



REPUBLIC OF KENYA  
COUNTY GOVERNMENT OF NYANDARUA  
THE COUNTY TREASURY

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**COUNTY GOVERNMENT OF NYANDARUA  
COUNTY FISCAL STRATEGY PAPER (CFSP) FOR  
2018/2019 AND THE MEDIUM TERM**

***TOWARDS A TRANSFORMATIVE AGENDA***

**FEBRUARY 2018**

## FOREWORD

This is the fifth CFSP under the devolved governance structure. Its purpose is to assist public understanding of the fiscal situation and the government proposed budget strategies. The paper sets out the broad strategies, priorities and policy goal that will guide the county government in preparing its budget for the coming financial year and over the medium term. It gives a description of the county government fiscal policy, strategies and rules as well as providing the fiscal projections indicative budget ceiling for use in 2018\19 MTEF budget. The county Government recognizes the importance of transparency and accountability as being not only necessary for good governance but also for the formulation of sensible economic policies. The priorities and goals outlined herein are based on County Integrated Development plan and the Governor's Manifesto with emphasis on:

- Good governance
- social sector development in Education, Health, culture, Peace and Security
- infrastructure development in water, energy, Transport and communication, ICT
- Agricultural development and value addition, market linkages and introduction of high value products like giant bamboo, pyrethrum and sugar beets.
- Industrialization; industrial park, cottage industries, Agro processing and appropriate technology.

These priorities shall form the basis for formulation of FY2018\19 budget and the medium term. The paper therefore marks county planning and policies to budget which is the main expenditure framework. The paper covers the following broad areas; the review of the fiscal performance of financial year 2017\18 and highlights of the recent economic development and economic outlook.

The fiscal framework presented in the paper ensures a sustainable financing while allowing achievement of the set objectives, call for greater transparency, and effectiveness and efficiency in public finance management in order to ensure fiscal discipline

**HON. MARY W. MUGWANJA**

**COUNTY EXECUTIVE COMMITTEE MEMBER - FINANCE AND ECONOMIC DEVELOPMENT**

## ACKNOWLEDGEMENT

This paper is a build-up of the County Budget Review and Outlook Paper (CBROP) 2017 and provides a fiscal framework for implementation of the 2018\19 budget and medium term. It present the broad strategic macroeconomic issues and fiscal framework, alongside a summary of Nyandarua County 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.

As usual, the preparation of the 2018 CFSP continues to be a collaborative effort. Much information in this report was obtained from various sectors\departments and other agencies. We are grateful for the input. We are also grateful for the comments from the public participation hearing which provided input for this 2018 CFSP; in addition to comments from several other stakeholders.

A core team from Economic Development department spent a significant amount of time putting together this paper. We are particularly grateful to the County Executive Committee Member finance and economic development Hon. Mary Mugwanja for coordinating the execution of this task.

I would like to take this opportunity to thank the entire staff of the finance and economic Development for their dedication, sacrifice and commitment to public service.

**JOHN G. NJOROGE**

**CHIEF OFFICER - FINANCE AND ECONOMIC DEVELOPMENT**

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## BACKGROUND INFORMATION

### Legal Basis for the Publication of the County Fiscal Strategy Paper

The County fiscal strategy paper is prepared in accordance with Section 117 of the

Public Financial Management Act, 2012. The Act states that:

(1) The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly, by the 28<sup>th</sup> February of each year.

(2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.

(3) In preparing the County Fiscal Strategy Paper. The County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.

(4) The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

(5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of:

(a) The Commission on Revenue Allocation;

(b) The public;

(c) Any interested persons or groups; and

(d) Any other forum that is established by legislation.

(6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments

## Fiscal Responsibility Principles in the PFM Act

In line with the Constitution, the PFM Act sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources.

107(b) states that:

- 1) The county government's recurrent expenditure shall not exceed the county government's total revenue
- 2) Over the medium term, a minimum of thirty (30) percent of the County budget shall be Allocated to development expenditure
- 3) The County government's expenditure on wages and benefits for public officers shall not exceed 35 percent of the County government revenue as prescribed by the regulations.
- 4) Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- 5) Public debt and obligations shall be maintained at a sustainable level as Approved by County Government
- 6) Fiscal risks shall be managed prudently
- 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.

## TRANSFORMATIVE AGENDA

### Background

The County Fiscal Strategy Paper (CFSP), 2018 is the first to be prepared under the new County Administration and the fifth since the advent of devolution. It seeks to actualize the priorities laid down under the six pillars of the County Administration as well as the agenda spelt out in the Second County Integrated Development Plan (CIDP2). These include:

- (i) Creating an enabling environment for business in order to encourage investment growth and expansion of economic opportunities;
- (ii) Development of key infrastructure facilities including roads, water and ICT in order to stimulate growth, create employment and reduce poverty;
- (iii) Promotion of health and education services;
- (iv) Promotion of value addition for agricultural produce, environment management and food security; Promotion of equitable economic and social development;
- (v) Enhancing governance, transparency and accountability in the delivery of public goods and services.

In line with the devolved functions of the County Governments and the concurrent functions between the National and County Governments, the CFSP sets out priority programmes to be implemented in 2018/19 and the medium term under the Medium Term Expenditure Framework (MTEF). The updated National economic outlook as contained in the 2018 Budget Policy Statement (BPS) has informed the economic and financial projections in this CFSP. In this regard, The CFSP has been aligned to the BPS in released in February 2018.

Further, the experience and lessons learnt from implementation of the first term of the County Government played a significant role in informing the priorities for 2018/19 and the medium term The 2018 CFSP is therefore framed against a backdrop of various reports by the oversight bodies including the Controller of Budget, Office of Auditor General

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among others. These reports have indicated that the County is faced with limited fiscal space resulting from limited local revenue generation capacity as well as rising recurrent expenditure largely contributed by a growing wage bill of about 39% of total budget. The Execution of the Development budget has also been below target. In the medium term therefore, the County Government will adopt corrective strategies to ensure maximum prioritization of development budget execution as well as exploring strategies for financing resource gaps from within and outside the County. Recognizing the enormous resources and potential that the County has in tourism, sports, agriculture, water and forestry portends a huge potential for investors which will be a key driver of the County economy. The County Government will continue to support investment in infrastructure to complement these sectors to ensure the County economy and all those who participate in it reap the benefits from the enormous resources.

Participation and cooperation of the County citizenry shall be key in implementing important programmes and projects as well as in resource mobilization to fulfil the initiatives contained herein.

### **Objectives of the CFSP**

Pursuant to 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 statement of fiscal responsibility principles, as specified in the PFM Act and Regulations indicating how the Fiscal Strategy adheres to these principles.
- ❖ The economic assumptions underlying the county budgetary and fiscal policy over the medium term;
- ❖ Indicative allocation of available resources among county government entities; and
- ❖ A medium-term fiscal framework defining a top-down aggregate resource envelope and broad expenditure levels.

## **1.0 CHAPTER ONE: ECONOMIC FRAMEWORK AND OUTLOOK**

### **1.1 Overview**

Successful implementation of programmes and reforms plans require close collaboration between the National and the County Governments. To enable fast development, the National Government will be required;

- i. Enhance financing for County Governments
- ii. Develop legal and regulatory frame works for county Governments (PFM)
- iii. Technical support and capacity building for the Counties

### **RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

#### **1.2 NATIONAL MACRO-ECONOMIC OUTLOOK**

**The 2018 BPS indicate the following outlook at the National level:**

Kenya's economy remained resilient in 2017 despite adverse weather conditions, a prolonged electioneering period as well as subdued credit growth to the private sector which combined to weaken growth in the first half of the year. Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018. The resilience in growth in 2017 was supported by the ongoing public sector infrastructure investments, recovery in the tourism sector and continued stable macroeconomic environment.

The overall month on month inflation declined to 4.8 percent in January 2018 from 7.0 percent in January 2017. The decline in inflation was a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favorable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

The foreign exchange market has remained relatively stable supported by increased tea and horticultural exports, strong diaspora remittances, and a continued recovery in tourism. The 12-month current account deficit stabilized at 7.0 percent of GDP in December 2017 and is expected

to narrow to below 6.0 percent of GDP in 2018 due to lower imports of food and lower imports in the second phase of SGR project.

Over the medium term, growth is projected to average around 7.0 percent due to investments in strategic areas under “The Big Four” Plan, namely: increasing the share of manufacturing sector to GDP; 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. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

Kenya is ranked favorably in the ease of doing business and as a top investment destination. In 2017, the World Bank’s Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poors Global Ratings affirmed Kenya’s short and long term foreign and local currency sovereign credit rating at B+/B citing Kenya’s strong growth prospects which will facilitate fiscal consolidation.

### **Global and Regional Economic Development**

The pickup in global activity that started in 2016 gathered pace in the first half of 2017 supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. As such global growth is projected to increase to 3.8 percent in 2018 from 3.6 percent in 2017 and 3.2 percent in 2016 primarily driven by improving domestic demand in advanced economies and China and improved performance in other emerging market economies.

In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1 percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan. In 2018, economic growth is projected to increase to 5.9 percent supported by a stable macroeconomic

### **Domestic Economic Development**

Growth of the Kenyan economy remained resilient, broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies. The economy, specifically, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012. The value of goods and services produced therefore raised the per capita income from Kshs 104,700 in 2013 to an estimated Kshs 174,200 in 2017. The economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012.

However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy is

estimated to grow by 4.8 percent in 2017, which is a slowdown from the estimated growth of 5.1 percent in the 2017 Budget Review and Outlook Paper (BROP).

In 2017, the economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate and information and communication. The growth was somewhat constrained by subdued performances in agriculture forestry and fishing, manufacturing, electricity and financial intermediation sectors.

The resilient strong growth of the economy over the past five years reflects the broad based nature of our economy that has been largely driven by growth in the non-agriculture sectors. The non-agricultural sector has remained vibrant growing at 6.7 percent in 2016 from 5.4 percent in 2013 and continues to be the main source of growth. Services remain the main source of growth, the sector grew from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favorable performance of ICT, real estate, wholesale and Retail Trade, Transport and Storage and Accommodation and Restaurants. Accommodation and restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel alerts from major tourist originating countries.

### **Inflation Rate**

Inflation rate has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation averaged 6.7 percent in the period (2013-2017) compared with 7.4 percent in the period (2002-2007), 10.6 percent in the period (2008-2012) Inflation during the period 2008 to 2012 was highly volatile following a steep depreciation of the Kenya shilling exchange rate and policy responses.

However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.5 percent in December 2017 from 6.4 percent in December 2016, and was within the government's target range.

### **Kenya Shillings Exchange Rate**

The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2017, the shilling exchange rate against the Dollar was at Ksh 103.1 from Ksh 102.1 in December 2016. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 122.0 and Ksh 138.2 in December 2017 from Ksh 107.7 and Ksh 127.7 in December 2016, respectively.

### **Interest Rate and Performance in the stock market**

Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The rate is currently (January 2017) at 10.0 percent since August 2016. The interbank rate has remained low at 7.7 percent in December 2017 from 5.9 percent in December 2016 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.4 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.1 percent in December 2017 from 10.5 percent and 11.0 percent in December 2016, respectively.

Activities at the stock market picked up in November 2017 from a slowdown in September and October 2017 as the long electioneering period came to an end. The NSE 20 Share Index improved to 3,805 points in November 2017 from 3,730 points in October 2017 while Market Capitalization improved to Ksh 2,562 billion from Ksh 2,346 billion over the same period.

### **Balance of Payments**

The overall balance of payments position improved to a surplus of US\$ 879.7 million (1.2 percent of GDP) in the year to November 2017 from a deficit of US\$ 821.4 million (1.3 percent of GDP) in the year to November 2016 due to the improvement in the financial account that more than offset the widening current account deficit.

The current account balance registered a deficit of US\$ 5,110.1 million (7.0 percent of GDP) in the year to November 2017 from a deficit of US\$ 3,452.5 million (5.4 percent of GDP) in the year to November 2016. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

The deficit in the merchandise account widened by US\$ 2,477.7 million to US\$ 10,243 million in the year to November 2017 reflecting increase in payments for import of oil on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined generally reflecting lower global demand for exports of manufactured goods; raw materials; chemicals and related products; and miscellaneous manufactured articles.

Flows in the Financial Account increased to US\$ 5,870.6 million in November 2017 compared with US\$ 3,298.5 million in November 2016, with the surplus reflecting higher liabilities compared to assets. The financial inflows were mainly in form of Foreign Direct Investments and other investments which stood at US\$ 360.6 million and US\$ 6,439.6 million, respectively in November 2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

### **Foreign Exchange Reserves**

The banking system's foreign exchange holding was at US\$ 9,202 million in November 2017 from US\$ 10,327 million in November 2016. The official foreign exchange reserves held by the

Central Bank remained strong at US\$ 6,919.5 million (4.6 months of import cover) in November 2017 compared with US\$ 7,872.1 million (5.2 months of import cover) in November 2016 while commercial banks holdings was at US\$ 2,282.8 million in 2017 from US\$ 2,454.6 million in 2016.

### **Fiscal Performance**

Implementation of the FY 2017/18 budget is on course although performance is lagging behind targets. Revenues collection have consistently lagged behind in the last five month due to the under performance of the main revenue tax heads. On the other hand, there has been elevated expenditures pressures as a result of the adverse spill over effects of the prolonged drought, the repeat of the Presidential Election and salary awards for Universities Staff and Nurses.

By end November 2017, the total cumulative revenues including A-I-A collected amounted to Ksh 558.4 billion against a target of Ksh 611.0 billion. The recorded shortfall of Ksh 52.6 billion was as a result of an under performance of the ordinary revenues by Ksh 29.7 billion and the ministerial A-I-A by Ksh 22.9 billion. The shortfall in ordinary revenue was on account of underperformance in all the broad categories of ordinary revenues except import duty.

The FY 2017/18 budget has been reviewed to reflect revenue performance by end November 2017 and to take into account expenditure rationalization necessitated by the accommodation of the emerging priorities and salary and election related expenditure pressures.

In the revised fiscal framework revenues are projected at Ksh 1,643.1 billion or 18.9 percent of GDP from Ksh 1,704.5 billion or 20.6 percent of GDP. Total expenditures and net lending are projected at Ksh 2,323.2 billion or 26.8 percent of GDP.

The deficit, inclusive of grants, is therefore projected at Ksh 620.8 billion (equivalent to 7.2 percent of GDP). Borrowing from the domestic market is projected at Ksh 293.8 billion and external borrowing at Ksh. 323.2 billion.

### **Fiscal Policy**

The fiscal policy stance over the medium term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. The fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union Protocol's fiscal targets. That is, the EAC targets of a fiscal deficit ceiling including grants of 3 percent of GDP and excluding grants 6 percent of GDP.

The fiscal policy underpinning the FY 2018/19 budget and MTEF will sustain the revenue projections in line with recent mobilization trends in order to maintain fiscal predictability. Revenue is projected to increase from 18.3 percent of GDP in FY 2016/17 to 19.2 percent of GDP in FY 2020/21.

In an effort to boost domestic revenue mobilization, the Government is going to undertake a combination of policy and administrative reforms to bolster revenue

yields going forward. These efforts will reverse the revenue losses experienced in the recent past where ordinary revenues have declined about 1.6 percent of GDP from 18.1 percent in FY 2013/14 to 17.1 percent in FY 2016/17. In the medium term, ordinary revenues is projected to increase to 17.7 percent of GDP in FY 2021/22 from 17.1 percent of GDP in FY 2016/17. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.0 percent of GDP by FY 2021/22 from the projected 7.2 percent of GDP in FY 2017/18.

### **Economic Outlook**

Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and Sub-Saharan Africa growth recovery. The growth projection takes into account the strategic objectives of the Government as outlined in the third MTP of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.8 percent by FY 2020/21. This growth will be supported by sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability.

The outlook, therefore points to a continued coordination of monetary and fiscal policies for overall macroeconomic stability which will support robust growth, lower fiscal deficits, contain inflation within the target range and a gradual improvement in the current account balance.

In addition, measures being undertaken by the Government under “**The Big Four**” Plan are to boost manufacturing sector; enhance food security and nutrition; create affordable housing; and achieve Universal Health Coverage are expected to boost growth, create jobs and ultimately promote inclusive growth.

### **Risks to the 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 are likely to weigh down global growth with negative impact on trade and financial flows. Domestically, the economy is exposed to risks including any occurrence of adverse weather conditions and public expenditure pressures especially recurrent expenditures.

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

## **1.3 NYANDARUA COUNTY OUTLOOK**

The current administration took office on 21st August 2017 following the general elections held in the same month. The administration has in the recent past resolved to revive the County Economy through streamlining the Productive, Infrastructure and Agriculture sectors both in the short and medium term.

Through a rapid results initiative, the County Government will stimulate the county economy through:

- i. Organizing an investor's conference to present investment opportunities in the County before June 2018;
- ii. Initiating the process of resolving land problem in Ol'Kalou town as well as pursuing the granting of charter to the town which is expected to be the County's economic and administration hub by virtue of being the County headquarters;
- iii. Spearheading the enactment of the Trade and Markets Bill to promote internal trade;
- iv. Spearheading the approval of the investment policy and investment to promote inbound and outbound investment;
- v. Cooperatives bill subsector to drive savings, investment and economic growth;
- vi. Nyandarua Industrial and Enterprise Development Bill to promote local industrialization for employment creation and sustainable utilization of resources;
- vii. Tourism Bill to promote tourism activities; and
- viii. A comprehensive revenue enhancement plan

Further the County government has in the recent past;

- a) Signed a memorandum of partnership with the Export Promotion Council (EPC). This collaboration involves the development of trade links between the County Government and the Export Promotion Council through capacity building on export awareness; mapping, profiling and development of exportable products in the county, assistance in the identification and participation of exporters in the County investment conference and other relevant trade promotion events (trade fairs, exhibitions, buying and selling missions, seminars) both locally and internationally and mostly eyeing the COMESA.

The County Government has planned to institute supportive and infrastructural incentives to complement value addition and export growth. In the medium term, the County will put up an industrial park; a special economic zone; develop road infrastructure of over 500

KM tarmacked and rehabilitation of the Ol Joro rok airstrip; put up cold houses and establish revolving funds for farmers and traders; set up a dry port at the Standard Gauge Railway hub in Mai Mahiu

b) Entered into a deal with the EU for a potato seed multiplication plant. The MOU signed between the EU and the County Government will see the EU contribute Kshs 110 million towards the project. This will increase the number of farmers who plant clean potato seeds from 2% to 10%. This will increase production and revenues as the County produces 30% of potatoes in the Kenyan market.

c) In collaboration with the National Housing Corporation (NHC) plan to construct 200 units of modern houses in Ol'Kalou for civil servants and the public. Ground breaking is expected later in the year for the project which will transfer building technologies to the locals and eventually address housing crisis.

d) Commenced talks with the Export Processing Zone Authority (EPZA) to revive the pyrethrum subsector. With this deal, the once vibrant subsector in which Nyandarua was dominant is expected to generate jobs about 1600 residents.

## CHAPTER TWO: MEDIUM TERM FISCAL FRAMEWORK

### 2.1 Overview

The County fiscal policy for 2018/19, 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 as captured in the CIDP2.

### 2.2 Review of Fiscal Performance July -December 2017

The County budget estimates for 2017/18 FY is Kshs.6,088,543,248 comprising of Kshs. 4,062,620,146 (66.7%) for recurrent expenditure and Kshs. 2,025,923,102 (33.3%) for development expenditure. This budget is financed by Kshs. 4,771,600,000 (78.4%) from the National equitable share, Kshs. 371,000,000 (6.1%) from Own Source Revenue (OSR), Kshs. 600,240,358 from Conditional grants, Kshs. 30,000,000 as A-I-A (Linda mama) and Kshs. 315,702,890 as balance brought forward from FY 2016/17.

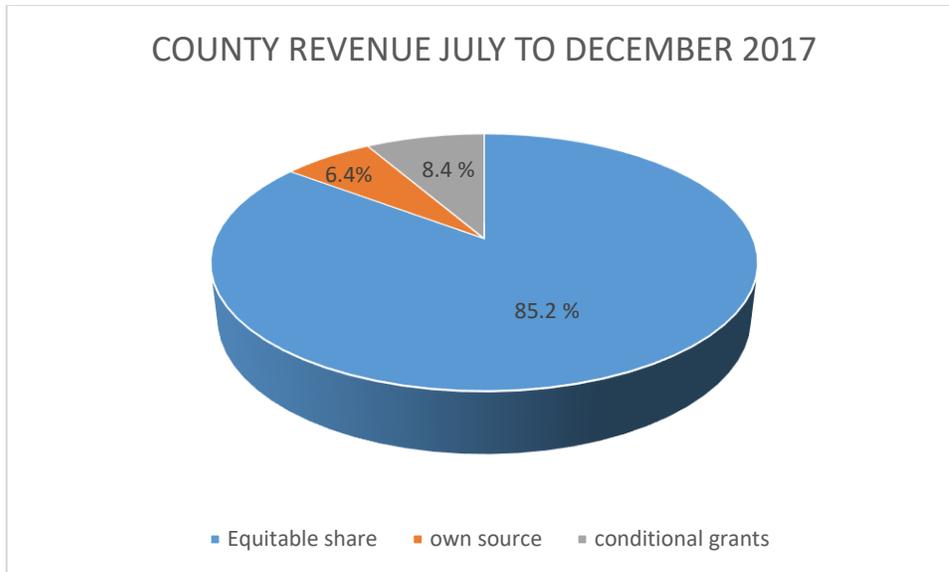
#### Revenue performance

Over the 6-months period, the major source of revenue was from the equitable share which accounted for 85.2%. Own source revenue contributed 6.4 % of the total revenue while conditional grants accounted for 8.4 % of the total revenue.

**Table 1: County Revenue Sources**

MONTH	Equitable share	OWN SOURCE REVENUE	CONDITIONAL GRANTS	TOTAL
JULY	0	14,944,203	0	14,944,203
AUGUST	0	11,991,960	0	11,991,960
SEPTEMBER	334,012,000	11,267,157	85,585,196.00	430,864,353
OCTOBER	334,012,000	17,862,105	0	351,874,105
NOVEMBER	0	13,232,031	0	13,232,031
DECEMBER	429,444,000	12,917,112	22,435,427.00	464,796,539
<b>TOTAL</b>	<b>1,097,468,000</b>	<b>82,214,568</b>	<b>108,020,623</b>	<b>1,287,703,191</b>

*Source: County Treasury/Controller of Budget*



**Fig.1 County Revenue by Source-July-December 2017**

***Own Source Revenue***

The analysis of revenues collected from County’s local sources is as indicated in table 2.

**Table 2: Analysis of revenue by stream**

Revenue Resources	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	TOTAL
	2017	2017	2017	2017	2018	2017	
Single Business Permits	2,274,100	1,142,255	1,430,900	1,644,160	776,270	306,900	<b>7,574,585</b>
SBP Penalties	363,708	96,470	67,655	72,210	28,975	25,500	<b>654,518</b>
Sale Of Application/Renewal	83,200	55,550	84,650	64,750	28,650	19,500	<b>336,300</b>
Plot Rates	359,618	221,948	266,751	220,483	207,638	319,308	<b>1,595,746</b>
Impounded Fees	57,750	73,700	68,730	72,435	74,405	169,330	<b>516,350</b>
Land Rates	151,208	137,148	80,593	243,487	147,575	81,460	<b>841,471</b>
Cattle Dips	8,400	11,755	10,050	12,580	22,460	15,705	<b>80,950</b>
Open Air Market Fees	865,535	768,000	777,435	849,545	876,853	904,945	<b>5,042,313</b>
Market Stall Rent	87,800	73,000	114,800	98,700	92,600	123,440	<b>590,340</b>
Ground Rent- Others quarries	7,300	29,870	6,800	2,550	19,000	9,900	<b>75,420</b>
Produce Cess Royalties	2,661,136	2,451,200	4,151,160	3,339,581	3,123,091	3,242,505	<b>18,968,673</b>
Slaughter Fees	85,330	83,630	74,150	88,690	94,960	173,795	<b>600,555</b>
Bus And Matatu Fees	496,170	640,920	755,580	679,490	711,655	734,055	<b>4,017,870</b>
Reg.and Renewal Of Groups	17,550	5,550	10,000	68,300	107,300	43,100	<b>251,800</b>
Hire Of Machines(Agriculture)	-	-	17,000	445,075	178,600	139,660	<b>780,335</b>
House/Office Rent	49,500	65,520	85,200	8,500	31,000	63,000	<b>302,720</b>
Sub-Division Of Land	48,160	24,470	28,250	39,480	64,400	35,280	<b>240,040</b>

Building Plan Inspection Fee				282,550	550		<b>283,100</b>
Site Indication	700	-					<b>700</b>
Change of User	97,000	110,500	58,500	78,000	78,000	58,500	<b>480,500</b>
Change of Business	-	-	1,000				<b>1,000</b>
Land/Plot Reg. Fees	37,560	14,750	25,995	16,750	34,080	22,100	<b>151,235</b>
Public Health Fees	239,240	288,340	314,900	311,500	193,500	92,900	<b>1,440,380</b>
Dev.(PPA Forms)	49,800	26,400	27,000	37,000	37,800	44,400	<b>222,400</b>
App. Of Building Plans	347,500	281,190	195,000	6,000	231,600	176,000	<b>1,237,290</b>
Conservancy	3,700	-				600	<b>4,300</b>
Storage Fees	2,040	-				1,600	<b>3,640</b>
Exhauster and Exhauster Mileage	172,000	104,500	114,500	165,500	161,000	91,000	<b>808,500</b>
Transfer Fees	124,500	144,550	169,260	225,850	130,500	144,500	<b>939,160</b>
Motor Cycle Fees (Parking)	815,750	409,400	513,760	474,600	398,000	442,750	<b>3,054,260</b>
Clearance Certificate	197,000	147,000	132,900	147,000	84,000	120,000	<b>827,900</b>
Weights And Measures	-	-			128,130		<b>128,130</b>
Water Fee	16,493	13,778	5,052	48,346	9,585	27,203	<b>120,457</b>
Hire Of Hall/Chairs	6,000	3,100		41,500	46,000		<b>96,600</b>
Sign Board	14,600	-					<b>14,600</b>
Meat Inspection	347,195	361,170	388,310	435,660	405,790	359,790	<b>2,297,915</b>
Grave Fees	1,600	1,800	1,600	2,500	1,400	2,000	<b>10,900</b>
Vet Department(Ai Services)	-	488,346	235,616	277,148	391,932	5,300	<b>1,398,342</b>
Vaccination	3,900	-	7,700				<b>11,600</b>
J.M. Hospital	4,064,555	1,821,960		6,626,895	2,875,356	2,063,850	<b>17,452,616</b>
Engineer Hospital	-	1,556,290	604,760		393,434	746,545	<b>3,301,029</b>
Hire Of Water Tanker	8,250	2,000		63,000	16,000	71,250	<b>160,500</b>
Liquor Licence/Inspection/App	288,000	293,500	332,000	379,500	177,600	45,000	<b>1,515,600</b>
Branding	-	-					
Promotion	26,000	5,000		40,200	15,900	3,000	<b>90,100</b>
C.O.T	740	-					<b>740</b>
Lease Extension	-	-	23,000			11,500	<b>34,500</b>
Betting	-	-	2,500				<b>2,500</b>
Movement Permit	-	-	1,400	650			<b>2,050</b>
Medical Certificate Fees	44,200	-	40,400	49,800	32,200	31,900	<b>198,500</b>
Search Fee	-	-			1,100		<b>1,100</b>
ATC	360,000	1,800		6,950	364,250	1,041,840	<b>1,774,840</b>
Certificate Of Compliance	10,300	11,200	9,300	11,300	13,800	2,800	<b>58,700</b>
Cooperative Audit Fees	48,615	-				361,833	<b>410,448</b>
Residential Houses Permits	-	24,400	13,000			10,000	<b>47,400</b>
Electricity	500				460		<b>960</b>
Advertisement					30,000		<b>30,000</b>

Motorcycle Mortgage Fees			20,000				<b>20,000</b>
Subsidized Fertilizer Sale						14,400	<b>14,400</b>
N.H.I.F Fee				183,890			<b>183,890</b>
Imprest Surrender					345,912	517,168	<b>863,080</b>
Recovery of Lost Items					48,720		<b>48,720</b>
Dumping Fee							
<b>Totals</b>	<b>14,944,20</b>	<b>11,991,96</b>	<b>11,267,15</b>	<b>17,862,10</b>	<b>13,232,03</b>	<b>12,917,11</b>	<b>82,214,568</b>
	<b>3</b>	<b>0</b>	<b>7</b>	<b>5</b>	<b>1</b>	<b>2</b>	

From this analysis, the County generated 22.1% of its own source revenue target of Kshs. 371 million in the first 6-month period. Produce Cess Royalties was the best performing revenue stream in the period. The stream generated 23.1 % (Kshs. 18,968,673) of the County's own source revenue. This was closely followed by J.M. hospital at 21.2 % (Kshs.17,452,616) and Single Business Permits (SBP) at 9.2%.(Kshs.7,574,585)

Most of the revenues 21.7%, (Kshs. 17,862,105) was collected in October and the least 13.7%, (Kshs.11,267,157) in September 2017.

### Exchequer issues

The following is analysis of amount received from equitable share and conditional grants.

**Table 3: Exchequer Issues**

S/N	MONTH	EQUITABLE SHARE
1	JULY	0
2	AUGUST	0
3	SEPTEMBER	334,012,000
4	OCTOBER	334,012,000
5	NOVEMBER	0
6	DECEMBER	429,444,000
	<b>TOTAL</b>	<b>1,097,468,000</b>

The County had received 23% of the National transfers by December 2017.

S/N	MONTH	DESCRIPTION	CONDITIONAL GRANTS
1	JULY		0
2	AUGUST		0
3	SEPTEMBER	Road maintenance levy fund	85,585,196.00
4	OCTOBER		0
5	NOVEMBER		0
	DECEMBER	DANIDA grant	12,435,427

6	DECEMBER	World bank loan for transforming health systems	10,000,000
	TOTAL		108,020,623

The County had received 18% of the total conditional grants by December 2017

*Source: County Treasury/Office of the Controller of Budget*

### 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.

*Table 4: Revenue projections*

#### REVENUE

REVENUE					
	2017/18	2018/19	2019/20	2020/21	2021/22
Equitable share	4,771,600,000	4,882,665,467	5,175,625,395	5,486,162,919	5,815,332,694
Local Collections	371,000,000	390,000,000	409,000,000	429,000,000	451,000,000
Linda mama	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
<b>CONDITIONAL GRANTS</b>					
grant for free maternal health care	0				
world bank grant for KDSP	40,222,996				
E U grant for potato tissue culture lab	66,000,000				
world bank loan for transforming health systems	22,000,000				
Donor fund(DANIDA)	12,435,427	-	-	-	-

Road maintenance levy fund	183,511,039	129,797,341	129,797,341	129,797,341	129,797,341
User fees foregone	12,735,922	12,735,922	12,735,922	12,735,922	12,735,922
Rehabilitation of village polytechnics	46,590,293	38,848,936	38,848,936	38,848,936	38,848,936
supplement for construction of county headquarters	121,000,000	121,000,000	121,000,000	0	0
Leasing of medical equipment	95,744,681	129,787,234	129,787,234	129,787,234	129,787,234
Balance B/F	315,702,890	0	0	0	0
<b>TOTAL</b>	<b>6,088,543,248</b>	<b>5,734,834,900</b>	<b>6,046,794,828</b>	<b>6,256,332,352</b>	<b>6,607,502,127</b>

The County is projected to get an equitable share of Kshs. 4,882,665,467 in the FY 2018/19. In addition, the County government is expected to get conditional allocation of Kshs. 142,523,156 for funding the health services which include; reimbursement for user fees foregone; and leasing of medical equipment. The County will also get Kshs. 129,797,341 conditional grant from the Road Maintenance Levy Fund, Kshs 38,848,936 grants for rehabilitation of village polytechnics and kshs 121,000.000 supplement for construction of county headquarters.

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, 2018 for consideration and enactment.

From the planned reforms in revenue administration and implementation of revenue automation, its expected revenues will improve in the 2018/19 FY. The County projects to generate Kshs. 390 million from its own sources.

Consequently, the total resource envelope for 2018/19 FY is projected at Kshs. 5,734,834,900

#### 2.4 County 2017/18 First Half-year expenditure performance

The county 2017/18 first half year performance indicates that the county has not been able to absorb the funds released as illustrated in the table below. Development expenditure has not been used up due to delays in among other things the following;

- i. Change of Government- the new administration took office in August 2017, and it took time to appoint the CECs and other senior staff.
- ii. Capacity and skills constraints inherited from the previous administration had not been resolved.
- iii. Need for the new administration to review and align programmes and projects with the Governor’s manifesto.
- iv. Consequent delays in preparation and submission of the supplementary budget to the county assembly for approval.

Table 2. 1: first half year expenditure in 2016/17 and 2017/18

	2016/17 (actual)	2016/17 first half year	2017/18-1 <sup>st</sup> half year
<b>Expenditure</b>			
Recurrent	3,118,921,373	1,224,971,303	1,126,025,853
Development	1,738,701,828	27,458,908	0
<b>Total</b>	<b>3,957,623,201</b>	<b>1,252,430,211</b>	<b>1,126,025,853</b>

The County’s total outlay for the FY 2017/18 is expected to be Kshs. 6,088,543,248. Out of this, Kshs. 4,062,620,146 (66.7%) for recurrent expenditure and Kshs. 2,025,923,102 (33.3%) for development expenditure.

In the period July to December 2017, the county has spent a total of Kshs. 1,360,473,107 which is entirely a recurrent expenditure. There is no development expenditure for the first half.

#### 2.5 Departmental 2017/2018 first quarter-year expenditure

Departmental current FY 2017/18 first half year expenditure analysis shows that cumulatively, the Departments have been able to spend 35.0 % of the total budget as shown in the table below.

Table 2. 2: Departmental 2017/2018 first quarter year expenditure

DEPARTMENT	budget estimates (recurrent)	first half year recurrent	first half year development	total expenditure	% of total budget spent
------------	------------------------------	---------------------------	-----------------------------	-------------------	-------------------------

Governor's Office	125,362,203	41,067,371	0	41,067,371	33
The County Secretary	161,689,502	61,030,383	0	61,030,383	38
County Public Service Board	39,168,290	15,551,990	0	15,551,990	40
County Attorney, E-Government & Intergovernmental Relations	88,497,917	13,152,616	0	13,152,616	15
Finance & Economic Planning	744,607,669	198,391,030	0	198,391,030	3
Agriculture Livestock & Fisheries	304,174,811	115,207,377	0	115,207,377	4
Lands, Housing & Physical Planning	74,518,179	8,413,553	0	8,413,553	11
Roads Transport & Public Works	134,990,411	37,716,696	0	37,716,696	28
Health Services	1,185,683,184	514,705,742	0	514,705,742	43
Education, Gender, Youth, Culture and Social Services	207,492,600	69,917,924	0	69,917,924	34
Tourism, Wildlife and Sports	56,177,441	8,017,944	0	8,017,944	14
Industrialization Cooperatives, Trade & Enterprise Development	57,953,670	14,723,725	0	14,723,725	25
Water & Environment	68,843,004	28,129,502	0	28,129,502	41
County assembly	592,438,541	234,447,254	0	234,447,254	4
TOTAL EXPENDITURE	3,841,597,422	1,360,473,107	0	1,360,473,107	35

As indicated in the table, the department of health has the highest absorption at 43.0%. The department has spent Kshs. 514,705,742 of its recurrent budget in the first half of the year as shown in the table above. The department for lands on the other hand had the least absorption at 11.0%. Looking at the expenditures shown on the table it is important to note that the departments do not have development expenditure since no development has been conducted in the first half of the financial year.

## 2.6 Expenditure Projections

The County Government's expenditure for the FY 2018/19 will be guided by the Annual Development Plan (2017) which outlines the priority areas to be addressed in the FY 2018/2019 in the realization of the CIDP2. 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. 5,734,834,900.

Table 2. 3: 2018/19 Budget Allocation

recurrent budget	2017/18 actual	2018/19 projected	2019/20 projected	2020/21 projected
personal emoluments(salaries, gratuity, pension, medical insurance)	2,015,274,159	2,227,050,100	2,317,092,104	2,410,961,788

operations and maintenance	1,835,192,647	1,276,502,585	1,353,092,740	1,465,564,241
other recurrent expenditures(bursary, emergency, mortgage, trade funds)	212,153,340	224,090,000	228,090,000	208,090,000
<b>sub total</b>	<b>4,062,620,146</b>	<b>3,727,642,685</b>	<b>3,898,274,844</b>	<b>4,084,616,029</b>
<b>development budget</b>				
development expenditure	2,025,923,102	2,007,192,215	2,116,378,190	2,189,716,323
<b>total budget</b>	<b>6,088,543,248</b>	<b>5,734,834,900</b>	<b>6,014,653,034</b>	<b>6,256,332,352</b>

### 2.6.1 Recurrent Expenditure Projections

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

Total recurrent expenditure in FY 2018/19 is estimated to be at Kshs. 3,727,642,685. The wage bill is expected to increase slightly mainly due to annual increments in remunerations. 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 projects as well as aspire to complete critical priority projects as outlined in this strategy paper. Development expenditures will be shared out on the basis of the CIDP2, County Annual Development Plan and Budget Policy Statement.

## CHAPTER THREE: INDICATIVE MEDIUM TERM RESOURCE ALLOCATION

### 3.0 Overview

The Nyandarua County 2018/19 MTEF budget aims at striking an appropriate balance between fiscal consolidations and supporting sustainable economic growth in the County. This policy underscores the need to shift more public resources from Recurrent Expenditure to Capital Expenditure in order to enhance economic growth.

The county will look into ways of enhancing revenue collection and achieving greater efficiency in terms of cost savings in recurrent expenditure to ensure priority is given to the development projects.

In addition through various investment forums, the county intends to attract potential local and foreign investors and other development partners to assist in development of the county. The county will do an investor analysis and identify willing potential investors.

The key features of departmental resource allocation for 2018/19 and the medium term involve:

- Identification of departmental strategic priorities and interventions required to achieve the objectives of the CIDP2.
- Ranking of the priorities by the individual department in terms of their contribution to achieving the objectives of the CIDP2.
- Adjusting non priority expenditures to cater for the above prioritization.

### **3.1 Criteria for resource allocation**

Acknowledging that resource requirements for all our programmes by far exceed the resource outlay, the County Government is committed towards a realistic, balanced and pro-growth budget that is in perfect consonance with the fiscal responsibility principles. This includes sustaining the wage bill at current levels with prospects of a decline, exercising restraint from non-core borrowing, and accelerating resource allocation for programmes geared towards unlocking and driving the economy of the county.

Expanding resource outlay through Public Private Partnerships particularly for high return programmes in Value Addition, increase access to water, health services, infrastructure development, ICT, Education and Capacity building will particularly be leveraged on.

In the 2018/19 MTEF budget resource allocation, historical spending levels by the departments will not be taken into account to determine the departmental needs. A zero based budget approach will be developed.

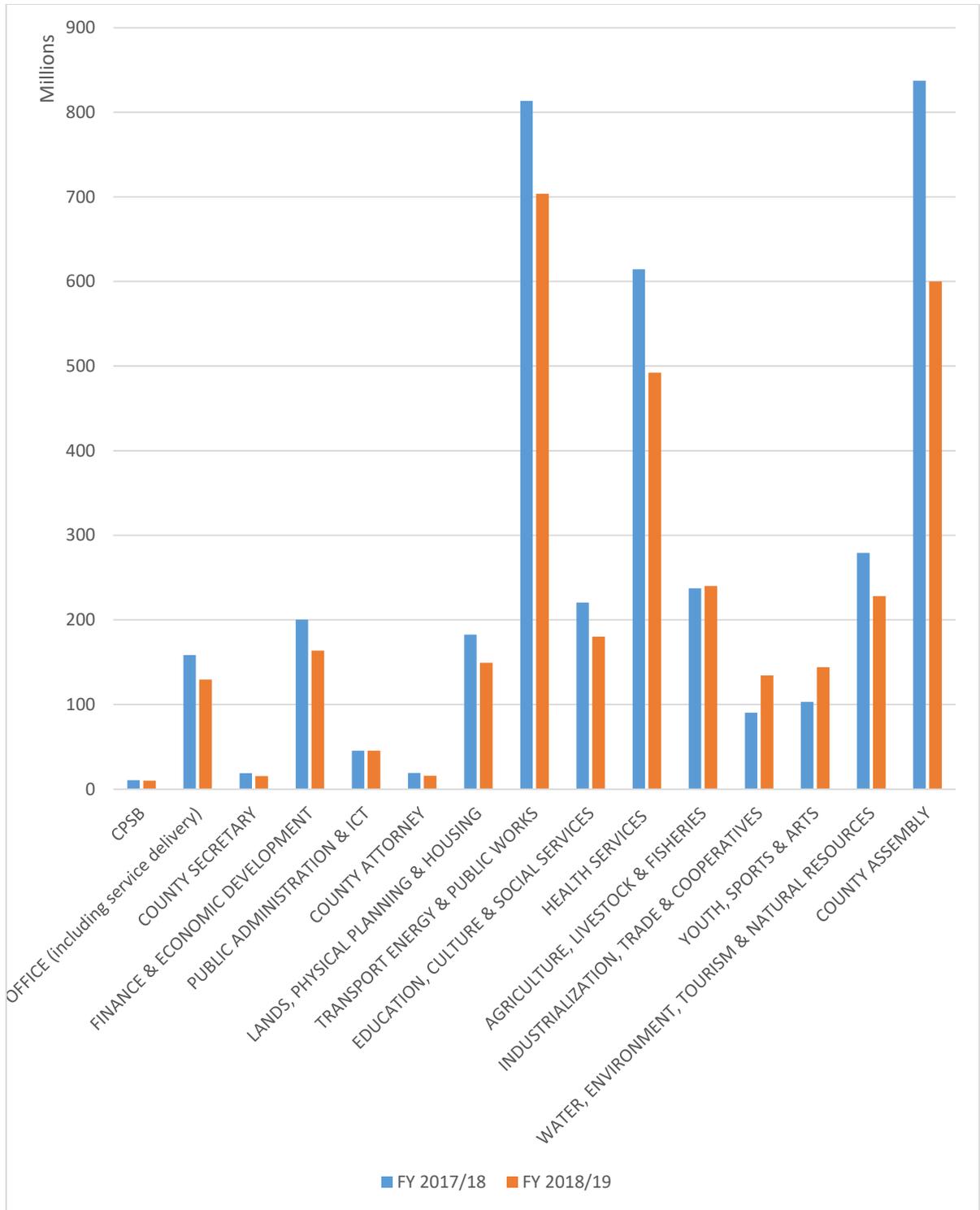
Prioritization of resource allocation will be based on the County Integrated Development

Plan (CIDP2), departmental priorities, programmes and development policies of the County Government. The 2018/19 FY budget will institute reforms targeted at achieving efficiency and productivity of government spending. The CIDP2 takes into account the development Agenda of the Country by including programmes for the big four Agenda.

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

1. **Ongoing projects:** emphasis will be given to completion of on-going and unfinished projects and in particular infrastructure projects and other projects with high impact on poverty reduction, equity, job and wealth creation.
2. **Strategic policy interventions:** strategic policy interventions will cover the entire county, social equity and environmental conservation. Priority will also be given to key sectors like agriculture, industrialization, infrastructure and youth which are the drivers of the economy and have the potential to unlock it.
3. **Job creation:** Specific consideration to job creation based on sound initiatives identified in the CIDP2 will be considered. There is an urgent need to provide avenues for job creation particularly for the youth, women and people living with disability.
4. **Flagship Projects:** Priority will be given to landmark projects in the 2018/2019 financial year that have high impact on economic and social development of the county.

**Fig 3.1 COMPARATIVE DEPARTMENTAL ALLOCATIONS FOR FYs 2017/18  
&2018/19**



Fiscal policy will continue to support County development economic activities while providing platform for the implementation of the CIDP2 within a context of sustainable public financing. The county will continue reorienting expenditure towards those priority programmes outlined in County's Integrated Development Plan and as identified in public consultative forums. The critical programmes to be implemented are expected to accelerate economic activities and socio-economic development.

In order to improve delivery of services, the county has ring fenced some spending for flagship projects in high impact areas.

As outlined in the CBROP 2017, there were several non-core expenditures in the previous budgets. Expenditures on these items will be greatly reduced and as a result the fiscal policy for 2018/19 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 addition, 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 2018/19 FY 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 2018/19fy and the Medium Term

COUNTY FUNDS	FY 2017/18 ACTUAL ESTIMATES	2018/2019	%			FY 2019/20 PROJECTED	FY 2020/21 PROJECTED
Bursary fund	103,250,000	100,000,000				100,000,000	100,000,000
Emergency fund	23,000,000	23,000,000				23,000,000	23,000,000
Mortgage fund	65,813,340	81,000,000				85,000,000	65,000,000
Nyandarua County Biashara Fund	20,090,000	30,090,000				20,090,000	20,090,000
County Pension Fund	34,050,100	36,050,100				37,492,104	38,991,788
County Gratuity Fund	39,724,059	41,000,000				45,100,000	49,610,000
Medical insurance	49,000,000	50,000,000				50,500,000	51,000,000
General insurance	30,000,000	31,500,000				31,000,000	30,000,000
SALARIES (EXECUTIVE)	1,892,500,000	2,100,000,000				2,184,000,000	2,271,360,000
	2017/18 FY	2018-19 FY	%				
SECTOR	ACTUAL	PROPOSED		FLAGSHIPS	BALANCE	2019-20 FY	2020-21 FY
CPSB	10,468,000	10,000,000	0.17	0	10,000,000	14,898,270	15,792,166
GUBERNATORIAL OFFICE	158,511,744	129,543,707	2.26	0	129,543,707	137,316,329	145,555,309
COUNTY SECRETARY	18,937,765	18,937,765	0.33	0	15,476,887	16,405,500	17,389,830
FINANCE & ECONOMIC DEVELOPMENT	200,312,118	163,705,058	2.85	0	163,705,058	173,527,362	183,939,003
PUBLIC ADMINISTRATION & ICT	45,424,363	45,424,363	0.79	31,000,000	14,424,363	39,350,439	41,711,466
COUNTY ATTORNEY	19,090,000	16,140,423	0.28	0	15,601,301	16,537,379	17,529,621
LANDS, PHYSICAL PLANNING & HOUSING	182,699,464	149,311,118	2.6	102,000,000	47,311,118	158,269,786	167,765,973
TRANSPORT ENERGY & PUBLIC WORKS	813,454,230	678,795,387	12.27	367,000,000	336,795,387	704,683,110	746,964,097
EDUCATION, CULTURE & SOCIAL SERVICES	220,523,918	178,223,150	3.14	122,000,000	58,223,150	191,036,539	202,498,731
HEALTH SERVICES	614,562,615	558,419,529	8.58	85,000,000	407,251,235	532,386,309	564,329,487
AGRICULTURE, LIVESTOCK & FISHERIES	237,457,665	237,062,253	4.13	81,000,000	159,062,253	205,705,988	218,048,347
INDUSTRIALIZATION, TRADE & COOPERATIVES	90,211,034	120,423,651	2.4	114,000,000	20,423,651	78,148,456	82,837,363
YOUTH, SPORTS & ARTS	103,046,216	108,046,216	2.27	27,000,000	117,214,510	89,267,380	94,623,423

WATER, ENVIRONMENT, TOURISM & NATURAL RESOURCES	279,115,617	228,107,210	3.98	131,100,000	97,007,210	241,793,643	256,301,261
COUNTY ASSEMBLY	837,301,000	600,000,000	10.46	0	600,000,000	848,000,000	898,880,000
Total	6,088,543,248	5,734,779,930		1,060,100,000	2,192,039,830	6,023,508,592	6,303,217,866

### 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 enforce through the County Treasury.

The guiding principles that are considered in the allocation of the available resources include:

- I. The requirement that the County public debt shall never exceed twenty (20) percent of the County government's total revenue at any one time.
- II. The County Government wages shall be contained at thirty five (35) percent of the County government's total revenue in the medium term;
- III. The approved expenditures of a County assembly will be as per senate's recommendations. This shall not exceed 7% 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 percent of the County government's total expenditure.
- V. fiscal risks shall be managed prudently; and
- VI. 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 2018/19 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 3.2 gives a summary of the indicators on the fiscal responsibility.

### 3.5 Presentation of County's adherence to the fiscal responsibility principles for 2018/19 FY and the medium term

Table 3.2 County fiscal responsibility adherence

Indicator		Amount (Kshs)	% share of total budget
County expenditure	Recurrent	3,727,642,685	65
	Development	2,007,192,215	35
	<b>Total</b>	<b>5,734,834,900</b>	<b>100</b>
Expenditure on wages & benefits including Medical Insurance, County Pension & Gratuity Fund		2,227,050,100	38.83
Expenditure by County Assembly	Recurrent		
	Development		
	<b>Total</b>	<b>600,000,000</b>	<b>10.5%</b>
County Debt financing		0	

From the analysis presented in table 3.2, the extent of adherence to the fiscal responsibility principles is as follows:

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

In the 2018/19 FY 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.

**ii. 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 2018/19 FY, The County's expenditure on wages and benefits will account for. 38.83% of the total expenditure. This includes the employees' pension and gratuity funds and medical schemes which have increased the county's expenditure on wages and benefits beyond the recommended limit. The county is therefore not in line with the set limit of 35 % of the county revenues. However, it remains

committed to adhering to this principle and measures will be put place to address this.

- 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.**

The expenditure of the County Assembly will account for 10.5% of the total expenditure in 2018/19

- iv. The County Government actual expenditure on development shall be at least thirty per cent**

It is projected that the County Government will spend 35% of its budget on development in 2018/19 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

- v. Fiscal risks shall be managed prudently**

Fiscal risks will be managed prudently through implementation of E- procurement, prudent expenditure management on items and pricing that should reflect the market prices as much as possible.

Further, a provision of Kshs.23 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.

- vi. 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**

To ensure a reasonable degree of predictability with respect to level of tax rates, charges and tax bases, legislation on property rates, entertainment tax and produce cess will 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.

## 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:

1. **Global warming which is associated with changes of 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 products 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.

2. **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.
3. **Uncertainties of revenue flows.** This may be due to changes in policy by governments leading to unrealized projected revenue
4. **Infrastructure issues,** which is associated with the predicted long rain end up makes roads impassable eventually affects market linkages of agricultural products from farms to markets.

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