(377,139)
Garbage Dumping Fee/waste disposal charges	72,800	1,202,910	1,652.3	1,130,110
Refuse Collection Fee	42,647,173	30,174,439	70.8	(12,472,734)
FINANCE & ECONOMIC PLANNING				
Miscellaneous Income	702,520	572,285	81.5	(130,235)
Interest from Investments	2,530,110	90,022	3.6	(2,440,088)
Cheque Clearance Fee	350	5,900	1,685.7	5,550
Document Search Fee	264,040	240,700	91.2	(23,340)
Tender Documents Sale	2,911,020	9,000	0.3	(2,902,020)
PUBLIC WORKS, ROADS,TRANSPORT, LANDS, HOUSING & PHYSICAL PLANNING				
Parking Fees	143,436,072	94,386,627	65.8	(49,049,445)
Parking Clamping/Penalties/Offences fees	0	2,704,060		2,704,060

ACCOUNT DESCRIPTION	BUDGET KSHS.	ACTUAL KSHS.	PERCENTAGE ACHIEVED	DEVIATION KSHS.
Land Rates	87,721,637	72,805,582	83.0	(14,916,055)
Other Property Charges	737,597	573,707	77.8	(163,890)
Ground Rent - Current Year	4,405,532	2,527,210	57.4	(1,878,322)
Ground Rent - Other Years	3,086,009	2,590,515	83.9	(495,494)
Stand Premium/Commissioner of Lands	83,000	0	0.0	(83,000)
Temporary Occupation License (TOL),New occupation, Space Rent, Retainers fees	2,394,000	1,582,171	66.1	(811,829)
Plot Transfer Fee	1,268,000	1,185,100	93.5	(82,900)
Cess (Quarry, produce, Kaolin, etc)	37,269,376	24,484,833	65.7	(12,784,543)
Housing Estates Monthly Rent	16,911,457	14,142,698	83.6	(2,768,759)
Housing Estates Monthly Rent (Kiawara, Majengo & Kingongo ph. 3)	1,834,295	1,217,759	66.4	(616,536)
Approvals(extension of users, pegging for Kiosk, subdivision, transfer, amalgamation, survey, Occupation cert, boundary dispute etc)	3,342,500	1,074,300	32.1	(2,268,200)
Sign Boards & Advertisement Fee	23,269,444	17,707,388	76.1	(5,562,056)
Buildings Plan Approval Fee	13,216,766	7,349,274	55.6	(5,867,492)
Buildings Inspection Fee	3,643,348	2,327,760	63.9	(1,315,588)
Right-of-Way / Way-Leave Fee (KPLN, Telkom, etc.)	1,680,000	1,640,880	97.7	(39,120)
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,693,220	1,327,100	78.4	(366,120)
Agency Fee (Fees from KHC, Insurance Firms, etc.)	13,703	1,184,125	8,641.4	1,170,422
Sales of Council's Minutes / Bylaws	396,960	193,000	48.6	(203,960)
Sale of Old Office Equipment and Furniture	0	2,252,000		2,252,000
Benevolent Fund	1,776,600	1,056,500	59.5	(720,100)
Debts Clearance Certificate Fee	2,774,320	2,084,400	75.1	(689,920)
Fire-Fighting Services	1,752,800	57,300	3.3	(1,695,500)
DEPARTMENT OF GENDER, CULTURE AND SOCIAL DEVELOPMENT				
Social Hall Hire	133,420	154,000	115.4	20,580
Stadium Hire	1,552,800	810,000	52.2	(742,800)
EDUCATION,YOUTH AFFAIRS,SPORTS AND ICT				
Nursery Schools Fee (KRT)	300,000	286,790	95.6	(13,210)
Nursery Schools Fee(Kingongo)	216,160	210,950	97.6	(5,210)
Nursery Schools Fee (Nyakinyua)	198,800	177,950	89.5	(20,850)
Registration of School, Training/Learning Center Fee	56,000	0	0.0	(56,000)
TOTAL LOCAL SOURCES	**1,082,000,000**	**709,554,435**	**65.6**	**(372,445,565)**

Source: County Treasury.

Performance of Revenue from July 2015to June 2016 (Amounts in Kshs.)



12. As indicated in the above bar chart, the months of February, March, April, May and June recorded the highest levels of local revenue collection. This was attributed to the fact that the Single Business Permits, being a major revenue stream, are renewed at the beginning of the year. The County Government also gave a waiver for penalties on land rates during the month of June, 2016. During the month of October the county recorded the lowest level of revenue collection since there are no major activities conducted or deadlines during this period.

Expenditure

13. Total expenditure amounted to Kshs 5,121,358,744 against a budget of Ksh 6,277,548,716. Recurrent expenditure amounted to Kshs 3,958,960,207 against a budget of Ksh 4,419,610,949 representing an underspending of Kshs 460,650,742. Development expenditure incurred amounted to Kshs 1,162,398,537 compared to a revised estimate of Ksh 1,857,937,767. The underspending can be attributed mainly to the late release of funds from the National Treasury and the shortfall in local revenue collection to finance all the budget requirements.

C. Fiscal performance of the FY 2015/2016 in relation to fiscal responsibility principle and financial objectives

14. The fiscal performance in the FY 2015/16 has affected the financial objectives set out in the 2016 CFSP and the Budget for FY 2016/17 in the following ways:

15. Revenue projections will remain on a straight line trajectory based on the recent revenue collection trends and taking into account the narrow revenue base being experienced. It is our hope that the approval of the audited accounts of the 2014/15 financial year by the National Assembly will most likely increase the equitable share to the county to counter the ever increasing demand on development expenditure.

16. The projected revenue and expenditure is broadly in line with the outcomes of the FY 2015/16 and as such there will be no significant adjustments in the fiscal aggregates for the current budget. However, adjustments will be introduced on fiscal aggregates to reflect revisions in the macroeconomic projections as well as revenue performance for the first three months of FY 2016/17.

17. The County Government has prioritized the following development strategies: improvement of infrastructure (roads, bridges and, energy) to encourage growth of competitive industries; provision of water for both domestic and irrigation purposes; undertaking of various reforms to drive agriculture so as to ensure food security, increase quality and diversification of exports, create jobs and reduce poverty; prioritizing investment in quality and accessible health care services; and ensuring adequate support for the most vulnerable in our society who include the women, youth and the disabled.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

18. In determining the county’s medium term strategic objectives, it is also necessary to factor in how the changes in the national front on economic and financial trends will impact the county’s current priorities as contained in the County Fiscal Strategy Paper, 2016.

19. Nyeri County is predominantly an agricultural county with tea, coffee and horticulture as the main sources of household incomes. It is therefore imperative to note that major changes in economic and financial trends in the country can affect the expenditure trends by the County Government in the future. Undesired shift in expenditure trends due to economic shocks will delay the development agenda of the county. These economic changes like inflation and exchange rates, will most likely affect the value of the county’s products.

20. Thus how the country plans to manage these exogenous shocks will determine how much the county's economy grows. It is unfortunate that the incidences of such shocks are ultimately borne by the hard-working coffee, tea and horticultural farmers in the county. Further, the county will upscale investment in irrigation projects and modern farming techniques to reduce dependence on rain fed agriculture and cushion the county from adverse effects of drought.

A. Recent National Economic Developments

21. Kenya's macroeconomic performance remains strong in the face of headwinds, supported by significant infrastructure investments, mining, and lower energy prices. Growth remains robust, despite the adverse impact on tourism challenges. Inflation is within our target band, despite the impact of higher food prices in the recent past, due to the coming on board of the low-cost geothermal energy and lower oil prices.

22. Going forward, the macroeconomic outlook remains favourable although risks remain. Some of the challenges include, among others, insecurity, pressures on expenditures especially recurrent related expenditures, the sporadic weather conditions that might disrupt economic activities and external risks particularly on the uncertainty in the international oil market. The government will closely monitor the developments and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

23. Kenya's national economy started the year on a solid footing, with annual GDP growth ticking up at the start of the 2016. Particularly positive results were noted in tourism sector which showed strong signs of recovery after a long struggle, and in electricity, which benefitted from improvements in power supply. On the fiscal front, the government's plan to cut back spending in FY 2017/2018 was welcome news as Kenya's widening fiscal deficit and high borrowing costs raised concerns on debt sustainability.

24. Kenya's growth prospects are bright on expectations of infrastructure development, moderate household consumption and easing monetary policy. Nevertheless, the country's large twin deficits and political instability ahead of next year's election bear risks for the economy. Focus economics panelists forecast that the economy will grow at 5.9% this year, which is unchanged from last month's projection. Next year, the panel sees GDP growth will be accelerating towards 6.0%.

25. Consumer prices in Kenya rose to 6.4 percent year-on-year in July of 2016, after a 5.8 percent increase in the preceding month. It was the highest percentage since March 2016, boosted by higher food prices. Looking forward, we estimate Inflation Rate in Kenya to stand at 5.67 in 12 months' time. In the long-term, the Kenya Inflation Rate is projected to trend around 5.90 percent based on existing operational econometric models.

26. In 2016, The Central Bank of Kenya (CBK) kept Central Bank Rate (CBR), at 10.50% on 25 July after having cut it by 100 basis points in May. This decision was aimed at keeping inflation in check. A temporary rise in food prices caused inflation to increase in June, while July's surge in fuel taxes will likely add to inflationary pressures in the coming months.

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

B. County Recent Economic Developments

28. In the last three years, the transformation of the Nyeri County economy has started to take shape as more than 652 Kms (out of the 1,252 Kms of earth surface in the County) of roads have been graveled and now services can reach our people easily and farm produce can reach the markets with ease.

29. The purchase and installation of modern medical equipment at Nyeri Referral Hospital has significantly reduced the burden of health care for our people. Provision of adequate drugs, ambulances and strengthening of community health outreach reaffirms our commitment in addressing the health concerns of our people.

30. Value addition on our agricultural products has continued to receive great attention in order to improve the livelihoods of farmers in the county who constitute 85 per cent of our population. In the recent past Wakulima Dairy was supported with Kshs. 26m to establish a yoghurt production line with a capacity of 5,000 liters per day and this was not in vain as more than 10,000 families in the county are benefitting from this investment, thus earning higher incomes.

31. The county also continued to invest in extension services and so far more than 7,000 farm visits have been attained together with 592 demonstrations. A lot has also been achieved towards improvement in coffee marketing but more support is required in milling and warehousing.

32. Through the department of agriculture, the county government has continued to provide subsidized fertilizer and seeds in order to improve yield and output for our farmers. These are distributed to the subsistence farmers in order to reduce the cost of their farm inputs.

33. The process of installing an Integrated Performance Management System and an Automated Dash Board to account for every employee's productivity is almost complete. By so doing services to the public will improve, reduce wastage of resources thus leading to increased local revenue.

34. In the FY 2015/2016 the government provided Kshs. 90m as bursary, under the Elimu fund, where more than 10,000 children from poor backgrounds have benefited. This is a continuous programme which will continue each and every year.

35. In collaboration with NHIF a total of 4071 vulnerable members of our society have benefited with the county programme of Bima-Afya. The beneficiaries medical needs for the common diseases are provided in our public health facilities as we continue encouraging Nyeri residents to acquire medical insurance covers whether as a group or as individuals.

36. Alcoholism being a major challenge in our county as young people continue to waste their talents and energies has also been addressed through rehabilitation of the addicts who undergo counseling and formation/strengthening of support groups within the established counselling center at Karia Health center.

D. Economic Outlook

Growth prospects

37. The Gross Domestic Product (GDP) grew by 5.6 per cent in 2015 compared to 5.3 per cent growth in 2014. This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and financial and insurance. However, growths in mining and quarrying; information and communication; and wholesale and retail trade decelerated during the same period. Accommodation and food services was the only sector whose growth contracted by 1.3 per cent which was however an improvement from the previous year decline of 16.7 per cent.

Inflation outlook

38. Inflation rate in Kenya as measured by Consumer Price Index (CPI) declined from 6.9 per cent in 2014 to 6.6 per cent in 2015 and further to 5.6 by May 2016. The easing of inflation rate was largely due to reduced cost of petroleum products, electricity and tight monetary policies

39. Inflation Rate is expected to be 6.50 percent by the end of the first quarter of the FY 2016/2017, according to Trading Economics global macro models and analysts' expectations. Looking forward, we estimate Inflation Rate in Kenya to stand at 5.67 at the end of FY 2016/17. In the long-term, the Kenya Inflation Rate is projected to trend around 5.90 percent in 2020, according to our econometric models.

40. As a county, we remain optimistic of improved performance, in all sectors, as the national economy attained a growth rate of 5.6 percent in 2015 and is projected to grow at a rate of between 6.0 per cent and 7.0 per cent in 2016 and 2017 respectively. Further, inflationary pressures were contained at 5.0 percent in May 2016, and it has been on a steady decline as the short term interest rates of the 91-day Treasury bill was at only 7.5 percent in early June. This gives hope to Nyeri producers as there will be market for their products and also employment for the youth as the national economy continues to expand.

41. For our county to partake in economic growth and remain at par, the county will continue to improve the business environment, enhance the quality of transport infrastructure and access to electric energy, reduce dependence on rain fed agriculture, improve the quality of health care and support the vulnerable segments of our society.

E. Medium Term Fiscal Framework

42. The fiscal policy objective aims at supporting rapid economic growth and ensuring the debt position remains sustainable while at the same time supporting the devolved system of government for effective delivery of public goods and services.

43. Fiscal policy will support growth within a sustainable path of public spending by maintaining the county expenditures within the budget limits. Therefore, moderation in county expenditures will help assure debt sustainability and intergenerational equity in line with the Constitution of Kenya, 2010 and the fiscal responsibility principles in the PFM Act, 2012. Meanwhile, efficiency and economical spending of County Government resources will be enhanced to create room for critical interventions and pro-poor spending.

44. The county will also ensure full compliance with the national standards and existing legislations to avoid litigations touching on financial administration and management that may delay development and generate possible sanctions impacting negatively on the county financial systems.

45. The E-procurement will ensure prudence in spending by automatically controlling the commitments based on available resources. Further, through the E-procurement, competition among the suppliers will ensure the government gets value-for –money.

46. The county will continue seeking development partners (World Bank and UNDP) support in strengthening county taxation, constitutional implementation and revenue collection. The County Government will continue to provide capacity building to the county personnel on financial management and prudence. Citizens' engagement and public participation will be improved to accelerate good working relations and minimize conflicts in county taxation and revenue collection, legislation and business. Therefore, there is need to enhance business activities, investment, revenue mobilization while focusing more on development agenda and cost reduction.

47. In the medium term a revenue collection and credit management policy will be developed and enacted. The enforcement team will also be restructured while all the petitioners will be approached to settle issues of misunderstanding out of court for mutual benefit.

48. Further, in an attempt to reduce the pressures on the budget, the county government will continue to seek external funding from bilateral and multilateral donors such as UNDP, USAID among others, either individually or through the Council of Governors.

F. Risks to the Fiscal Framework

49. Although the growth of the county's economy is promising, it is still prone to both macro and micro risks. The macroeconomic management and performance of the sectors under the National Government has an effect on how the sectors of the county perform.

50. The risk that affect the country's economy that will have an impact on the performance of the county economy include;

i. The continued weak growth in advanced economies that will impact negatively on Kenya's exports and tourism activities. The main cash crops in the county include coffee, tea and horticulture are mainly for export to the western economies.

ii. The vulnerability to the Kenya's macroeconomic stability as a result of high current deficit has an effect on sustained economic growth. Low country's economic growth will have a negative impact on the growth of the county economy.

51. Public expenditure pressures especially recurrent expenditures pose fiscal risks. With the commitment to improve infrastructure within the county, the share of resources going to the county's flagship programme of infrastructure development will rise over the medium term.

52. Although agriculture is the main driver of the county economy it is faced with unpredictable and sporadic weather patterns and therefore greater attention need to be taken and structures put in place to address overreliance on rain fed production.

53. Weak revenue base thereby leading to over-reliance on the equitable share from national resources coupled with the uncertainty in the proportion of the county allocation is a major risk to this framework. There is also the risk of low resource absorption mainly caused by delays in releasing of funds from the National Treasury as was the case in the FY 2015/2016.

54. The capacity of the staff in resources management and mobilization, monitoring and evaluation and reporting is a risk to the framework. The government will continue building the capacity of the staff while enlisting the support of the national institutions in assessing the risk areas in budget implementation.

55. The county will take appropriate measures to safeguard the stability of the county economy. However, if the above risks materialize, the county shall revise the medium term departmental ceilings during the preparation of the CFSP, 2017.

56. The continued delay in the enactment of the FY 2016/2017 Appropriation Act will enormously affect budget absorption and thus continued poor performance in development activities.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2016/17 Budget

57. The fiscal framework for FY 2016/17 aims at striking an appropriate balance between support for growth and continued fiscal discipline. The county will continue to enhance fiscal discipline by putting emphasis on efficiency and effectiveness of public spending and improving revenue performance. Considering the tight fiscal position and the assumptions underpinning the medium term fiscal framework for FY 2016/17, we must contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012.

58. Adjustments to the 2016/17 budget will take into account the actual performance of expenditure so far and absorption capacity in the remainder of the financial year. Because of the resource constraint, the county will rationalize expenditures by cutting those that are non-core. These may include reprioritizing development expenditures in order for the county to live within its means. However resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

59. Any recruitments, promotions and reviews of salaries and benefits for the county public officers will be conducted by the County Public Service Board (CPSB) in consultation with Salaries and Remuneration Commission (SRC).

60. The county has identified key strategic directions across all departments to accelerate economic growth for social economic transformation and prosperity. The main areas being supported are agricultural productivity, improved access to quality health care and clean water, expanding access to affordable energy, empowering the youth and promoting early childhood education and facilitating infrastructural development

61. Further, adjustment to the budget will be guided by the County Integrated Development Plan (CIDP) 2013-2017, annual development plan 2016/2017 and departmental strategic plans, as this will ensure that the expenditure rationalization process (prioritization and reprioritization) is aligned to the development agenda of the county. Rationalization of expenditure will be guided by the actual/availed exchequer disbursements, local revenue collection, revised timeframes for implementation of programmes and emerging issues. However, county strategic priority areas such as the flagship programmes and projects would always have higher allocation of resources.

62. During adjustments, legal apportionment between the recurrent and development expenditures will always be taken into consideration as spelt out in the PFM Act 2012. According to the provisions of the PFM Act Section 107(2) (a), it is stated that, ―*the county government's recurrent expenditure shall not exceed the county government's total revenue*‖. In section 107(2) (b), it is added that, ―*over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*. Reference to the legal framework will ensure compliance to all statutory requirements in handling of public funds.

B. Medium-Term Expenditure Framework (MTEF)

63. Going forward, and in view of the county's economic outlook, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County Integrated Development Plan (CIDP) 2013-2017, the Annual Development Plan together with the department's sectoral plans will guide the resource allocation. Enhancement of public participation in setting up of priorities will ensure increased ownership of development process by the public.

64. Resource allocation will continue to be aligned to development programmes under the five broad areas of the county's economic transformation. The FY 2016/17 MTEF Budget will therefore focus on the following:

- Investment in health, through highly motivated staff and availability of medicine and ambulance services, whenever needed, and shifting from curative to preventive services especially for the non-communicable diseases.
- Upgrading the road network by removing encroachments and gravelling them to all weather standards.
- Increasing production, value addition and guaranteed market for all our agricultural products.
- Creating a conducive business environment that encourages innovation, investment and growth.

- Providing clean domestic and irrigation water to control water borne diseases and increase the area under irrigated farming.

65. Resources required for these interventions are planned for in the CIDP and ADP 2016-2017. In the FY 2016/17, Ksh 6,464,561,041 has been projected as the county budget up from Ksh 6,277,548,716 in FY 2015/16, which reflects a 2.98 percent increase.

Table 5: MTEF Ceilings

66. Reflecting on the above medium-term expenditure framework, the table 5 below provides the projected baseline ceilings for the 2015/16-2018/19 MTEF budget, classified by departments including ceilings as per the County Fiscal Strategy Paper (CFSP) 2016.

Department/ Spending Unit	**2015/2016**	**2016/2017 (Proposed Ceilings)**			**2017/2018**	**2018/2019**
		Recurrent	**Development**	**Total**	**Total**	**Total**
County Assembly	657,580,707	567,580,707	50,000,000	617,580,707	648,459,742	680,882,729
Office of the Governor	106,874,442	131,874,442	0	131,874,442	138,468,164	145,391,572
County Secretary	150,080,596	152,080,596	15,000,000	167,080,596	175,434,626	184,206,357
Public Administration, Information and Communication	450,580,785	400,580,785	30,000,000	430,580,785	452,109,824	474,715,315
Finance and Accounting	527,430,195	176,050,475	180,000,000	356,050,475	373,852,999	392,545,649
Economic Planning, Monitoring and Evaluation		142,157,000	8,377,247	150,534,247	158,060,959	165,964,007
Agriculture, Livestock Development and Fisheries Development	400,548,735	323,499,780	107,413,563	430,913,343	452,459,010	475,081,961
Water, Forestry and Wildlife, Environment and Natural Resources	279,806,921	134,144,141	149,759,555	283,903,696	298,098,881	313,003,825
Education ICT Trade and Industrialization	204,490,479	135,476,680	363,879,373	499,356,053	524,323,856	550,540,049
Health Services and Sanitation	2,187,460,150	1,919,297,274	283,162,876	2,202,460,150	2,312,583,158	2,428,212,315
Lands and Physical Planning	747,472,488	54,346,469.00	39,700,000	94,046,469	98,748,792	103,686,232
Infrastructure Development		59,708,366.00	513,717,653	573,426,019	602,097,320	632,202,186
Tourism and Culture	233,475,996	9,626,083	40,484,339	50,110,422	52,615,943	55,246,740
Special Programmes	108,536,644	107,760,560	32,365,216	140,125,776	147,132,065	154,488,668
Energy	185,888,349	103,570,691	96,978,490	200,549,181	210,576,640	221,105,472
County Public Service Board	37,322,229	40,868,680	0	40,868,680	42,912,114	45,057,720
Total	**6,277,548,716**	**4,458,622,729**	**1,910,838,312**	**6,369,461,041**	**6,687,934,093**	**7,022,330,798**

67. The County budget for Financial Year 2016/17 was prepared by the County Department of Finance and Economic Planning in consultation with various department and relevant stakeholders before being submitted to the County Assembly for approval.

C. 2016/17 Budget framework

68. The FY 2016/17 budget framework is set against the background of constrained resources. The county economy is expected to be boosted by increased investment in key infrastructure through public private partnerships in various sectors. Inflation is also expected to remain low and stable, reflecting stable food and oil prices as well as low cost of doing business.

Revenue projections

69. The FY 2016/2017 budget of Kshs. 6,464,561,041 will be financed through the equitable share from the national resources with an allocation of Kshs. Kshs. 4,800,764,767, Conditional grants of Kshs. 568,695,274 and internally generated revenue estimated at 1,095,101,000. The main sources of internally generated revenue will be parking fees, single business permits and land rates.

Expenditure Forecasts

70. In FY 2016/17, recurrent expenditures are projected at 69.97 percent of county's annual budget, i.e. Ksh 4,523,200,390 as compared to Kshs 4,419,610,949 for the FY 2015/16 budget., Development expenditures are projected at 30.03 percent of county's annual budget, Ksh 1,941,360,651 as compared to Kshs 1,857,937,767 for the FY 2015/16 budget on account of devoting more resources to development as required under the PFM Act.

71. Expenditure ceilings on goods and services for departments are based on allocations in the FY 2015/16 budget as the starting point. Stringent measures need to be put in place to ensure more resources are allocated to development expenditure over the medium term for attainment of the PFM Act, 2012 minimum requirement of thirty percent. Most of the outlays are expected to support critical infrastructure.

V. CONCLUSION AND NEXT STEPS

72. The proposed ceilings for the departments during the FYs 2017/2018- 2019/2020 are based on the approved County Fiscal Strategy Paper, 2016. Once the appropriation act, 2016, is enacted, future planning and budgeting documents will apply the approved figures as the bases of projecting the ceilings.

73. The FY 2017/18- 2019/20 MTEF scenario presented in this CBROP is developed for posterity taking into account the key policy challenges facing the county as a whole. It is therefore marked by moderate growth in overall expenditure, taking into account the economic outlook and the need to maintain fiscal discipline in all levels of the county government for maximum return from public resources. The policies, therefore, are broadly in line with the fiscal responsibility principles outlined in the PFM law.

74. Going forward, the set of policies outlined in this document ensures continuity in optimal resource allocation based on prioritized programs that have been earmarked by the government to accelerate growth, create employment and poverty reduction.