REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYANDARUA

THE COUNTY TREASURY

NYANDARUA COUNTY FISCAL STRATEGY PAPER (CFSP) FOR

2017/18FY AND THE MEDIUM TERM

JANUARY 2017

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FOREWORD

The County Fiscal Strategy Paper (CFSP) highlights policy priorities of the County Government of Nyandarua for implementation over the medium term. The policies includes five transformative pillar strategies focusing on: (i) Continuous improvement of the infrastructural facilities to transform the County economy; (ii) Investing in quality and accessible health care services and quality education; (iii) Offering quality and accessible services to the people; (iv) Improvement in resource mobilisation for sustained development; (v) Tapping the under exploited and un exploited resources.

The County is dependent on the economic performance of the globe and Kenya and is therefore hooked on the formulation and implementation of practical strategies and policies on the basis of the global and Country's economic performance. Kenya's economy continues to be robust and elastic, basically as a result of effective structural reforms and reliable economic policies. On the same note, Nyandarua County is operating on a generally stable macroeconomic environment appropriate for attaining the stated policy priorities and better service delivery. Thus, it is prudent to have a strong economic underpin and fiscal discipline to aid in the creation and proper utilization of resources. The CFSP outlines the Medium-Term Fiscal Framework, which offers mechanisms for entrenching sustainable growth and development for efficient service delivery in Nyandarua County. This calls for openness, transparency, accountability, responsiveness, and abiding by the rule of law to facilitate fiscal discipline and maintain macroeconomic stability.

The main sources of County revenue in the medium term will be equitable share from National Government, local revenue collections and donor funding. In the 2017/18 FY and the medium term, the County Government proposes a series of measures to increase revenue and balance its fiscal spending. The County will thus focus on strengthening the potential it is endowed with to stimulate economic growth and development. The County Government's fiscal policies in 2017/2018 will focus on re-orientation of expenditure from recurrent to development.

This paper therefore puts into perspective how the County anticipates to expend its scarce resources in the 2017/18 FY and the medium term.

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ACKNOWLEDGEMENTS

This paper is a buildup of the County Budget Review and Outlook Paper (CBROP) 2016 and provides a fiscal framework for implementation of the 2017/2018 budget and medium term. It presents the broad strategic macroeconomic issues and fiscal framework, alongside a summary of Nyandarua County's spending plans. The expected outcome of the document is to enhance stakeholder understanding of the County public finances and to guide the budget making process.

The preparation of the CFSP for 2017/18 is a collaborative effort from various government entities. To a great extent, information utilized in this report was acquired from different Sectors of the County; we are grateful for their input.

A core team in the County Treasury spent a significant amount of time putting together this Paper. We are particularly grateful to the CEC Member for Finance and Economic Planning for coordinating the execution of this task. Special thanks go to the following members of the task force who met and worked tirelessly to prepare this document: Virginia Karanja- Deputy Director Budget; Joseph Wahome- Deputy Director County Treasury, Mr. Stephen Kinja- Director Revenue; Willy Gichora- Principal Economist; Muigai Wainaina- Principal Economist; Simon Irungu Senior Economist; Dorcas Mbugua- Senior Economist and Rachel Githumbi -Senior Economist.

We also highly acknowledge the contribution of the Executive Committee Members, Chief Officers, members of the public and other key stakeholders who provided vital information and took time to review the draft and provide input.

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Ag. CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

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BACKGROUND INFORMATION

Legal framework for the County Fiscal Strategy Paper

The County Fiscal Strategy Paper is one of the key stages in County budget making process whose preparation and application is well spelt out in various laws.

The Constitution of Kenya brought about new and improved modalities of running the affairs of our nation and the Counties. Among the modalities provided for in Chapter 12 of the Constitution relates to public finance where the form, content and timing of county budgets are explained. The budget making process is further supported by various Acts of Parliament. Key among these laws include the County Government Act 2012 and the Public Finance Management Act 2012.

Constitution of Kenya

Article 220(1) of the Constitution of Kenya stipulates that budgets of the National and County governments shall contain—

(*a*) Estimates of revenue and expenditure, differentiating between recurrent and development expenditure;
(*b*) Proposals for financing any anticipated deficit for the period to which they apply; and
(*c*) Proposals regarding borrowing and other forms of public liability that will increase public debt during the following year.

Further, Article 220(2) states that national legislation shall prescribe—

(*a*) The structure of the development plans and budgets of counties;
(*b*) When the plans and budgets of the counties shall be tabled in the county assemblies; and
(*c*) The form and manner of consultation between the national government and county governments in the process of preparing plans and budgets.

County Government Act, 2012

Section 104(1) of the Act requires a County Government to plan for the county and that no public funds shall be appropriated outside a planning framework developed by the county executive committee and approved by the County Assembly.

Public Finance Management Act 2012

Section 117(1) of the Act provides that a County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and shall thereafter submit the approved Fiscal Strategy Paper to the County Assembly, by the 28th February of each year.

During the preparation of the CFSP, section 117(5) of the Act further provides that the views of the Commission on Revenue Allocation, Public, any interested persons or group and any other forum that is established by legislation should be sought and incorporated in the fiscal strategy paper.

Objectives of the CFSP

In line with the provisions of the PFM Act 2012, this County Fiscal Strategy Paper addresses the following:

- the medium term macroeconomic framework and its outlook as contained in the Budget Policy Statement and how it impacts on the county economic environment;
- a medium-term fiscal framework defining a top-down aggregate resource envelope and broad expenditure levels;
- indicative allocation of available resources among county government entities;
- the economic assumptions underlying the county budgetary and fiscal policy over the medium term; and
- a statement of fiscal responsibility principles, as specified in the PFM Act and Regulations indicating how the fiscal strategy adheres to these principles.

1.0 CHAPTER ONE: ECONOMIC FRAMEWORK AND OUTLOOK

1.1 overview

The flourishing of the County economy is highly dependent on the state of the national, regional and global economy. Modern economies are volatile and susceptible to changes in macro-economic variables.

Broadly, the national economy portrays a positive outlook for the medium term based on various critical macro-economic variables. These variables are globally acceptable when analyzing the "health" of an economy.

1.2 National macro-economic outlook

Inflation

Overall month-on-month inflation rose slightly to 6.47% in the month of October 2016 from 6.34% in September 2016 due to increase in food prices. The annual average inflation rate at 6.5% in the year to October 2016 was within the target range of 2.5% on either side of the 5% target.

GDP growth

In the year 2015, the national economy grew by 5.6 per cent. This represented an increase of 0.3 per cent compared to 2014 where the growth stood at 5.3 per cent. The economy further improved and grew at 6.2 % in quarter two of 2016 up from 5.9 % growth registered in quarter one of 2016.

This growth has mainly been supported by a stable macroeconomic environment, improved outputs in agriculture, forestry and fishing, mining and quarrying, transport and storage, electricity and water supply, wholesale and retail trade, accommodation and restaurant and information and communication. Growth in other sectors particularly Construction. Finance & insurance, manufacturing and real estate though slightly lower compared to quarter two of 2015 remained robust.

The favourable weather conditions experienced during the second quarter enhanced agricultural production, as such the sector expanded by 5.5 % compared to 4.0 % growth in quarter two of 2015. Similarly electricity and water sector remained strong recording a growth of 10.8 % compared to 9.2% in the same quarter in 2015 owing to continued substitution of thermal electricity generation with relatively cheaper sources.

On average, GDP per capita for Kenya at US $1,105.8 is the highest in the east African sub region. The high and resilient GDP per capita is due to the diversified nature of the Kenyan economy

Kenya's economic growth prospects for the FY 2017/18 and the medium term takes into account the global slower growth in demand, particularly investment, which is especially pertinent to generate international trade flows in the form of capital goods and intermediate inputs. Further, it takes cognizance of the domestic environment including the general election to be held in August 2017. The growth profile accommodates the strategic objectives of the Government as outlined in the second Medium Term Plan (MTP) of Vision 2030, considering progress made in implementation of key projects. The outlook, therefore points to a continued robust growth, lower fiscal deficits, contained inflation within the target range and a gradual improvement in the external current account balance. Real GDP is projected to expand by 6.0 per cent in FY 2016/2017, 6.2 per cent in FY 2017/2018, 6.5 per cent in FY 2018/2019 and. 6.6 per cent by FY 2019/20.

Interest rates and investments

In Kenya short term interest rates remain low due to improvement of liquidity condition in the money market. The interbank rate declined to 4.1% in October 20165 from 4.9% in September 2016 and 21.3% in September 2015 while the 91 day treasury bills rate declined to 7.8% from 8.1% and 14.0% over the same period. The implementation of the banking (Amendment) Act 2015 effective September 14th 2016 that cap interest rates on banks loans at 4% above the base arte and sets the minimum interest paid for a saving product at 70% of the same base rate has led to the narrowing of the interest rate spread from 11.3% in august 2016 to 7.0% by September 14th 2016. As a result of the new Act, Kenya has the least lending rate among the east African countries.

The capital market recorded mixed performance in both equities and bond market segments in the year to October 2016. Activities at the stock market slowed down with the Nairobi security exchange 20 share index recording 3,202 points in October 2016 compared to 3,869 points in October 2015. Market capitalization was at 1,982 billion in October 2016 compared to 2,046 billion in September 2015. The drop in market capitalization is a result in increase in share supply which depressed the overall share prices. There has been a gradual recovery of the NSE reflecting restoration of market stability and improved confidence in the economy.

Recent investment conferences and conventions that have been hosted by our country portray a promising outlook. The country has acted as a host to numerous high profile world leaders in the recent times as well as hosting globally renowned conferences & conventions such as the GES, TICAD & UNCTAD. The outcome of these conventions is expected to be increased inflow of investors into the country due to improved image and confidence by the international community.

Foreign Exchange reserves and remittances

The level of economic development highly depends on the strength of a nation's currency compared to other currencies. The banking systems total foreign exchange holdings increased by 11.8% to US$10,355 million in august 2016 from US$9,265 million in august 2015. This was due to the increase in official reserves held by the central bank to US$8,144 million in august 2016 from US$ 6,963 million in august 2015. However, reserves held by commercial banks increased to US$2,211 million in 2016 from US$2,303 million in 2015.

The overall balance of payments position recorded a deficit of US$ 1,225 million in the year to August 2016 from a surplus of US$ 716 million in the year to August 2015. As a share to GDP, the current account deficit improved to 5.9 percent in August 2016 from 7.9 percent in August 2015. This is attributed to a 22.5 percent improvement in the value of the merchandise account reflecting a decline in payments for merchandise imports

Energy and Fuel prices

The energy sector has witnessed a steady rise in global inventories of crude oil and other fuels in the recent past. This is attributable to sustained excess supply of crude oil, slowed demand partly due to micro slump in Chinese economy, increased production of shale oil in the US and over-supply by the Organization of the Petroleum Exporting Countries (OPEC). This has consequently made the cost of fuel more predictable.

In 2015, the crude prices decreased to an average of USD 52.53 per barrel compared to an average of USD 99.45 per barrel in 2014. Currently a barrel costs about 45.75 US Dollars.

1.3 Nyandarua County outlook

From the 2016 CBROP, five key pillars were identified. These were to guide in resource allocation and assist in achieving the development agenda for the County with a theme "*achieving sustained development and economic empowerment of the people"*. These pillars addressed broadly the functions as given to the counties in the fourth schedule of the Constitution of Kenya. Through the 2016/17 FY budget, County allocations though spread equitably across all programmes had the five pillars acting as the main drivers for this budget.

Pillar 1: Continuous improvement of the infrastructural facilities to transform the county economy

This pillar is an enabler to other economic and social sectors. It requires massive investments to ensure it plays its critical role to the other sectors. Since the inception of the County Government, infrastructure has continuously been prioritized when it comes to resource allocations.

For instance in roads, transport and public works department, a total of Kshs. 1,025,361,514 has been allocated in 2016/17 FY to undertake various programmes aimed at improving the roads and transport facilities in the County. Other allocations meant at addressing this pillar include allocations for the county headquarters to help offer working space for employees of the County Government. Water and drainage projects have been funded extensively throughout the County where all wards have several water projects done.

In the 2017/18 and the medium term, more resources are expected to be pumped into infrastructure improvement as the County remains way off the desirable standards to be considered as having developed infrastructure. In the roads section, the investments by the County are expected to improve the rural road networks which are yet to be fully passable in all weather and open up all parts of the County. Infrastructure to be set includes the lighting up of various trading centres to improve security and facilitate business activities beyond dusk.

The County will also leverage on national Government projects such as last mile electricity project by enabling the formal and informal sectors to help create employment.

Pillar 2: Investing in quality and accessible health care services and quality education.

Human capital is a crucial factor of production. It is the factor that controls all the other production factors meaning that its inability to operate effectively would lead to all the others failing. The state of the County health and education is yet to get to globally acceptable standards.

To address this, the County has continuously invested a lot in this sector as well as working with cohorts whose aim is to improve the sector notably the National Government and non-state actors. For instance in the health department a total of Kshs. 1,308,875,998 has been appropriated to improve the preventive, curative, waste management and equipping of the facilities in the current Financial Year.

New health facilities will be set up as well as improving the conditions of the existing ones. The two major facilities namely J.M. Kariuki hospital and Engineer hospital will continue to be upgraded to the desirable levels. The management of solid waste will be extended and improved to ensure hygienic environment for all to live in. supply of medical stocks to all facilities will also be enhanced.

The County is also mandated with overseeing education in ECDE and youth polytechnics within its jurisdiction.

More resources will be allocated to this sector in the 2017/18 FY and the medium term to help in setting up more new health and education systems as well as extend and improve the existing systems for better human capital. These resources will go towards construction & equipping of classrooms & YPs, recruitment of instructors, bursary allocation to the needy students and improve the curriculum.

The County Government will conduct civic education to its citizens to increase their participation in county development.

Pillar3: Offering quality and accessible services to the people.

Service delivery is one of the major reasons why County Governments exist. The County has continuously offered services since its inception under the guidance of the gubernatorial office.

The introduction of performance contracting to all the executive members is expected to improve the quality of service provision by the "duty bearers" to the "claim holders". The presence of service charters will ensure that those seeking services get to know what they are entitled to. The County field offices will further be facilitated to ensure that they get services nearer to them. Through all the County agents the Government will strive to ensure that utility of its services improve.

Pillar 4: Improvement in resource mobilization for sustained development

Investments in the County are dependent on the County's ability to generate resources from within and outside the County. The biggest source of county funding is from exchequer releases. Nevertheless local revenue and grants form an important source of funding County investments. The total county revenue for 2016/17 FY is projected at Kshs. 5,606,668,647 comprising of Kshs. 390 million as local revenue. The County Treasury has rolled out the automation of revenue collection mostly for the unstructured market. Moving forward the automation is expected to be rolled to all revenue collection points to ensure efficiency and accountability. In the 2016 Finance Act new revenue streams were introduced. Moving forward new streams will be established to ensure growth in revenue without necessarily increasing the tax rates.

Sourcing of grants and donors will be beefed up to supplement the existing revenue available. Efficiency in resource use will also be enforced to ensure resources which hitherto were being wasted go to productive areas.

Pillar 5: Tapping the under exploited and unexploited resources.

At no single point will resources be enough to meet all the needs of a society. This therefore brings about the need to employ all the available resources fully as well identifying idle ones to convert them to be useful.

The County has various strengths in agriculture, cooperative movement, entrepreneurship, trade, sports, tourism among others. However these areas are yet to get to the zenith of their potential and contribution to the economy of the County.

In agriculture for instance, the sector is still operating at the primary level of production. Through various programmes, the county will endeavor to facilitate horticulture, dairy farming and fish farming. Value addition in all its products will be enhanced to make sure that the returns flourish.

Tourism, sports, general commerce, technological innovations, artistic ventures and transport will be addressed to ensure they become part of the main employment creation avenues.
Harnessing of niche products at our disposal will continue to be undertaken.

2.0 CHAPTER TWO: MEDIUM TERM FISCAL FRAMEWORK

2.1 Overview

The County fiscal policy for 2017/18, aims at improving revenue efforts as well as containing total expenditures. This will be achieved through efforts aimed at enhancing resource mobilization and improving efficiency in government expenditure. The created fiscal space will avail resources to scale up investments in the county's priority areas of infrastructure, water and health services as captured in the CIDP.

2.2 County 2016/17 First Quarter-year revenue performance

The county 2016/17 first quarter year performance indicate that the county had received 21% of the total revenue as illustrated in the table below.

Table 2.1: 2016/17FY first quarter revenue performance

	2015/16 (actual)	2015/16 1st Quarter year	2016/17 1st Quarter Year
Revenue			
Balance B/F	591,051,795	591,051,795	296,375,595
National Transfers	4,307,070,831	344,565,666	790,055,344
Local Collections	281,941,470	49,124,853	49,096,833
Donor fund(DANIDA)	18,860,000	0	0
Maternity health care	30,690,000	0	7,740,000
Fuel levy fund	54,714,122	0	17,851,758
User fees foregone	13,898,986	0	0
Leasing of medical equipment	95,744,681	0	0
TOTAL	**5,393,971,885**	**984,742,314**	**1,161,119,530**

In the current FY budget, the county expects to receive a total of Kshs. 5,606,668,647, from the various sources such as: National transfers as part of the equitable share, local collection, donor funding and conditional grants.

In the period July to September, 2016 the county had received a total of Kshs. 1,161,119,530 comprising of Kshs.790,055,344 from National transfer, Kshs.49,096,833 local collection, Ksh.7,740,000.conditional grant for maternal health, Kshs. 17,851,758 fuel levy fund for road maintenance and Kshs 296,375,595 as balance brought forward from 2015/16 FY.

The total receipts of Kshs.1,161,119,530 was an improvement compared to the Kshs.984,742,314 received in the same period in the financial year 2015/16.

2.3 Resource envelop/ Revenue Projections

The Constitution of Kenya 2010 stipulates that County Governments should have reliable, stable and predictable sources and allocation of revenue. The County has two main sources of funding; Revenue from local sources and the equitable share from the National Government as provided under Article 201 of the Constitution.

Table2. 2: Revenue projections

REVENUE					
	2015/16 (actual)	**2016/17 Revised**	**2017/18 projected**	**2018/19 projected**	**2019/20 Projected**
Balance B/F	591,051,795	296,375,595	0	0	0
National Transfers	4,307,070,831	4,647,384,382	4,959,688,612	5,221,801,092	5,535,109,158
Local Collections	281,941,469	390,000,000	371,000,000	393,260,000	416,855,600
CONDITIONAL GRANTS					
Fuel levy fund	54,714,122	71,407,030	130,725,000	71,407,130	71,407,130
Maternal health care	30,690,000	46,514,879	50,716,400	46,514,879	46,514,879
User fees foregone	13,898,986	13,122,329	13,898,986	13,122,239	13,122,239
Leasing of medical equipment	95,744,681	95,744,681	95,744,681	95,744,681	95,744,681
DANIDA (Donor grant)	18,860,000	9,430,000	0	0	0
European Union ((Donor grant)	0	0	66,000,000	44,000,000	0
IDA grant (county capacity building	0	26,689,751	0	0	0
Maternal health World bank		10,000,000	0	0	0
TOTAL	**5,393,971,884**	**5,606,668,647**	**5,687,773,679**	**5,885,850,021**	**6,178,753,687**

The County is projected to get an equitable share of Kshs. 4,959,688,612 in the FY 2017/18. In addition, the County government is expected to get conditional allocation of Kshs. 160,360,067 for funding the health services which include; reimbursement for user fees foregone; free maternal healthcare and leasing of medical equipment. The County will also get Kshs. 130,725,000 conditional grant from the Road Maintenance Levy Fund and Kshs. 66,000,000 as donor grant by the EU.

In addition to the transfer from the National Government, the County will generate its own revenues from its internal sources as authorized by county laws.

Section 132 (1&2) of the PFM Act, 2012 requires the County Executive Member for finance to make pronouncement of the revenue raising measures for the county government with the approval of the County Executive Committee. In this regard, the County will present more detailed structural measures to be implemented by the county to boost revenue generation and these shall be tabled in the County Assembly through the Finance Bill, 2017 for consideration and enactment.

From the planned reforms in revenue administration and implementation of revenue automation, its expected revenues will improve in the 2017/18 FY. The County projects to generate Kshs. 371 million from its own sources.

Consequently, the total resource envelope for 2017/18 FY is projected at Kshs.5,687,773,679.

2.4 County 2016/17 First Quarter-year expenditure performance

The county 2016/17 first quarter year performance indicate that the county had been able to absorb 62.9% of the total funds released as illustrated in the table below.

Table2. 3: first quarter expenditure in 2015/16 and 2016/17

	2015/16 (actual)	2015/16 -1st Quarter year	2016/17- 1st Quarter Year
Expenditure			
Recurrent	3,437,906,826	521,618,520	708,526,849
Development	2,159,149,988	150,512,421	22,178,557
Total	**5,597,056,814**	**672,130,941**	**730,705,406**

The County's total outlay for the FY 2016/17 is expected to be Kshs. 5,606,668,647. Out of this, Kshs. 3,671,941,450 (65.5%) is meant for recurrent expenditure and Kshs.1,934,727,197 (34.5%) is meant for development expenditure.

In the period July to September 2016, the county had spent a total of Kshs. 730,705,406 comprising of Kshs. 708,526,849 (97%) on recurrent expenditure and Kshs. 22,178,557 (3%) on development expenditure.

This is an improvement from Kshs. 672,130,941 spent during the same period in the year 2015/16.

2.5 Departmental 2016/2017 first quarter-year expenditure

Departmental current FY first quarter expenditure analysis shows that cumulatively, the Departments have been able to spend 13.2 % of the total budget as shown on the table below.

Table2. 4: Departmental 2016/2017 first quarter year expenditure

Department	Budget Estimates (revised)	Q1 Recurrent Expenditure	Q1 Development Expenditure	Q1 Total Expenditure	% of total budget spent
Gubernatorial Office	416,945,874	87,664,731	0	87,664,731	21.0
Communication, Legal, ICT	104,176,597	6,333,176	0	6,333,176	6.1
Finance & Economic Planning	584,561,680	103,395,185	0	103,395,185	17.7
Agric. Livestock & Fisheries	329,334,102	92,428,898	0	92,428,898	28.1
Lands, Housing & Physical	178,406,278	1,762,160	0	1,762,160	1.0
Roads Transport, Public works	1,025,361,514	10,342,227	878,700	11,220,927	1.1
Health Services	1,308,875,998	213,630,002	0	213,630,002	16.3
Education, Gender, Culture	256,530,714	61,337,032	0	61,337,032	23.9
Tourism, Wildlife and Sports	119,953,195	2,619,801	0	2,619,801	2.2
Industrialization Coop, trade	95,065,376	2,010,263	300,000	2,310,263	2.4
Water & Environment	386,956,874	4,073,285	0	4,073,285	1.1
County Assembly	800,500,445	122,930,089	20,999,857	143,929,946	18.0
TOTAL	**5,606,668,647**	**708,526,849**	**22,178,557**	**730,705,406**	13.0

As indicated in the table, the department of agriculture had the highest absorption at 28.1%. The department spent Kshs. 92,428,898 of its recurrent budget in the first quarter as compared to Kshs. 50,541,110 spent in the same period in FY 2015/2016.

The department for lands on the other hand had the least absorption at 1.0%.

2.6 Expenditure Projections

The County Government's expenditure for the FY 2017/18 will be guided by the Annual Development Plan (2016) which outlines the priority areas to be addressed in the FY 2017/2018 in the realization of the CIDP. The County Government will promote budget transparency, accountability and effective financial management of resources based on clearly set priorities to ensure that budgets are directly linked to plans. The total government expenditure is projected to be Kshs. 5,687,773,679.

Table2. 5: 2017/18 Budget Allocation

Details	**2016/17 (Actual)**	**2017/18 (Projected)**		**2018/19 (Projected)**	**2019/20 (Projected)**
			% of total budget		
Recurrent Budget					
Personnel Emoluments	1,773,000,767	1,841,732,033	32.4	1,915,401,314	1,992,017,367
Operations and Maintenance	1,633,516,131	1,446,572,446	25.4	1,451,006,048	1,541,321,528
Other current expenditures. (County funds)	265,424,552	375,348,874	6.6	394,116,318	413,822,134
Sub-total	**3,671,941,450**	**3,663,653,353**	**64.4**	**3,760,523,680**	**3,947,161,029**
Development Budget					
Development expenditure	1,934,727,197	2,024,120,325	35.6	2,125,326,341	2,231,592,658
Total Budget	**5,606,668,647**	**5,687,773,679**	**100**	**5,885,850,021**	**6,178,753,687**

Considering the limited resources in the County and competing programmes for funding, priority for funding in the FY 2017/18 will be given to projects/programmes that seek to improve the general welfare of the Nyandarua residents as well as improving the environment for doing business. This is in line with the County's objective as outlined in the CIDP.

In this regard, County Departments will review their budgets with an aim of removing non-priority expenditures and shift the savings to the priority programmes.

2.6.1 Recurrent Expenditure Projections

In the recurrent expenditure category, non-discretionary expenditures takes first charge which includes payment of statutory obligations and compensation to employees.

Total recurrent expenditures in FY 2017/18 is estimated to be at Kshs. 3,663,653,353 as compared to Kshs 3,671,941,450 in FY 2016/17 budget estimates. This reduction in recurrent expenditure is necessary in order to release funds for development programs.

The wage bill is expected to increase slightly mainly due to annual increments in remunerations, from Kshs 1,773,000,767 in 2016/17 to Kshs 1,841,732,033 in the FY 2017/18. It is expected that there will be no further increases on the wage bill. The PFM Regulations, 2015, requires that the County Governments maintain employee compensation levels at no more than 35 percent of their total revenue. In the medium term, the county government is committed to ensuring compliance with this fiscal responsibility principle.

2.6.2 Development Expenditure Projections

The County Government will endeavor to allocate adequate resources towards development outlays and aspire to complete critical priority projects as outlined in this strategy paper. Development expenditures will be shared out on the basis of the CIDP, County Annual Development Plan as well as other strategic interventions geared towards faster growth. The following guidelines will be used:

- On-going projects: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
- Infrastructure projects: with the County Government's commitment to improve infrastructure, construction of roads, development of water & sanitation network and improvement of health facilities will be given priority.
- Strategic policy interventions: priority is also given to policy interventions covering the entire county, social equity and promotion of business environment in the county.

The overall development expenditure for FY 2017/18 will be Kshs 2,024,120,325. This accounts for 35.6 percent of the overall budget and is in line with the fiscal responsibility requirement of allocating at least 30 percent of the overall budget to development expenditure.

Reflecting on the projected revenues and expenditures in the medium term, the County does not anticipate deficit in financing and therefore forecasted expenditures are equal to amount of expected receipts, thereby achieving a balanced budget. In case of any forthcoming deficit the county government will take prudent measures to reduce appropriations or increase revenues with minimal effects on public service delivery.

CHAPTER THREE: INDICATIVE MEDIUM TERM RESOURCE ALLOCATION

3.0 Overview

The 2017/18 MTEF budget provides both the sector and indicative departmental ceilings that ensure continuity in resource allocation from the last financial year consistent with medium term budgeting approach.

With the overall projected resource envelope derived from the fiscal framework described above, the key features of departmental resource allocation for 2017/18 and the medium term involve:

- Identification of departmental strategic priorities and interventions required to achieve the objectives of the CIDP;
- Ranking of the priorities by the individual department in terms of their contribution to achieving the objectives of the CIDP
- Adjusting non priority expenditures to cater for the above prioritization.

3.1 Criteria for resource allocation

The criteria taken into account in determining the allocations among the departments was:

a. The ability of the department to perform the functions assigned to it;
b. The developmental needs of the county;
c. The need for economic optimization in each department and to provide incentives for each department to optimize its capacity to meet the objectives of the CIDP;
d. The desirability of stable and predictable allocations to promote multi-year planning and overall budget certainty;
e. The need for flexibility in responding to emergencies and other temporary needs; and
f. The revenue raising capacity of the department

Additionally, historical spending levels by the departments was applied to determine the departmental needs. This was informed by the fact that to know how much allocation is enough for a department, one must estimate the difference between the revenues available to the county government as a whole and the expenditure needs of each department. However, expenditure needs are almost limitless hence the historical spending levels with little adjustments for one off expenditures was considered as the best approach to determine the allocation due to each department to at least deliver the minimum service level.

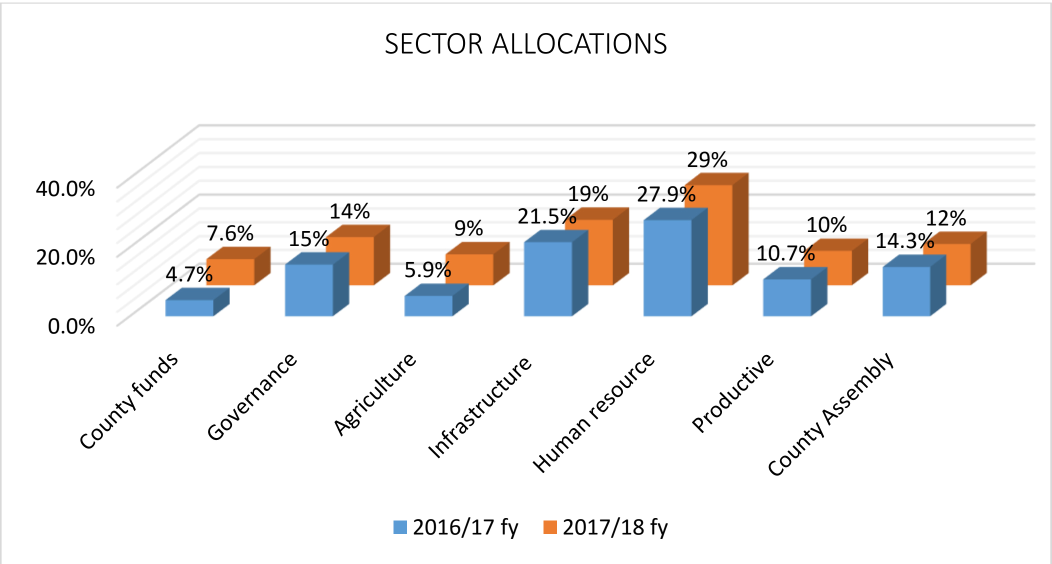
As such, there was merit in maintaining the service delivery levels through adequate provision of resources for maintenance of services such as health, roads, water, agriculture and education. This is expected to ensure that in overall the county government addresses improvement of service delivery

Specifically, it is projected that:

- The share of total resources going to the agriculture sector will be at 9% of total expenditure in 2017/18 an increase from 5.9% in the current year;
- The share of resources going towards infrastructure development will reduce slightly to 19% from 21.5% with priority going to expanding and improving maintenance of the road network, transport and other public works and improving the administration and management of land. This reduction was as a result of clearance of most of the pending bills in 2016/17 FY which had been accrued since 2013/14FY;
- the allocation to the human resource sector will increase from 27.9% to 29%; and
- Allocation to the productive sector will be maintained at 10% of total expenditure in 2017/18 FY. The sector is responsible for developing markets for County produce, developing tourism products and circuits, promoting start up industries while facilitating the access to credit for Micro and small enterprises in the County. All these efforts are geared towards wealth creation and revenue generation.

This is indicated in figure 3.1

***Figure3. 1*: COMPARATIVE SECTOR ALLOCATIONS FOR FYs 2016/17 & 2017/18**



In order to improve delivery of services, the county has ring fenced some spending for flagship projects in agriculture, health, roads and sports.

Allocations will also be informed by insightful and welcome submissions from the county members of the public and stakeholders on the 2017/18 budget proposals. . In this regard, the areas that are identified to continue receiving additional funding are the high impact areas.

As outlined in the CBROP 2016, there were several common non-core expenditures in the budgets for 2013/14, 2014/15, 2015/16 and 2016/17 financial years which were necessary to have the County Government up and running such as the purchases of vehicles and office equipment, construction of buildings, recruitment of staff, among others. Expenditures on these items will be greatly reduced and as a result the fiscal policy for 2017/18 and the medium term advocates for reorientation of expenditure focus to revenue growth and service delivery initiatives.

In pursuit of this and in arriving at the sector ceilings, significant efforts have been taken to critically examine the respective allocations for each sector and single out expenditures that can be re-designated to key areas and the result is expenditure reductions for non-core items without crippling the targeted spending units.

In the absence of external budgetary support in the 2017/18 budget, maintaining strong efforts in local revenue generation will be critical in order to fund the expected priority expenditures in all the sectors.

3.2 DEPARTMENTAL EXPENDITURE CEILINGS FOR 2017/18FY AND THE MEDIUM TERM

Arising from the criteria set above and the sector consultation forums, the allocation to the departments is as follows:

Table 3.1: Departmental Expenditure Ceilings For 2017/18fy and the Medium Term

DEPARTMENT/PROGRAMME	FY 2016/2017		FY 2017/18 Ceiling	FY 2018/19 projected Ceiling	FY 2019/20 projected Ceiling
	Printed Estimates	Revised Estimates	Estimates	Estimates	Estimates
County Bursary Fund	85,810,000	87,810,000	85,000,000	85,000,000	85,000,000
County Emergency Fund	35,000,000	20,000,000	30,303,500	36,750,000	38,587,500
County Mortgage Fund –Executive	60,000,000	40,000,000	70,813,340	85,000,000	90,000,000
Trade Fund	21,518,000	0	20,090,000	22,000,000	23,500,000
County Gratuity Fund	28,619,850	28,619,850	31,403,000	31,500,000	33,075,000
County gratuity fund arrears		17,000,000	24,963,177	-	-
County Pension Fund	26,434,702	26,434,702	34,050,100	29,400,000	30,870,000
General insurance		15,560,000	30,000,000	31,500,000	33,075,000
Medical insurance	100,000,000	30,000,000	85,010,000	105,000,000	110,250,000
Revenue automation			11,761,200	12,600,000	13,230,000
flagship projects	343,894,762		-		
Compensation to employees (executive)	1,554,124,355	1,554,124,355	1,616,289,330	1,670,940,902	1,718,178,538
GOVERNANCE & ADMINISTRATION SECTOR			-		
Office of the governor			-		
Governor service delivery Programme	97,620,000	151,177,800	78,808,000	84,000,000	98,000,000
Investment promotion and development (special interest)	4,000,000	7,600,000	7,500,000	10,500,000	11,025,000
County public service board			-	-	-
County Public service management	14,168,000	14,521,320	14,168,000	14,876,400	15,620,220
Office of the County Secretary			-	-	-
County Administration	23,073,739	48,163,490	11,061,200	12,600,000	13,230,000
enforcement & compliance	5,000,000	8,200,000	7,740,800	8,400,000	8,820,000
Human resource management	-	-	5,850,600	6,300,000	8,615,000
payroll management	-	2,500,000	2,940,300	3,150,000	3,307,500
Sub county and ward administration		-.	21,062,200	23,100,000	28,255,000
Cabinet affairs		-	4,800,500	5,250,000	5,512,500
County attorney, e-government & intergovernmental relations			-	-	-
County legal services	31,600,000	23,295,458	29,403,000	31,500,000	35,295,574
Intergovernmental Relations	4,720,000	4,220,000	12,741,300	3,150,000	5,307,500
Communication Services	3,000,000	3,000,000	7,218,800	7,733,640	8,120,322

DEPARTMENT/PROGRAMME	FY 2016/2017		FY 2017/18 Ceiling	FY 2018/19 projected Ceiling	FY 2019/20 projected Ceiling
ICT & E government services	34,070,000	43,045,305	51,027,350	35,841,360	37,633,428
Finance and economic planning			-	-	-
County economic planning	38,290,005	32,199,321	32,023,400	30,231,979	34,743,578
Monitoring evaluation & statistics	21,000,000	20,097,000	15,621,800	15,750,000	16,537,500
Community Empowerment and Institutional Support Program	4,200,000	4,216,803	4,200,000	-	-
County budgeting(including preparation of 2018-2022CIDP)	0	0	29,403,000	32,550,000	34,177,500
Public Finance Management	38,300,000	32,906,018	40,184,100	45,150,000	50,407,500
Supply Chain Management	7,800,000	7,722,000	7,840,800	8,400,000	8,820,000
Audit, Internal Control and Risk Management	10,200,000	9,268,500	13,721,400	10,500,000	11,025,000
Revenue collection & administration	46,000,000	42,965,774	19,602,000	21,000,000	22,050,000
Revenue enhancement & monitoring		11,000,000	29,403,000	31,500,000	33,075,000
AGRICULTURE SECTOR			-	-	-
Agriculture, Livestock and Fisheries			-	-	-
Livestock production development	43,120,000	21,393,320	20,043,045	21,472,500	22,546,125
Crops development (including EU grant)	144,100,000	43,029,480	135,036,380	141,788,198	148,877,608
Fisheries development	2,000,000	2,000,000	4,998,510	5,355,000	5,622,750
Veterinary services	22,850,000	14,082,190	27,001,755	28,927,500	30,373,875
Subsidized A.I	30,000,000	18,000,000	14,701,500	15,750,000	16,537,500
Inputs subsidy	10,200,000	10,053,795	19,602,000	21,000,000	25,050,000
Agricultural institutions support	7,000,000	998,185	5,880,600	6,300,000	6,615,000
INFRASTRUCTURE SECTOR			-		
Roads, transport and public works			-	-	-
General administration planning & support services	143,813,623	70,650,867	-	-	-
Development and Maintenance of County Roads, Bridges And Drainage Works	481,978,482	767,294,333	318,964,300	373,212,656	391,873,289
Development & maintenance of public transport	22,060,000	8,834,417	33,323,400	35,700,000	37,485,000
Flagship projects (County H/Quarters)		19,800,000	150,000,000	105,000,000	110,250,000
County lighting programme	3,320,000	18,828,300	-	0	0
Public works services (Governor's residence)			78,408,000	105,000,000	110,250,000
Fire fighting & emergency response services	40,000,000	18,000,000	39,204,000	15,122,101	15,878,206
Roads maintenance levy fund	71,407,030	71,407,030	130,725,000	137,261,250	144,124,313

DEPARTMENT/PROGRAMME	FY 2016/2017		FY 2017/18 Ceiling	FY 2018/19 projected Ceiling	FY 2019/20 projected Ceiling
Environmental Impact Assessment and audit for road works	-	-	9,801,000	10,500,000	11,025,000
Lands ,Housing and Physical Planning			-	-	-
Land use administration & management	57,119,592	84,011,382	24,502,500	26,250,000	27,562,500
Physical planning services	30,000,000	17,000,000	93,109,500	99,750,000	104,737,500
Housing development & management (	3,000,000	18,267,114	94,089,600	100,800,000	105,840,000
Urban development	-	4,958,630	19,602,000	21,000,000	22,050,000
County lighting programme	0	0	24,502,500	26,250,000	27,562,500
Survey & mapping services	48,550,000	26,359,560	29,403,000	31,500,000	33,075,000
PRODUCTIVE SECTOR			-	-	-
Industrialization , cooperatives ,trade and enterprise development			-	-	-
Cooperative development	28,000,006	36,937,506	33,323,400	35,700,000	37,485,000
Industrial development	5,100,000	2,790,000	10,523,000	11,273,511	14,837,186
Enterprise development	4,500,000	4,094,715	10,781,130	11,550,000	12,127,500
Trade development	21,144,938	23,814,347	27,442,800	29,400,000	30,870,000
Weights and measures		3,881,178	7,840,800	8,400,000	8,820,000
Tourism ,sports and youth			-	-	-
Tourism development	20,847,690	10,653,690	23,908,000	25,613,375	26,894,043
Sports development	37,000,000	37,758,316	46,901,705	50,246,700	52,759,035
Sports stadia		52,000,000	60,000,000	63,000,000	66,150,000
Youth development	6,400,000	6,915,866	11,761,200	12,600,000	16,230,000
Water and environment			-	-	-
Water resource management	165,300,951	322,167,107	171,225,150	187,712,755	197,098,392
Irrigation	7,000,000	17,389,035	7,409,550	7,938,000	8,334,900
Environmental conservation	37,086,237	16,704,600	34,156,080	42,055,793	44,158,582
HUMAN RESOURCE DEVELOPMENT SECTOR			-		
Health services			-	-	-
Health infrastructure and equipment (including MESS)	176,671,875	287,854,441	221,934,700	237,762,914	249,651,060
Preventive & Promotive health care	5,000,000	4,100,000	7,840,800	8,400,000	8,820,000
Curative health care	244,850,000	251,480,000	240,124,500	251,250,000	263,812,500
Facility cost sharing /DANIDA	18,860,000	9,430,000	52,925,400	56,700,000	59,535,000
User fees foregone	13,898,986	13,122,239	13,898,986	14,593,935	15,323,632

DEPARTMENT/PROGRAMME	FY 2016/2017		FY 2017/18 Ceiling	FY 2018/19 projected Ceiling	FY 2019/20 projected Ceiling
Free maternal health care	50,740,000	46,514,879	50,716,400	53,252,220	55,914,831
Maternal Health Care(World Bank)	-	10,000,000	-		
Solid waste management and cemeteries	29,500,000	7,500,000	27,403,000	31,500,000	33,075,000
Education, culture and social services			-	-	-
ECDE development	69,654,528	72,173,983	69,940,140	77,070,000	83,923,500
Cultural &Talent development services	2,000,000	3,500,000	4,900,500	5,250,000	5,512,500
Youth training services	62,900,000	22,370,000	57,060,890	63,487,333	66,661,699
Gender & social services	22,100,000	15,500,000	29,403,000	31,500,000	33,075,000
Alcoholic drinks control & regulation	7,000,000	8,900,000	7,448,760	7,980,000	8,379,000
SUB TOTAL-Executive	**4,755,661,192**	**4,806,168,202**	4,937,773,679	**5,203,350,021**	**5,462,128,687**
County assembly	766,306,532	800,500,445	700,000,000	682,500,000	716,625,000
GRAND TOTAL	**5,521,967,724**	**5,606,668,647**	**5,687,773,679**	**5,885,850,021**	**6,178,753,687**

3.4 Adherence to Fiscal Responsibility Principles

Section 107 of the PFM Act, 2012 and regulation 25 of the PFM (County governments) Regulations, 2015 sets out the fiscal responsibility principles which the county governments have to observe and enforced by the County Treasury. These include the following:

I. County government's expenditure on wages and benefits for its public officers shall not exceed thirty five (35) per cent of the county government's total revenue;
II. the county public debt shall never exceed twenty per cent of the county governments total revenue at any one time;
III. the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
IV. the county government actual expenditure on development shall be at least thirty per cent
V. over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
VI. fiscal risks shall be managed prudently; and
VII. 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.

In the 2017/18 Fy and the medium term, the County Treasury will ensure that the budgets are prepared in a way that ensures strict adherence to these principle. Table 1 gives a summary of the indicators on the fiscal responsibility.

3.5 Presentation of County's adherence to the fiscal responsibility principles for 2017/18 FY and the medium term

Table 3.2 County fiscal responsibility adherence

Indicator		Amount (Kshs)	% share of total budget
County expenditure	Recurrent	3,663,653,353	64.4
	Development	2,024,120,325	35.6
	Total	**5,687,773,679**	**100**
Expenditure on wages & benefits		1,841,732,033	32.7
Expenditure by County Assembly	Recurrent	600,000,000	10.5
	Development	50,000,000	0.9
	Total	**650,000,000**	**11.4**
County Debt financing		0	

From the analysis presented in table 1, the extent of adherence to the fiscal responsibility principles is as follows:

I. County government's expenditure on wages and benefits for its public officers shall not exceed thirty five (35) per cent of the county government's total revenue

In 2017/18 FY, The County's expenditure on wages and benefits will account for. 32.7% of the total expenditure. The county government has recently rolled out the pension scheme for its employees previously not covered under any other scheme. Under this scheme, the county government will contribute 15% of the employee's basic pay. In addition the county has adopted the medical scheme for all its employees including those seconded by the National government. As a result, the provision made for these schemes has increased the county's expenditure on wages and benefits. The county is therefore in line with the set limit of 35 % of the county revenues.

II. The county public debt shall never exceed twenty per cent of the county government's total revenue at any one time

In the 2017/18FY and the medium term, the County will not consider debt financing either through internal or external borrowing to finance budget. The budgets will therefore be financed by county own revenue from the equitable share, conditional grants and locally generated revenues. The county government will at the same time ensure that all its obligation to the suppliers are met on a timely basis to avoid accumulation of pending bills.

III. The County Government actual expenditure on development shall be at least thirty per cent

It is projected that the County Government will spend 35.6% of its budget on development in 2017/18 FY. This will be mostly on expenditure towards the completion of on-going projects, flagship projects and other service delivery initiatives. This allocation will also be continued over the medium term

IV. The approved expenditures of a County Assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower

The expenditure of the County Assembly will account for 11.4% of the total expenditure in 2017/18. Out of this, Kshs. 50 million has been allocated for the completion of the Assembly Chambers and construction of an administration block.

V. 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

The County Treasury in consultation with the County Assembly will hasten the enactment of specific legislation on raising revenue other than the County Finance Acts. These legislation on property rates, entertainment tax and produce cess will subsequently be amended through the Finance Acts depending on the fiscal strategy in a given year. The legislations will also contain clear justification for the fees and charges to be charged and the modalities for charging the same. The County Finance Acts will make reference to the substantive legislation, while proposing amendments to the charges, fees and taxes hence maintain a degree of predictability.

VI. Fiscal risks shall be managed prudently

The County Government will through implementation of the E-procurement module of the IFMIS apply prudent expenditure management on items and their pricing that should as much as possible reflect actual market prices.

Further, a provision of Kshs.35 million has been factored to cater for urgent and unforeseen expenditure. This will ensure that emergencies can be handled without disorienting the plans and budgets.

CHAPTER FOUR: ASSUMPTIONS AND RISKS UNDERLYING BUDGETARY AND FISCAL POLICY

4.1 Assumptions

All projections in the fiscal framework rest on assumptions regarding particular variables. In constructing projections, the overriding assumption is that existing revenue and spending will be continued as far ahead into the future as projections extend, without any substantive change.
Of course, these projections are based on critical assumptions about GDP growth, wage and productivity trends, interest rates and much more.

Macroeconomic policies are typically assumed to be "unchanged" over the projection period and on the basis of current fiscal and monetary policies. The forecasts represent the likely outcomes for growth, inflation, employment and other key economic variables for given unchanged policy settings

4.2 Risks

Similarly, there are potential risks associated with implementation of county fiscal policies. These include:

a) **low national economic performance** due to uncertainties associated with global and national influences such as price of crude oil that affect cost of production and exchange rate fluctuations which impact on the performance of the county's economy.

b) **Unpredictability of revenue flows**. This may be due to changes in policy by governments leading to unrealized projected revenue

c) **Adverse weather conditions**. The potential consequence of weather changes include productivity changes in agriculture, stress of health systems and changes in trade pattern. Revenue from agricultural produce cess continues to be among the top local revenue sources. As such reduction in agriculture production will greatly affect this revenue stream hence the fiscal framework.

   Natural disasters will have a significant impact on social welfare. For example flood or drought impact on agriculture and infrastructure affect households both directly and indirectly.as a result the government may feel obligated to cushion social welfare by incurring costs of returning normalcy after the occurrence. The County Government privy to some past occurrences has been providing for emergency fund. However, the impact of the unforeseen events could be of greater magnitude than the provision and hence pose fiscal risk to the county government.

d) **Potential uncertainties associated with the 2017 elections** could lead to a wait-and-see attitude by investors, thereby dampening short-term growth prospects.

A lot of goodwill will be required to implement the budget to meet the objectives outlined herein.

ANNEX I: COUNTY FLAGSHIP PROJECTS

Department	Project	Allocation in 2017/18 (Kshs. millions)
Agriculture	The horticulture Pack house	60M
	Potato tissue culture laboratory & storage facility	66M
Sports	Ol Kalou stadium	60M
Roads, public works & transport	County Government t headquarters- County's contribution	150M
Health	J.M. Hospital (physiotherapy equipment, fencing & modern mortuary)	84M
	Engineer hospital (kitchen, laundry room, inpatient ward, store & land for expansion)	65M
Total allocation		**485M**