REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYERI

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2019

SEPTEMBER, 2019

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FOREWORD

The Nyeri County Budget Review Outlook Paper (CBROP) is developed at a time when the national economic growth has remained strong and resilient despite the emerging global challenges. This has been supported by ongoing public and private sector investments and stable macroeconomic environment. Nationally, the economy expanded by 6.3 percent in 2018 up from the 4.9 percent registered in 2017 and the momentum continued in the first quarter of 2019. It is expected that this growth momentum will continue culminating to a growth of 6.0 percent in 2019 underpinned by the resilient services sector, positive business sentiments, even as programmed activities under the "Big Four" Plan gain traction.

The CBROP, 2019, provides information on recent economic and financial projections with adequate information that will guide the development of the budget proposals for the coming fiscal year. Further, it analyses the previous year's performance, while giving the anticipated scenarios for the coming financial year.

In the fiscal analysis, the CBROP reviews the performance of the county revenue in the FY 2018/19. The paper has also incorporated the aggregate income collected in contrast with the anticipated sum for the year. The review additionally incorporates the performance of the county expenditures for the period under review.

This document has also provided an overview of how the actual performance of the FY 2018/19 has impacted on the financial objectives as outlined in the County Fiscal Strategy Paper (CFSP), 2018. The anticipated performance of the FY 2019/20 spending will build the foundation for projecting the FY 2020/21 spending plan in view of current economic developments.

It is projected that the anticipated income and expenditure for 2019/20 will be accomplished through strict controls on expenditure and developing and implementation of improved revenue mobilization measures. This will be accomplished through prudent financial management to guarantee appropriate administration of public resources and delivery of expected outputs. Income streams will be probed to understand the determinants behind the failure to achieve the set objectives in 2018/2019 with the goal of putting in place corrective measures during this financial year as we strive to fully automate all revenue streams. The CBROP is an important planning and budgeting document that county will continue to refer when allocating the scarce resources as we move into the future.

Robert Thuo Mwangi.
County Executive Committee Member
FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The Nyeri County Budget Review and Outlook Paper (CBROP), 2019 has been prepared in accordance with the requirements of the Public Finance Management (PFM) Act, 2012. The paper is expected to improve the development stakeholders understanding of the county's sources of finances and expenditure priorities and subsequently guide an open discussion on matters pertaining to economic planning and budgeting.

The County Government is focused on continued enhancement of its capacity in financial management, raising own revenue and establishing effective governance structures in all public offices. The county government will endeavor to continue implementing priority programs in an effort to increase the economic output, marginal productivity and improve efficiency in service delivery as move towards sustainable development.

The compilation of the CBROP, 2019 was a coordinated effort of all county departments who provided valuable and credible information for analysis and inclusion in this paper. We value their contributions to this noble undertaking which is an essential step in the preparation of the county budget for the coming financial year. Exceptional gratitude goes to the Executive Office of the Governor and Deputy Governor, the County Secretary, the County Executive Committee Members, Chief Officers, County Directors and other county authorities who offered their unwavering support during the preparation of this document.

Being the County Treasury’s responsibility to oversee and ensure timely preparation and submission of the CBROP, a team from the department of Finance and Economic Planning spent valuable time to ensure the success of this statutory requirement. These officers included Mr. Gibson Mwangi, Mr. Chris Gathogo and M/s Damaris Gichuhi under the guidance of Mr. Stephen Mwai, the Director of Economic Planning and Budgeting. Special regards also go to Mr. Joseph Mugi, Budget Coordinator- Nyeri County, for his invaluable input. To everyone who made this exercise a reality, I thank you and assure you that the time spent was not in vain as the CBROP will be of insurmountable importance to the future planning and budgeting process in the county.

Francis Maranga Kirira
Chief Officer
ECONOMIC PLANNING, BUDGETING, MONITORING AND EVALUATION

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

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

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

Fiscal Responsibility principles in the Public Financial Management Law

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

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

INTRODUCTION

Background

1. The County Budget Review and Outlook Paper (CBROP) is developed as per the requirements of section 118 of the Public Finance Management Act, 2012. The Act dictates that every county must prepare a CBROP by 30th September, of every fiscal year, and submit the same to the County Executive Committee (ExCom). The ExCom shall in turn:

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

Objectives of CBROP

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

- An evaluation of the county fiscal performance in the financial year 2018/19 in comparison to the appropriation of the same year and its impact on the county's economic performance
- An up to date economic and financial forecast with sufficient information to demonstrate changes from the forecasts in the County Fiscal Strategy Paper (CFSP), 2018.
- A clear description with sufficient reasons to justify any deviations from the objectives as defined in the CFSP as well as comprehensive proposals and the expected time frame to address such deviations.

3. The CBROP will provide the basis for linking up of policy, planning and budgeting. The document will be embedded on the Kenya's Vision 2030, Medium Term Plan (MTP) III priorities, the National Big Four agenda, Sustainable Development Goals and the County Integrated Development Plan (CIDP) 2018-2022. Various stakeholders will be brought together as Sector Working Groups and facilitated to conduct performance appraisals of programs currently being executed within the county and also identify and prioritize programs for the Medium-Term period of FY 2020/21 – FY 2022/23.

4. The updated outlook will subsequently be firmed up in the County Fiscal Strategy Paper (CFSP), 2020 to reflect any changes in economic and financial conditions. In accordance with

Section 117 of the Public Finance Management Act, 2012, the CFSP will be submitted to the County Assembly not later than 28th February 2020.

REVIEW OF FISCAL PERFORMANCE IN 2018/19

A. Overview

5. In the 2018/19 financial year, the County Government was faced with some challenges in the process of budget execution. To start with, the projected revenue for the period under review fell short of the target although there was a 10.1 percent increase as compared to the preceding year's performance. However, in FY 2018/19 the IFMIS was fairly good, with minimal network interruptions, thereby contributing to an upward increase in the county's budget absorption particularly on development activities.

6. Moreover, there was a substantial amount of pending bills accruing from the FY 2017/18 that wielded further expenditure pressure to the FY 2018/19 financial plan. Most of the recurrent pending bills were settled as first charge using the respective department's allocation further straining on the resources outlay for operations and maintenance during the year under review. The National Treasury has been steadfast in easing possible capacity gaps by training of county technical staff on IFMIS and E-procurement thereby reducing the time taken to procure goods and services and eventually the process of payments.

7. During the FY 2018/19, the County Treasury prepared three supplementary budgets to align the estimates with the changing social needs, prevailing economic trends and the County Allocation of Revenue Act (CARA), 2018. Additionally, the budget revision was triggered by the introduction of Universal Health Coverage (UHC) programme whose funds were released before being voted in the budget. It was also necessary to appropriate the balances brought forward from FY 2017/2018 into the FY 2018/19 through a supplementary budget and provide funds to settle the pending bills and commitments for the same period. In the final supplementary budget, the recurrent estimates amounted to Kshs 5,975,853,000 while the development estimate stood at Kshs 2,860,691,071 and thus having a total budget of Kshs. 8,836,544,071.

B. 2018/19 Fiscal Performance

Revenue Performance

8. During the financial year 2018/19, cumulative revenues received by the County Government from the National Government releases and conditional grants amounted to Kshs. 6,370,900,419 while Kshs. 837,394,937 was received from the county own revenue sources. Out of the amount received as conditional grants, there was Kshs. 229,776,792 meant for level II grant for Kenya Devolution Support Programme which was not originally budgeted for **as** shown in Table 1 below.

Table 1: Revenue Performance in Financial Year 2018/19

Revenue Sources and Expenditure	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage Performance
Balance B/F	748,570,336	1,387,510,339	1,387,510,339	0	100.00
Equitable Share	5,024,000,000	5,024,000,000	5,024,000,000	0	100.00
Level V Hospitals	407,861,272	407,861,272	407,861,272	0	100.00
Road Maintenance Fuel Levy Fund	132,277,544	132,277,544	165,996,793	(33,719,249)	125.49
User Fees Forgone	13,701,379	13,701,379	13,701,379	0	100.00
Development of Youth Polytechnics	28,795,000	28,795,000	0	28,795,000	0.00
DANIDA - Universal Health Care in Devolved Units Programme (UHDSP)	0	16,605,000	16,605,000	0	100.00
Kenya Devolution Support Program (KDSP) Level 1 (WB)	40,850,289	43,740,998	0	43,740,998	0.00
Kenya Devolution Support Program (KDSP) Level 2 (WB)	0	0	229,776,792	(229,776,792)	
World Bank Kenya Climate Smart Agriculture - KCSAP	0	117,000,000	40,980,203	76,019,797	35.03
KUSP - Kenya Urban Support Project Grant (UDG)	276,000,000	277,839,100	277,839,100	0	100.00
THUSCP Allocation - transforming Health Care System (WB)	0	50,000,000	27,901,561	22,098,439	55.80
Universal Health Care Program (UHC) – GOK	0	319,788,780	159,894,390	159,894,390	50.00
Agricultural Sector Development Support Programme	0	17,424,659	6,343,929	11,080,730	36.41
Local Revenue	1,000,000,000	1,000,000,000	837,394,937	162,605,063	83.74
Total Revenue	**7,672,055,820**	**8,836,544,071**	**8,595,805,695**	**240,738,376**	**97.28**
Salaries & Wages	3,591,774,954	3,591,774,954	3,565,472,585.25	26,302,368.75	99.27
O&M/ Others	1,561,112,875	2,384,078,046	1,993,534,399.85	390,543,646.15	83.62
Development	2,516,167,991	2,860,691,071	1,905,746,532.30	954,944,538.70	66.62
Total Expenditure	**7,672,055,820**	**8,836,544,071**	**7,464,753,517.40**	**1,371,790,553.60**	**84.48**

Source: County Treasury, 2019

9. By the end of June 2019, some of the projected revenues had been achieved with the exception of the local revenue, grant for Youth Polytechnics, Kenya Devolution Support Programme Level I Grant, Kenya Climate Smart Agricultural Project grant, World Bank Loan

for Transforming Health Systems for Universal Health Coverage (UHC) and Agricultural Sector Development Support Programme(ASDSP). At the beginning of the financial year 2018/19 the County had unspent cash balances accruing from the financial year 2017/18 amounting to Kshs. 1,387,510,339 which necessitated the development of the first supplementary budget to appropriate these balances.

10. During the financial year 2018/2019, the County received Kshs. 5,024,000,000 as equitable share of revenue from the National Government and Kshs. 407,861,272 as Conditional Grants for Nyeri Level V Hospital. Kshs. 13,701,379 as compensation for user fees foregone and Kshs. 165,996,793 from the Road Maintenance Fuel Levy Fund inclusive of Kshs 33,719,249 as balance brought forward from the FY 2017/18 but received in the FY 2018/19. The County also received Kshs. 16,605,000 as a grant from DANIDA, Kshs. 229,776,792 as Level 2 grant for KDSP, Kshs. 27,901,561 as World Bank Loan for transforming health systems for universal care project, Kshs. 277,839,100 for Kenya Urban Support Programme, Kshs. 40,980,203 for Kenya Climate Smart Agricultural Project, Kshs. 6,343,929 for Agricultural Sector Development Support Programme and Kshs 159,894,390 for Universal Health Coverage.

11. In the 2018/19 financial year the County Government collected a total of Kshs. 837,394,937 from local revenue sources against a target of Kshs. 1,000,000,000. Despite the County Government falling short of its local revenue target, there was a tremendous increase by 10.1 percent as compared to the previous achievement.

12. The upward trend is strongly attributed to automation of own source revenue streams, strong alternative dispute resolution mechanisms, a more vibrant enforcement unit, timely development and approval of the legislation necessary for seamless revenue collection and political good will especially from membership of the County Assembly of Nyeri. It is imperative to note that the county has achieved 94.11 percent automation of its revenue streams.

13. However, deliberate effort should be employed to bridge the gap in attainment of own revenue targets to avert possibilities of pending bills and incomplete development projects. The County will strive towards full automation of revenue collection covering all the streams to eliminate possibility of leakages. The enforcement and inspectorate units should be empowered to ensure all identified sources of revenue are covered and every individual pays what is due to

the county government. Further, revenue collection personnel will be rotated to ensure that no one person is at a specific revenue collection point for a pro-longed period of time

Table 2: Local Revenue Performance – FY 2018/19

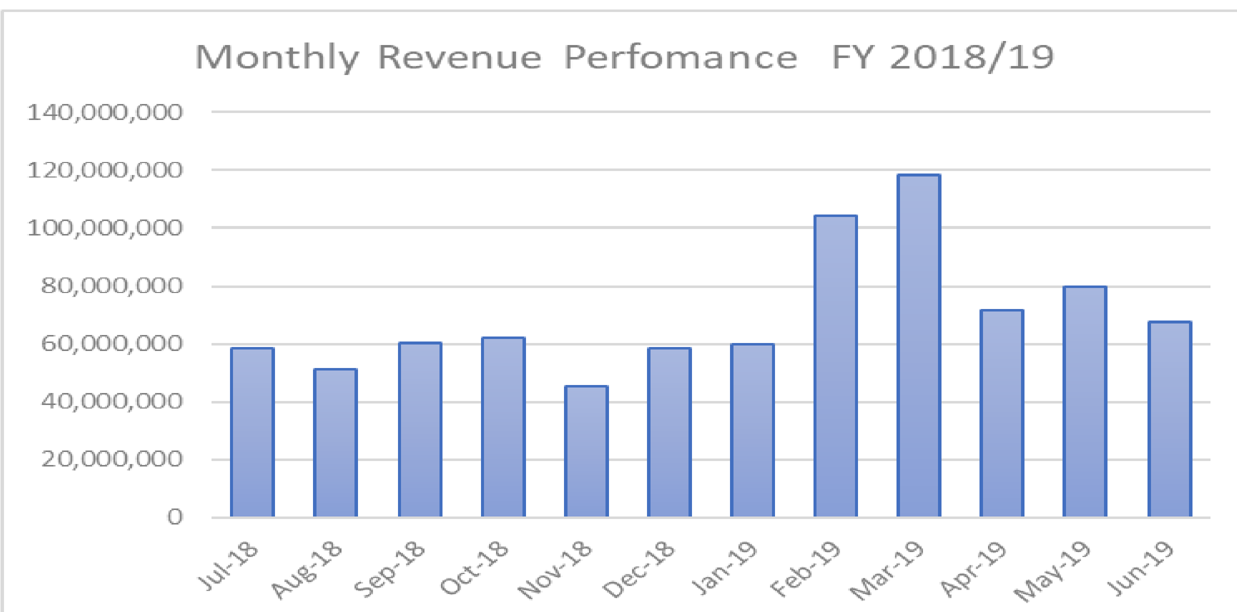
Revenue Stream	Approved Annual Target (Kshs.)	Actual Performance in 2018/2019	Deviation	Percentage Performance in 2018/19 (%)
Liquor License	52,154,900	46,188,654	(5,966,246)	88.56
Commission 3%	2,000,000	2,890,598	890,598	144.53
Agricultural Mechanization Station	1,155,400	1,207,900	52,500	104.54
Wambugu Agricultural Training Centre	7,900,000	6,557,579	(1,342,421)	83.01
Veterinary Charges	5,380,000	5,029,712	(350,288)	93.49
Slaughtering Fees	3,776,780	2,455,810	(1,320,970)	65.02
Slaughter House Inspection Fees	1,726,890	1,681,175	(45,715)	97.35
Nyeri Slaughter House	702,000	0	(702,000)	0.00
Kiganjo Slaughter House	120,720	40,000	(80,720)	33.13
Sale of Fertilizer/lime	2,204,890	2,229,100	24,210	101.10
Coffee Cess		1,782,590	1,782,590	100.00
Business Permits (e-SBP)	131,712,154	93,027,580	(38,684,574)	70.63
Ambulant Hawkers Licences (Other than BSS Permits)	452,000	624,895	172,895	138.25
Market Entrance/Stalls/Shop Rents	51,803,210	34,168,978	(17,634,232)	65.96
Weights and Measures	1,425,920	2,592,240	1,166,320	181.79
Central Kenya show annual permit	500,000	0	(500,000)	0.00
Co-operative Audit	2,000,000	1,745,400	(254,600)	87.27
Hospital Services	290,333,510	242,227,436	(48,106,0740	83.43
Public Health	17,131,050	13,381,715	(3,749,335)	78.11
Burial Fees	174,060	25,300	(148,760)	14.54
Public Toilets	600,000	528,130	(71,870)	88.02
Garbage Dumping Fee/waste disposal charges	1,051,960	962,645	(89,315)	91.51
Refuse Collection Fee	40,331,880	39,849,696	(482,184)	98.80
Miscellaneous Income	1,242,820	1,689,713	446,893	135.96
Document Search Fee	555,470	196,250	(359,220)	35.33
Tender Documents Sale	1,759,800	0	(1,759,800)	0.00
Impounding Charges/Court Fines, penalties, and forfeitures	2,037,060	2,844,052	806,992	139.62
Application Fee	20,735,690	19,224,121	(1,511,569)	92.71
Business Subletting / Transfer Fee	124,160	47,500	(76,660)	38.26
Parking Fees	67,207,372	30,794,681	(36,412,691)	45.82
Enclosed Bus Park	75,788,760	69,085,405	(6,703,355)	91.16
Parking Clamping/Penalties/Offences fees	2,966,560	1,782,050	(1,184,510)	60.07
Cess (Quarry, Produce, Kaolin, e.t.c.)	35,783,528	43,358,635	7,575,107	121.17
Land Rates	85,456,080	61,247,091	(24,208,989)	71.67
Other Property Charges	698,970	196,893	(502,077)	28.17
Ground Rent - Current Year	3,343,060	2,385,666	(957,394)	71.36
Ground Rent - Other Years	2,902,141	2,297,460	(604,681)	79.16
Stand Premium/Commissioner of Lands	100,000	0	(100,000)	0.00
Temporary Occupation License (TOL), New Occupation, Space Rent, Retainers fees	2,249,510	680,000	(1,569,510)	30.23
Plot Transfer Fee	1,555,000	743,700	(811,300)	47.83
Housing Estates Monthly Rent	18,582,300	27,900,599	9,318,299	150.15
Housing Estates Monthly Rent (Kiawara, Majengo & Kingongo Phase 3)	1,234,800	209,044	(1,025,756)	16.93
Approvals (Extension of users, Pegging for Kiosk, Subdivision, transfer, Amalgamation, survey, Occupation Cert, boundary dispute e.t.c.)	1,565,800	5,801,580	4,235,780	370.52
Sign Boards & Advertisement Fee	25,498,425	23,817,535	(1,680,890)	93.41
Buildings Plan Approval Fee	11,572,000	16,898,597	5,326,597	146.03

Revenue Stream	Approved Annual Target (Kshs.)	Actual Performance in 2018/2019	Deviation	Percentage Performance in 2018/19 (%)
Buildings Inspection Fee	3,818,570	3,955,840	137,270	103.59
Right-of-Way / Way-Leave Fee (KPLN, Telkom, e.t.c.)	1,765,800	5,370,940	3,605,140	304.16
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	1,789,800	1,304,200	(485,600)	72.87
Agency Fee (Fees from KHC, Insurance Firms, e.t.c.)	100,000	51,000	(49,000)	51.00
Sales of Council's Minutes / Bylaws	406,000	171,000	(235,000)	42.12
Benevolent Fund	1,646,000	380,500	(1,265,500)	23.12
Debts Cleareance Certificate Fee	3,457,200	1,890,300	(1,566,900)	54.68
Social Hall Hire, IFAD Hall	235,000	90,500	(144,500)	38.51
Stadium Hire	3,500,000	497,000	(3,003,000)	14.20
Fire-Fighting Services	4,877,000	12,919,502	8,042,502	264.91
Nursery Schools Fee (KRT)	315,000	41,350	(273,650)	13.13
Nursery Schools Fee (Kingongo)	227,000	149,600	(77,400)	65.90
Nursery Schools Fee (Nyakinyua)	208,000	175,500	(32,500)	84.38
Registration of School, Training/Learning Center Fee	58,000	0	(58,000)	0.00
Sub-total	**1,000,000,000**	**837,394,937**	**(162,605,063)**	**83.74**

Source: County Treasury, 2019

14. A monthly review of the county government's local revenue collection indicates that the month of March 2019 registered the highest amount as shown in the figure below. This is due to the fact that Single Business Permits and land rates, which are among the major sources of local revenue have a deadline of the month of March before starting to attract penalties.

Figure 1: Monthly revenue collections in FY 2018/2019



Source: County Treasury, 2019

Expenditure Performance

15. The Total expenditure in the 2018/19 financial year amounted to Kshs. 7,464,753.517.40 against a budget of Kshs. 8,836,544,071 representing an under spending of Kshs. 1,371,790,553.60 as shown in Table 3 below. This shortfall was attributed to delayed release of funds by the National Treasury and the introduction of end to end procurement process which was a new concept and the users were still in the learning process. There was also a shortage of Kshs. 162,605,063 from the projected local revenue targets contributing to the underperformance. Further, donor funds could not be absorbed due late release and the fact that the projects are multiyear but the funds were released in the first year – 2018/2019

Table 3: Expenditure Performance in FY 2018/19

Economic Classification	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage Performance
Salaries & Wages	3,591,774,954	3,591,774,954	3,565,472,585.25	26,302,368.75	99.27
O&M	1,561,112,875	2,384,078,046	1,993,534,399.85	390,543,646.15	83.62
Development	2,516,167,991	2,860,691,071	1,905,746,532.30	954,944,538.70	66.62
Total Expenditure	**7,672,055,820**	**8,836,544,071**	**7,464,753,517.40**	**1,371,790,553.60**	**84.48**

Source: County Treasury, 2019

16. In 2018/19 the County Government incurred recurrent expenditure totaling Kshs 5,559,006,985.10 against a proposed budget of Kshs 5,975,853,000 representing an under-spending of Kshs 416,846,014.90. The County spent Kshs. 3,565,472,585.25 on personnel emoluments and Kshs. 1,993,534,399.85 on operations and maintenance.

17. On the other hand, the expenditure on development amounted to Kshs 1,905,746,523.30 compared to a revised estimate of Kshs 2,860,691,071, representing an under-spending of Kshs 954,944,538.70. The underspending can be attributed mainly to the introduction of end to end procurement method where the users took time to understand the new concept and hence delayed procurement of goods and services during the financial year, late disbursement of funds by the National Treasury and which was further compounded by release of donor funds for multiyear projects in one year.

Performance by Departments and Other County Units

18. Analysis of the performance by departments and other county units indicates that the County Assembly had the highest percentage of recurrent expenditure at 99.27 percent while the Department of Transport, Public works, Infrastructure and Energy had the lowest at 84.47 percent as shown in Table 4 below.

Table 4 : Performance of Recurrent Budget in FY 2018/19

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	582,406,942	659,451,249	654,648,159.85	4,803,089.15	99.27
Office of the Governor & Deputy Governor	126,877,487	166,261,242	148,760,650.70	17,500,591.30	89.47
Office of the County Secretary	220,479,318	234,579,318	224,378,369.40	10,200,948.60	95.65
Finance and Economic Planning	471,622,792	557,992,792	488,691,094.20	69,301,697.80	87.58
Lands, Physical Planning, Housing and Urbanization	52,609,464	52,609,464	49,804,558.10	2,804,905.90	94.67
Health Services	2,343,300,734	2,809,429,526	2,631,001,118.00	178,428,408.00	93.65
Gender, Youth and Social Services	110,785,646	122,135,646	110,843,041.55	11,292,604.45	90.75
County Public Service Management	182,569,365	184,569,365	181,935,915.95	2,633,449.05	98.57
Agriculture, Livestock and Fisheries	324,538,275	372,337,949	333,574,745.25	38,763,203.75	89.59
Trade, Culture, Tourism & Cooperative Development	62,987,961	63,287,961	61,047,811.45	2,240,149.55	96.46
Education, Sports, Science and Technology	341,072,573	413,563,471	381,888,934.05	31,674,536.95	92.34
Water, Sewerage and Sanitation Services, Environment & Natural resources	139,550,264	139,550,264	120,145,093.15	19,405,170.85	86.09
County Public Service Board	38,146,814	41,224,314	39,790,581.00	1,433,733.00	96.52
Transport, Public Works, Infrastructure and Energy	158,940,194	156,860,439	132,496,912.45	24,363,526.55	84.47
TOTAL	**5,155,887,829**	**5,973,853,000**	**5,559,006,985.10**	**414,846,014.90**	**93.06**

Source: County Treasury, 2019

19. An analysis of the development outlay indicates that the Department of County Public Service Management attained the highest absorption rate of development budget at 99.61 percent followed by Department of Finance and Economic Planning with 87.24 percent. The Office of the Governor and Deputy Governor being the lowest did not incur any expenditure closely followed by the Office of the County Secretary with 20.71 percent. Table 5 below shows the performance of the departments and units.

Table 5: Performance of the Development Budget in FY 2018/19

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
County Assembly	50,000,000	5,000,000	1,718,013.00	3,281,987	34.36
Office of the Governor & Deputy Governor	102,000,000	40,000,000	0	40,000,000	0.00
Office of the County Secretary	0	8,387,292	1,737,399.30	6,649,893	20.71
Finance and Economic Planning	376,000,000	311,193,346	271,492,184.35	39,701,162	87.24
Lands, Physical Planning, Housing and Urbanization	356,000,000	358,752,031	78,813,760.60	279,938,270	21.97
Health Services	210,000,000	244,550,200	118,984,828.45	125,565,372	48.65
Gender, Youth and Social Services	9,000,000	21,477,939	9,821,008.60	11,656,930	45.73
County Public Service Management	12,000,000	5,000,000	4,980,600.00	19,400	99.61

Head/Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Percentage performance
Agriculture, Livestock and Fisheries	109,074,458	216,088,428	109,121,366.00	106,967,062	50.50
Trade, Culture, Tourism & Cooperative Development	92,000,000	119,372,969	84,034,562.20	35,338,407	70.40
Education, Sports, Science and Technology	123,000,000	163,299,351	133,849,978.25	29,449,373	81.97
Water, Sewerage and Sanitation Services, Environment & Natural resources	270,000,000	320,310,330	242,652,734.40	77,657,596	75.76
Transport, Public Works, Infrastructure and Energy	807,093,533	1,047,259,185	848,540,097.15	198,719,088	81.02
TOTAL	**2,516,167,991**	**2,860,691,071**	**1,905,746,532.30**	**954,944,538.70**	**66.62**

Source: County Treasury, 2019

C. Fiscal performance of the FY 2018/2019 in relation to fiscal responsibility principles and financial objectives

20. The fiscal performance in the FY 2018/19 impacted the financial objectives, detailed in the 2018 CFSP and the fiscal responsibility principles, in the following ways;

21. Revenue projections indicate a rising trend based on the CARA (2019) where the amount of revenue to be received as equitable share of national revenue disbursed to the County is Kshs 5,412,150,000, which is 7.17 percent higher than FY 2018/19 allocation of Kshs 5,024,000,000. Additionally, the contribution of local revenues has remained below 15 percent of the projected total county revenue in both FY 2018/2019 and 2019/2020. Actual contribution of local revenue to total county revenue in FY 2018/19 amounted to only 9.74%.

22. Furthermore, the amount of local revenues collected by the County Government has continued to increase over the two years due to the expansion in the county's revenue base, strengthening existing revenue streams and reduction in litigations by engaging all stakeholders in formulation of related legislation. There is also empowerment of the enforcement and inspectorate unit to net those who fail to pay on time.

23. The County Government acquired and installed an automated revenue management system and so far 94.1 percent the of revenue streams have been automated. This is expected to greatly improve the local revenue achievement as experienced in the actual performance of FY 2018/19. The resultant increase in own source revenue will create more funds for development and reduce overreliance on external revenue sources. However, there is a notable increased demand for more funds and this will be addressed through identification of new revenue streams, expanding and strengthening the already existing ones by enacting relevant legislation to facilitate the same.

24. For the FY 2019/2020 budget, adjustments will be introduced on fiscal aggregates as provided for under section 108 (2) of the PFM Act, 2012; CARA, 2019 and the unspent balances as at 30th June, 2019. The pending bills for the FY 2018/2019 totaled Kshs 63,695,160.49. These will be partly be paid as first charge in respective departmental votes and the remaining amount will be provided for during supplementary budget from the amount brought forward from 2018/19 financial year.

25. Regulation 25(1) (b) of the PFM (County Governments) Regulations demands that a county should not spend more than 35 percent of its cumulative revenue on salaries and wages. Pressure has been increasing for counties to ensure adherence to this provision on wage bill ceiling despite the fact that the rise was triggered, mainly, by external factors. These includes the signing of CBA's nationally and the effects being imposed on counties to execute without additional resource provisions e.g. the CBA for nurses and doctors that really strained the county's resource basket.

26. The County's actual wage bill in FY 2018/19 stood at Kshs. 3,565,472,585.25 representing 40.35 percent of the total county budget. Furthermore, the recruitment of professional staff and the demand for promotions from deserving workers whenever they are due has also contributed significantly to the huge wage bill. By the end of FY 2018/19 the County Government expenditure on wages and salaries was 47.76% and the measures put to reduce are bearing fruits. The measure includes internal advertisements for any openings, rationalization of the public service and availability of development funds from development partners/donors.

27. The amount allocated for development expenditure in FY 2018/2019 was 32.37% of the total budget. This allocation was within the legal framework which requires county government to allocate at least 30% of their annual budget towards development expenditure over the medium term. By the end of this period only Kshs. 1,905,746,532.30 of the development budgets had been spent which translates to 25.52 percent of the total county expenditure. The shortfall in absorption can be attributed to the roll out of the end to end procurement process after the Presidents Executive Order No.2 of 2018. Delay and late release of funds by the National Treasury also contributed to projects being completed and not being paid for.

28. During the FY 2018/2019 the County Government did not incur any debt through borrowing. The county also experienced a significant drop in pending bills from the Kshs. 360,

493,767.60 in 2017/18 to Kshs 63,695,160.49 in FY 2018/19 which will be cleared in the current financial year. This will also enable the county government to concentrate its effort towards execution of the programmes earmarked for the FY 2019/20. The cash balances carried forward to FY 2019/2020 amounts to Kshs. 665,179,743.98.

29. In line with the provisions of the PFM Act, 2012, a finance bill was prepared through a participatory, consultative and all-encompassing approach, and later submitted to the County Assembly for consideration and approval. Public participation in the process guarantees that the beneficiaries and stakeholders understands the charges thus minimizing the chances of resistance from the rates and fees payers.

30. Nevertheless, litigations have been encountered in the past thus hampering mobilization of local resources. However, amicable and out of court agreements and approaches in solving emerging disputes has continued to be encouraged to minimize and where possible eliminate any loss of revenue occasioned by these delays.

31. Over the medium term, the County Government through the CIDP 2018-2022 has prioritized the following development strategies:

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

32. The development objectives of the County Government in the medium term are significantly dependent on the various fiscal and monetary developments occurring at the national level. These objectives are clearly explained in Kenya’s Vision 2030, Medium Term Plan III and the Big Four Agenda. The County Integrated Development Plan (CIDP) 2018-2022 was prepared in line with the national development agenda. The identified projects and programmes in the CIDP are normally actualized through the Annual Development Plans and the County Fiscal Strategy Papers.

33. Agriculture is the backbone of the county's economy with tea, coffee, milk and horticulture as the key products. Investment in agricultural related activities has a great multiplier effect on almost every household. It is also important to note that any change in the national economic and financial trends have a huge impact on the County government's expenditure trends in the long run. Economic instabilities will lead to adverse national expenditure trends thereby negatively affecting the county government's development agenda. Examples of economic changes that are likely to destabilize the economy at both the national and county levels include but not limited to inflation and exchange rates fluctuations and international intrigues such as Middle East crisis and Brexit.

34. As demonstrated above, it is important to appreciate that the county's economic growth is largely dependent on the country's economy and how the nation plans to deal with economic destabilizers. Unfortunately, incidences of such internal and external shocks are ultimately borne by the hard-working coffee, tea and horticultural farmers at the county level.

35. The county focus will continue being directed towards more investment in irrigation projects and sustainable agriculture, focusing on improving and reclaiming lands within the county through land fertility improvement measures in an effort to increase the county's marginal agricultural productivity and output. Some of the actions that the County Government has adopted to improve productivity includes provision of certified seeds, lime and manure to farmers so as to reclaim the value of county soils and increase productivity in the long-run.

36. Training of farmers on modern farming techniques continues through demonstrations, farmer field schools and exhibitions in an effort to reduce overreliance on rain fed agriculture. These measures will ensure that the county is adequately protected from adverse weather conditions such as drought that could negatively affect production and thus food security.

A. Recent National Economic Developments

37. The economy remains resilient and recorded a fairly stable growth of 5.6 percent in the first quarter of 2019 compared to a growth of 6.5 percent in the corresponding quarter of 2018. The growth was mostly supported by growth in the service sector namely wholesale and retail trade, transportation, accommodation and food services, financial and insurance activities.

38. The contribution of agricultural sector to the overall GDP growth was at 1.4 percentage points in the first quarter of 2019, a drop from 2.0 percentage points in the same quarter of 2018.

The non-agricultural sector (service and industry) remained resilient and grew by 5.7 percent in the first quarter of 2019, down from 6.3 percent in the same quarter of 2018. The service and industry sector contributed 3.6 percentage points to real GDP growth in the first quarter of 2019.

39. Year-on-year overall inflation remained within the government target range at 5.0 percent in August 2019 up from 4.0 percent in August 2018. This increase reflected higher prices of key food items such as carrots, potatoes, sifted maize flour, cabbages, and fresh packed milk, due to delayed long rain. Electricity cost, kerosene price and house rent also increased during the same period

40. The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate reserve buffer. The depreciation of shilling is attributed to increased demand for import and excess liquidity in the money market.

41. Short-term interest rates have remained fairly low and stable. The interbank rate remained low at 3.6 percent in August 2019 from 6.52 percent in August 2018 due to ample liquidity in the money market. The 91-day Treasury bill rate declined to 6.4 percent in August 2019 compared to 7.6 percent over the same period in August 2018.

42. Broad money supply, M3, slightly slowed down to a growth of 9.2 percent in the year to June 2019 compared to a growth of 10.4 percent in the year to June 2018. Growth in M3 was supported by an improvement in the growth of the rate of demand deposits despite a decline in the foreign currency deposits, time and savings deposits and currency outside banks.

43. The overall balance of payments position recorded a deficit of US$ 524.6 million (0.5 percent of GDP) in the year to June 2019 from a deficit of US$483.4 million (0.9 percent of GDP) in the year to June 2018. This increase in deficit was occasioned by a deterioration in the financial account that more than offset the improvements in the current and capital account.

B. County Recent Economic Developments

44. Agriculture being the backbone of the county's economy remains a key factor in the realization of the national big four agenda on food security. The county has therefore continued to make immense investments towards promotion of agriculture for subsistence and commercial use to enhance sustainable food and nutritional security thereby boosting the financial well-being of Nyeri residents and overall economic growth and development.

45. The county has been able to achieve the following: provision of avocado, mangoes and macadamia seedlings to 29,495 farmers to increase tree cover and household incomes in the near future; purchase of three soil scanners to improve soil health; provision of certified potato and been seeds to 9,744 farmers in order to improve food security; Establishment of Wambugu fruit tree nursery to act as a source of clean, disease free seedlings for farmers.

46. The county has considered promoting diversification of agricultural activities through advancement of alternative sources of food and supporting fish production, processing and consumption to supplement the indigenous and traditionally accepted sources of nourishment. Towards this, the county restocked 5 community dams and initiated cage fish farming by providing 35 cages.

47. In order to improve on poultry farming, the county procured improved poultry breeds which were distributed to 1,271 farmers (in farmers' groups) targeting women, youths and people living with disabilities. Dairy production has also been facilitated through distribution of 12 milk coolers to mitigate against milk losses. Further, AI equipment and liquid nitrogen containers have been procured to strengthen service delivery across the county. This has enabled provision of AI services to 15,518 animals within the financial year 2018/2019.

48. In order to improve access to the rural areas and make agricultural products accessible to the market, the County Government has continually improved various access and feeder roads through a programme christened the '8Km per ward' programme and '10Km affirmative action for Kieni'. In the FY 2018/19 the county graded and graveled about 297.435Km of road surface. The target is to improve all the county roads into all-weather standards. There was also construction of three bridges to connect ridges and other areas that had been previously rendered unreachable. This has been enhanced through purchase of more machinery; five dump truck tippers, one fuel tanker and a motor grader.

49. During the financial year 2018/2019, the County Government has renovated 8 ECDEs, 11 toilet blocks in various ECDEs, and constructed 17 new ECDE classrooms. In our efforts to promote sporting activities for the youth, the County Government has constructed a boundary wall in 4 stadiums, 1 ablution block in Naromoru stadium and fenced 3 stadiums in Mukurwe-ini, Othaya and Tetu.

50. The County Government had a total of Kshs 100,000,000 available for distribution as bursaries within the FY 2018/2019. A total of 13,999 students benefited from Kshs 83,220,000 disbursed within the period. Another Kshs 5 million and Kshs 4,601,711 was set aside for endowment fund and special award to extremely vulnerable cases as shown below:

Table 6: Summary of Bursary Allocations for the Financial Year 2018/19

Category	No. of students	Kshs
Secondary	10,279	62,759,000
University	1,460	8,576,000
College	1,005	6,239,000
Polytechnic	796	4,021,000
Special	263	1,625,000
Administrative cost		3,000,000
Endowment Fund		5,000,000
Most venerable cases	196	4,601,711
Total	**13,999**	**95,821,711**

51. In financial year 2018/2019 the County Government was able to improve through renovation and rehabilitation of 31 markets with a completion of twenty 20 by the end of the FY 2018/19 while work was on going in the remaining eleven (11) markets. The County also continues to enforce fair trade practice and consumer protection as required by section 46 of the Kenya constitution. During the year, the weights and measures unit verified 11,897 weights and measures equipment and issued 2,800 certificates of Verification for the equipment. Revenue of Kshs 2,244,640 against a target of Kshs 1,650,000 was raised. At least 172 trading centers had been visited and 3,611 trading premises inspected for compliance with fair trade laws.

52. Through the county programme of Bima-Afya, in collaboration with NHIF, a total of 3,666 vulnerable members of our society have benefited. The beneficiaries include; Elderly venerable with over 70 years of age, extremely poor persons, Persons living with disabilities – Adult, Persons living with disability – Children and Orphaned children below the age of 18 years. Through the programme the beneficiaries are able to meet basic medical needs provided in our public health facilities. There is need for concerted effort to encourage Nyeri residents to acquire medical insurance covers either as a group or as individuals.

53. The County spent Kshs 2 million on purchase of sanitary towels for standard eight girls in primary schools across the County. This initiative is aimed at improving retention of girls in

schools and resultantly improving academic performance. A total of 12,201 girls benefitted from this program in FY 2018/2019 from a total of 60,006 packets of sanitary pads distributed.

54. The County has been responsive to disaster preparedness and mitigation for the several susceptible hazards that may occur which include fire outbreaks, landslides, floods, drowning cases and emergencies arising from accidents. In the financial year 2018/2019, Two (2) fire stations were renovated i.e. Othaya and Kieni West. The County also purchased two (2) new and modern fire engines.

55. Cases of Alcohol, Drug and Substance Abuse continue to affect our society due to increased cases of addiction and domestic violence. The County has continued to provide rehabilitation and treatment services at Karia Rehabilitation Centre. To enhance the services, the government entered into a partnership with the National Authority for the Campaign Against Drug Abuse (NACADA) for the establishment of a second rehabilitation and treatment centre with a capacity of 100 clients at Ihururu in Tetu Sub County.

56. Survey and mapping of land is critical in facilitation of development. During the financial year 2018/2019, survey and mapping of nine (9) colonial villages was done by GoK through a programme called KISIP while the County did 15 villages. The county government also embarked on improving the Nyeri CBD through decongestion and development of a bus terminus outside the town through a project supported by the World Bank, the Kenya Urban Support Program (KUSP).

57. To conserve the environment and address issues of public health, the county is committed to effectively manage its liquid and solid waste. During the financial year 2018/2019, the County acquired one skip loader, 15 skips, 1 bulldozer along with the construction 15 refuse chambers. The County also undertook a greening program that entailed planting of assorted indigenous trees and bamboo, and fruit trees across the county with the support of water resource users' associations and schools. A total of 3,886 fruit trees were planted in county schools and an additional 32,578 assorted trees were planted in the forests across the county.

58. A healthy citizenry is a critical contributor to the county's economic development agenda. In the financial year 2018/19, the county undertook renovation works at the Nyeri County Referral Hospital Outpatient block, Mother and Child Health Care (MCH) unit casualty, Laboratory, Pharmacy unit, Gender Based Violence Block and the mortuary. Further the County

constructed a drugs store and new-born unit at Karatina Sub-County Hospital, and an Outpatient block at Mt Kenya Hospital.

59. Further, an outpatient section, a new-born unit, a labor ward and a theatre recovery room were also renovated at Mukurwe-ini Sub-County Hospital. Due to the county's high burden of Non-Communicable Diseases, it was identified as one of the four pilot Counties under Universal Health Coverage (UHC) programme, which is one of the "Big Four Agenda" of the National Government. Through UHC, about 85% of Nyeri residents are expected to access health services without out-of-pocket expenditure.

C. Economic Outlook

Growth prospects

60. The National economic growth is declining as a result of the erratic weather conditions which will weigh down agricultural output and consequently constrain private consumption growth. The economy grew by 5.6 percent in the first quarter of 2019 compared to a growth of 6.5 percent in the first quarter of 2018. Growth in the second quarter is expected to pick up owing to stronger non-agricultural performance. However, the economic growth will continue to be supported by large-scale public infrastructure projects under the "Big Four" Plan, continual in payment of pending bills, a pickup in agricultural activities due to improved weather conditions as well as the stable macroeconomic environment.

61. The economic outlook takes into account the subdued performance in the agriculture and manufacturing sectors following the unfavorable weather conditions experienced in the first quarter of 2019 and depressed credit to the private sector. As a result, the economy is projected to expand by 6.0 percent in 2019 from a growth of 6.3 percent in 2018. Growth is expected to continue rising over the medium term supported by improved production in agriculture, expected growth in tourism, resilient exports and benefits from ongoing regional integration efforts. In addition, the strong consumer demand and private sector investment as well as a stable macroeconomic environment in the country will help reinforce this growth.

62. Going forward in terms of fiscal years, the economic growth is projected at 6.1 percent in the FY 2019/20 and 7.0 percent over the medium term due to investments in strategic areas under the "Big Four" Plan that aim to increase job creation through the manufacturing sector, ensure food security and improved nutrition, expand universal health coverage and provide

affordable houses to Kenyans. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

Inflation outlook

63. The overall inflation year-on-year has remained relatively stable and within the target range in the foregoing months of 2019. Food inflation has been declining in recent months reflecting improved food production. Core inflation has remained below 5 percent due to the fading demand pressures on account of the economy operating at close to its potential. Overall inflation is expected to remain within the target range in the medium term largely due to expectations of lower food prices following improved weather conditions, lower electricity prices with the reduced reliance on expensive power sources and stable exchange rates supported by adequate foreign exchange reserves.

64. The main risks to inflation includes erratic weather that affects agricultural production and related prices, possible effects of the recent increases in fuel prices, increased external uncertainties and the ongoing demonetization. Inflation will affect the county agricultural production prices by reducing the disposable income of the local farmers. The county will explore value addition mechanism as an incentive to improve market prices for agricultural related products and regulate the market to reduce the interference by middle men who take advantage of producers in the already volatile environment.

External sector outlook

65. The Kenya Shilling is expected to be stable in 2019 on account of a narrower current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow to 4.5 percent of GDP in 2019 from 5.0 percent of GDP in 2018 largely due to strong growth in diaspora remittances, resilient performance of exports particularly horticulture, higher receipts from tourism and transport services and slower growth in imports of food and SGR-related equipment.

Medium Term Fiscal Framework

66. Prudent fiscal policy on rationalizing expenditures, over the medium term, is critical in order to reduce on less productive expenditures and redirecting resultant savings to capital investment geared towards accelerated development across the county. The County will continue

to uphold budgetary transparency, accountability and effective financial management in all its operations for optimal benefit to the intended beneficiaries.

67. It also important to maintain the fiscal responsibility principles as enshrined in the Constitution of Kenya, 2010 and the PFM Act, 2012. This will assure intergenerational equity and support growth within a sustainable path of public spending by maintaining the county expenditures within the budget limits. Meanwhile, efficiency and efficient use of County Government resources will be enhanced to create room for prudent use of the scarce resources. The county will also ensure full compliance with the national norms and existing laws and regulations to avoid litigations touching on financial management that may hinder development and generate possible sanctions impacting negatively on the county financial systems.

68. The county will continue to strengthen collaborations with other agencies e.g. the National Treasury, the Office of the Controller of Budget, Central Bank of Kenya, Public Procurement Regulatory Authority among others to improve efficiency in administration and management of public funds.

69. There is a fully established County Audit Committee that ensures that processes for risk management are functional and adequate guaranteeing transparency and integrity in financial reporting. This has helped to safeguard value for money and quality service delivery to the county residents.

70. The Executive order no.2 of 2018 on procurement procedure will ensure that the 25-steps in procurement process are adhered to and streamlined. This will lead to sourcing of more goods and services which are above board thereby enhancing transparency and accountability. Additionally, the system will increase supplier competition through improved cost for government purchasing.

71. The county will continue working closely and collaborating with development partners (World Bank and UNDP) for support in capacity building and training of personnel in diverse areas, constitutional implementation and enhancement of revenue collection. The County Government will continue building capacity of its personnel on financial management and prudence. There will be continued effort to improve citizens' engagement and public participation so as to accelerate good working relations and minimize conflicts in county revenue collection, legislation and business. Therefore, there is need to enhance business activities,

investment, revenue mobilization while focusing more on accelerated development within the minimum possible cost.

72. The county's own revenue continues to increase in recent years. However, the target has not been hit yet. The County Government anticipates to continue increasing the contribution of the local revenue to the total county resources envelop. This will reduce over reliance on fiscal transfers from the national government and provide more fiscal space for development spending. Measures to achieve this deliberate effort will include stepping up efforts to ensure departmental revenue targets are met, development of valuation roll and spatial plan, strengthening of the revenue department through capacity building of staff and enhancing enforcement.

Risks to the Fiscal Framework

73. Although the growth of the county's economy is promising, it is not immune to the external factors affecting the national and global spheres. Risks from the global economies relate to increased volatility in the global financial markets due to tensions between the U.S. and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies. These risks will have an impact on the performance of the county economy

74. In addition, the weak growth of advanced economies will impact negatively on Kenya's exports and tourism activities. The main cash crops in the county include coffee, tea and horticulture mainly meant for export to the western economies. Tourism is also a key income earner for the county's economy and if affected will have a lasting impact on the economic growth of the county.

75. Agriculture being the county's main economic activity is prone to threats of erratic weather conditions. The county must therefore have in place measures to cushion itself from possible negative impacts that may hamper planned development activities. It must therefore concentrate its focus on shifting from overreliance on rain fed agriculture and explore alternative ways to sustain food production. Other unforeseen disasters such as pest infestation like the recent army worms and disease outbreaks pose some risk to this outlook. In the financial year 2018/19, and the current one, significant investment and allocation has been directed towards provision of pesticide to farmers, drilling of boreholes and water harvesting to ensure sustainable agricultural production.

76. The county's wage bill has remained relatively high over time especially after the upward increase in personal emolument for health workers occasioned by signing of the Collective Bargain Agreement with the National Government. There has been pressure to ensure that the wage bill remains below 35 percent of the county's overall budget as per the PFM regulations but that has proven to be an uphill task considering the prevailing circumstances. In an attempt to address the wage bill challenge, the County Treasury has set aside an amount of Kshs.100 million for a voluntary early retirement programme.

77. Public expenditure pressures especially recurrent pose fiscal risks since the operations are left with shoe string allocation that may affect service delivery in the long run. The county government is dedicated to continue with infrastructural development as an enabler to development. This will only be achievable if a considerable amount of resources is directed towards the county's flagships with greater focus on infrastructure development over the medium term.

78. The weak local revenue performance, which has led to overreliance on fiscal transfers from the National Government, remains a major fiscal risk. There is also the risk of low resource absorption mainly caused by delays in releasing of funds from the National Treasury. This may also result in high amount of pending bills and projects extending to the outer years.

79. The capacity of the staff in resources management and mobilization, monitoring and evaluation and reporting is a risk to the framework. The government will continue building the capacity of the staff while enlisting the support of the national institutions in assessing the risk areas in budget formulation, implementation and reporting. This will ensure that, if the risks materialize, the County Government will be able to carry out the necessary measures to mitigate the impact on the budget.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2019/20 Budget

80. The Medium Term Fiscal Framework (MTFF) for the FY 2019/20 emphasizes on efficiency and effectiveness of public spending and enhancing revenue collection to ensure there are more resources for development while at the same time supporting rapid and inclusive economic growth and continued fiscal discipline.

81. Increase in local revenue is paramount and more efforts will be geared towards expanding the revenue base. In the long run, we expect better performance of revenues streams from both local sources and national exchequer transfers.

82. The county fiscal framework guiding the FY 2019/20 is informed by the performance in FY 2018/19 budget and the updated fiscal outlook, the risks to the FY 2018/19 budget include short fall in the projected local revenue which hindered full implementation of the budget and led to pending commitments by the end of the financial year.

83. Expenditure burdens with respect to personal emoluments that are way above the ceiling prescribed in the PFM (county government) regulations, 2015 also limits the amount for development and operations and maintenance. In addition, implementation pace in the spending units and county departments continues to be a source of concern especially with regard to the development expenditures and absorption of funds. These risks will be monitored closely and the County Government will take the appropriate measures through revised budgets.

84. The revised budget will also be necessitated by the need to realign the budget with the CARA, 2019 and also appropriate afresh the funds that were carried forward from the FY 2018/19 most of which are conditional grants. This means that we will contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012.

85. Adjustments to the 2019/20 budget will also take into account the critical areas like salaries and wages, pending bills and the county key strategic objectives as outlined in the County Integrated Development Plan (2018-2022) in order to fast-track economic growth for social economic transformation and prosperity. Over the medium term, the county will endeavor to reprioritize development expenditures in order to achieve her goals and aspirations. However, resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

86. In adjusting the 2019/20 budget, rationalization of expenditure is critical and this will be guided by the approved revenue allocations, projected local revenue collection, revised timeframes for implementation of programmes and emerging issues/concerns. However, county flagship programmes and projects, as outlined in the Annual Development Plan 2019/2020, would always be given first priority.

87. In the Finance Bill, 2019, the County Treasury proposed measures to help expand the revenue base and curb possible revenue leakages. This will be achieved through enhancement of compliance and enforcement. The revenue management system and automation of the revenue streams has greatly enhanced revenue collection and more efforts will put towards improvement and excellence of this system.

88. According to the provisions of the PFM Act Section 107(2) (a), it is stated that, ―*the county government's recurrent expenditure shall not exceed the county government's total revenue*. In section 107(2) (b), it is added that, ―*over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure*. The county has and continues to struggled to adhere to this and more effort in needed to achieve the same.

B. Medium-Term Expenditure Framework (MTEF)

89. The Medium-Term Budget Framework for the period 2019/2020-2021/2022 will mainly focus on adjusting non priority expenditure and concentrating the resources to priority areas as identified in the Annual Development Plan 2019/2020 and in the CFSP 2019. These priority areas were identified during public participation and stakeholder engagement which ensures improved ownership of development projects and programmes by the community.

90. The County Integrated Development Plan 2018-2022, being the county blue print for the five years, continue to guide the county in allocating funds to development programmes under the five broad areas of the county's economic transformation. The FY 2019/2020-2021/2022 MTEF Budget will therefore focus on the following areas as outlined in the CIDP;

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

91. In the FY 2019/20, the approved budget amounts to KShs. 7,787,075,422 as compared to KShs 8,836,544,071 in FY 2018/2019. This scenario will change once the adjustments are factored in the supplementary budget.

MTEF Budget Ceilings

92. Reflecting the above medium-term expenditure framework, the table 7 below provides the baseline ceilings for the FY 2018/19, and FY 2019/2020 as per the County Fiscal Strategy Paper (CFSP) 2019 and changes approved through a memorandum during budget submission.

Table 7: MTEF Ceilings by Department

Department/Spending Unit	2018/2019			2019/2020		
	Recurrent	Development	Total	Recurrent	Development	Total
Executive Office of the Governor and Deputy Governor	166,261,242	40,000,000	206,261,242	115,420,638	80,000,000	195,420,638
Office of the County Secretary	234,579,318	8,387,292	242,966,610	219,556,582	0	219,556,582
Finance & Economic Planning	557,992,792	311,193,346	869,186,138	547,250,163	30,000,000	577,250,163
Lands, Housing, Physical Planning and Urbanization	52,609,464	358,752,031	411,361,495	46,961,612	400,600,000	447,561,612
Health Services	2,809,429,526	244,550,200	3,053,979,726	2,664,135,137	205,217,234	2,869,352,371
Gender, Youth and Social Services	122,135,646	21,477,939	143,613,585	70,968,597	35,500,000	106,468,597
County Public Service Management	184,569,365	5,000,000	189,569,365	57,291,918	0	57,291,918
Agriculture, Livestock and Fisheries	372,337,949	218,488,428	590,826,377	164,517,572	271,598,808	436,116,380
Trade, Culture, Tourism and Cooperative Development	63,287,961	119,372,969	182,660,930	57,185,517	88,422,834	145,608,351
Education, Sports, Science and Technology	413,563,471	163,899,351	577,462,822	376,914,348	117,190,974	494,105,322
Water, Sewerage and Sanitation, Environment and Natural Resources	139,550,264	317,310,330	456,860,594	133,664,918	228,765,356	362,430,274
County Public service Board	43,224,314	0	43,224,314	34,466,959	0	34,466,959
Transport, Public Works, Infrastructure and Energy	156,860,439	1,047,259,185	1,204,119,624	130,935,093	1,001,063,913	1,131,999,006
County Assembly	659,451,249	5,000,000	664,451,249	659,447,249	50,000,000	709,447,249
TOTAL	**5,975,853,000**	**2,860,691,071**	**8,836,544,071**	**5,278,716,303**	**2,508,359,119**	**7,787,075,422**

Source: County Treasury, 2019

C. 2019/20 Budget framework

93. The budget framework builds on fiscal consolidation agenda through which the County Government aims to contain the growth of expenditure and increase the revenue raised. Some of the policy measures being implemented include adoption of the zero-based budgeting process, prioritization of the ongoing projects and enhancing monitoring and evaluation of projects to guarantee quality and sustainability. The County Government will also ensure that all the projects are aligned to its overall development agenda to avoid spending on non-priority areas.

Revenue projections

94. The 2019/2020 approved budget of Kshs. 7,787,075,422 will be financed through the equitable share from the national resources of Kshs. Kshs. 5,301,000,000 Conditional grants of Kshs. 1,322,072,569 and internally generated revenue estimated at 1,000,000,000 and balance brought forward from the 2018/2019 financial year of Kshs. 164,002,853 for Kenya Roads Board amount that was not transferred from County Revenue Funds**.**

95. The main sources of internally generated revenue will be parking fees, single business permits and land rates. It is imperative to note that the County Allocation of Revenue Act, 2019 was approved on 19th of September, 2019 with slight changes in the allocation and the county budget will therefore be aligned with it through a supplementary budget.

Expenditure Forecasts

96. In FY 2019/2020 approved budget, recurrent expenditures are at 67.79 percent of county's annual budget i.e. KShs 5,278,716,303 as compared to 67.63 for the FY 2018/19 budget. Development expenditure are at 32.21 percent of county's annual budget i.e. KShs 2,508,359,119 as compared to Kshs. 32.37 for the FY 2018/19 budget due to constraint in the available resources.

97. Allocations in the FY 2019/2020 budget form the basis of expenditure ceilings on goods and services for departments not disregarding the absorption capacity. The PFM Act, 2012 requires that a minimum of thirty percent of the budget be allocated to development expenditure over the medium term, therefore, measures need to be put in place to ensure more resources are devoted to development and support critical infrastructure as we move forward.

V. CONCLUSION

98. The approved FY 2019/2020 budget estimates are based on the approved County Fiscal Strategy Paper (CFSP), 2019 together with the County Treasury memorandum explaining some deviations from the ceilings. The County Government will continue with fiscal consolidation efforts while ensuring resources are directed to high priority areas. Changes in the budget will be done through supplementary budget to accommodate the dynamic fiscal environment and address emerging needs. For instance, the CARA, 2019 has been enacted and has therefore necessitated a supplementary budget to realign it with the approved budget for FY 2019/2020.

99. Further, the county government will continue implementing policies that aims at guaranteeing the ease of doing business and thereby sustain a favorable business environment that will promote investment, growth, and employment creation. More measures will be instituted in revenue collection to improve its administration and contain the growth of total expenditure. This will involve shifting the composition of expenditure from recurrent to capital outlays and eliminating unproductive expenditures. The fiscal policy will also target to rationalize and direct resources to projects with high economic impact. The resource envelope and ceilings for each sector/department will be provided by the County Fiscal Strategy Paper, CFSP, 2020, considering the county approach in preparing the budget is zero based.