NAIROBI CITY COUNTY

COUNTY FISCAL STRATEGY PAPER

2019

"Invigorating Growth for Sustainable Development"

FEBRUARY, 2019

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FOREWORD

The 2019/20 Fiscal Strategy Paper provides a broad overview of the Government's Economic Policy Framework for rolling out the second phase of implementation of the County Integrated Development Plan 2018 – 2022.

This paper has been prepared in the backdrop of slowed performance of revenues at the local level and with prospects of budget cuts from National Treasury. There remains some degree of uncertainty with regard to the conclusiveness of the proposed third basis for revenue sharing as proposed by the Commission on Revenue Allocation (CRA). Further, strong indications of a compressed sharable revenue allocation points to a tighter operating environment in the coming days.

In order to guarantee financial sustainability required to sustain our development momentum, we have proposed a number of revenue enhancement strategies that are geared towards the realization of greater fiscal independence. We look forward to bolstering our internal revenue outturns in the medium to long term.

We intend to leverage on enhanced internal efficiency and operational effectiveness of implementing units to enhance our capacities for timely realization of set development targets.

The paper is a product of wide and intense stakeholder consultations that has resulted in a consensus position with regard to priorities for public sector investment for the period 2019/20.

We look forward to cooperative and concerted efforts by all players towards successful implementation of the proposed strategies.

ALLAN IGAMBI ESABWA
AG. COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The production of this paper has taken great sacrifice from Government Agencies, Stakeholders from the Civil Society, Private Sector and members of the public.

It is my pleasure to sincerely express our gratitude for all players who took part in one way or another during the formulation stage of the paper.

With great humility, I applaud His Excellency, Governor Mike Mbuvi Sonko for his steadfast leadership that has continued to chart our course towards fulfilling commitments made to Nairobians in his election Manifesto through our plans and budgets.

Let me thank all the County Executive Committee Members and County Chief Officers for offering stewardship at their respective sector level.

We recognize AHADI for continued partnership and support in the planning and budgeting framework of the County Government.

I wish to single out the team of Economists and Budget officers who worked meticulously in guiding the Sector Working Groups in formulating the proposals contained in the paper. Specifically, I applaud Mr. Kefa Omanga – Director of Economic Planning and Mr. James Ngunjiri – Director of Budget for providing leadership in the whole process. We recognize with appreciation input from Senior Economists, Geoffrey Sianga, Grace Chabari and Petronilla Kangara together with Budget officers Tirus Kamau and Peris Wanjiru.

Finally, let me recognize the efforts of the support team at the Department of Economic Planning. In this regard we applaud Ms. Caroline Avoga and Judith Mideka among others for their invaluable input.

Since, it is not possible to mention the many individuals and institutions that gave a hand in the process by name, let me appreciate all and look forward to continued support in our next steps.

WINFRED GATHAGU
COUNTY CHIEF OFFICER - ECONOMIC PLANNING

CHAPTER ONE: OVERVIEW

1.0 Introduction

1. This chapter presents the philosophy behind financial planning, the legal framework underpinning the preparation of the fiscal strategy paper for the fiscal period 2019/20. It provides a summary of key achievements for the fiscal period 2017/18 and up to mid-2018/19 for various County departments in terms of revenues, expenditures and results for capital programmes.

2. Section 117 of the Public Finance Management Act 2012 requires all counties to table a County Fiscal Strategy Paper (CFSP) in their respective county assemblies by 28 February each year The Paper should have at least four core elements namely Performance review, priority setting for the medium term, projections of revenue and expenditure and expenditure ceilings for respective sectors. Specifically the paper shall provide the following information:

1. A description of budget implementation for the period 2017/18 and first half of the year 2018/19 (July to December), including revenue and expenditure performance.
2. A description of any changes to the budget during the year, such that may have necessitated revision of the approved financial plan.
3. An overview of the expected revenue and expenditure totals for the coming year, based on an assessment of the economy and any other determinants.
4. Ceilings (or limits) on the amount of money each sector (health, education, etc.) will get in the upcoming budget and the basis for such capping.

1.1 LEGAL FRAME WORK

3. The County Treasury pursuant to section 117(1) and (6) of the Public Finance Management Act (PFMA), 2012 is mandated to prepare and submit the County Fiscal Strategy Paper to the County Assembly, by the 28th February of each year, and subsequently publish and publicize it not later than seven days after it has been submitted to the County Assembly. The county Treasury shall also 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.

4. In preparing the Fiscal Strategy Paper, the County Treasury shall seek and take into account views of:

i. The Commission on Revenue Allocation
ii. The Public
iii. Any interested persons or groups
iv. Any other forum that is established by legislation

5. In accordance to section 117(2) of PFM Act, the County Treasury has aligned the proposed revenue and expenditure plan to the national financial objectives contained in the National Budget Policy Statement (BPS) for 2018 with the aim of meeting the County Integrated Development Plan, (CIDP 2018-2022). In this regard, the fiscal policies are geared towards triggering a multiplier effect towards the achievement of the national theme of economic transformation for shared prosperity resulting in: i) Restored good governance, public safety and security, ii) Enhanced access to decent and affordable housing, iii) Improved access to quality education and affordable healthcare, iv) Improved traffic and city transport management, v) An enabling environment for job creation, business growth and wealth creation, vi) Serene environment, clean water, sanitation and garbage management, vii) Plight of youth, women, People Living With Disabilities and adequate social protection.

1.2 Rationale

6. The Fiscal strategy Paper outlines the County's fiscal policies in the context of prevailing macro-economic policies and outlook while articulating the Nairobi County's strategic priorities and policies for the fiscal year 2019/2020. The Nairobi County Fiscal Strategy Paper is the guide to The County Budget Process. It looks at how the past and the present setting of the budget process can inform the future. The Nairobi County Fiscal Strategy Paper specifies the broad strategic priorities and policy goals that guide the County government in preparing its budget for the coming financial year and over the medium term (3-5 years).

1.3 COUNTY ACHIEVEMENTS FOR FY 2016/17 AND MID-YEAR 2018/19

1.3.1 TRANSPORT, INFRASTRUCTURE AND PUBLIC WORKS

7. In line with the sector's mandate to provide, maintain transport facilities, roads, drainage systems, street and public lighting facilities, 55 Km of roads were tarmacked, 130 Km of roads were graded and graveled together with 12 No. bridges and the construction of 5.3 Km of walkways. This was meant to improve transport, connectivity and mobility across the City. In street and public lighting, a total of 39,000 street lights were installed and a further 20,800 public lights maintained.

1.3.2 HEALTH SERVICES

8. The sector enhanced the level and quality of preventive, diagnostic and curative services targeting key drivers of morbidity in the County. These include targeted reduction of the high HIV prevalence rate of 6.1 % in the County by growing the number of clients on ARVs by 21% in 2017/18 compared to performance in 2016/17. Further the number of people counseled and tested for HIV grew by 25% from 0.8 M to 1.0 M people in 2017/18.

9. The Health sector further enhanced efficiency in delivery of maternal child services targeting delivery by skilled attendants and expansion of immunization coverage by 12% during the reporting period. The epidemiology and disease surveillance unit expanded its coverage of health facility supervision by 16%. All these efforts led to better health outcomes for the people of Nairobi. Non communicable diseases were accorded necessary attention with a total of 35,614 patients being treated for diabetes. Three County facilities namely Mama Lucy Kibaki, Mbagathi and Pumwani continued to offer specialized curative and diagnostic interventions.

1.3.3 ENVIRONMENT, ENERGY, WATER AND NATURAL RESOURCES

10. The sector realized a daily tonnage of 900 tonnes of solid waste collected and delivered at the Dandora dumpsite. This has contributed significantly to a cleaner and safer environment. Beautification of major high ways and round abouts in the City has yielded evident aesthetic dividends along Mombasa Road, Jogoo Road and Uhuru highway among others.

11. A total of 60 tonnes of solid waste was recovered from rivers and their banks and about 10 Km of riparian land recovered. The City's sewerage coverage has risen by 2% points to stand at 50%. Monthly city wide clean ups have inspired a huge sense of patriotism and consciousness for a cleaner environment in the City. John Osogo Road construction/ tarmacking was completed thus improving access to the Dandora dumpsite.

1.3.4 EDUCATION, YOUTH AFFAIRS, CULTURE AND SOCIAL SERVICES

12. The introduction of a capitation based programme of Free ECDE education in the entire County's public ECDE centres at a cost of Ksh 52.9 Million has led to greater access to and higher retention rates for ECDE level of learning. Needy and bright secondary school students benefitted from Ksh 3.5 Million worth of bursaries in addition to 1,000 other learners who earned the Governor's full scholarship. This has led to greater transition to secondary schools.

13. In order to enhance access to high quality skill development opportunities for the Youth, the County upgraded Dandora Vocational Training Centre at a cost of Ksh 184 Million with support from partners. Four (4) no stadia are currently under construction at various stages of completion.

1.3.5 TRADE, COMMERCE, TOURISM AND COOPERATIVES SECTOR

14. The sector continued to sustain ongoing development and expansion of trade & market through rebuilding of City Park Market which was 70% complete at the end of 2017/18. Social impact assessment was done on Quarry road market through NAMSIP programme, reconstruction of drainage at Makina market stood at 70% complete while re-roofing of 8 other markets with 4 of the markets being 100% complete. In order to promote fair trade practices, New Wakulima market was equipped with a set of state of the art weighing equipment. A total of Ksh 6.8 Million was disbursed through the Nairobi City County Loans. Additionally, verification of 30,491 weighing equipment was done and 351750 pool tables licensed by the Gaming and Betting department.

1.3.6 URBAN RENEWAL, HOUSING AND PROJECT MANAGEMENT

15. The sector completed and obtained approval for a concept paper on social housing. The Nairobi County Housing policy was completed and technical support for building services offered to other County sectors and departments.

1.3.7 URBAN PLANNING

16. The implementation of flagship projects in the Nairobi Integrated Urban Development Masterplan (NIUPLAN) commenced in earnest with urban renewal programme of old estates, planning of the railway city and commencement of development control policy formulation began in earnest. Other notable achievements include; establishment of online development approval system, strengthening of building construction, inspection and compliance and the enactment of the Nairobi City County Regularization of Development Act, 2015.

1.3.8 LANDS

1.3.9 FOOD, AGRICULTURE AND FORESTRY

17. The sector continued to pursue its mission of improving livelihoods of Nairobi City County community by promoting innovative, commercially oriented, modern urban agriculture through appropriate policy environment, effective support services and sustainable natural resource management. In this regard the sector executed close to 8,000 extension service visits for crop, Livestock and fisheries development and management.

1.3.10 FINANCE AND ECONOMIC PLANNING

18. The Economic planning department prepared the CIDP for the period 2018-2022 and also prepared the CFSP for FY 2018/19. The planning process was characterized by a strong public participation component. In the same period, the Revenue department achieved 59% of local revenue targets yielding Ksh 10.1 Billion. During the same period, Revenue, Accounting, Supply Chain departments refurbished their offices. Budget and Accounting Departments purchased office furniture and fittings. Asset office initiated the process of valuation and asset tagging which is still on going.

1.3.11 ICT AND E-GOVERNMENT

19. The Nairobi City County Information, Communication and e-Government sector has been implementing a five (5) year ICT Transformation Roadmap that was initiated in the year 2013. The programme was intended to increase efficiency, improve service delivery and revenue collection through the implementation and deployment of technology solutions and shared services for County Governments. The following projects had been successfully implemented as at 1st July, 2018.

20. In particular, the following projects were successfully executed by end of the financial year; e-payment solution, expansion of ICT infrastructure, Web Portal, Integrated City Management System (ICMS), Disaster Recovery Planning, Email Messaging and Collaboration, PABX/ Unified communication, ICT Governance, Citizen Relationship Management (CRM), Business Intelligent Tools and Analytics Tools, Geographical Information Systems (GIS), Intelligent City Surveillance and Traffic Management and Internet service promotion.

1.3.12 PUBLIC SERVICE MANAGEMENT, DEVOLUTION AND ADMINSTRATION

21. The sector continued to spear head prudent and efficient management of the County's human resources for high quality service delivery. This included the function of restructuring the second County government, decentralizing services, staff training & remuneration, operationalization of two Huduma Centres, administration of a staff medical scheme and enforcement of compliance to public service values and principles of public service.

22. The Sub-County Administration took command of decentralized service delivery with a presence in each of the 17 (Seventeen) Sub-Counties and 85 (Eighty Five) Wards, expansion of infrastructure that support service delivery at lower levels, capacity development and stakeholder engagement.

1.3.13 GOVERNOR'S OFFICE

23. The Governor's Office consists of Administration, Internal Audit and Risk Management, Security and Compliance, Legal and Fire, Rescue and Disaster Management Sub-Sectors.

24. The Administration department completed renovation of the communication's office, digitization of personnel Registry and rebranding of records.

25. The Internal Audit department continued to fortify capacities for fiscal risk detection and mitigation through preparation of advisories and reports totaling to sixteen (16) on diverse subjects.

26. The Security and Compliance sector acquired maintained order at matatu termini, secured all parking lots thus reducing traffic congestion, investigated and carried out operations in corruption prone areas, arraigned suspects in court of law and sensitized residents/customers on the dangers of criminal activities within the county. The sector also played a critical role in revenue mobilization and recovery of assets.

1.4 2017/18 REVISED ESTIMATES

27. Implementation of the FY 2018/19 budget is on course although the performance is much far below the target. For instance, by mid of FY2018/19, the total local revenue collected was Ksh 8.6B against the target of Ksh 27B. This represented 30 % of the total targeted local revenue. This shortfall in revenue collection was attributed to underperformance of key revenue streams. For example, by end of December 2018 the rate revenue collected was Ksh 0.83B while the parking fee was 0.9B and Kshs 0.47B was collected from Single Business Permit. The underperformance of revenue streams has caused the revision of the budget downwards.

28. In the mid-year 2018/2019, the actual expenditures were Ksh 10.2B. This represents 31.5% absorption rate of the total budget however the actual budget was 32.3B. The budget is proposed to be revised to 33.3B.

CHAPTER TWO: MACRO ECONOMIC POLICY FRAMEWORK

2.0 Introduction

29. This chapter looks at the macroeconomic indicators, both local and global, and how they may affect the county's economy

2.1 Global Economic Prospects

30. The global economy is estimated to have expanded to 3.7 percent in 2018 compared to a revised growth of 3.6 percent in 2017. This was driven by a rebound in private and public investment, growth in international trade partly as a result of favorable financing costs, rising profits, improved business and consumer confidence and waning effects of the fall in oil and commodity prices during 2014-2016 (Economic Survey, 2018).

31. Global growth is expected to slow to 2.9 percent in 2019 as it is constrained by rising trade tensions which will likely have a negative impact on confidence, asset price and global investment and also the tightening financing conditions (Global Economic Prospects-World Bank, 2019).

32. Amid recent episodes of financial stress, growth in emerging market and developing economies has lost momentum and is projected to stall at 4.2 percent this year, with a weaker-than-expected rebound in commodity exporters accompanied by deceleration in commodity importers. Downside risks have become more acute. Financial market pressures and trade tensions could escalate, denting global activity (Global Economic Prospects-World Bank, 2019).

33. Growth has moderated in most advanced economies, with the notable exception of the United States, where fiscal stimulus is boosting activity. United States growth in 2018 is estimated to have picked up to 2.9 percent from the previous growth of 2.7 percent in 2017. The accelerated growth in advanced economies was attributed by: favorable macroeconomic environment, improved labour markets, accommodative financial conditions, favorable commodity prices and reduced inflationary pressures.

34. Growth in low-income countries increased only slightly in 2018 to 5.6 percent but is expected to rise to 5.9 in 2019 and average about 6.3 in 2020-21 (Global Economic Prospects-World Bank, 2019).

35. Following strong momentum in 2017, growth in global goods trade slowed during the first half of 2018 and has only partially recovered since then. The deceleration was more pronounced than previously expected, as reflected in decelerating export orders and global manufacturing activity.

36. Global inflation rose to 3.1 percent in 2017 compared to 2.8 percent recorded in 2016. This was occasioned by rise in oil prices. The increase in oil prices was mainly on account of reduced supply by leading oil producers following a decision of the Organization of Petroleum Exporting Countries (OPEC) to limit oil production against a strong demand growth in 2017 (Economic survey, 2018)

Domestic Economy

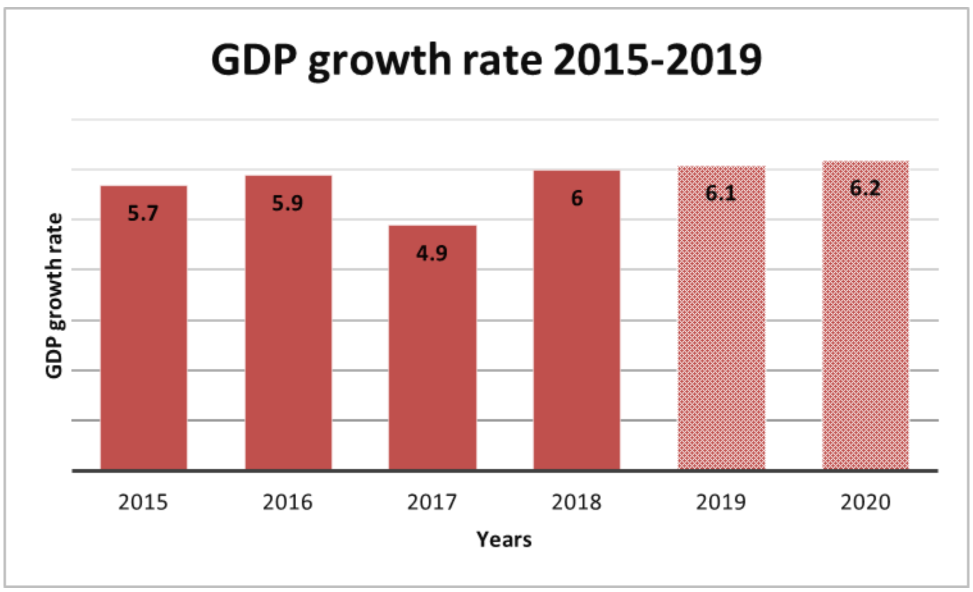
37. The Kenyan economy remained resilient in 2018 as economic activities picked up after a slowdown in 2017. The rebound in economic activities is attributed to easing of political uncertainty through the 2018 famous “handshake” improved rains and better business sentiment. The economy grew by 5.8 percent, 6.2 percent, 6.0 percent in the first, second and third quarters of 2018 up from 4.7 percent of similar quarters in 2017. Growth in the first three quarters of 2018 averaged 6.0 percent. Growth in 2018 was supported by rebound in agricultural output, steady recovery of industrial activity and robust performance of the services sector.

38. Real GDP is projected to expand by 6.1 percent in FY 2018/2019, 6.2 percent in FY 2019/2020 and 6.4 percent in FY 2020/2021. This growth will be supported by a pickup in agricultural and manufacturing activities underpinned by improved weather conditions, strong service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business and consumer confidence.

39. Over the medium term, economic growth is expected to rise gradually to 7.0 percent due to investments in strategic areas under the "Big Four" Plan which aims to enhance 100% food and nutrition security, boost manufacturing sector (15% of GDP), achieve 100% Universal Health Coverage by scaling uptake of NHIF and construction of affordable houses which will ultimately spur growth and create jobs.

40. It is expected that continued coordination of monetary and fiscal policies for overall macroeconomic stability will bolster growth, lower fiscal deficits and contain inflation within target range.

Figure2.1: Trends in GDP growth rate in percent



Source: Kenya National Bureau of Statistics

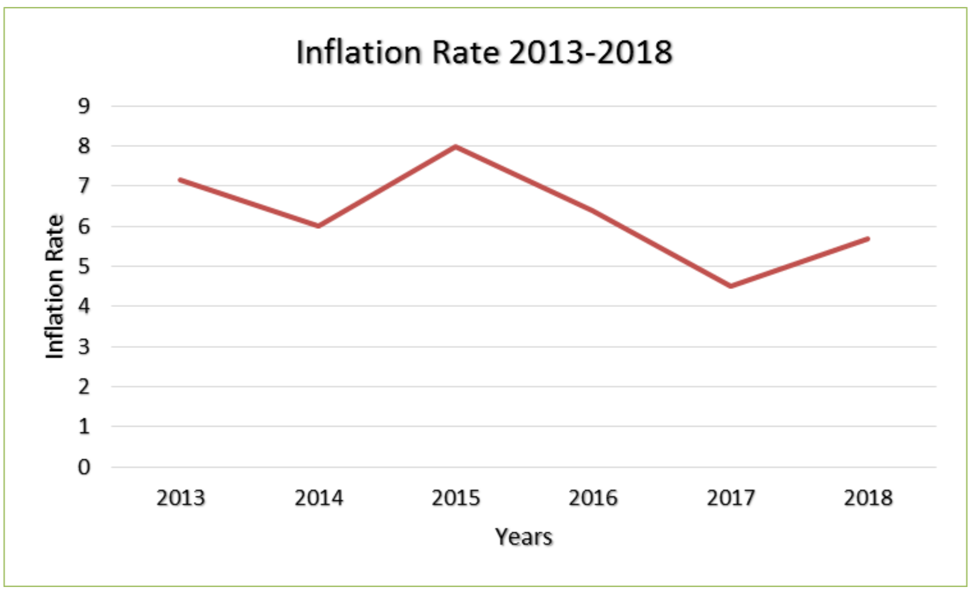
Inflation

41. Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies. The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018, supported by improved weather conditions that resulted in lower food prices

42. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather conditions and a decline in energy prices following lower costs in prices of electricity and diesel. However, overall Inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

43. Inflation is expected to remain within target in the medium term mainly due to expected lower food prices as a result of favorable weather conditions, the decline in international oil prices, and the recent downward revision in electricity tariffs. The recent excise tax adjustment on voice calls and internet services is expected to have a marginal impact on inflation.

Figure 2.2: Trend in inflation rate over the five years



Source: Central Bank of Kenya

Interest Rates

44. Interest rates have been low and stable for the period 2002 to 2011 due to ample liquidity in the money market. However, interest rates increased in 2012 following tight monetary policy stance in order to ease inflationary pressures. Interest rates remained stable and low in the period 2013-2018 except June - December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The Central Bank Rate was reduced to 9.0 percent on 30th July, 2018 from 9.5 percent in March. 2018 as there was room for easing monetary policy stance to support economic activity.

45. The interbank rate remained low at 8.1 percent in December 2018 from 7.7 percent in December 2017 due to ample liquidity in the money market. The interest rates for Government securities have been declining indicating that the implementation of Government domestic borrowing program supported market stability. The 91-day Treasury bill rate declined to 7.3 percent in December 2018 compared to 8.0 percent in December 2017 while over the same period, the 182 day and the 364-day Treasury bills declined to 8.4 percent and 9.7 percent from 10.5 percent and 11.1 percent, respectively.

46. Commercial banks' average interest rates remained stable and compliant with the interest rate capping law that was effected in September 2016. The CBR was reduced to 9.0 percent from 9.5 percent in March 2018 and as a result the lending rate declined to 12.6 percent in October 2018 compared to 13.7 percent in October 2017. The deposit rate also declined to 7.6 percent from 8.2 percent over the same period. Consequently, the interest spread declined from 5.9 percent in October 2017 to 5.0 percent in October 2018. Interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

47. Interest rate capping came into effect on September 2016 after concerns by the public regarding high cost of credit. Calls for capping were anchored on high spreads between lending and deposit rates. However, the period has faced notable effects: the capping has undermined the independence of the Central Bank of Kenya thus impacting on the conduct of monetary policy.

Capping has also resulted in perverse outcomes leading to deceleration in growth of credit to the private sector.

48. Further, capping has led to commercial banks adjusting business models resulting in financial intermediation, directed their lending in favor of government and large corporate borrowers thus shunning small risky borrowers and reduced transparency (banks have exploited existing approval limits to increase non-interest charges on loans). There has been notable decline in profitability and number of loan accounts. Tier 3 banks (small banks) have witnessed capital erosion as a result of reduced earnings which have impacted on capacity to build-up capital.

Kenya Shilling Exchange rate

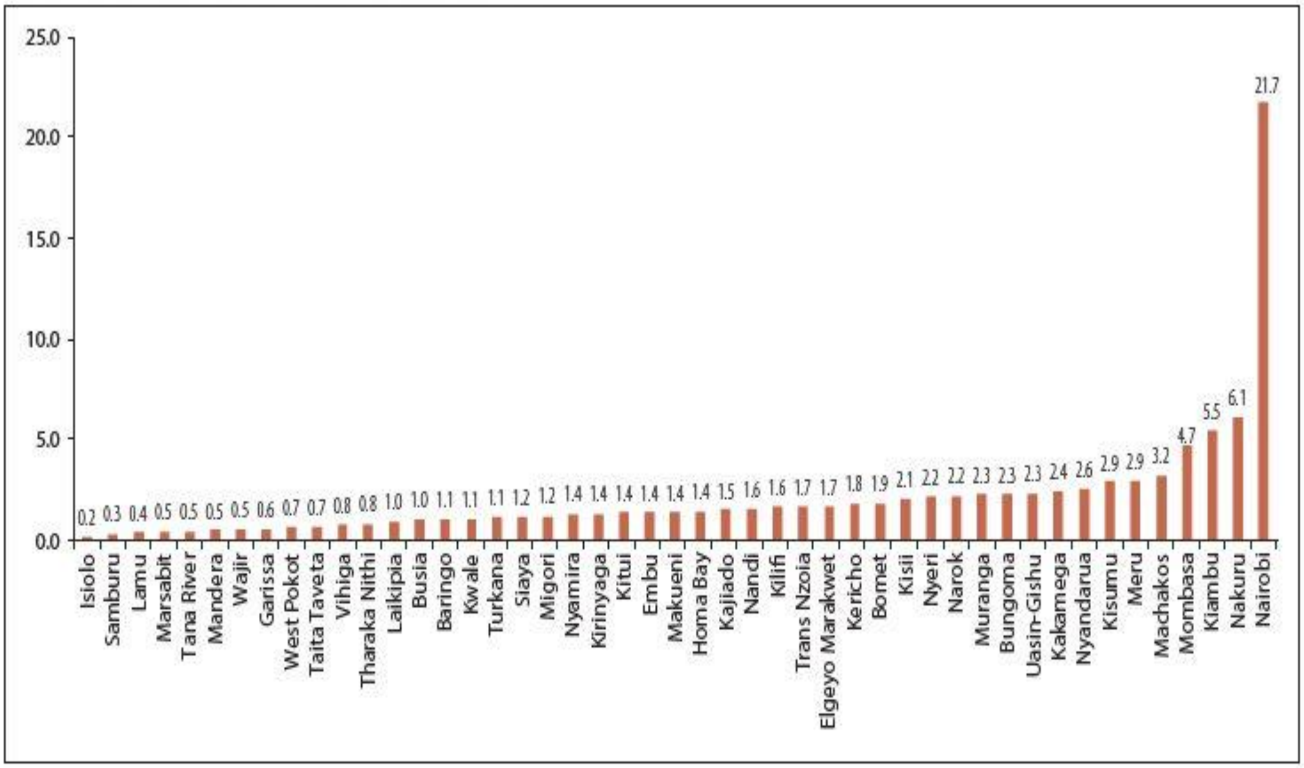
49. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. For instance, against the dollar, the exchange rate has been relatively less volatile exchanging at Ksh 102.3 in December 2018 from Ksh 103.1 in December 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.4 and Ksh 129.7 in December 2018 from Ksh 122.0 and Ksh 138.2 in December 2017.

50. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most sub - Saharan Currencies. This stability reflects strong inflows from tea and horticulture exports, resilient Diaspora remittances and improved receipts from services particularly tourism.

Nairobi County Economy

51. Nairobi City County operates within the global and national economic framework. The global and national economic dynamics impacts both directly and indirectly on county fiscal decisions and operations. Economic growth is a parameter that influences national government transfer to the counties. Therefore the higher the GDP growth, the more allocation is expected to go the counties.

Figure 3.1: Share of Counties in GDP (2013-2017)



Source: Kenya National Bureau of Statistics, 2019.

Nairobi County's Contribution to the National GDP is estimated at 21.7% with a recorded annual growth rate of 5.6%. the key drivers of the City's economic growth are Manufacturing (25%),Wholesale and retail Trade (19.7%),Transport and storage(12.4%), Real Estate (11.8%) Construction (11.7%) and Financial services (9.6%).

52. Exchange rate fluctuations also affect the county processes with currency devaluation making our imports more expensive. Inflation changes the costs of goods and services which in turn affect peoples' purchasing power. Since the inflation is expected to remain within the target in the medium term, the welfare of the people in county will improved and cost of doing business in Nairobi will ease. This will attract foreign and private investment leading to growth of Nairobi county economy.

53. Interest rates affect the cost of local borrowing to SMEs. So far interest rate capping has negatively affected access of credit by SMEs as banks have resorted to lending large corporate borrowers and investing in government securities. Considering that SMEs account for a large share of enterprises in Nairobi City County, rationing out the SMEs by banks will adversely impact their contribution to county economic growth.

2.2 REVENUE AND EXPENDITURE PERFORMANCE FOR FY 2017/18

2.2.1 Key County Revenue Sources and their Performance for FY 2017/18

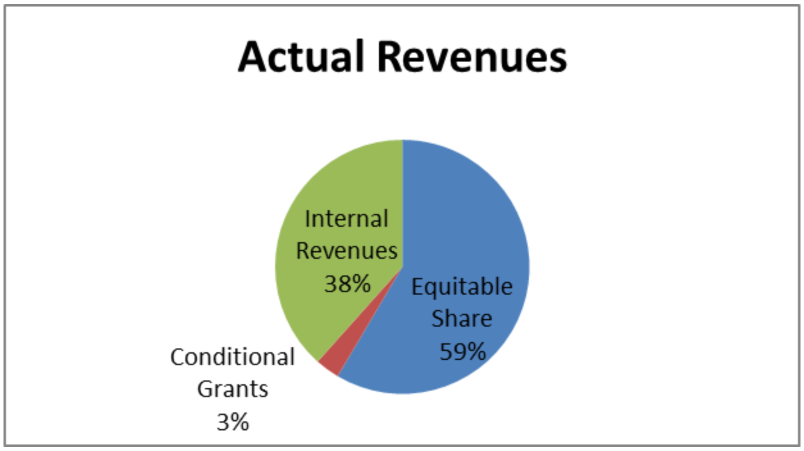
54. The key county revenue sources for the year under review were equitable share from National government, conditional grants and own source revenue. By the end of financial year 2017/18, the total accumulated revenues amounted to Kshs 26.3 billion against a target of Kshs 33.5 billion (**Table 2.1**). This performance was below target by Kshs 6.8 billion. Own source revenues was Kshs 10.1 billion against a target of Kshs 17.2 billion reflecting an under performance of 21.3% from the target.

Table 2.1: Total Revenue (Millions) Performance as at 30th June 2018

ITEM	Approved	Revised	Cumm. Total	% Performance
Equitable Share	14,967	15,402	15,402	**100.0**
Conditional Grants	770	826	817	**98.9**
Internal Revenues	19,766	17,229	10,109	**58.7**
Total Revenues	**35,503**	**33,457**	**26,328**	**78.7**

Source; County Treasury

Fig2.3: Summary of key revenue sources in percentage



External Revenues

55. By the end of the financial year 2017/2018 total receipts from the National government amounted to Kshs 16.2 billion. This included an equitable share of Ksh 15.4 billion and a conditional grant of Kshs 817 Millions.

56. The National Government has continually honored its obligation by disbursing the amounts set by CRA formula. The CRA sharing formula for revenue among counties considers the following parameters: population with a weight of 45%; Poverty Index (20%); Land Area (8%); Basic Equal Share of (25%) and Fiscal responsibility of 2%. However, this sharing formulae continues to be disadvantageous to Nairobi in terms of per capita allocation of equitable share and requires a review to take into consideration the population aspect and the status of Nairobi County as the capital city. The county should therefore adhere to the fiscal responsibility stipulated in PFMA Act, 2015.

Own Source Revenues

57. By end of 30th June 2018 total own source revenues amounted to Kshs 10.1 billion against a target of Kshs 17.2 billion The total own sources revenues fell short of target by 21%. This was attributed to weaknesses in enforcement, politics and poor monitoring mechanism. The key revenue streams in absolute terms are parking fees, rates, single business permit, construction site board and billboards and adverts (**Table 2.2**). They were the dominant drivers of the local revenue constituting 18.6 %, 18.5%, 17.7 % and 10.7% and 6.9% respectively in Financial Year 2017/18.

Parking Fees

58. The total cumulative receipts from parking fees amounted to Kshs 1.878billion against a target of 3.116 billion indicating a performance of 60%. The demand for parking in the county has outpaced supply and therefore parking demand is relatively price inelastic. This means a proportionate change in price will not affect demand for parking. Therefore going forward there is need to enhance supervision as well as increase enforcement and also motivate revenue collectors for the county to realize more revenue from parking fees.

Rates

59. Total accumulated collections from rates were Kshs 1.87billion against a target of Kshs 4.84 billion, representing a 39% rate of performance. The underperformance in rates is attributed to lack of effective enforcement mechanisms of rate defaulters and outdated rates records. As part of the revenue enhancement strategy the county should leverage on digitization of rates to make it easier for customers to obtain bills and pay online. In addition data cleansing of rates records and updating of valuation roll is critical. More so, issuance of title deeds especially in Eastlands will bring more land owners on bond to pay rates.

Single Business Permits

60. Total collections from single business permits in FY 2017/2018 amounted to Kshs 1.786 billion against a target of Kshs 3.16billion.this implies that this revenue stream performance rate was 56 %. The underperformance was due to: poor enforcement; invasion by unscrupulous business people; inaccuracy of records on business establishments, undercharging based on e-payment system, and slow pace of devolution of this stream to the Sub-Counties. There is also need to carry out a baseline census on business establishment in the County to establish accurate records for proper projections to enable optimize revenue from this stream.

Advertisements & Bill Boards

61. The total accumulated revenues for billboards and advertisements as at June 2018 was Kshs 698 million against a target of Kshs 1.056 billion showing a performance of 66%**..** This revenue stream can be improved by enhancing monitoring all billboards by leveraging on private sector expertise in monitoring billboards. Overall, the entire revenue administrations systems require a major overhaul to enhance improve efficiency and effectiveness in revenue management.

Table 2.2: Own Sources Revenue (OSR) FY 2017/2018 as at 30th June 2018 (Kshs)

Revenue Stream	Approved	Revised	Total Revenues	% Performance
Rates	5,555,000,000	4,842,136,838	1,871,422,877	39
Parking Fees	3,575,000,000	3,116,226,678	1,877,739,284	60
Single Business Permits	3,636,000,000	3,169,398,657	1,786,127,280	56
Building Permits (1.25 Of Const. Cost)	1,717,000,000	1,496,660,477	49,425,533	3
Billboards & Adverts	1,212,000,000	1,056,466,219	698,058,913	66
RENTS-Other Estates	303,000,000	264,116,555	292,496,151	111
Rents-EASTLANDS	303,000,000	264,116,555	278,727,350	106
Decentralization-Wards	242,000,000	210,944,575	73,236,997	35
Construction Site Board	202,000,000	176,077,703	1,079,676,918	613
Fire Inspection Cert	182,000,000	158,644,267	436,880,800	275
Regularization of Building /Change /Amalgamation/Sub	263,000,000	229,249,683	31,619,675	14
Wakulima Market	145,000,000	126,392,411	113,315,220	90
Other Markets	145,000,000	126,392,411	140,463,131	111

Revenue Stream	Approved	Revised	Total Revenues	% Performance
Food Handlers Cert	219,000,000	190,896,124	192,305,020	101
Other Incomes	2,067,000,000	1,801,289,776	1,187,924,345	66
Total	**19,766,000,000**	**17,229,008,928**	**10,109,419,494**	**59**

Source: County Revenue Department

2.3 KEY REVENUE STREAMS PERFORMANCE BY MID 2018/2019

62. The total approved revenue estimates for the financial year 2018/2019 was Ksh 32.010 Billion of which 16.513 Billion was to be received from external sources while 15.208 Billion was to be collected from own source revenue streams. By mid FY 2018/19 (31st December 2018) a total of 8.654 Billion had been achieved being 27 % performance on annual target. Out of the revenue realized, 4.922 Billion (30% of annual target) was received from external revenue, 3.627 Billion (24% of annual target) from own source revenue streams while 105.4 Million (37% of annual target) was collected from AIA- Liquor license fees. The dominant local revenue streams as at December 2018 were: parking fees, Building Permits, Single Business Permits, Rates and House Rents at 25%, 16%, 13%, 10% and 8% respectively.

Table 2.3: Revenue Performance as at 31st December 2018

REVENUES STREAMS	Approved Estimates 2018/2019 (Kshs)	Cumulative Total as at 31st Dec 2018 (Kshs)	% Performance on Annual Target
Equitable Share	15,794,200,000	4,896,202,000	31
Conditional Grants		-	
Compensation For User Fees Forgone	79,423,251	-	-
Road Maintenance Levy	415,847,530	-	-
KDSP (Level 1 grant Allocation)	83,424,144	-	-
DANIDA -Grant for Universal			

REVENUES STREAMS	Approved Estimates 2018/2019 (Kshs)	Cumulative Total as at 31st Dec 2018 (Kshs)	% Performance on Annual Target
Healthcare in Devolved Governments	51,637,500	25,818,750	50
Conditional Grants to Development of Youth Polytechnics	34,570,000	-	-
World Bank Loan for Transforming Health System for universal Care System	54,429,184	-	-
TOTAL EXTERNAL REVENUES	**16,513,531,609**	**4,922,020,750**	30
OWN SOURCES REVENUE		-	
Rates	3,600,000,000	387,884,537	11
Parking Fees	3,030,000,000	941,197,555	31
Single Business Permits	2,600,000,000	471,586,525	18
Building Permits	1,500,000,000	583,880,042	39
Billboards and Advertisements	1,000,000,000	257,045,598	26
House Rents- Eastlands & other estates	560,000,000	312,823,779	56
Fire Inspection Certificates	340,000,000	89,769,500	26
Food Handlers Certificates	230,000,000	81,832,125	36
Construction Site Board	180,000,000	28,572,823	16
Regularization of buildings	180,000,000	9,419,283	5
Wakulima Market	125,000,000	50,217,504	40
Other Markets	226,980,000	95,946,120	42
Other Incomes	1,636,893,206	316,425,532	19
TOTAL OWN SOURCES REVENUE	**15,208,873,206**	**3,626,600,923**	**24**
TOTAL REVENUES TO COUNTY REVENUE FUND	**31,722,404,815**	**8,548,621,673**	**27**
Add: AIA- LIQOUR LICENCE FEES	287,836,000	105,421,000	37
GRAND TOTAL	**32,010,240,815**	**8,654,042,673**	27

63. In order to enhance revenue collection, the following measures are proposed; Aggressive enforcement on non- compliant customers; Monitoring and evaluation of performance; Business process review including review of the revenue structure of the revenue collection responsibilities; Legislation of all revenue streams; Leveraging on technology to enhance efficiency; Revenue potential study /create database of all revenue possible as well as encouraging and adopting innovation.

2.4 EXPENDITURE PERFORMANCE FOR FY2017/18 AND BY MID-YEAR 2018/19

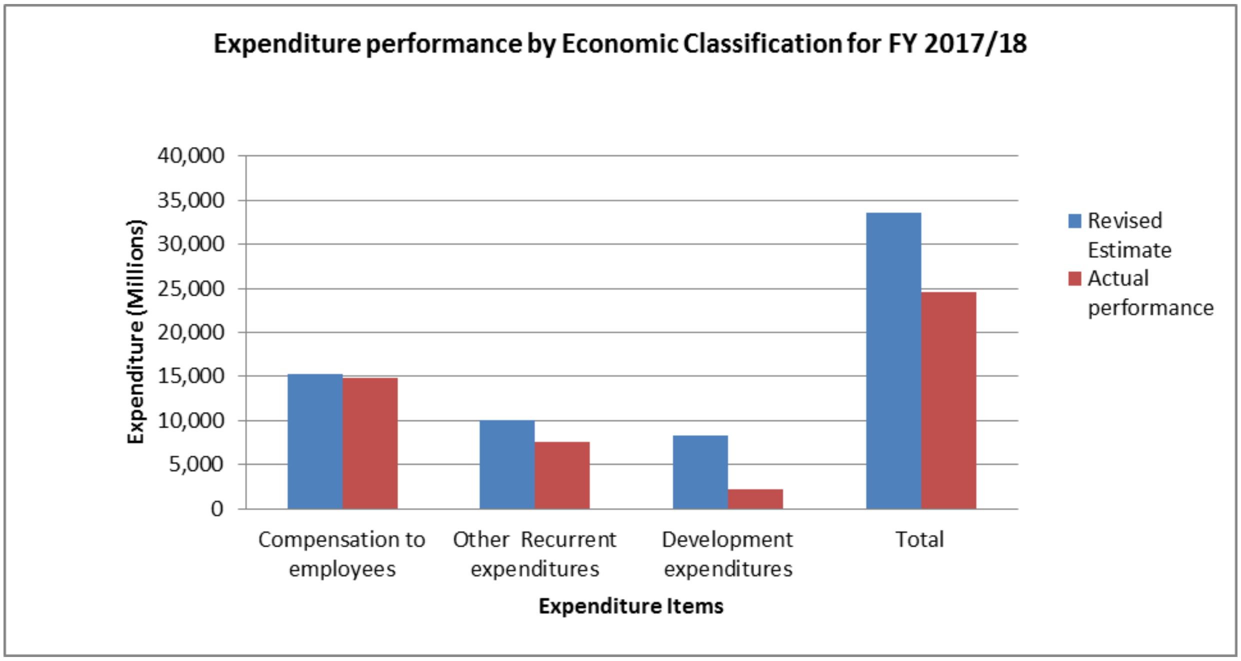
64. Total expenditures for the FY 2017/18 amounted to Kshs 24.5 billion against a revised budget of Kshs 33.6 billion **(Table 2.3**). The overall absorption rate of the total budgeted was 72.9%. Development expenditure amounted to Kshs 2.179 billion against a revised budget of Kshs 8.365 billion indicating a performance of 26%. The slow uptake of development funds is attributed to slow implementation of projects by the implementing agencies. Departments therefore need to have a clear project implementation matrix including the establishment of project implementation committees. The expenditure on compensation to employees was kshs14.837 billion against a revised target of Kshs 15.259 billion (indicating 97% absorption rate). The expenditure on other recurrent that is, drugs, medical insurance, garbage and bursaries among others was 7.525 billion against a revised target of 10.025 billion (indicating an absorption rate of 75%)

Table 2.4: Expenditure by Economic classification

ITEM	Approved	Revised	Cumulative Total	% Performance
Compensation to employees	16,059	15,259	14,837	97.2
Other Recurrent expenditures	8,061	10,025	7,525	75.1
Development expenditures	11,787	8,365	2,179	26.1
Total	**35,907**	**33,650**	**24,542**	**72.9**

Source: County treasury

Figure 2.4: summary of expenditure by economic classification



65. By mid FY 2018/2019 (December 2018) the cumulative expenditure was Ksh 9.721 Billion (30%) against an annual target of Ksh 32.310 Billion. Out of this, Ksh 8.583 Billion (40% of the annual target) was spent on recurrent expenditure while Ksh 1.418 Billion (13% of the annual expenditure) was spent on development expenditure (**See Table 2.5**).

Table 2.5*: *MID FY 2018/2019 EXPENDITURE

Expenditure Items	Approved Estimates 2018/2019 (Ksh)	Cumulative actual as at December 2018 (Ksh)	% Performance
Recurrent Expenditure	21,473,786,815	8,583,185,181	40
Development Expenditure	10,836,454,000	1,418,375,048	13
Total Expenditure	**32,310,240,815**	**9,721,196,658**	**30**

Debts

66. By 30th June 2018, the total amount owed by the county stood at Kshs 66.6 billion up from Kshs 56.5 billion on 1st July 2017 an increase of about 17.9% (table 6) The increase is mainly due to:

- Increase in penalties on statutory debts.
- Updating of legal creditors register.
- Increase of unpaid suppliers /contractors due to revenue under performance.

Table 2.6: Outstanding Debts as at 30th June 2018.

CATEGORY		As at 1st July 2017	As at 30.6.2018
1	**Statutory creditors**	**23,018,436,066**	**30,132,956,202**
A	KRA	**3,922,081,365**	**5,010,660,716**
	Principal	3,711,714,898.07	4,039,759,099
	Interest		688,989,096
	VAT	210,366,466.45	281,912,521
B	NSSF	470,808,346	424,342,472
C	LAPTRUST	**8,900,699,848**	**10,908,083,443**
	Principal	5,812,450,194.26	6,334,269,486
	Interest	3,088,249,653.42	4,457,813,957
D	LAP FUND	**9,724,846,507**	**13,789,869,571**
	Principal	2,041,834,795.04	1,982,017,715
	Interest	7,683,011,712.31	11,807,851,856
2	**Suppliers/Contractors**	**3,787,610,031**	**5,197,897,213.90**
3	**Legal Creditors**	**2,339,264,112**	**5,442,127,207.78**
4	**Utilities**	**487,276,629**	**875,716,686.00**
A	KPLC	220,107,570.44	640,719,627.00
B	WATERBILLS	267,169,059	234,997,059.00
5	**Loans**	**4,973,231,829**	**3,024,371,706.30**
6	**Contingent Liabilities**	**21,768,297,573**	**21,768,297,573.00**
7	**Employee benefits-Retirees/Deceased**	**142,249,068**	**134,647,551.00**
8	**TOTAL**	**56,516,365,308**	**66,576,014,140.36**

67. The principal debt as at 30.06.2018 amounted to Ksh. 49.5while as the penalties and interests (from KRA, Laptrust & Lapfund) during the same period amounted to Ksh. 17.1 billions. As at 1st July, 2017 the principal debt stood at 45.5 billion while as the penalties and interests stood at 11.0 billion translating to an overall 55% increase in penalties& interests charges.

68. To mitigate the fiscal risk associated with debts, it is advisable to prioritize the payment of Lapfund & Laptrust because of high interest rate of (36%&15% P.A) charged on them respectively, compared to other debt categories like KRA. Also Payment of the debt when they fall due will avoid accrual of interest and penalties. Also revenue enhancement will avail more funds to be allocated to clear debts.

69. N.H.I.F - Current payments to NHIF are remitted as at when the salary is paid. There are no arrears on the N.H.I.F account.

70. N.S.S.F - Payments to NSSF are made through a debt swap as provided for in the debt strategy paper. The current debt as at 30.06.2018 stood at Kshs.424.3M which is historical in nature. The current deductions to NSSF are paid as at when the salary is paid. The historical debt to NSSF has continued to be serviced through a debt swap against their property rates owing

71. KPLC-The County has been making continuous payment to KPLC to clear outstanding debt owed, however the current debt as at 30.06.2018 stood at Kshs 640.7M. A case is pending in court regarding way leaves debt owed by KPLC which would have been swapped against the existing debt. Public works sector is in close conjunction with KPLC on the issues relating to electricity. Water bills debt accrued after Nairobi Water Company discontinued the monthly lease payments swap.

72. The County inherited huge debts from the defunct City Council of Nairobi relating to statutory creditors, Government guaranteed loans and on lent water loans. The County has continued to pay statutory creditors on a monthly basis however, they charge high interest and penalties on debt accruing with Laptrust charging 1.25% per month compounded (15% annually) and Lapfund charging 3% per month compounded (36% per annum).

73. The pending bills report of Suppliers of goods and services is sector based. Each sector has provided details on the bills existing within their sectors.

Strategies to Deal with Debts:

74. In order to keep debts at sustainable levels ,the government is pursuing several strategies while ensuring no disruption of service delivery in accordance with the debt management strategy paper for 2017/2018 **.**

The status of implementation of the debt paper reads as follows:

- Debt rescheduling/negotiations; the government has initiated the rescheduling of the KCB loan, restarted negotiations with statutory creditors for waiver of penalties. The government is also negotiating with the National Government for the release of long outstanding debts that will be deployed in the payment of debts.
- Debt Asset Swops; Asset swaps between the county and NSSF is in progress
- Cash management; All payments are now being done in the IFMIS platform and hence ensuring no expenditures are done outside the budget.
- Verification of pending bills; A pending bills committee is now in place to verify all pending bills.

Wages

75. By the end of FY 2017/18, the total amount paid as compensation to employees was Kshs 14.837 billion against an actual revenue collection of Kshs 26.328 billion. This represents a proportion of 56.0 percent wage costs to the total revenue. This amount was paid to a workforce of 12,496 employees. The PFMA Act, 2015, requires that county government wage bill shall not exceed 35 percent of their total budget. This undermined the realization of the fiscal responsibility. In regard to this, the PSM is in the process of developing a policy on voluntarily early retirement policy to reduce work force therein reducing wage bill and effecting productivity.

CHAPTER THREE: POLICIES TO ACHIEVE MEDIUM TERM OUTLOOK

3.0 INTRODUCTION

76. The Policies set out in the 2019 CFSP are underpinned by the CIDP's stated eight point development agenda that seeks to transform the City in order to deliver:

i. Quality physical infrastructure in the City,
ii. Rapid economic growth opportunities to diverse groups including youth, women, PWD's,
iii. Provision of reliable, accessible, quality and affordable healthcare,
iv. Provision of accessible, affordable and quality ECD and vocational opportunities for all,
v. Food and nutritional security for all,
vi. Good governance, public participation and rule of law,
vii. Greater access to affordable and quality housing, and
viii. Provision of clean energy, safe drinking water, waste management and sanitary services in a secure sustainable environment.

77. The sustained implementation of prioritized programmes in the CIDP 2018-2022 is expected to translate into improved quality of life for the people through positioning Nairobi as the City of choice for all to Invest, Work and Live. This in turn will translate into expanded employment opportunities and rapid poverty reduction. The delivery of the eight outcomes listed above will be pursued through four key performance areas namely:

3.1 Area (I): Governance and Stakeholder Participation

78. Sustainable economic development and growth is largely influenced by good governance that seeks to best deliver to the expectations of the people in a timely, efficient and predictable manner. Furthermore, good governance is a major ingredient for attracting quality investment that is expected to trigger economic development in the County. The Government seeks to further entrench gains made in inculcating principles and values of good governance. These include; Accountability, Transparency, Excellence, Accessibility, Integrity, Responsiveness, Teamwork and Equity.

3.1.1 Stakeholder Participation

79. The government will upgrade the communication protocol for internal and external stakeholders so as to achieve full participation of all stakeholders in governance, development planning, resource allocation, service delivery and monitoring and Evaluation. In realization of the objects of devolution, already considerable gains have been made through activation of seventeen (17) Sub-County and eighty five (85) ward services. The government will be rolling out an elaborate communication plan as a component of the draft Public Participation policy that seeks to roll out implementation of The Nairobi City County Public Participation Act, 2015. Further, the government will allocate adequate resources for public participation in all the sectors in the County.

3.1.2 Enabling Legislation

80. Being cognizant that the devolved system of governance is still in its formative years, it is important for relevant instruments of governance to be legislated on in order to fill existing gaps in the legal framework for effective delivery of the mandate of the County government.
The government will be working towards reviewing relevant laws especially in Food and Agriculture, Property Rating and Valuation, Revenue laws, Education, Security and Disaster Management in order to align them to thematic mandates of relevant sectors.

3.1.3 Corruption Eradication

81. Corruption in all its forms must be eradicated from all arms of our institution in order for all to obtain high quality of service and equitable socio-economic development. The government has recently concluded government functional reorganization that was partly meant to cut existing cartel networks in order to improve service delivery and employee productivity.
The government has resolved fully implemented the Internet Banking (I/B) protocol as a component of the Integrated Financial Management Information System (IFMIS) in all its

financial transactions. This is expected to promote controlled expenditure, eliminate cheque chasing by suppliers while promoting transparency and accountability. Inadequate resources continue to undermine the realization of outcomes in this performance area.

3.2 Area (II): Financial Sustainability

82. In line with Article 226 of the Constitution of Kenya and the Public Finance Management Act 2012, the Government is committed to ensure sound long-term financial principles.

3.2.1 Revenue Management

83. Challenges continue to hamper full realization of Internal revenue targets towards financing the budget with a fiscal gap ranging between 20-25% between 2013/14-, 2016/17 with the worst performance of internal revenues achieving only 58.7% of the revised targets for the financial year 2017/18 turning into a deficit of 21% as a proportion of total projected revenues.

84. These below par outcomes are attributed to overreliance on automation without a corresponding effort in innovation, a weak and opaque revenue collection systems, non optimal collection in major revenue streams particularly in Rates and Parking, leakages in the system due to inadequate internal controls and undercharging in some areas.

85. In this regard, the government will accelerate the pace of integration of revenue management systems through an ERP system, innovation of creative enforcement models for rapid growth of own source revenue. Conclusion of the ongoing revenue census, revenue enhancement strategy and update of the GIS based land valuation roll are expected to turn around revenue fortunes in the county fundamentally.

86. Introduction of an agency model in revenue collection is a key innovation for enhancing the Government grip on Payers while creating thousands of jobs for its people.

3.2.2 Expenditure and Cost Management

87. The government is committed to ensuring prudent application of public resources for maximum returns to the public. In this regard, ongoing reforms in public procurement will be accelerated in 2019/20 to guarantee value for money in each expenditure. Non priority expenditure will be minimized so as to free more resources towards critical service delivery and development areas.

3.2.3 Integrated Planning, Monitoring and Evaluation

88. Implementation of the Monitoring & Evaluation framework provided in the County Integrated Development Plan (CIDP) 2018-2022 will be strengthened in order to improve on development budget absorption and guarantee feasible returns on capital investment.

89. In the medium term, the County treasury is committed to enhancing budgetary resources towards Economic Planning in order to facilitate timely production and dissemination of development plans, research, production and dissemination of County statistics as well as regular monitoring and Evaluation. Emphasis will be put in impact studies on core poverty alleviation, population and social sector investment outcomes.

90. Additionally, sector-wide capacity development on project design, Planning and Management will be enhanced to ensure that only projects with the highest propensity to address priority socio-economic concerns facing Nairobians receive funding.

3.2.4 Resource allocation and Absorption

91. Acknowledging that resource requirements for all our programmes by far exceed the resource outlay, we shall be seeking to address the growing budget financing gap, growing intra-county development disparities, the low absorption of development expenditure, the growing debt portfolio and ineffective funding towards low income areas.

92. In this regard, the Government is committed towards a realistic, balanced and pro-growth budget that is in perfect consonance with the fiscal responsibility principles. This includes sustaining the wage bill at current levels with prospects of a decline due to exit, exercising restraint from non-core borrowing while allocating resources towards debt resolution and accelerating resource allocation for programmes geared towards addressing development in low income areas.

93. Expanding resource outlay through Public Private Partnerships particularly for high return programmes in Health, Housing and Infrastructure will particularly be leveraged on. Particularly Urban Renewal programmes that have been ongoing are expected to yield first fruits this year.

3.2.5 Asset Management

94. Finalization of the draft policy on Asset management remains behind schedule. This predicament continues exposing the County to the risk of losing its assets. The Government will fast track the operationalization of the county Asset management Policy in order to address the inherited state where no framework existed for taking stock and updating the Asset register. This has led to many county properties finding their way into private hands. These assets include land and buildings. We are committed to setting up a functional central asset and risk management registry.

3.3 Area (III): Institutional Transformation

95. Gains of the ongoing culture change programme will be built on in order to ensure that the County Government has put in place systems to ensure that the entire organization shifts gear from the grim image of the defunct City Council.

3.3.1 Organizational structure

96. The government has completed and adopted a structure that defines the flow and is in the process of making substantive appointments for suitably qualified staff in order to bring to an end uncertainty and low morale among staff that have been in acting capacity for a long time. The County Public Service Board (CPSB) is expected to complete the exercise of making appointments with clear terms and conditions of service in order to streamline functional relations in the government structure in order to enhance efficiency in service delivery.

3.3.2 Capacity Building

97. Implementation of Capacity Assessment and Rationalization Programme (CARPS) report recommendations remain a priority for the Public Service Management.The misalignment of skills, personnel deployment as well as lack of adequate succession planning has led to overstaffing in some of the lower levels as well as misplacement of skills in some key positions. The Government has initiated a number of programmes for capacity building for staff.

98. The County government seeks to further the existing partnership for staff training with the Kenya School of Government towards implementation of an effective working culture and a positive attitude towards service delivery through professional training.

3.3.3 Performance Management

99. The County has embraced the results based Approach in all its operations. In furtherance of this practice sector performance targets have been agreed upon, RRI teams constituted and the practice of Monitoring & Evaluation across all departments.

3.4 Area (IV): Physical infrastructure and services

100. In order to ensure sustained economic transformation, and a competitive City economy, the government will accelerate the pace for investment in Road network expansion and maintenance, street lighting, energy, expansion of non-motorized transport facilities and traffic decongestion.

3.4.1 Road Network Rehabilitation & Expansion

101. Considerable progress has been made in the implementation of road rehabilitation and construction programme and a number of key projects have been completed. Over the medium term, the strategy is to develop the road transport in order to have an effective, efficient and secure road network, step up road transport safety and regulation through developing and implementing road transport policies for an efficient and safe transport system.

102. In this regard, the target for the medium term is to maintain 550Kms of Roads across the county on required basis. This will involve patching, sealing, filing ruts, cracks and depressions and rectifying defects arising from use

3.4.2 Traffic Management and Decongestion

103. The current road network coupled with the state of traffic management systems are inadequate to meet the current and future demands as envisaged in the Kenya Vision 2030 blue print. The deterioration of traffic conditions can be explained by the rapid increase in the number of private cars, lack of an efficient Rapid mass public transport system, poor enforcement of traffic regulations and lack of discipline on motorists and other road users.

104. In the medium term, the target is to roll out a traffic simulation system, implement and expand signalized junctions, develop an Intelligent Transport System for the City, construct and commission commuter rail and operationalize a Rapid Public mass Transport System for the City.

3.4.3 Non-Motorized Transport

105. Non-Motorized transport facilities serve a significant proportion of the population and constitute a major mode of transport in the City. Over the recent years, investment in these critical facilities has not matched the demand.

106. Over and above targeted expansion of identified NMT facilities, maintenance of the existing 5000 M NMT infrastructure will remain a top priority in the transport sub-sector. Energy

Cognizant that the energy regulatory and reticulation function has not been devolved to the County Government; availability of affordable, reliable and adequate energy in the City is a key concern of the County government. We are conscious of the prevailing chronic over reliance on one source of energy, inadequacy of the regulatory framework for the energy infrastructure and efficiency.

107. Street lighting programme will be enhanced in 2019/20 to build on the gains achieved in 2017/18 where 39,000 number of lights and 20,800 street lights maintained. In this regard, the Government is keen on developing and rolling out a green building promotion programme in order to diversify into other eco-friendly energy sources, promote the adoption of more efficient energy infrastructure such as LED lights and implementation of a maintenance programme for energy infrastructure.

3.4.4 Drainage Infrastructure

108. A well-functioning drainage system is a major safeguard for road infrastructure, property and lives of people during flash floods which have become more regular and heavier in impact over the last few years.

109. In this regard, the government will invest in maintenance of …..Km of storm water drainage through regular cleaning and replacing damaged parts. Installation of storm water drains in the CBD. Additionally, missing manholes will be fitted alongside drainage improvement in identified roads across the County.

3.4.5 Water & Sewerage Infrastructure

110. The County will upscale its capacity for provision of clean and safe water, improve sanitation conditions in order to meet rising demand for these services as a result of rapid population growth.The rapid population growth in the City has led to an increase in the demand for water for domestic and industrial use. With 76% of households connected to water system, the County seeks to ensure that supply of water is reliable. In this regard, investment in developing ground water, development of the Northern collector and rehabilitation of the cleansing depot remain a priority for the water sub-sector.

111. Cognizant that only 50% of the population is connected to the sewer line, the government will invest in expansion of the sewer line so as to serve a greater proportion of Nairobians. Further, improvement of sanitation facilities particularly in the informal settlement areas will be actualized.

3.4.6 Waste Management

112. The Nairobi City County generates an estimated 2000 tons of refuse daily with 68% of this being domestic waste. The County government is committed to proper waste management to ensure the city is clean. A number of strategies will be employed to effectively deal with solid Waste. This includes further investment in SWD infrastructure, creating additional landfills, enhancing the capacity for timely collection and disposal of wastes. Behavioral change programmes for the resident in order to inculcate the 4Rs plan will be key in addressing the waste management sustainably.

3.5 Area (V): Social and Community Development

113. The government recognizes the important role played by the social sectors of Education and health in making sustainable socioeconomic transformation a reality. A well-coordinated and fully functional social package will reduce the burden of economic shocks on households and enhance access to services by most Nairobians. In this regard, the Government will continue investing in quality and accessible healthcare services and free quality early childhood education as well as strengthening the social protection programmes. This investment will target the Youth, Women, Children and People living with disabilities for social inclusion.

3.5.1 Healthcare

114. Nairobi County government is leading the way to making universal health coverage a reality in line with the Kenya Health Policy (2014-2030) and the Kenya Health Sector Strategic and Investment Plan, through rapid health infrastructure expansion, acquisition of specialized equipment and capacity building, we continue to register impressive gains in this sector. We are committed to accessible high quality free maternity services in all our facilities. The medium term strategy is to build on lessons learnt from the transformation of Pumwani Maternity hospital. The hospital recently acquired an 8 adult capacity and 50 infant capacity cold room.

3.5.2 Education, Children and Youth development

	2014			2015		
	Public	**Private**	**Non-formal**	**Public**	**Private**	**Non-formal**
Total number of ECDE centers	202	90	800	202	93	Over 800
Total number of primary schools	203	100	914	204	100	914
Total number of DICECE & CICECE	2			2	-	-
Home crafts Centres & Youth Polytechnics	11			11	-	-

115. While the education sector continues to record impressive outcomes in terms of gross enrolment rate of over 98% and a pre-school retention rate estimated at 99.8% and a transition rate of 98%, there is need to expand the scope of access to quality formal education. With over 80% of the operational ECDE centers being non-formal, the government is committed to ensure access to quality education is guaranteed.

3.5.3 Free ECDE

116. Primary and Secondary education functions still remain with the National government. However, with a recorded dropout rate of 3.6% and a transition Rate of only 65.7%, there is need for concerted efforts towards addressing the underlying challenges.

3.5.4 Bursary

117. The DICECE and CICECE department was transferred to the management of the County Government in the year 2015. This department is charged with the responsibility of training ECDE teachers in two (2) established centers in the County. The government will avail adequate resources towards supporting this department execute its mandate more effectively.

118. Improving and expanding schools and training institutions infrastructure through construction/ rehabilitation of class rooms and integration of ICT in curriculum delivery will be a target for the medium term.

119. The government is committed towards aligning education and training curricula to the demands of changing labour markets by developing competency based education and training for TVET and revitalizing the 11 Youth Polytechnics in the County.

120. The overall strategy in education during the medium term is to focus on developing educational delivery standards and strengthening quality control, continued curriculum reforms and educational inspectorate services in order to enforce and uphold quality education.

3.5.5 Empowering Youth, Women and Persons with Disabilities

121. Youth polytechnics and TVETs will be equipped with facilities for technical training to promote the competitiveness of the Youth in the labor market.The government recognizes the great potential for a social turn around through empowerment of Youth, Women and persons with disabilities. In this regard, 30% of available procurement opportunities will be dedicated to enterprises run by these three categories.

3.5.6 Housing

122. Housing needs for the City stand at 100,000 units annually. In order to mitigate this demand, the County government seeks to redevelop7 no of old estates through urban renewal program. The targeted estates are: Old Ngara, Jevanjee, New Ngara, Suna Road, Uhuru, Pangani and Ngong Road. This programme is expected to deliver additional 10,000 housing units within the medium term. The bulk of resources for this program will be harnessed through EPC.

3.5.7 Sports and Recreation

123. The Government recognizes the important role played by sports in enhancing cohesion and national cohesion. Additionally, there are considerable health benefits associated with functional sporting and recreational services in the County. In this regard, the government will invest in modern and high quality sporting and recreational facilities that are well distributed across the County.

3.5.8 Arts and Culture

124. The City is a centre of cultural diversity with a marked presence of both local and external content. It is the commitment of the government to promote artistic and cultural development through festivals, museums and art exhibitions.

3.5.9 Libraries

125. The government is committed to promoting an active reading culture in the County. Existing library services will be automated, modernized and equipped to actualize this goal over the medium term. New libraries will be constructed in identified sub-counties with the establishment of a mobile component to complement existing facilities.

3.5.10 Cemeteries, Crematorium and Corona Services

126. Currently, there exists an acute shortage of cemetery facilities due to inadequate land available for this important facility. The City's main cemetery ground at Langata is constrained and there is urgent need for developing a new facility. The government targets to acquire 200 acres of land towards developing this facility.

127. The Government is committed to expanding, modernizing and improving the quality of services offered at the City mortuary. Installation of …capacity cold rooms at Pumwani Maternity hospital is a great stride in restoring dignity to those who succumb to ailments during treatment.

3.6 Area (VI): Safety and Environment

3.6.1 Safety and Security

128. The Government is committed to guaranteeing a safe and secure environment for residents, investors and workers to operate in. In this regard, resources will be invested in security surveillance, intelligence gathering, personnel training and equipment. The city inspectorate department will be modernized to achieve a trustworthy and recognized law enforcement status that strictly observes human rights in the discharge of their mandate. This sector will require a lot of collaboration with members of the public, National security agencies and other development partners to actualize.

3.6.2 Disaster Management

129. The City is prone to a number of natural and manmade disasters. These include terrorism, Flooding, Infrastructure failure, disease outbreaks and poverty. In this regard the Government is committed to developing and implementing a resilience plan aimed at mitigating against adverse effects of such occurrences. In the recent past, the City has made considerable progress in mitigation and response particularly for floods and fires.

3.6.3 Emergency services

130. In order to achieve better response times during emergencies, the Government will adopt a distributive approach of fire and ambulance services across the County. In particular, ambulance services will be operationalized through sub-counties while fire sub-stations will be established on either side of the City away from the CBD. Resources will be injected in opening up access routes especially in the Eastlands and informal settlements.

3.6.4 Traffic Management & Parking Control

131. During the medium term, the Government is committed to up scaling Traffic management reforms initiated in the last one year so as to achieve an efficient traffic management system. A programme to sensitize all traffic users on compliance to traffic rules and embracing traffic courtesy will be rolled out in the county. Development of adequate infrastructure for buses and matatus will be undertaken to cut down on obstruction. BRT lanes have already been established in major roads of the City. Recently, the City won funding to a tune of Ksh 152 Million for disaster management support from a UK based institution aimed at supporting the County develop policies and plans for better preparedness and coordination of disaster response.

3.6.5 Environmental management and Climate Change

132. The government is committed to confronting the realities of climate change through adoption of technologies for climate change mitigation and resilience, human resource development and partnership with academia and other research institutions.

3.6.6 Forestry

133. Over the last decade, the City has witnessed a systematic depletion of forest cover as development of housing and other urban infrastructure take precedence. This trend continues to threaten the rich urban nature and biodiversity that Nairobi is endowed with. In this regard, the government will coordinate a structured programme to restore forest cover and conserve biodiversity for shared prosperity.

3.6.7 Natural resources

134. The Government is committed to ensuring that natural resource endowments in the county are sustainably exploited for the maximum benefits of both the current and future generations. In this regard, control measures will be institutionalized in the management of quarrying and water resources in the County.

3.6.8 Parks and Open spaces

135. In the medium, the Government will seek to ensure all public open spaces and parks are delimited, fenced and well maintained to ward off possible encroachment by private developers. This will be achieved through integration of all parks and open spaces in the in the City's Urban planning programme.

3.7 Area (VII): Planning and Economic development

3.7.1 Spatial and Urban Planning

136. The Government seeks to achieve a well regulated and integrated urban development which ensures an inclusive City that is responsive to both the needs of the present and future generations. Towards this end, resources will be availed in developing an integrated urban development Plan, controlled development, enforcing development code, pursue regularization programme for past developments and establishment of a robust physical address system.

3.7.2 Agriculture & Livestock

137. The government recognizes the enormous potential in urban agriculture for socio-economic transformation of communities. In particular, this sector will address food security, nutritional status and food safety.

138. The strategy for the medium term is to mainstream urban agriculture into the urban planning process, review County Acts and policies for food safety and enhance zoonotic control.

3.7.3 Fisheries

139. The target for this sub-sector in the medium term is to increase fish production to meet at least 50% of the local demand for fish. In this regard, aquariums will be constructed, fish ponds and coordination of fish production enhanced as well as investing in market infrastructure. A review of policies governing this sub sector will be undertaken.

3.7.4 Trade and industry

140. The government recognizes the important role played by Trade and Industry in employment creation, income generation for households and thus boosting improvement of quality of life to the people. It is also an important catalyst to economic development. In further development of this sector, the government will inject resources for development of well planned, regulated and maintained trading facilities and enforcement of relevant legislation.

141. Designated trading centers for informal traders will be established, a weights and measures modern laboratory will be established and a centralized automated monitoring system operationalized in the County. A programme will be rolled out towards facilitating growth of the Small Micro and Medium Enterprises while reviewing the policy on Single Business Permit to ease the process of establishing and running businesses in the City.

3.7.5 Cooperative and Enterprise development

142. In recognition of the enormous potential of the cooperative movement in capital formation and employment creation, the County government will enforce existing legislation; revive dormant cooperatives and upscale registration and supervision of new enterprises.
The cooperative development policy and registration will be relooked at with a view to achieving an optimal modus operandi that will catalyze growth in this sub-sector.

3.7.6 Tourism & wildlife

143. The Government seeks to establish a world class and well developed modern tourism facilities with a comprehensive and enabling tourism policy.
Towards this end, investments will be made in development of adequate modern tourism infrastructure which efficiently supports tourists to visit tourist hotspots. Complementary County branding and marketing as an internationally recognized tourist destination will be undertaken.

3.7.7 Land Valuation and Property Management

144. The Government seeks to modernize its land management registry through adoption and implementation of a GIS based valuation system. This will ensure that all properties are frequently updated in the central land registry. Towards this end, investment in attainment of a valuation and rating system backed by an effective IT system is paramount. A harmonized land and property zoning system and a secure registration and survey system will be operationalized.

CHAPTER 4: BUDGET PRIORITIES FOR FY 2019/2020

Introduction

145. This chapter outlines; the County's guiding policy on expenditure, the resource envelope, and the expenditure and revenue projections. It also includes the key priorities for the sectors for the FY 2019/2020 and Ward Development Programme.

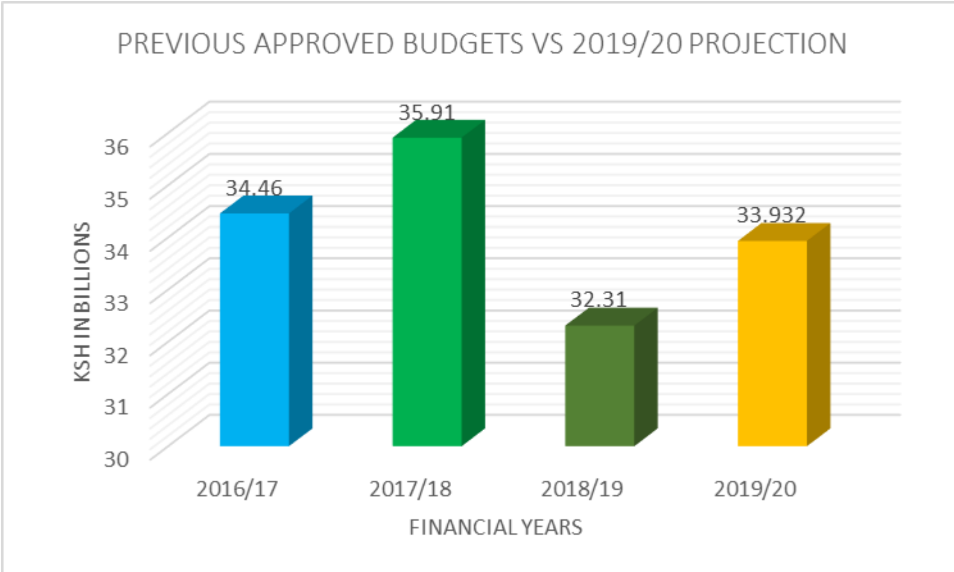
Guiding Philosophy

146. We seek to achieve sustainable financial viability, optimize expenditure, and embrace participatory Monitoring & Evaluation in order to regenerate the city and attain socio-economic and human development.

Resource Envelope

147. During the FY 2018/2019, the county approved a budget of Ksh 32.31 Billion, which is lower than the budget of Ksh. 35.91Billion approved in 2017/18 and Ksh. 34.46 Billion approved for FY 2016/17. The treasury proposed to revise the budget upwards to Ksh 33.34 Billion through a supplementary process. The county remains fully committed to deliver on its mandate, through optimal utilization of the meagre resources. This can only be achieved through unwavering fiscal discipline; proper identification, conceptualization and prioritization of programmes; and minimization of non-essential expenditure. The County treasury projects a total budget of Ksh. 33.932 Billion in the FY 2019/2020.

Fig 4.1 Previous Approved Budgets Vs 2019/20 Projection

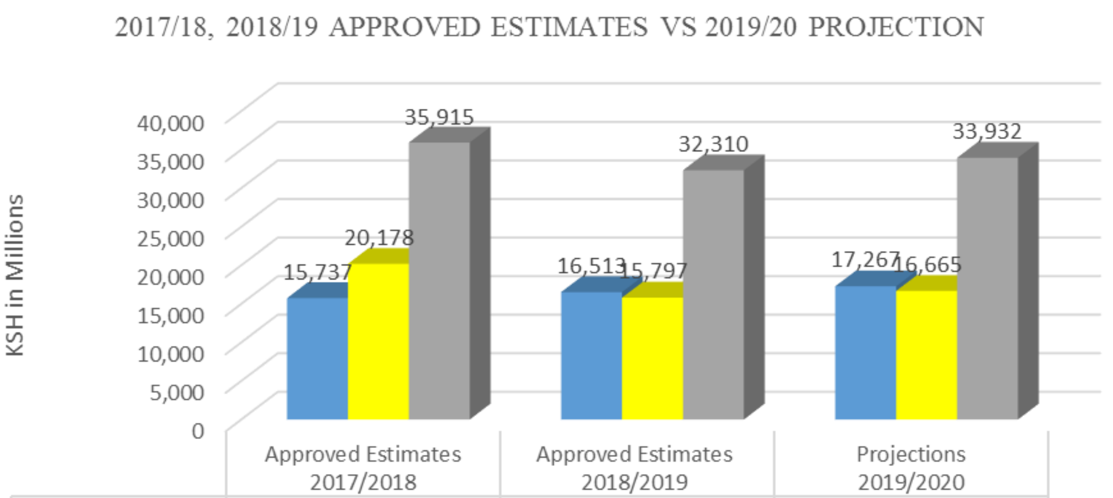


148. The 2019/20 budget will see a 5.02% increase from approved budget in the preceding financial year, however, there will not be a significant deviation from the revised figures of the 2018/19 budget at only 1.78% increase. The minimal increase in relation to the revised budget is recommended, in an effort to ensure a balanced budget, and a response to the slow growth of internal revenues.

Revenue Projections

149. The revenue growth has been lackluster over the years, a situation anticipated to persist in the medium term. The projected revenue for 2019/2020 will increase compared to the preceding year as shown below.

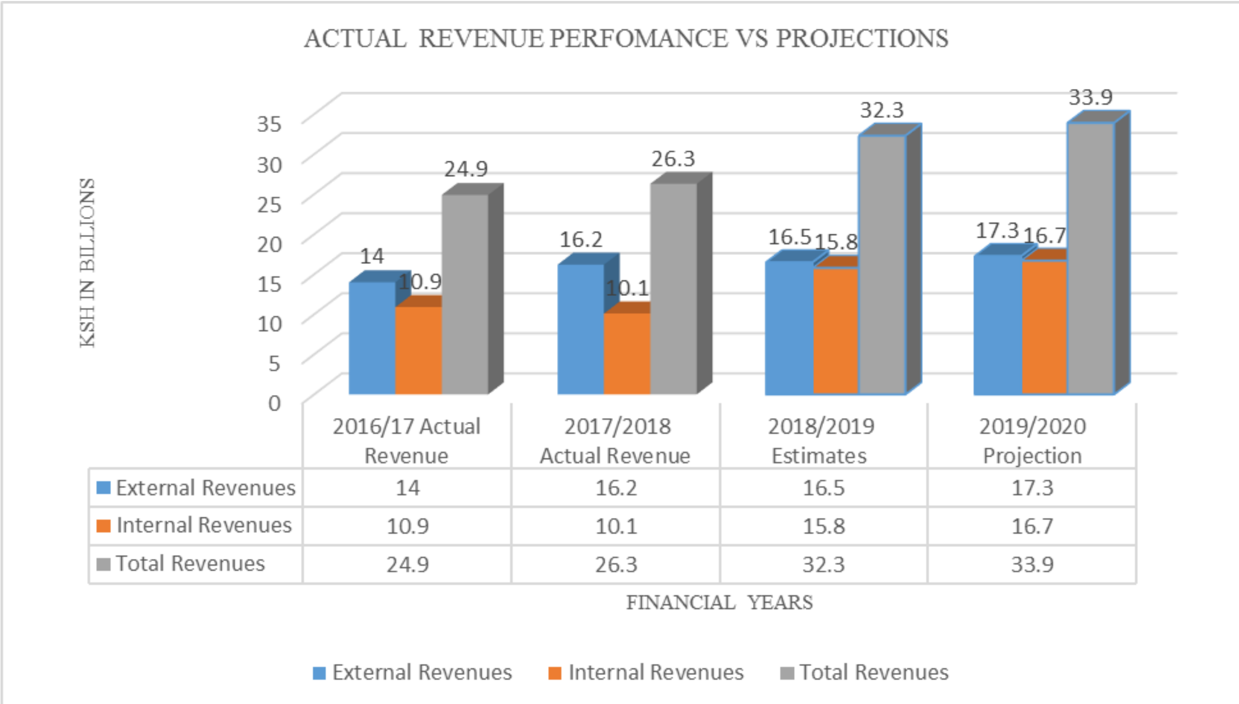
Fig 4.2: 2017/18, 2018/19 Approved Estimates Vs 2019/20 Projection



	Approved Estimates 2017/2018	Approved Estimates 2018/2019	Projections 2019/2020
External Revenues	15,737	16,513	17,267
Internal Revenues	20,178	15,797	16,665
Total Revenues	35,915	32,310	33,932

150. The projections depict a 5.02% increase compared to the approved estimates for FY 2018/2019. It's however notable that, the actual revenue always falls short of the set targets; therefore, the 2019/20 projection is a huge leap compared to the finalized financial accounts of 2017/2018.

Fig. 4.3: 2019/2020 Projections versus Previous Revenue Performance

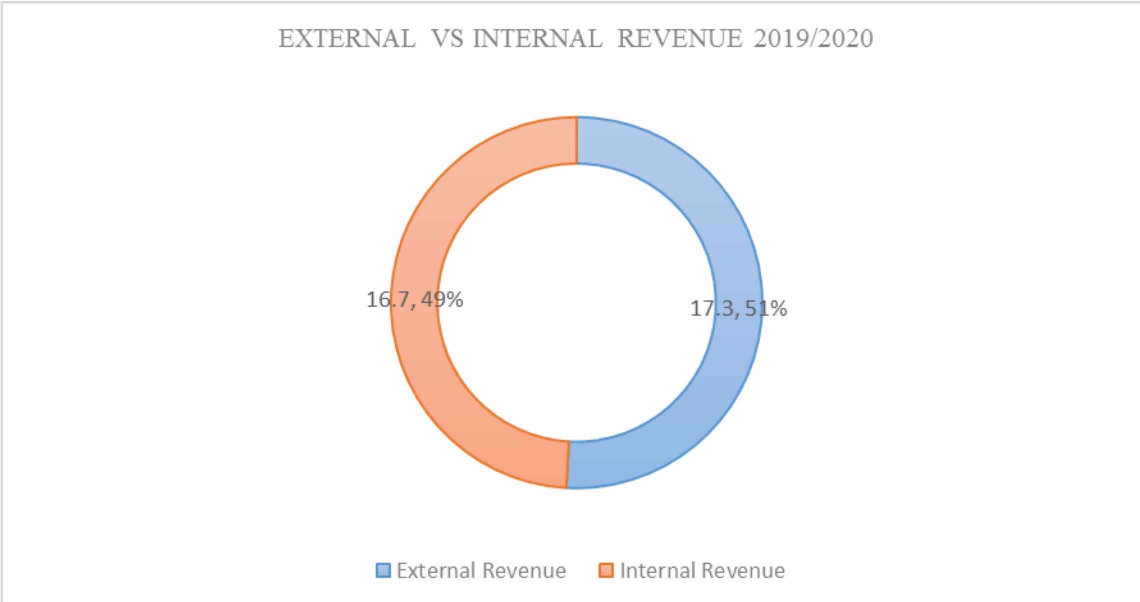


151. The 2019/20 projection of Ksh. 33.93 B will be a 29.01% increment from the final accounts of FY 2017/2018, where Ksh 26.3 B was actualized. This will require robust resource mobilization measures, coupled with innovative revenue raising approaches, and thorough enforcement, to be able to meet the target. Finalization and implementation of the valuation roll, together with improved enforcement in all revenue streams will be key to unlock the revenue potential.

Revenue composition

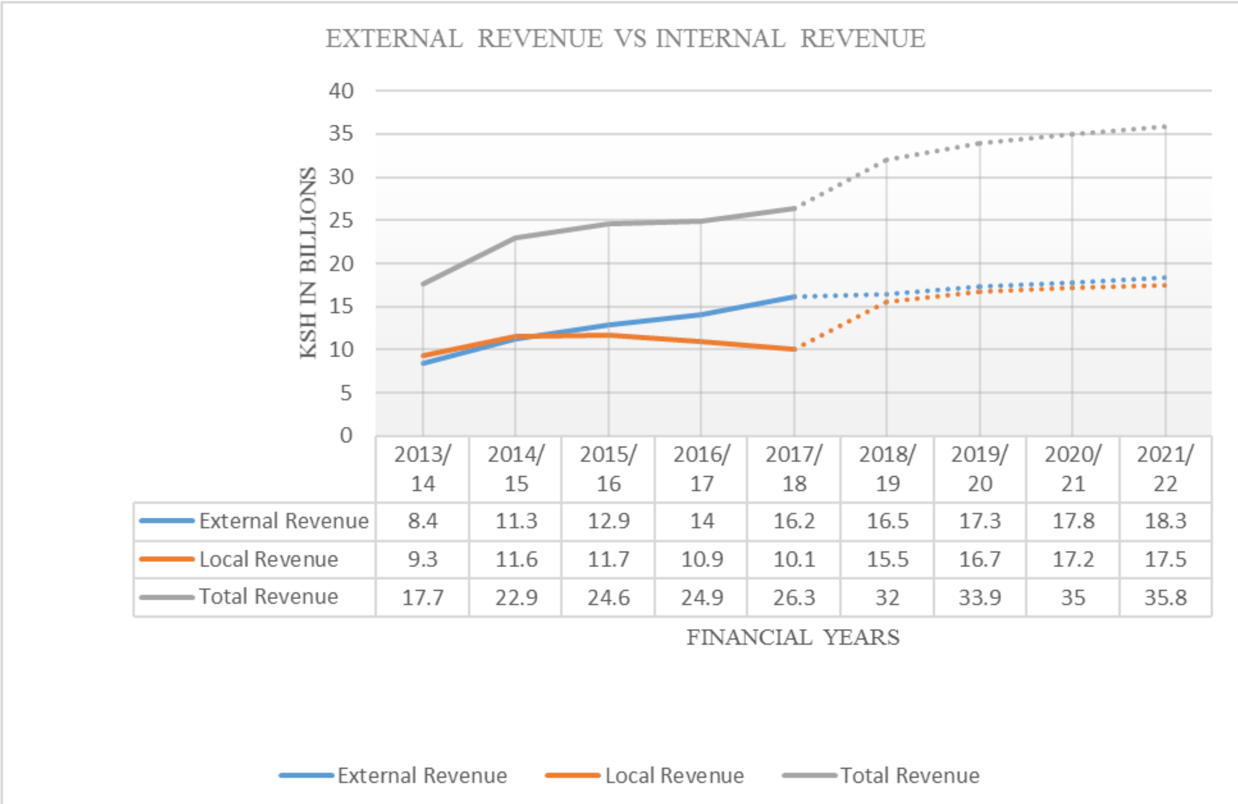
152. The county budget is funded by revenue from two main sources; Internal and external sources. Debt may be used to finance any budget deficit, although the county endeavors to ensure a balanced budget. Debt may only be sought to finance development as stipulated by the PFMA 2012. In the FY 2019/20, the projected external revenue will outstrip the revenue generated internally.

Figure 4.4: Sources of Revenue for FY 2019/2020



153. It is projected that internal revenue will constitute 49% of total revenue, while external revenue generate approximately 51% as shown in figure above. Historically, the contribution of internal revenue was higher in the first two years of inception of the county, but this changed with external revenue being predominantly higher in all the other years.

Fig. 4.5: External Revenue Vs Internal Revenue



	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
External Revenue	8.4	11.3	12.9	14	16.2	16.5	17.3	17.8	18.3
Local Revenue	9.3	11.6	11.7	10.9	10.1	15.5	16.7	17.2	17.5
Total Revenue	17.7	22.9	24.6	24.9	26.3	32	33.9	35	35.8

154. Local revenue was above external revenue in FY 2013/14 and 2014/15, but the situation reversed from the FY 2016/17 where there was a huge dip in local revenue, with an even bigger dip in 2017/18. Projections show that the local revenue will be persistently lower than external revenue in the medium term. It is important to appreciate the significance of the role played by predictability of the huge external revenues, but at the same breadth illuminate that a boost in internal revenue to match the same level of confidence will be a panacea to the perpetual cash flow crunches.

Internal Revenue

155. Local revenue streams have been underperforming over the years, missing the set targets by a big margin. This results to a shortfall in budget financing hence frequent cash flow challenges, and amassing of pending bills. The top five revenue streams (rates, parking fees, single business permits, building permits and billboards & adverts), have not been able to meet the set targets over the years (except billboards and outdoor advertisement in 2013/14 at 133%).

Table **4.1: Performance of revenue streams 2013/14 – 2017/18**

	2013/2014			**2014/2015**			**2015/2016**			**2016/2017**			**2017/2018**		
STREAM	**Target**	**Actual**	**%**	**Target**	**Actual**	**%**	**Target**	**Actual**	**%**	**Target**	**Actual**	**%**	**Target**	**Actual**	**%**
RATES	3,050	2,582	85	2,800	2,593	93	3,800	3,160	83	5,500	2,253	41	4,842	1,871	39
SINGLE BUSINESS PERMITS	1,600	1,542	96	2,200	1,814	82	2,826	1,786	63	3,600	1,776	49	3,169	1,786	56
PARKING FEES	1,820	1,551	85	2,800	2,016	72	2,600	2,038	78	3,540	1,974	56	3,116	1,878	60
BUILDING PERMITS	2,200	760	35	1,300	1,349	104	1,650	1,171	71	1,700	843	50	1,497	239	16
BILLBOARDS & ADVERTS	520	693	133	700	676	97	800	663	83	1,200	720	60	1,056	829	79
OTHER INCOMES	2,936	2,199	75	3,764	3,134	83	3,614	2,890	80	4,026	3,363	84	3,549	3,506	99
TOTAL OWN SOURCE REVENUES	**12,126**	**9,327**	**77**	**13,564**	**11,582**	**85**	**15,290**	**11,708**	**77**	**19,566**	**10,929**	**56**	**17,229**	**10,109**	**59**

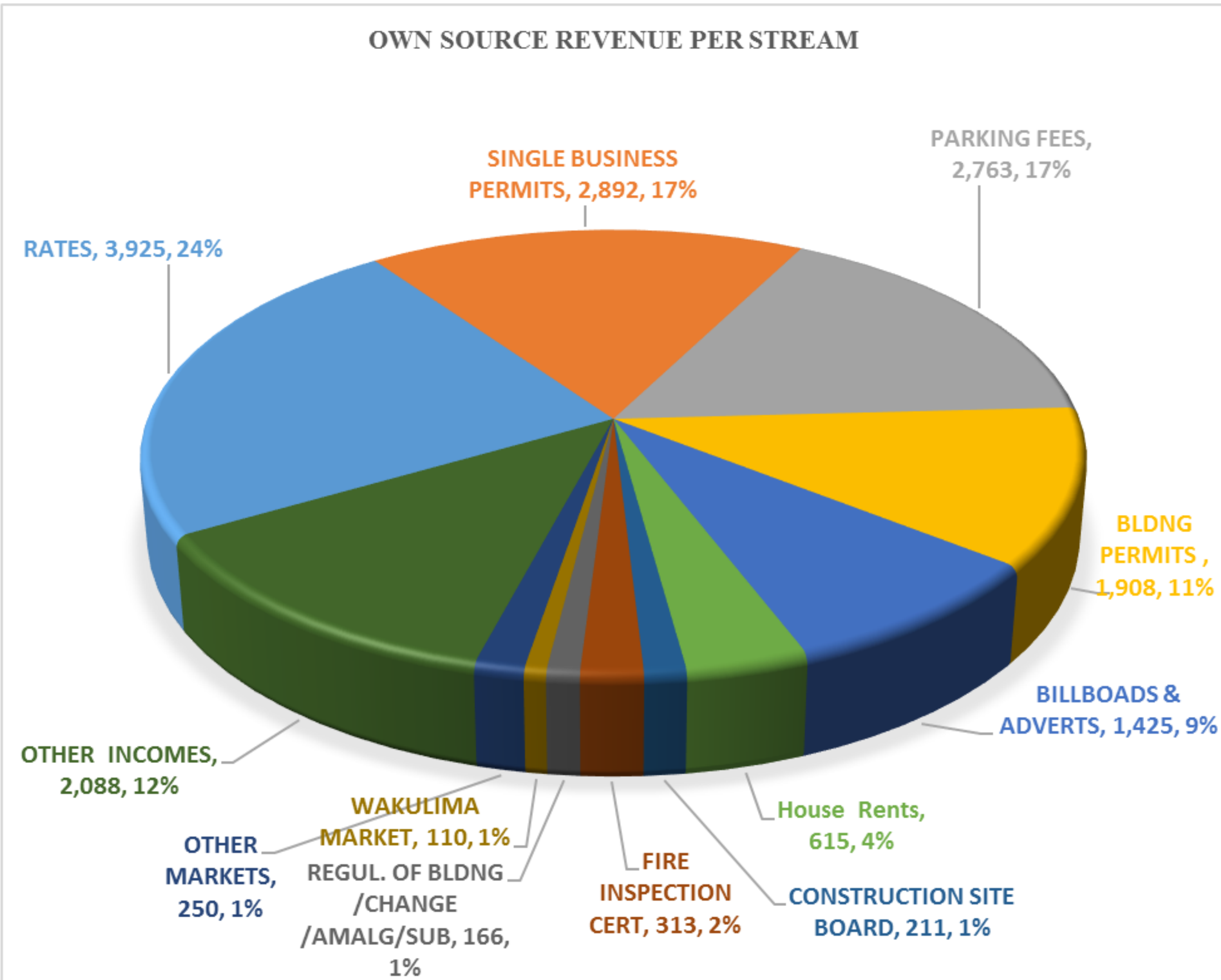
156. The best performance of internal revenue was in 2014/15 at 85% while the lowest was in 2016/17 at 56% of the set target. In absolute figures, the highest internal revenue collected since 2013 was 11.7Billion in FY 2015/16.

Mid-year internal revenue performance 2018/19

2017/18			2018/19		
Actual Revenue	Annual target	% Performance	Actual Revenue	Annual target	% Performance
3.11	19.766	15.73	3.732	15.21	24.5

157. The half year internal revenue performance for 2018/19 has been better compared to preceding year 2017/2018. This brightens the earlier glooming hopes of achieving the annual revenue targets, brought about by the poor performance in the previous year. Half year achievements of internal revenue stood at 15.71% of the annual approved targets in 2017/18, but stood at 24.5% in 2018/2019.

158. The internal revenue targets of Ksh. 16.67 B for FY 2019/20 will be a 7.74% increase from the Ksh 15.5 B approved for the FY 2018/19. The key internal revenue sources are shown in the figure below;

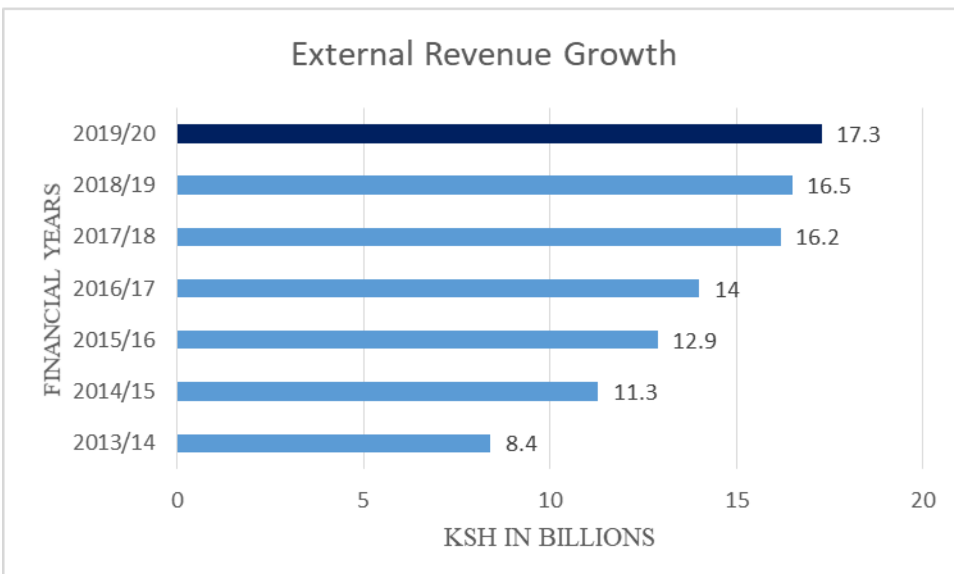


External Revenue

159. External revenue has been a major component of the county revenue, and will constitute 51% of the projected 2019/20 budget. The external sources are projected to be Ksh. 17.3 Billion, comprised of Ksh 16.5 Billion equitable share, and Ksh 767 Million **Conditional grants;** including leasing of medical equipment, compensation for user fees forgone, rehabilitation of village polytechnics and road maintenance levy. This portrays a 4.8% growth of external revenue compared to the 2018/19 estimates.

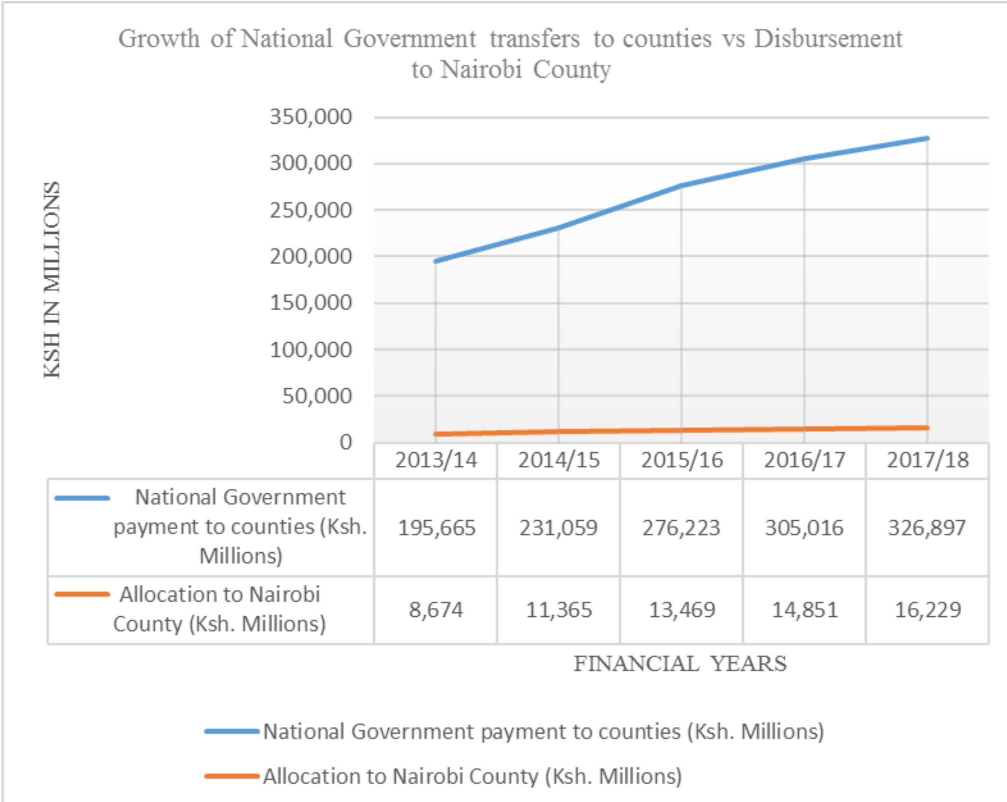
160. External revenue growth has been resilient since 2013, and this is expected to persist, and even improve in the medium term (Figures 4.6 and 4.7), with the proposed new formula of revenue allocation, which may be more favorable to the county than the previous one.

Fig. 4.6: External Revenue Growth



Its notable, however, that the growth of transfers to Nairobi County is not commensurate to the growth of resources shared nationally as shown in figure 4.7 below.

Fig. 4.7: National Government Transfers to Counties 2013-2018



Strategies to boost external revenue

161. In absolute terms, Nairobi County continues to receive the largest share of funds allocated to county governments. However, considering the county population versus the amounts received, the county has the lowest annual per capita allocation (annual average of Ksh 4,198 for the fiscal periods 2013/14 to 2017/18) comparing to other urban (Fig 4.8) counties and marginalized (Fig 4.9) counties from the national government transfer. CRA has proposed a new revenue sharing formula which, if adopted, will retire the current one which has been in use since 2016. The current formula's parameters and their weights are: Population (45%), Basic equalization share (26%), Poverty index (18%), Land area (8%), Fiscal responsibility (2%), and development factor (1%).

Fig. 4.8: Annual Per Capita Allocation to Urban Counties 2013-2018

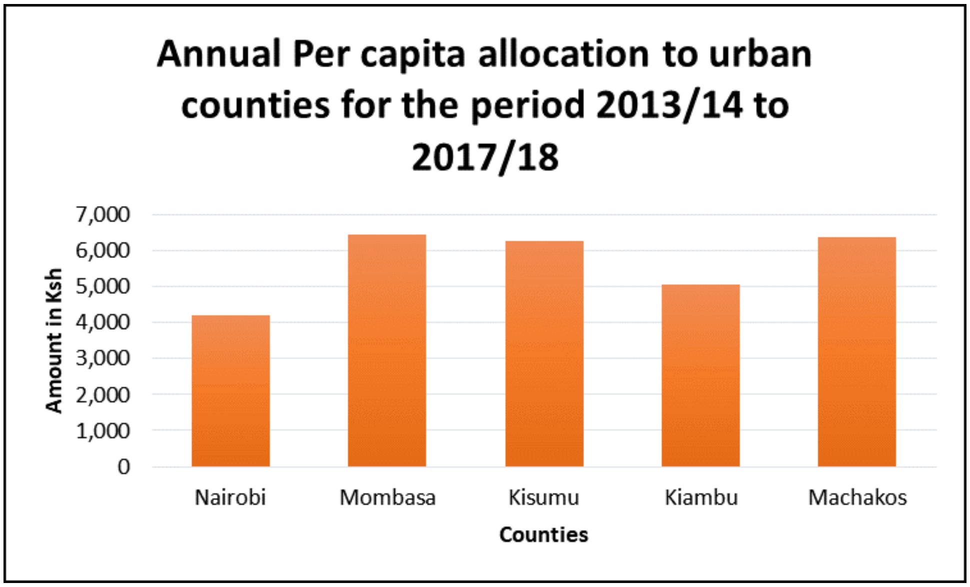
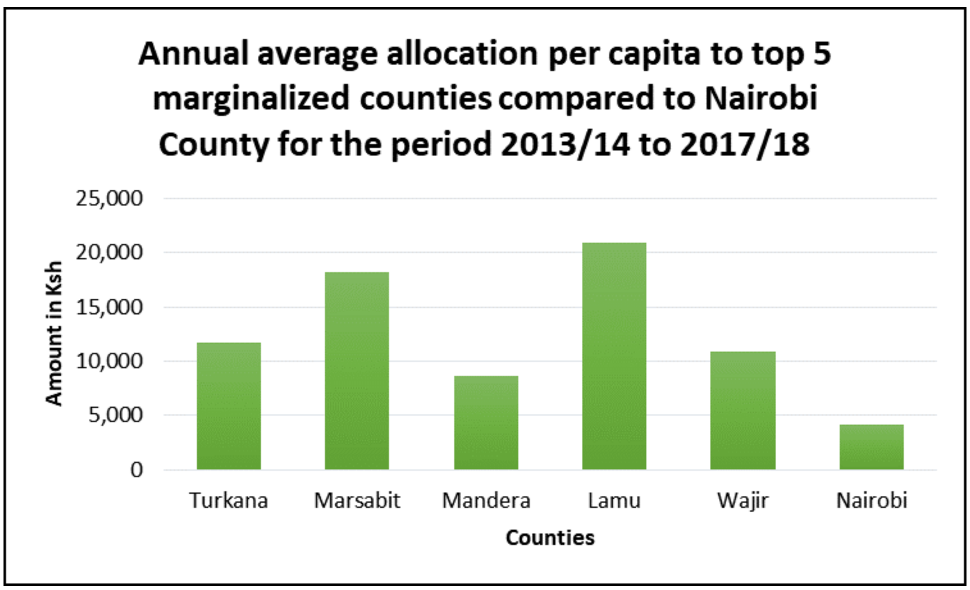


Fig. 4.9: Annual Average Allocarion



162. The proposed formula has a different approach towards revenue allocation, with a sector specific funding approach, and more emphasis towards service delivery and encouraging better revenue raising in counties. Previously, the county did not actively pursue measures to maximize income from national transfers, other than negotiating for a more favorable formula. In 2019/20, targeted efforts will be pursued to ensure that; all conditions are met to ensure maximum receipts from conditional grants, and mechanisms to ensure favorable conditions are set towards the requisite parameters in the revenue allocation formula.

Conditional Allocations and other Grants

1. **Leasing of Medical Equipment**

163. The County is eligible for a conditional allocation for Leasing Medical Equipment of Ksh. 131.9M, a 34% reduction from the Ksh 200 Million allocated for 2018/19. This translates to 2.13% of the national allocation for this category of Ksh. 6.2 Billion.

Conditions

i. The funding must be included in the budget estimates of the County government
ii. Work plans must be prepared and shared with the Ministry of Health with copies to the National Treasury.
iii. The allocation must be used to lease medical equipment for County health facilities.
iv. County government must provide a report/ proof that funds were used to finance leasing of Medical equipment.

2. **Roads Maintenance and Fuel Levy fund**

164. The allocation under RMLF will be Ksh. 451.9 Million, 8.67% increase from the previous allocation, and which is 5.03% of the entire national allocation to this category.

Conditions

i. This funding must be included in the budget estimate of the County government.
ii. Work plans must be prepared and shared with the state department of infrastructure with copies to the national treasury.
iii. The allocation must be used for the maintenance of the County roads

iv. County government must provide a report/proof that funds were used to maintain County roads

3. **Health Sector Support Fund**

165. The health sector support funds are mainly Compensation for user fees forgone and Sector Support Project Allocation from DANIDA. Allocation towards health in FY 2018/19 will be a minimum of 21% of total budget to ensure that the sector benefit from donor funding.

The Conditions are:

i. This funding must be included in the budget estimate of the County government
ii. The allocation must be used to supplement financing of the health care facilities in the County government
iii. County government must provide a report/proof that funds were used to finance County health care facilities
iv. Work plans must be prepared and shared with the ministry of health

Compensation for user fees forgone

166. It is the intention of government to sustain the policy of not charging user fees in public health facilities. The County is allocated a conditional allocation for this category at Ksh. 79.4 Million, an equal amount allocated for 2018/19, and which translates to 8.82% of the total national allocation.

4. **Rehabilitation of village polytechnics**

167. This allocation is for the improvement of learning conditions in polytechnics. The county has been allocated Ksh. 34.57M to achieve this

Expenditure Review and 2019/2020 Projection

168. Budget absorption has a direct correlation to proper planning, efficient procurement, and timely financing. A hurdle at any one stage of the three will affect negatively the budget absorption. Over the years, budget absorption has been generally low, with absorption of development expenditure being the major culprit.

169. The approved budget for financial year 2017/18 was Ksh 35.503 B, which was revised to Ksh. 33.457 B. Total collection amounted to Ksh 26.33 B. This underperformance was largely due to the underperformance of Own Source Revenues (OSR) which fell below target of Ksh 17.2 B by more than Ksh 7.2 B. This could be as a result of the challenges related to the long electioneering that year. The shortfall of internal revenues by over 41% had a significant impact on the cash flows and therefore the absorption of the overall budget. Total expenditures on commitment basis amounted to Ksh 24.5 B against a target of Ksh 33.6billion reflecting an overall absorption rate of 72.9% of the total. The under absorption was recorded in both recurrent and development expenditures but was more prevalent in development. Out of the total expenditure recurrent expenditures accounted for Ksh 22.3billion (or 74% of the total targeted expenditure)

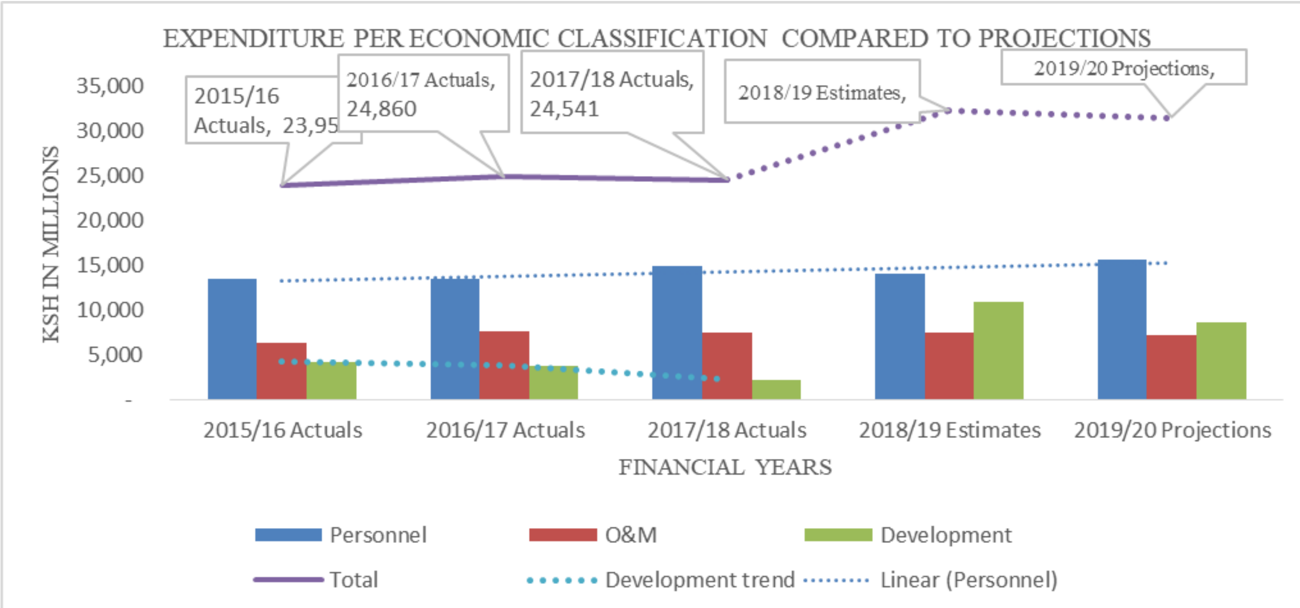
Table: 2017/18 budget absorption

ITEM	Revised	Actuals	Deviation	% Absorption
Compensation to Employees	15,259	14,837	422	97.2
Other Recurrent Expenditures	10,025	7,525	2,500	75.1
Development Expenditures	8,365	2,179	6,186	26.0
Total	33,650	24,542	9,108	72.9

170. The absorption rate of recurrent expenditure was high at 22.4B at 91.1% of the total county expenditure. Development expenditure was 2.1B which accounts for only 8.9% of the actual county expenditure.

171. The 2018/19 approved expenditure estimates were Ksh 32.1 B., and the absorption rate as at the end of second quarter was 32%. Development expenditure absorption was 13% whereas the recurrent absorption rate was 41%.

Figure 4.10: Expenditure Trends 2015/16-2017/18 and Projections 2019-2020



172. Trends depict a continuous rise of expenditure towards personnel emoluments over the years. In 2019/20, this expenditure will increase by 5.45% from the Ksh. 14.078 approved in 2018/19. This is attributed to the anticipated implementation of the CBA.

173. Actual expenditure on development expenditure has been experiencing a downward trend, meaning it has suffered most when revenue targets are unmet.

174. Expenditure for the FY 2019/2020 is projected to be Ksh. 33.93 B of which 29.83% will be channeled to development whilst 70.17% will be utilized for recurrent expenditure. Total expenditure is projected to be Ksh. 34.95 B and Ksh. 35.79B in FY 2020/21 and 2021/22 respectively.

175. To improve budget absorption and fiscal discipline in 2019/20, the county treasury will issue guidelines on commitments and expenditure control. This will synchronize quarterly cash flow projections with sector expenditure expectations. Financial commitments towards the end of the financial year will be highly discouraged.

Recurrent Expenditure

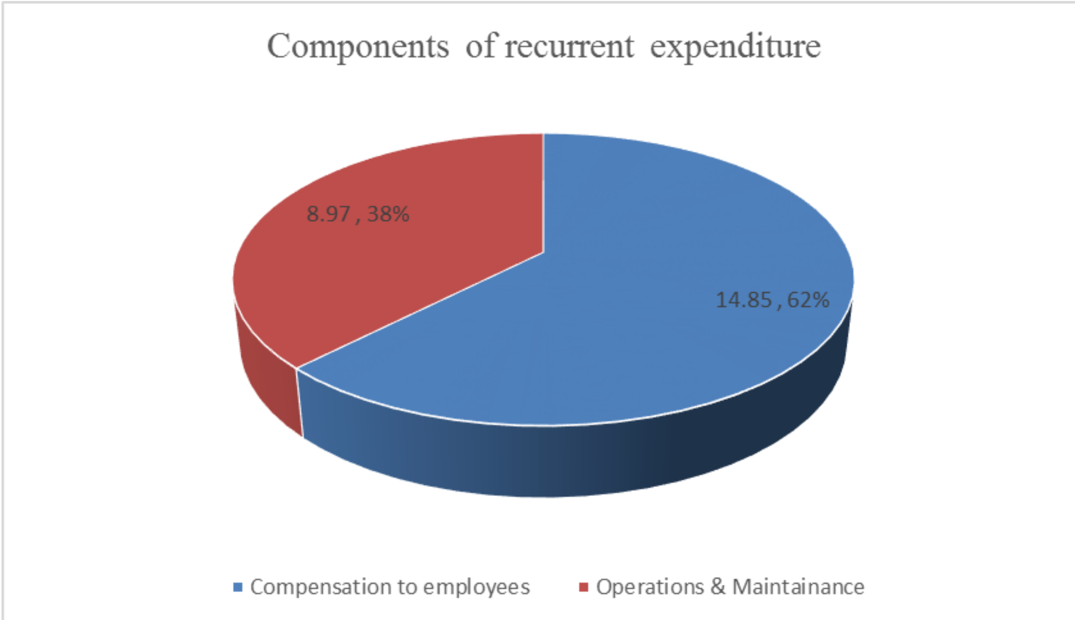
176. The key recurrent expenditure items include: Personnel Emoluments; Operation and Maintenance; Debt repayment and Emergency fund. Personnel costs constitutes the largest portion of recurrent expenditure. In FY 2017/18, Ksh. 14.84 B was used for employees compensation, which outstripped the Ksh. 10.11B collected as internal revenue (Compensation to employees was 146% of internal revenue). There is need therefore for the county to consider measures to address the ever growing wage bill, to ensure it remains at sustainable levels. In 2017/18, other recurrent consumed 7.5 B. in total, recurrent expenditure that year was 221% of internal revenue. By mid-year 2018/19, absorption of recurrent expenditure stood at 41%.

177. Non-discretionary recurrent expenditure is given priority and receives the first share before resources are allocated for other use. In FY 2019/20, the non-discretionary expenditure will be composed of; salaries and wages (14.85 B), medical insurance (650M), garbage collection contracts (900M), drugs and non-pharmaceuticals (700M), general insurance (260M), electricity (300M) and fuel & fleet maintenance (194M).

178. In order to free up resources for development, non-essential recurrent expenditure will be reduced by; cutting down local and foreign travels, reduce expenditure on stationery and consider other options including going paperless.

179. The total recurrent cost for the FY 2019/2020 is projected at Ksh 23.81 Billion, a 10.9% increase from the 2018/19 approved allocation. This constitutes Ksh. 14.85 B for employee compensation and Ksh. 8.97 B for operations and maintenance.

Figure 4.11: Recurrent Expenditure by Category for FY 2019/2020



Employee Cost will account for 62% of the recurrent cost while O&M will consume 38%. The Employee cost will consume 43.8% of the total revenue and will be Ksh.1.82 lower than own source revenue..

Emergency Reserve

180. In the approved budget 2018/19, Ksh. 70M was set aside for emergency. This amount is considerably low, given the number of emergencies in the city. To enhance preparedness and response, emergency reserve will be allocated Ksh. 100 Million.

Debt resolution

181. In the FY 2018/2019, there was no allocation towards debt resolution. This was to allow the pending bills committee to finalize on the process of ascertaining the county debt. This process is expected to conclude by end of the FY 2018/19. Ksh. 500 Million will be allocated for debt resolution and implementation of the recommendations from the pending bills committee.

Development Expenditure

182. The fiscal responsibility principles stipulated by section 107 (2) of the PFMA 2012 requires counties to allocate not less than 30% of their budgets towards development, over the medium term. Achievement of this for the county has been elusive, as the development allocation is usually reduced by a huge margin in the supplementary process. This however has not recurred in the 2018/19 supplementary process, with a proposed increment by Ksh 98M on the approved development allocation. The county allocated 33.4% of its budget towards development in FY 2018/19, which is projected to be Ksh. 10.12B (29.83 %) in FY 2019/20.

KEY SECTOR PRIORITIES AND CEILINGS FOR FY 2019/20

Transport, Infrastructure & Public Works

183. In FY 2019/20, the sector priority will be to enhance pedestrian safety and connectivity through construction and maintenance of roads and drainage infrastructure. Completion of ongoing road works will be targeted as key to free implementation of new projects. To guide this, a transport and drainage infrastructure development plan, Asset Management System and Road Safety Policy and Strategy will be developed. A storm water drainage master plan and implementation of critical storm water drainage investments and other flood mitigation will be done.

184. Reduction of congestion remains a priority in the medium term, and collaborative efforts with the national government will be sought to achieve this. The sector will also seek to improve traffic flow in the county through construction and maintenance of public transport facilities, NMT facilities, traffic management facilities and parking development. A Transportation Master Plan that will include public transport master plan, NMT master plan, and intelligent transport system master plan will be developed for this to be achieved.

185. To facilitate the implementation of the sector priorities for FY 2019/20, the sector will be allocated a total budget of Kshs.5.165 Billion. The recurrent expenditure will take Kshs.1.27 Billion (24.5% of the sector budget) and the development expenditure will take Ksh. 3.9 Billion (75.5% of total sector budget).

Health Services

186. Preventive and promotive health services is the first priority in this sector. To achieve this, the sector will work towards; reducing the HIV/AIDS risk factors, reducing TB and other communicable conditions including malaria, and promote Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH). The sector will also seek to halt and reverse the rising burden of non-communicable conditions through promoting public health services.

187. Curative care is the next priority area that the sector will focus on. Provision of these services will require huge resources which will be utilized to enhance the provision of essential emergency and medical rehabilitative services as well as essential health care medical services. For curative care, the resources will be directed to the purchase of drugs and non-pharmaceuticals, rehabilitation, equipping and fencing of health facilities.

188. Efforts will be made to enhance monitoring and evaluation services with an aim to improve service delivery at the same time providing supportive function to the County health sector. Improvement of working conditions for the staff and skills development will also be undertaken to boost morale of the health providers

189. To achieve the sector priorities for FY 2019/20, the sector will be allocated a total budget of Ksh. 7.295 Billion. The allocation for recurrent expenditure will be Kshs.6.8 Billion (93.4% of sector budget). This huge recurrent will comprise of Ksh 5.B for compensation to employees and 100M set aside for Community Health Volunteers, and 700M for drugs and non-pharmaceuticals. Development expenditure will be Ksh. 484M (6.6 % of sector allocation).

Trade, Commerce & Industry, Tourism, culture and Cooperatives

190. The strategic objectives of the Sector is to promote trade and investment through; Creating an enabling environment for domestic and international trade and investment; providing adequate business space for traders; promoting compliance with cooperative legislation; improving effectiveness in issuance, control and regulating business licensing; provide effective Legal Metrology and consumer protection; and promoting tourism development within the county.

191. To achieve its strategic objectives in FY 2019/20 the sector will seek to: Promote trade development and market services through construction and rehabilitation of markets, provision of loans and capacity building of MSMEs; Promote licensing and fair trade practices ,and liquor licensing. Trade regulation and promotion by automation of licensing services, establishment of weighing centers, verification of weighing and measuring equipment, calibration of county legal metrology standards and construction of weights and measures laboratory remains medium term targets. Regulation and control of betting, gaming and lotteries will also be promoted during the fiscal year. In addition, the sector will promote co-operative development and management through continuous support and training of cooperative societies.

192. For the FY 2019/20, the sector will be allocated a total budget of Kshs.1.44 B; Ksh 640M (44.44%) towards recurrent expenditure, and Ksh. 800M (55.56%) for development.

Education, Youth, Sports, Gender Affairs & Social Services

193. The sector will seek to: provide adequate Educational, Culture, Social and sporting services through infrastructural development; develop bills and policies on E.C.D.E & VTC on education; Improve work environment at ECDE centers through infrastructure development as well as enhance stakeholder's relationship for partnership in infrastructure development. The bursary scheme will be implemented, teaching/learning material for ECDE will be distributed, and teachers trained on new curriculum, to improve access and quality of education. Access to ECDE will be improved through the implementation of free Pre-primary programme.

194. The sector will also promote Community Social Welfare in the County through rescue and rehabilitation of street families and vulnerable children, continued support to home for the aged, and equipping the youths with relevant skills. The sector will also seek to improve collaboration with stake holders for achievement of its mandate

195. Promotion of sports through engagement of communities in sports, theatre and cultural activities to nurture talents will remain a top priority for the sub-sector in FY 2019/20. The sub-sector harness talents by organizing sports tournament and ensuring teams have enough sports gear. Construction of four ultra-modern stadia will be commenced, and rehabilitation of existing stadia will be undertaken. The sub-sector will also undertake: Entrepreneurship and mentorship; organize environmental sustainability and sanitation programs and caring out sensitization on gender mainstreaming; organize empowerment programmes for Youths, Women and PLWD to be able to access 30% value of all procurement at the County.

196. Library and information services will be improved by automation of library services and improvement of sanitation facilities.

197. To enhance the implementation of the sector priorities for FY 2019/20, the sector will be allocated a total budget of Ksh. 1.865 Billion. Allocation towards recurrent expenditure will be Ksh.1.496 Billion (80.22% of total sector budget), comprised of Ksh. 946 M for employee compensation, Ksh. 400 M for bursaries and Ksh. 550 M for operations and maintenance. Allocation towards development expenditure will be Ksh.369 M (19.78% of total sector budget).

Urban Planning, Housing and Lands

198. For the FY 2019/20, the sector will seek to: Provide decent, affordable and adequate housing to Nairobi residents while enhancing socio – economic empowerment by implementing the programme of urban renewal. The county intends to construct 100,000 housing units in the medium term, with a target of 10,000 units in 2019/2020. In-depth preliminary preparations already undertaken in the first year of the CIDP to enable this development by; acquiring technical consultancies, facilitating the development of Eastlands urban renewal master plan and identifying developers for development.

199. To ensure spatial order in the county, urban planning department will develop and implement development control policies and guidelines, prepare integrated area plans, prepare SEA related plans to embed environmental aspects into urban planning, implement the physical address system, implement outdoor advertisement Act and regularise development. Issuance of occupation certificate, surveillance and audit of buildings for safety will be continuously undertaken.

200. For proper land management, the land sub sector will continuously survey county properties, allotted properties and properties in site and service scheme. Security of tenure will be promoted by regularization of county lands and land buying companies. The sector will also seek to expand the GIS database and implement the valuation roll.

201. To enhance the implementation of **Urban Planning** priorities for FY 2019/20, the sub-sector will be allocated a total budget of Ksh.616M; Recurrent expenditure will take Kshs.440M (71.5 % of total sector budget) and the development expenditure will take Ksh. 176M (28.5 % of total sector allocation).

202. Lands sub sector will be allocated Ksh 104 M, with a total of Ksh 24M (23.4%) dedicated towards development, and Ksh. 80M (76.6%) for recurrent expenditure.

203. To enable **Urban Renewal and Housing sector** to effectively spearhead the envisaged urban renewal programme, a total budget of Ksh. 908M will be allocated, consisting of Ksh. 166M (18.3% of total sector budget) for recurrent expenditure and 742 M (81.7% of total sector allocation) for development expenditure

Environment, Energy, Water & Sanitation

204. This sector's priorities in FY 2019/20 are: improvement of solid waste management through provision of efficient waste management services; from source to site, through implementation of Integrated Solid Waste Management Plan (ISWMP). The sector will strategize on efficient waste collection and transportation, waste recycling, and improve the status of waste disposal sites, and educate the public on waste management. Further, the youth empowerment programme will be implemented to empower youth economically through solid waste management; enforcement of environmental laws enhanced, and waste to energy initiative launched.

205. To enhance the aesthetic appeal of the City, landscaping and civil works for beautification and greening will also be done. Measures to reduce pollution will also be undertaken through procurement of necessary tools for monitoring and surveillance. Partnership with other stakeholders towards this end will be sought.

206. The water subsector in FY 2019/20 will seek to conserve and protect water resources by: enhancing the regeneration of Nairobi rivers, with emphasis on rehabilitation of the Riparian reserve through reforestation, recovery and protection, removal of solid waste, blocking of illegal discharge into the rivers and development of the Riparian zone policy. To improve access to water and sanitation services the sector will seek to increase water supply in the city by drilling boreholes and extension of water system; and improve sanitation by expanding sewer lines and public toilets especially in informal areas.

207. With regard to the implementation of the sector priorities for FY 2019/20, the sector will be allocated a total budget of Kshs.2.074 Billion. Allocation towards recurrent expenditure will be Ksh.1.524 Billion (73.5 % of total sector budget), comprised of allocations of Ksh. 524 M, Ksh. 900M and Ksh. 1B for personnel emoluments, garbage collection contracts and O&M respectively. Allocation towards development expenditure will be Ksh.550 M, 26.5% of total sector budget.

A**griculture, Livestock & Fisheries Forestry & Natural Resources:**

208. The overall goal of the sector is to attain food security for all, employment creation, income generation, poverty reduction and ensuring sustainable agricultural land use

209. To achieve its overall goal in FY 2019/20, the sector will continue efforts to promote: urban and peri-urban agriculture; agro forestry development; agribusiness development and marketing through development of agribusiness plans and dissemination of market information; conservation and management of natural resources; crop, livestock and fisheries production.

210. Value addition of agricultural products remains a key objective, therefore linkages and collaborations among value chain actors will be created.

211. Further, the sector will: provide agricultural integrated extension services; extermination and baiting of stray dogs; promote food processing technologies through capacity building and support of aqua/agro-industries; and food safety and quality assurance.

212. With regard to this, the sector will be allocated a total budget of Ksh.543 M to achieve its 2019/20 targets. Allocation towards recurrent expenditure will be Ksh.393 M (72.4% of the total sector budget) and that allocation towards development will be Ksh.150 M (27.6%).

Finance & Economic Planning

213. The finance and economic planning sector is charged with the responsibility of ensuring prudent, financial managements of financial resources, formulating fiscal economic and fiscal policies to facilitate socio-economic development, resource mobilization and control of public finance resource. For the sector to achieve its mandate in FY 2019/20, and enable adherence to public financial management principles, the sector will; enhance revenue collection through efficient and effective revenue collection system and increased enforcement and compliance; strengthen policy formulation, planning budgeting and implementation of CIDP and Nairobi City County Strategic Plan 2015-2025; enhance evidence based decision making for socioeconomic development through conducting feasibility studies, economic surveys and development of county statistical data management system; and improve tracking of implementation of development policies, strategies and programmes.

214. For achievement of the above, the sector will; improve work environment and enhance staff mobility, automate asset management, ensure efficient and effective budget formulation and control, ensure financial standards, principles and guidelines are adherence appropriately. reporting decentralize financial and planning services, strategize on debt management, enhance statistical development capacity, engage an integrated revenue management system in revenue collection, and improve project monitoring and evaluation in the county.

215. The sector will be allocated, a total budget of Ksh. 2.717 Billion for FY 2019/20. Allocation towards recurrent expenditure will be Ksh. 2.157 Billion (79.3% of total sector budget) which is comprised of Ksh 1.028B for personnel emoluments, Ksh. 260 M for general insurance, Ksh 500 M allocation to cater for pending bills and Ksh. 1.13B for O&M. Allocation towards development will be Ksh.561M (20.6 % of total sector budget).

ICT, E-Government and Public communication.

216. In the FY 2019/20, the Information, Communication and E-Government sector will develop and adopt ICT policies. The sector will also undertake business re-engineering process to all service delivery areas. Information security will be improved, with installation of an information security application, training staff on information security.

217. Connectivity and access to information will be improved, with LAN/WAN installed at the devolved levels, and introduction of County E-learning Labs. Collaboration with partners will ease the achievement of this initiative.

218. The sector will acquire ICT infrastructure, and plan for other infrastructural requirements which are requisite in the medium term. (ERP, call center, Disaster recovery planning, County e learning lab, information hub, command center).

219. For the implementation of the sector priorities for FY 2019/20, the sector will be allocated a total budget of Ksh. 621 M. Allocation towards recurrent expenditure will be Ksh.207 M (33.33% of total sub-sector budget) and allocation towards development will be Ksh.414M (66.67% of total sub-sector budget).

Devolution, public service and administration

Administration

220. The administration department will continuously play a coordination role, improve the work environment for improved service delivery, and bolster relations between the county and the national government

Devolution

221. Devolution and Sub County Administration will work towards entrenching devolution by providing office space both at Sub county and ward level. To improve service delivery, the Department intends to bolster its supervision and coordination capacity. Public participation will also be strengthened.

Public Service Management

222. In Management and development of the human resource, Human Resource policy and procedure manuals will be developed and a biometric registration of staff will be set up and identification cards issued. The CARPS report will be implemented to ensure proper matching of skills and qualification to job placement. Digitization of personnel records will be done. In an effort to reduce the wage bill and a transformation of the public service, a voluntary early retirement programme will be launched, Training needs assessment will be done and capacity building/sensitization/training programmes rolled out. Culture change programme will be implemented and an internship programme rolled out to equip students with work related skills. Continuous performance appraisal will be undertaken in an effort to improve employees' productivity.

223. The County Public Service Board will continuously promote best labor practices in recruitment, allocating, motivating and effectively utilizing human resources for improved public service delivery and promote public service integrity. The board will ensure timely posting of appropriate staff to meet sector capacity needs.

224. The **internal audit department** will provide audit assurance, consulting and advisory services designed to add value and improve Nairobi City County's operations, and risk awareness training will be conducted amongst staff. The county risk register will also be updated.

225. Security, Compliance and disaster management sub-sector will continuously enforce county laws, provide security services to county properties and installations, investigate crimes, manage disasters and ensure participation in national parades. The sector will also procure specialized equipment and tools, improve skills and capacity of its staff.

226. To improve **fire rescue services,** a disaster information and management center will be developed, boreholes will be sunk in fire sub stations to supplement water supply, and fire sub stations will be created to hasten response.

227. To improve **Security and compliance services**, specialized transport and communication equipment will be procured to improve supervision, staff training will be done, and office space provided at the devolved levels.

228. The legal affairs department provides legal service to the county and offers appropriate legal advice towards just county policies. In FY 2019/20, timely dispensation of justice will be a key priority, by decentralization of county courts. Handling of inmates will also be improved by rehabilitation of the holding cells, procurement of prison bus and development of appropriate legislation.

229. Security and compliance sector will be allocated a total budget of Ksh. 2.23 Billion to actualize its 2019/20 priorities. Allocation towards recurrent expenditure will be Ksh.2.24 Billion (98.11% of total sector budget). Personnel emoluments will be the highest component of recurrent expenditure, at Ksh. 2.014B. Allocation towards development expenditure will be Ksh.43 M (1.88 % of total sector budget)

230. Sub county administration will be allocated a total budget of Ksh. 2.318 Billion in 2019/20. Allocation towards recurrent expenditure will be Ksh.2.17 Billion (93.62% of total sector budget), with personnel emoluments being Ksh. 1.97B. Allocation towards development expenditure will be Ksh.148 M (6.4 % of total sector budget)

231. To enhance the implementation of the **Public Service Management & Reforms** priorities for FY 2019/20, a total budget of Kshs.1.175 Billion will be allocated. Allocation towards recurrent expenditure will be Ksh.1.067 Billion (90.8% of total sector budget). This will be comprised of allocations of Ksh. 317M, Ksh. 650M and Ksh. 750M for personnel emoluments, medical insurance and O&M, respectively. Allocation towards development will be Ksh.108M (9.19% of total sector budget).

232. Administration and county executive services will be allocated a total budget of Ksh. 805 Million to actualize its 2019/20 priorities. Allocation towards recurrent expenditure will be Ksh.773 Million (96.02% of total sector budget), and allocation towards development expenditure will be Ksh.32 M, 3.98 % of total sector budget

233. Disaster Management will be allocated a total budget of Ksh. 399 Million in 2019/20. Allocation towards recurrent expenditure will be Ksh.279 Million (62.92% of total sector budget), and allocation towards development expenditure will be Ksh.120 M, 30.1% of total sector budget

234. Legal services will be allocated a total budget of Ksh. 338 Million in 2019/20, which will be used for recurrent expenditure.

235. Internal Audit will be allocated a total budget of Ksh. 109 Million in 2019/20. Allocation towards recurrent expenditure will be Ksh.99 Million (90.83% of total sector budget), and allocation towards development expenditure will be Ksh. 10 M, 9.17% of total sector budget.

236. The **County Public Service Board** will be allocated a total budget of Ksh. 53M for the implementation of their sector priorities and service delivery.

County Assembly

237. The County Assembly (CA) is an independent arm of County Government that consists of 85 elected Members of County Assembly (MCA's), 42 nominated MCA's and the County Assembly Speaker who is an ex-officio member. The major roles of the CA are; perform the legislative functions within the County including approval of County laws, policies, budgets and expenditures, integrated development plans, tariffs, rates and service charges.

238. The CA will play an important role in scrutinizing reports received from the County Executive, approving County borrowing, ensuring community and stakeholder participation as well as playing an oversight role of the County Executive. The CA will therefore play an important role in ensuring that the objects and principles of devolved government as enshrined in the constitution are achieved. In the implementation of the CIDP the CA will be responsible for approving the policies that are aimed at developing the County, hence their role is of critical importance.

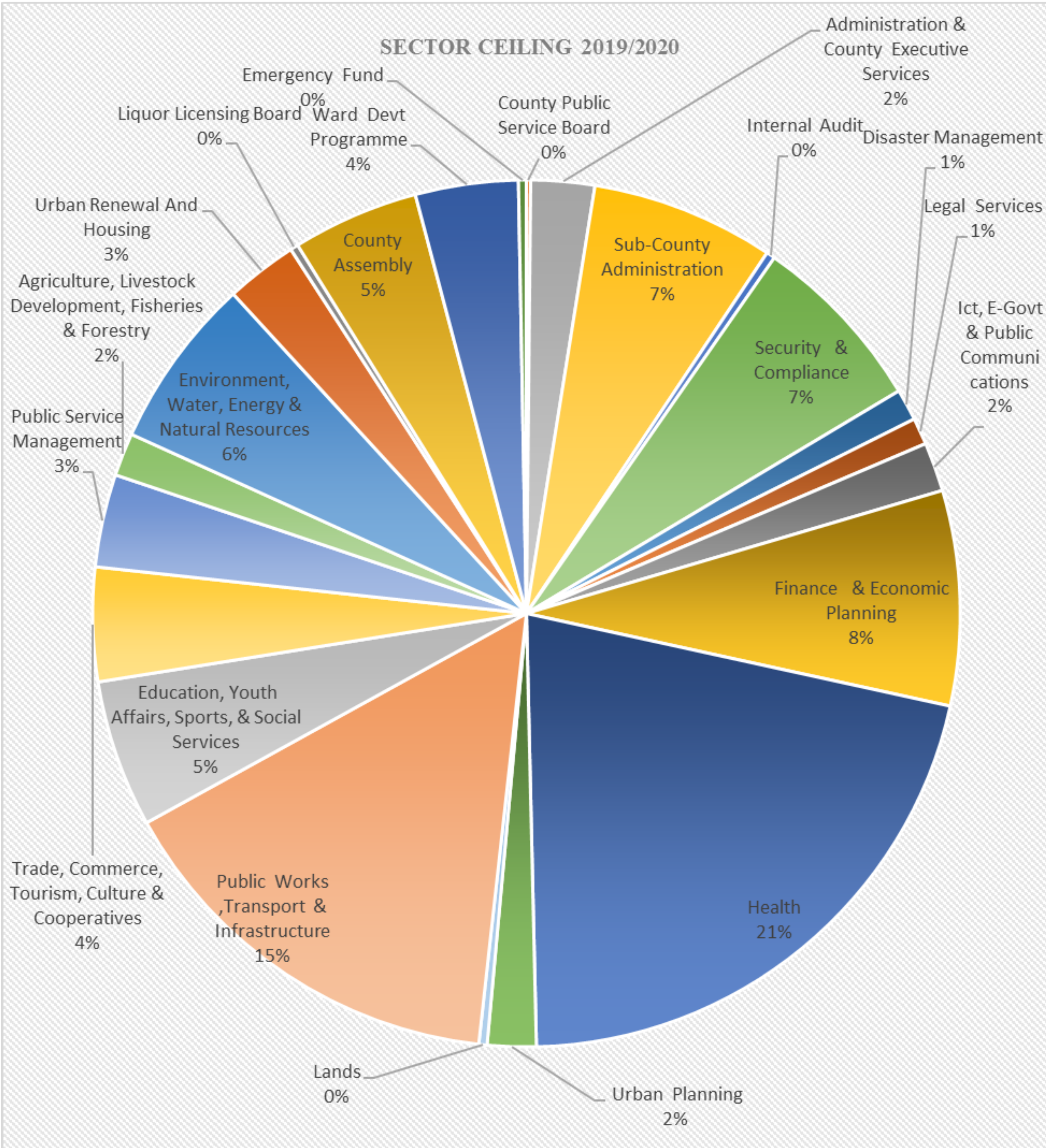
239. For FY 2019/20, County Assembly will be allocated a total budget of Kshs.1.6 Billion. This is 4.7% of the entire county budget. 12.5% of this budget (200M) will be allocated for development.

Ward Development Programme

240. The ward development programme is aimed at reducing disparities in resource allocation and development among wards and will constitute 5% of the revenues realized in latest audited accounts. The projects to be implemented under this programme will be ward based depending on the priorities of individual wards. The proposals from wards are development oriented, mostly in infrastructure development.

241. The total allocation for this programme for the FY 2019/20 will be Ksh.1.3 Billion, 5% of the actual revenues raised in 2017/18, which was Ksh. 26.3 Billion. 97% of this allocation will be channeled towards development.

Fig. 4.12: 2019/2020 sector ceilings



CHAPTER FIVE: FISCAL RESPONSIBILITY AND FISCAL RISK

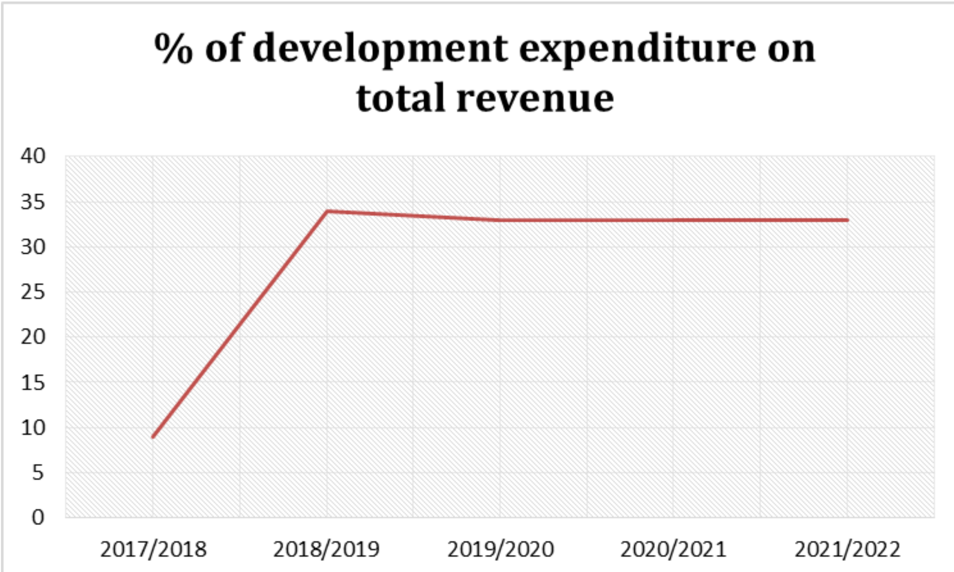
5.1 Fiscal Responsibility Principles

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

243. That the recurrent expenditure shall not exceed the County government's total revenue. In this regard, the county government shall put austerity measures to ensure that recurrent expenditure shall not exceed the total revenue. The county of Nairobi has conformed to this particular principle in the sense that in the fiscal period 2017/2018 total revenue was 26.337 billion while recurrent expenditure was 22.362 billion, the projected 2018/2019 total revenue will be 32.010 billion while recurrent expenditure will be 21.474 billion, 2019/2020 the total revenue will be 33.298 billion while the recurrent expenditure will be 22.31 billion, 2020/2021 the total revenue will be 34.478 billion while the recurrent expenditure will be 23.100 billion .In 2021/2022 the total revenue will be 35.513 billion while the recurrent expenditure will be 23.79 billion. In order to sustain this trend the county should enhance revenue collection, motivate employees, reduce the foreign and local travels, reducing operations and maintenance expenditures as well as reducing unnecessary expenditure by various sectors.

244. That a minimum of thirty percent of the county governments' budget shall be allocated to the development expenditure. The county government will ensure adherence to development to recurrent expenditure ratio of at least 30:70, over the medium term as set out in the PFM Act, 2012, by cutting recurrent expenditure and allocating more to development expenditure. In the year 2019/20 the total budget is projected to be 33.932B out of which 10.244 B will go to development budget which translates to 30.189 % of the total budget. The line graph below shows the projected development expenditure in percentage of the total budget as from 2017/18, 2018/19, 2019/2020; 2020/2021and 2021/2022.These are 8.8%, 33.5%, 33.3%, 33.4% and 33.4% respectively.

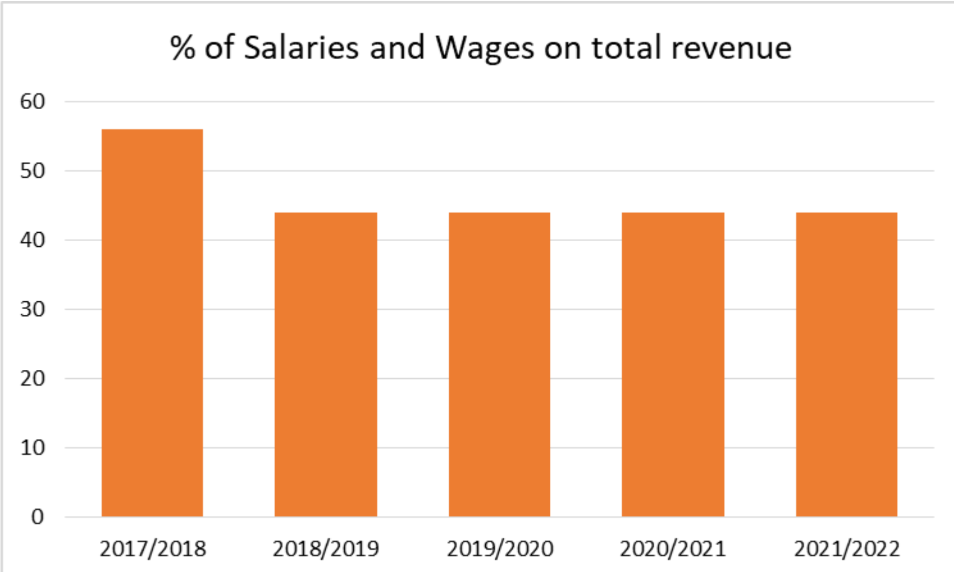
Fig: 5.1: Percentage Development Expenditure



Source: Nairobi County Government Fiscal Projections FY 2017/2018 to 2021/2022

245. 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**.** In regard to this, the county government expenditure on wages and benefits to employees shall not exceed 35% of the county government's total revenue by regulations. This has not been the case for the financial year 2019/2020. The projected salaries and wages will be at 44 % of the total budget. This is attributed to the bloated workforce inherited from the Nairobi city council and delay of early retirement package for aged employees. The following bar graph below shows the percentage trend on projected salaries/wages on total revenue of the county as from 2016/2017 to 2020/2021 respectively. From the bar graph there is a declining trend.

Fig: 5.2: Percentage Salaries and wages



Source: Nairobi county government fiscal projections FY 2017/2018 to 2021/2022

246. The actual salary and wages 2017/2018 was 56% of total revenue, which is projected to be 44% of total revenue in 2018/2019, while 2019/2020 was 44.2% of total revenue, 2020/2021 will be 44.3% of total revenue and 2021/2022 will be 44%. The decline of remuneration from 56% to 44% is attributed to non-employment of new staffs. The remuneration remained static for the remaining years due to the aged workforce who have to attain 60 years before retirement.

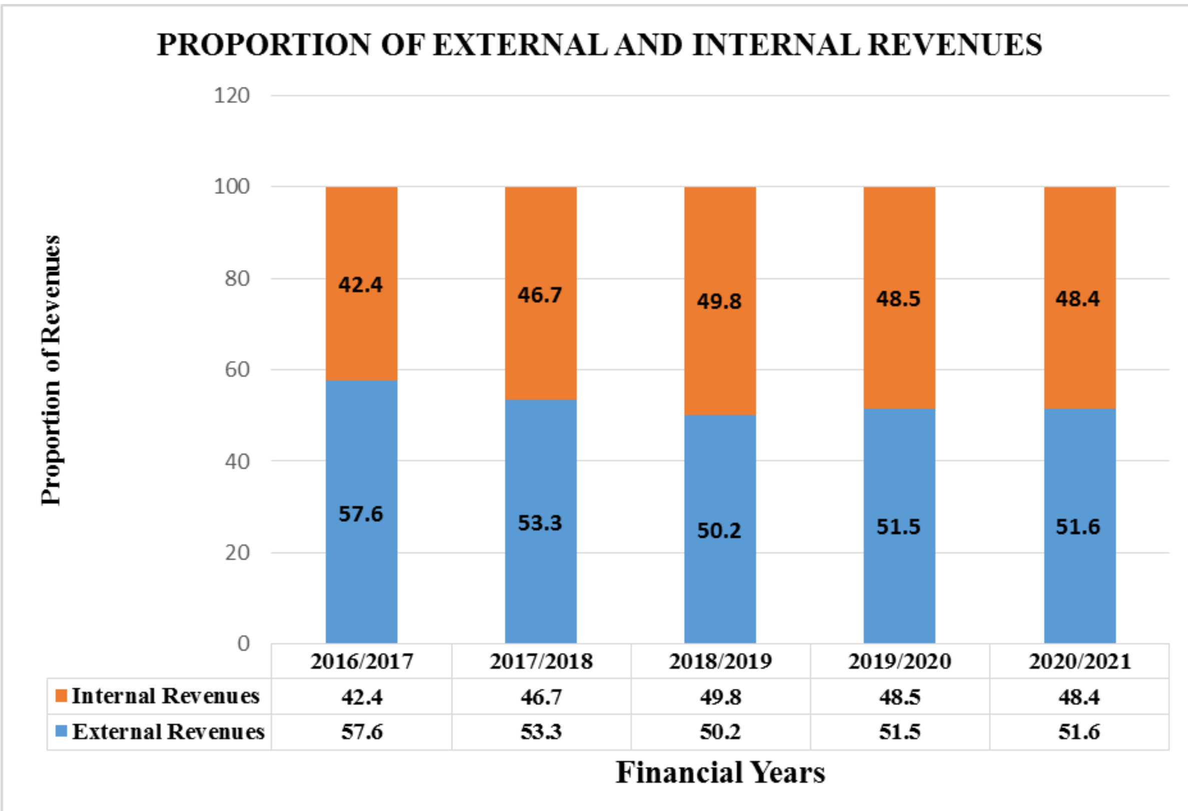
247. Actually the county should strictly maintain the 35% ceiling of the expenditure on salaries/wages and the following strategies should be implemented to curb any bloated wage bill:

248. Payroll cleansing. The payroll master should ensure that all the employees who are deceased and dismissed are struck out of the payroll to avoid unnecessary expenses;

249. Adoption of technology. The county should embrace technology to replace some aspects of human labor e.g. using tools and machinery to carry out environmental duties like slashing and maintaining lawn in the county. This will save the county a lot of money which could have been paid to casual workers. Automation of employees reporting time register is essential for it will curb ghost workers menace hence reducing the wage bill.

250. Outsourcing cheap labor instead of employing or undertaking capacity building. It is far much cheaper for the Nairobi County to outsource certain technical skills rather than employing. Recruiting new employees would cost the county a lot of money rather than outsourcing. The existing employees should be trained from time to time to equip them with skills. Preparing a sendoff package to motivate early retirement of less productive staff should be encouraged to reduce wage bill.

Fig. 5.3: Proportion External and Internal Revenues



Source: Nairobi County Government Fiscal Projections FY 2017/2018 to 2020/2021.

5.2 FISCAL RISKS

251. Fiscal outturns often differ substantially from budget or other fiscal projections, owing to shocks such as deviations of economic growth from expectations, terms of trade shocks, natural disasters, calls on government guarantees, or unexpected legal claims on the state. In many instances, failure to disclose and prepare for such risks has caused additional Nairobi county government obligations, larger public debts and occasionally refinancing difficulties and crises. **252.** Moreover, unexpected spending pressures or revenue losses often require disruptive adhoc adjustments during the fiscal year. Indeed, even in counties where debts and deficits have been reduced, policymakers 'attention is turning toward risks—especially from contingent liabilities and off-balance-sheet items—that may not be fully apparent in "headline" fiscal indicators. To address the challenges posed by fiscal risks, several counties have recently increased their disclosure of such risks, so as to foster fiscal sustainability and to reduce borrowing costs and the likelihood of crises.

253. The government's approach to managing fiscal risks follows a five-stage process. This is to: (i) identify the source, scale and likelihood of the risk; (ii) disclose the risk to raise awareness and ensure accountability; (iii) mitigate the risk where cost-effective and consistent with broader policy objectives; (iv) provision for risks that cannot be mitigated but whose size and timing are relatively certain; and (v) accommodate residual risks when setting the overall fiscal policy stance.

Risks experienced in Nairobi County government

1. **Low absorption capacity**

254. Absorption capacity for development budget across sectors remained largely low over the period 2013-2018. This is largely attributable to poor conceptualization of programmes, inadequate capacity for technical designs, low liquidity and inefficient costing of projects.

255. Mitigation measure: The County departments will uphold principles of proper project conceptualization in good time. Secondly, there is need to upgrade technical capacities for design through further training and outsourcing, in order to improve flow and control of resources required for implementation of development programs. The County treasury will need to decentralize fiscal responsibility to delegate to accounting officers at the sector level through issuance of quarterly A.I.Es based on cash flow projections. The costing regime for development programmes requires total overhaul to ensure realistic cost estimates and ultimately value for money.

2. Shortfall in internal revenue

256. The main fiscal risk that is likely to be faced by the county government is the shortfall in local revenue flows. Revenue generation from internal sources has continued to face challenges that must be progressively mitigated in order to achieve county development goals. For instance rates revenues have continued to be below expectation due to high default rates among statutory bodies and land buying companies. The existing valuation roll is not as per market rate therefore the revenue realized from rates is far below expectation. Since the Unified business permit came into being in the calendar 2017 less revenue has been realized compared to the former single business permit.

257. Mitigation measure: In the medium term, the County will undertake measures aimed at expanding the revenue base and increasing tax compliance through integration of technology in revenue collection. Receivables will be targeted as an avenue for raising capital by giving incentives with an aim of getting payments. Issuance of waivers on penalties will also be implemented. The valuation roll is at verge of completion and once the rates are aligned to current market rates the revenue will increase. For the unified business permit it is advisable to separate each revenue charge to lessen the burden of the clients so that the default rate should be low.

258. Identified legal gaps will be addressed through proposed legislation particularly for the key revenue streams. The County treasury has initiated consultations on the 2018 Finance bill to address existing flaws in the 2014 Act.

259. Finally the County will publicize and streamline the use of electronic payment system to ensure effectiveness in revenue collection. Also spending money at source will be discouraged.

260. The following line graphs show the proportion of actual and projected external and internal of total revenues for the years 2016/2017 up to 2020/2021. For the external revenue, there is a declining trend whereas for the external revenue there is a rising trend.

3. Fiduciary Risk

261. Risks such as fiduciary risk, development risk and reputation risks are also risk in Nairobi County. This is because risks such as fiduciary risk can lead to corruption and fraud which consequently become a major drain on the effective use of resources in the County.

262. Mitigation measure: The first step is to upscale risk management through investing in appropriate technology and internal controls. The county should improve service delivery efficiently so as to face lift its image, enhance monitoring/evaluation on development projects and also training employees on ethics. Costing should be carried out to identify beforehand development project budget estimates for easy accountability.

4. **Pending debts/bills**

263. The issue of Pending debts/bills continues to be a major economic policy challenge facing the Nairobi County government having inherited a huge debt from the defunct City Council. This has subjected the County to the risk of higher interest rate and other unpredictable cost elements. The debt trend has been increasing from one year to another.

264. Mitigation measure: Establishment of digitized debt servicing management systems to improve accountability and prevent fraudulent loan amounts; Creation of new channels of revenues to ease on the loan amounts required to finance development projects; Utilizing cheap loan opportunities available in the money and or capital markets; Raising money by offering its shares to the public as a financing option.

5.3 Wage bill

265. Salaries and wages has surpassing the stipulated 35% of the total budget this has led to budget cuts on development programmes.

266. Adoption of technology. The county should embrace technology to replace some aspects of human labor e.g. using tools and machinery to carry out environmental duties like slashing and maintaining lawn in the county. This will save the county a lot of money which could have been paid to casual workers. Automation of employees reporting time register is essential for it will curb ghost workers menace hence reducing the wage bill. The paymaster should ensure that all the employees who are deceased and dismissed are struck out of the payroll to avoid unnecessary expenses.

ANNEX I: RESOURCE ENVELOPE

	STREAM	2018/2019 Original Target	2018/2019 Revised Target	Draft CFSP 2019	Ammended CFSP 2019	Projections 2020/2021	Projections 2021/2022
	Own Source Revenues (OSR)						
1	RATES	3,600	3,600	3,925	3,925	4,043	4,164
2	SINGLE BUSINESS PERMITS	2,600	2,600	2,892	2,892	2,979	3,068
3	PARKING FEES	3,003	3,003	2,763	2,763	2,846	2,931
4	BLDNG PERMITS	1,530	1,530	1,908	1,908	1,965	2,024
5	BILLBOADS & ADVERTS	1,005	1,005	1,425	1,425	1,467	1,511
6	House Rents	560	560	615	615	634	653
7	CONSTRUCTION SITE BOARD	175	175	211	211	217	224
8	FIRE INSPECTION CERT	340	340	313	313	322	332
9	REGUL. OF BLDNG /CHANGE /AMALG/SUB	180	180	166	166	171	176
10	WAKULIMA MARKET	120	120	110	110	114	117
11	OTHER MARKETS	271	271	250	250	257	265
12	LIQOUR FEES	287	287	200	200	206	212
13	OTHER INCOMES	1,826	1,825	1,888	1,888	1,945	1,790
14	**Sub-Total: Own Source Revenues**	**15,497**	**15,496**	**16,665**	**16,665**	**17,165**	**17,466**
16	Equitable Share	15,794	15,794	16,500	16,500	17,160	17,846
17	Conditional Grants	719	745	767	767	798	830
18	Sub-Total: GOK Transfers	16,513	16,539	17,267	17,267	17,958	18,676
19	**TOTAL**	**32,011**	**32,036**	**33,932**	**33,932**	**35,122**	**36,142**
20							
21	**Expenditures**						
22	**Transfer to County Assembly**						
23	Compensation To Employees	582	666	675	781	797	812
24	Other Recurrent Costs.(**Incl. gratuity)**	805	720	725	890	896	942
25	Capital Expenditures	592	592	200	1,530	150	200
26	**Sub-Total : County Assembly**	**1,979**	**1,978**	**1,600**	**3,201**	**1,843**	**1,954**
27							
28	**COUNTY EXECUTIVE**						
29	Compensation To Employees	13,426	13,426	14,845	14,845	15,142	15,445
30	Other Recurrent Costs	6,661	7,598	7,565	7,565	7,716	7,871
31	Capital Expenditures	10,244	10,342	9,922	9,922	10,471	10,726
32	**Sub-Total: County Executive**	30,332	31,366	32,332	32,332	33,330	34,041
33	**TOTAL EXPENDITURES**	**32,310**	**33,344**	**33,932**	**35,533**	**35,173**	**35,995**
34	**Net Financing**	**-300**	**-1,308**	**0**	**-1,601**	**-50**	**147**
35	**Adjustment To Cash**	**300**	**1,308**				
36	***Analysis***						
37	Total Development Expenditure	10,836	10,934	10,122	11,452	10,621	10,926
38	Total Employee Costs	14,008	14,092	15,520	15,626	15,939	16,257
39	Total Recurrent costs	21,474	22,409	23,810	24,081	24,551	25,069
40	***Ratios***						
41	% Total development to total Revenues	34	34	30	34	30	30
42	% Total Employee Costs to Revenues	44	44	46	46	45	45
43	% Total Reccurent to Revenues	67	70	70	71	70	69
	Loans & Grants				194million		
	Leasing of Medical Equipments				131million		

ANNEX II: SECTOR CEILINGS

VOTE CODE TITLE	FY 2018/2019			Draft CFSP FY 2019/2020			Amended FY 2019/2020		
	Recurrent	Development	Total	Recurrent	Development	Total	Recurrent	Development	Total
5311: COUNTY PUBLIC SERVICE BOARD	54	5	**59**	53	-	**53**	53	-	**53**
5312:OFFICE OF GOVERNOR & DEPUTY GOVERNOR	4,836	90	**4,926**	5,903	353	**6,256**	5,903	353	**6,256**
5313:ICT, E-GOVT & PUBLIC COMMUNICATIONS	272	188	**460**	207	414	**621**	207	414	**621**
5314:FINANCE & ECONOMIC PLANNING	2,258	154	**2,412**	2,156	561	**2,717**	2,156	561	**2,717**
5315:HEALTH	6,389	601	**6,990**	6,711	484	**7,195**	6,711	484	**7,195**
5316: URBAN PLANNING AND LANDS	379	133	**512**	520	200	**720**	520	200	**720**
5317:PUBLIC WORKS ,TRANSPORT & INFRASTRUCTURE	1,239	5,405	**6,644**	1,256	3,900	**5,156**	1,256	3,900	**5,156**
5318: EDUCATION,YOUTH AFFAIRS, SPORTS, CULTURE & SOCIAL SERVICES	1,597	473	**2,070**	1,496	369	**1,865**	1,496	369	**1,865**
5319:TRADE,COMMERCE, TOURISM & COOPERATIVES	481	318	**799**	640	800	**1,440**	640	800	**1,440**
5320:PUBLIC SERVICE MANAGEMENT	1,094	50	**1,144**	1,067	108	**1,175**	1,067	108	**1,175**
5321:AGRICULTURE, LIVESTOCK DEVELOPMENT, FISHERIES & FORESTRY	421	130	**551**	393	150	**543**	393	150	**543**
5322:COUNTY ASSEMBLY	1,387	592	**1,979**	1,400	200	**1,600**	1,671	1,530	**3,201**
5323: ENVIROMENT,WATER,ENERGY & NATURAL RESOURCES	1,645	1,113	**2,758**	1,624	550	**2,174**	1,624	550	**2,174**
5324: URBAN RENEWAL AND HOUSING	132	306	**438**	166	742	**908**	166	742	**908**
5325:WARD DEVELOPMENT FUND	22	1,213	**1,235**	39	1,270	**1,309**	39	1,270	**1,309**
5326:EMERGENCY FUND	-	80	**80**	100	-	**100**	100	-	**100**
5327:LIQOUR LICENSING BOARD	205	83	**288**	70	30	**100**	70	30	**100**
TOTALS	**22,411**	**10,934**	**33,345**	**23,801**	**10,131**	**33,932**	**24,072**	**11,461**	**35,533**