

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF LAIKIPIA

LAIKIPIA COUNTY FISCAL STRATEGY PAPER

2018

FEBRUARY 2018

COUNTY VISION AND MISSION

Vision

THE GREATEST COUNTY WITH THE BEST QUALITY OF LIFE

Mission

TO ENABLE EVERY HOUSEHOLD IN LAIKIPIA COUNTY LEAD A PROSPEROUS LIFE

Core Values

People-centeredness

Equity

Accountability

Efficiency

Professionalism

Integrity

Innovativeness

Passion

FOREWORD

The Laikipia County Fiscal Strategy Paper for the year 2018 is a prime policy document of the government as it reveals and specifies what its priorities are, how it will implement them through a number of programmes and the amount of funds it has dedicated towards paying for these programmes to achieve its priorities. The programs and policies herein reflect the concerns of the people of Laikipia as set out in the Annual Development Plan 2018/19 of the second generation CIDP (2018-2022) and the Medium Term Plan III of the Vision 2030. In addition, it conforms to the direction of the 2018 Budget Policy Statement (BPS) at the national level as captured in the latter's theme: **“Creating Jobs, Transforming Lives - “The Big Four” Plan”**.

The 2018 CFSP is anchored on the following key pillars: Upgrading of infrastructure; Improving Security; Food security; Destination Laikipia; Lighting up homes and markets; Job creation; Proper governance and accountability; Employable youth and entrepreneurs; Access to quality and affordable healthcare and Access to clean and reliable water. These pillars are in line with the BPS “The Big Four” Plan expenditures priorities namely: Employment creation, youth empowerment, supporting manufacturing activities, enhancing health coverage, improving food security and enhancing living conditions through affordable housing. In order to realise this targets and taking cognisance of limited resources, the county revenue base shall continue to be enhanced towards increased resource envelope, collaboration with private sector and development partners to complement in the implementation of programmes.

In finalizing this CFSP, we benefitted from the wise counsel and guidance of H.E The Governor, H.E The Deputy Governor, Hon. Speaker, Finance, Planning, Budgeting and Appropriation Committees played a critical role by providing oversight to the process. Equally, we received support and contributions from my CECM colleagues. We also consulted a wide range of stakeholders and the general public in line with the requirements of the Public Finance Management (PFM) Act and the Constitution.

Boniface Murungi Ndai,

County Executive Committee Member, Finance and Economic Planning

ACKNOWLEDGEMENTS

This County Fiscal Strategy Paper 2018 has been prepared in accordance with the Public Finance Management (PFM) Act, 2012. It outlines the current state of the economy and outlook over the medium term, broad macroeconomic issues and the medium term fiscal framework, resource envelope and criteria for resource allocation, key strategic priorities and policy goals and a summary of the Government's spending plans as a basis for the FY 2018/19 budget. The CFSP is expected to improve the public's understanding of public finances in Laikipia and guide development and implementation of government programs.

The preparation of the Laikipia County Fiscal Strategy Paper 2018 was a collaborative effort supported by individuals, government agencies and entities. The County Executive Committee Members played a key role by providing departmental support towards the finalization of this paper.

I recognise the leadership role provided by CECM for Finance and Economic Planning and his guidance in entire the process. I also thank the county government Departments and Agencies for providing necessary information and technical assistance in the preparation of this Strategy Paper.

In addition, I am grateful to the core team in the County Treasury, Economic Planning Unit, Budget Supplies and County Revenue Board which spent a significant amount of time putting together this CFSP.

Finally, I thank the Ward administrators, ward level technical staff and members of public who participated at the sub location level whose consultations and views greatly enhanced the contents of this Strategy Paper.

Paul Waweru Njenga,
Ag. Chief Officer, Finance and Economic Planning

ABBREVIATIONS AND ACRONYMS

AIA	Appropriation in Aid
BPS	Budget Policy Statement
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CRA	Commission on Revenue Allocation
DANIDA	Danish International Development Agency
ECDE	Early Childhood Development Education
FY	Financial Year
GDP	Gross Domestic Product
HFIF	Hospital Facility Improvement Fund
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
Ksh	Kenya Shilling
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NSE	Nairobi Stock Exchange
PFMA	Public Finance Management Act
PPP	Public Private Partnership

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Kenya has continued to implement the two-tier system of government comprising of national and county governments as stipulated in the Constitution of Kenya, 2010. The county governments are responsible for spearheading development in their respective areas of jurisdiction. They are to achieve this through a participatory process that links planning and budgeting as provided for in Section 102 of the County Government Act, 2012.

The Public Finance Management Act, 2012 provides guidelines on the budgeting process. Towards ensuring a comprehensive budget process, the county governments are expected to prepare and submit a County Fiscal Strategy Paper (CFSP) to the County Assembly by 28th February of each year.

1.2 Legal Basis for the Preparation of the County Fiscal Strategy Paper

The County Fiscal Strategy Paper is prepared in accordance with Section 117 of the Public Finance Management (PFM) Act. The law states that:

- The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and then submit the approved Fiscal Strategy Paper to the County Assembly, by the 28th February of each year.
- The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
- The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- The County Treasury shall seek and take into account the views of the Commission on Revenue Allocation (CRA), the public, any interested persons or groups and any other forum that is established by legislation.

- It further states that the County Treasury shall consider any recommendations made by the County Assembly when finalizing the budget proposal for the financial year concerned.
- The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County Assembly.

1.3 Fiscal Responsibility Principles for the County Government

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. Section 107(1-2) of Public Finance Management Act states that; in managing the County Government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:

- The County government's recurrent expenditure shall not exceed the county government's total revenue.
- Over the medium term a minimum of thirty percent of the County government's budget shall be allocated to the development expenditure.
- The County government's expenditure on wages and benefits for public officers shall not exceed 35 percent of the County government's total revenue as provided by PFM Act 2015 regulations.
- Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- The County debt shall be maintained at a sustainable level as approved by County Assembly.
- Fiscal risks shall be managed prudently
- A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking in to account any tax reforms that may be made in the future.

1.4: Strategic Objective of the County Government

To achieve the County Government's development goal and transformative agenda, this County Fiscal Strategy Paper targeted investments will prioritize the following key outcomes in the medium term; Improved access to clean and reliable water through drilling of

boreholes, construction and rehabilitation of dams and pans as well as protection of wetland and forests; Improved access to quality and affordable health care through universal health coverage, accreditation of health facilities for NHIF services, upgrading of health facilities and enforcement of proper disposal systems of solid and liquid waste; Promote entrepreneurship through establishment and upgrading of technical institutions, establishment of business incubation and innovation programs in all technical institutions, promotion of early childhood education and special needs education and talent development for young people; Proper governance and accountability through Public participation in budgeting and decision making and implementation of e-Government for efficient and effective service delivery; Creation of 6,000 new jobs every year through enacting favourable business regulations and licenses, strengthening the Laikipia Enterprise Fund, training and marketing partnerships and facilitate establishment of cottage industries; Promote agribusiness through contract farming, establishment of feedlots, disease-free zones and promotion of on-farm value addition for crops and livestock products; Development and upgrading of infrastructure through urban development, upgrading of feeder roads to all weather status and lighting up of homes and markets; Promoting cohesion and peaceful co-existence through regional integration initiatives such as Amaya triangle as well as reducing incidences of human wildlife conflict.

CHAPTER TWO

RECENT GLOBAL, NATIONAL AND COUNTY ECONOMIC DEVELOPMENT

2.1 Introduction

Laikipia County is not isolated from the effect of global and national economic issues that do arise. These issues have had either positive or negative effects on the economic development of the county. This section highlights recent economic developments on the global and national level and the impact that this has on the county economic development.

2.2 Macroeconomic Environment

In 2017, the country's economic growth was estimated at 4.8 percent from 5.8 percent estimated in 2016. The economy grew by 5.1 percent in quarter four, 4.4 percent in quarter three, 5.0 percent in quarter two and 4.7 percent in quarter one. The annual decline was mostly attributed to uncertainty associated with adverse weather conditions, prolonged electioneering period as well as subdued credit growth to the private sector slowed growth in most of sectors in the first half of the year. However, there was resilience to the 2017 growth supported by ongoing public infrastructure investments, improved weather towards end of 2017, recovery in the tourism sector and a stable macroeconomic environment.

Over the medium term, growth is projected to increase by more than 7.0 percent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the national share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and delivering at least five hundred thousand (500,000) affordable housing units countrywide. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

The average inflation rate in the first half of 2017 was 9.78 per cent representing increase of 3.59 percent compared to the same period in 2016. This was as result of prolonged dry seasons that affected food prices. Inflationary pressures started to ease in the second half of 2017 with an average record of 6.25 percent. The decrease was mostly attributed to bumper harvests leading to fall in prices of potatoes, kale, oranges and mangoes and the Government measures to address the food shortages in the country. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, milk and temporary subsidy on maize meal prices). Inflation rate in the month of January 2018 was 4.83 per cent representing a decrease of 2.16 per cent recorded the same period in 2017.

The overall consumer index for January 2018 was 185.47 representing an increase of 2.47 percent from what was recorded in December 2017. This Index increased by 0.97 per cent from 182.08 in November 2017 to 183.05 in December 2017. The upward pressure came mostly from increases in prices of foodstuffs, house rents, electricity, charcoal, petrol, diesel and kerosene.

The overall producer prices decreased by 0.41 per cent from September 2017 to December 2017 while the 'year on year' inflation was 3.18 per cent. Over the last one year, the highest increase was on manufacture of chemicals and chemical products which increased by 8.83 per cent followed by manufacture of furniture which rose by 8.0 per cent. However, during the same period manufacture of non-metallic products and manufacture of wood related products and cork except furniture declined by 2.21 per cent and 1.22 per cent, respectively

The Kenya Shilling exchange rate demonstrated mixed performance against major international currencies. The currency appreciated against the US dollar to Ksh 101.12 in Week two of February 2018 from Ksh 101.24 in Week one of February 2018. Against the Sterling Pound, the Shilling appreciated to Ksh 140.38 in Week two of February 2018 from Ksh 141.55 in Week one of February 2018 and against the Euro, it appreciated to Ksh 124.63 in Week two of February 2018 from Ksh 125.18 in Week one of February 2018. Against the Japanese Yen, the Kenya Shilling depreciated to Ksh 93.80 in Week two of February 2018 from Ksh 92.34 in Week one of February 2018.

2.3 Implementation Progress at the County Level

In the financial year 2017/18 the county expects to receive revenue of Ksh.4, 999,800,000 comprising of Ksh 4,499,800,000 from equitable share of the national revenue and estimated Ksh. 500,000,000 from local collections. In addition, a total of Ksh. 706,695,720 as conditional grants and loans are to be received. This comprises of: Ksh. 9,968,208 for compensation for user fees foregone; Ksh. 95,744,681 for leasing of medical equipment; Ksh. 146,974,666 for roads maintenance; Ksh. 15,935,327 DANIDA support for county health facilities, Ksh. 25,255,000 World Bank support on delivery of primary health care, Ksh. 46,115,937 World Bank support on transforming health for universal access (TUC), Ksh. 66,000,000 EU support on maize storage facilities, Ksh. 38,403,464 on devolution support programme, Ksh. 33,358,878 on development of vocational training centres, Ksh. 2,500,000

on conservation agriculture by FAO, and Ksh. 26,439,559 as loans and grants. Extra budgetary provisions will include HFIF to the tune of Ksh. 200,000,000

From July 2017 to January 2018 the county had collected Ksh 133,029,291 from local sources representing 26.61 percent of the annual local revenue target. This is attributed largely to low collections in July to October due to prolonged electioneering period. However, the largest collections are realized between January-March due to business permit renewals.

From the period of July 2017 to mid February 2018 the total exchequer releases were Ksh 2,512,115,840 representing 50.24 percent of the total allocations from national government.

The development expenditure as at mid-February 2018 was Ksh. 820,299,676 with Ksh. 321,640,870 already paid and Ksh. 498,658,806 committed within our system for payment, i.e. representing WIP (work in progress) awaiting completion, (42.4 per cent of the vote) while recurrent expenditure was Ksh 2,190,474,970 (57.4 per cent of the vote).

CHAPTER THREE

MACRO-ECONOMIC POLICY FRAMEWORK AND MEDIUM TERM OUTLOOK

3.1 Introduction

This section explores the global and national macro-economic development outlook and how they will impact on the county's economic outlook and fiscal performance in the medium term. In addition, analysis on significant internal risks to the outlook is highlighted.

3.2 Kenya's Economic Prospects

Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and Sub-Saharan Africa growth recovery. The growth projection takes into account the strategic objectives of the Government as outlined in MTP III of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.8 percent by FY 2020/21.

This growth will be supported by sustained investment in infrastructure, increased agricultural production, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence and macroeconomic stability.

Inflation is currently within the Government's target range and is expected to remain so in the medium term underpinned by prudent monetary and fiscal policies, favorable weather outlook, relatively lower international oil prices, and a stable exchange rate which is expected to dampen any risks of imported inflation. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

The County Government will prioritize; creation of 6,000 new jobs per annum; promotion of agro-processing and contract farming; Lighting of homes and markets; Smart towns initiative; Upgrading of roads; and Marketing of Laikipia as a leading wildlife tourist destination. These measures coupled with the implementation of existing policies and legislative framework will bolster the economic potentials of the county. Overall, the targeted growth rate is critical towards increased wealth creation, labour absorption and reduced poverty incidences.

3.3 Budget Allocations and Revenue Enhancement

The 2018 Draft Budget Policy Statement provides a total county allocation of Ksh. 372.7 Billion in 2018/19. This records an upward trend from Ksh. 336.22 Billion in the financial year 2017/18. In the medium term, the allocations will continue on a steady growth based on

revenue growth adjustments. In addition, focus on conditional grants is anticipated to remain steady in the health services, polytechnics and roads infrastructure sectors. The county equitable allocations are based on the periodically revised formula which uses six parameters with specific weights, namely: population size (45 percent); equal share (26 percent); poverty index (18 percent); land area (8 percent); fiscal responsibility (2 percent) and development factor (1 percent). The current formula was passed by a resolution of the National Assembly on 21st June 2016, pursuant to article 217 of the constitution, to form the basis of revenue sharing among the counties for FY 2016/17, 2017/18 and 2018/19.

The County Government will focus on enhancing the revenue base and efficiency in tax administration. This will ensure that targets on all local revenue streams are fully realized. In the year 2018/19, total local collections are expected at Ksh. 500,000,000 being equal to the estimated target of Ksh. 500,000,000 in 2017/18. In addition, the County Government will initiate resource mobilization strategies from external sources to complement government revenues.

3.4 Public-Private Partnership

Taking into account limited public resources, the County Government will fast track the participation of the private sector in infrastructure development in the medium term. The Public Private Partnerships Amendment Act of 2017, provides for the participation of the private sector in the financing, construction, development, operation, or maintenance of infrastructure or development projects of both the National and County governments through concession or other contractual arrangements.

It also provides for establishment of Public Private Partnerships Committees and PPPs Unit to ensure that each project agreement is consistent with the provisions of the Act.

The participation of the private sector is critical in meeting the economy's resource requirements while developing the appropriate market environment to promote efficiency. All this is premised on a macroeconomic stability, deeper structural reforms, cordial intergovernmental relations, robust policy framework and enactment of enabling legislations/regulations. In addition, the implementation of the Companies Act, 2015 is expected to provide further incentives in trade and investment at the national level impacting positively at the county.

3.5 Risks to the Outlook

A number of risks associated to the outlook may pose uncertainties thus influencing key decisions on increase or decrease of the fiscal forecasts. The risks to the economic outlook for 2018/19 and the medium-term include:

a) National Macro Economic Stability

Uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome are likely to weigh down global growth with negative impact on trade and financial flows. This may contribute towards negative variances on the performance of the economic growth and hence lead to lower local revenue collections and increased expenditure. However, the national government in collaboration with county governments will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

b) Seasonal Weather Patterns

Depressed weather patterns are expected in 2018 as well as the medium term. Laikipia County is dominantly rural with a significant population in the agriculture sector and associated linkages. Instability of the weather patterns poses adverse effects on livelihoods dependent on the agricultural related occupations. The short rains season during October to December 2017 were poorly distributed both in time and space. However, March-April-May long rain season 2018 are expected to be generally near normal over most of the places hence improved agricultural production. Periodic seasonal outlooks will be provided over normal seasons, prolonged dry seasons and enhanced rains.

c) Tourism

The National Government initiative to enhance domestic tourism has continued to have positive bearings on the county. Laikipia County being part of the northern circuit receives a large number of tourists due to its attraction sites such as scenic view of Mt. Kenya peaks, Thompson Falls in Nyahururu, proximity to Mt Kenya Game Park, expansive savannah landscape, game lodges and restaurants, conservancies and a rich Maa culture. The large numbers of tourists and positive performance of this sector assumes Kenya's stability on security concerns with no issuance of travel advisories by major tourists' source countries.

In addition, the county government has put measures in place towards promotion of tourism activities and marketing of Laikipia as a leading wildlife tourism destination.

d) Budget Allocations and Revenue Enhancement

A stable economic performance will translate to increased revenues for the county as the law requires the division of revenues between the Counties and the National Government to be at least 15 per cent of the audited financial position of the country. However, public expenditure pressures, especially recurrent expenditures, continue to pose fiscal risk to the County Governments. Looking ahead, the county government will continue mitigating internal risks. These risks include delays in passage of the finance related bills, labour unrest by the unionized members, court cases on revenue collections, weak implementation of large development projects and competing political environment which would adversely affect the outcomes of development expenditures. On the recurrent expenditures, consistent cost management and increased efficiency will be nurtured to facilitate service delivery. Expenditure management will be strengthened with enhanced use of the Integrated Financial Management Information System (IFMIS), automated revenue collection systems and e-procurement across the county.

CHAPTER FOUR
FISCAL FRAMEWORK AND STRUCTURAL MEASURES FOR 2018/19 AND THE
MEDIUM-TERM

4.1 Introduction

This section highlights the projections for county revenue, recurrent expenditure and development expenditure. It also describes the overall deficit and its financing, the underlying risks, structural measures and strategic interventions.

4.2 County Revenues

In the financial year 2017/18 the county revenue was estimated at Ksh. 5,706,495,720.00 comprising of Kshs. 4,499,800,000 from equitable share of the national revenue, Ksh 500,000,000 from local revenue collections and conditional grants of Ksh 706,695,720.

The 2018 Draft Budget Policy Statement prepared according to Section 190 of the PFM Act sets out the division of county governments' share of revenue among the counties for the FY 2018/19. From these allocations, Laikipia County will get an equitable share of Ksh. 4,113,400,000. In addition, the County government will get a conditional allocation of; Kshs 9,968,208.00 for compensation of user fees foregone; Ksh 200,000,000 for lease of medical equipment; Ksh. 109,128,974 for road levy; Ksh 28,525,000 for rehabilitation of village polytechnics; and other loans and grants amounting to Kshs 380,285,005. The total conditional grants amounts to Ksh. 727,907,187. This makes the revenues expected from the national government for the FY 2018/19 amount to Ksh. 4,841,307,187. Revenue from local sources is projected at Ksh. 500,000,000. Extra budgetary provisions will also include hospitals own generated revenues to the tune of Ksh. 200,000,000. Therefore, total expected revenue for F/Y 2018/19 is Ksh. 5,541,307,187.00

Table 1: Summary of County Revenues in 2015/16-2018/19

Type of Revenue	2015/16 (Ksh)	2016/17 (Ksh)	2017/18(Ksh)	2018/19(Ksh)
Equitable share	3,449,548,893	3,722,107,267	4,499,800,000	4,113,400,000
Local Revenue	500,000,000	670,000,000	500,000,000	500,000,000
Total	3,949,548,893	4,392,107,267	4,999,800,000	4,613,400,000

NB: Exclusive of Conditional Grants

4.3 County Expenditure

Following the limited resources facing the County Government, departmental funding requirements will have to be in line with the county and national goals and objectives as

outlined in the County Fiscal Strategy Paper (CFSP) 2018 and the County Integrated Development Plan (2018-2022). In this regard, departments will have to rationalize and prioritize their expenditure programs in the FY 2018/19 and medium term to focus only on the strategic interventions and projects that are captured in these planning frameworks. The expenditure has to be geared towards enhanced service delivery that supports social development, economic growth and transformation in the County.

In 2018/19, overall expenditures at the County are projected at Ksh 5,341,307,187 compared to the budget allocations in 2017/18 of Ksh 5,706,495,720.00. The expenditure for 2017/18 is expected to hit Kshs 5,427,495,720.00 excluding budgeted pending bills of Ksh. 279,000,000.

4.4 Development Expenditure

In 2018/19, development expenditures from shareable revenue across departments are projected at Ksh. 1,129,862,500. This will be complemented by conditional funds estimated at Ksh. 757,938,979. Overall development votes will represent 35.3% of the estimated revenues. Development spending in 2018/19 will focus on health services facilities, water infrastructure, roads improvement, agricultural infrastructure, market infrastructure, security services, school infrastructure, and land-based resource management. The major spending departments include: Health, Water, Infrastructure and Agriculture. Overall development spending in 2017/18 of Ksh. 1,781,338,979 was mainly on health facilities upgrading, water dams, roads improvement, urban parking, health supplies, wildlife fences, school infrastructure and security support infrastructure.

4.5 Recurrent Expenditure

The estimated amount for recurrent expenditure in 2018/19 is projected at Ksh. 3,483,537,500 of sharable revenue from 3,581,126,535 in 2017/18. Salaries and the wage bill in 2018/19 have been estimated at Ksh. 2,728,037,500 compared to budget level of Ksh. 2,661,500,000 in 2017/18. This will be complemented by conditional funds estimated at Ksh. 169,968,208 in health services. The overall vote for the recurrent expenditure will be 64.7%. This spending item is expected to stabilize over the medium term following staff rationalization at the county and national level in matching of skills and functions. The major spending departments include; Health services, County Assembly Services, County Administration, Agriculture, Finance and Planning Services.

4.6 2017/18 County Fiscal Policy Statement

Strategies for sustainable economic activities are critical in order to provide fiscal space for priority expenditures. Wage adjustments for government departments are expected to be met within the departmental ceilings. With respect to goods and services, expenditure ceilings for sectors/departments are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in 2017/18 and then an adjustment factor is applied to take into account the general changes in growth of revenues. The expenditure on wages and benefits for public officers' stand at 49.8% while that provided by the PFM Act stands prescribes a global standard of 35%.

Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure (health, water, roads, and agriculture), the uptake of development expenditures including funding from development partners is to be maintained at 34.7% and recurrent expenditure at 64.3%. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment as well as critical interventions to remove constraints to accelerated growth. With improvement in procurement planning, the absorption capacity of project funds is expected to increase resulting in a higher investment level in infrastructure activities.

In view of challenges of climate change and unforeseen shocks, Emergency Fund provision of Ksh. 113,626,144 will be provided in the budget for 2018/19 from Ksh. 10,000,000 in 2017/18 to be applied in line with the Emergency Fund requirements limited to 2% of total government revenue as per Section 113 of the PFM Act. There will also be enhancement of all county revenue streams including Liquor License fees and Hospital Facility Improvement Fund (HFIF).

4.7 Overall Deficit and Financing

To ensure fiscal discipline, the 2018 BPS encourages the County governments not to include deficits in their budgets in 2018/19 and medium term without a clear and realistic plan of how the deficit will be funded. It is in this regard that the County Government allocated resources for spending that are commensurate to the revenues expected in the 2018/19 and the medium term.

During the 2018/19 fiscal year, the county budget shall be financed through transfers from the national government and revenue collected from local sources such as fees and charges, rates, among others as allowed by the governing Acts. The 2018/19 PBB fiscal framework is therefore fully financed.

CHAPTER FIVE

RESOURCE ENVELOPE AND CRITERIA FOR RESOURCE ALLOCATION

5.1 Introduction

This section provides for the available resources in terms of revenue and deficit finance vis-à-vis budgetary requirements. This is informed by the national objectives and goals as outlined in the 2018 Budget Policy Statement and the set out resource sharing guidelines.

According to Articles 201, 202 and 203 of the Constitution, revenue raised nationally is shared equitably among the two levels of governments and among county governments to enable them provide services and perform the functions assigned to them under the Fourth Schedule of the Constitution. The equitable division of revenue between the two levels of government takes into account the criteria specified in Article 203 of the Constitution. It is a requirement that a minimum of 15 percent of all revenue collected by the national government be allocated to county governments as sharable revenue. In the year 2018/19, the existing formula on sharable revenue was based on six parameters. Laikipia County will receive Ksh 4,113,400,000 translating to 1.31 % of the equitable share. In addition, conditional grants will be received by the counties totaling to Ksh. 33.24 Billion whereby Laikipia will receive Ksh. 727,907,187 in support of key areas including; leasing of medical equipment, road maintenance, vocational training centres infrastructure and compensation of users fees forgone.

5.2 Sector Priorities and Ceilings

This section provides the sector ceilings for the MTEF period ensuring continuity in resource allocation from the last financial year consistent with the MTEF budgeting approach. The ceilings include the strategic interventions, details of sector ceilings that will continue to be informed by programmes defined in the CIDP 2018-2022 and expected outputs.

5.2.1 Public Service and County Administration

Operations across all administrative units will be strengthened upto to the ward levels and the staff motivated towards effective delivery of devolved functions. Initiatives in improving governance will be prioritized including: operationalization of Town Committees, government e-services, community leaders meetings and citizen forums. Towards ensuring a peaceful county, prioritized initiatives include; street lighting, community policing and opening of security roads.

Disaster risk reduction strategies will also be promoted towards increased resilience of the local communities. The County Public Service Board will also ensure that county employees are recruited; employees maintain high standards of skills, knowledge, competence and attitudes in serving the citizenry. The Department will closely work with National Government agencies in enhancing service delivery. Inter-county initiatives on Amaya Triangle will also be supported across departments.

In order to realize the prioritized programmes in the sector, a total of Ksh. 245,500,000 is allocated in 2018/19 with Ksh. 180,000,000 being recurrent expenditure and Ksh. 45,000,000 as development expenditure. The wages administered by this department across all departments is allocated Ksh. 2,728,037,500.

5.2.2 Finance and Economic Planning

The CIDP 2018-2022 programmes will continue to guide public financial management in supporting strategic interventions. Support will be accorded in enhancing local sources of revenue through integration of ICT in revenue collection. Continued strengthening of IFMIS in procurement, payrolls, budgeting and financial management in the Treasury operations will also receive significant support. Support to integrated planning, audit, sectoral planning, and monitoring and evaluation will be realized through concerted efforts of all county departments. To promote economic growth in the county, the government will continue funding development initiatives through Laikipia County Development Authority. The department is also tasked with settling audited, verified and approved pending bills.

This sector is allocated a total of Ksh. 220,362,500 in 2018/19 with Ksh. 105,000,000 being recurrent expenditure and Ksh. 115,362,500 as development expenditure.

5.2.3 Medical Services and Public Health

The health sector aims at attaining the highest possible health standards in a manner responsive to the population needs by supporting provision of equitable, affordable and quality health and related services at the highest attainable standards. Prioritized programmes are geared towards improved scope of health service delivery at all levels, essential medical supplies and healthcare infrastructure. Priority is also factored for increased health insurance coverage (universal health coverage - UHC), referral and ambulance services and expansion of KMTC services in guiding the allocation of resources in this sector. The sector prioritizes

upgrading of infrastructure at all levels of health facilities, capacity building of health workers upto community levels, and additional staffing.

Others include improving reproductive, maternal, neonatal, child and adolescent Health (RMNCAH) through increased immunization, improved nutrition, increased access to family planning services and improved quality of health services; ending AIDS, TB, Malaria and NCDs as a public health threat by 2030 through cost effective and transformative prevention interventions. Collaboration with the national government and development partners will also be enhanced on infrastructure for referral hospitals, specialized equipment and technical support.

To realize the prioritized programmes, the sector is allocated a total of Ksh 340,500,000 in 2018/19 with Ksh. 45,000,000 being recurrent expenditure and Ksh. 295,500,000 as development expenditure.

5.2.4 Agriculture, Livestock, Irrigation and Fisheries Development Sector

This is a major sector in supporting livelihoods and accelerating economic growth through enhancing food security; income generation; employment and wealth creation; and foreign exchange earnings. The sector also contributes significantly to socioeconomic growth and development through forward and backward linkages with other priority sectors. The County Government prioritizes food security initiatives through enhanced production mechanisms targeting: warehouses for cereals, disease control and surveillance, breed improvement, fodder production, subsidized farm inputs, contract farming, vector control, farm water harvesting, expansion of irrigation dams, enhanced extension services, water and soil conservation, fisheries and value addition initiatives such slaughter houses alongside supportive infrastructure.

To realize the prioritized programmes, the sector is allocated a total of Ksh. 132,500,000 in 2018/19 with Ksh. 30,000,000 being recurrent expenditure and Ksh. 102,500,000 as development expenditure.

5.2.5 Lands, Housing and Urban Development

This sector aims at sustaining and expanding cost-effective public utility infrastructure facilities and services in the areas of road transport infrastructure, roads maintenance, spatial planning, survey and mapping, town planning, land governance management and urban development. Implementation of programmes under this sector will greatly enhance the

commercial and productive activities in the dominant rural areas of the county. Urban infrastructure development targeting parking lots, pedestrian paths, and bus parks pavements have also been factored in for urban areas in Rumuruti, Nanyuki and Nyahururu. Collaboration with the national government and development partners will also be enhanced on road infrastructure improvement, urban development, land governance, energy distribution and housing development.

In order to realize the prioritized programmes, the sector is allocated a total of Ksh. 177,500,000 in 2018/19 with Ksh. 32,500,000 being recurrent expenditure and Ksh. 145,000,000 as development expenditure.

5.2.6 Education, Information Communication Technology and Social Services

Education and training is instrumental for transformative development. Expansion of access to education and training is at the heart of the Government's commitment to our children's future. In this regard, increased resources will be geared towards priority programmes on: school infrastructural development at ECDE Centres, vocational training centres, primary and secondary schools. Capacity building of ECDE teachers and vocational trainers have been factored .In addition, provision of specialized equipment, training materials and increased water access has been factored. Scholarships and bursaries have been factored to ensure seamless transition of primary to secondary education and beyond. To ensure sustainable livelihood business incubation and innovation project will be initiated in vocational centres. In sports and talent promotion, training facilities have been factored to be developed, rehabilitated, renovated as well as creating partnership to enhance and promote talent amongst youths. To enhance social protection the sector will embark empowerment support services to persons living with disabilities and infrastructural support at children rehabilitation and rescue centres. Annual socio-cultural events, youth and women empowerment programs will be supported in collaboration with the national government agencies.

Towards realizing the prioritized programmes, the sector is allocated a total of Ksh. 145,000,000 in 2018/19 with Ksh. 90,000,000 being recurrent expenditure and Ksh. 55,000,000 as development expenditure.

5.2.7 Trade, Tourism, Enterprise Development and Co-operative Sector

This sector aims at creating employment opportunities and wealth creation for poverty reduction, through creating an enabling environment for business, mobilization of resources for investments, and promotion of sustainable tourism. The county government prioritizes strengthening Enterprise and Co-operative revolving funds, construction and expansion of market sheds, revitalizing co-operative societies, marketing of Laikipia as a tourist destination and promoting investments in the County. Improved funding of priority projects under these programmes in 2018/19 will foster employment creation and support the productive sectors in the County.

The sector is allocated a total of Ksh. 160,000,000 in 2018/19 with Ksh. 25,000,000 being recurrent expenditure and Ksh. 135,000,000 as development expenditure.

5.2.8 Water, Environment and Natural Resources Sector

A master plan for water enhancement will guide the short term, medium term and long term needs in the county spending. Dominant rural areas have been prioritized through rehabilitation of water supply sources (dams, boreholes, springs, storage tanks) as well as establishment of new water schemes in identified clusters. Wildlife-human conflict mitigation initiatives will be addressed through electric fences, community patrols and strengthening resource user associations. Solid waste and drainage management will also get increased funding to address the existing gaps towards ensuring a safe and a secure environment through acquisition of dumpsites, cemeteries and garbage collection trucks. Interventions on climate change adaptation and mitigation, disaster reduction, increasing community resilience and livelihoods will also be addressed in 2018/19 and medium term. Collaboration with the national government and development partners will also be enhanced on rangeland, wetland and forestry protection activities, establishing mega dams and irrigation schemes.

Towards realizing the prioritized programmes, the sector is allocated a total of Ksh. 239,000,000 in 2018/19 with Ksh. 32,500,000 being recurrent expenditure and Ksh. 206,500,000 as development expenditure.

5.2.9 Legislative Services

The legislative services and oversight roles shall continue to be the main spending items as well as promotion of issue based transformative agenda. The County Assembly is allocated a total of Ksh. 430,000,000, Ksh. 215,500,000 as recurrent expenditures, Ksh. 30,000,000 development and staff emoluments at Ksh. 184,500,000.

5.3 Challenges to be Addressed

The following challenges and respective recommendations are highlighted:

Revenues collected locally fell short of targeted amounts in the first 7 months of 2017/18 recording 26.6 % of the cumulative targets. Enhancement of local revenue collection across main streams will be supported as well as strengthening of automation of revenue collection systems. External resource mobilization through partnerships and collaborations with MDAs, development partners and Public Private Partnerships will be embraced towards an increased county resource envelope. Spending pressures have persisted mainly on staff recruitment, working space, working tools and equipment. County departments shall ensure fast-tracking of the completion of headquarters offices in Rumuruti and acquisition of more equipment, vehicles and working tools.

The economic outlook for 2018 may face unpredictable weather variations whose effects if not adequately mitigated; the county may record a poor economic performance. To mitigate adverse effects, information from Early Warning Systems and weather bulletins require to be acted on timely manner and departments fully supported with adequate funding.

Delays in exchequer releases, expenditure arrears, back logs of utility payments and pending bills have been shown to greatly affect budget implementation. County departments through the Treasury shall ensure there are timely submissions of exchequer requests and allocation of funds to prioritized programmes in short term and medium term.

Procurement processes have been cited as delaying most of the projects, leading to upward revision of costs. Adherence to Public Procurement and Disposal Act, 2015 amendments will ensure timely implementation of programmes. In addition, adherence to Annual Procurement Plans and e-procurement requirements will ensure consistent and timely implementation of departmental priorities.

Low staff mobility has been seen to affect efficient service delivery. The County government will ensure improved staff mobility for efficient service delivery through enhanced fleet management. The requirements on public participation in governance and development have received improved performance. Nevertheless, there is need to embrace and document best practices in broadening citizenry inputs in policies, budget making and implementation of programmes/projects.

Table 2: Summary of Resource Allocations

DETAILS	2017/18 (Ksh)	2018/19 (Ksh)	2019/20 (Ksh)	2020/21 (Ksh)
Personal Emoluments Executive	2,481,500,000	2,543,537,500	2,970,000,000	3,266,999,999
Personal Emoluments Assembly	180,000,000	184,500,000	207,900,000	228,690,000
Operations and Maintenance Executive	646,626,535	540,000,000	616,000,000	677,600,000
Operations and Maintenance Assembly	273,000,000	215,500,000	265,100,000	291,610,000
Total Recurrent Expenditure	3,581,126,535	3483537500	4,059,000,000	4,464,900,000
Development- Executive	1,121,955,348	1,099,862,500	1,125,740,000	1,238,314,000
Development- Assembly	27,718,180	30,000,000	0	0
Total Development Expenditure	1,149,673,528	1,129,862,500	1,125,740,000	1,238,314,000
Total Budget	4,730,800,063	4,613,400,000	5,184,740,000	5,703,214,000

NB: The figures exclusive of conditional grants and pending bills

Table 3: Sector Allocations in 2017/18 (Ksh)

Sector	Total Allocation	Personnel Emoluments	Recurrent Allocation	Development Allocation
County Assembly	480,718,180	180,000,000	273,000,000	27,718,180
Public Service and County Administration	498,164,142	217,329,208	203,765,063	77,069,871
Finance and Economic Planning	534,288,427	246,770,630	137,079,820	150,437,977
Health	1,709,450,518	1,338,195,518	56,579,000	314,676,000
Agriculture	459,778,110	312,854,110	42,000,000	104,924,000
Land, Housing and Urban Development	272,714,507	85,537,607	40,649,900	146,527,000
Education, ICT and Social Services	274,840,360	122,182,360	95,027,000	57,631,000
Trade, Tourism ,Enterprise Development and Co-operatives	178,422,537	33,851,285	39,881,752	104,689,500
Water, Environment and Natural Resources	322,423,282	124,779,282	31,644,000	166,000,000
Total	4,730,800,063	2,661,500,000	919,626,535	1,149,673,528

Table 4(a): Sector Ceilings in 2018/19 and Medium Term (Ksh)

Sector	2018/2019 Total Projections	2018/2019 Personnel Emoluments	2018/2019 Projections Recurrent	2018/2019 Projections Development
County Assembly	430,000,000	184,500,000	215,500,000	30,000,000.00
Public Service and County Administration	447,762,438	222,762,438	180,000,000	45,000,000
Finance and Economic Planning	473,302,396	252,939,896	105,000,000	115,362,500
Health	1,712,150,406	1,371,650,406	45,000,000	295,500,000
Agriculture	453,175,463	320,675,463	30,000,000	102,500,000
Land, Housing and Urban Development	265,176,047	87,676,047	32,500,000	145,000,000

Education, ICT and Social Services	270,236,919	125,236,919	90,000,000	55,000,000
Trade, Tourism ,Enterprise Development and Co-operatives	194,697,567	34,697,567	25,000,000	135,000,000
Water, Environment and Natural Resources	366,898,764	127,898,764	32,500,000	206,500,000
Total	4,613,400,000	2,728,037,500	755,500,000	1,129,862,500

NB: Conditional Grants not included in the 2018/2019 Sector Ceilings

Table 4(b): Sector Ceilings in 2019/20 (Ksh)

Sector	2019/2020 Total Projections	2019/2020 Personnel Emoluments	2019/2020 Projections Recurrent	2019/2020 Projections Development
County Assembly	473,207,900	207,900,000	265,100,000	0
Public Service and County Administration	398,711,927	260,111,927	99,000,000	39,600,000
Finance and Economic Planning	427,349,092	295,349,092	99,000,000	33,000,000
Health	2,002,028,325	1,601,628,325	55,000,000	345,400,000
Agriculture	528,441,550	374,441,550	44,000,000	110,000,000
Land, Housing and Urban Development	399,376,261	102,376,261	49,500,000	247,500,000
Education, ICT and Social Services	311,234,781	146,234,781	99,000,000	66,000,000
Trade, Tourism ,Enterprise Development and Co-operatives	205,515,139	40,515,139	132,000,000	33,000,000
Water, Environment and Natural Resources	439,082,925	149,342,925	38,500,000	251,240,000
Total	5,184,740,000	3,177,900,000	881,100,000	1,125,740,000

NB: Conditional Grants not included in the 2019/2020 Sector Ceilings

Table 4(c): Sector Ceilings in 2020/21 (Ksh)

Sector	2020/2021 Total Projections	2020/2021 Personnel Emoluments	2020/2021 Projections Recurrent	2020/2021 Projections Development
County Assembly	520,300,000	228,690,000	291,610,000	0
Public Service and County Administration	438,583,120	286,123,120	108,900,000	43,560,000
Finance and Economic Planning	470,084,001	324,884,001	108,900,000	36,300,000
Health	2,202,231,157	1,761,791,157	60,500,000	379,940,000
Agriculture	581,285,705	411,885,705	48,400,000	121,000,000
Land, Housing and Urban Development	439,313,888	112,613,888	54,450,000	272,250,000
Education, ICT and Social Services	342,358,259	160,858,259	108,900,000	72,600,000
Trade, Tourism ,Enterprise Development and Co-operatives	226,066,652	44,566,652	145,200,000	36,300,000
Water, Environment and Natural Resources	482,991,217	164,277,217	42,350,000	276,364,000
Total	5,703,214,000	3,495,690,000	969,210,000	1,238,314,000

NB: Conditional Grants not included in the 2020/2021 Sector Ceilings

Table 5 (a): Conditional Grants 17/18 and 18/19

Name	Sector	2017/18 Ksh.			2018/19 Ksh.		
		Total	Recurrent	Development	Total	Recurrent	Development
Medical Equipment Leasing	Health	95,744,681	0	95,744,681	200,000,000	0	200,000,000
Vocational Training Centres Development	Education ICT and Social Services	33,358,878	0	33,358,878	28,525,000	0	28,525,000
Users Fee Forgone	Health	9,968,208	0	9,968,208	9,968,208	9,968,208	0
Loans and Conditional Grants	Finance and Economic	26,439,559	0	26,439,559	380,285,005	0	380,285,005

	Planning						
County Roads Maintenance-Fuel Levy Fund	Lands, Housing And Urban Development	146,974,666	0	146,974,666	109,128,974	0	109,128,974
Total		512,485,992	175,000,000	337,485,992	727,907,187	9,968,208	717,938,979

Table 5 (b): Health Facility Improvement Fund

Name	Sector	2017/18 Ksh.			2018/19 Ksh.		
		Total	Recurrent	Development	Total	Recurrent	Development
Facility Improvement Fund including Health Sector Support	Health	200,000,000	175,000,000	25,000,000	200,000,000	160,000,000	40,000,000

Table 6: Emerging Grants

Name	Sector	2017/18 Ksh.			2018/19 Ksh.		
		Total	Recurrent	Development	Total	Recurrent	Development
Transforming Health for Universal Access TUC-World Bank	Health	46,115,937	0	46,115,937			
Primary Health Care- World Bank	Health	25,255,000	0	25,255,000			
Health Services DANIDA	Health	15,935,327	0	15,935,327			
Kenya Devolution Support Programme (KDSP)	Public Service and County Administration	38,403,464	0	38,403,464	300,000,000	0	300,000,000
EU-IDEAS LED	Agriculture Livestock and Fisheries	66,000,000	0	66,000,000	44,000,000	0	44,000,000
FAO-CA	Agriculture Livestock and Fisheries	2,500,000	0	2,500,000			
Climate Smart Agriculture	Agriculture Livestock and Fisheries						
ASDSP	Agriculture Livestock and Fisheries						
Total		194,209,728	0	194,209,728	344,000,000	0	344,000,000

NB: Awaiting contract agreements with contracted national ministries/agencies

Table 7 (a): County Projected Local Revenue (Ksh)

Year	F/Y 2016/17	F/Y 2017/18	F/Y 2018/19
Local Collections(Ksh)	450,000,000	500,000,000	500,000,000
Total	450,000,000	500,000,000	500,000,000

NB: Projections as per the CIDP 2018-2022

ANNEXES

Annex 1: Personnel Emoluments Ceilings 2018/19

Sector/Department	Estimated Cost (Ksh) – per the ADP	Percentage Costing – per the ADP	Allocations	Percentage Allocation
Public Service and County Administration	258,909,000	9	222,762,438	8.76
Finance and Economic Planning	185,207,000	6	252,939,896	9.94
Health	1,800,000,000	60	1,371,650,406	53.93
Agriculture , Livestock and Fisheries	215,757,000	7	320,675,463	12.61
Education, ICT and Social Services	355,246,000	12	87,676,047	3.45
Lands, Housing and Urban Development	70,000,000	2	125,236,919	4.92
Trade Tourism and Co-operatives	35,000,000	1	34,697,567	1.36
Water, Environment and Natural Resources	100,526,000	3	127,898,764	5.03
Total	3,020,645,000	100	2,728,037,500	100

Annex 2 (a): Local Revenue Performance Report 2017/18 (Ksh)

Month	Actual 2016/2017	Budget 2017/18	Actual 2017/18	Achievement %
July	20,401,992	35,788,827	12,026,674	34%
August	15,242,378	23,004,962	10,927,972	48%
September	16,768,695	60,896,263	21,932,568	36%
October	17,218,134	53,643,769	17,082,258	32%
November	22,308,484	20,445,119	16,211,719	79%
December	18,079,244	21,855,549	19,128,277	88%
January	32,850,784	38,549,783	35,966,195	93%
February	29,830,165	49,395,959		-
March	68,442,105	68,743,626		-
April	51,526,127	63,953,404		-
May	17,833,621	33,090,611		-
June	18,615,871	30,632,127		-
Total Local Revenue	329,117,600	500,000,000	133,275,663	26.6%

The figures shown above are net Hospital collections and revenues

Annex 2 (c) Hospitals Revenue Performance Report 2017/18 (Ksh)

	Actual 2016/2017	Budget 2017/18	Actual 2017/18	Achievement %
Hospitals	139,648,851	200,000,000	68,701,107	34%

Annex 3: 2017/18 Budget Exchequer Releases

(a) Development Vote (Ksh)

Development Exchequers	Initial Budget	Supplementary Budget	Total Exchequers 16.2.18	Committed Amount/ WIP	Supplementary budget Balance
County Administration	66,182,000	77,069,871	4,495,595	24,784,430	47,789,846
Finance and Planning	497,028,989	424,281,000	173,117,429	110,000,000	141,163,571
Health and Sanitation	625,130,048	532,695,153	106,705,551	100,000,000	325,989,602
Agriculture and Livestock	166,424,000	173,424,000	11,124,498	44,532,612	117,766,890
Infrastructure	392,759,500	293,501,666	10,963,450	124,211,579	158,326,637
Education Youth and Sports	107,131,000	90,989,878	901,587	0	90,088,291
Trade and Tourism	96,000,000	104,689,500	0	3,510,000	101,179,500
Water and Sanitation	119,000,000	166,000,000	14,332,760	77,620,185.00	74,047,055
County Assembly	10,000,000	27,718,180	0	14,000,000	13,718,180
	2,079,655,537	1,890,369,248	321,640,870	498,658,806	1,070,069,572

(b) Recurrent Vote (Ksh)

Recurrent Exchequers	Initial Budget	Supplementary Budget	Total Exchequers 16.2.18	Supplementary budget Balance
County Administration	2,584,765,000	2,685,265,000	1,718,016,287	967,248,713
Finance and Planning	200,211,000	197,079,820	75,800,515	121,279,305
Health and Sanitation	81,579,000	231,579,000	62,274,043	169,304,957
Agriculture	25,000,000	42,000,000	18,775,764	23,224,236
Infrastructure	31,049,900	40,649,900	18,510,629	22,139,271
Education and Sports	47,527,000	95,027,000	26,013,727	69,013,273
Trade and Tourism	24,047,000	39,881,752	16,550,777	23,330,975
Water and Sanitation	34,027,000	31,644,000	23,885,013	7,758,987
County Assembly	443,586,936	453,000,000	230,648,215	222,351,785
	3,471,792,836	3,816,126,472	2,190,474,970	1,625,651,502
Grand Totals	5,551,448,373	5,706,495,720	2,512,115,840	3,194,379,880

Annex 4: Summary Statement of Fiscal Risks

The “Summary Statement of Specific Fiscal Risks” outlines the County’s exposure to national fiscal risks that are associated with assumptions used for fiscal projections, operations of government departments and agencies, vulnerabilities of the financial sector, as well as risks posed by nature. This is intended to inform the County Assembly and the public about the

national exposure to these various sources of risk, and what more can be done to ensure fiscal viability in the event of the occurrence of the stated risks.

(a) Macroeconomic Assumptions Changes

Changes in macroeconomic assumptions create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. Reduction in real GDP and depreciation of the exchange rate results in reduction of revenue against expenditures while an increase in inflation results in higher revenue against expenditures. Overall, when all the shocks are applied at the same time, revenues increase more than expenditures.

(b) Budget Absorption Rates

The county's budget absorption of funds has improved since 2013/14. This is attributed to better planning, increased staff capacity, oversight by relevant bodies and citizen participation. Nevertheless, execution of development expenditure has generally been below target reflecting low absorption of allocated funds, delays in procurement and increased levels of pending bills.

(c) Contingent Liabilities

Contingent liabilities are frequently not recorded directly in the budget and thus are not subjected to budgetary oversight. These could lead to poor quantification of contingent liabilities and the possibility of large unplanned expenditures if the guarantee materializes. There is need for monitoring of these contingent liabilities to avoid fiscal difficulties in the budget year in case they happen. These include Collective Bargaining Agreements, court rulings, Car and Mortgage Schemes, default payments by revolving funds namely Co-operative Revolving Fund, and Enterprise Revolving Fund.

(d) Environment

Natural disasters often lead to lower economic growth and a worsening in fiscal and external balances. They can also have a significant impact on poverty and social welfare. For instance, flood depending on its magnitude could impact negatively on social amenities, agriculture, infrastructure (roads, bridges) and therefore affect institutions and households both directly and indirectly. The government may feel obligated to prevent social welfare reduction by incurring cost of returning normalcy after an occurrence. The government being privy to some past occurrences has been providing a contingency fund to cushion the fiscal framework from the risks, among others. However, the impact of such likely unforeseen

events could be of greater magnitude than the provision and hence pose fiscal risk to the government.

(e) Climate Change

Global temperatures have been on rise and expected to increase over the next century by 2.8° C, with a possibility of rising above 3°C or more. The physical consequences of such a rise include: changed precipitation patterns, more intense and perhaps frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many counties. The potential economic consequences of climate change include:- productivity changes in agriculture and other climate sensitive sectors, stresses on health, biodiversity, fragile ecosystems, water systems, changes in trading patterns, financial market disruption, increased vulnerability to sudden adverse shocks, and altered migration patterns. Climate developments directly affect fiscal positions, through their impact on revenue streams and spending programmes and use of fiscal instruments in mitigating the extent of CC and adapting so as to limit the damage that remains. Mitigation and adaption programmes have been used as fiscal instruments for climate proofing vulnerable sectors of the economy. However, climate change will continue to pose significant fiscal risk especially through potential flooding and drought incidences.

(f) County and National Security Threats

Potential terrorist-related attacks and intercommunity conflicts would affect the tourism sector and may also impact market confidence. Such attacks and conflicts in the past have resulted in loss of lives, destruction of property, loss of businesses, disruption of families, restriction of movement of people, religious animosity and profiling of certain communities. These direct and other indirect costs including loss of jobs have a negative impact on government revenue from tax, increased government spending on security and peace restoration as well as redeeming country's image hence risk to the government's fiscal framework.

(g) Devolved System of Government

The constitution of Kenya provides for two level of government i.e. National and County governments which are both independent and inter-dependent. County governments under Article 209 are assigned roles in collecting assigned revenues, budgeting and spending. They are financed through Central Government Transfers, Own Source Revenues and Conditional

Allocations. However, major risks have emerged from Kenya's fiscal decentralization, and which require prudent management especially at the County levels: These include:

- (i) Overreliance on national government transfers which doesn't only undermine counties' own fiscal autonomy but it's also unsustainable.
- (ii) Dependence by counties on few major own-source revenue streams hence exposing them to fiscal shocks occasioned by a dip in their main revenue streams.
- (iii) Unrealistic own-source revenue projections which results to unrealistic expenditure estimates inevitably generating pending bills and causing general cash flow problems.
- (iv) Duplication of functions that risk generating intergovernmental conflicts, wasteful spending and financing gaps that could adversely affect implementation of the fiscal framework.
- (v) Borrowings from Commercial Banks

The Constitution allows County Governments to raise revenue by way of borrowing subject to guarantee by the National Government. A borrowing framework to operationalize this has been prepared and embedded in the Public Finance (County Governments') Regulations, 2015. However, borrowing from commercial banks without the requisite guarantee is unlawful and a potential source of fiscal risks. In addition, inherent risks associated with borrowings may necessitate unplanned expenditure items such as interest installments.