

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF NYERI

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2017

SEPTEMBER, 2017

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TABLE OF CONTENTS

<u>FOREWORD</u>	<u>62</u>
<u>ACKNOWLEDGEMENT</u>	<u>74</u>
<u>INTRODUCTION.....</u>	<u>107</u>
<u>Background</u>	<u>107</u>
<u>Objectives of CBROP.....</u>	<u>107</u>
<u>REVIEW OF FISCAL PERFORMANCE IN 2016/17</u>	<u>118</u>
<u>A. Overview</u>	<u>118</u>
<u>B. 2016/17 Fiscal Performance</u>	<u>118</u>
<u>Revenue Performance</u>	<u>118</u>
<u>Expenditure Performance.....</u>	<u>1612</u>
<u>C. Fiscal performance of the FY 2016/2017 in relation to fiscal responsibility principles and financial objectives</u>	<u>1914</u>
<u>A. Recent National Economic Developments</u>	<u>2247</u>
<u>B. County Recent Economic Developments</u>	<u>2548</u>
<u>C. Economic Outlook</u>	<u>2820</u>
<u>Growth prospects</u>	<u>2820</u>
<u>Inflation outlook.....</u>	<u>2921</u>
<u>Medium Term Fiscal Framework.....</u>	<u>3021</u>
<u>Risks to the Fiscal Framework</u>	<u>3322</u>
<u>IV. RESOURCE ALLOCATION FRAMEWORK</u>	<u>3623</u>
<u>A. Adjustment to 2017/18 Budget.....</u>	<u>3623</u>
<u>B. Medium-Term Expenditure Framework (MTEF).....</u>	<u>3825</u>
<u>C. 2017/18 Budget framework.....</u>	<u>4826</u>
<u>Revenue projections</u>	<u>4826</u>
<u>Expenditure Forecasts</u>	<u>4927</u>
<u>V. CONCLUSION</u>	<u>4927</u>
<u>FOREWORD.....</u>	<u>3</u>
<u>INTRODUCTION.....</u>	<u>6</u>

Background	6
Objectives of CBROP	6
REVIEW OF FISCAL PERFORMANCE IN 2016/17	7
A. Overview	7
B. 2016/17 Fiscal Performance	7
C. Fiscal performance of the FY 2016/2017 in relation to fiscal responsibility principles and financial objectives	15
A. Recent National Economic Developments	18
B. County Recent Economic Developments	19
Economic Outlook	21
Growth prospects	21
Inflation outlook	21
Medium Term Fiscal Framework	22
Risks to the Fiscal Framework	23
IV. RESOURCE ALLOCATION FRAMEWORK	24
A. Adjustment to 2017/18 Budget	24
B. Medium Term Expenditure Framework (MTEF)	26
Financial Year	28
C. 2017/18 Budget framework	28
Revenue projections	28
Expenditure Forecasts	28
V. CONCLUSION	28
FOREWORD	
INTRODUCTION	
Background	
Objectives of CBROP	
REVIEW OF FISCAL PERFORMANCE IN 2016/17	
A. Overview	

B. 2016/17 Fiscal Performance	
C. Fiscal performance of the FY 2016/2017 in relation to fiscal responsibility principles and financial objectives	
A. Recent National Economic Developments	
B. County Recent Economic Developments	
45. Economic Outlook	
Growth prospects	
Inflation outlook	
Medium Term Fiscal Framework	
Risks to the Fiscal Framework	
IV. RESOURCE ALLOCATION FRAMEWORK	
A. Adjustment to 2017/18 Budget	
B. Medium Term Expenditure Framework (MTEF)	
C. 2017/18 Budget framework	27
Revenue projections	
Expenditure Forecasts	
V. CONCLUSION AND NEXT STEPS	
FOREWORD	3
I. INTRODUCTION	6
Background	6
Objectives of CBROP	6
II. REVIEW OF FISCAL PERFORMANCE IN 2015/16	7
A. Overview	7
B. 2014/15 Fiscal Performance	7
Revenue	9
Expenditure	12
C. Fiscal performance on FY 2016/2017 in relation to fiscal responsibility principle and financial objectives	12
III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK	13
A. Recent National Economic Developments	13

<u>B. County Recent Economic Developments</u>	15
<u>D. Economic Outlook</u>	16
<u>Growth prospects</u>	16
<u>Inflation outlook</u>	16
<u>E. Medium Term Fiscal Framework</u>	17
<u>F. Risks to the Fiscal Framework</u>	18
<u>IV. RESOURCE ALLOCATION FRAMEWORK</u>	20
<u>A. Adjustment to 2016/17 Budget</u>	20
<u>B. Medium Term Expenditure Framework (MTEF)</u>	21
<u>C. 2016/17 Budget framework</u>	23
<u>Revenue projections</u>	23
<u>Expenditure Forecasts</u>	23
<u>V. CONCLUSION AND NEXT STEPS</u>	24

FOREWORD

The Nyeri County Budget Review Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management Act, 2012. The CBROP, 2017, captures updated economic and financial forecasts with sufficient information that will inform the budget proposals for the next financial year. It also reviews previous year's budget and provides an outlook for the forthcoming budget year.

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In reviewing the fiscal performance, this paper analyzes the performance of the county ~~own~~ revenue in the FY 2016/17. It has included the total revenue ~~collected-realized~~ in comparison to the projected ~~revenue-amount~~ for the same year. In addition, the causes of the underperformance in revenue mobilization are also highlighted. Included in the analysis is also performance of county ~~departments'~~ expenditure for the period under review.

This paper has also provided an overview of how the actual performance of the FY 2016/17 affected the financial objectives as detailed in the County Fiscal Strategy Paper (CFSP), 2016. The anticipated performance of the FY 2017/18 budget will form the basis for projecting the FY 2018/19 budget based on the recent economic developments. It is anticipated that, the projected revenue and expenditure for 2017/18 will be achieved through strict expenditure controls and enhanced revenue ~~collection-mobilization~~ measures. This will be achieved through fiscal discipline to ensure proper management of public resources and delivery of expected outputs. Revenue streams will be interrogated to understand the reasons for under performance in 2016/2017 so that appropriate ~~corrective~~ measures are taken during the ~~currentis~~ financial year.

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

Dr. Charles G. Githinji, PhD.
Ag. County Executive Committee Member
Finance and Economic planning

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ACKNOWLEDGEMENT

The 2017 Nyeri County Budget Review and Outlook Paper (CBROP) is prepared in accordance with the Public Finance Management (PFM) Act, 2012. The document is expected to improve the public's understanding of county's public resources and expenditures hence guide public debate on economic planning and budgeting matters.

The county government is committed to continue building capacity to enhance resource management, raise own revenue and entrench good governance in all departments. The county government will continue to implement priority programs to raise productivity and economy-wide efficiency for sustainable and inclusive growth.

The preparation of the CBROP, 2017 was a concerted effort among all county departments who provided valuable and credible information. We appreciate their inputs in this noble course as a critical process of the county budget preparation. Special thanks go to the office of the Governor, office of the County Secretary, County Directors and other county officials who offered support to come up with this document.

As it is the responsibility of County Treasury to ensure timely preparation and submission of the CBROP, a team from the department of Finance and Economic Planning spent valuable time to put together this document. These officers included the Ag. Chief Officer of Finance and Accounting, Richard Kimani, Eustace King'ori, Gibson Mwangi and Chris Gathogo whose tireless effort enabled the successful completion of the CBROP, 2017. To all of you I say thank you and assure you that the time spent was not in vain as the CBROP will have great impact in future planning and budgeting process.

FRANCIS MARANGA KIRIRA

CHIEF OFFICER - ECONOMIC PLANNING, MONITORING AND EVALUATION

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

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

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

Fiscal Responsibility principles in the Public Financial Management Law

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

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

INTRODUCTION

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Background

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

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

Objectives of CBROP

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

- A review of the county fiscal performance in the financial year 2016/17 compared to the appropriation of that year and how this affected the economic performance of the county.
- An updated economic and financial forecast with sufficient information to show changes from the forecasts in the County Fiscal Strategy Paper, 2017.
- ~~Information on any changes in the forecasts compared with the County Fiscal Strategy Paper.~~
- Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

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3. The CBROP will be a key document in linking up of policy, planning and budgeting. It will be embedded on the Kenya's Vision 2030, Third Medium Term Plan (MTP) priorities and the Nyeri County Integrated Development Plan (CIDP) 2018-2022. Sector Working Groups will be formed to undertake performance reviews of programs currently being undertaken and also develop and prioritize programs for the Medium Term period of FY 2018/19 – FY 2020/21.

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5.4. The updated outlook will thereafter be firmed up in the County Fiscal Strategy Paper (CFSP), 2018 to reflect any changes in economic and financial conditions. In accordance with Section 117 of the Public Finance Management Act, 2012, the CFSP will be submitted to the County Assembly not later than 28th February 2018.

REVIEW OF FISCAL PERFORMANCE IN 2016/17 (Mutua)

A. Overview

6.5. The implementation of the 2016/17 budget was faced by numerous challenges. First the local revenue collection was less than projected due to various reasons as expounded in this paper. In addition there were other expenditure pressures in the FY 2016/2017 as a result of the large pending bills from the FY 2015/16 and the ~~slow uptake~~ frequent down times of the ~~E-procurement system and other changes in~~ the IFMIS system. Therefore there is need for continuous capacity building and support of the county staff by the National Treasury in resolving these IFMIS issues. The delay in the enactment of the appropriation bill, 2016 adversely affected the implementation of development projects and programmes.

7.6. In order to realign the county budget and revenue projections within the prevailing economic trends and the provisions of County Allocation of Revenue Act (CARA), 2016, the County Treasury prepared a supplementary budget arising from the reorganization of the Government and to take into account the recommendations by the Controller of Budget, where the local revenue was revised downwards from a projected estimate of Kshs. 1.49 billion to Kshs 1.082 billion. In the supplementary budget recurrent estimates amounted to Kshs 4,977,493,117 4,419,610,946 while the development amounted to Kshs 2,304,909,857 1,857,937,767. These adjustments on the original budget were approved by County Assembly in ~~June~~ January, 2017.

B. 2016/17 Fiscal Performance (Completed by Mutua)

~~Performance of Revenues~~ Performance

7. During the 2016/17 fiscal year cumulative revenues received by the County amounted to Kshs. 6,859,024,352 6,858,728,542 compared to the budgeted estimates of Kshs. 7,282,402,974. This represented a revenue shortfall of Kshs. 423,378,674, 624,322 as shown in (Table 1 below).

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2.8. By the end of June 2017, the projected revenues were fully realized apart from local revenue and free maternal healthcare which is calculated on the basis of actual births in the County. The County had cash balances from the 2015/16 financial year amounting to Kshs. 693,000,176. During the financial year, the County received Kshs. 4,800,764,767 as equitable share of revenue raised nationally, Kshs. 388,439,306 conditional grant to Nyeri Level V Hospital, Kshs. 14,347,664 as compensation for user fees foregone and Kshs. 73,763,719 from the Road Maintenance Fuel Levy Fund. The County also received Kshs. 60,515,000 for free maternal healthcare, Kshs. 11,465,000 as a grant from DANIDA, and Kshs. 31,432,757.00 ~~728,567~~ as releases for coffee and tea cess. ~~F-A~~ further a total of Kshs.141.86 million ~~as an allocation~~ was also released by the National Government as an allocation for additional allowances to health workers.

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3.9. Local revenue collection during the 2016/17 financial year amounted to Kshs. 643,139,153 against a target of Kshs. 1,095,101,000. This represented a shortfall of Kshs. 451,961,847, and translated to a 9.4 per cent decrease when compared to Kshs. 709,554,435 collected during the 2015/16 financial year.

4.10. The decline in local revenue collection can be attributed to weak enforcement and political interference. Going ahead, the performance of local revenue requires to be enhanced by ensuring that efforts are raised in meeting revenue targets in all streams. The department will strengthen the inspectorate team through provision of right personnel and a vehicle. Further, the revenue staff will be working on rotational basis to ensure no one person is in one collection point for ~~more than three months~~ a long period of time.

Table 2: Local Revenue Performance – FY 2016/17

ACCOUNT DESCRIPTION	APPROVED TARGET FY 2016/17	ACTUAL PERFORMANCE	PERCENTAGE ACHIEVED	DEVIATION
	Kshs	Kshs	%	
CILOR Current Year	0.00	0.00	0.00	
DEPARTMENT OF PUBLIC ADMINISTRATION & ICT.				
Liquor Licence	47,889,046.00	35,525,227.00	74.18	12,363,819.00
AGRICULTURE, LIVESTOCK FISHERIES AND COOPERATIVE DEVELOPMENT				
Co-operative Audit	1,574,622.00	1,767,900.00	112.27	-193,278.00
Agricultural Mechanisation Station	1,928,200.00	14,500.00	0.75	1,913,700.00

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ACCOUNT DESCRIPTION	APPROVED TARGET FY 2016/17	ACTUAL PERFORMANCE	PERCENTAGE ACHIEVED	DEVIATION
	Kshs	Kshs	%	
Approvals (Extension of users, Pegging for Kiosk, Subdivision, transfer, Amalgamation, survey, Occupation cert, boundary dispute e.t.c.)	3,342,500.00	1,703,000.00	50.95	1,639,500.00
Sign Boards & Advertisement Fee	23,269,444.00	13,419,707.00	57.67	9,849,737.00
Buildings Plan Approval Fee	13,216,766.00	8,837,662.00	66.87	4,379,104.00
Buildings Inspection Fee	3,643,348.00	2,392,903.00	65.68	1,250,445.00
Right-of-Way / Way-Leave Fee (KPLN, Telkom, e.t.c.)	1,680,000.00	556,264.00	33.11	1,123,736.00
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,693,220.00	1,057,500.00	62.45	635,720.00
Agency Fee (Fees from KHC, Insurance Firms, e.t.c.)	1,723,703.00	52,050.00	3.02	1,671,653.00
Sales of Council's Minutes / Bylaws	396,960.00	364,000.00	91.70	32,960.00
Sale of Old Office Equipment and Furniture	1,000,000.00	0.00	0.00	1,000,000.00
Benevolent Fund	1,776,600.00	1,102,000.00	62.03	674,600.00
Debts Clearance Certificate Fee	2,774,320.00	1,802,300.00	64.96	972,020.00
Fire-Fighting Services	752,800.00	10,500.00	1.39	742,300.00
GENDER, CULTURE AND SOCIAL DEVELOPMENT				
Social Hall Hire, IFAD Hall	183,420.00	35,000.00	19.08	148,420.00
Stadium Hire	1,552,800.00	425,300.00	27.39	1,127,500.00
EDUCATION, YOUTH AFFAIRS, SPORTS AND ICT				
Nursery Schools Fee (KRT)	300,000.00	287,430.00	95.81	12,570.00
Nursery Schools Fee (Kingongo)	216,160.00	180,300.00	83.41	35,860.00
Nursery Schools Fee (Nyakinyua)	198,800.00	201,350.00	101.28	-2,550.00
Registration of School, Training/Learning Center Fee	56,000.00	0.00	0.00	56,000.00
WATER, ENVIRONMENT AND NATURAL RESOURCES				
Sale of Flowers, Plants, Firewood, Produce e.t.c.	0.00	0.00	0.00	0.00
Exhauster Services Charge	0.00	0.00	0.00	0.00
Private Borehole Operators	0.00	0.00	0.00	0.00
Quarry /Mining Charges-Annual Licence Fee	0.00	0.00	0.00	0.00
Tree Cutting Permits	0.00	0.00	0.00	0.00
Water Bowser/Water vendor licences	0.00	0.00	0.00	0.00
Tipping Charges	0.00	0.00	0.00	0.00
Polluters of Environment Penalties	0.00	0.00	0.00	0.00
TOTAL LOCAL SOURCES	1,095,101,000.00	643,139,153.00	58.73	451,961,847.00

Source: County Treasury, 2017

4.—Review of local revenue collections on a monthly basis indicates that collections were highest in the month of March 2017, as shown in the figure below. This was attributed to the fact that the Single Business Permit and land rates, being the major revenue streams, have a March deadline for renewal.

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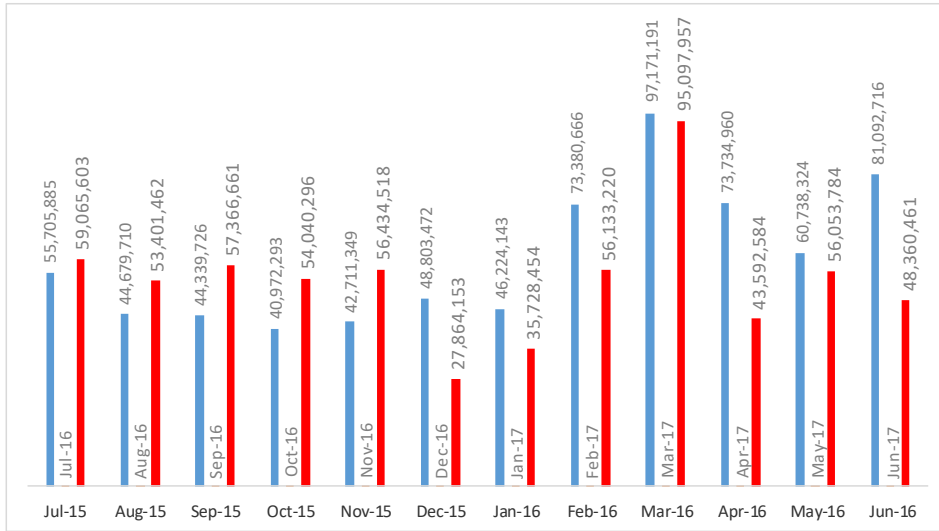
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Figure 1: Monthly revenue collections in comparison to performance in FY 2015/2016



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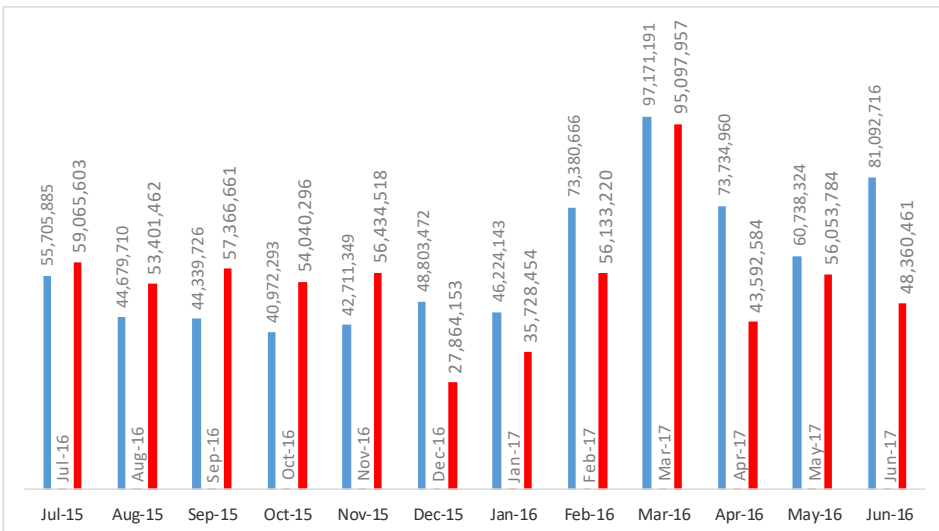
Figure 1: Monthly revenue collections in comparison to performance in FY 2015/2016

Source: County Treasury, 2017

Expenditure Performance

6.12. Total expenditure amounted in the 2016/17 financial year amounted to Kshs. 5,767,380,348 682,300,850 against a budget of Kshs. 7,282,402,974, representing an under spending of Kshs. 1,515,022,626 600,102,124 as shown in (Table 3 below). This shortfall was attributed to delayed passage of the county budget leading to low absorption of development

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Lands, Housing and Physical Planning	54,346,469.00	65,276,469.00	38,228,025.95	27,048,443.05	58
Health Services and Sanitation	1,914,297,274.00	2,028,029,310.00	1,994,294,044.40	33,735,265.60	98
Special Programmes	113,360,560.00	113,360,560.00	92,531,397.45	20,829,162.55	81
Public Administration, Information and Communication	393,280,785.00	417,622,749.00	395,923,895.85	21,698,853.15	94
Agriculture, Livestock Development and Fisheries Development	301,550,122.00	303,800,122.00	296,087,978.10	7,712,143.90	97
Tourism and Culture	9,736,203.00	29,340,615.00	12,317,107.60	17,023,507.40	41
Education ICT, Trade and Industrialization	273,950,526.00	276,950,526.00	274,838,035.35	287,112,490.65	92
Water, Forestry and Wildlife, Environment and Natural Resources	133,144,141.00	130,682,141.00	122,422,192.30	8,259,948.70	93
County Public Service Board	36,572,229.00	36,572,229.00	30,666,119.90	5,906,109.10	83
Roads and Infrastructure	99,849,019.00	59,708,366.00	42,907,124.90	16,801,241.10	71
Energy	59,708,366.00	103,949,019.00	77,533,197.30	26,415,821.70	74
TOTAL	4,640,955,030.00	4,977,493,117.00	4,563,534,101.05	413,498,959,015.95	92
			4,478,534,101.05	.95	

Source: County Treasury

11.16. Analysis of the development outlay indicates that the Department of Finance and Economic Planning attained the highest absorption rate of development budget at 89.9 per cent while the Office of the County Secretary and Department of Public Administration did not incur any development expenditure as shown in (Table 5 below).

Table 5: Performance of the Development Budget in FY 2016/17

Table 5: Performance of the Development Budget in FY 2016/17

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	50,000,000.00	62,119,967.00	4,587,724.00	57,532,243.00	7.3
County Secretary	0	7,300,000.00	0	7,300,000.00	0.0
Finance and Economic Planning	63,990,676.00	65,990,676.00	59,304,455.75	6,686,220.25	89.8
Lands, Housing and Physical Planning	38,570,542.00	49,154,519.00	15,244,951.10	33,909,567.90	31.0
Health Services and Sanitation	389,162,876.00	466,561,273.00	244,957,205.65	221,604,067.35	52.5
Special Programmes	118,000,000.00	118,000,000.00	8,544,380.20	109,455,619.80	7.2
Public Administration, Information and Communication	0	8,825,684.00	0	8,825,684.00	0.0
Agriculture, Livestock Development and Fisheries Development	149,789,799.00	119,022,556.00	46,976,751.00	72,045,805.00	39.4
Tourism and Culture	22,084,339.00	14,854,339.00	8,367,223.00	6,487,116.00	56.3

Education ICT, Trade and Industrialization	196,020,692.00	275,020,608.00	128,201,071.10	146,819,536.90	46.6
Water, Forestry and Wildlife, Environment and Natural Resources	162,829,555.00	200,003,383.00	66,430,094.95	133,573,288.05	33.2
Roads and Infrastructure	571,179,042.00	856,078,362.00	568,555,294.65	287,523,067.35	66.4
Energy	61,978,490.00	61,978,490.00	52,677,095.90	9,301,394.10	84.9
TOTAL	1,823,606,011	2,304,909,857	1,203,846,247.30	1,101,063,609.70	52.2

Source: County Treasury, 2017

D.C. Fiscal performance of the FY 2016/2017 in relation to fiscal responsibility principles and financial objectives (Kirira)

12.17. The fiscal performance in the FY 2016/17 has affected the financial objectives set out in the 2016 CFSP and the Budget for FY 2016/17 in the following ways fiscal responsibility principles in the following ways;

13.18. Revenue projections has remained on a straight line trajectory based on the CARA (2017) where the equitable share of national revenue allocated to the County was Kshs. 4,952,800,000, which is 3.2 percent higher than FY 2016/17 allocation of Kshs 4,800,764,767. Further, local revenue contribution has remained below 15 percent of the projected total county revenue of in both FY 2016/2017 and 2017/2018. Actual contribution of local revenue to total county revenue in FY 2016/17 was only 9.4 per cent.

14.19. The poor local revenue collection can be attributed to the narrow revenue base being experienced. It is our hope that the approval of the audited accounts of the 2015/16 financial year by the National Assembly will most likely increase the equitable share to the county to counter the ever increasing demand on development expenditure as we strengthen existing and explore on other local revenue streams of local revenue.

15.20. The projected revenue and expenditure were broadly in line with the planned outcomes of the FY 2016/17 until the issue of holding the Jamburi Madaraka Day celebrations on 1st June, 2017 was brought to Nyeri County and specifically Kabiruni ASK show grounds. The final cost of rehabilitating and constructing the arena sheds totaled to Kshs 87,236,738.99 which necessitated the preparation of the second supplementary budget but the cost ended up being a pending commitment to be paid in FY 2017/2018.

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~~16.21.~~ For ~~the budget of~~ the FY 2017/2018 ~~budget~~, adjustments will be introduced on fiscal aggregates as provided for under section 108 (2) of the PFM Act, 2012; ~~the figures firmed by the CARA, 2017, after the budget had been approved~~ and the unspent balances as at 30th June, 2017. The pending bills and commitments from the FY 2016/2017 totaled Kshs 711, 512,990.13 which will be provided during the adjustments.

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~~17.22.~~ Regulation 25(1) (b) of the PFM (County Governments) Regulations demands that a county should not spend more than 35 percent of its cumulative revenue on salaries and wages. In Nyeri County, a total of Kshs. 3,020,745,868, representing 41.48 percent, had been allocated in FY 2016/2017 due to the large workforce who were inherited either through devolution of both former Central Province and Nyeri County staff or from the defunct local authorities. Other reasons for the high wage bill is the recently approved CBAs for the nurses and medical doctors. Recruitment of professional staff and demand for promotions, whenever they are due, has also contributed to the huge wage bill. By the end of the FY 2016/2017 the percentage spent on salaries and wages to the total ~~expenditure~~ ~~expenditure~~ was 50.41 ~~percent~~.

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~~18.23.~~ The amount allocated for ~~For~~ development ~~expenditure in FY 2016/2017 amount allocated to development~~ was 31.65% which was within the requirement of allocating more than 30% in any financial year. By the end of ~~the FY 2016/2017~~ ~~this period~~ only Kshs. 1,203,846,247 had been spent on development representing 20.87% of the total county expenditure. As stated above, this is attributable to late approval of the budget and frequent down times of the IFMIS ~~system~~.

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~~19.24.~~ During the FY 2016/2017 the county did not borrow and therefore did not incur any debt as per the definition. What was carried over were the pending bills and commitment ~~totalling~~ ~~totaling~~ Kshs 711,512,990.13 and was far below the cash balances carried forward to FY 2017/2018 of Kshs. 1,279, 269,871.

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~~20.25.~~ As required under the PFM Act, 2012, a finance bill was prepared, through a participatory approach, and approved by the County Assembly. The participation of the public in the process ensures that the charges are explained and therefore will not be a shocker to the rate and fees payers. This notwithstanding, litigations have been experienced in the past thus hampering mobilization of local resources.

26. In the FY 2017/2018 the County Government has prioritized the following development strategies:

- improvement of service delivery in our public health facilities to ensure accessibility and affordability
- provision of water for both domestic and irrigation purposes especially in the arid Kieni Constituency through drilling and equipping of boreholes and construction of water pans
- intensifying extension services and provision of farm inputs such as manure, fertilizer and lime, among other reforms, to drive agriculture so as to ensure food security, create jobs and reduce dependence on imports and relief food
- improve the ECDE and technical training through refurbishment of existing facilities and improving the welfare of the teachers and instructors
- support for the most vulnerable in our society who include the women, youth and the disabled.

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III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK (Chris)

27. The county's medium term strategic objectives are dependent on the fiscal and financial developments in the national front, subsequently impacting on the county's current priorities as outlined in the County Fiscal Strategy Paper, 2017.

28. The general elections held on August this year, occasioned a change in county leadership and governance necessitating a review of the already existing policies and development priorities so as to align them with the agenda of the new County Government. Section 108 (2) of the PFM Act, 2012, provides for deviation, by the county government, from the financial objectives in a County Fiscal Strategy Paper but may not deviate from the fiscal responsibility objectives, if there is a change of County Government.

29. The backbone of Nyeri the County economy lies in agriculture with tea, coffee, milk and horticulture as the key cash-crops products that contribute dominantly to households' incomes. It is therefore important to note that major changes in economic and financial trends in the country can drastically affect the expenditure trends by the County Government in the future. Any unfavorable alteration in expenditure trends due to economic shocks will delay the development

agenda of the county. These economic changes includes but not limited to inflation and exchange rates and will most likely affect the overall value of the county's products.

30. The county's economic growth is therefore dependent on the way the country plans to cope with exogenous shocks. However, it is unfortunate that incidences of such shocks are ultimately borne by the hard-working coffee, tea and horticultural farmers in the county. Further, the county will continue to enhance investment in irrigation projects, concentrate on improving the quality of our overly cultivated land in an attempt to increase its fertility levels and overall productivity. This will be done through provision of manure and lime to farmers and employ modern farming techniques to reduce dependence on rain fed agriculture and cushion the county from adverse effects of drought.

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

~~22. — Nyeri County is predominantly an agricultural county with tea, coffee and horticulture as the main sources of household incomes. It is therefore imperative to note that major changes in economic and financial trends in the country can affect the expenditure trends by the County Government in the future. Undesired shift in expenditure trends due to economic shocks will delay the development agenda of the county. These economic changes like inflation and exchange rates, will most likely affect the value of the county's products.~~

~~22. — Thus how the country plans to manage these exogenous shocks will determine how much the county's economy grows. It is unfortunate that the incidences of such shocks are ultimately borne by the hard-working coffee, tea and horticultural farmers in the county. Further, the county will upscale investment in irrigation projects and modern farming techniques to reduce dependence on rain fed agriculture and cushion the county from adverse effects of drought.~~

A. Recent National Economic Developments

31. Heightened political uncertainties following the Supreme Court's decision on 1st September of September to invalidate the presidential results of the 8th of August election, along with a devastating ongoing drought, continue to damage Kenya's economic prospects. Economic activity in the private sector was hit by a slump in demand amid escalating concerns over

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prolonged instability, reflected by a plunge in the Purchasing Managers' Index (PMI), which dropped to a record low in August as unemployment continues to climb. The nation was recently struck by fears of a famine as the drought—which has ravaged the north of the country since the start of the year—worsened, impacting on an estimated 5.6 million people.

32. The real Gross Domestic Product (GDP) is expected to grow at 5.5% in 2017 down from an estimated 5.8% in 2016 due to a combination of domestic and international constraints. Domestic constraints include the general elections and the capping of the interest rates -which might inhibit investments. International constraints include disruptive geopolitical events such as the United Kingdom's impending exit from the EU and Trump's presidency, which are likely to translate to reduced foreign investments to emerging economies. According to the Economic Intelligence Unit (EIU) of World Bank, growth will remain robust between 2017 and 2021, averaging 5.8% as a result of sustained expansion in consumer services, urbanization, EAC integration, structural reforms and investment in infrastructure.

33. On March 2017, the Central Bank of Kenya (CBK) retained the Central Bank Rate (CBR) ~~rate~~ at 10% so as to anchor prevailing uncertainties such as rising inflation and the impact of the interest rate caps on the effectiveness of monetary policy. The Banking (Amendment) Act, 2016, that came into force in September 2016, capped interest rates charged by lending institutions to 4% above the prevailing CBR set by the CBK. The Act also set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70% of the base rate.

34. The Kenya National Bureau of Statistics (KNBS) reported that inflation increased from 7.0% in January 2017 to 9.0% in February 2017 on account of rising food and electricity prices. Inflation averaged 6.3% in 2016 due to subdued oil prices, lower electricity tariffs (due to increased reliance on drought-resistant geothermal power) and low food prices due to improved rainfall. The Economic Intelligence Unit (EIU) forecasts inflation to average 5.1% between 2017 and 2020 due to prudent monetary policy and efficiency gains arising from regulatory reform and investment in infrastructure.

35. The agriculture industry in Kenya remains the most prominent, important and dominant industry. As of 2016, the industry accounted for over 26% of the total GDP, 20% of employment, 75% of the labor force, and over 50% of revenue from exports. However other sectors ~~will continue to~~ where investment will be directed going forward includes; infrastructure

~~projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail, and wholesale and financial sub sector, among others. The country's economic growth will hopefully stabilize after the repeat presidential election thereby creating room for increased investments and domestic demand, strengthening investor confidence and initiatives to deepen regional integration and cooperation.~~

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~~23. Kenya's macroeconomic performance remains strong in the face of headwinds, supported by significant infrastructure investments, mining, and lower energy prices. Growth remains robust, despite the adverse impact on tourism challenges. Inflation is within our target band, despite the impact of higher food prices in the recent past, due to the coming on board of the low cost geothermal energy and lower oil prices.~~

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~~23. Going forward, the macroeconomic outlook remains favourable although risks remain. Some of the challenges include, among others, insecurity, pressures on expenditures especially recurrent related expenditures, the sporadic weather conditions that might disrupt economic activities and external risks particularly on the uncertainty in the international oil market. The government will closely monitor the developments and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.~~

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

~~23. Kenya's growth prospects are bright on expectations of infrastructure development, moderate household consumption and easing monetary policy. Nevertheless, the country's large twin deficits and political instability ahead of next year's election bear risks for the economy. Focus economics panelists forecast that the economy will grow at 5.9% this year, which is unchanged from last month's projection. Next year, the panel sees GDP growth will be accelerating towards 6.0%.~~

~~23. Consumer prices in Kenya rose to 6.4 percent year on year in July of 2016, after a 5.8 percent increase in the preceding month. It was the highest percentage since March 2016,~~

boosted by higher food prices. Looking forward, we estimate Inflation Rate in Kenya to stand at 5.67 in 12 months' time. In the long-term, the Kenya Inflation Rate is projected to trend around 5.90 percent based on existing operational econometric models.

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

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

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B. B.-County Recent Economic Developments

36. -In order to improve access in the rural areas, the County Government has continued with the improvement of access and feeder roads through the '8Km per ward' programme and 10Km affirmative action for Kieni. Since 2013 the county has improved through about 1120Km of road through gravelling and grading thereby greatly easing access of the farm produce from the farms to the markets. The target is to improve all the county roads into all-weather standards. There is also construction of footbridges and box culverts to connect ridges and other areas that had been previously impassable.

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37. The county government has continued to focus on improvement of health infrastructure. Since 2013, the county government has operationalized the following 22 dispensaries namely: Karindundu, Gitimaini, Iruri, Ngaru, Thage-ini, Githakwa and Hubu-ini, Gathehu, Chieni, Kianjogu, Gakanga, Githima, Ihwagi, State lodge-Sagana, Kihome, Gathumbi, Mucharage Thung'ari, Thunguri, Thunguma, Gitero and Kianganda.

38. The County Government also concentrated in offering extension services to farmers where 2,385 farmers were reached through 252 group trainings in FY 2016/17. In addition 1,150

farmers were reached through 122 demonstrations, 1,148 farmers reached through 119 farmers' field schools and 1,461 farmers reached through 1,175 farm visits. During the central ASK show, over 30,000 farmers trained on new farming technologies and modern farming techniques which will serve to enhance agricultural productivity within the county.

—In an attempt to reduce overdependence on rain fed agriculture, the county government has focused on provision of water for irrigation. This has been achieved through construction of intakes and water reservoirs, procurement and installation of distribution pipes among others. Most of the implementation works on water projects roll over several years and hence are ongoing.

39.

40. In the FY 2016/2017 the county government allocated Kshs. 100M~~tn~~ for bursary, under the programme dubbed 'Elimu fund', where a total of 14,197 students from poor backgrounds have benefited. This is a continuous programme although the amount has been increased slightly from the Ksh. 90 Million allocated during the previous Financial Year.

41. During the FY 2016/2017, the County Government of Nyeri in collaboration with the Ministry of lands, Kenya Informal Settlement Program (KISIP) and the National land commission have seen through the resettlement of colonial villagers across the county. Further, the department of lands undertook Mapping and valuation of county government of Nyeri estates namely; Kimathi, Blue Valley, Ruring'u, Ring Road, Mweiga, NaroMoru, Kiganjo, Mukurwe-ini and Karatina to guide on revenue collection and future development.

42. The County Government has for three consecutive years procured and distributed sanitary towels to the class 8 girls in all the primary schools in the county. This is an initiative aimed at curbing absenteeism of the Standard -8 girl child from school due to lack of sanitary towels during their menstrual period. ~~and~~ This will improve the overall academic performance of the girl child in KCPE by alleviating the psychological torture of ~~the girls~~ those from poor background who cannot afford sanitary towels. In the year 2015 a total of 9,873 girls benefited while 9,985 benefited in 2016.

43. In collaboration with NHIF a total of 6,000 vulnerable members of our society have benefited with the county programme of Bima-Afya. The beneficiaries includes; Elderly venerable with over 70 years of age, Extremely poor persons, Persons living with disabilities –

Adult, Persons living with disability – Children and Orphaned children below the age of 18 years. Through the programme the beneficiaries are able to meet basic medical needs for the common diseases are provided in our public health facilities. There is need for concerted effort to encourage Nyeri residents to acquire medical insurance covers whether either as a group or as individuals.

44. The county has also embarked on lighting the major trading and market centers through street-lighting and installation of high mast flood lights. Currently there are 75 high mast flood lights installed across the county. This has greatly improved the business environment aimed at creating a 24 hour economy.

~~24. In the last three years, the transformation of the Nyeri County economy has started to take shape as more than 652 Kms (out of the 1,252 Kms of earth surface in the County) of roads have been graveled and now services can reach our people easily and farm produce can reach the markets with ease.~~

~~24. The purchase and installation of modern medical equipment at Nyeri Referral Hospital has significantly reduced the burden of health care for our people. Provision of adequate drugs, ambulances and strengthening of community health outreach reaffirms our commitment in addressing the health concerns of our people.~~

~~24. Value addition on our agricultural products has continued to receive great attention in order to improve the livelihoods of farmers in the county who constitute 85 per cent of our population. In the recent past Wakulima Dairy was supported with Kshs. 26m to establish a yoghurt production line with a capacity of 5,000 liters per day and this was not in vain as more than 10,000 families in the county are benefitting from this investment, thus earning higher incomes.~~

~~24. The county also continued to invest in extension services and so far more than 7,000 farm visits have been attained together with 592 demonstrations. A lot has also been achieved towards improvement in coffee marketing but more support is required in milling and warehousing.~~

~~24. Through the department of agriculture, the county government has continued to provide subsidized fertilizer and seeds in order to improve yield and output for our farmers. These are distributed to the subsistence farmers in order to reduce the cost of their farm inputs.~~

~~24. The process of installing an Integrated Performance Management System and an Automated Dash Board to account for every employee's productivity is almost complete. By so doing services to the public will improve, reduce wastage of resources thus leading to increased local revenue.~~

~~24. In the FY 2016/2017 the government provided Kshs. 90m as bursary, under the Elimu fund, where more than 10,000 children from poor backgrounds have benefited. This is a continuous programme which will continue each and every year.~~

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~~12. In collaboration with NHIF a total of 4071 vulnerable members of our society have benefited with the county programme of Bima Afya. The beneficiaries medical needs for the common diseases are provided in our public health facilities as we continue encouraging Nyeri residents to acquire medical insurance covers whether as a group or as individuals.~~

~~13. Alcoholism being a major challenge in our county as young people continue to waste their talents and energies has also been addressed through rehabilitation of the addicts who undergo counseling and formation/strengthening of support groups within the established counselling center at Karia Health center.~~

N.C. Economic Outlook

Growth prospects

~~45. The Gross Domestic Product (GDP) is projected to decelerate to 5.5% this year, a 0.5 percentage point mark down from the 2016 forecast, according to the World Bank's Kenya Economic Update (KEU). This has been occasioned by the ongoing drought which has led to crop failure, dying herds of livestock, and increased food insecurity. Further, with hydropower being the cheapest source of energy in Kenya, poor rains increase energy costs, their effects spilling over to other sectors. The rise of in food and energy prices drove inflation to a five-year high of 10.3% in 2017.~~

~~46. While the medium- to long-term outlook appears favorable, Kenya's economy remains vulnerable to downside risks. These include potential for fiscal slippages, a more prolonged drought in 2017, and external risks from a weaker than expected growth amongst Kenya's trading partners, as well as uncertainties related to US interest rate hikes and the resultant stronger dollar.~~

~~24. The Gross Domestic Product (GDP) grew by 5.6 per cent in 2015 compared to 5.3 per cent growth in 2014. This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and financial and insurance. However, growths in mining and quarrying; information and communication; and wholesale and retail trade decelerated during the same period. Accommodation and food services was the only sector whose growth contracted by 1.3 per cent which was however an improvement from the previous year decline of 16.7 per cent.~~

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Inflation outlook

~~47. Inflation rate in Kenya-based, based on consumer prices, in Kenya increased to 8.04 percent year-on-year in August of 2017, above 7.47 percent in July and market expectations of 7.6 percent. The rise in annual inflation is mainly attributed to higher prices of food, as a consequence of reduced supply. The Consumer Price Index decreased by 0.96 per cent from 185.39 in June 2017 to 183.60 in July 2017. Inflation Rate in Kenya averaged 10.21 percent from 2005 until 2017, reaching an all-time high of 31.50 percent in May of 2008 and a record low of 3.18 percent in October of 2010. In the long-term, the Kenya Inflation Rate is projected to trend around 5.90 percent in 2020, according to our econometric models.~~

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~~48. To keep up with the envisioned level of development and attain the desired economic growth, the county government will create an enabling environment for investment and business. The necessary infrastructure will be provided and maintained for ease of access and transport. Exploration and exploitation of alternative sources of energy will also be promoted to supplement the already strained and overpriced electricity. The county will concentrate on improving the soil quality and fertility for optimal productivity at the same time providing adequate skills to farmers on modern farming technology to reduce overdependence on rain fed agriculture.~~

~~15. Inflation rate in Kenya as measured by Consumer Price Index (CPI) declined from 6.94 per cent in 2014 to 6.6 per cent in 2015 and further to 5.6 by May 2016. The easing of inflation rate was largely due to reduced cost of petroleum products, electricity and tight monetary policies~~

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~~24. Inflation Rate is expected to be 6.50 percent by the end of the first quarter of the FY 2016/2017, according to Trading Economics global macro models and analysts' expectations. Looking forward, we estimate Inflation Rate in Kenya to stand at 5.67 at the end of FY 2016/17. In the long term, the Kenya Inflation Rate is projected to trend around 5.90 percent in 2020, according to our econometric models.~~

~~24. As a county, we remain optimistic of improved performance, in all sectors, as the national economy attained a growth rate of 5.6 percent in 2015 and is projected to grow at a rate of between 6.0 per cent and 7.0 per cent in 2016 and 2017 respectively. Further, inflationary pressures were contained at 5.0 percent in May 2016, and it has been on a steady~~

decline as the short term interest rates of the 91-day Treasury bill was at only 7.5 percent in early June. This gives hope to Nyeri producers as there will be market for their products and also employment for the youth as the national economy continues to expand.

~~18. For our county to partake in economic growth and remain at par, the county will continue to improve the business environment, enhance the quality of transport infrastructure and access to electric energy, reduce dependence on rain-fed agriculture, improve the quality of health care and support the vulnerable segments of our society.~~

S. Medium Term Fiscal Framework (Gibson)

~~49. Over the medium term, the County Government will continue to pursue prudent fiscal policy of rationalizing expenditures. This will be achieved by reorienting expenditures from recurrent to development, thus ensuring that funding to areas with high impact is intensified. The County will seek to improve efficiency and effectiveness in resource utilization, thereby ensuring value for taxpayers' money.~~

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

~~50. The county will also ensure full compliance with the national standards and existing legislations to avoid litigations touching on financial administration and management that may delay development and generate possible sanctions impacting negatively on the county financial systems.~~

~~25.-~~

~~The ongoing implementation of E-procurement for goods and services will improve absorption of developments funds while at the same time ensuring prudence in spending through controlling of government commitments. Additionally, the system will improve cost for government purchasing through increased supplier competition. The E-procurement will ensure prudence in spending by automatically controlling the commitments based on available~~

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~~resources. Further, through the E-procurement, competition among the suppliers will ensure the government gets value for money.~~

51.

52. To address the issue of high wage bill, the county will limit recruitments to only areas with critical needs. Further the existing staff will be rationalized in order to improve productivity. ~~It...~~

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

54. On the revenue side, the County Government intends to increase the contribution of the local revenue to between 120-152 per cent of total county resources envelop. Measures to achieve this deliberate effort will include stepping up efforts to ensure departmental revenue targets are met, development of valuation roll, strengthening of the revenue department through capacity building of staff, and ~~increasing~~enhancing enforcement.

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

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

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

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~~21. Fiscal policy will support growth within a sustainable path of public spending by maintaining the county expenditures within the budget limits. Therefore, moderation in county expenditures will help assure debt sustainability and intergenerational equity in line with the Constitution of Kenya, 2010 and the fiscal responsibility principles in the PFM Act, 2012. Meanwhile, efficiency and economical spending of County Government resources will be enhanced to create room for critical interventions and pro-poor spending.~~

~~22. The county will also ensure full compliance with the national standards and existing legislations to avoid litigations touching on financial administration and management that may delay development and generate possible sanctions impacting negatively on the county financial systems.~~

~~23. The E-procurement will ensure prudence in spending by automatically controlling the commitments based on available resources. Further, through the E-procurement, competition among the suppliers will ensure the government gets value for money.~~

~~24. The county will continue seeking development partners (World Bank and UNDP) support in strengthening county taxation, constitutional implementation and revenue collection. The County Government will continue to provide capacity building to the county personnel on financial management and prudence. Citizens' engagement and public participation will be improved to accelerate good working relations and minimize conflicts in county taxation and revenue collection, legislation and business. Therefore, there is need to enhance business activities, investment, revenue mobilization while focusing more on development agenda and cost reduction.~~

~~25. In the medium term a revenue collection and credit management policy will be developed and enacted. The enforcement team will also be restructured while all the petitioners will be approached to settle issues of misunderstanding out of court for mutual benefit.~~

~~25. Further, in an attempt to reduce the pressures on the budget, the county government will continue to seek external funding from bilateral and multilateral donors such as UNDP, USAID among others, either individually or through the Council of Governors.~~

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AA. Risks to the Fiscal Framework

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

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56. The risk that affect the country’s economy that will have an impact on the performance of the county economy include:

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

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

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The rapid growth of the county wage bill, driven by upward review of the salaries and allowances for staff working in the health sector, will impact negatively on the amount of resources available for development spending.

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

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

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

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—The capacity of the staff in resources management and mobilization, monitoring and evaluation and reporting is a risk to the framework. The government will continue building the

capacity of the staff while enlisting the support of the national institutions in assessing the risk areas in budget implementation.

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

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

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

- The continued weak growth in advanced economies that will impact negatively on Kenya's exports and tourism activities. The main cash crops in the county include coffee, tea and horticulture are mainly for export to the western economies.
- The vulnerability to the Kenya's macroeconomic stability as a result of high current deficit has an effect on sustained economic growth. Low country's economic growth will have a negative impact on the growth of the county economy.

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

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

26. Weak revenue base thereby leading to over reliance on the equitable share from national resources coupled with the uncertainty in the proportion of the county allocation is a major risk to this framework. There is also the risk of low resource absorption mainly caused by delays in releasing of funds from the National Treasury as was the case in the FY 2016/2017.

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26. The capacity of the staff in resources management and mobilization, monitoring and evaluation and reporting is a risk to the framework. The government will continue building the

~~capacity of the staff while enlisting the support of the national institutions in assessing the risk areas in budget implementation.~~

~~26. The county will take appropriate measures to safeguard the stability of the county economy. However, if the above risks materialize, the county shall revise the medium term departmental ceilings during the preparation of the CFSP, 2017.~~

~~26. The continued delay in the enactment of the FY 2016/2017 Appropriation Act will enormously affect budget absorption and thus continued poor performance in development activities.~~

IV. RESOURCE ALLOCATION FRAMEWORK ~~(Gibson)~~

A. Adjustment to 2017/18 Budget

61. The County fiscal framework supporting the FY 2017/18 is based on improved budget execution, and effective fiscal management of the budget, sustained by improved efficiency. In comparisons, we expect ~~more prompt~~ better performance of revenues streams from both local sources and nNational exchequer transfers. This aims at striking an appropriate balance between support for growth and continued fiscal discipline.

62. Considering the tight fiscal position and the assumptions underpinning the medium term fiscal framework for FY 2017/18, we must contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012.

63. Adjustments to the 2017/18 budget will take into account the new administration ~~Governor's~~ agenda and the new government structure in line with section 108(2) of the PFM Act, 2012. This is will include reprioritizing development expenditures in order for the county to live within its means. However resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

64. Any recruitments, promotions and reviews of salaries and benefits for the county public officers will also have an effect on the recurrent budget. This takes into account issues such as the newly signed CBA by the doctors and nurses which has a very big impact on the personal emoluments.

65. The county has identified key strategic directions to accelerate economic growth for social economic transformation and prosperity. The main areas being boosted are agricultural e productivity and improved access to quality health care.

66. Further, adjustment to the budget will be guided by the Annual Development Plan 2017/2018 and departmental strategic plans, as this will ensure that the expenditure rationalization process (prioritization and reprioritization) is aligned to the development agenda of the county. Rationalization of expenditure will be guided by the ~~actual/availed exchequer disbursements~~ approved revenue allocations, envisaged local revenue collection, ~~revised~~

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timeframes for implementation of programmes and emerging issues/concerns. However, county strategic priority areas such as flagship programmes and projects would always have higher allocation of resources.

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

A. Adjustment to 2016/17 Budget

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

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

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

26. The county has identified key strategic directions across all departments to accelerate economic growth for social economic transformation and prosperity. The main areas being supported are agricultural productivity, improved access to quality health care and clean water.

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expanding access to affordable energy, empowering the youth and promoting early childhood education and facilitating infrastructural development

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

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

H.B. Medium-Term Expenditure Framework (MTEF)

68. In strengthening the linkage between planning and budgeting, the ~~M~~Medium-Term Budget ~~F~~Framework for the period 2017/2018-2019/2020 will sustain allocation of resources to core programmes and sub-programmes identified in the Annual Development Plan 2017/2018, county department's sectoral plans priorities as ~~nd~~ enumerated in the CFSP 2017. Heightening of public participation in setting of priorities will ensure increased ownership of development projects and programmes by the public.

69. Resource allocation will continue to be aligned to development programmes under the ~~five~~ five broad areas of the county's economic transformation. The FY 2017/2018-2019/2020 ~~2017/18~~-MTEF Budget will therefore focus on the following:

- Investment in health, through highly motivated staff and availability of medicine and ambulance services, whenever needed, and shifting from curative to preventive services especially for the non-communicable diseases.

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- Increasing production, value addition and guaranteed market for all our agricultural products.
- Creating a conducive business environment that encourages innovation, investment and growth.
- Providing clean domestic and irrigation water for increased food production.
- Improving infrastructure and staffing of the ECDE and Vocational training centers.

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70. In the FY 2017/18 approved budget, the approved budget amounts to Ksh 6,832,716,316 has been projected as the county budget as compared to Ksh 7,282,402,974 in FY 2016/2017. This scenario will change once the adjustments are factored in the supplementary budget.

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

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

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

- ~~Creating a conducive business environment that encourages innovation, investment and growth.~~
- ~~Providing clean domestic and irrigation water to control water borne diseases and increase the area under irrigated farming.~~

~~26. Resources required for these interventions are planned for in the CIDP and ADP 2016-2017. In the FY 2016/17, Ksh 6,464,561,041 has been projected as the county budget up from Ksh 6,277,548,716 in FY 2015/16, which reflects a 2.98 percent increase.~~

MTEF Budget Ceilings

~~71. Reflecting the above medium-term expenditure framework, the table 5 below provides the baseline ceilings for the FY 2016/17, and FY 2017/2018 as per the County Fiscal Strategy Paper (CFSP) 2017.~~

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

~~26. Reflecting on the above medium-term expenditure framework, the table 5 below provides the projected baseline ceilings for the 2016/17-2018/18 MTEF budget, classified by departments including ceilings as per the County Fiscal Strategy Paper (CFSP) 2017.~~

Table 5: MTEF Ceilings by Department.

Department/Spending Unit	2016/2017			2017/2018		
	Recurrent	Development	Total	Recurrent	Development	Total
County Assembly	644,116,905	62,119,967	706,236,872	615,646,678	166,752,846	782,399,524
Office of the Governor	116,023,888	-	116,023,888	103,321,596	52,521,842	155,843,438
County Secretary	256,573,837	7,300,000	263,873,837	210,325,487	-	210,325,487
Public Administration, Information and Communication	417,622,749	41,921,693	459,544,442	399,027,939	40,752,846	439,780,785
Finance and Economic Planning	395,486,381	65,990,676	461,477,057	298,247,258	269,990,676	568,237,934
Agriculture, Livestock Development and Fisheries Development	303,800,122	94,022,556	397,822,678	299,797,276	109,798,236	409,595,512
Water, Forestry and Wildlife, Environment and Natural Resources	130,682,141	200,003,383	330,685,524	126,191,295	186,281,305	312,472,600
Education ICT Trade and Industrialization	276,950,526	275,020,608	551,971,134	272,197,680	197,773,538	469,971,218
Health Services and Sanitation	2,028,029,310	466,561,273	2,494,590,583	1,912,544,428	410,915,722	2,323,460,150
Lands and Physical Planning	65,276,469	49,154,519	114,430,988	52,593,623	101,752,846	154,346,469
Roads and Infrastructure	59,708,366	847,982,353	907,690,719	57,955,520	447,746,839	505,702,359

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Development						
Tourism and Culture	29,340,615	14,854,339	44,194,954	13,983,357	27,837,185	41,820,542
Special Programmes	113,360,560	118,000,000	231,360,560	111,607,714	119,752,846	231,360,560
Energy	103,949,019	61,978,490	165,927,509	102,096,173	83,731,336	185,827,509
County Public Service Board	36,572,229	-	36,572,229	34,819,383	6,752,846	41,572,229
Total	4,977,493,117	2,304,909,857	7,282,402,974	4,610,355,407	2,222,360,909	6,832,716,316

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Department/ Spending Unit	2016/2017	2017/2018	Total
	Recurrent	Development	
County Assembly	644,116,905	62,119,967	706,236,872
Office of the Governor	116,023,888	-	116,023,888
County Secretary	256,573,837	7,300,000	263,873,837
Public	417,622,749	41,921,694	459,544,443

Administration, Information and Communication		3	5	39	0	0,785
Finance and Economic Planning	395,486,381	65,990,676	4	298,247,258	2	568,237,934
Agriculture, Livestock Development and Fisheries Development	303,800,122	94,022,556	3	299,797,276	1	409,595,512
Water, Forestry and Wildlife, Environment and Natural Resources	130,682,141	200,003,383	3	126,191,295	1	312,472,600
Education-ICT Trade and Industrialization	276,950,526	275,020,608	5	272,197,680	1	469,971,218
Health Services and	2,028,029,310	466,561,273	2	1,912,544,428	4	2,323,460,150

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Sanitation			949		949
Lands and Physical Planning	65,276,469	49,154,519	52,593,623	154,346,469	
Roads and Infrastructure Development	59,708,366	847,982,353	57,955,520	505,702,359	
Tourism and Culture	29,340,615	11,854,339	13,983,357	41,820,542	
Special Programmes	113,360,560	118,000,000	111,607,714	231,360,560	
Energy	103,949,019	61,978,490	102,096,173	185,827,509	

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County Public Service Board	36,572,229	-	34,819,383	41,572,229	
Total	4,977,493,117	2,304,909,857	4,610,355,407	6,832,716,316	
Department/Spending Unit	2016/2017				
	Recurrent		Total	Development	Total
County Assembly	644,116,905		706,236,872	166,752,846	782,399,524

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Office of the Governor	116,023,888	-	116,023,888	1 0 3 3 2 1 5 9 6	52,521,842	155,843,438
County Secretary	256,573,837	7	263,873,837	2 1 0 7 3 2 5 4 8 7	-	210,325,487
Public Administration, Information and Communication	417,622,749	4 1	459,544,442	3 9 9 7 9 3 9	40,752,846	439,780,785
Finance and Economic Planning	395,486,381	6 5 9 9 0 7 6 7 6	461,477,057	2 8 8 7 2 7 2 5 8	269,990,676	568,237,934
Agriculture, Livestock Development and Fisheries Development	303,800,122	9 4 0 2 2 5	397,822,678	2 9 9 7 9 7	109,798,236	409,595,512

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Water, Forestry and Wildlife, Environment and Natural Resources	130,682,141	2 0 0 7 0 0 3 3 8 2	330,685,524	1 2 6 1 9 2 9 5	186,281,305 312,472,600
Education ICT Trade and Industrialization	276,950,526	2 7 5 7 0 2 0 7 6 0 8	551,971,134	2 7 2 7 1 9 7 6 8 0	197,773,538 469,971,218
Health Services and Sanitation	2,028,029,310	4 6 6 7 5 6 1 7 2 7 3	2,494,590,583	1 7 9 1 2 7 5 4 4 2 8	410,915,722 2,323,460,150
Lands and Physical Planning	65,276,469	4 9 1 5 4 7 5 1 9	114,430,988	5 2 1 5 9 3 7 2 3	101,752,846 154,346,469
Roads and Infrastructure Development	59,708,366	8 4 7 9 8 2 1 3	907,690,719	5 7 7 9 5 5 1 2	447,746,839 505,702,359

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Tourism and Culture	29,340,615	+ 4	44,194,954	+ 3	27,837,185	41,820,542
Special Programmes	113,360,560	+ 8	231,360,560	+ 4	119,752,846	231,360,560
Energy	103,949,019	+ 6	165,927,509	+ 0	83,731,336	185,827,509
County Public Service Board	36,572,229	- 3	36,572,229	- 4	6,752,846	41,572,229
Total	4,977,493,117	2	7,282,402,974	4	2,222,360,909	6,832,716,316

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Source: County Treasury, 2017

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~~Financial Year The County budget for Financial Year 2017/18 was prepared by the County Department of Finance and Economic Planning before being submitted to the County Assembly for approval.~~

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C. 2017/18 Budget framework

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~~28. The County budgets for Financial Year 2016/17 and 2017/2018 were prepared by the County Department of Finance and Economic Planning in consultation with various department and relevant stakeholders before being submitted to the County Assembly for approval.~~

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CC. 2016/17 Budget framework

~~72. The FY 2017/18 budget framework is set against the background of the updated medium-term framework. The county economy is expected to be boosted by increased investment through creation of a conducive environment for investment. Inflation is also expected to remain low and stable, reflecting stable food and oil prices as well as low cost of doing business.~~

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~~31. The FY 2016/17 budget framework is set against the background of constrained resources. The county economy is expected to be boosted by increased investment in key infrastructure through public private partnerships in various sectors. Inflation is also expected to remain low and stable, reflecting stable food and oil prices as well as low cost of doing business.~~

Revenue projections

~~73. The 2017/2018 approved budget of Kshs. 6,832,716,316 will be financed through the equitable share from the national resources with an allocation of Kshs. Kshs. 4,965,660,256. Conditional grants of Kshs. 620,561,752 and internally generated revenue estimated at 1,000,000,000 and balance brought forward from the 2016/2017 financial year of Kshs. 246,494,308. The main sources of internally generated revenue will be parking fees, single business permits and land rates.~~

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

Expenditure Forecasts

~~74. In FY 2017/2018 approved budget, recurrent expenditures are at 67.47 percent of county's annual budget, Ksh 4,610,355,407 as compared to 68.35 for the FY 2016/17 budget. Development expenditures are at 32.53 percent of county's annual budget, Ksh 2,222,360,909 as compared to Kshs 31.65 for the FY 2016/17 budget on account of devoting more resources to development as required by the PFM Act.~~

~~75. Expenditure ceilings on goods and services for departments are based on allocations in the FY 2016/17 budget as the starting point. Stringent measures need to be put in place to ensure more resources are allocated to development expenditure over the medium term for attainment of the PFM Act, 2012 minimum requirement of thirty percent. Most of the outlays are expected to support critical infrastructure.~~

~~33. In FY 2016/17, recurrent expenditures are projected at 69.97 percent of county's annual budget, i.e. Ksh 4,523,200,390 as compared to Kshs 4,419,610,949 for the FY 2015/16 budget. Development expenditures are projected at 30.03 percent of county's annual budget, Ksh 1,941,360,651 as compared to Kshs 1,857,937,767 for the FY 2015/16 budget on account of devoting more resources to development as required under the PFM Act.~~

~~33. Expenditure ceilings on goods and services for departments are based on allocations in the FY 2015/16 budget as the starting point. Stringent measures need to be put in place to ensure more resources are allocated to development expenditure over the medium term for attainment of the PFM Act, 2012 minimum requirement of thirty percent. Most of the outlays are expected to support critical infrastructure.~~

V. CONCLUSION AND NEXT STEPS

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35.76. The ~~proposed ceilings approved budgets~~ for the departments and other county units during the FYs 2017/2018 ~~2019/2020~~ are based on the approved County Fiscal Strategy Paper, 2017~~6~~. However, with the enactment of ~~CARAT and the County Government Budgeting and Accounting Act, 2017, the County Government has adopted a new government structures and the administration priorities.~~

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

77.

~~36.~~ Going forward, the set of policies outlined in this document ensures continuity in optimal resource allocation based on prioritized programs that have been earmarked by the government to accelerate growth, create employment and poverty reduction.

78.

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