



REPUBLIC OF KENYA

**COUNTY TREASURY
KIAMBU COUNTY GOVERNMENT**

**COUNTY BUDGET REVIEW
AND OUTLOOK PAPER**

SEPTEMBER 2018

© Budget Review and Outlook Paper (BROP) 2018

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Foreword

This County Budget Review and Outlook Paper (CBROP), has been prepared in accordance with the Public Finance Management Act, 2012 and its regulations and is the second to be prepared under the new administration. The paper provides actual fiscal performance for the FY 2017/2018 given the budget appropriations for the same year as well as a review of the recent economic developments. It further provides an overview of how the actual performance of the FY 2017/18 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing changes from the projections outlined in the 2018 County Fiscal Strategy Paper. It presents the recent economic developments and actual fiscal performance of the FY 2017/2018 and makes comparisons to the budget appropriations for the same year. It further provides updated forecasts with sufficient information to show changes from the projections outlined in the latest County Fiscal Strategy Paper (CFSP), released in February 2018.

In this CBROP we are re-emphasizing the Government's fiscal policy strategy, which focuses on maintaining a strong revenue effort and shifting composition of expenditure from recurrent to productive capital expenditures and optimally ensuring efficiency and effectiveness in the use of public resources. A strategy that recognizes the need to strike a balance between growth and fiscal sustainability, with emphasis on higher investments in agriculture, human capital and infrastructure development today for a stronger and more durable growth tomorrow.

As outlined in the CFSP, County Government proposes to allocate more resources to agriculture; industries, ICT innovations, health and environment with an aim to stimulating general economic performance while addressing the issues promote welfare of County residents. To unlock the immense potential for growth, modernization and prosperity in the county key focus of the county government will be;

- Wealth creation for both the rural and urban population leading to economic empowerment through agriculture growth and transformation.

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- Job creation for the youth through investing in new industries, I.C.T innovations.
 - Provision of preventive and curative health services (Universal Healthcare).
 - Access to clean and affordable water for drinking and irrigation.
 - Improving the business environment and promotion of the manufacturing sector.
 - Provision of decent and affordable housing.
 - Good governance, public participation, justice for all and fighting corruption.
 - Campaign against alcohol, drug and substance abuse

Lastly, I wish to note that this CBROP has been prepared before the release of the provisional ceilings by the Commission of Revenue Allocation and Controller of Budget due to tight timelines provided in the PFM Act and therefore, there are just indicative and will be affirmed by the County Fiscal Strategy Paper (2019 CFSP). The timelines of the budget calendar should strictly be adhered to as doing so will enable the County Treasury meet the stipulated timelines of the PFM Act, 2012.

WILSON MBURU KANG'ETHE
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE, ICT AND ECONOMIC PLANNING

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

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

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

Fiscal Responsibility Principles to be enforced by the County Treasury

In line with the Constitution, the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles that the County Treasury need to enforce. The PFM law (Section 107) states that:

- 1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
- 2) In managing the County Government's public finances, the County Treasury shall enforce the following fiscal responsibility principles
 - 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 expenditure on wages and benefits for its public officers 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 Governments' borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
 - e) the county debt shall be maintained at a sustainable level as approved by 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.
- 3) For the purposes of subsection (2)(d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- 4) Every County Government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.
- 5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

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Abbreviations and Acronyms

ADP	Annual Development Plan
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
FY	Financial Year
GDP	Gross Domestic Product
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NG	National Government
OSR	Own Source of Revenue
PFM	Public Financial Management

I. INTRODUCTION

Objective of the 2018 County Budget Review and Outlook Paper

1. The objective of the 2018 County Budget Review and Outlook Paper (CBROP) is to provide a review of fiscal performance for the FY 2017/2018 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2018 County Fiscal Strategy Paper (2018 CFSP). This together with updated macroeconomic developments and outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the FY 2019/2020 budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the 2019 CFSP.

2. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources, based on evidence and rational deliberation. To achieve this, the sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in this paper. The sector ceilings set in motion the budget preparation for the FY 2019/2020 and the medium term.

3. This 2018 CBROP is a key document in linking policy, planning and budgeting. The County Government has just finalized the preparation of the second County Integrated Development Plan (CIDP 2018-2022) and the 2019/2020. This County planning Documents will guide budgetary preparation and programming from 2018 onwards.

4. In this context, the 2018 CBROP is anchored on the policies as detailed in the 2018 County Fiscal Strategy Paper (2018 CFSP). These policies are anchored on the new administration development priorities and the National Government four thematic areas under the “Big Four” Plan as prioritized in the Third Medium Term Plan (MTP 2018-2022). Expenditures priorities have been aligned to programmes that will lead to wealth creation for both the rural and urban population, Job creation for the youth through investing in new industries, I.C.T innovations, Access to clean and affordable water for drinking and irrigation, Improving the business environment, Good governance, public participation, fighting corruption and campaign against illicit alcohol, drug and substance abuse. To meet

the commitments as contained in the 2018/2019 Budget and the medium term budget, the County Government will continue to implement measures aimed at raising the Own Source of Revenue. In addition, the County Government will continue to gradually reduce non-priority expenditures, improve value for money spent and stabilize the public finances.

5. However, the underperformance in both revenue collection and expenditure in the FY 2017/2018 has implications on the financial objectives outlined in the 2018 CFSP and the 2018/19 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2018/2019 and the medium term has changed given the end FY 2017/18 and the first quarter of FY 2018/19.

6. To remedy these deviations, the 2018 CBROP details appropriate revisions taking into account the budget outturn for the FY 2017/18. In addition, the fiscal outlook contained in this CBROP focuses on reforming revenue administration systems to enhance revenue yields and to promote compliance.

7. The resource envelope for FY 2019/2020 has been projected and indicative sector ceilings presented in this paper. These ceilings set in motion the budget preparation for the 2019/20 Fiscal Year as envisaged in the PFMA, 2012.

8. The paper is organized in six sections as follows: Section I provides the introduction, Section II Provides review of the fiscal performance in the FY 2017/18 and its implications on the financial objectives set out in the County Fiscal Strategy Paper submitted to the County Assembly in February 2018, Section III gives brief highlights of the recent economic developments and updated macroeconomic outlook; Section IV looks at Implementation of FY 2018-2019 Budget; Section V provides the resources allocation framework, and Section VI concludes the paper.

II. REVIEW OF FISCAL PERFORMANCE ON THE FY 2017/18 BUDGET

A. Overview

9. This section provides an overview of the performance and implementation of the budget for the financial year 2017/2018 and how this may have affected compliance with the fiscal responsibility with regard to the 2017 CFSP. This will be useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as a way forward for Kiambu County.

10. Execution of the FY 2017/18 budget advanced well and picked up towards the end of the financial year. The total revenues, including equitable share and own source, amounted to KShs. 12.35 Billion against the revised target of KShs12.58. Billion. The shortfall 325 Million of was occasioned by unattained own revenue targets.

11. The significant Own Source of Revenue shortfall was driven by underperformance in most revenue streams. Health management unit, roads and transport, trade and tourism and vehicle parking revenue streams exceeded their annual targets. The underperformance in physical planning stream was a result of non-compliance with building plan approval as a result of weak enforcement mechanisms.

12. Absorption of expenditures for the FY 2017/2018 was lower as a result of inadequate financing in both the recurrent and development expenditures due to underperformance of own revenue collection. The revised expenditure estimates for the year amounted to KShs. 12.585 Billion.

13. Because of underperformance in both revenue and expenditures in the FY 2017/18 budget there was a budgetary fiscal deficit of KShs. 325 Million as compared to the revised budget estimate 12.585.

B. 2017/18 Fiscal Performance

Performance of Revenues

14. By the end of June 2018, total County Government revenues including revenue from National Government amounted to Ksh 12.35 Billion (**Table 1**). Own Source of Revenue amounted to Ksh 1.7 Billion against a target of Ksh 1.9 Billion which represented 88 Percent of the revised target. Revenue from the national Government amounted to 10.56 Billion against a target of 10.66 Billion which represented 99 Percent.

15. The significant Own Source of Revenue shortfall was driven by underperformance in almost all revenue streams. Health management unit, Roads and Transport, Trade and Tourism and Vehicle parking revenue streams exceeded their annual targets. The underperformance in physical planning stream was a result of non-compliance with building plan approval as a result of weak enforcement mechanisms (table 2)

16. Revenue performance in FY 2017/18 was low as compared to FY 2016/17. The revenue shortfall registered in the FY 2017/18 was occasioned by prolonged electioneering period, challenges in enforcement of development control fees especially in the area of building plans approvals, general reduction in charges, fees and levies in the finance Act. Revenue performance is projected to remain on an upward trajectory over the medium term as proper tax administrative measures are being put in place.

17. In the FY 2017/18, the County Government generated Own Source of Revenue of KShs.1.7 Billion from fees and charges within the County. Analysis of the local revenue collected by stream (see table 2 below) indicates that, Trade and Tourism stream, Road and Transport, Vehicle parking and Health Services Management Unit contributed the largest share of the local revenue.

Table 1: Fiscal Out-turn of the FY 2017/2018

	Actual Revenue	Approved Budget	Deviation
	A	AB	AB-A
Total Revenue	12,352,636,462	12,585,559,919	325,744,158
National Government Transfer	10,565,994,768	10,661,343,627	95,348,859
Local Revenue	1,693,820,993	1,924,216,292	230,395,299
Unspent Balances B/f FY 2016/2017	92,820,701		
	Actual Expenditure	Approved Budget	
		AB	
Total Expenditure	11,892,068,558	12,585,559,919	693,491,361
Recurrent	9,734,388,161	9,810,821,984	76,433,823
Development	2,157,680,397	2,774,737,935	617,057,538

Source: County Treasury

Table 2: Internal Generated revenue FY 2017/2018

No	Revenue Stream	Revised Revenue Target	Actual Annual Revenue	Deviation	Actual Revenue as a Percentage of Annual Targets (%)
1	Agriculture, Livestock and Fisheries Management unit	37,312,188	22,199,626	(15,112,562)	59%
2	Physical Planning unit	332,454,447	283,290,873	(49,163,574)	85%
3	Business Permit Management Unit	190,000,000	181,975,798	(8,024,202)	96%
4	Cess Management Unit	92,093,396	65,355,229	(26,738,167)	71%
5	Education, Culture, ICT & Social Services Unit	5,602,819	105,000	(5,497,819)	2%*
6	Health Services Management unit	478,666,420	493,863,597	15,197,177	103%
7	Housing Management unit	28,000,000	1,997,100	(26,002,900)	7%**
8	Land rates Management unit	300,000,000	180,986,283	(119,013,717)	60%
21	Market Management unit	20,648,704	13,219,617	(7,429,087)	64%
22	Others	63,705,994	91,179,089	27,473,095	143%
23	Roads, Transport, Public Works Management unit	30,000,818	34,065,005	4,064,187	114%
24	Slaughter House Management unit	51,342,946	38,388,715	(12,954,231)	75%
25	Trade, Tourism Industry and Cooperative units	8,613,684	13,183,990	4,570,306	153%
26	Vehicle Parking Management unit	202,549,347	225,689,990	23,140,643	111%
27	Water Environment & Natural Resources Management unit	73,225,529	41,693,580	(31,531,949)	57%
28	Liquor Licenses Management unit	10,000,000	6,627,500	(3,372,500)	66%
Total		1,924,216,292	1,693,820,992	(230,395,300)	

*some of the functions that were generating revenue under this stream were transferred to other departments due to reorganization of the government structures. Those revenues are captured under others stream

**under housing management stream, the extreme underperformance was occasioned by a court judgement that directed those people who continued to pay revised house rent for the time the case was ongoing be given credit of the difference.

Expenditure

18. Total expenditure in the FY 2017/18 amounted to Ksh 11.89 Billion against an approved budget of Ksh 12.58 billion, representing an under spending of Ksh 693 Million (or 6 percent deviation from the revised budget) (Table 3). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the County Government. Detailed analysis of these expenditures is tabulated in table 3 below.

19. During the year under review, recurrent expenditure amounted to KShs. 9.73 Billion against a revised target of KShs. 9.81 Billion. This represents a 1 percent deviation. In terms of recurrent expenditure absorption, county public service board, finance, agriculture, water, health and trade departments had the highest absorption at 100 percent

20. In the FY 2017/18 development expenditure amounted to Ksh.2.15 Billion compared to a revised budgetary allocation of KShs. 2.77 Billion which translates to 22 percent deviation from the target. The County could not finance some of the planned projects due to inadequate funds hence underperformance. Further, underperformance in Own Source of Revenue led to increased pending bills in the financial year as the County Government could not pay for some of the already committed projects. Pending bills and carryovers will be accommodated in the first supplementary budget of 2018/2018 Financial Year. Through Treasury Circular on supplementary budget number 1 of 2018/2019, accounting officers of all departments are required to rationalize and re-prioritize planned activities to provide for the pending bills/carry over from within the voted provision. This will affect some of the programs and projects for the current financial year. However, priority will be given to pending bills and ongoing projects before embarking on the new ones.

21. Roads Transport and Public Works departments, Water, Environment and Natural Resources and Trade, Industry, Tourism and Co-operative department had the highest absorption levels under development vote. The percentage absorption levels were 89.0%, 83.0% and 82.0% percent respectively.

Table 3: Total Expenditure for the FY 2017/18

Department	Approved Budget (AB)	Actual Expenditure (AE)	Deviation (AB-AE)	Absorption %
Recurrent				
County Assembly	1,373,745,034	1,329,451,693	44,293,341	97%
County Executive	528,365,251	519,531,147	8,834,104	98%
County Public Service	58,108,500	58,101,499	7,001	100%
Finance & Econ. Planning	1,112,917,431	1,117,939,794	-5,022,363	100%
Admin.& Public Service	581,610,204	578,570,504	3,039,700	99%
Agric., Livestock & Fisheries	437,938,813	437,938,813	0	100%
Water, Environment & Natural Resources	272,994,419	274,015,031	-1,020,612	100%
Health Services	3,552,516,527	3,546,142,724	6,373,803	100%
Education, Culture, ICT & Social Services	1,248,029,195	1,241,225,694	6,803,501	99%
Youth & Sports	27,199,862	24,726,039	2,473,823	91%
Lands, Physical Planning & Housing	166,823,496	161,139,130	5,684,366	97%
Trade, Industry, Tourism & Cooperatives	148,753,649	153,700,527	-4,946,878	103%
Roads, Transport & Public Works	296,469,043	286,555,006	9,914,037	97%
Livestock, Fisheries & Marketing	5,350,560	5350560.00	0	100%
Total Recurrent	9,810,821,984	9,734,388,161	76,433,823	99%
Development				
County Assembly	8,000,000	2,118,690	5,881,310	26%
County Executive	3,633,400	1,975,000	1,658,400	54%
Finance& Econ Planning	106,249,021	29,677,144	76,571,877	28%
Admin & Public Services	56,944,649	29,372,403	27,572,246	52%
Agric, Livestock & Fisheries	66,836,291	51,435,225	15,401,066	77%
Water, Environment & Natural Resources	159,426,077	131,975,147	27,450,930	83%
Health Services	879,748,949	648,102,277	231,646,672	74%
Education, Culture, ICT & Social Services	176,466,624	139,400,582	37,066,042	79%
Youth and Sports	38,520,638	29,905,270	8,615,368	78%
Lands, Physical Planning & Housing	94,860,892	70,188,176	24,672,716	74%
Trade, Industry, Tourism & Co-operatives	56,265,919	46,140,952	10,124,967	82%
Roads, Transport & Public Works	1,092,203,555	977,389,531	114,814,024	89%
Livestock, Fisheries & Marketing	35,581,920	0	35,581,920	0%
Total Development	2,774,737,935	2,157,680,397	617,057,538	78%
Totals	12,585,559,919	11,892,068,558	693,491,361	94%

Source: County Treasury

2017/18 Financing and balance

22. The analysis above for the FY 2017/18 budget performance shows that the budget was under financed by Ksh. 325 Million.

C. Implication of 2017/18 Fiscal Performance on Fiscal Responsibility Principles and Financial Objectives contained in the 2018 County Fiscal Strategy Paper

Implication on the Fiscal Responsibility Principles

24. In line with section 107 of PFMA, 2012 and section 25 of PFMA regulations 2015, the County Government is required to adhere to some fiscal responsibilities. Though, we have not achieved the levels required, the County Government is committed to ensuring that we work towards achieving them.

25. The implication of the FY 2017/18 Fiscal Performance on the Fiscal Responsibility Principles was as follows;

- On the principle of total recurrent not exceeding total revenue, the County Government's actual recurrent expenditure which was KShs 9.8 billion did not exceed the County Government's total revenue of KShs 12.58 billion hence the County has complied with the fiscal responsibility principle.
- The County's total expenditure on employees' wages and benefits amounted to KShs 5.6 Billion translating to 44 percent of the revised budget estimates FY 2017/18. This is higher than the required 35 percent. However, the County Government is committed into bringing the proportion of the expenditure on wages down in the long term. The County Government will implement measures to increase our Own Source of Revenue collections that will enhance spending on development projects hence lowering the percent of wages to the required levels.

-
- The principles further require that 30 percent of total expenditure should be development. In the FY 2017/18 outturn, budgetary allocation to development expenditures amounted to 2.7 Billion of the revised estimates accounting for 22 percent. The County Government will work towards attaining the required levels by reducing recurrent and improving revenue collection to increase fiscal space for spending on development.
 - The County Government did not borrow any funds during the year to supplement budget financing.

26. The fiscal performance was generally satisfactory despite cuts in both recurrent and development in the supplementary budget.

Fiscal Performance for the FY 2017/18 in Relation to Financial Objectives

27. The performance in the FY 2017/18 affected the financial objectives set out in the 2018 County Fiscal Strategy Paper and the Budget for the FY 2018/19 in the following ways;

- Revenue projections and expenditure were adjusted downward to reflect realistic revenue targets and to reduce chances of generating pending bills at the end of the period.
- Programs and projects initially projected for the period FY 2018/19 will be affected by pending bills/carry overs being accommodated from 2017/18 FY.
- The base used to project expenditures in the FY 2018/19 and the medium term is affected as a result of unmet revenue targets.
- Taking into account the budget outturn for the FY 2017/18, appropriate revisions have been undertaken in the context of this CBROP.
- Consequently, the baseline ceilings for the formulation of CFSP 2019 will be lower than set out in the previous year.

28. The main reasons for the deviations, as explained above, from the financial objectives include: unmet Own Source of Revenue targets and under-spending mostly in development

29. To remedy these variances, the County Government will focus on :

- ✓ Enhancing Own Source of Revenues collection capacity.
- ✓ Exploring legal options to capping County OSR revenue growth estimates, based on previous performance
- ✓ Reforms to improve public resources utilization and budget execution.
- ✓ Capitalizing in County infrastructure and social welfare services in order to unlock the county's potential and improve competitiveness.
- ✓ Strengthening capacity-building in public financial management to ensure good governance and effective service delivery.
- ✓ Implementing development budget as planned.

III. RECENT ECONOMIC DEVELOPMENTS IN KENYA'S ECONOMY

30. The performance of the County is dependent on the Country's economic performance as well as formulation and implementation of prudent policies by the County Government (CG). Generally the County operated under a stable macroeconomic environment.

31. 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. On the positive side, growth in 2017 was supported by the ongoing public infrastructure investments, improved weather towards end of 2017, recovery in the tourism sector and a stable macroeconomic environment.

a.

32. Over the medium term, growth is projected to increase by more than 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 delivering 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

b.

33. Kenya is ranked favourably 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 Poor’s 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.

34. 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. The overall annual inflation rate was 4.35 percent in July 2018 compared to 7.47 percent in July 2017. This was due to decrease in prices of some foodstuffs outweighing increases recorded in respect of others. The overall annual Consumer Price Index (CPI) increased by 4.35 percent from 183.6 in 2017 to 191.59 in 2018.

35. The central bank of Kenya lowered banks’ lending rate to 9.5 percent in 2018 from 10 per cent in 2017, in line with market expectations. The decision was aimed at boosting growth and stimulating higher private-sector lending. Growth this year should be fueled by an ongoing recovery in the agricultural sector, completion of key infrastructure projects, and a focus on investment in sectors prioritized by the government’s “Big Four” agenda.

35. The current account deficit widened from KSh 375.3 billion in 2016 to a deficit of KSh 518.9 billion in 2017 on account of significant growth of imports against a slow growth of

exports. The Nairobi Securities Exchange (NSE) 20-Share index rose to 3,712 points in December 2017 from 3,186 points in December 2016.

36. The balance of trade deficit widened from KSh 853.7 billion in 2016 to KSh 1,131.5 billion in 2017. This was occasioned by a 20.5 per cent increase in imports from KSh 1,431.8 billion in 2016 to KSh 1,725.6 billion in 2017.

37. Performance in the foreign exchange rate market mainly reflected developments in the international and domestic market. The official foreign exchange reserves held by the Central Bank of Kenya, constituting the bulk of the gross reserves, increased by 7.9 percent from US\$ 11,143.76million in April 2017 to US\$12,026.7 million in April 2018.

38. Higher domestic demand in China and continued recovery in key emerging market economies supported growth in 2017. Growth in emerging and developing economies increased from 4.4 percent in 2016 to 4.7 percent in 2017 and projected at 4.9 percent in 2018. The projected growth is driven primarily by the strengthening of growth in commodity exporters; a gradual increase in India's growth rate and a lower but still high trend growth rate in China.

39. The County Government of Kiambu will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of all modules of the Integrated Financial Management Information System (IFMIS) across Departments.

40. With respect to revenue, the County Government will maintain a strong revenue effort of revenue growth over the medium term. Measures to achieve this effort include use of an Unstructured Supplementary Service Data (USSD) application for self service revenue payment

41. The County Government of Kiambu made an effort to achieve a broad-based expansion touching in all sectors of the economy. Emphasis was given to key sectors of

agricultural development, health, tourism and supportive services such as infrastructural investment, information communication and technology.

42. Going forward, the County Government will continue to invest in sectors implementing the Big Four Agenda. Expansion of health, housing, road and water infrastructure will be prioritized. The County Government will further continue investing in social-economic sectors of education and social protection.

IV. IMPLEMENTATION OF THE FY 2018/2019 BUDGET

43. The revenue collection for the FY 2018/2019 is generally within the target range and is expect to remain so in the course of the financial year. The Exchequer returns as at August 2018 shows receipts from the National Government as at KShs 494 Million while revenue from own sources amounted to KShs. 296 Million, unspent balances carried forward from FY 2017/2018 amounted to KShs. 85 Million.

44. Total expenditure by end of August 2018 was KShs.812 Million as compared to a budget allocation of KShs.2.6 Billion for the same period under review. The low absorption has been occasioned by delayed disbursement of revenues from the National Government (NG) and low absorption of development expenditure as payments are not yet due. However, higher absorption rates are expected in the coming months as revenue flows both from the National Government and own sources picks up as well as payment from development projects become due.

45. The non-discretionary County expenditures like personnel emoluments take first charge in spending. Any delay in release of funds or revenue flows impact negatively on the development expenditures which are considered after these non-discretionary expenditures are settled.

46. In order to increase efficiency of public finance management, the County will continue to enhance public finance management systems at all levels. This will result to increased service delivery, sealed leakages and increased productivity.

V. RESOURCE ALLOCATION FRAMEWORK

47. Resource allocation and utilization in the 2019/2020 financial year and the medium term will be guided by the following policy documents in order to ensure effective utilization of public finances;

- i. County Integrated Development Plan (2018-2022)
- ii. County Annual Development Plan (2019-20)
- iii. Ongoing projects
- iv. Emerging priorities
- v. Public Finance Management Act, 2012
- vi. Medium Term Plan III (2018-2022).

48. Adjustments to the 2019/2020 budget will take into account the actual performance of expenditure so far and absorption capacity in the remainder of the 2018/2019 financial year. Because of the resource constraint, the County will rationalize expenditures by cutting those that are non-core. These may include re-prioritizing development expenditures in order for the county to operate within its means.

49. Considering the outcome of FY 2017/18, the County Government fiscal position is very tight. Therefore, the departments will have to contain expenditures especially by reducing the recurrent expenditures to creating fiscal space for spending on development programmes within the budget.

50. Any adjustments to FY 2018/19 Budget will only provide funding to areas of emergency in nature. From the outlook, supplementary estimates will generally be downwards to reflect the current scenarios in revenue performance and to factor in emerging priorities.

51. Given the fiscal performance in the FY 2017/18 and the updated macroeconomic outlook for the FY 2018/2019, there are some inherent risks to the FY 2018/2019 budget framework includes; declining local revenue performance, Expenditure pressures and in particular those of recurrent nature and high wage bills among others. These risks will be monitored closely and appropriate measures taken in time.

52. Challenges in revenue performance require the County Government to put up structures in place to seal loopholes and widen the tax-base. Modalities to enhance collection of property rates will be explored and implemented to ensure that the budget is fully financed.

VI. Revenue Projections and Expenditure forecast for 2019/2020 and over the Medium Term

Revenue Projections

53. The FY 2019/2020 resource envelope is projected at KShs. 15.9 Billion constituting: KShs. 3.0 Billion Own Source Revenue and KShs. 12.9 Billion from the National Government. As noted above, performance on County's own source revenue will be underpinned by continuous review of revenue administration policies. These figures are indicative and will be firmed up in the 2019 CFSP.

Expenditure Forecasts

54. Overall budgetary expenditure for FY 2018/2019 stands at KShs 15.63 billion. This is projected to increase up to 15.9 Billion in the FY 2019/2020. Recurrent expenditures are expected to increase from KShs. 9.5 billion in the FY 2018/19 to KShs. 9.7 billion in the FY 2019/20.

55. With most County positions having been filled, the wage bill is projected to be at KShs. 5.6 Billion and 5.7 Billion for FY 2018/2019 and FY 2019/2020 respectively and is expected to relatively remain at this position for some time. In the medium term these emoluments will increase slightly due to annual increments but largely remain at this level until adoption of the staff rationalization report proposed through the CARPs programme and the SRC's job evaluation is completed and recommendations proposed implemented.

56. The allocation of resources for development expenditures is projected to increase from KShs. 6.027 billion in the FY 2018/19 to KShs 6.108 billion in the FY 2019/20. As part of shifting more resources to development, most of the outlays are expected to support critical County infrastructure as the county realigns to meet the fiscal responsibility requirements.

VI. CONCLUSION AND NEXT STEPS

57. In the Fiscal year 2018/2019, County Government key area of focus is revenue enhancement. Broadening of revenue base backed by an effective enforcement strategy will be key in order to achieve set revenue targets.

58. The indicative departmental ceilings annexed herewith will guide the County Departments in preparation of the FY 2019/20 budget. These ceilings will be firmed up in the 2018 CFSP. (see annex III)

Annex I: Revenue Projections

No	Revenue Stream	FY2017/18 Revised Revenue	FY 2017/18 Actual Revenue	FY 2018/2019 Revenue Estimates
1	Equitable Share of Revenue(Unconditional Grants)	9,664,000,000	9,664,000,002	9,357,200,000
2	Users Fees Foregone	34,671,542	17,886,541	34,671,542
3	Road Maintenance Fuel Levy Fund	317,998,559	261,434,700	246,366,927
4	Conditional Grant -Thika Level 5	412,716,763	412,716,762	538,716,765
5	Conditional Allocation-Development of Youth Polytechnics	60,096,220	60,096,220	68,110,000
6	Conditional Grant -leasing of Medical Equipment	-		200,000,000
7	Transforming Health System for Universal Health Care	22,000,000	10,000,000	
8	World Bank-National Agriculture & Rural Growth Project	50,000,000	50,000,000	
9	KDSP	56,459,859	56,459,859	272,000,000
10	DANIDA	21,548,828	33,400,684	
11	Conditional Allocation-Other grants and loans	21,851,856		2,169,283,320
12	Mortgage Interest			

13	Agriculture, Livestock and Fisheries Management unit	37,312,188	22,199,626	75,306,591
14	Physical Planning unit	332,454,447	283,290,873	511,224,063
15	Business Permit Management Unit	190,000,000	181,975,798	262,248,785
16	Cess Management Unit	92,093,396	65,355,229	96,671,626
17	Education, Culture, ICT & Social Services Unit	5,602,819	105,000	108,000
18	Health Services Management unit	478,666,420	493,863,597	545,386,535
19	Housing Management unit	28,000,000	1,997,100	62,495,303
20	Land rates Management unit	300,000,000	180,986,283	360,794,062
21	Market Management unit	20,648,704	13,219,617	78,648,704
22	Others	63,705,994	91,179,089	103,527,182
23	Roads, Transport, Public Works Management unit	30,000,818	34,065,005	51,082,946
24	Slaughter House Management unit	51,342,946	38,388,715	52,286,698
25	Trade, Tourism Industry and Cooperative units	8,613,684	13,183,990	15,547,107
26	Vehicle Parking Management unit	202,549,347	225,689,990	319,017,810
27	Water Environment & Natural Resources Management unit	73,225,529	41,693,580	59,838,556
28	Liquor, Licenses Management unit	10,000,000	6,627,500	142,550,672
Total		12,585,559,919	12,259,815,760	15,623,083,194

Annex II: Medium Term Expenditure Framework 2019/20-2021/2022

vote	Vote Name		Printed Estimates	Projected Estimates		
			2018/19	2019/20	2020/21	2021/22
	RECURRENT		9,595,652,954	9,794,340,157	10,051,922,649	10,655,038,008
		O&M	3,969,429,792	4,048,187,944	4,164,764,231	4,414,650,085
		PE	5,626,223,162	5,746,152,213	5,887,158,418	6,240,387,923
4061	County Assembly	O&M	678,664,621	719,384,498	762,547,568	808,300,422
		PE	522,200,000	553,532,000	586,743,920	621,948,555
4062	County Executive	O&M	223,376,658	236,779,257	250,986,013	266,045,174
		PE	109,141,340	110,397,109	111,672,046	118,372,369
4063	County Public Service Board	O&M	54,322,096	54,856,040	55,437,514	58,763,765
		PE	20,000,000	20,212,000	20,426,247	21,651,822
4064	Finance & Economic Planning	O&M	750,520,661	746,003,266	762,492,096	808,241,622
		PE	517,000,000	522,480,200	528,018,490	559,699,599
4065	Administration & Public Service	O&M	175,398,619	185,922,538	197,077,888	208,902,561
		PE	360,331,248	381,951,123	404,868,190	429,160,281
4066	Agriculture, Livestock & Fisheries	O&M	48,458,767	48,458,767	42,611,044	45,167,707
		PE	190,800,002	190,800,002	199,386,192	211,349,364
4067	Water, Environment & Natural Resources	O&M	165,020,143	174,921,351	185,416,633	196,541,631
		PE	72,444,952	76,791,649	81,399,149	86,283,098
4068	Health Services	O&M	1,254,277,132	1,255,738,986	1,269,049,817	1,345,192,806
		PE	2,707,811,172	2,736,513,970	2,765,521,019	2,931,452,280
4069	Education, Culture, ICT & Social Services	O&M	391,196,828	393,223,514	395,271,680	418,987,981
		PE	553,000,000	558,861,800	564,785,734	598,672,878
4071	Lands, Physical Planning & Housing	O&M	55,609,578	56,499,331	57,403,318	60,847,517
		PE	90,539,663	91,988,298	93,460,110	99,067,717
4072	Trade, Tourism, Industry & Co-Operative	O&M	63,064,724	62,820,607	66,589,844	70,585,235
		PE	56,419,408	59,804,572	63,392,847	67,196,418
4073	Roads, Transport & Public Works	O&M	151,257,629	160,333,087	169,953,073	180,150,257
		PE	145,538,944	154,271,281	163,527,558	173,339,211
4074	Livestock, Fisheries and Marketing	O&M	50,837,527	51,376,404	53,945,227	57,181,941
		PE	188,421,242	190,418,507	199,939,432	211,935,798

	Development		6,027,430,240	6,128,642,351	6,217,166,312	6,590,196,291
4061	County Assembly		55,000,000	55,583,000	56,172,180	59,542,511
4062	County Executive		8,558,889	8,649,613	8,741,299	9,265,777
4064	Finance & Economic Planning		121,708,880	123,699,215	124,639,426	132,117,792
4065	Administration & Public Service		135,497,949	143,627,826	152,245,496	161,380,226
4066	Agriculture, Livestock & Fisheries		150,818,240	159,867,334	169,459,375	179,626,938
4067	Water, Environment & Natural Resources		325,944,735	329,399,749	332,891,388	352,864,871
4068	Health Services		967,474,920	977,909,164	988,456,876	1,047,764,289
4069	Education, Culture, ICT & Social Services		623,379,590	628,927,414	634,534,045	672,606,088
4071	Physical Planning & Housing		2,067,372,548	2,098,053,841	2,129,586,385	2,257,361,568
4072	Trade, Tourism, Industry & Co-Operative		294,386,912	297,507,413	300,660,991	318,700,650
4073	Roads, Transport & Public Works		1,126,469,337	1,138,409,914	1,150,477,060	1,219,505,684
4074	Livestock, Fisheries and Marketing		150,818,240	167,007,868	169,301,791	179,459,898
	TOTAL EXPENDITURE		15,623,083,194	15,922,982,508	16,269,088,961	17,245,234,299

ANNEX III: County Budget Calendar 2018-2019

Activity	Responsibility	Timeframe/Deadline
Develop and issue circular on Budget Preparation and MTEF Guidelines	C.E.C Member for Finance	30 th August, 2018
Undertaking of Departmental Expenditure Reviews	All Departments	12 th September, 2018
Preparation and submission of Annual Development Plan to Assembly for Approval	County Treasury	1 st September, 2018
Draft County Budget Review and Outlook Paper(CBROP)	County Treasury	20 th September, 2018
Submission of County Budget Review and Outlook Paper the County Executive Committee for Approval	C.E.C Finance	25 th September, 2018
Submission of County Budget Review and Outlook Paper to the County Budget & Economic Forum(CBEF)	CEC Finance & County Executive Committee	13 th October, 2018
Submission of County Budget Review and Outlook Paper (BROP) to the County Assembly	County Treasury	20 th October, 2018
Start Sector Consultations	All Departments- (sector working Groups)	1 st November, 2018
Submission of final sector reports to Treasury	All C.E.Cs for their respective Departments	17 th January, 2019
Draft of County Fiscal Strategy Paper (CFSP)	County Treasury	31 st January 2019
Public Participation on CFSP/Budget (including County Budget and Economic Forum (CBEC)	County Treasury	By 9 th February 2019
Submission of County Fiscal Strategy Paper(CFSP) to County Executive Committee for approval	County Treasury	16 th February, 2019
Submission of County Fiscal Strategy Paper(CFSP) to County Budget & Economic Forum(CBEF)for approval	CEC Finance & County Executive Committee	23 rd February, 2019
Submission of County Fiscal Strategy Paper(CFSP) to County Assembly	County Treasury	28 th February, 2019
Issue of circular for finalization of 2019/2020-2020/21 MTEF estimates and PBB	County Treasury	9 th March, 2019
Submission of Final Budget proposals to County Treasury	All Departments	2 nd April, 2019
Submission of Draft Budget Estimates to County Executive for approval	County Treasury	16 th April, 2019
Presentation of Draft Budget to County Assembly	C.E.C Finance & Economic Planning	30 th April, 2019
Report of Draft Budget Estimates from the County Assembly	County Assembly	31 st May, 2019
Consolidation of Final Budget	County Treasury	8 th June, 2019
Submission of Appropriations Bill to the County Assembly	County Treasury	15 th June 2019