REPUBLIC OF KENYA **EMBU COUNTY GOVERNMENT**

FINANCE & ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision

A prosperous County with Equal Opportunities for all

Mission

To ensure effective resource mobilization and optimization for Wealth and Job Creation

OCTOBER 2018

Foreword

The County Budget Review and Outlook Paper (CBROP) 2018 is prepared in accordance with the Public Financial Management Act, 2012 section 118. It is prepared against a backdrop of economic recovery domestically which is projected to grow by 6.0 percent in 2018 from 4.9 percent in 2017. This growth is mainly being supported by agricultural and manufacturing related activities emanating from improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments.

The County is on a trajectory path of growth mainly supported by agricultural activities. This is as a result of the improved weather conditions that greatly influence production. Crop production and dairy farming have contributed largely to the growth as a result of the huge percentage of households engaged in agriculture which currently stands at around 80 percent.

This paper details the actual fiscal performance in the financial year 2017/18 compared to the budget appropriation for that year. The updated macroeconomic outlook therein also provides us with a basis to revise the 2018/19 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the County Fiscal Strategy Paper (CFSP) for FY 2018/19.

The paper covers the following broad areas in review of the fiscal performance of financial year 2017/2018; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes.

The fiscal performance for the FY 2017/18 was satisfactory despite underperformance in local revenue collections as well as expanding expenditure pressures. The FY 2017/18 was particularly challenging because of the prolonged elections in 2017 as well as implementing the Collective Bargaining Agreements (CBAs) which affected the overall expenditure.

We are committed to maintain the trend of economic growth and development in line with the expectations and commitments we have made to the people of Embu County.

MR JOHN NJERU NJAGI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

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

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

(1) A County Treasury shall:

- (a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
- (b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

- (a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- (b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
- (c) Information on:
  - (i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or
  - (ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
- (d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

- (a) Arrange for the Paper to be laid before the County Assembly; and
- (b) As soon as practicable after having done so, publish and publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government's recurrent expenditures shall not exceed the county government's total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained prudently; and

7) 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.

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Abbreviations

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

I. INTRODUCTION

Objective of BROP

The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

The BROP is a key document in linking policy, planning and budgeting. This year's BROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2018/2019 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2019/20. However, following the fiscal outcome of 2016/17 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2017/18 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in October 2017. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2017/18

A. Overview

The fiscal performance in 2017/18 was fairly satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures with limited structures in the county. The County had an approved budget estimate of Ksh. 6,208,296,987 against an actual amount of Ksh. 5,603,210,056 representing 90.55 percent of the overall budgeted amount. This impacted on the overall expenditure amount since there was a 9.75 percent shortfall. The equitable share from the national treasury was Ksh. 4,107,200,000 which was fully funded. There was a huge shortfall on local ordinary revenue collection with a deficit of Ksh. 407,138,515 representing 62.3 percent while Appropriation in aid (AiA) had a deficit of Ksh 55,477,669 representing a shortfall of 22.51 percent. Table 1 provides a summary of the revenue basket.

Table 1: Summary of Revenues for FY 2017/18

Revenue	Approved	Actual	Deviation	% Deviation
Equitable Share (Kshs.)	4,107,200,000	4,107,200,000	-	0.00%
Level 5 Hospitals (Kshs.)	301,040,462	301,040,462	0	0.00%
CA-Development of Youth Polytechnics	40,907,922	40,907,922	-	0.00%
CG-Compensation for User Fees Forgone	10,724,225	5,388,304	5,335,921	49.76%
CG-Leasing of Medical Equipment	95,744,681	-	95,744,681	100.00%
CG-Road Maintenance Fuel Levy Fund	163,522,813	163,522,813	-	0.00%
CG-Kenya Development Support Programme (KDSP)	37,912,879	37,912,879	-	0.00%
CA-World Bank-Universal Care Project	32,000,000	10,000,000	22,000,000	68.75%
CG-Kenya Urban Support Programme	20,000,000			
CA-World Bank-National Agricultural and Rural Inclusive Growth Project (NARIGP)	50,000,000	50,609,855	(609,855)	-1.22%
CG-DANIDA	17,175,467	17,175,467	-	0.00%
Local Sources	653,490,000	246,351,485	407,138,515	62.30%
Appropriation in Aid	246,510,000	191,032,331	55,477,669	22.51%
Unspent Balances 2016/2017(County Assembly) –Captured in budget 2017/2018	22,180,218	22,180,218	-	0.00%
Unspent Balances 2016/2017(Closing Balances for FY 2016/17)	409,888,320	409,888,320	-	0.00%
TOTAL (Kshs.)	**6,208,296,987**	**5,603,210,056**	**605,086,931**	**9.75%**

B. 2017/18 Fiscal Performance

The county had an approved recurrent expenditure of 4,350,075,221.60 against the actual amount of 3,981,864629.74 with a deficit of 368,210,591.85 which represents a short fall of 8.46%. The County Assembly had the highest absorption rate at 99.06 percent.

The county development expenditure had an approved budget of 1,858,221,765 against the actual amount which amounted to 1,090,526,088 giving a deviation of 767,695,677 equivalent to 41.31% shortfall. Table 2 presents the fiscal performance for the FY 2017/18 and the deviations from the approved estimates against the actual expenditure.

Table 2: Summary of Approved Budget Estimates by Department FY 2017/18

Portfolio/Department	Approved	Actual	Deviation	%Deviation
Recurrent Expenditure				
Total	**4,350,075,221.60**	**3,981,864,629.74**	**368,210,591.85**	**8.46%**
Office of the Governor	336,418,007.00	301,001,030.00	35,416,977.00	10.53%
Finance and Planning	177,625,719.00	110,951,577.00	66,674,142.00	37.54%
Education Science & Technology	338,301,290.00	318,434,813.00	19,866,477.00	5.87%
Health	1,703,998,293.60	1,639,190,670.20	64,807,623.40	3.80%
Infrastructure, Public Works and Housing	61,260,081.00	56,959,871.00	4,300,210.00	7.02%
Youth Empowerment & Sports	16,025,643.00	8,596,655.00	7,428,988.00	46.36%
Trade, Tourism, Investment and Industrialization	31,070,326.00	19,852,594.60	11,217,731.40	36.10%
Agriculture, Livestock, Fisheries and Cooperative Development	262,217,775.00	242,500,186.00	19,717,589.00	7.52%
Water, Environment and Natural Resources	49,414,821.00	44,573,960.00	4,840,861.00	9.80%
Lands, Physical Planning and Urban Development	127,771,909.00	78,242,180.00	49,529,729.00	38.76%
Gender, Children, Culture and Social Services	13,885,199.00	7,722,217.00	6,162,982.00	44.39%
Public Service & Administration	419,757,930.00	403,771,032.00	15,986,898.00	3.81%
County Public Service Board	40,620,578.00	36,455,612.00	4,164,966.00	10.25%
County Assembly	485,937,461.00	481,375,731.94	4,561,729.06	0.94%
Level 5 Hospital	285,770,189.00	232,236,500.00	53,533,689.00	18.73%
Development Expenditure				
Total	**1,858,221,765**	**1,090,526,088**	**767,695,677**	**41.31%**
Office of the Governor	-	-	-	-

Portfolio/Department	Approved	Actual	Deviation	%Deviation
Finance and Economic Planning	84,500,000	50,350,597	34,149,403	40.41%
Education Science & Technology	128,991,186	70,240,948	58,750,238	45.55%
Health	148,489,442	83,398,256	65,091,186	43.84%
Infrastructure, Public Works and Housing	694,609,665	461,109,014	233,500,651	33.62%
Youth Empowerment and Sports	84,649,912	26,723,562	57,926,350	68.43%
Trade, Tourism, Investment and Industrialization	53,614,974	20,735,622	32,879,352	61.32%
Agriculture, Livestock, Fisheries and Cooperative Development	89,067,427	49,256,184	39,811,243	44.70%
Water, Environment and Natural Resources	72,442,513	56,296,213	16,146,300	22.29%
Lands, Physical Planning and Urban Development	208,600,000	153,151,389	55,448,611	26.58%
Gender, Children, Culture and Social Services	53,795,970	14,816,048	38,979,922	72.46%
Public Service & Administration	2,500,000	-	2,500,000	100.00%
County Public Service Board	-	-	-	-
County Assembly	25,000,000	-	25,000,000	100.00%
Level-5	211,960,676	104,448,255	107,512,421	50.72%

Source: Embu County Treasury

Local Revenue Performance 2017/18

Total ordinary local revenue collections amounted to Ksh. 246,351,485 compared to a target of Ksh 653,490,000 which represents a revenue shortfall of Ksh. 407,138,515 that is under collection by 62.3 percent. The underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. However, land and plot rates formed the single largest deviation amounting to Ksh. 186,845,888 at 91.81 percent. This was as a result of having not fully operationalized the valuation roll. Single business permit also had a shortfall of Ksh. 42,425,682 which represents a shortfall of 34.86 percent. It also notable that the advertisement stream had a huge increment over the set target at Ksh. 6,989,305 representing 47.27 percent. Table 3 provides a breakdown of revenue streams for the FY 2017/18.

Table 3: Revenue Streams for FY 2017/18

Revenue Stream	FY 2017/18			
	Approved	Actual	Deviation	%Deviation
Total	**653,490,000**	**246,351,485**	**407,138,515**	**62.30%**
Single Business permit	121,703,142	79,277,460	42,425,682	34.86%
House Stall	13,867,680	18,880,855	-5,013,175	-36.15%
Market Fees	80,488,584	20,051,304	60,437,280	75.09%
Street and Bus Parking Fees	82,726,575	29,831,400	52,895,175	63.94%
Cess	92,937,560	49,365,334	43,572,226	46.88%
Land rates and Plot rates	203,520,893	16,675,005	186,845,888	91.81%
Enforcement	2,404,396	1,002,940	1,401,456	58.29%
Technical Planning Fees	9,956,539	4,687,350	5,269,189	52.92%
Advert Fees	14,785,950	21,775,255	-6,989,305	-47.27%
Slaughter Fees	1,507,523	913,800	593,723	39.38%
Miscellaneous	28,006,818	3,247,992	24,758,826	88.40%
Stock Auction Fees	792,170	601,830	190,340	24.03%
Water Charges	792,170	40,960	751,210	94.83%

Source: Embu County Treasury

The approved target for Appropriation in Aid was Ksh. 246,510,001 compared to the actual collection at Ksh. 191,032,331 which represents a shortfall of Ksh. 55,477,670 equivalent to 22.51 percent. Table 4 shows a breakdown of Appropriation in Aid for the various portfolios.

Table 4: Appropriation in Aid

Name of the Sector	FY 2017/18			
	Approved	Actual	Deviation	%Deviation
Total	**246,510,001**	**191,032,331**	**55,477,670**	**22.51%**
Trade, Tourism, Investment and Industrialization	24,484,953	20,548,068	3,936,885	16.08%
Lands, Environment, Water and Natural Resources	15,407,481	1,834,190	13,573,291	88.10%
Agriculture, Livestock, Fisheries and Cooperative Development	3,834,966	5,347,356	-1,512,390	-39.44%
Health	182,752,876	163,258,717	19,494,159	10.67%
Gender, Children, Culture and Social Services	770,374	44,000	726,374	94.29%
Youth and Empowerment and Sports	3,851,870	0	3,851,870	100.00%
Infrastructure, Public Works, Housing and Energy	15,407,481	0	15,407,481	100.00%

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

The Kenyan economy is on a recovery path and is projected to recover to 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent in the 2018 Budget Policy Statement. This strong growth momentum is reflected in the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The outlook is supported by a pickup in agricultural and manufacturing activities due to improve weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country.

Indeed, Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. In February, 2018, Fitch Ratings revised the Outlook on Kenya's Long-Term Foreign- and Local-Currency Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDRs at 'B+'. In addition, Kenya successfully issued a US$ 2.0 billion Euro bond split into 10yr and 30yr Tenors in February 22, 2018.

The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall year on year inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by Government. This decline reflected a decrease in food prices which outweighed the rise in international oil prices.

The foreign exchange market remains stable supported by a narrower current account deficit. The current account deficit narrowed to 5.8 percent of GDP in the 12 months to June 2018 from 6.4 percent over the same period in 2017 reflecting strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts. The strong capital inflows has also led to the stabilization of the shilling in the foreign exchange market and also allowed accumulation of international reserves. The usable official reserves stood at US$ 8,652 billion or 5.8 months of imports by end August 2018.

Medium Term Economic Outlook

Global Growth Outlook

Global economic activity continues to firm up with output strengthening by 3.7 percent in 2017 from 3.2 percent in 2016, supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. This growth momentum is expected to reach 3.9 percent in 2018 and 2019, reflecting improving domestic demand in advanced economies and China, accommodative financial conditions and improved performance in other emerging market economies. In addition, the partial recovery in commodity prices should allow conditions in commodity exporting countries to gradually improve

In advanced economies, growth is expected to remain at 2.4 percent in 2017 and 2018 reflecting stronger prospects for the euro area and Japan and especially the projected domestic and spillover effects of expansionary fiscal policy in the United States. Growth in emerging market and developing economies is expected to increase further from 4.7 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019 reflecting improved prospects for commodity exporters after three years of very weak economic activity.

Similarly, growth in Sub-Saharan Africa is projected to pick up to 3.4 percent in 2018 from 2.8 percent in 2017, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption.

Domestic Growth Outlook

On the domestic scene, the economy is on a recovery path as reflected by the leading economic indicators for the second quarter of 2018 and the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The economic outlook is supported by continued strengthening of the global economy, a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country.

Given the above developments the growth outlook for 2018 has been revised upward to 6.0 percent from the 5.8 percent as earlier projected in the 2018 Budget Policy Statement (BPS).

Going forward in terms of fiscal years, the economic growth is projected at 6.2 percent in the FY 2019/20 and 6.9 percent over the medium term due to investments in strategic areas under the "Big Four" plan, namely: increasing the share of manufacturing sector to GDP to 15 percent by 2022; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units by 2022. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

Monetary Policy Outlook

Overall month on month inflation has been below the 5.0 percent target for the first eight months of 2018. However, higher domestic fuel prices due to the recent increase in international oil prices, and the impact of the excise tax indexation on prices of some of the CPI items are expected to exert moderate upward pressure on inflation in the near term.

Nevertheless, overall inflation is expected to remain within the target range mainly due to expectations of lower food prices reflecting favorable weather conditions and the continued prudent monetary policy measures that will moderate demand-driven inflationary pressures. Further, the stability of the Kenya exchange rate will reinforce the price stability objective and keep inflation within the Government target range in the remainder period of the fiscal year and in the medium term.

The main risks to inflation remain adverse weather that affects agricultural production and their prices, and potential volatility in international oil prices.

The close coordination of fiscal and monetary policies will continue to delivering on price stability and reduction in cost of doing business in the country.

External Sector Outlook

The Shilling is expected to be stable in 2018 on account of a narrower current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow from 6.4 percent of GDP in 2017 to 5.4 percent of GDP in 2018 largely due to lower imports of food and inputs for phase II of the SGR project, steady growth in tea and horticulture exports, strong diaspora remittances, and continued growth in tourism receipts.

The main risks to the foreign exchange market in 2018 relate to continued uncertainties in the global financial markets with regard to the pace of normalization of monetary policy in advanced economies especially in the U.S. and the Brexit resolution. Nevertheless, the foreign exchange reserves will continue to provide an adequate buffer against short term shocks in the foreign exchange market.

Fiscal Policy Outlook

Fiscal policy over the medium-term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position by narrowing the budget deficit and at the same time supporting the devolved system of Government for effective delivery of services.

Over the medium term, driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is expected to rise to about 18.6 percent of GDP by FY 2021/22 from 16.5 percent of GDP in FY 2017/18. Expenditures will decline gradually from 24.2 percent of GDP in FY 2017/18 to 22.0 percent of GDP in FY 2021/22 due to continued austerity measures instituted on less productive areas of spending across the Government.

As a result, the overall budget is projected to gradually decline from the 6.7 percent of GDP (target was 7.2 percent) in FY 2017/18 to 5.7 percent of GDP in FY 2018/19, to 4.6 percent of GDP in FY 2019/20 and below 3.1 percent of GDP by FY 2021/22. This is in line with the fiscal consolidation programme that targets a deficit of 3.0 percent of GDP by FY 2022/23.

Risks to the Domestic Economic Outlook

This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

The main risk to the county outlook remains the challenges associated with the timely release of resources from the National Government to the Counties and the expected reduction of the county equitable by the national Government. The observed delays in effecting the transfer of funds to the County will definitely affect the performance and if the equitable is reduced the development budget will suffer adversely. However, the county shall engage the concerned institutions for timely release of funds.

Secondly, the county revenue projections are subject to a number of general risks that can affect collections. These include resistance that may arise from County Finance Bill, 2018, tax evasion and avoidance, weak revenue administrative structures and significant fluctuations in major revenue sources due to changes in the economic environment. The county has procured a consultant to automate all the revenue streams and it's anticipated that most challenges associated with revenue collection will be addressed in due course.

The County Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2018/19 Budget

The Medium Term Fiscal Framework (MTFF) for the FY2018/19 emphasizes on efficiency and effectiveness of public spending and improving revenue collection while at the same time supporting rapid and inclusive economic growth. The implementation of the FY 2018/19 budget is experiencing challenges particularly on revenue collection and unfavorable macro and microeconomic environment.

Adjustments to the 2018/19 budget will focus on implementing projects supporting inclusive economic growth, while focusing on the six priority areas as outlined in the governors manifesto. The resources earmarked for development purposes will be utilized in the six priority areas which include provision of accessible and affordable health care services, promotion of value addition on Agricultural produce, development of infrastructure, promotion of green energy, ICT/ Business process outsourcing and affordable and inclusive financial services

In relation to revenue, with automation, the local revenue is expected to rise while more focus should be directed to Appropriation in Aid (AiA). Close monitoring of revenue streams and sealing of loopholes is essential in order to maximize revenue collection and minimize any leakages. Over the years there has been under performance in AiA collection and more effort should be redirected to enhance revenue.

The proposed county M&E policy intends to support the creation of structures and M&E units for effective and efficient implementation of projects and programmes. This will help monitor implementation of both donor and county funded projects.

B. Medium-Term Expenditure Framework,

The County has a draft County Integrated Development Plan (CIDP) for the year 2018 -2022 in place that has guided and will continue to guide the county on the development plans for the period.

Revenue Projections: In the FY 2019/20 revenue collection including Appropriation-in-Aid (AiA) is projected to increase to Ksh 1,045 million up from Ksh 950 million in the FY 2018/19.

Expenditure Projections: In FY 2018/2019 budget, the overall expenditure amounts to Ksh 6.4 billion. These expenditures comprises of development of Ksh 1.9 billion (30.01 percent) and recurrent of Ksh 4.5 billion (69.99 percent) comprising of Ksh 3.1 billion remuneration (48.52 percent) and Ksh 1.4 billion (21.47 percent) operations.

The priority sectors of Health, Education, youth empowerment & sports, Infrastructure, Public works, Housing & Energy and Agriculture, livestock, Fisheries & cooperative development will continue to receive the larger share of resources. These sectors will drive the economic growth either directly as drivers or indirectly as enablers. They are receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently.

Health sector has been allocated the largest share of resources in FY 2018/19 accounting for 31.39% of the development expenditure in its quest to provide universal health coverage. The sector focus operationalizing the various sections through equipping and placing the human resource so as to overcome the challenges of shortage of qualified health personnel and on time delivery of medicines and medical supplies. The sector remains a key social sector and aims at guaranteeing quality and affordable health care.

The Education, Youth Empowerment and Sports sector is expected to receive 11.57% of the county development expenditure for the FY 2018/19 in its quest to provide basic education and impact technical still to the youth. Under basic education the sector focuses on construction, refurbishment and equipping of ECDE classes. Under youth empowerment and sports, it aims at nurturing the youth and supporting their education and talents through provision of better learning institutions and providing them startup capital through Youth Trust Fund.

Infrastructure, Public works, Housing & Energy sector is expected to receive 10.60% of the county development expenditure for the FY 2018/17. The Government's will focus on improving transport infrastructure (both by improving infrastructure within the county as well as links to the county). This will improve market accessibility hence facilitating ease of doing business within and outside the county. Substantial Government spending on infrastructure as an enabler in the economic growth alongside private investment flows will unlock growth potential

The Agriculture, Irrigation, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector is expected to receive 7.41% of the county development expenditure for the FY 2018/19. The sector contributes up to 80% of the County's economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. Owing to improved weather patterns experienced and expected agricultural production has benefited and may fuel economic growth.

Agricultural value addition has also been identified as having the potential to act as a catalyst for the take-off of county's industrial sector and also to consolidate the benefits due to good weather and ensure improved incomes for the farmers. Agri-business initiatives have received support from the Government. The Government is keen on targeting the youth who are increasingly considering it as a viable commercial venture.

Reflecting the medium-term expenditure framework, the table 5 provides the tentative projected baseline ceilings for the 2018 MTEF by sector.

Table 5: Total Expenditure Projections

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2018/19	2019/20	2020/2021	2021/22
Office of the Governor	159,374,925	175,312,418	192,843,659	212,128,025
Finance and Economic Planning	154,505,312	169,955,843	186,951,428	205,646,570
Education, Youth Empowerment and Sports	744,889,364	819,378,300	901,316,130	991,447,743
Health	2,021,709,849	2,223,880,834	2,446,268,917	2,690,895,809
Infrastructure, Public Works, Housing and Energy	682,669,299	750,936,229	826,029,852	908,632,837
Investment, Industrialization, Trade and Tourism	116,484,144	128,132,558	140,945,814	155,040,396
Agriculture, Livestock, Fisheries and Cooperative Development	477,007,892	524,708,681	577,179,549	634,897,504
Water, Irrigation, Environment and Natural Resources	218,291,395	240,120,535	264,132,588	290,545,847
Lands, Physical Planning and Urban Development	195,795,494	215,375,043	236,912,548	260,603,803
Gender, Culture, Children and Social Services	71,998,254	79,198,079	87,117,887	95,829,676
Public Service and Administration	495,505,208	545,055,729	599,561,302	659,517,432
County Public Service Board	34,130,089	37,543,098	41,297,408	45,427,148
County Assembly	637,744,226	701,518,649	771,670,513	848,837,565
Embu Level 5 Hospital	430,448,547	473,493,402	520,842,742	572,927,016
Total	**6,440,553,998**	**7,084,609,398**	**7,793,070,338**	**8,572,377,371**

C. 2018/19 Budget Framework

The 2018/19 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The expected performance growth across all the sectors assumes normal weather pattern, good political environment, stable macro-economic environment and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

The strategic priorities for the current budget are infrastructural development, access to health services, promotion of competitive agriculture through irrigation and sustainable livestock sub-sectors and access to clean and safe drinking water. The development expenditure of these sectors will create employment as well as generate revenue.

Revenue projections

The County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2018/19 budget target for revenue collection is expected to be Ksh. 950,000,000 which represents a 22% increase from Ksh. 839,779,876 to Ksh. 950, 000,000.

With the expected unfavorable macro-economic environment in the year, due to increased taxation especially on Value added tax (VAT of 8% on fuel) the county economic growth will be slowed hence this might affect the revenue collection. Table 6 highlights the various revenue streams and their expected target over the medium term period.

Table 6: Revenue Projections 2017/18 – 2020/21

REVENUE STREAMS	APPROVED BUDGET	PROJECTIONS		
	2018/19	**2019/2020**	**2020/21**	**2021/22**
Single Business Permit	110,000,000	121,000,000	133,100,000	146,410,000
House Stall	12,000,000	13,200,000	14,520,000	15,972,000
Market Fees	25,000,000	27,500,000	30,250,000	33,275,000
Parking Fees	18,000,000	19,800,000	21,780,000	23,958,000
Cess	65,000,000	71,500,000	78,650,000	86,515,000
Land Rates	369,770,000	406,747,000	447,421,700	492,163,870
Enforcement	2,500,000	2,750,000	3,025,000	3,327,500
Tech. Fees	25,000,000	27,500,000	30,250,000	33,275,000
Admin. Fees	10,000,000	11,000,000	12,100,000	13,310,000
Advert Fees	2,500,000	2,750,000	3,025,000	3,327,500
Slaughter Fees	3,600,000	3,960,000	4,356,000	4,791,600
Miscellaneous	6,500,000	7,150,000	7,865,000	8,651,500
Stock Fees	3,200,000	3,520,000	3,872,000	4,259,200
Water Charges	420,000	462,000	508,200	559,020
Appropriation in Aid	296,510,000	326,161,000	358,777,100	394,654,810
TOTAL	**950,000,000**	**1,045,000,000**	**1,149,500,000**	**1,264,450,000**

Expenditure Forecasts

The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan, which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments. In addition, all planning is expected to be inspired by the Kenya Vision 2030 and be aligned to the second Medium Term Plan of Kenya Vision 2030.

In agriculture, the county government will prioritize on value addition of cereals, legumes and animal produce. Improved and efficient crop production is being enhanced through irrigation projects and improved certified seeds for continued and sustained crop production. Completion of ongoing projects as well as construction of milk processing plant will form priority of the sector.

In Infrastructure, improvement of road network in the county by constructing 15km bitumen standard roads still remain the priority as it was in financial year 2017/18 . Further construction of around 300km out of the projected 500km is ongoing as well as grading and regular maintenance of all the feeder roads in the county.

In trade, tourism and investment sector, the county government will continue to establish proper marketing strategy aimed at opening up of some key tourist destinations. In the health sector, the county will prioritize on completion of health facilities, equipping, staffing. At level 5 hospital construction of OPD and casualty complex will form the priority of health sector too. In Education, youth empowerment and sports priorities will include adequately equipping of VTCs and construction/ completion/ renovation of ECDE classes, provision of bursaries to enhance retention and completion rates for those in higher education facilities. To further create jobs in IT the county will support and facilitate online jobs.

In Finance and planning sector, the county continues to implement strategies to enhance revenue collections and strengthening of Monitoring & Evaluation.

V. CONCLUSION AND NEXT STEPS

In the FY 2018/2019 the county is forcing on Health, infrastructure, Agribusiness and proper environmental management to ensure inclusive sustainable growth and development. Going forward, the set of policies outlined will focus on supporting "*Big 4 Agenda*". In order to support this agenda the agriculture department has received support from national government through NAGRIGP project to support agricultural development. The county is also developing infrastructure to support and attract investors in manufacturing sector in the county.