



REPUBLIC OF KENYA

**COUNTY TREASURY  
KIAMBU COUNTY GOVERNMENT**

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**COUNTY BUDGET REVIEW  
AND OUTLOOK PAPER**

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**AUGUST 2016**



# KIAMBU COUNTY GOVERNMENT

COUNTY TREASURY

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## COUNTY BUDGET REVIEW AND OUTLOOK PAPER

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AUGUST 2016

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## Foreword

The County Budget Review and Outlook Paper (CBROP) have been prepared in accordance with the Public Finance Management Act (PFMA), 2012 and is the Fourth to be prepared by Kiambu County Government.

The Paper reviews and analyses actual fiscal performance of the 2015/16 Financial Year (FY) while presenting the recent economic developments. Further, it provides updated forecasts with sufficient attention to changes from the projections outlined in the 2016 County Fiscal Strategy Paper (CFSP). It also looks at the overview of how the actual performance of the FY 2015/16 budget impact on compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2016 CFSP.

As a County we continue to focus on revenue mobilization while ensuring resource allocation shifts from recurrent to capital expenditures while ensuring efficiency and effectiveness of public resources. The government will continue to emphasis on fiscal policy strategy that recognizes the need to strike a balance between service delivery and fiscal sustainability, with emphasis on higher investments in human health, infrastructure development, agriculture and good governance for a stronger and more robust growth for the future.

Finally, I take this opportunity to register my utmost appreciation to His Excellency the Governor for his wise counsel, the County Executive Committee for their support and guidance, and to the entire staff of the County Treasury for the hard work and commitment to see the completion of this document.

**MARY NGULI**  
**COUNTY EXECUTIVE COMMITTEE MEMBER**

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## Abbreviations and Acronyms

ADP	Annual Development Plan
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CG	County Government
FY	Financial Year
GDP	Gross Domestic Product
NG	National Government
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PFM	Public Financial Management

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

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

- 1) A County Treasury shall-
  - a) prepare 'a County Budget Review and Outlook Paper in respect of the county for each financial year; and
  - b) Submit the paper to the County Executive Committee by the 30th September of that year.
  
- 2) In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify—
  - a) the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
  - b) the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
  - c) information on—
    - (i) any changes in the forecasts compared with the County Fiscal Strategy Paper; 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 County Fiscal Strategy Paper for that financial year; and
  - d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
  
- 3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.
  
- 4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall—
  - a) arrange for the Paper to be laid before the County Assembly; and
  - b) as soon as practicable after having done so, publish and publicize the Paper

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### **Fiscal Responsibility Principles to be enforced by the County Treasury**

In line with the Constitution, the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles that the County Treasury is to enforce. The PFM law (Section 107) states that:

- 1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection 2, and shall not exceed the limits stated in the regulations.
- 2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles
  - a) the county government's recurrent expenditure shall not exceed the county government's total revenue;
  - b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
  - c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
  - d) over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
  - e) the county debt shall be maintained at a sustainable level as approved by county assembly;
  - f) the fiscal risks shall be managed prudently; and
  - g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.
- 3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- 4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.
- 5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).



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## I. INTRODUCTION

### Objective of the County Budget Review and Outlook Paper

1. The 2016 County Budget Review and Outlook Paper (CBROP) objective is to provide a review of the FY 2015/16 fiscal performance of the budget and how this impacts on the financial objectives and fiscal responsibility principles set out in the County Fiscal Strategy Paper (CFSP) 2015. This together with updated macroeconomic outlook provides a basis for revision of the current budget (FY 2016/17) in the context of any supplementary estimates and the broad assumptions underpinning the FY 2017/18 budget and that of the medium term.
2. The CBROP take cognizance of the CIDP and other county development priorities and emerging County needs. The Annual Development Plan (ADP) and CFSP have already spelled out these priorities.
3. In this paper, the resource envelope for FY 2017/18 has been projected and indicative sector ceilings presented. As envisaged in the PFMA, 2012 these Ceilings set in motion the budget preparation for the 2017/18 Fiscal Year.
4. The paper is organized in six sections as follows: Section I provides the introduction, Section II Provides review of the fiscal performance in FY 2015/16 and its implications on the financial objectives set out in the County Fiscal Strategy Paper submitted to the County Assembly in February 2016, Section III gives brief highlights of the recent economic developments and updated macroeconomic outlook; Section IV looks at Implementation of FY 2016-2017 Budget; Section V provides the resources allocation framework, and Section VI concludes the paper.

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## II. REVIEW OF FISCAL PERFORMANCE IN THE FY 2015/16

### A. Overview

5. Execution of the FY 2015/16 budget advanced well and picked up towards the end of the fiscal year. The total revenues, including Equitable share and own source, amounted to KShs. 10.58 billion against the revised budget of KShs. 11.48 billion. The shortfall was occasioned by lower than expected own source revenues.

6. On the other hand, absorption of expenditures for the FY 2015/16 was lower as a result of inadequate financing, in both the recurrent and development expenditures, due to underperformance of own revenue collection. It amounted to KShs. 10.31 Billion against a revised target of KShs. 11.48 Billion; of which Development expenditure accounted for 22 percent while recurrent accounted for 78 percent of the total expenditure.

7. Consequently, as a result of underperformance in both revenue and expenditures in the FY2015/16 budget there was a fiscal deficit of KShs. 1.17 Billion (10.1 per cent) as compared to the revised budget estimates.

### B. 2015/16 Fiscal Performance

8. The fiscal performance was generally satisfactory despite cuts in both recurrent and development in the supplementary budget. The Fiscal out-turn for the FY 2015/16 is presented in Table 1 below. This performance is then compared to the revised budget estimates for the financial year.

**Table1: Fiscal Out-turn of the FY 2015/2016**

	Actual 2015/2016 (A)	Original budget (OB)	Revised Budget (RB)	Deviation (RB-A)
<b>Total Revenue</b>	<b>10,580,028,187</b>	<b>11,949,048,949</b>	<b>11,480,938,879</b>	<b>900,910,692</b>
National Government Grant	8,142,434,235	8,265,966,316	8,170,221,635	27,787,400
Local Revenue	2,437,593,952	3,683,082,633	3,308,126,323	870,532,371
Unspent Balances B/f FY 2014/15	0	0	2,590,921	2,590,921
<b>Total Expenditure</b>	<b>10,318,996,280</b>	<b>11,949,048,947</b>	<b>11,480,938,879</b>	<b>1,161,942,599</b>
<b>Recurrent</b>	<b>8,053,330,135</b>	<b>7,980,223,385</b>	<b>8,298,073,991</b>	<b>244,743,856</b>
County assembly	709,741,347	828,000,000	828,000,000	118,258,653
County Executive	420,033,420	382,337,000	429,279,922	9,246,502
Other County Departments	6,923,555,368	6,769,886,385	7,040,794,069	117,238,701
<b>Development</b>	<b>2,265,666,145</b>	<b>3,968,825,562</b>	<b>3,182,864,888</b>	<b>917,198,743</b>
County Assembly	3,264,236	44,843,954	44,843,954	41,579,718
County Executive	6,714,040	7,175,000	7,175,000	460,960
Other County Departments	2,255,687,869	3,916,806,608	3,130,845,934	875,158,065

Source: County Treasury

### **Revenue**

9. During the year, the County received Kshs.7.46 billion as equitable share of the revenue raised nationally, Kshs.678.89 million as total conditional allocation, raised Kshs.2.44 billion from own sources, and had a cash balance of Kshs.2.59 million brought forward from FY 2014/15.

10. The cumulative revenue - Equitable share and own source revenue collections for the FY 2015/16 - amounted to KShs. 10.58 billion against the revised budget of KShs 11.48 billion. This translates to a shortfall of KShs 900

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million. Though the County revenue collection did not meet the set targets, it was able to meet 92.2 percent of the revised budget estimates.

11. With the automation of revenue collection in place, revenue enhancement plans and the passing of the Finance Act, 2015 and its subsequent implementation, revenue performance improved significantly enabling the county to collect 73.7 percent of the projected own revenue annual target hence improved collection by KShs. 0.3 billion as compared with the performance in FY 2014/15. This remarkable improvement made the County emerge as the Second Best County in revenue mobilization as per third quarter report on Counties budget implementations review.

12. The revenue shortfall of KShs. 870 million (26.3 percent) registered in the FY 2015/16 was occasioned by low compliance in payment of land rates, political interference and challenges in enforcement of development control fees especially in the area of building plans approvals. With the concerted efforts now being put in enforcement of property taxes and development controls approvals, revenue performance is projected to remain on an upward trajectory.

13. Overall, the County generated total internal revenue of KShs 2.44 Billion in 2015/16 FY from fees and charges within the county. Analysis of the local revenue collected by stream (see table 2 below) indicates that, Liquor licences recorded the highest performance against annual target at 927 per cent. This was followed by Health Services collections at 126 per cent and interests on loans (mortgage) at 110.7 per cent among other fees and charges.

**Table 2: Internal Generated revenue FY 2015/2016**

No	Revenue Stream	Annual Targeted Revenue (KShs)	Annual Actual Revenue	Actual Revenue as a percentage of Annual Target (%)
1	Health Services	400,000,000	505,714,876	126.43
2	Physical Planning services	500,000,000	442,149,451	88.43
3	Business Permits	380,000,000	295,231,826	77.69
4	Vehicle Parking Fees	420,000,000	276,210,777	65.76
5	Land rates	646,692,961	219,948,910	34.01
6	Cess	220,000,000	100,539,451	45.70
7	Interest on Loans(mortgages)	90,000,000	99,674,505	110.75
8	Liquor Licences	10,000,000	92,719,895	927.20
9	Market Enhance Fees	200,000,000	71,498,822	35.75
10	Water, Environment & Natural Resources	80,000,000	66,613,155	83.27
11	Other Sources	361,433,362	267,295,284	73.95
	<b>Totals</b>	<b>3,308,126,323</b>	<b>2,437,596,952</b>	73.69

Source: County Treasury

### *Expenditure*

14. Total expenditures in the FY 2015/16 amounted to KShs. 10.31 Billion against a revised target of KShs. 11.48 Billion. This indicates a 10.1 per cent deviation from the revised budget (KShs. 1.17 Billion). Lack of enough financing in both recurrent and development expenditures attributes to the shortfall, which was occasioned by liquidity issues as a result of the underperformance of local revenue collection. Development expenditure accounts for 22 percent and recurrent accounts for 78 percent of the total expenditure respectively in the

period under review. Detailed analysis of these expenditures is tabulated in table 3 below.

**Table 3: Total Expenditure for the FY 2015/16**

	Department	Original budget (OB)	Revised Budget (RB)	Actual Expenditure (AE)	Deviation (RB-AE)	Absorption %
	<b>Recurrent</b>					
4061	County Assembly	828,000,000	828,000,000	709,741,347	118,258,653	85.7
4062	County Executive	382,337,000	429,279,922	420,033,420	9,246,502	97.8
4063	County Public Service	62,488,000	53,614,745	53,530,589	84,156	99.8
4064	Finance & Economic Planning	1,373,520,375	1,332,825,094	1,328,026,150	4,798,944	99.6
4065	Administration & Public Service	486,364,912	520,233,966	519,516,237	717,729	99.9
4066	Agriculture, Livestock & Fisheries	375,061,917	351,234,950	343,749,138	7,485,812	97.9
4067	Water, Environment & Natural Resources	200,563,028	201,701,163	200,312,711	1,388,452	99.3
4068	Health Services	2,864,050,000	3,156,351,150	3,139,977,161	16,373,989	99.5
4069	Education, Culture, ICT & Social Services	525,503,501	529,338,560	449,024,050	80,314,510	84.8
4070	Youth & Sports	146,047,760	139,348,235	139,262,427	85,808	99.9
4071	Lands, Physical Planning & Housing	136,015,248	135,782,543	134,266,581	1,515,962	98.9
4072	Trade, Industry, Tourism & Cooperatives	166,966,644	186,420,727	186,268,690	152,037	99.9
4073	Roads, Transport & Public Works	433,305,000	433,942,936	429,621,634	4,321,302	99.0
	<b>Total Recurrent</b>	<b>7,980,223,385</b>	<b>8,298,073,991</b>	<b>8,053,330,135</b>	<b>244,743,856</b>	
	<b>Development</b>					
4061	County Assembly	44,843,954	44,843,954	3,264,236	41,579,718	7.3
4062	County Executive	7,175,000	7,175,000	6,714,040	460,960	93.6
4064	Finance & Economic Planning	85,350,000	42,500,000	8,989,775	33,510,225	21.2
4065	Administration & Public Service	208,593,416	135,293,416	114,759,212	20,534,204	84.8
4066	Agriculture, Livestock & Fisheries	262,547,748	214,515,000	119,014,972	95,500,028	55.5
4067	Water, Environment & Natural Resources	281,500,000	243,500,000	131,089,618	112,410,382	53.8
4068	Health Services	1,027,044,000	893,995,018	599,606,331	294,388,687	67.1
4069	Education, Culture, ICT & Social Services	375,626,985	276,300,000	176,300,229	99,999,771	63.8
4070	Youth and Sports	370,000,000	193,800,000	144,628,972	49,171,028	74.6
4071	Lands, Physical Planning & Housing	180,339,500	121,039,500	117,260,254	3,779,246	96.9

Department		Original budget (OB)	Revised Budget (RB)	Actual Expenditure (AE)	Deviation (RB-AE)	Absorption %
4072	Trade, Industry, Tourism & Co-operatives	227,526,942	113,150,000	56,558,032	56,591,968	50.0
4073	Roads, Transport & Public Works	898,278,017	896,753,000	787,480,474	109,272,526	87.8
	<b>Total Development</b>	<b>3,968,825,562</b>	<b>3,182,864,888</b>	<b>2,265,666,145</b>	<b>917,198,743</b>	
	<b>Totals</b>	<b>11,949,048,947</b>	<b>11,480,938,879</b>	<b>10,318,996,280</b>	<b>1,161,942,599</b>	

Source: County Treasury

15. During the year under review, recurrent expenditure amounted to KShs. 8.05 billion against a revised target of KShs. 8.29 billion. This represents a 2.9 per cent deviation. In terms of absorption levels, Administration and Public service, Trade, Tourism and Cooperatives, County Public service board and Finance and Economic planning departments had the highest absorption at 99.9, 99.8 and 99.6 per cent respectively.

16. In the FY 2015/16 development expenditure amounted to Ksh.2.26 billion compared to a target of KShs. 3.18 billion which translates to 28.9 percent deviation from the target. Lack of adequate funds resulted to the underperformance to finance the projects and led to build up of pending bills in the Financial Year. The uncompleted projects will be given priority in the current Financial Year. The FY2016/17 budget has factored in Pending bills and carryovers, while others will be accommodated in the supplementary budget. This will affect some of the programs and projects for the current financial year. However, to ensure that the buildup of pending bills is checked, suitable measures have been put in place.

17. Absorption levels under development vote were as follows; Lands, Physical planning, County Executive and Roads and public Works had the highest absorption at 96.9, 93.6 and 87.8 percent respectively.

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## 2015/16 Financing and balance

18. The analysis above 2015/16 FY budget performance shows that the budget was under financed by Ksh.1.17 Billion (which translates to 10.12 per cent). This further infers that the 2016/17 FY budget might be underfinanced by a similar magnitude and hence requires a budget revision to cater for these developments.

### **C. Implication of 2015/16 Fiscal Performance on Fiscal Responsibility Principles and Financial Objectives contained in the 2016 County Fiscal Strategy Paper**

#### ***Implication on the Financial Objectives***

19. The performance in the FY 2015/16 affected the financial objectives set out in the 2016 County Fiscal Strategy Paper and the Budget for the FY 2015/16 in the following ways;

- Revenue projections and expenditure though still in line with the outcome might need slight adjustments to reduce chances of generating pending bills at the end of the period.
- Programs and projects initially projected for the period FY 2016/17 will be affected by Pending bills being accommodated in FY 2015/16.
- The base used to project expenditures in the FY 2016/17 and the medium term is affected since targets were not met. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the budget outturn for the FY 2015/16.
- Consequently, the baseline ceilings for the formulation of CFSP 2017 will be at a lower rate than previously set out in the CFSP 2016.



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20. The main reasons for the deviations, as explained above, from the financial objectives include: lower than projected revenue collection especially from own sources; and under-spending in both recurrent and development

21. To remedy these divergences, the County Government will focus on :

- ✓ Reforms to improve public resources utilization and budget execution.
- ✓ Capitalizing in County infrastructure and social welfare services in order to unlock the county's potential and improve competitiveness.
- ✓ Enhancing local revenues collection capacity.
- ✓ Strengthening capacity-building in public financial management to ensure good governance and effective service delivery.
- ✓ Entrenching program budget and promoting execution of the development budget as planned

### ***Implication on the Fiscal Responsibility Principles***

22. In line with section 107 of PFMA, 2012 and section 25 of PFMA regulations 2015, the County embarked on to ensure that that the following principles were adhered to;

- The County's total expenditure on employees' wages and benefits amounted to KShs 4.6 Billion translating to 40 percent of the revised budget estimates FY 2015/16. The County Government is committed into bringing down the proportion of the expenditure on wages down in the medium term. In effort to achieve this, the County Government has frozen recruitment of employees except for essential manpower.
- In the Approved budget of KShs. 11.94 Billion, KShs. 7.98 Billion was allocated to recurrent expenditure, while KShs. 3.97 Billion was appropriated to development expenditure. This translated to 66.8 and

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33.2 percent on recurrent and development expenditure respectively. In the revised budget of 11.48 Billion, KShs. 3.18 Billion was appropriated to development expenditure and KShs. 8.29 on recurrent. The revised budget availed 27.7 percent to development and 72.2 percent to recurrent expenditure. This scenario was largely occasioned by unmet revenue targets.

- The County did not borrow any funds during the year to supplement budget financing.
- In the Approved budget estimates FY 2015/16, County Assembly was appropriated at Kshs872.8 of the total budget. This translates to 7.3% which was maintained in the revised budget during the same period.

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### III. RECENT ECONOMIC DEVELOPMENTS IN KENYA'S ECONOMY

17. The performance of the county was largely dependent on the country's economic performance as well as formulation and implementation of prudent policies by the County Government (CG).

18. The recent changes in macroeconomic variables showed that the economy expanded by 5.6 per cent in 2015 compared to a 5.3 per cent growth in 2014. This growth momentum continued in the first quarter of 2016 with a growth of 5.9 percent compared to a growth of 5.0 percent in the same quarter in 2015. This strong growth was supported by positive growths in electricity and water supply, agriculture, forestry and fishing, mining and quarrying, wholesale and retail trade, accommodation and restaurant, transport and storage and information and communication. Growth in other sectors, particularly manufacturing, construction, finance and insurance and real estate, remained robust.

19. The annual inflation rate was 6.4 percent in July 2016 compared to 6.5 percent in July 2015, and was therefore, within the current allowable margin 5.0 (+/-2.5) percent. The stability of the inflation was largely due to reduced costs of petroleum products, electricity and tightening of the monetary policy.

20. The Kenya shilling displayed relatively less volatility compared with the major regional currencies in the period July 2015- June 2016 due to improved diaspora remittances and the narrowing of the current account deficit. Against the Sterling Pound, the exchange rate strengthened marginally to KShs 133.4 from KShs 157.5 in July 2015. Against the US dollar and the Euro, the Shilling depreciated slightly but stabilized at KShs 101.3 and KShs 112.1 in July 2016

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compared to KShs 101.2 and KShs 111.4 in July 2015, respectively. As world financial markets came under pressure after the result of Britain's vote to exit the European Union area, the exchange rate strengthened in July 2016 against major international currencies.

21. The capital market recorded mixed performance in both equities and bonds market in the year to June 2016. Activities at the stock market slowed down with the NSE 20 share index recording 3,641.1 points in June 2016 compared to 4,906 points in June 2015. Market capitalization was at KShs 1,995 billion in June 2016 compared to KShs 2,274 billion in June 2015.

22. The overall balance of payments position recorded an improved deficit that reflected improvements in the current account deficit. The current account deficit improved to 4.9 percent of GDP in June 2016 from 9.3 percent in June 2015. This improvement reflects increase in the value of the merchandise account as payments for merchandise imports particularly oil, machinery and transport equipment declined, reflecting low commodity prices in the international market, especially of oil.

23. The official foreign exchange reserves held by the Central Bank of Kenya, constituting the bulk of the gross reserves, increased to US\$ 7,648 million (5.1 months of import cover) in June 2016 from US\$ 7,212 million (4.5 months of import cover) in June 2015.

24. The County Government of Kiambu endeavored to achieve a broad-based expansion touching in all sectors of the economy. Emphasis was given to key sectors of agricultural development, construction, tourism and supportive

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services such as infrastructural investment, information communication and technology.

25. Going forward, the county government will continue to invest in agricultural infrastructure and equipment to promote value addition. Further, the CG will continue investing in social-economic sectors of education, health and social protection. Expansion of road networks, clean and safe drinking water will also be prioritized.

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#### IV. IMPLEMENTATION OF FY 2016/17 BUDGET

26. Despite some few challenges on late release of exchequer by the National Government and upgrade on local revenue automation system experienced at the beginning of this FY, the revenue collection for the FY 2016/17 is generally on course and we expect the outturn to be within the target. As at August 2016 the Exchequer returns shows receipts from the National Government were KShs 675.7 Million while that from own revenue amounted to KShs. 258.2 Million. The revenues are expected to improve with completion of administrative reforms including automation of systems and expansion of revenue base in addition of strengthening enforcement of revenue collection.

27. Total expenditure by end of August 2016 was KShs. 1.65 Billion as compared to a budget of KShs. 2.1 Million. The low absorption has been attributed by lack of liquidity due to delay in disbursement of exchequer by the National Government which is as a result of unresolved legislative issues and challenges on revenue collection. However, higher absorption rates are expected in the coming months with the ease of pressures in liquidity.

28. Low absorption rates are as a result of challenges with internal revenue collection and delayed release of funds by the national government. The delay in release of funds often leads to disruption of the activities of county and compromises service delivery. At the same time, the bulk of the non-discretionary county expenditures like personnel emoluments are of recurrent nature and thus any delays in release of funds serves to delay development spending as these expenditures take precedence.

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29. The county will continue to enhance finance management systems at all levels of county government to improve on efficiency of public finance management. This is expected to build investor/creditor confidence to participate in promoting higher growth rates. With respect to revenue, the County Government hopes to maintain a strong revenue effort by sealing existing leakages and ensuring automation of tax collection points in line using modern technology. The technology is expected to result to improved tax compliance and enhanced administrative measures leading higher revenue collection. The County Government will harmonize existing tax regimes, offer tax reliefs incentives and widen the tax base.

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## V. RESOURCE ALLOCATION FRAMEWORK

### A. Adjustment to 2016/17 FY Budget

30. The underpinning FY 2016/17 fiscal framework assumed a stable macroeconomic environment and continuation of the Government's policy of containing non-priority and unproductive expenditures within sustainable levels.

31. Considering the outcome of FY 2015/16, the CG fiscal position is very tight. Therefore, the departments will have to contain expenditures especially by reducing the recurrent expenditures to creating fiscal space for spending on development programmes within the budget.

32. Any adjustments to FY 2016/17 Budget will only provide funding to areas of emergency in nature. From the outlook, supplementary estimates will generally be downwards to reflect the current scenarios in revenue performance.

33. Given the fiscal performance in the FY 2015/16 and the updated macroeconomic outlook for the FY2016/17, there are some inherent risks to the FY 2016/17 budget framework. Expenditure pressures and in particular those of recurrent nature, pose a serious challenge. These risks will be monitored closely and appropriate measures taken in time.

34. Challenges in revenue performance require the County Government to put up structures in place to seal loopholes and widen the tax-base. Modalities to enhance collection of property rates will be explored and implemented to ensure that the budget is fully financed.



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## B. Medium-Term Expenditure Framework

35. On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and contain run-away wastage bill. Continued compliance with PFM Act, 2012 and the PFM (County Governments) Regulations, 2015 is expected to accelerate reforms in expenditure management.

36. In order to ensure effective utilization of public finances, resource allocation and utilization in the medium term expenditure framework will be guided by the following;

- County Integrated Development Plan (CIDP)
- Annual Development Plans (ADP)
- County fiscal strategy paper
- Ongoing projects
- Emerging priorities
- PFM Act, 2012 and the PFM (County Governments) Regulations, 2015

37. The medium term budget framework for the FY2017/18- 2019/20 will ensure continuity in resource allocation based on prioritized programmes aligned to employment creation and poverty reduction. Consequently, the FY 2017/18 MTEF budget will focus on interventions to guide transformation of the County anchored on five strategic pillars enshrined in the CIDP and in the ADP.

38. The priority social-economic sectors will continue to receive adequate resources to promote development. The Health sector is already receiving significant share of resources in the budget and is required to utilize the allocated resources more efficiently in order to generate fiscal space to

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accommodate other strategic interventions like disease outbreaks. Agriculture and livestock resource allocation will continue to be enhanced to boost productivity, create employment and improve food security through value addition and innovations in the sector.

39. With the County Government's commitment in improving infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, street lighting and water will continue to rise over the medium term period. This will help the sector provide quality and reliable services.

40. Reflecting the above medium-term expenditure framework, **Annex II** provides the tentative projected baseline ceilings for the FY2017/18 – 2019/20 MTEF period by Department.

### **C. The FY 2017/18 Budget Framework**

41. The FY2017/18 budget framework is set based on the medium-term macro-fiscal framework set out in this document and the County Government's strategic objectives outlined in the CIDP 2013 -2017, 2017/18 ADP, the CFSP 2016, the second MTP for Vision 2030 and agreed development policies.

#### **Revenue projections**

42. The FY2017/18 resource envelope is projected at a total outlay of KShs. 12.3 billion constituting: KShs. 3.5 billion local revenue collections and KShs. 8.8 billion equitable share from the National Government. As noted above, performance on Local revenue will be underpinned by on-going reforms in

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revenue administration. These figures are indicative and will be firmed up in the 2017 CFSP.

### **Expenditure Forecasts**

43. Overall expenditures are projected at KShs 12.3 billion in the FY 2017/18, down from the estimated expenditure of KShs. 12.6 billion in the FY 2016/17 budget. Recurrent expenditures are expected to drop from KShs. 8.8 billion in the FY 2016/17 to KShs. 8.2 billion in the FY 2017/18 in order to create savings for capital expenditures.

44. With most County positions having been filled, the wage bill is projected to be at KShs. 4.9 billion and is expected to remain at this position for some time. In the medium term these emoluments will increase slightly due to annual increments but largely remain at this level until adoption of the staff rationalization report proposed through the CARPs programme and the SRC's job evaluation is completed and recommendations proposed.

45. The resources for development expenditures will increase in nominal terms to KShs 4.0 billion in the FY 2017/18 up from KShs. 3.8 billion in 2016/17 (an increment of about 6 percent). As part of shifting more resources to development, most of the outlays are expected to support critical county infrastructure as the county realigns to meet the fiscal responsibility requirements.

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## VI. CONCLUSION AND NEXT STEPS

46. The fiscal outcome for the FY 2015/16 has had implication of the financial objectives elaborated in the last County Fiscal Strategy Paper submitted to County Assembly in February 2016. Appropriate revisions have been undertaken in the context of this CBROP, taking into account the budget outturn for the FY 2015/16. Both revenues and expenditures have been revised as reflected in this CBROP which is broadly in line with the fiscal responsibility principles outlined in the PFMA, 2012 and also consistent with the county strategic objectives pursued by the County Government as a basis of allocation of public resources.

47. In the fiscal year 2016/17, revenue enhancement remains a key focus area for the Government. In Order to achieve set revenue targets, widening of revenue base and updating the valuation roll backed by an effective enforcement strategy will be key.

48. The indicative departmental ceilings annexed herewith will guide the county Departments in preparation of the 2017/18 budget. These ceilings will be firmed up in the CFSP that will be finalized by November 2016. (see annex III)

## Annex I: Revenue Projections

No.	Revenue Stream	2015/2016 FY Revised Revenue	2015/2016 FY Actual Revenue	Projected Revenue 2017/2018
		KShs	KShs	KShs
	<b>Total revenue</b>	<b>11,478,347,958</b>	<b>10,580,028,187</b>	<b>12,330,093,212</b>
	<b>Totals- national grant</b>	<b>8,170,221,635</b>	<b>8,142,431,235</b>	<b>8,823,751,054</b>
1	Equitable Share	7,463,541,789	7,463,541,789	8,209,895,968
2	Grants- Thika Level 5	330,044,000	330,044,000	432,369,942
3	DANIDA	19,200,000	19,200,000	9,600,000
4	Fuel Levy	94,811,800	94,811,800	136,112,062
5	Users fee forgone	37,838,646	37,838,646	35,773,082
6	Maternity Fees	224,785,400	196,995,000	-
	<b>Totals Internal revenue</b>	<b>3,308,126,323</b>	<b>2,437,596,952</b>	<b>3,506,342,158</b>
7	Vehicle parking fees	420,000,000	276,210,777	303,831,855
8	Business permits	380,000,000	295,231,826	324,755,009
9	Health services	400,000,000	505,714,876	556,286,364
10	Land rates	646,692,961	219,948,910	840,190,107
11	Physical planning, advertisements and survey	500,000,000	442,149,451	663,224,177
12	Cess-loyalties & agriculture produce	220,000,000	100,539,451	150,809,177
13	Liquor licences	10,000,000	92,719,895	101,991,885
14	Markets enhance fess	200,000,000	71,498,822	78,648,704
15	Water, environment & natural resources	80,000,000	66,613,155	73,274,471
16	Slaughter houses fees	50,000,000	46,675,405	51,342,946
17	Housing/shops & stalls	69,000,000	38,632,094	42,495,303
18	Roads, transport & public works(stadium & halls rents)	40,000,000	31,818,925	35,000,818
19	Education & social services	10,500,000	5,093,472	5,602,819
20	Interest on loans(mortgage)			

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<b>No.</b>	<b>Revenue Stream</b>	<b>2015/2016 FY Revised Revenue</b>	<b>2015/2016 FY Actual Revenue</b>	<b>Projected Revenue 2017/2018</b>
		90,000,000	99,674,505	109,641,956
21	Agriculture, livestock & fisheries	60,000,000	40,608,327	44,669,160
22	Trade tourism industry & co-operatives	11,133,362	7,830,622	8,613,684
23	Other Revenues	120,800,000	96,636,439	115,963,727
24	Unspent Revenue as at 30.6.2015 form previous FY	2,590,921	-	-

## Annex II: Medium Term Expenditure Framework 2016/17-2019/2020

vote	Vote Name		Printed Estimates 2016/17	Estimates 2017/18	Projected Estimates	
					2018/19	2019/2020
	<b>RECURRENT</b>		<b>8,823,584,135</b>	<b>8,252,610,688</b>	<b>8,599,785,477</b>	<b>8,963,351,297</b>
		O&M	3,825,309,240	3,319,882,262	3,519,075,197	3,730,219,709
		PE	4,998,274,895	4,932,728,427	5,080,710,280	5,233,131,588
4061	County Assembly	O&M	458,297,956	485,795,833	514,943,583	545,840,198
		PE	447,947,170	461,385,585	475,227,153	489,483,967
4062	County Executive	O&M	189,745,000	170,960,245	181,217,860	192,090,931
		PE	177,386,211	91,901,017	94,658,047	97,497,789
4063	County Public Service Board	O&M	29,100,000	26,219,100	27,792,246	29,459,781
		PE	33,423,664	18,984,560	19,554,097	20,140,720
4064	Finance & Economic Planning	O&M	763,298,067	687,731,558	728,995,452	772,735,179
		PE	570,600,000	486,325,406	500,915,168	515,942,623
4065	Administration & Public Service	O&M	198,045,995.33	178,439,442	189,145,808	200,494,557
		PE	268,121,339	374,562,957	385,799,845	397,373,841
4066	Agriculture, Livestock & Fisheries	O&M	72,348,097	65,185,635	69,096,774	73,242,580
		PE	306,483,734	345,215,133	355,571,587	366,238,734
4067	Water, Environment & Natural Resources	O&M	67,700,000	60,997,700	64,657,562	68,537,016
		PE	170,518,137	116,939,011	120,447,181	124,060,596
4068	Health Services	O&M	1,196,194,434	878,180,447	930,871,274	986,723,550
		PE	2,169,000,000	2,431,342,631	2,504,282,910	2,579,411,397
4069	Education, Culture, ICT & Social Services	O&M	296,120,029	266,804,146	282,812,395	299,781,139
		PE	359,190,725	308,744,619	318,006,957	327,547,166
4070	Youth, Sports & Communications	O&M	64,338,226.46	57,968,742	61,446,867	65,133,679
		PE				

			78,541,676	9,957,191	10,255,907	10,563,584
4071	Lands, Physical Planning & Housing	O&M	87,177,500	78,546,928	83,259,743	88,255,328
		PE	79,590,248	84,354,291	86,884,920	89,491,467
4072	Trade, Tourism, Industry & Co-Operative	O&M	115,265,934.78	103,854,607	110,085,884	116,691,037
		PE	144,085,591	59,174,216	60,949,442	62,777,926
4073	Roads, Transport & Public Works	O&M	287,678,000	259,197,878	274,749,751	291,234,736
		PE	193,386,400	143,841,811	148,157,066	152,601,778
	<b>Development</b>		<b>3,846,681,626</b>	<b>4,077,482,524</b>	<b>4,322,131,475</b>	<b>4,581,459,363</b>
4061	County Assembly		8,644,013	9,162,654	9,712,413	10,295,158
4062	County Executive		7,202,566	7,634,720	8,092,803	8,578,371
4064	Finance & Economic Planning		50,000,000	53,000,000	56,180,000	59,550,800
4065	Administration & Public Service		117,811,190	124,879,861	132,372,653	140,315,012
4066	Agriculture, Livestock & Fisheries		290,623,810	308,061,239	326,544,913	346,137,608
4067	Water, Environment & Natural Resources		342,287,000	362,824,220	384,593,673	407,669,294
4068	Health Services		870,063,584	922,267,399	977,603,443	1,036,259,650
4069	Education, Culture, ICT & Social Services		307,070,119	325,494,326	345,023,986	365,725,425
4070	Youth, Sports & Communications		352,860,864	374,032,516	396,474,467	420,262,935
4071	Physical Planning & Housing		189,141,410	200,489,895	212,519,288	225,270,446
4072	Trade, Tourism, Industry & Co-Operative		280,120,000	296,927,200	314,742,832	333,627,402
4073	Roads, Transport & Public Works		1,030,857,070	1,092,708,494	1,158,271,004	1,227,767,264
	<b>TOTAL BUDGET</b>		<b>12,670,265,761</b>	<b>12,330,093,212</b>	<b>12,921,916,952</b>	<b>13,544,810,661</b>



### ANNEX III: County Budget Calendar 2016-2017

Activity	Responsibility	Timeframe/Deadline
Develop and issue circular on Budget Preparation and MTEF Guidelines	C.E.C Member for Finance	15 <sup>th</sup> July, 2016
Undertaking of Departmental Expenditure Reviews	All Departments	12 <sup>th</sup> August, 2016
Preparation and submission Annual Development Plan to Assembly for Approval	County Treasury	12 <sup>th</sup> August, 2016
Draft County Budget Review and Outlook Paper(CBROP)	County Treasury	26 <sup>th</sup> August , 2016
Submission of County Budget Review and Outlook Paper the County Executive Committee for Approval	C.E.C Finance	2 <sup>nd</sup> September, 2016
Submission of County Budget Review and Outlook Paper(BROP) to the County Assembly	County Treasury	9 <sup>th</sup> September, 2016
Start Sector Consultations	All Departments- Finance (sector working Groups)	4 <sup>th</sup> -23 <sup>rd</sup> September, 2016
Submission of final sector reports to Treasury	All C.E.Cs for their respective Departments	30 <sup>th</sup> September, 2016
Draft of County Fiscal Strategy Paper(CFSP)	County Treasury	3 <sup>rd</sup> October 2016
Public Participation on CFSP/Budget (including County Budget and Economic Forum(CBEC)	County Treasury	24 <sup>th</sup> -27 <sup>th</sup> October 2016
Submission of County Fiscal Strategy Paper(CFSP) to County Executive Committee for approval	County Treasury	3 <sup>rd</sup> November 2016
Submission of County Fiscal Strategy Paper(CFSP) to County Assembly	County Treasury	10 <sup>th</sup> November, 2016
Issue of circular for finalization of 2016/15-2016/17 MTEF estimates and PBB	County Treasury	2 <sup>nd</sup> December, 2016
Submission of Final Budget proposals to County Treasury	All Departments	22 <sup>nd</sup> December, 2016
Submission of Draft Budget Estimates to County Executive for approval	County Treasury	26 <sup>th</sup> January, 2017
Presentation of Draft Budget to County Assembly	C.E.C Finance & Economic Planning	27 <sup>th</sup> January, 2016
Report of Draft Budget Estimates from the County Assembly	County Assembly	24 <sup>th</sup> February 2017
Consolidation of Final Budget	County Treasury	10 <sup>th</sup> March 2017
Submission of Appropriations Bill to the County Assembly	County Treasury	15 <sup>th</sup> March 2017
Budget statement	CEC member for Finance	17 <sup>th</sup> March 2017
Appropriations Bill Passed	County Assembly	31 <sup>st</sup> March 2017