

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF NYERI**

**DEPARTMENT OF FINANCE AND ECONOMIC PLANNING**

**COUNTY BUDGET REVIEW AND OUTLOOK  
PAPER**

**2018**

**SEPTEMBER, 2018**

# **TABLE OF CONTENTS**

FOREWORD .....	3
ACKNOWLEDGEMENT .....	4
INTRODUCTION .....	7
Background .....	7
Objectives of CBROP .....	7
REVIEW OF FISCAL PERFORMANCE IN 2017/18 .....	8
A. Overview .....	8
B. 2017/18 Fiscal Performance.....	8
Revenue Performance .....	8
Expenditure Performance.....	12
C. Fiscal performance of the FY 2017/2018 in relation to fiscal responsibility principles and financial objectives .....	14
A. Recent National Economic Developments.....	17
B. County Recent Economic Developments.....	18
C. Economic Outlook.....	21
Growth prospects .....	21
Inflation outlook.....	21
Medium Term Fiscal Framework.....	22
Risks to the Fiscal Framework.....	24
IV. RESOURCE ALLOCATION FRAMEWORK.....	25
A. Adjustment to 2018/19 Budget .....	25
B. Medium-Term Expenditure Framework (MTEF) .....	27
C. 2018/19 Budget framework.....	28
<i>Revenue projections</i> .....	28
<i>Expenditure Forecasts</i> .....	29
V. CONCLUSION .....	29

## FOREWORD

The Nyeri County Budget Review and Outlook Paper (CBROP) is developed in accordance with section 118 of the Public Finance Management Act, 2012. The CBROP, 2018, provides information on recent economic and financial projections with adequate information that will guide the development of budget proposals for the coming fiscal year. It likewise analyses the preceding year's financial plan and gives an outlook for the forthcoming financial year.

In analyzing the fiscal performance, this paper reviews the performance of the county revenue in the FY 2017/18. The paper has also incorporated the aggregate income collected in contrast with the anticipated sum for the year. The review additionally incorporates the performance of county expenditure for the period under appraisal.

This document has additionally given an overview of how the actual performance of the FY 2017/18 has affected the financial objectives as detailed in the County Fiscal Strategy Paper (CFSP), 2017. The foreseen performance of the FY 2018/19 spending will build the foundation for projecting the FY 2019/20 spending plan in view of current economic developments. It is projected that the anticipated income and expenditure for 2018/19 will be accomplished through strict controls on expenditure levels and improved revenue mobilization and collection measures. This will be accomplished through prudent financial management to guarantee appropriate administration of public resources and delivery of expected outputs. Income streams will be probed to realize the determinants behind the failure to achieve the set objectives in 2017/2018 with the goal of putting in place corrective measures during this financial year.

To guarantee transparency and accountability the executive will communicate the performance indicators to all stakeholders in accordance with the Kenya Constitution 2010 and Public Finance Management Act, 2012. This communication will ensure that all the stakeholders are up-to-date with all the development programmes being executed in the county through a quarterly projects' implementation status reports.



**Robert Thuo Mwangi.**  
**County Executive Committee Member**  
**Finance and Economic planning**

## ACKNOWLEDGEMENT

The 2018 Nyeri County Budget Review and Outlook Paper (CBROP) is set up as per the requirements of the Public Finance Management (PFM) Act, 2012. The paper is expected to enhance the general population's understanding of the county's public funds and expenditures subsequently guiding open discussion on matters pertaining to economic planning and budgeting.

The County Government is focused on the continued enhancement of its resource management capacity, raising its own revenue and establishing effective governance in all public offices. The county government will keep on implementing priority programs in an effort to increase its economic output, productivity, and broad economic efficiency for comprehensive and sustainable development.

The compilation of the CBROP, 2018 was a coordinated effort of all county departments who provided valuable and credible departmental information for inclusion in this paper. We value their contributions to this noble course which is an essential step in the preparation of the county budget. Exceptional gratitude goes to the Executive Office of the Governor and Deputy Governor, the County Secretary, the County Executive Committee Members, Chief Officers, County Directors and other county authorities who offered their support during the preparation of this document.

Being the County Treasury's responsibility to oversee and ensure timely preparation and submission of the CBROP, a team from the department of Finance and Economic Planning spent valuable time to ensure the successful completion of this document. These officers included Gibson Mwangi, Chris Gathogo, Damaris Gichuhi, Monicah Njau and Germano Wangómbe whose immeasurable effort and commitment contributed to the fruitful conclusion of the CBROP, 2018. Special regards also go to Joseph Mugi, Budget Coordinator- Nyeri County, for his invaluable input. To everyone who made this exercise a reality, I thank you and assure you that the time spent was not in vain as the CBROP will be of insurmountable importance to the future planning and budgeting process.



**Francis Maranga Kirira**  
**Chief Officer - Economic Planning, Budgeting, Monitoring and Evaluation**

**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 30<sup>th</sup> 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 developed as per the requirements of section 118 of the Public Finance Management Act, 2012. The Act mandates every county to prepare a CBROP by 30<sup>th</sup> September of every fiscal year and submit the same to the County Executive Committee (ExCom). The ExCom 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 ExCom has 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 aims of this County Budget Review and Outlook Paper is to provide;
- An evaluation of the county fiscal performance in the financial year 2017/18 in comparison to the appropriation of the same year and its impact on the county's economic performance
  - An up to date economic and financial prediction with adequate information to demonstrate changes from the forecasts in the County Fiscal Strategy Paper, 2018.
  - An explanation and sufficient reasons to justify any deviations from the objectives defined in the CFSP as well as detailed proposals and time frame estimates to deal with such deviations.
3. The CBROP will provide the basis for linking up of policy, planning and budgeting. The document will be embedded on the Kenya's Vision 2030, Medium Term Plan III (MTP) priorities, the National Big Four agenda, Sustainable Development Goals and the County Integrated Development Plan (CIDP) 2018-2022. Sector Working Groups will be established and facilitated to conduct performance appraisals of programs currently being executed within the county and also identify and prioritize programs for the Medium-Term period of FY 2019/20 – FY 2021/22.
4. The updated outlook will thereafter be firmed up in the County Fiscal Strategy Paper (CFSP), 2019 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 28<sup>th</sup> February 2019.

## REVIEW OF FISCAL PERFORMANCE IN 2017/18

### A. Overview

5. In the FY 2017/18, the County Government encountered several challenges during the budget implementation process. First, the projected revenue for the period under review was not met. Despite the shortfall, an 18.2 percent increase from previous year's collections was recorded as result of the various reasons detailed in this paper. Additionally, the huge amount of pending bills from the FY 2016/17 exerted further expenditure pressures to the FY 2017/18 financial plan. The problem was worsened by technical hitches arising from frequent IFMIS system failures and downtimes. This calls for the National Treasury to increase and improve its support towards the county government in dealing with the IFMIS system failures.

6. In an effort to readjust the county budget and revenue projections with the prevailing economic situation and the requirements of the County Allocation of Revenue Act (CARA), 2017, a supplementary budget was developed by the County Treasury. The compilation of the supplementary budget was inspired by the need to consider the reorganization of the Government after the general election that brought in a new administration. It was also necessary to appropriate the balances brought forward from FY 2016/2017 in the FY 2017/18 through a supplementary budget and provide funds to settle the pending bills and commitments of the same period. In the supplementary budget, recurrent estimates amounted to Kshs 5,471,574,385 while the development amounted to Kshs 2,489,533,679. These adjustments on the original budget were approved by County Assembly in April, 2018.

### B. 2017/18 Fiscal Performance

#### Revenue Performance

7. During the 2017/18 fiscal year, cumulative revenues received by the County Government amounted to Kshs. 7,683,328,863 as compared to the anticipated budgeted estimates of Kshs. 7,961,108,064. This represented a revenue shortfall of Kshs. 277,779,201(3.5%) as shown in Table 1 below.

**Table 1: Revenue Performance in Financial Year 2017/18**

Revenue Sources and Expenditure	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage Performance
Balance B/F	246,494,308	1,279,269,871	1,279,269,871	0	100.00
Equitable Share	4,965,660,256	4,952,800,000	4,952,800,000	0	100.00



Level V Hospital	407,861,272	407,861,272	407,861,272	0	100.00
Free Maternity	39,866,658	0	0	0	0
User fee foregone	13,701,379	13,701,379	14,347,664.00	646,285	104.72
Danida grant-Health Facilities	28,457,447	12,845,841	19,911,053	7,065,212	155.00
World Bank Loan for transforming health systems for universal care project		22,000,000	10,000,000	(12,000,000)	45.45
Road maintenance fuel levy fund	130,725,000	189,567,564	155,848,315	(33,719,249)	82.21
Youth Polytechnics		42,211,848	42,211,848	0	100.00
Level 1 Grant KDSP		40,850,289	40,850,289	0	100.00
Local Revenue	1,000,000,000	1,000,000,000	760,228,551	(239,771,449)	76.02
<b>Total Revenue</b>	<b>6,832,616,316</b>	<b>7,961,108,064</b>	<b>7,683,328,863</b>	<b>(277,779,201)</b>	<b>96.51</b>
Salaries & Wages	2,896,042,426	3,434,666,906	3,329,201,177	(105,465,729)	96.93
O&M/ Others	1,714,312,981	2,036,907,479	1,611,334,619	(425,572,860)	79.11
Development	2,222,260,909	2,489,533,679	1,334,404,165	(1,155,129,514)	53.60
<b>Total Expenditure</b>	<b>6,832,616,316</b>	<b>7,961,108,064</b>	<b>6,274,939,961</b>	<b>(1,686,168,103)</b>	<b>78.82</b>

**Source: County Treasury, 2018**

8. By the end of June 2018, the projected revenues from other sources had been achieved with the exception of local revenues, Road maintenance fuel levy fund and World Bank Loan for transforming health systems for universal care project. The County had cash balances from the 2016/17 financial year to the sum of Kshs. 1,279,269,871 which dictated the need for a supplementary budget. During the financial year 2017/2018, the County received Kshs. 4,952,800,000 as equitable share of revenue from the National Government, Kshs. 407,861,272 conditional grants to Nyeri Level V Hospital, Kshs. 14,347,664 as compensation for user fees foregone and Kshs. 155,848,315 from the Road Maintenance Fuel Levy Fund. The County also received Kshs. 19,911,053 as a grant from DANIDA, Kshs. 42,211,848 for improvement of youth polytechnics, Kshs. 40,850,289 as Level 1 grant for KDSP and Kshs. 10,000,000 as World Bank Loan for transforming health systems for universal care project.

9. In the 2017/18 financial year the county government accumulated Kshs. 760,228,551 in terms of local revenue collections against a target of Kshs. 1,000,000,000. Though the county government did not meet its revenue collection target, the amount collected in FY 2017/18 was a rise by Kshs. 117,089,398 which translated to an 18.2 percent increase in comparison to Kshs. 643,139,153 collected during the 2016/17 financial year.

10. The 18.2% increase in local revenue collection can be credited to strong enforcement measures, timely and reasonable revenue legislation and political good will. However, it is essential to note that the revenue collection targets were not met; this calls for enhancement of local revenue performance by ensuring that more efforts and measures are geared towards meeting the county revenue streams. These actions include the automation of revenue collection covering all streams and it is important to note that the county has acquired a revenue

management system that is being rolled out and will play a major role in enhancing revenue collection and sealing of possible leakages. Moreover, the department plans on reinforcing the inspectorate team by deploying the right personnel and facilitation to enable them execute their mandate effectively. Furthermore, revenue collection staff will be relocated frequently to ensure that no one person is at a specific revenue collection point for a pro-longed time period.

**Table 2: Local Revenue Performance – FY 2017/18**

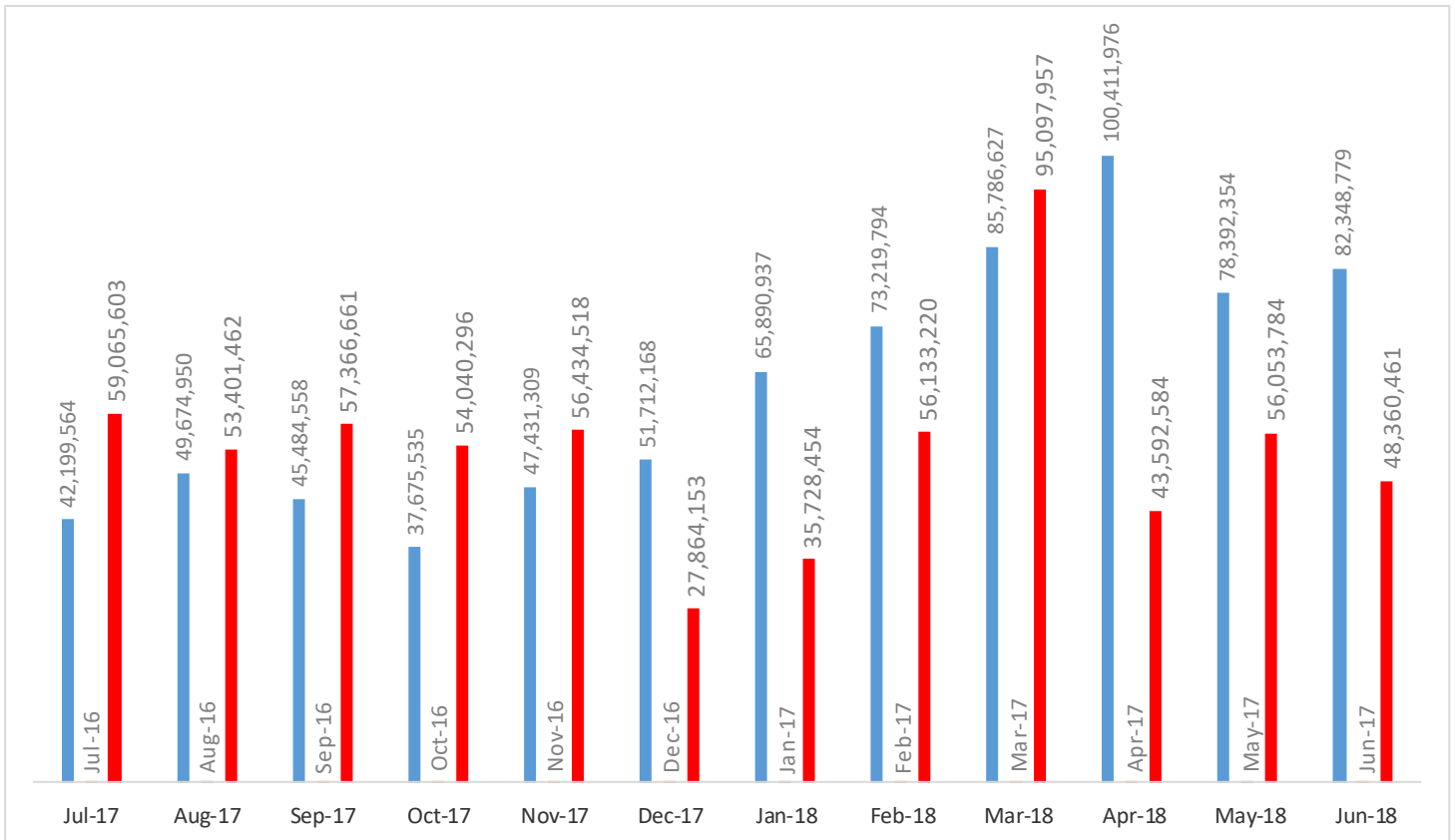
ACCOUNT DESCRIPTION/SOURCE /DEPARTMENT	APPROVED TARGET FY 2017/2018	ACTUAL PERFORMANCE	PERCENTAGE ACHIEVED	DEVIATION
	Kshs	Kshs	%	Kshs
<b>COUNTY PUBLIC SERVICE, ADMINISTRATION &amp; YOUTH AFFAIRS</b>				
Liquor License	40,154,959	42,955,352	106	2,800,393
CILOR Current Year	0	0	-	0
<b>AGRICULTURE, LIVESTOCK &amp; FISHERIES</b>				
Agricultural Mechanisation Station	1,526,753	522,600	34	(1,004,153)
Wambugu Agricultural Training Centre	8,285,658	5,681,324	69	(2,604,334)
Veterinary Charges	5,408,972	4,350,989	80	(1,057,983)
Slaughtering Fees	3,747,545	2,376,670	63	(1,370,875)
Slaughter House Inspection Fees	738,817	1,274,565	173	535,748
Nyeri Slaughter House	502,095	624,800	124	122,705
Kiganjo Slaughter House	117,724	120,000	102	2,276
Sale of Fertilizer/lime	2,204,894	223,000	10	(1,981,894)
Tea Cess	0	0	-	0
Coffee Cess	306,840	0	-	(306,840)
<b>TRADE, TOURISM AND COOPERATIVES DEVELOPMENT</b>				
Business Permits (e-SBP)	104,043,578	102,677,604	99	(1,365,974)
Ambulant Hawkers Licenses (Other than BSS Permits)	608,621	250,650	41	(357,971)
Market Entrance/Stalls/Shop Rents	54,734,733	35,080,559	64	(19,654,174)
Weights and Measures	943,406	1,650,610	175	707,204
Central Kenya show annual permit	0	0	-	0
Co-operative Audit	1,555,103	1,591,100	102	35,997
<b>HEALTH, PUBLIC HEALTH AND SANITATION SERVICES</b>				
Hospital Services	307,333,513	266,770,923	87	(40,562,590)
Public Health	13,034,504	8,196,571	63	(4,837,933)
Burial Fees	149,952	119,000	79	(30,952)
Public Toilets	731,913	287,965	39	(443,948)
Use of public toilets	0	0	-	0
Garbage Dumping Fee/waste disposal charges	1,651,969	528,099	32	(1,123,870)
Refuse Collection Fee	44,035,791	22,279,692	51	(21,756,099)
<b>FINANCE &amp; ECONOMIC PLANNING – REVENUE</b>				
Miscellaneous Income	42,822	555,078	1,296	512,256
Document Search Fee	255,475	420,650	165	165,175
Tender Documents Sale	1,759,806	0	-	(1,759,806)
Grants	0	0	-	0
Impounding Charges/Court Fines, penalties, and forfeitures	6,834,231	941,280	14	(5,892,951)
Application Fee	17,733,318	9,612,445	54	(8,120,873)
Business Subletting / Transfer Fee	124,167	86,400	70	(37,767)
<b>TRANSPORT,PUBLIC WORKS,INFRASTRUCTURE &amp;ENERGY</b>				
Parking Fees	151,788,768	65,414,895	43	(86,373,873)
Enclosed Bus Park		24,391,740		24,391,740
Parking Clamping/Penalties/Offences fees	2,966,566	2,325,825	78	(640,741)
Cess (Quarry, Produce, Kaolin, e.t.c.)	32,202,148	29,721,512	92	(2,480,636)
<b>LANDS, HOUSING, PHYSICAL PLANNING &amp; URBANIZATION</b>				
Land Rates	106,890,100	60,661,968	57	(46,228,132)
Other Property Charges	698,978	274,683	39	(424,295)
Ground Rent - Current Year	4,343,068	2,400,631	55	(1,942,437)
Ground Rent - Other Years	2,902,141	2,288,741	79	(613,400)

Stand Premium/Commissioner of Lands	61,236	0	-	(61,236)
Temporary Occupation License (TOL), New Occupation, Space Rent, Retainers fees	2,249,510	1,499,662	67	(749,848)
Hire of Plant & Machinery	0	0	-	0
Plot Transfer Fee	1,155,024	1,202,800	104	47,776
Housing Estates Monthly Rent	18,582,391	15,751,058	85	(2,831,333)
Housing Estates Monthly Rent (Kiawara, Majengo & Kingongo Phase 3)	1,834,801	883,049	48	(951,752)
Approvals (Extension of users, Pegging for Kiosk, Subdivision, transfer, Amalgamation, survey, Occupation Cert, boundary dispute e.t.c.)	3,113,340	638,500	21	(2,474,840)
Sign Boards & Advertisement Fee	23,826,076	21,245,473	89	(2,580,603)
Buildings Plan Approval Fee	12,353,921	7,726,001	63	(4,627,920)
Buildings Inspection Fee	3,818,570	2,225,100	58	(1,593,470)
Right-of-Way / Way-Leave Fee (KPLN, Telkom, e.t.c.)	1,765,867	687,040	39	(1,078,827)
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,789,854	1,346,600	75	(443,254)
Agency Fee (Fees from KHC, Insurance Firms, e.t.c.)	14,404	52,000	361	37,596
Sales of Council's Minutes / Bylaws	406,002	250,500	62	(155,502)
Sale of Old Office Equipment and Furniture		0	-	0
Benevolent Fund	1,646,634	865,000	53	(781,634)
Debts Clearance Certificate Fee	2,457,204	2,290,500	93	(166,704)
<b>GENDER, YOUTH AND SOCIAL SERVICES</b>				
Social Hall Hire, IFAD Hall	235,450	5,000	2	(230,450)
Stadium Hire	1,642,256	2,767,795	169	1,125,539
Fire-Fighting Services	1,877,705	3,522,552	188	1,644,847
<b>EDUCATION, SPORTS SCIENCE &amp; TECHNOLOGY</b>				
Nursery Schools Fee (KRT)	315,796	250,650	79	(65,146)
Nursery Schools Fee (Kingongo)	227,208	182,950	81	(44,258)
Nursery Schools Fee (Nyakinyua)	208,961	178,400	85	(30,561)
Registration of School, Training/Learning Center Fee	58,862	0	-	(58,862)
<b>WATER, SEWERAGE &amp; SANITATION ENVIRONMENT AND NATURAL RESOURCES</b>				
Sale of flowers, Plants, Firewood, Produce e.t.c	0	0	-	0
Exhauster Services Charge	0	0	-	0
Private borehole operators	0	0	-	0
Quarry /mining charges-annual license fee	0	0	-	0
Tree cutting permits	0	0	-	0
Water bowser/water vendor licenses	0	0	-	0
Tipping charges	0	0	-	0
Polluters of Environment Penalties	0	0	-	0
<b>TOTAL LOCAL SOURCES</b>	<b>1,000,000,000</b>	<b>760,228,551</b>	<b>76</b>	<b>(239,771,449)</b>

**Source: County Treasury, 2018**

**11.** A monthly review of the county government's local revenue collection indicates that the month of April 2018 registered the highest amount of collected revenue as shown in the figure below. This is due to the fact that Single Business Permits and land rates, which are among the major sources of local revenue streams have a deadline of the month of March for subsequent renewal.

**Figure 1: Monthly revenue collections in FY 2017/2018 in comparison to performance in FY 2016/2017**



**Source: County Treasury, 2018**

**Expenditure Performance**

12. The Total expenditure in the 2017/18 financial year amounted to Kshs. 6,274,885,113 against a budget of Kshs. 7,961,108,064, representing an under spending of Kshs. 1,686,222,951 as shown in Table 3 below. This shortfall was attributed to delayed release of funds by the National Treasury leading to low absorption of development funds.

**Table 3: Expenditure Performance in FY 2017/18**

Economic Classification	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage Performance
Salaries & Wages	2,896,042,426	3,434,666,906	3,329,146,329	(105,520,577)	96.93
O&M	1,714,312,981	2,036,907,479	1,611,334,619	(425,572,860)	79.11
Development	2,222,260,909	2,489,533,679	1,334,404,165	(1,155,129,514)	53.60
<b>Total Expenditure</b>	<b>6,832,616,316</b>	<b>7,961,108,064</b>	<b>6,274,885,113</b>	<b>(1,686,222,951)</b>	<b>78.82</b>

**Source: County Treasury, 2018**

13. In 2017/18 the county government incurred recurrent expenditure to the sum of Kshs 4,940,480,948 against a proposed budget of Kshs 5,471,574,385 representing an under-spending of Kshs 531,038,589. The County spent Kshs. 3,329,146,329 on personnel emoluments and Kshs. 1,611,334,619 on operations and maintenance.

14. On the other hand, the expenditure on development amounted to Kshs 1,334,404,165 compared to a revised estimate of Kshs 2,489,533,679, representing an under-spending of Kshs 1,155,129,514. The underspending can be attributed mainly to IFMIS system downtime and failure and late disbursement of funds by the National Treasury.

#### Performance by Departments and Other County Units

15. Analysis of the performance by departments and other county units indicates that the Department of Health Services had the highest percentage of recurrent expenditure at 95.20 percent while the Department of Lands, Housing, Physical Planning and Urbanization had the lowest at 72.76 percent as shown in Table 4 below.

**Table 4 : Performance of Recurrent Budget in FY 2017/18**

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	615,646,678	676,007,599	592,290,593	(83,717,006)	87.62
Executive Office of the Governor and Deputy Governor	103,321,596	152,039,926	130,223,883	(21,816,043)	85.65
Office of the County Secretary	210,325,487	299,387,327	250,797,429	(48,589,898)	83.77
Finance & Economic Planning	298,247,258	587,816,958	443,626,508	(144,190,450)	75.47
Lands, Housing, Physical Planning and Urbanization	52,593,623	54,289,682	39,501,422	(14,788,260)	72.76
Health Services	1,912,544,428	2,418,140,043	2,301,953,057	(116,186,986)	95.20
Gender, Youth and Social Services	111,607,714	124,643,245	105,813,909	(18,829,336)	84.89
County Public Service Management	399,027,939	280,889,923	260,480,387	(20,409,536)	92.73
Agriculture, Livestock and Fisheries	299,797,276	319,424,172	302,899,617	(16,524,555)	94.83
Trade, Culture, Tourism and Cooperative Development	13,983,357	63,897,664	54,344,992	(9,552,673)	85.05
Education, Sports, Science and Technology	272,197,680	179,032,452	171,792,217	(7,240,235)	95.96
Water, Sewerage & sanitation Services, Environment and Natural Resources	126,191,295	133,687,783	126,227,029	(7,460,754)	94.42
County Public service Board	34,819,383	37,301,255	34,415,809	(2,885,446)	92.26
Transport, Public Works, Infrastructure and Energy	57,955,520	141,916,356	123,425,731	(18,490,625)	86.97
Energy	102,096,173	3,100,000	2,688,365	(411,635)	86.72
<b>TOTAL</b>	<b>4,610,355,407</b>	<b>5,471,574,385</b>	<b>4,940,480,948</b>	<b>(531,093,437)</b>	<b>90.29</b>

Source: County Treasury, 2018

16. Analysis of the development outlay indicates that the Department of Finance and Economic Planning attained the highest absorption rate of development budget at 89.71 per cent while the County Assembly attained the lowest at 8.09 per cent. Executive office of the Governor and Deputy Governor did not incur any development expenditure as shown in Table 5 below.

**Table 5: Performance of the Development Budget in FY 2017/18**

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	166,752,846	61,752,846	4,994,170	(56,758,676)	8.09
Executive Office of the Governor and Deputy Governor	52,521,842	22,521,842	0	(22,521,842)	0.00
Finance & Economic Planning	269,990,676	558,950,543	501,411,907	(57,538,636)	89.71

Lands, Housing, Physical Planning and Urbanization	101,752,846	51,905,770	10,110,488	(41,795,282)	19.48
Health Services	410,915,722	250,442,356	67,717,524	(182,724,832)	27.04
Gender, Youth and Social Services	119,752,846	138,422,222	100,611,943	(37,810,279)	72.68
County Public Service Management	40,752,846	27,752,846	5,243,690	(22,509,156)	18.89
Agriculture, Livestock and Fisheries	109,798,236	228,074,458	126,539,657	(101,534,801)	55.48
Trade, Culture, Tourism and Cooperative Development	27,837,185	105,926,751	47,989,920	(57,936,831)	45.30
Education, Sports, Science and Technology	197,773,538	99,411,848	22,908,065	(76,503,783)	23.04
Water, Sewerage & Sanitation Services, Environment and Natural Resources	186,281,305	250,600,346	134,261,143	(116,339,203)	53.58
County Public Service Board	6,752,846	0	0	0	0.00
Transport, Public Works, Infrastructure and Energy	447,746,839	693,771,851	312,615,659	(381,156,192)	45.06
Energy	83,731,336	0	0	0	0.00
<b>TOTAL</b>	<b>2,222,360,909</b>	<b>2,489,533,679</b>	<b>1,334,404,165</b>	<b>(1,155,129,514)</b>	<b>53.60</b>

**Source: County Treasury, 2018**

### **C. Fiscal performance of the FY 2017/2018 in relation to fiscal responsibility principles and financial objectives**

**17.** The fiscal performance in the FY 2017/18 has impacted the financial objectives detailed in the 2017 CFSP and the fiscal responsibility principles in the following ways;

**18.** Revenue projections indicate a rising trend based on the CARA (2018) where the amount of revenue to be received as equitable share of national revenue disbursed to the County is Kshs 5,024,000,000, which is 1.44 percent higher than FY 2017/18 allocation of Kshs 4,952,800,000. Additionally, the contribution of local revenues has remained below 15 percent of the projected total county revenue in both FY 2017/2018 and 2018/2019. Actual contribution of local revenue to the total county revenue in FY 2017/18 amounted to only 13%.

**19.** Furthermore, the amount of local revenues collected by the county government has continued to increase over the two years due to the expansion in the county's revenue base, revenue streams and reduction in litigations in the court of law by engaging all stakeholders in formulation of related legislation. The county government is optimistic that the acquisition and installation of the revenue management system that automates revenue collection, will enhance the amount of income collected internally. This will result in a subsequent increase in the overall county revenue thus releasing extra funds to the never-ending demand for development expenditure. Pressure continues to mount on the need to identify new sources of revenue and strengthen the existing ones.

**20.** For the FY 2018/2019 budget, adjustments will be introduced on fiscal aggregates as provided for under section 108 (2) of the PFM Act, 2012; CARA, 2017 and the unspent balances as at 30<sup>th</sup> June, 2018. The pending bills for the FY 2017/2018 totaled Kshs 360,493,767.60

which has been provided for partly while the balance will be provided for during the adjustments.

**21.** Regulation 25(1) (b) of the PFM (County Governments) Regulations demands that a county should not spend more than 35 percent of its cumulative revenue on salaries and wages. In Nyeri County, a total of Kshs. 3,434,666,906, representing 43.14 percent, had been allocated in FY 2017/2018 due to a huge number of people working for the county government. The high wage bill for the county can also be attributed to the approval of CBAs for the nurses and doctors. Furthermore, the recruitment of professional staff and the demand for promotions from deserving workers whenever they are due has also contributed significantly to the huge wage bill. By close of the FY 2017/2018 the county government had spent a cumulative 53.1% on wages and salaries.

**22.** The amount allocated for development expenditure in FY 2017/2018 was 31.27% of the budget. This allocation was within the legal framework which requires county governments to allocate at least 30% of their annual budget towards development expenditure. By the end of this period only Kshs. 1,334,404,165 of the development budgets had been spent which translates to 21.27% of the total county expenditure. As stated above, this is attributable to delayed disbursement of funds by the National Treasury and frequent IFMIS system failures.

**23.** During the FY 2017/2018 the county did not incur any debt from borrowing. However, a significant number of pending bills and commitments totaling to Kshs 360,493,767.60 were rolled over to the current financial year. However, this amount is way below the cash balances carried forward to FY 2018/2019 of Kshs. 1,387,510,339.

**24.** In line with the provisions of the PFM Act, 2012, a finance bill was prepared through a participatory, consultative and all-encompassing approach, and later submitted to the County Assembly for consideration and approval. Public participation in the process guarantees that the beneficiaries and stakeholders understand the charges thus minimizing the chances of resistance from the rates and fees payers. This notwithstanding, litigations have been encountered in the past thus hampering mobilization of local resources. However, amicable and out of court agreements and approaches in solving emerging disputes has continued to be encouraged to minimize and where possible eliminate any loss of revenue occasioned by these delays.

**25.** Over the medium term, the County Government has prioritized the following development strategies as contained in the CIDP 2018-2022:

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

### **III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

**26.** The development objectives of the county government in the medium term are significantly dependent on the various fiscal and monetary developments occurring at the national level. These objectives are clearly explained in Kenya’s Vision 2030, Medium Term Plan III and the Big Four Agenda for the Jubilee Government. The County Integrated Development Plan 2018-2022 was prepared in line with the national development agenda. The operationalization of the content of the Plan in the FY 2018/19 will be implemented through Annual Development Plan 2018/19 and County Fiscal Strategy Paper, 2018.

**27.** Agriculture is the county’s main economic activity with tea, coffee, milk and horticulture as the key products. It has a great multiplier effect as every household is impacted by its investments. The trickle-down effect of any investment in the sector is felt far and wide. It is also essential to note that any major economic and financial changes at the national level can have a huge impact on the County government’s expenditure trends in the long run. In this regard, any adverse national expenditure trends due to economic instabilities is likely to negatively affect the county government’s development agenda. Examples of economic changes that are likely to destabilize the economy at both the national and county levels include but not limited to inflation and exchange rates.

**28.** From the above point it is evident that the county government’s economic growth is largely dependent on the country’s economy and how the nation plans on dealing with economic destabilizers such as the ones mentioned above. Unfortunately, incidences of such shocks are ultimately stomachached by the hard-working coffee, tea and horticultural farmers at the county level. The county focus will continue being directed towards more investment in irrigation projects and sustainable agriculture, focusing on improving and reclaiming lands within the county through land fertility improvement measures in an effort to improve the county’s agricultural productivity and output. Some of the actions that the County Government has



adopted to improve the county lands include provision of farmers with lime and manure to reclaim the value of county soils and increase productivity in the long-run. Farmers are also being trained on modern farming techniques in an effort to reduce overreliance on rain fed and to ensure that the county is adequately protected from adverse weather conditions such as drought that could negatively affect agriculture within the region.

#### **A. Recent National Economic Developments**

**29.** Heightened political uncertainties along with unfavorable weather conditions, continue to damage Kenya's economic prospects. Economic activity in the private sector was hit by a slump in demand amid escalating concerns over prolonged instability, reflected by a plunge in the Purchasing Managers' Index (PMI), which dropped to 54.6 in August as unemployment continues to climb to 0.8. The nation continues to experience extreme weather conditions which could eventually lead to drought.

**30.** The real Gross Domestic Product (GDP) is expected to grow at 5.6% in 2018 up from an estimated 5.0% in 2017 due to a combination of domestic and international incentives. Domestic incentives include increased own revenue collection. International incentives include increased investments by foreign countries, EAC integration, structural reforms among others.

**31.** The interest rate caps that were introduced in 2016 limiting borrowing rates to 4 percent above the Central Bank Rate was supposed to inject a new wave of capital through affordable loans. However, this effect on access to finance was the biggest obstacle to SMEs in 2017. About 68 per cent of SMEs in Kenya did not have access to Finance due to the interest rates capping. Only 32 per cent of SMEs in 2017 accessed finance from third-party financial institutions such as SACCOs. Interest Rates capping was the second biggest problem SMEs faced in 2017 after a long electioneering period that saw about 55 percent of SMEs reduce their earnings. Only 14 percent of SMEs increased revenue above 25 percent.

**32.** Kenya National Bureau of Statistics in their monthly release showed Consumer Price Indices (CPI) and rates of inflation, for May, 2018. The CPI increased by 0.97 per cent from 193.18 in April 2018 to 195.05 in May 2018. The overall year on year inflation stood at 3.95 per cent in May 2018. Between April and May 2018, Food and Non-Alcoholic Drinks' Index increased by 1.35 per cent due to increase in prices of some foodstuffs outweighing decreases recorded in respect of others. The year on year food inflation however, increased from 0.26 per cent in April 2018 to 0.34 per cent in May 2018. Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 1.79 per cent in May 2018 compared to 3.24 per cent in April 2018. This was mainly attributed to increase in prices of cooking fuels with charcoal recording the highest

increase of 9.66 per cent. During the same review period, the Transport Index increased by 0.10 per cent mainly on account of increase in the pump price of petrol which outweighed decrease in diesel prices.

**33.** Growth in the agriculture sector improved to 5.2%, as compared to 1.0% in first quarter of 2017, despite its contribution to GDP declining by 0.1% points to 25.5% in first quarter of 2018, down from 25.6% over the same period in 2017. The sector contributed the largest weighted share to GDP growth at 1.3% during the quarter, attributed to the favourable weather conditions that have prevailed since the last quarter of 2017, and the long rains experienced in early March of 2018. However, the manufacturing and finance & insurance were the biggest losers in terms of sectoral contribution to GDP, losing 0.3% points to 9.6% in first quarter of 2018 from 9.9% in the same period in 2017 and 0.2% points to 5.9% in first quarter of 2018 from 6.1% in the same period in 2017, respectively. The Real Estate sector performance improved during the first quarter of 2018, having grown by 6.8% compared to 6.1% in the same period of 2017. The sector recorded an increase of 0.1% points in contribution to GDP to 8.3% from 8.2% in the first quarter of 2017. Real estate is one of the sectors expected to drive growth in 2018 and in the next 5 years, with the government's plan to construct 500,000 new affordable housing units under the big four agenda in the next 5 years through injecting low-cost capital into the housing sector.

## **B. County Recent Economic Developments**

**34.** In order to improve access in the rural areas and make agricultural products accessible to the market, the County Government has continually developed the various access and feeder roads through a programme christened the '8Km per ward' programme and '10Km affirmative action for Kieni'. In the FY 2017/18 the county graded and graveled about 94Km of road surface. The target is to improve all the county roads into all-weather standards. There was also construction of three bridges to connect ridges and other areas that had been previously rendered unreachable.

**35.** The county government has continued to focus on improvement of health infrastructure and equipment. In the FY 2017/2018 the following projects were initiated: refurbishment of various departments and construction of the microwave shredder housing at county referral hospital; Construction of newborn unit at Karatina Hospital; New outpatient department at Mt Kenya Hospital; Refurbishment of OPD and New Born Unit (Mukurweini Hospital); Construction of incinerator, Sewerage & laying of cabro pathway (Othaya Hospital).

**36.** There was also Completion of building (Zaina and Githakwa Dispensary); Medical Equipment were procured during the year i.e. 3 Hematology analyzer, 1 Dental Autoclave and 2

ECG machines, Automated Chemistry analyzer and 5 suction machines. It is important to note that during this period, drugs and non-pharmaceuticals worth 220 Million from KEMSA and MEDS were procured. There has been consistent supply of commodities at county health facilities thereby improving the wellbeing of the society as a whole.

**37.** The County Government has endeavored to continue enhancing trade and investment through various projects and programmes. These includes: Roofing of the side canopies of the Nyeri Open Air Market; Renovation and re-roofing of 27 shops and 1 (one) hotel at the Lower bus park; Re-roofing of Mudavadi old market; Construction of modern shades at Ihururu markets; Improvement of sanitation facilities in Gachatha, Nairutia and Kimahuri markets; Fencing and murraming of Ihwagi market; and construction of stalls at Karogoto market.

**38.** In order to promote entrepreneurship, the county is in the process of implementing the Enterprise development Fund which is at the evaluation stage. Other key achievements are: verification of 7,290 weights and 2,173 weighing scales and issuance of 2,045 certificates of Verification; mapping of all Tourist and heritage sites in Nyeri County in conjunction with National Museums of Kenya; Construction/Renovation of Cultural center; and organizing the 3<sup>rd</sup> Nyeri County Tourism and cultural festival.

**39.** In order to bring services closer to the people, during the FY 2017/2018, the County managed to construct six (6) ward officers in Thegu River, Giathugu, Kiawara, Wamagana, Iriaini and Mahiga wards. Further, the Alcoholic Drinks Management Control Committees were appointed, gazetted, inducted and trained.

**40.** In the FY 2017/2018 the county government allocated Kshs. 40M for bursary, under the programme dubbed 'Elimu fund', where a total of 12,175 students from poor backgrounds benefited. Early childhood education was also enhanced by construction of 15 new classrooms and 10 lavatory structures, renovation of 16 classrooms, employment of 649 caregivers and issuance of teaching and learning material to ECDEs across the county. The county also constructed 15 Youth polytechnic workshops in order to promote vocational training. Sports also being a priority for the county to promote the Youths was enhanced by development of infrastructure at Karatina, Mweiga, Gichira and Ruringu stadiums.

**41.** During the FY 2017/2018, the County Government of Nyeri through the department of lands initiated the process of preparing the County Spatial plan and Nyeri Municipality Valuation Roll. 12 government houses were renovated at Ring road, Ruringu and pembe tatu

while gates were constructed for Narumoro, Mweiga , Ruringu estates and one for a house at Ringroad. The department also did feasibility studies on urban renewal for the Blue Valley Estate in readiness for development this financial year through the Kenya Urban Support Programme. Other key achievements include: Survey and Mapping of 83 colonial villages; Processing of 4000 mutations; Survey and mapping of all county residential estates; Ruringu, Blue Valley, Naromoru (Kanduma and Muthaiga), Karatina and Mukurweini Estates; and Survey of Gakanga market and village.

**42.** To ensure access to quality healthcare for the severely vulnerable members of the society, the County Government of Nyeri, in Collaboration with NHIF, has provided NHIF Cover to Orphans, People with Disabilities and Widows and widowers and their families. To date, over 6000 persons have been enrolled into the programme to benefit them and their families. To retain girls in school during the menstrual period, the County provides sanitary towels to the Standard 8 candidates in public primary schools within the County. In the FY 2017/2018, over 9,000 girls benefited, where each girl got 2 packets of sanitary towels.

**43.** In an effort to ensure that Youth, Women and Persons with Disabilities take advantage of the Access to Government Procurement Opportunities (AGPO) and other affirmative action programs, the county organized sensitization trainings for these groups where over 900 participants were taken through the process of Access to Government Procurement Opportunities (AGPO) and other issues including Drugs and Substance Abuse, Sources of Business Financing and structure and functioning of the County Government.

**44.** To enhance food and nutrition security, the county government has rehabilitated 240 fish ponds and provided pond liners to 67 farmers. Additionally, cage fish farming has been initiated at Chinga Dam with plans of escalating the same to other dams. To diversify agricultural production, the county has provided farmers with 156,000 fruit tree seedlings (Avocado, macadamia and mangoes) in all the sub counties based on agro ecological zones. This will result into enhanced food security and improved household income. Additionally, 16 registered commercial villages farmer have been issued with 8 tonnes of certified potato seeds to for seed production. About 45.5 tonnes were realised as clean seeds. There was also provision of 5.8 tonnes of KAT X 56 bean variety to farmers.

**45.** In an endeavor to enhance soil health, the county has distributed 92,500 bags of lime to all the sub counties depending on the soil PH and the crop to be planted. Dairy production has also been facilitated through distribution of 12 milk coolers to mitigate against milk losses. Further 6

motorcycles, AI equipment and liquid nitrogen containers have been procured to strengthen AI service delivery across the county.

**46.** To reduce dependence on rain fed method of farming, the county has continued to invest in irrigation projects. There is therefore continuous construction of intakes and water reservoirs that roll over several years, procurement and installation of distribution pipes and construction of boreholes.

## **C. Economic Outlook**

### **Growth prospects**

**47.** The Kenya's Real GDP growth declined to an estimated 5% in 2017, due to subdued credit growth caused by caps on commercial banks' lending rates, drought, and the prolonged political impasse over the presidential election. The half-year estimates show that the economy remained fairly resilient, growing at 4.8%. Services accounted for 82% of that growth, and industrial activities accounted for 17% while the agricultural sector continued to perform poorly. The economy is projected to rebound to GDP growth of 5.6% in 2018 and 6.2% in 2019.

**48.** Kenya's economy remains resilient due to its diversity with services contributing the highest proportion to GDP growth. This is expected to continue as the country remains the leading regional hub for information and communication technology, financial, and transportation services. Recent investment in rail and road and planned investment in a second runway at Jomo Kenyatta International Airport are potential growth drivers. Macroeconomic stability continues, with most fundamentals projected to remain healthy. The business-enabling environment has improved as well; Kenya moved up 12 places to a ranking of 80 in the World Bank's 2018 Doing Business report.

**49.** However, it is imperative to note that the extended political activities and the presidential election impasse hurt private-sector activity. Although not conclusively assessed, interest rate caps have reportedly constrained credit expansion, leading to reduced private sector investment. Continued high public consumption expenditure keeps the budget deficit at close to 10% of GDP, while the expected maturity of public debt could lead to debt distress.

### **Inflation outlook**

**50.** Inflation rate in Kenya, based on consumer prices, decreased to 4.04 percent in August of 2018 from 4.35 percent in the previous month and above market expectations of a 4.35 percent gain. It was the lowest inflation rate since March, mainly due to a fall in prices of food and non-

alcoholic beverages. The Consumer Price Index decreased by 0.31 per cent from 191.59 in July 2018 to 192.18 in August 2018. Inflation Rate in Kenya averaged 9.80 percent from 2005 until 2018, reaching an all-time high of 31.50 percent in May of 2008 and a record low of 3.18 percent in October of 2010. In the long-term, the Kenya Inflation Rate is projected to trend around 5.90 percent in 2020.

**51.** To keep up with the envisioned level of development and attain the desired economic growth, the county government will enhance own revenue collection and concentrate on sealing of possible loopholes to achieve the optimal potential. Key infrastructural requirements will be continually improved and maintained to ease transport of agricultural goods to the market. The county government will continue with exploitation of alternative sources of energy in an effort to supplement the already strained and overpriced electricity. The county will concentrate on improving the soil quality and fertility for optimal productivity at the same time providing adequate skills to farmers on modern farming technology to reduce overdependence on rain fed agriculture.

**52.** More focus will also be directed to the provision of water for irrigation through drilling of boreholes and excavation of water pans to supplement water for agricultural production. In the semiarid areas of Kieni, farmers will be sensitized on drought resistant farming technologies to guarantee high production throughout the year. These investments will improve the counties economy in the long run thereby releasing more funds for development programmes.

### **Medium Term Fiscal Framework**

**53.** Over the medium term, the County Government will continue to pursue prudent fiscal policy of rationalizing expenditures. This will be achieved through curtailing less productive expenditures and redirecting resultant savings to capital investment geared towards accelerated development across the county. The County continues to promote budgetary transparency, accountability and effective financial management in all its operations to warrant optimal benefit to the intended beneficiaries.

**54.** 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 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. 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.

**55.** The county will continue to strengthen collaborations with other agencies e.g. the national treasury, the Office of the Controller of Budget, Central Bank of Kenya among others to improve efficiency in administration and management of public funds.

**56.** It is important to note that the county government has established a County Audit Committee that will ensure that processes for risk management are in place, functional and adequate guaranteeing transparency and integrity in financial reporting. This will safeguard value for money and ensure quality service delivery to the county residents.

**57.** The Executive order no.2 of 2018 on procurement procedure will ensure that procurement processes are streamlined and more the sourcing of goods and services is above board where those who are involved are transparent and accountable. Additionally, the system will improve cost for government purchasing through increased supplier competition.

**58.** To address the issue of high wage bill, the county will continuously limit recruitments to only those areas with dire needs. Further the existing staff will be rationalized in order to improve productivity. To guarantee performance at the minimum possible cost in terms of the human resource, the county has come up with a code of ethics to guide its operation and guarantee a workforce that is guided by values and principles.

**59.** The county will continue working closely and collaborating with development partners (World Bank and UNDP) for support in capacity building and training of personnel in diverse areas, strengthening county taxation, constitutional implementation and revenue collection and enhancement. 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 accelerated development within the minimum possible cost.

**60.** On the revenue side, the County Government intends to increase the contribution of the local revenue to the total county resources envelop. This will reduce over reliance on fiscal transfers from the national government and provide more fiscal space for development spending. Measures to achieve this deliberate effort will include stepping up efforts to ensure departmental revenue targets are met, development of valuation roll, strengthening of the revenue department through capacity building of staff and enhancing enforcement.

### **Risks to the Fiscal Framework**

**61.** 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.

**62.** 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. Unfavorable political environment, occasioned by the prolonged electioneering in the country, which is likely to affect revenue collection as well as investments in the county.

**63.** The county wage bill has remained relatively high over time since the upward review of the personnel emolument for health workers through the signing of collective bargain agreement with the national government. This has continued to strain the resources earmarked for development spending in the county. Public expenditure pressures especially recurrent expenditures pose fiscal risks since the operations are left with shoe string allocation that may affect service delivery in the long run. The county government is dedicated to continue with infrastructural development within. This will only be achievable if a considerable amount of resources is directed towards the county's flagships with greater focus on infrastructure development over the medium term.

**64.** Agriculture, which is the mainstay economic activity in the county, remains vulnerable to unpredictable and sporadic weather patterns. Other unforeseen disasters such as pest infestation like the recent army worms and disease outbreaks pose some risk to this outlook. Greater attention needs to be taken and structures put in place to address overreliance on rain fed production.



**65.** The weak local revenue performance, which has led to overreliance on fiscal transfers from the National Government, remains a major fiscal risk. There is also the risk of low resource absorption mainly caused by delays in enactment of budget related legislations and releasing of funds from the National Treasury as was the case in the FY 2016/17.

**66.** 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. Should these risks materialize, the government will undertake appropriate measures to mitigate the impact on the budget.

## **IV. RESOURCE ALLOCATION FRAMEWORK**

### **A. Adjustment to 2018/19 Budget**

**67.** The County fiscal framework supporting the FY 2018/19 budget is based on improved budget execution, and effective fiscal management of the budget, sustained by improved efficiency. In comparisons, we expect better performance of revenues streams from both local sources and national exchequer transfers. This aims at striking an appropriate balance between support for growth and continued fiscal discipline.

**68.** The county fiscal framework guiding the FY 2018/19 is informed by the performance in FY 2017/18 budget and the updated fiscal outlook, the risks to the FY 2017/18 budget include lack of realization of the projected local revenue which hindered full implementation of the budget and contributed to the unpaid commitments by the end of the financial year.

**69.** Expenditure pressures with respect to salary demands that are way above the ceiling prescribed in the PFM (county government) regulations, 2015 also limits the amount for development and operations and maintenance. In addition, implementation pace in the spending units and county departments continues to be a source of concern especially with regard to the development expenditures and absorption of funds. These risks will be monitored closely and the County Government will take the appropriate measures through a Supplementary Budget.

**70.** The supplementary budget will also be necessitated by the need to appropriate afresh the funds that were not absorbed in the FY 2017/18 to allow for settlement of pending bills and other commitments that were budgeted for. Considering the tight fiscal position and the assumptions

underpinning the medium term fiscal framework for FY 2018/19, we must contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012.

**71.** Adjustments to the 2018/19 budget will take into account the objectives of the County Integrated Development Plan (2018-2022) where the county has outlined its key strategic directions to fast-track economic growth for social economic transformation and prosperity. The main areas being boosted are agricultural productivity and improved access to quality health care. Over the medium term, the county will endeavor to reprioritize development expenditures in order for the meet her goals and aspirations. However, resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

**72.** Further, adjustment to the budget will be guided by the Annual Development Plan 2017/2018 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 approved revenue allocations, envisaged local revenue collection, revised timeframes for implementation of programmes and emerging issues/concerns. However, county strategic priority areas such as flagship programmes and projects would always have higher allocation of resources.

**73.** On the Revenue side, the County Treasury will make every effort to introduce corrective measures to curb possible revenue leakages. This will include enhanced compliance, enforcement and automation of all revenue streams through the newly acquired revenue management system.

**74.** Any recruitments, promotions and reviews of salaries and benefits for the county public officers will have a bearing on the recurrent budget. This includes the existing CBA by the doctors and nurses that really impacted on the personal emoluments pressure hitherto. In addition, review of salaries and benefits for the personnel continues to be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations

**75.** During fiscal adjustments, legal requirements 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*l. 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 and adherence to the fiscal allocation principles.

### **B. Medium-Term Expenditure Framework (MTEF)**

**76.** Going forward, the relationship between planning and budgeting will be enhanced, the Medium-Term Budget Framework for the period 2018/2019-2020/2021 will entail adjusting non-priority expenditure and concentrating the resources to priority areas as identified in the Annual Development Plan 2018/2019 and priorities as defined in the CFSP 2018. Public participation and stakeholder engagement in setting of priorities will be intensified to ensure improved ownership of development projects and programmes by the community.

**77.** Resource allocation will continue to be aligned to development programmes under the five broad areas of the county's economic transformation. The FY 2018/2019-2020/2021 MTEF Budget will therefore focus on the following as envisaged in the County Integrated Development Plan 2018-2022:

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

**78.** In the FY 2018/19, the approved budget amounts to Ksh. 7,672,055,820 as compared to Ksh 7,961,108,064 in FY 2017/2018. This scenario will change once the adjustments are factored in the supplementary budget.

### **MTEF Budget Ceilings**

**79.** Reflecting the above medium-term expenditure framework, the table 5 below provides the baseline ceilings for the FY 2017/18, and FY 2018/2019 as per the County Fiscal Strategy Paper (CFSP) 2018.

**Table 5: MTEF Ceilings by Department.**

Department/Spending Unit	2017/2018			2018/2019		
	Recurrent	Development	Total	Recurrent	Development	Total
County Assembly	676,007,599	61,752,846	737,760,445	582,406,942	50,000,000	632,406,942
Executive Office of the Governor and Deputy Governor	152,039,926	22,521,842	174,561,768	126,877,487	102,000,000	228,877,487
Office of the County Secretary	299,387,327		299,387,327	220,479,318		220,479,318
Finance & Economic Planning	587,816,958	558,950,543	1,146,767,501	471,622,792	376,000,000	847,622,792
Lands, Housing, Physical Planning and Urbanization	54,289,682	51,905,770	106,195,452	52,609,464	356,000,000	408,609,464
Health Services	2,418,140,043	250,442,356	2,668,582,399	2,343,300,734	210,000,000	2,553,300,734
Gender, Youth and Social Services	124,643,245	138,422,222	263,065,467	110,785,646	9,000,000	119,785,646
County Public Service Management	280,889,923	27,752,846	308,642,769	182,569,365	12,000,000	194,569,365
Agriculture, Livestock and Fisheries	319,424,172	228,074,458	547,498,630	324,538,275	109,074,458	433,612,733
Trade, Tourism, Culture and Cooperative Development	63,897,664	105,926,751	169,824,415	62,987,961	92,000,000	154,987,961
Education, Sports, Science and Technology	179,032,452	99,411,848	278,444,300	341,072,573	123,000,000	464,072,573
Water, Sewerage & Sanitation Services, Environment and Natural Resources	133,687,783	250,600,346	384,288,129	139,550,264	270,000,000	409,550,264
County Public service Board	37,301,255		37,301,255	38,146,814		38,146,814
Transport, Public Works, Infrastructure and Energy	141,916,356	693,771,851	835,688,207	158,940,194	807,093,533	966,033,727
Energy	3,100,000		3,100,000			0
<b>TOTAL</b>	<b>5,471,574,385</b>	<b>2,489,533,679</b>	<b>7,961,108,064</b>	<b>5,155,887,829</b>	<b>2,516,167,991</b>	<b>7,672,055,820</b>

**Source: County Treasury, 2018**

### **C. 2018/19 Budget framework**

**80.** The FY 2018/19 budget framework is set against the background of the updated medium-term framework. The county economy is expected to be boosted through creation of a conducive environment for investment. 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***

**81.** The 2018/2019 approved budget of Kshs. 7,672,055,820 will be financed through the equitable share from the national resources with an allocation of Kshs. Kshs. 5,024,000,000 Conditional grants of Kshs. 899,485,484 and internally generated revenue estimated at 1,000,000,000 and balance brought forward from the 2017/2018 financial year of Kshs. 748,570,336. The main sources of internally generated revenue will be parking fees, single business permits and land rates.

### ***Expenditure Forecasts***

**82.** In FY 2018/2019 approved budget, recurrent expenditures are at 67.2 percent of county's annual budget i.e. Ksh 5,155,887,829 as compared to 68.73 for the FY 2017/18 budget. Development expenditure are at 32.8 percent of county's annual budget i.e. Ksh 2,516,167,991 as compared to Kshs. 31.27 for the FY 2017/18 budget on account of devoting more resources to development as required by the PFM Act.

**83.** Expenditure ceilings on goods and services for departments are based on allocations in the FY 2017/18 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**

**84.** The approved budgets for the departments and other county units during the FY 2018/2019 are based on the approved County Fiscal Strategy Paper, 2018. However, the enactment of CARA, 2018 having provisions of source of funds that were not captured in the approved budget and the balances that were not absorbed in the FY 2018/19 with necessitate a supplementary budget to accommodate these changes.

**85.** The FY 2018/19- 2020/21 MTEF scenario presented in this CBROP is developed for medium term 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. The Paper is also aligned to all county and national plans and agenda.

**86.** 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.