REPUBLIC OF KENYA
COUNTY GOVERNMENT OF
NYANDARUA
THE COUNTY TREASURY

# COUNTY FISCAL STRATEGYPAPER (CFSP) FOR
# 2019/2020 AND THE MEDIUM TERM

*ACTUALIZING NYANDARUA COUNTY SOCIO-ECONOMIC TRANSFORMATIVE AGENDA*

**FEBRUARY 2019**

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## FOREWORD

The County Fiscal Strategy Paper (CFSP), 2019 whose theme is "*Actualizing Nyandarua County Socio-Economic Transformative Agenda"* highlights policy priorities for the County Government which will be implemented in 2019/20 FY and over the medium term. This priorities are anchored in the County Integrated Development Plan (2018-2022), and it's Annual Development for 2019/20. The envisaged priorities are equally cognisant of the National Development Blueprint for the period 2018-2022, of the Big 4 Agenda on food security, Affordable Housing, Manufacturing and universal health care. The priorities are also in line with the current County administration transformative agenda through six pillars aimed at setting tone and creating sound enablers towards the County's development and prosperity in the long run. These pillars include: Good governance; Social sector development; Infrastructure development; Financial and trade services; Agriculture development; and Industrialization.

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

The main sources of County revenue in the medium term will be equitable share from National Government, local revenue collections and donor funding. In the 2019/20 FY and the medium term, the County Government proposes a series of measures to increase revenue and balance its fiscal spending. The County will thus focus on strengthening the potential it is endowed with to stimulate economic growth and development. The County Government's fiscal policies in 2019/20 will focus on re-orientation of expenditure from recurrent to development.

This paper therefore puts into perspective how the County anticipates to expend its scarce resources in the 2019/20 FY and the medium term.

**MARY MUGWANJA**
**COUNTY EXECUTIVE COMMITTEE MEMBER**
**FINANCE AND ECONOMIC DEVELOPMENT**

**ACKNOWLEGMENT**

The generation of this crucial paper was as a result of concerted efforts by various actors key in shaping the destiny of the County. The paper which aims at laying the fiscal framework is a buildup of the County Budget Review and Outlook Paper (CBROP), 2018 and provides a fiscal framework for implementation of the 2019/20 budget and the medium term. It presents the broad strategic macroeconomic issues and fiscal framework, alongside a summary of Nyandarua County's spending plans. The expected outcome of the document is to enhance stakeholder understanding of the County public finances and to guide the budget making process.

Preparation of the CFSP for 2019/20 was a collaborative effort from various stakeholders namely: County Executive Committee; Technical County Departments; Members of the Public; County Budget and Economic Forum; and other individuals and organized groups who submitted their inputs which have greatly informed the content of this paper.

We are particularly grateful to Hon. Mary Mugwanja, CECM for Finance and Economic Development for spearheading the preparation process up to the stage of its approval by the County Executive Committee. Special thanks go to the technical team in the Directorate of Economic Planning and Development who met and worked tirelessly to prepare this document.

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**Ag. CHIEF OFFICER**
**ECONOMIC PLANNING AND DEVELOPMENT**

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## LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY FISCAL STRATEGY PAPER

The County fiscal strategy paper is prepared in accordance with Section 117 of the Public Financial Management Act, 2012. This law states that:

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

2. The County Treasury shall align its County Fiscal Strategy Paper with the National objectives in the Budget Policy Statement.
3. In preparing the County Fiscal Strategy Paper. The County Treasury shall specify the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for the coming financial year and over the medium term.
4. The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to County Government revenues, expenditures and borrowing for the coming financial year and over the medium term.
5. In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of;
    a) The Commission on Revenue Allocation;
    b) The public;
    c) Any interested persons or groups; and
    d) Any other forum that is established by legislation.

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

7. The County Treasury shall consider any recommendations made by the County Assembly when finalizing the budget proposal for the financial year concerned.

8. The County shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County Assembly.

## RESPONSIBILITY PRINCIPLES IN THE PUBLIC FINANCIAL MANAGEMENT LAW

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 107(b)) states that:

1. The County Government's recurrent expenditure shall not exceed the County Government's total revenue;
2. Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure;
3. The County Government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations;
4. Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
5. Public debt and obligations shall be maintained at a sustainable level as approved by County Government (CG);
6. Fiscal risks shall be managed prudently;
7. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

## TRASFORMATIVE AGENDA

### Background

The County Fiscal Strategy Paper (CFSP), 2019 is the Second to be prepared under the new County Administration and the sixth since the advent of devolution. It seeks to actualize the priorities laid down under the six pillars of the County Administration as well as the agenda spelt out in the Second County Integrated Development Plan (CIDP2). These include:

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

In line with the devolved functions of the County Governments and the concurrent functions between the National and County Governments, the CFSP sets out priority programmes to be implemented in 2019/20 and the medium term under the Medium-Term Expenditure Framework (MTEF). The updated National economic outlook as contained in the 2019 Budget Policy Statement (BPS) has informed the economic and financial projections in this CFSP. In this regard, the CFSP has been aligned to the BPS released in February 2019.

Further, the experience and lessons learnt from implementation of the first term of the County Government played a significant role in informing the priorities for 2019/20 and the medium term. The 2019 CFSP is therefore framed against a backdrop of various reports by the oversight bodies including the Controller of Budget, Office of Auditor General among others. These reports have indicated that the County is faced with limited fiscal space resulting from limited local revenue generation capacity as well as rising recurrent Execution of the Development budget has also been below target. In the medium term therefore, the County Government will adopt corrective strategies to ensure maximum prioritization of development budget execution as well as exploring strategies for financing resource gaps from within and outside the County. Recognizing the enormous resources and potential that the County has in tourism, sports, agriculture, water and forestry portends a huge potential for investors which will be a key driver of the County economy. The County Government will continue to support investment in infrastructure to complement these sectors to ensure the County economy and all those who participate in it reap the benefits from the enormous resources.

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

**Objectives of the CFSP**

The objective of the 2019/2020 County Fiscal Strategy Paper is to lay down the frame work for the preparation of the County budget. It is a requirement under section 117 of the Public Finance Management Act, 2012 that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28$^{th}$ February of each year.

Pursuant to the provisions of the PFM Act 2012, this County Fiscal Strategy Paper addresses the following:

i. The Medium-Term macroeconomic framework and its outlook as contained in the Budget Policy Statement and how it impacts on the County economic environment;
ii. A statement of fiscal responsibility principles, as specified in the PFM Act and Regulations indicating how the Fiscal Strategy adheres to these principles.
iii. The economic assumptions underlying the County budgetary and fiscal policy over the medium term;
iv. Indicative allocation of available resources among County Government entities; and
v. A medium-term fiscal framework defining a top-down aggregate resource envelope and broad expenditure levels.

# CHAPTER ONE: ECONOMIC FRAMEWORK AND OUTLOOK

1.0 Overview

Nyandarua County is not in isolation from the effect of global and national economic issues that do arise. These issues have had either positive or negative effects on the economic development of the county.

This section highlights recent economic developments on the Global and National level and the impact it has on the County Economic Development.

## RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

### 1.1 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENT

Global growth is projected to remain steady and grow by 3.7 percent in 2018 and 2019.

The leveling-off is driven by the recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China, closure of output gaps in advanced economies, moderation in trade and investment, and a gradual tightening of financing conditions due to ongoing withdrawal of accommodative monetary policy in advanced economies. Global growth optimism is constrained by rising trade tensions likely to have a negative impact on confidence, asset prices, global trade and investments. The Global financial crisis in 2008 and that has caused global inflation to increase. The year 2018 recorded an inflation rate of 3.78% as compared to an inflation of 3.2% in the year 2017, and is estimated to hit a rate of 3.83% in the year 2019 as per the Statista Ratings.

In the East African Community (EAC) region, Economic Growth is estimated to have risen to 5.9 percent in 2018 from 5.3 percent in 2017, the growth has been driven by a rebound in agricultural activity due to favorable weather conditions and a pickup in private sector credit growth. In 2019, economic growth is projected to increase to 6.3 percent supported by a stable macroeconomic environment. The Inflation rate however stood at 14.4 percent in 2017, the highest in Africa. It was however expected to slow down to 8.9 percent in 2018 and 7.8 percent in 2019 as per the East African Economic Outlook 2018 publication, the high Regional inflation rate has been has been highly contributed by the unstable Sudan’s Economy and to some extent the Burundi’s due to rising transportation costs in the country.

## 1.2 NATIONAL MACRO-ECONOMIC OUTLOOK

**The 2019 BPS indicate the following outlook at the National level:**

Growth of the Kenya Economy remained resilient, provisional estimates of gross domestic product indicate that the economy expanded by 6.0 per cent during the third quarter (Jul - Sept) of 2018 which was an improvement compared to a 4.7 per cent growth during a similar quarter in 2017. So far, the economy has performed better in the first three quarters of 2018 compared to similar period of 2017. Seasonally adjusted gross domestic product, which compares consecutive quarters, grew by 0.9 per cent in the third quarter (Jul - Sept) of 2018 compared to 1.3 per cent recorded in the second quarter (Apr - Jun) of 2018, the gross domestic product projects that the Economy will expand by 6.2% in the year 2019.

The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, largely on account of low food prices following favorable weather conditions and a decline in energy prices due to lower prices of electricity and diesel. However, overall inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

The foreign exchange market remains stable supported by a continued narrowing in the current account deficit. The current account deficit is expected to narrow to 5.2 percent of GDP in 2018 from 6.3 percent in 2017, with strong performance of agricultural exports particularly tea and horticulture, increased diaspora remittances, strong receipts from tourism, and lower imports of food and Standard Gauge Railway (SGR) related equipment relative to 2017.

Over the medium term, economic growth is expected to rise gradually to 7.0 percent per annum 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, achieve 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.

Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. In the 2019 World Bank's Doing Business Report, Kenya was ranked position 61 in 2018 moving 19 places from position 80 in 2017.

**Domestic Economic Development**

Growth of the Kenya Economy remained resilient, provisional estimates of gross domestic product indicate that the economy expanded by 6.0 per cent during the third quarter (Jul – Sept) of 2018 which was an improvement compared to a 4.7 per cent growth during a similar quarter in 2017. So far, the economy has performed better in the first three quarters of 2018 compared to similar period of 2017. Seasonally adjusted gross domestic product, which compares consecutive quarters, grew by 0.9 per cent in the third quarter (Jul – Sept) of 2018 compared to 1.3 per cent recorded in the second quarter (Apr – Jun) of 2018, the gross domestic product projects that the Economy will expand by 6.2% in the year 2019.

The broad-based economic growth has averaged 5.6 percent for the last five years outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 4.6 percent in the period 2002 to 2007

The value of goods and services produced raised Per Capita Income from Kshs. 113,539 in 2013 to an estimated Kshs. 190,521 in 2018, a 67.8 percent increase. This enabled generation of around 840,000 new jobs per year in the period 2013-2018 up from 656,500 new jobs per year in the period 2008-2012

As of 2018 Estimates, Kenya had a GDP of $85.980 billion making it the 69$^{th}$ largest economy in the world. Per capita GDP was estimated at $1,790.

The rebound in economic activity in 2018 is a reflection of improved rains, better business sentiment and easing of political uncertainty. The economy grew by 6.0 percent in the third quarter (Jul – Sept) of 2018 and 6.2 percent in the second quarter (Mar – Jun) of 2018 up from 5.8 percent in the first quarter (Jan – Mar) of 2018, averaging 6.0 percent in the first three quarters of 2018. Growth is projected at 6.0 percent in 2018 up from 4.9 percent in 2017, which is in line with the 2018 Budget Review and Outlook Paper (BROP) projection

From the supply side, growth was mainly driven by a recovery in activities of Agriculture as well as improved output in Wholesale and Retail Trade, Manufacturing, and Real Estate sectors. On the other hand, Financial and Insurance; Transportation and Storage; Construction; Electricity Supply; and Mining and Quarrying recorded marked slowdown in the growth.

Growth of activities in the Information and Communication was robust while Accommodation and Restaurants slowed significantly but remained relatively strong.

Under the ‘Big Four’ agenda, the Government has prioritized the delivery of affordable housing, rolling out universal health coverage, increasing the share of manufacturing in the economy, and improving food security.

**Inflation Rate**

Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies. The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018 supported by improved weather conditions that resulted in lower food prices.
Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather

**Kenya Shillings Exchange Rate**

The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2018, the shilling exchange rate against the Dollar was at Kshs. 102.3 from Kshs. 103.1 in December 2017. Against the Euro and the Sterling pound, the Shilling strengthened to Kshs. 116.4 and Kshs. 129.7in December 2018 from Kshs. 122.0 and Kshs. 138.2 in December 2017, respectively. The Kenya shilling exchange rate has continued to display relatively less volatility, compared to most sub-Saharan currencies. This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism

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

Interest rates remained stable and low in the period 2013-2018 except June- December 2015 when world currencies were under pressure. During the period the policy rate was adjusted appropriately to anchor inflation expectations. The central bank rate was reduced to 9.0 % on July 2018 from 9.5% in March 2018 as there was room for easing monetary policy stance to support economic activity**.**
The interest rates for government securities have been declining indicating that the implementation of government domestic borrowing program supported market stability. The 91

day treasury bill rate declined t0 7.3% in December 2018 compared to 8.0% in December 2017 while over the same period, the 182 day and 364 day treasury bills declined to 8.4% and 9.7% from 10.5% and 11.1%, respectively.

**Balance of Payments**

The overall balance of payments position was at a deficit of 1,333.9 US$ million in the year to October 2018 from a surplus of US$ 490.5 million in the year to October 2017. This deficit was due to a decline in the financial account despite an improvement in the capital and current accounts.

The current account balance improved to a deficit of US$ 4,660.6 million in the year to October 2018compared to a deficit of US$ 5,141.8 million in the year to October 2017. This improvement was supported by strong growth of agricultural exports particularly tea and horticulture, increased diaspora remittances strong receipts from tourism, and lower imports of food and SGR –related equipment relative to 2017. It is expected to narrow further to 5.2% of GDP in 2018 from 6.3% in 2017.

The capital account recorded an improvement of US$ 138.7 million to US$ 300.6 million in the year to October 2018, reflecting an increase in project grants. Flows in the Financial Account decreased to US$ 5,526.4 million in October 2018 compared with US$ 5,750.0 million in October 2017. The financial inflows were mainly in the form of other investments, direct investments and portfolio Investments which stood at US$ 3,938.7 million, US$ 892.8 million and US$ 694.8 million, respectively in October 2018. Other investment inflows mainly include foreign financing for Government infrastructure projects.

**Foreign Exchange Reserves**

Foreign Exchange reserves held by the Central Bank of Kenya (CBK) are a national asset held as a safeguard to ensure availability of foreign exchange to meet the country's external obligations, including imports and external debt service.

In August 2018, foreign exchange reserves for Kenya was 9,015 million US dollars. Though Kenya foreign exchange reserves fluctuated substantially in recent months, it tended to increase through September 2013 - August 2018 period ending at 9,015 million US dollars in August 2018.

Foreign exchange reserves have increased from around 3.0 months of import cover in 2003 to above 5.5 months of import cover in 2018 which is above the statutory requirement of 4.0 months of import cover and thus remain adequate to safeguard against exogenous shocks.

The banking system's foreign exchange holding remained strong at US$ 11,668 million in October 2018 from US$ 9,931 million in October 2017. The official foreign exchange reserves held by the Central Bank improved to US$ 8,554 million (5.6 months of import cover) in October 2018 compared with US$ 7,574 million (5.1 months of import cover) in October 2017. By end December 2018, the usable official reserves stood at US$ 8,001 million or 5.2 months of import cover. Commercial banks holdings was at US$ 3,114 million in 2018 from US$ 2,357 million in 2017.

The NSE 20 Share Index was at 2,834 points by end- December 2018 from 3,712 points in December 2017. The depressed share prices resulted in lower market capitalization of Kshs. 2,102 billion in December 2018 from Kshs. 2,522 billion in December 2017. The decline reflects trends in the global equities markets as investors shift to bond markets in expectation for a further hike in the U.S. interest rates on strong jobs and economic data.

**Fiscal Performance**

Budget execution started on a slow note in the first quarter of the FY 2018/19 due to budget rationalization to align expenditure priorities to revenues after amendments to the Finance Bill 2018 that significantly affected the expected revenue yields. In addition, expenditure rationalization was effected to reflect lower revenues after the revenue outcome for the FY 2017/18 turned out weaker than anticipated, thereby shrinking the forecasting base for FY 2018/19 as well as the medium term.

The exercise to clean-up the development project portfolio triggered by the Presidential directive on inclusion of new projects in the budget also slowed down the uptake of development expenditures in the first quarter. This picked up strongly in the second quarter of FY 2018/19.

The expenditure rationalization was to ensure sustainable fiscal position in the FY 2018/19 and the medium term, and reaffirm the Government's commitment to its fiscal consolidation plan and to prudent fiscal management in general.

Kenya has made good progress in macroeconomic management, which is benchmarked on a debt to GDP ratio as the fiscal anchor. This approach has paid off; Kenya is able to finance a counter-cyclical fiscal stimulus from the domestic market at single digit interest rate without compromising macro-economic stability.

Going forward and as the economy recovers, adherence to a clear exit strategy for the fiscal stimulus program would ensure that Kenya quickly reverts to a credible and sustainable fiscal stance, and the economy is once again on a sustain-able growth path.

The development budget's planning and its implementation is the Achilles' heel in Kenya's fiscal management. In the short term, increasing the rate of budget execution remains the priority. However, for the medium to long term, a government system for project evaluation and selection criteria will be necessary to help prioritize and sufficiently fund those projects with the highest rates of return and, thus, ensure that they also play a catalytic role in Kenya's growth.

The global crisis has revealed that in addition to addressing the needs of the vulnerable, social safety nets can be scaled up and will enhance the counter-cyclical role of the budget.

However, to ensure fiscal sustainability, a degree of moderation is warranted for the schemes and, in particular, stronger alignments with complementary long-term development strategies for poverty reduction is crucial.

**Fiscal policy**

Kenya's fiscal policy is the means by which the government adjusts its spending levels, revenue generation and collection, and debt to monitor and influence the economy. Kenya has had an annual growth rate of about 5.46 percent from 2004 until 2016.

Kenya's economy has continued to perform well, with real GDP growth accelerating to 6 percent in the first half of 2018, from 4.9 percent in 2017. The acceleration of growth is being driven by a strong recovery in agriculture due to improved weather conditions, resilient performance of services sectors, and sustained confidence in the economy. Inflation remains within the authorities' target range (5+/-2.5 percent), supported by lower food prices and an appropriate monetary policy. Headline inflation stood at 5.6 percent y/y as of November 2018.

Despite difficult circumstances, a significant fiscal adjustment was achieved in the fiscal year ending in June 2018. The deficit declined to 7.5 percent of GDP from 8.9 percent of GDP the previous year. However, revenues were significantly lower than budgeted and 0.4 percentage points of GDP lower than the previous fiscal year. As a result, the fiscal consolidation was primarily achieved by reducing public investment. To arrest the decline in revenue, the authorities adopted a series of revenue-raising measures in September 2018. While these measures will go a long way to further reduce the fiscal deficit to a targeted 6 percent of GDP in the current fiscal year, some spending restraint may still be necessary.

The external current account deficit narrowed to 5.3 percent of GDP in the year to September 2018 from 6.3 percent of GDP in 2017. This reflects improved agriculture exports, rising tourism receipts, strong diaspora remittances, and lower SGR related capital goods imports. External buffers remain healthy with foreign exchange reserves at about US$8.0 billion as of end of November 2018.

The banking sector remains stable and resilient, and it is well capitalized and liquid. At the same time, the banking system's non-performing loans ratio remains high, although falling from a peak of 12.7 percent in August 2018 to 12.3 percent in October 2018. Growth in credit to the private sector remains subdued, with credit growth averaging 3.2 percent y/y since the interest rate controls were adopted in September 2016. Although credit growth improved slightly to 4.4 percent y/y in October 2018, much stronger growth will be necessary to sustain high economic growth.

Kenya's fiscal policy does not lean with the wind. While some revenue components adjust automatically over the business cycle, increasing in booms and falling in recessions, the correlation of the discretionary budget component with the cyclical component of GDP is small.

Kenya pursued an expansionary fiscal policy stance in 2017. Public spending increased from 26.6% of GDP in June 2016 to 27.6% in June 2017. The increase was caused by increases in development-related spending (from 7% to 8% of GDP) and recurrent spending (e.g. increase in the public sector wage bill). Government revenue remained more or less unchanged at slightly above 18% of GDP during the reference period. Overall, income tax and VAT, which together account for 74% of Government revenue, declined from 12.7% to 12.5% of GDP.

In December 2017, halfway into the 2017/18 budget, the Government revised its fiscal framework. The revision was motivated by shortfalls in revenue collections (caused by the prolonged election); low execution rate of development spending (caused by low absorption capacity); pressure on recurrent expenditure (e.g. salary and election); and emerging priorities (the 'Big Four'). The revision projects a decline in revenues to 19% of GDP, upward revision of spending to 26.8% of GDP; and an increase in the fiscal deficit to 7.2% of GDP.

According to the 2018 Budget Policy Statement (BPS), the fiscal policy stance aims at supporting rapid economic growth, ensuring a sustained debt position, supporting the devolution system of Government, and working toward Eastern African Community Monetary Union fiscal deficit targets of 3% of GDP.

Continued public spending caused by increased public consumption expenditure, plus rising development spending occasioned by rapid expansion in infrastructure investment, coupled with subdued revenue collection, contributed to the increased fiscal deficit to 9.1% GDP in fiscal year 2016/17 (compared to 7.4% in the previous fiscal year). In general, the country's current fiscal position and hence narrowing fiscal space could be attributed to rising demand for infrastructure spending, subdued revenue collection, and the rising cost of debt.

The Government is responding through fiscal consolidation to decrease the fiscal deficit by mid-term (2020/21) to 3.3% of GDP. This is to be achieved by embarking on fiscal reforms. This would include, *inter alia*, reducing wasteful spending through zero-based budgeting; improving management of recurrent spending; improving efficiency in public spending planning; implementing revenue enhancing measures – improving tax administration and policies; and reducing the cost of borrowing by sourcing long term maturing local debts (e.g. Central Bank of Kenya issuance of a 0.4 billion 15-year infrastructure bond listed on the Nairobi Stock Exchange).

Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in the BPS 2018, this will ensure debt is maintained within sustainable levels. Declining from a high of 9.1 percent of GDP in FY 2016/17 to 7.2 percent in FY 2017/18 the fiscal deficit is expected to decline further to 6.3 percent of GDP in FY 2018/19 and eventually to 3.0 percent by FY 2021/22. This deliberate fiscal consolidation plan, also resonates well with the East African Monetary Union (EAMU) protocol target ceiling of 3.0 percent of GDP. On the other hand, the sectoral expenditure ceilings shall remain intact as given in the Budget Review and Outlook Paper 2018 released in earlier in September, 2018.

To achieve these targets, the Government will continue to restrict growth in recurrent spending while doubling its effort in domestic resource mobilization. In the FY 2018/19, the Government implemented a raft of tax policy measures in through the tax amendment law and the Finance Act 2018 whose revenue yield is estimated at about 0.9 percent of GDP. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting our fiscal consolidation efforts.

The Central Bank of Kenya (CBK) has generally pursued a prudent monetary policy stance with the objective of ensuring price and exchange rate stability in recent years. Overall, it has been contractionary. The policy rate (CBR) rose from 7.5% in 2015 to 11.5% in 2016, slightly declined to 10% in 2016, and further declined to 9.5% in March 2018. The effect was reflected in a downward trend in average money supply (M3) growth from 17% in 2015 to 3.5% in 2016, though it increased again to 9.5% in 2017.

Much of the recent increase in the money supply (especially since the interest rate cap) was driven by an increase in credit expansion to the Government, which rose by 28% in 2017 against 13% growth in 2016. The adverse effect of the cap was reflected in the contraction of private sector credit growth, which declined to 2.4% from 4.1% in 2016.

The interest rate cap is believed to have had the following consequences: it has crowded out private sector activities (especially SMEs); distorted competition in the banking sector by giving Tier I Banks preferred access to Government borrowing operations (three banks were in receivership in April 2016); reduced savings because some banks reclassified deposit accounts from interest to non-interest deposit accounts to avoid higher deposit interest charges; created perverse monetary policy outcomes due to narrowing interest margins; and made exports uncompetitive by raising the effective interest rate (the second highest on the continent).

In addition, the CBK deployed open market operations (OMO) to manage liquidity in the system and foreign exchange sales to reduce pressure on the Kenya shilling, thereby minimizing exchange rate pass-through to inflation.

Inflation averaged 6.7% between 2013 and 2017, within the 5+/2.5% target band of the authorities. Inflation increased above the target band in the first half of 2017 due to an increase in food and energy prices caused by drought, prolonged political activity, and the presidential election crisis. Inflation subsided in the second half of 2017 after the introduction of measures

**Risks to the Economic outlook**

This macroeconomic outlook is not without risks. Risks from the Global, Regional and Domestic economies that may hinder fulfilment of its fiscal objectives relates to:

i) Trade tensions among major advanced economies regarding imposition of tariffs on selected imports by the United States from its main trading partners particularly China, and likely retaliatory measures leading to increased Global Inflation rate;
ii) The prolonged uncertainty regarding British exit from European Union negotiations and financial market volatility resulting from uncoordinated and abrupt monetary policy normalization;
iii) Noneconomic factors such as political uncertainties and geopolitics in the Middle East and some countries in the sub-Saharan Africa region;
iv) The high East African Community Regional economic Inflation rate estimated to go up to 7.8% in 2019, which may lead to increase of prices of Goods and services domestically;
v) Unpredictable Country's adverse weather Conditions which may really affect the agricultural Sector leading to depressed agricultural yields and Nyandarua being considered the Country's Food Basket will be a set back to the Nation
vi) The Kenya's rising debt which is set to hit of 60 percent of the Gross Domestic Product and the inability of the National Government to achieve its Revenue target, this is likely to be a threat to the Counties' Annual Equitable share allocation as it will lead to a cut

The County Government is to monitor the risks and take the appropriate measures where possible in order to safeguard the macroeconomic stability

## 1.3 NYANDARUA COUNTY OUTLOOK

Nyandarua County Government Administration has been working to implement the CIDP (2018-2022) in place which is inclusive of the "Big four" agenda, the Governor's Transformative agenda, the County's Flagship Projects, the County residents' aspirations among Other Departmental Projects and iniatives in order to achieve the Issues affecting the Nyandarua residents as stipulated in the current CIDP, and at the same time revive the County's Economy since it took Office.

Among the “Big four” Agenda programmes the County is in the process of implementing include:

i) Provision of Affordable Housing Units in Ol’kalou and later to other Urban areas within the County, this Agenda is also facilitated by Planning and Survey of Residential parcels of Land carried out by the Lands Department;
ii) Provision of Universal Health, which is being facilitated through Construction of Health Facilities, and also Preventive and Curative Health Programmes
iii) Enhancement of Food Security, this is being facilitated through Crop development, Fisheries development, Agricultural Extension services, Agricultural mechanization Services Programmes and also through Facilitation of Agricultural Training Centres
iv) And lastly Manufacturing, which is implemented through Industrialization and Enterprise Programme whereby Processing plants, cottage Industrials and Industrial parks are being actualized

The County Government intends to propel part of the County’s Economy through implementation of **Flagship Projects** which among them includes:

i) Establishment of Cottage industries, processing plants, small and medium scale factories in the County, this will enhance job creation for Nyandarua residents and contribute to our Own source Revenue
ii) County wide fiber optic installation and internet connectivity, this will enhance workplaces productivity by enhancing business processes and ensure improved business efficiency
iii) Provision of Micro finance Fund to the County residents, this will facilitate enlarging access to finance of households and as a result Improve the standards of living for the Nyandarua residents
iv) Upgrade of Urban areas to Special Municipal Status, this will bring services closer to the people promoting economic activities in the areas
v) Preparation of County Spatial plan which promote confidence for investment and as a result contribute to County’s economic growth
vi) Construction of Affordable Housing units in the County Urban areas, this will provide decent housing to the staff and Nyandarua residents and as a result improving livelihoods

vii) Upgrade of earth roads and maintenance of all-weather roads to gravel standards, this will enhance connectivity and improve market accessibility of farm produce and thereby improve accessibility thereby improve the livelihood of Nyandarua residents

viii) Introduction of new Agricultural crop varieties, subsidized Inputs and Agricultural equipment to the Farmers, this will enhance food production in the County.

**With regard to the County Economy:**

The Global, Regional and National Economic growth has been increasing steadily, this is a likely assurance that the County's Economy is likely to also have a stable economic growth However, there has been an increase and high economic Inflation rates globally and, in the Region, respectively which may affect the County's Economy whereby there may be an increase in prices of Goods and Services

The National Government is also experiencing a burden of Debts approximating to 60% of the National GDP and has challenges with achieving its Revenue target, this will likely lead to a cut on our Annual Equitable Share of allocation, and thereby slowing down the rate of Economic Development in the County

# CHAPTER TWO: MEDIUM TERM FISCAL FRAMEWORK

## 2.1 Overview

The County Government is committed to fiscal discipline in order to promote productive sector growth and overall economic growth. In this regard, expenditure management and revenue administration reforms will be implemented with Departments expected to adopt the culture of doing more with less that is available with a view to promote sustainability and affordability.

Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception under this strategy. To achieve this, it will be ensured that:

- Spending is directed towards the most critical needs of the country and is well utilized;
- More outputs and outcomes are achieved with existing or lower level of resources; and
- MDAs request for resources are realistic and take into account the resource constraints, in light of the Government's fiscal consolidation policy.

The fiscal policy strategy will focus on the county government's priority programs and projects contained in the Third Medium Term Plan, CIDP 2, and the priorities contained in the Annual Development Plan for the fiscal year 2019/20 taking into account:

- Responsible management of public resources;
- Building a resilient, more productive and competitive economy;
- Delivering better public services within a tight fiscal environment, and
- The need to deepen governance, anti-corruption and public financial management reforms to guarantee transparency, accountability and efficiency in public spending.

## 2.2 Review of Fiscal Performance July -December 2018

The County budget estimates for 2018/19 FY is Kshs.7,669,536,086 comprising of Kshs.4,486,734,809 (59%) for recurrent expenditure and Kshs.3,182,801,276 (41%) for development expenditure. This budget is financed by Kshs.4,929,800,000 (64%) from the National equitable share, Kshs.410,000,000 (5%) from Own Source Revenue (OSR), Kshs.1,339,897,102 from Conditional grants, Kshs.30,000,000 as A-I-A (Linda mama) and Kshs.959,838,984 Balance Brought Forward from FY 2017/18.

**Revenue performance-July-December 2018**

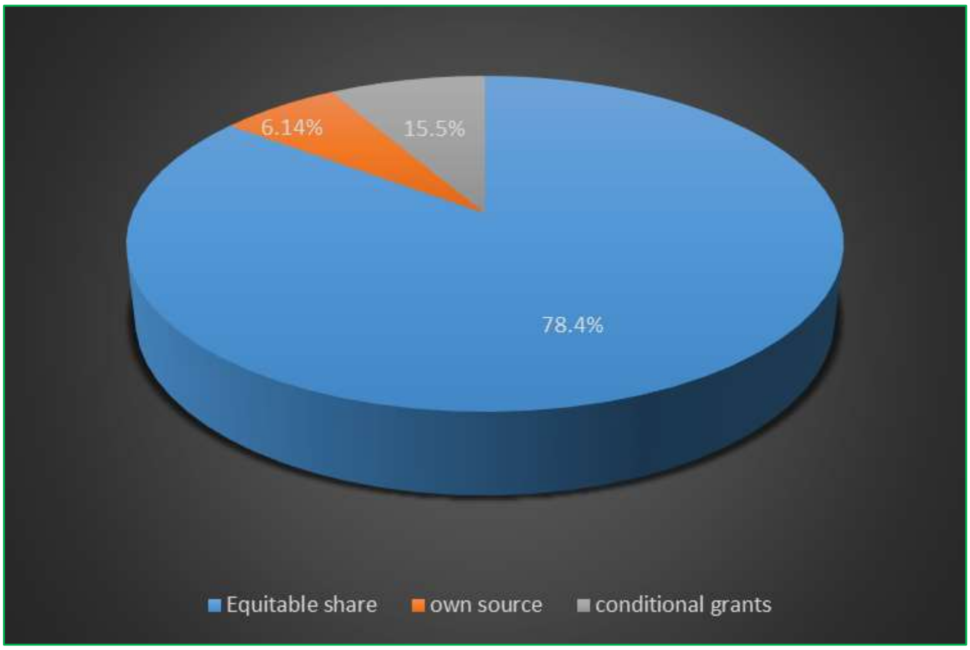
Over the 6-months period, the major source of revenue was Kshs.1,528,238,000 from the equitable share which accounted for 78.4 %. Own source revenue contributed 6.14 % of the total revenue while conditional grants accounted for 15.5 % of the total revenue.

*Table 1 county revenue source July- December 2018*

| MONTH | EQUITABLE SHARE | OWN SOURCE REVENUE | CONDITIONAL GRANTS | TOTAL |
|---|---|---|---|---|
| **JULY** | - | 24,765,318 | - | **24,765,318** |
| **AUGUST** | - | 20,142,543 | - | **20,142,543** |
| **SEPTEMBER** | 246,490,000 | 19,029,930 | - | **265,519,930** |
| **OCTOBER** | 345,086,000 | 21,997,381 | 88,017,189 | **455,100,570** |
| **NOVEMBER** | 443,682,000 | 21,262,537 | 78,517,716 | **543,462,253** |
| **DECEMBER** | 492,980,000 | 12,479,326 | 135,543,400 | **641,002,726** |
| TOTAL | **1,528,238,000** | **119,677,035** | **302,078,305** | **1,949,993,340** |

*Source: County Treasury/Controller of Budget*

*Figure 1: county revenue by source July- December 2018*



**Own Source Revenue**

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

*Table 2 Analysis of revenue by stream.*

| NYANDARUA COUNTY GOVERNMENT | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| FY 2018-19 QUARTERLY REVENUE ANALYSIS | | | | | | | | | | |
| REVENUE RESOURCES | ANNUAL Target | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | Total | % OF TARGET ACHIEVED | % of Annual Target Achieved |
| SINGLE BUSINESS PERMITS | 90,000,000 | 2,872,540 | 1,779,150 | 1,272,500 | 1,092,125 | 404,710 | 146,240 | 7,567,265 | 8% | 6.32 |
| SBP PENALTIES | 3,206,000 | 626,033 | 198,840 | 71,125 | 163,525 | 22,075 | 4,100 | 1,085,698 | 34% | 0.91 |
| SALE OF APPLICATION/RENEWAL | 2,313,500 | 148,100 | 120,950 | 78,400 | 66,450 | 30,900 | 13,720 | 458,520 | 20% | 0.38 |
| PLOT RATES | 11,528,600 | 455,986 | 593,075 | 258,494 | 421,126 | 794,016 | 322,685 | 2,845,382 | 25% | 2.38 |
| IMPOUNDED FEES | 2,074,300 | 393,550 | 152,000 | 264,370 | 415,575 | 147,990 | 81,385 | 1,454,870 | 70% | 1.22 |
| LAND RATES | 4,244,100 | 266,731 | 121,893 | 135,392 | 254,225 | 116,731 | 136,454 | 1,031,426 | 24% | 0.86 |
| CATTLE DIPS | 350,000 | 2,355 | 8,730 | 8,430 | 9,780 | 15,221 | 12,320 | 56,836 | 16% | 0.05 |
| OPEN AIR MARKET FEES | 12,414,000 | 948,875 | 896,840 | 927,738 | 844,805 | 861,725 | 915,800 | 5,395,783 | 43% | 4.51 |
| MARKET STALL RENT | 1,798,900 | 100,050 | 80,100 | 99,400 | 94,950 | 177,950 | 98,400 | 650,850 | 36% | 0.54 |
| GROUND RENT/KIOSK RENT | 395,000 | 23,350 | 42,210 | 38,300 | 29,700 | 33,366 | 64,220 | 231,146 | 59% | 0.19 |
| PRODUCE CESS ROYALTIES | 44,000,000 | 4,823,060 | 4,447,355 | 3,488,345 | 3,750,335 | 3,911,380 | 3,109,280 | 23,529,755 | 53% | 19.66 |
| SLAUGHTER FEES | 1,826,600 | 90,650 | 94,580 | 79,570 | 87,100 | 94,310 | 111,550 | 557,760 | 31% | 0.47 |
| BUS AND MATATU FEES | 12,783,300 | 1,142,360 | 1,083,740 | 1,029,170 | 999,290 | 860,990 | 1,024,010 | 6,139,560 | 48% | 5.13 |
| REG.AND RENEWAL OF GROUPS | 633,400 | 9,350 | 6,900 | 16,850 | 10,400 | 8,000 | 8,700 | 60,200 | 10% | 0.05 |
| HIRE OF MACHINES(AGRICULTURE) | 1,313,400 | 15,000 | 32,000 | 89,000 | 165,500 | 94,000 | 13,000 | 408,500 | 31% | 0.34 |
| HOUSE/OFFICE RENT | 940,600 | 82,880 | 79,520 | 106,000 | 71,000 | 73,300 | 45,000 | 457,700 | 49% | 0.38 |
| SUB-DIVISION OF LAND | 1,680,200 | 126,460 | 134,640 | 51,140 | 435,683 | 435,420 | 244,450 | 1,427,793 | 85% | 1.19 |
| BUILDING PLAN INSPECTION FEE | 284,300 | 29,845 | | 81,643 | 10,000 | 25,400 | 20,977 | 167,865 | 59% | 0.14 |
| SITE INDICATION | 200,000 | 13,000 | 19,958 | 21,500 | 31,500 | 4,300 | 2,500 | 92,758 | 46% | 0.08 |
| CHANGE OF USER | 1,248,000 | 137,500 | 181,500 | 153,950 | 233,550 | 336,500 | 101,000 | 1,144,000 | 92% | 0.96 |
| CHANGE OF BUSINESS | 30,000 | 7,050 | 1,100 | 500 | - | | | 8,650 | 29% | 0.01 |
| LAND/PLOT REG. FEES | 200,000 | 30,250 | 23,100 | 15,800 | 33,950 | 26,660 | 18,000 | 147,760 | 74% | 0.12 |
| PUBLIC HEALTH FEES | 5,228,400 | 297,800 | 283,600 | 812,400 | 364,200 | 1,105,400 | 144,500 | 3,007,900 | 58% | 2.51 |
| DEV.(PPA FORMS) | 617,500 | 53,400 | 69,600 | 46,200 | 63,500 | 55,800 | 31,200 | 319,700 | 52% | 0.27 |
| APP. OF BIULDING PLANS | 3,087,100 | 329,877 | 368,884 | 510,792 | 581,480 | 851,833 | 636,104 | 3,278,970 | 106% | 2.74 |
| CONSERVANCY | 411,100 | 5,000 | 7,500 | | 7,500 | | | 20,000 | 5% | 0.02 |
| STORAGE FEES | 10,000 | 1,350 | 540 | 2,120 | 1,350 | 1,080 | | 6,440 | 64% | 0.01 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| EXHAUSTER AND EXH. MILAGE | 2,000,000 | 164,000 | 70,000 | 91,000 | 119,000 | 63,000 | 21,000 | 528,000 | 26% | 0.44 |
| TRANSFER FEES | 2,161,000 | 93,400 | 139,550 | 89,600 | 188,300 | 204,000 | 74,300 | 789,150 | 37% | 0.66 |
| MOTOR CYCLE FEES (PARKING) | 8,266,900 | 827,700 | 847,100 | 867,100 | 1,175,260 | 1,040,700 | 661,600 | 5,419,460 | 66% | 4.53 |
| MOTOR CYCLE PENALTY | 5,000,000 | 2,500 | 6,800 | 338,460 | 104,250 | 32,150 | 12,300 | 496,460 | 10% | 0.41 |
| TOWN PARKING FEE | 200,000 | | | 17,400 | 19,300 | 29,700 | 18,150 | 84,550 | 42% | 0.07 |
| CLEARANCE CERTIFICATE | 2,457,400 | 201,000 | 300,000 | 210,000 | 240,000 | 264,000 | 120,000 | 1,335,000 | 54% | 1.12 |
| WEIGHTS AND MEASURES | 619,400 | 108,580 | | | 90,120 | | 85,580 | 284,280 | 46% | 0.24 |
| WATER FEE | 293,000 | 13,359 | 7,685 | 25,188 | 13,885 | 17,925 | 12,106 | 90,148 | 31% | 0.08 |
| HIRE OF HALL/CHAIRS | 189,800 | | 3,000 | 1,000 | 16,500 | | | 20,500 | 11% | 0.02 |
| SIGN BOARD | 559,600 | 13,650 | 8,600 | 1,600 | 900 | | 230 | 24,980 | 4% | 0.02 |
| MEAT INSPECTION | 6,023,500 | 352,520 | 429,640 | 357,920 | 401,200 | 397,610 | 410,517 | 2,349,407 | 39% | 1.96 |
| GRAVE FEES | 32,800 | 6,810 | 1,600 | 1,200 | 3,300 | 3,200 | 3,200 | 19,310 | 59% | 0.02 |
| VET DEPARTMENT(AI SERVICES) | 3,710,000 | 2,200 | 6,700 | | 6,900 | 39,000 | 41,000 | 95,800 | 3% | 0.08 |
| VACCINATION | 3,286,600 | 276,900 | 24,000 | 2,650 | 5,950 | 59,000 | 296,050 | 664,550 | 20% | 0.56 |
| SURVEY FEES | 40,000.00 | | 2,000 | | 2,000 | 6,000 | | 10,000 | 25% | 0.01 |
| J.M. HOSPITAL | 60,000,000 | 3,232,157 | 2,947,127 | 2,340,504 | 6,921,067 | 5,905,915 | 2,085,003 | 23,431,773 | 39% | 19.58 |
| ENGINEER HOSPITAL | 15,700,000 | 1,070,845 | 1,211,445 | 1,983,120 | 1,079,005 | 723,500 | 759,840 | 6,827,755 | 43% | 5.71 |
| HIRE OF WATER TANKER | 644,900 | 6,500 | 13,000 | | 23,309 | | | 42,809 | 7% | 0.04 |
| LIQOUR LICENCE/INSPECTION/APP | 25,000,000 | 1,419,800 | 338,500 | 186,500 | 136,800 | | | 2,081,600 | 8% | 1.74 |
| BRANDING | 120,000 | | | | - | 7,000 | 4,500 | 11,500 | 10% | 0.01 |
| PROMOTION | 1,000,000 | 13,900 | 37,150 | 2,100 | 28,550 | 21,400 | 11,850 | 114,950 | 11% | 0.10 |
| C.O.T | 60,000 | | 540 | 2,010 | 360 | 1,380 | 220 | 4,510 | 8% | 0.00 |
| LEASE EXTENSION | 500,000 | 11,500 | 23,000 | 75,500 | 34,500 | 23,000 | 23,000 | 190,500 | 38% | 0.16 |
| BETTING | 40,000 | 2,500 | | | - | | | 2,500 | 6% | 0.00 |
| STADIUM HIRE | 30,000 | | | | - | 7,500 | | 7,500 | 25% | 0.01 |
| MOVEMENT PERMIT | 50,000 | 120 | 1,700 | | - | | 7,700 | 9,520 | 19% | 0.01 |
| MEDICAL CERTIFICATE FEES | 818,000 | 169,425 | | 95,400 | 19,800 | 236,500 | 36,500 | 557,625 | 68% | 0.47 |
| SEARCH FEE | 20,000 | | | | - | 2,600 | | 2,600 | 13% | 0.00 |
| ATC OLJORO OROK | 2,334,800 | 10,970 | 24,065 | 8,295 | 18,225 | 66,030 | 9,985 | 137,570 | 6% | 0.11 |
| CERTIFICATE OF COMPLIANCE | 3,000,000 | 49,700 | 74,500 | 106,000 | 81,500 | 116,000 | 65,500 | 493,200 | 16% | 0.41 |
| COOPERATIVE AUDIT FEES | 824,000 | 28,750 | 14,665 | 130,120 | - | 91,560 | | 265,095 | 32% | 0.22 |
| RESIDENTIAL HOUSES PERMITS | 200,000 | | | | - | | | - | 0% | 0.00 |
| MILK CESS | 20,000,000 | | | | - | | | - | 0% | 0.00 |
| ADVERTISEMENT | 5,000,000 | | 76,000 | 2,037,150 | | | 13,400 | 2,126,550 | 43% | 1.78 |
| FISHERIES | 50,000 | 4,000 | | | | 2,500 | 7,450 | 13,950 | 28% | 0.01 |
| MOTORCYCLE MORTGAGE FEES | 2,400,000 | | 224,700 | | | 81,400 | 205,200 | 511,300 | 21% | 0.43 |
| SUBSIDIZED FERTILIZER SALE | 20,000,000 | 3,057,000 | 1,146,000 | 96,000 | 7,500 | 6,000 | 3,000 | 4,315,500 | 22% | 3.61 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| N.H.I.F FEE | 13,000,000 | 586,730 | 1,284,820 | 219835 | 617,235 | 1,247,360 | 163,470 | 4,119,450 | 32% | 3.44 |
| MISCELLENEOUS | 1,500,000 | 6,400 | 50,351 | 85,149 | 404,066 | 77,550 | 21,080 | 644,596 | 43% | 0.54 |
| DUMPING FEE | 50,000 | | | | | | | - | 0% | 0.00 |
| TOTALS | 410,000,000 | 24,765,318 | 20,142,543 | 19,029,930 | 21,997,381 | 21,262,537 | 12,479,326 | 119,677,035 | 29% | |

From this analysis, the County generated 29.0 % of its own source revenue target of Kshs.410,000,000 million in the first 6-month period. Produce Cess Royalties was the best performing revenue stream in the period. The stream generated 19.66 % (Kshs. **23,529,755**) of the County's own source revenue. This was closely followed by J.M. hospital at 19.57 % (Kshs. **23,431,773**) and Single Business Permits (SBP) at 6.32 %. ( Kshs. **7,567,265)**.

Most of the revenues 21.7%, (Kshs.**24,765,318**) was collected in July and the least 10%, (Kshs **12,479,326**) in December 2018.

**Exchequer issues**

In the first 6 months the county received (31%) Kshs.1,528,238,000 of the National transfers by December 2018.The following is an analysis of amount received from equitable share and conditional grants.

*Table 3: Exchequer issues*

| S/N | MONTH | EQUITABLE SHARE |
|---|---|---|
| **1.** | JULY | - |
| **2.** | AUGUST | - |
| **3.** | *SEPTEMBER* | *246,490,000* |
| **4.** | *OCTOBER* | *345,086,000* |
| **5.** | *NOVEMBER* | *443,682,000* |
| **6.** | *DECEMBER* | *492,980,000* |
| | ***TOTAL*** | ***1,528,238,000*** |

*Table 4: conditional grants*

| S/N | MONTH | DESCRIPTION | CONDITIONAL GRANTS |
|---|---|---|---|
| **1.** | JULY | | - |
| **2.** | AUGUST | | - |
| **3.** | SEPTEMBER | | - |
| **4.** | OCTOBER | E U grant for potato tissue culture lab (IDEAS) | 78,775,576 |
| | OCTOBER | World Bank (IDA) Loan for Transforming Health Systems | 9,241,613 |
| **5.** | NOVEMBER | DANIDA grant | 7,998,750 |

| | | | |
|---|---|---|---|
| | NOVEMBER | Road maintenance levy fund | 32,641,949 |
| **6.** | NOVEMBER | World Bank Grant for Climate Smart Agriculture Programme (KCSAP) | 37,877,017 |
| **7.** | DECEMBER | world bank Grant for Kenya Urban Support Programme (KUSP) Level 2 | 135,543,400 |
| | **TOTAL** | | **302,078,305** |

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

The County had received 31% of the total conditional grants by December 2018.

### 2.3 Resource Envelope/ Revenue Projections

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

*Table 5: Revenue projections*

| REVENUES | | | | | |
|---|---|---|---|---|---|
| | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
| **Equitable share Transfers** | 4,929,800,000 | 4,867,000,000 | 5,061,680,000 | 5,264,147,200 | 5,474,713,088 |
| **Own Source Revenue** | 410,000,000 | 451,000,000 | 469,040,000 | 487,801,600 | 507,313,664 |
| **Linda mama (A-I-A)** | 30,000,000 | 30,000,000 | 31,200,000 | 32,448,000 | 33,745,920 |
| CONDITIONAL GRANTS | | | | | |
| **World bank grant for KDSP - Level I** | 43,069,316 | | | | |
| **EU grant for potato Tissue Culture Lab (IDEAS)** | 78,766,766 | | | | |
| **Sweden - Aricultura Sector Development Support Programme (ASDSP) Level II** | 18,522,640 | | | | |
| **World Bank (IDA) Loan for Transforming Health Systems** | 50,000,000 | | | | |
| **DANIDA Grant For Universal Heaalthcare for Devolved System Programme** | 15,997,500 | | | | |
| **Road maintenance levy fund** | 129,797,341 | 141,049,781 | 146,691,772 | 152,559,443 | 158,661,821 |
| **Road maintenance levy of uncredited 2017/18** | 32,641,949 | - | - | - | - |
| **User fees foregone** | 12,735,922 | 12,735,922 | 13,245,359 | 13,775,173 | 14,326,180 |
| **Rehabilitation of village polytechnics** | 39,700,000 | 39,700,000 | 41,288,000 | 42,939,520 | 44,657,101 |
| **Rehabilitation of village polytechnics B/F** | 21,274,457 | - | - | - | - |
| **Supplement for construction of County headquarters** | 121,000,000 | 121,000,000 | - | - | - |
| **Leasing of Medical Equipment** | 200,000,000 | 131,914,894 | 137,191,490 | 142,679,149 | 148,386,315 |

| | | | | | |
|---|---|---|---|---|---|
| **world bank Grant for Kenya Urban Support Programme (KUSP) Level 2** | 135,543,400 | | | | |
| **world bank Grant for Kenya Urban Support Programme (KUSP) Level 1** | 41,200,000 | | | | |
| **World Bank Grant for Climate Smart Agriculture Programme (KCSAP)** | 117,000,000 | | | | |
| **Balance B/F (World bank grant for KDSP - Level II)** | 282,647,811 | | | | |
| **Loans and grants** | | 375,041,424 | 375,041,424 | 375,041,424 | 375,041,424 |
| **Balance B/F 2017/18** | 959,838,984 | | | | |
| GRAND TOTAL | **7,669,536,086** | **6,169,442,021** | **6,275,378,045** | **6,511,391,509** | **6,756,845,513** |
| | | | | | |
| **BPS CEILING** | | **5,688,442,021** | | | |
| **LOCAL REVENUE** | | **481,000,000** | | | |

The County is projecting to get an equitable share of Kshs.4,867,000,000 in the FY 2019/20 which is a 1.27% reduction from the FY 2018/19 allocation. In addition, the County Government will receive a conditional allocation of Kshs.131,914,894 for funding the health services which include; reimbursement for user fees foregone; and leasing of medical equipment. Additionally, the County will also get Kshs.141,049,781 conditional grant from the Road Maintenance Levy Fund, Kshs.39,700,000 grants for rehabilitation of village polytechnics and KShs.121,000.000 supplement for construction of County Headquarters.

In addition to the transfer from the National Government, the County will generate its own revenues from its internal sources as authorized by County laws. In FY 2019/20, Own source is projected to improve by 10% from the FY2018/19 collection on the strength of detailed structural measures to be implemented by the County to boost revenue generation and collection as tabled in the County Assembly through the Finance Bill, 2018 for consideration and enactment.

Section 132 (1&2) of the PFM Act, 2012 requires the County Executive Member for Finance to make pronouncement of the revenue raising measures for the County Government with the approval of the County Executive Committee.

Consequently, the total resource envelope for 2019/20 FY is projected at Kshs.6,169,442,021.

## 2.4 County 2018/19 First Half-year expenditure performance

The County 2018/19 first half year performance indicates that the County has not been able to absorb the funds released as illustrated in the table below. Development expenditure has not been used up due to delays in among other things the following;

i. Consequent delays in preparation and submission of the supplementary budget to the County assembly and subsequently its approval.
ii. Delays in E-Procurement in line with the presidential directive.

*Table 6: First half year expenditure in 2017/18 and 2018/19*

| | 2017/18 (actual) | 2017/18 first half year | 2018/19-1st half year |
|---|---|---|---|
| **Expenditure** | | | |
| **Recurrent** | 3,068,142,820 | 1,360,473,107 | 1,628,131,418 |
| **Development** | 740,663,954 | 0 | 130,882,980 |
| **Total** | **3,808,806,774** | **1,360,473,107** | **1,759,014,398** |

The County's total outlay for the FY 2018/19 is expected to be Kshs.7,669,536,086. Out of this, Kshs.4,486,734,809 (59%) for recurrent expenditure and Kshs.3,182,810,276 (41%) for development expenditure.

In the period July to December 2018, the County has spent a total of Kshs. 1,628,131,418 on recurrent expenditure and Kshs.130,882,980 on Development expenditure.

## 2.5 Departmental 2018/2019 first half-year expenditure

The first half year expenditure FY 2018/19 analysis shows that cumulatively, the Departments have spent 28% of the total budget as shown in the table below.

*Table 7: Departmental 2018/2019 first half year expenditure and commitments*

| DEPARTMENT | Budget estimates (recurrent) | First half year recurrent | First half year development | Total expenditure and commitments | % of total budget spent |
|---|---|---|---|---|---|
| Governor's Office | 181,576,398 | 58,499,817 | - | 58,499,817 | 32.2 |
| The County Secretary | 37,627,163 | 5,021,927 | - | 5,021,927 | 13.3 |
| compensation to employees | 1,900,000,000 | 937,998,130 | - | 937,998,130 | 49.4 |
| public admin and ict | 56,870,560 | 8,758,046 | - | 8,758,046 | 15.4 |
| County Public Service Board | 11,488,476 | 3,391,435 | - | 3,391,435 | 20.4 |

| | | | | | |
|---|---|---|---|---|---|
| **County Attorney** | 16,624,976 | 1,159,150 | - | 1,159,150 | 0.2 |
| **Finance & Economic development** | 542,141,946 | 101,698,922 | - | 101,698,922 | 24.9 |
| **Agriculture Livestock & Fisheries** | 408,812,785 | 13,917,789 | - | 13,917,789 | 1.8 |
| **Lands, Housing & Physical Planning** | 785,208,223 | 9,413,137 | - | 9,413,137 | 3.3 |
| **Transport, energy & Public Works** | 281,960,157 | 35,560,161 | 126,013,832 | 161,573,993 | 32.5 |
| **Health Services** | 496,409,488 | 109,500,983 | 4,869,148 | 114,370,131 | 9.5 |
| **Education, Gender, Youth, Culture and Social Services** | 1,205,140,501 | 14,480,716 | - | 14,480,716 | 3.8 |
| **youth, sports and arts** | 383,876,113 | 31,138,365 | - | 31,138,365 | 7.6 |
| **Industrialization Cooperatives, Trade & Enterprise Development** | 408,563,151 | 10,643,047 | - | 10,643,047 | 9.4 |
| **Water, tourism, Environment and irrigation** | 113,661,852 | 32,141,486 | - | 32,141,486 | 3.8 |
| **County assembly** | 839,574,296 | 306,967,842 | 20,016,489 | 326,984,331 | 38.9 |
| **TOTAL** | 7,669,536,085 | 1,680,290,953 | 150,899,469 | 1,831,190,422 | 23.9 |

As indicated in the table, the office of the governor has the highest expenditure of 52.4 % since its mainly a service department. The department of lands on the other hand had the least absorption at 3.0%. Looking at the expenditures shown on the table it is important to note that most departments apart from Transport, Health and County Assembly have not expended development allocation in the first half of the financial year.

### 2.6 Expenditure Projections

Priority for funding in the FY 2019/20 has been given to projects/programmes that aim at scaling up levels of investment in economic and social infrastructure and creation of employment opportunities.

The County Government's expenditure for the FY 2019/20 will be guided by the Annual Development Plan (2019) which outlines the priority areas to be addressed in the FY 2019/2020 in the realization of the CIDPII. The County Government will promote budget transparency, accountability and effective financial management of resources based on clearly set priorities to ensure that budgets are directly linked to plans. The total Government expenditure is projected to be Kshs. 6,169,442,021 (100%) of the budget.

*Table 8: 2019/20 Budget allocation*

| Recurrent budget | 2018/19 actual | 2019/20 projected | 2020/21 projected | 2021/22 projected |
|---|---|---|---|---|
| **Personal emoluments (salaries, gratuity, pension, medical insurance)** | 2,215,293,315 | 2,310,293,315 | 2,402,705,048 | 2,498,813,250 |
| **Operations and maintenance** | 2,069,541,495 | 1,803,316,100 | 1,875,448,744 | 1,950,466,693 |

| | | | | |
|---|---|---|---|---|
| **Other recurrent expenditures (bursary, emergency, mortgage, trade funds)** | 201,900,000 | 205,000,000 | 213,200,000 | 221,728,000 |
| **Sub total** | **4,486,734,810** | **4,318,609,415** | **4,491,353,791** | **4,671,007,943** |
| **Development budget** | | | | |
| **Development expenditure** | 3,182,801,276 | 1,850,832,606 | 1,924,865911 | 2,001,860,547 |
| **Total budget** | **7,669,536,086** | **6,169,442,021** | **6,416,219,702** | **6,672,868,490** |

### 2.6.1 Recurrent Expenditure Projections

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

Total recurrent expenditure in FY 2019/20 is estimated to be at Kshs. 4,318,609,414.70 .

In the medium term, the County Government is committed to ensuring compliance with the fiscal responsibility principle on capping of compensation to employees at 35%..

### 2.6.2 Development Expenditure Projections

The County Government will endeavor to allocate adequate resources towards development projects as well as aspire to complete critical priority projects as outlined in this strategy paper. Total development expenditure in FY 2019/20 is estimated to be Ksh. 1,850,832,606.30

Development expenditures will be shared out on the basis of the CIDP II, County Annual Development Plan and Budget Policy Statement.

## CHAPTER THREE:  INDICATIVE MEDIUM TERM RESOURCE ALLOCATION

### 3.0 Overview

The Nyandarua County 2019/20 MTEF budget aims at supporting sustainable economic growth in the County. This will ensures that public resource is largely spent on Capital projects as opposed to Recurrent Expenditure needs.

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

In addition through various investment forums, the County intends to attract potential local and foreign investors and other development partners to assist in development of the County.

### 3.1 Criteria for resource allocation

An incremental budget approach will be developed in allocating resource in the 2019/20 MTEF budget. This implies that previous departmental allocation will be taken into consideration and adjusted accordingly to fit in the new resource envelope.

Understanding that the County resource envelope in 2019/20 FY is lower than had been projected, sector allocation has also been reduced as compared to 2018/19 FY. Prioritization of resource allocation will be based on the County Integrated Development Plan (CIDP2), departmental priorities, programmes and development policies of the County Government. The 2019/20 FY budget will institute reforms targeted at achieving efficiency and productivity of Government spending. The CIDP2 takes into account the development Agenda of the Country by including programmes for the big four Agenda.

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

(i) **Ongoing projects:** An active monitoring and update will be given to the completion of all on-going projects in the County that includes infrastructure, building and constructions etc. this will enable job creation, equity and poverty reduction;

(ii) **Mainstreaming the Governor's 6 pillars Manifesto** aimed at jump-starting major change efforts and enhancing implementation capacity. A reform program Rapid Results Initiatives has been introduced to enable and build blocks toward achievement of long-term goals and responsibilities given through the Constitution of Kenya. Whereas the

Results Based Management include a number of elements such as training, new policies and procedures, mission and vision of the Government and even a communication strategy to ensure involvement of all stakeholders, which promise to get the public service enhance performance;

(iii) **The CIDP2 identified Flagship Projects and Programs**: The County Government will ensure equitable distribution of Flagship Projects across all corners of the County;

(iv) **Mainstreaming the Presidential Big Four Agenda**. The President has sought the support of the Counties to have Governors align their Development Plans with National Big Four Agenda. The County has aligned its CIDP2 to the Big Four Agenda and the implementation of the same will be pursued in the FY 2019/20;

(v) **Job Creation:** Specific consideration to job creation based on sound initiatives identified in the CIDP2 will be considered. There is an urgent need to provide avenues for job creation particularly for the youth, women and people living with disability. They include agro processing, building industrial parks, affordable finance and promotion of small and medium businesses for youth and women. The County has huge untapped potential which constitutes a vibrant young labour force, fertile agriculture land and an ideal location for tourism; and

(vi) **Strategic Policy Interventions:** Strategic policy intervention will make all involved stakeholders understand and use effective policies for the County programs. This will cover the Entire County, social equity and environmental conservation. Priority will be to engage the key sectors like agriculture, industrialization, infrastructure and youth which are the drivers of the economy and have the potential to unlock it and help for bigger and longer-term change.

**(vii)** **Fiscal discipline:** This includes the absorption rate and efficiency in utilization of the allocated resources. Departments which are able to adhere to this criteria will have an added advantage in resource sharing.

**(viii)** **Revenue generating programmes:** Departments/ programmes and institutions which have a higher capacity for generating revenues will be given a higher consideration in resource allocation.

### 3.2 DEPARTMENTAL EXPENDITURE CEILINGS FOR 2019/20 FY AND THE MEDIUM TERM

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

Table 3.1: Departmental Expenditure Ceilings for 2019/20 FY and the Medium Term

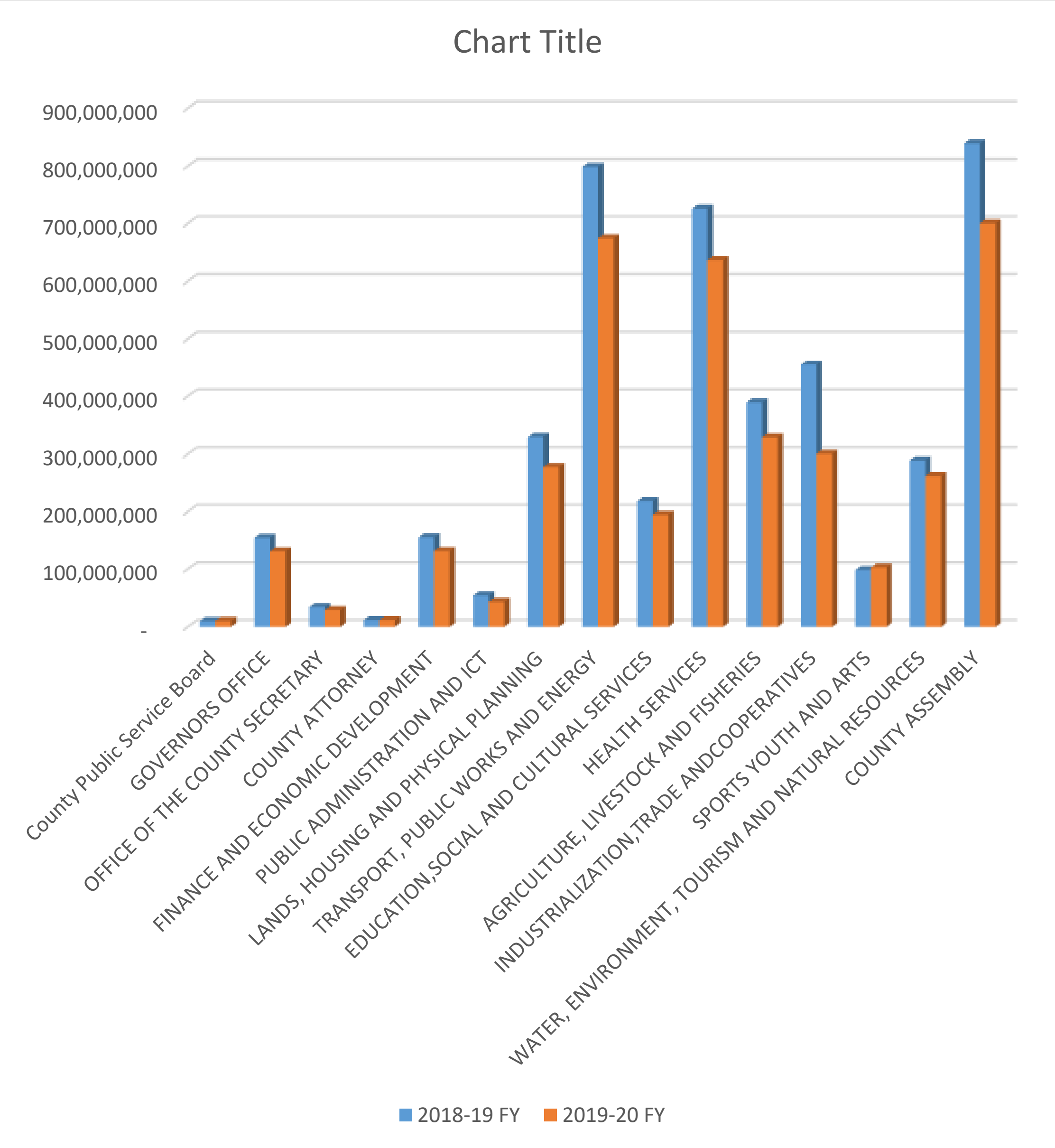
| PROPOSED BUDGET BY PROGRAMME | | | | | |
|---|---|---|---|---|---|
| **Programme** | **2018-19 (Original Budget)** | **2018-19 (1st supp. Without pending bills)** | **2019-20 Estimated** | **2020-21 projected** | **2021-22 projected** |
| **Bursary Fund** | 104,300,000 | 106,900,000 | 100,000,000 | 100,000,000 | 100,000,000 |
| **Emergency Fund** | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |
| **Mortgage Fund** | 60,000,000 | 60,000,000 | 70,000,000 | 70,000,000 | 70,000,000 |
| **Nyandarua County Biashara Fund** | - | 5,000,000 | 15,000,000 | 15,000,000 | 15,000,000 |
| **KDSP level 1** | 43,069,316 | 43,069,316 | - | - | - |
| **County Pension Fund** | 34,050,100 | 34,050,100 | 34,050,100 | 34,050,100 | 34,050,100 |
| **County Gratuity Fund** | 41,000,000 | 41,000,000 | 41,000,000 | 41,000,000 | 41,000,000 |
| **Medical Insurance** | 43,000,000 | 40,000,000 | 40,000,000 | 40,000,000 | 40,000,000 |
| **General Insurance** | 31,500,000 | 18,776,985 | 20,000,000 | 20,000,000 | 20,000,000 |
| **Salaries (Executive)** | 1,900,000,000 | 1,900,000,000 | 1,995,000,000 | 2,094,750,000 | 2,199,487,500 |
| **Pending bills** | 0 | 833,123,388 | | | |
| **Sub total** | 2,276,919,416 | 3,101,919,789 | 2,335,050,100 | 2,434,800,100 | 2,539,537,600 |
| **COUNTY PUBLIC SERVICE BOARD** | | | | | |
| **County Public Service Board** | 10,233,500 | 10,233,500 | 10,532,799 | 11,059,438.91 | 11,612,410.85 |
| **sub total** | 10,233,500 | 10,233,500 | 10,532,799 | 11,059,439 | 11,612,411 |
| **GOVERNORS OFFICE** | | | | | |
| **service delivery unit/monitoring and evaluation** | 14,470,000 | 14,220,000 | | | |
| **Governor's office & Investment promotion** | 80,920,000 | 94,250,000 | | | |
| **Liasion and Intergovernmental relations** | 16,200,000 | 47,000,000 | | | |
| **Sub total** | 111,590,000 | 155,470,000 | 131,130,125 | 137,686,630.79 | 144,570,962.33 |
| **OFFICE OF THE COUNTY SECRETARY** | | | | | |
| **County Secretary-Administration** | 6,319,735 | 8,809,735 | | | |
| **cabinet affairs** | 720,000 | 720,000 | | | |
| **payroll** | 890,000 | 890,000 | | | |
| **Human Resource Management** | 4,804,000 | 4,804,000 | | | |
| **Communication and Public Relations** | 7,590,000 | 19,240,000 | | | |

| | | | | | |
|---|---|---|---|---|---|
| Sub total | 20,323,735 | 34,463,735 | 29,068,205 | 30,521,615.47 | 32,047,696.24 |
| COUNTY ATTORNEY | | | | | |
| County Attorney services | 9,980,000 | 11,980,000 | | | |
| Sub total | 9,980,000 | 11,980,000 | 11,989,049 | 12,588,501.31 | 13,217,926.37 |
| FINANCE AND ECONOMIC DEVELOPMENT | | | | | |
| Public finance management | 16,579,440 | 44,928,440 | | | |
| County budgeting | 7,765,000 | 12,188,101 | | | |
| County statistics and data base | 6,825,000 | 10,025,000 | | | |
| Economic modelling and research | 5,460,000 | 8,260,000 | | | |
| Economic development planning | 6,568,000 | 10,968,000 | | | |
| Revenue collection administration (Including automation) | 24,357,600 | 24,397,600 | | | |
| Revenue enhancement and monitoring | 17,675,645 | 21,671,268 | | | |
| Supply chain management | 4,870,000 | 8,150,457 | | | |
| Internal audit and risk management | 8,935,000 | 15,501,139 | | | |
| Sub total | 99,035,685 | 156,090,005 | 131,653,064 | 138,235,716.78 | 145,147,502.62 |
| PUBLIC ADMINISTRATION AND ICT | | | | | |
| Public Administration | 4,565,700 | 5,665,700 | | | |
| sub-county and ward administration | 11,055,000 | 21,135,000 | | | |
| ICT and E-government services | 14,120,000 | 17,944,480 | | | |
| Enforcement and compliance | 7,992,000 | 9,417,000 | | | |
| Sub total | 37,732,700 | 54,162,180 | 43,682,726 | 45,866,862.29 | 48,160,205.41 |
| LANDS, HOUSING AND PHYSICAL PLANNING | | | | | |
| Housing development | 28,822,500 | 39,572,500 | | | |
| Physical Planning | 45,250,000 | 24,844,000 | | | |
| Survey and mapping | 14,788,640 | 15,806,400 | | | |
| Land administration and management | 50,436,360 | 72,316,360 | | | |
| Kenya urban support programme | 175,543,400 | 176,743,400 | | | |
| Sub total | 314,840,900 | 329,282,660 | 277,731,242 | 291,617,804.29 | 306,198,694.50 |
| TRANSPORT, PUBLIC WORKS AND ENERGY | | | | | |
| Transport | 608,189,815 | 613,076,047 | | | |
| Energy | 26,600,834 | 33,245,834 | | | |
| fuel levy | | | | | |
| Public Works | 205,049,058 | 152,725,008 | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Sub total** | 839,839,707 | 799,046,889 | 673,950,718 | 707,648,253.61 | 743,030,666.29 |
| **EDUCATION,SOCIAL AND CULTURAL SERVICES** | | | | | |
| **ECDE** | 125,921,000 | 126,241,000 | | | |
| **Alcohol drinks control and civic education** | 1,948,150 | 3,812,150 | | | |
| **Youth training** | 42,199,164 | 72,442,264 | | | |
| **Gender Affairs and Social Services** | 7,090,000 | 10,630,000 | | | |
| **Culture** | 4,930,000 | 5,915,000 | | | |
| **Sub total** | 182,088,314 | 219,040,414 | 194,748,162 | 204,485,570.27 | 214,709,848.79 |
| **HEALTH SERVICES** | | | | | |
| **Infrastructure and equipment** | 128,450,000 | 128,850,000 | | | |
| **Preventive and promotive services** | 7,650,000 | 7,650,000 | | | |
| **Solid waste and cemeteries** | 8,003,000 | 8,003,000 | | | |
| **Curative services** | 218,623,195 | 218,473,195 | | | |
| **Universal Healthcare** | 362,733,422 | 362,733,422 | | | |
| **Sub total** | 725,459,617 | 725,709,617 | 636,308,869 | 668,124,312.11 | 701,530,527.71 |
| **AGRICULTURE, LIVESTOCK AND FISHERIES** | | | | | |
| **Crop production (Inclusive of E.U & ASDSP grants)** | 116,972,253 | 174,860,508 | | | |
| **Livestock production** | 25,910,000 | 27,610,000 | | | |
| **veterinary services** | 19,915,000 | 21,175,090 | | | |
| **Fisheries Development** | 7,372,500 | 7,255,000 | | | |
| **kenya climate smart agriculture project** | 120,000,000 | 120,000,000 | | | |
| **Institution support (ATCs)** | 7,664,500 | 7,734,500 | | | |
| **Agriculture mechanization services** | 7,550,000 | 7,050,000 | | | |
| **Integrated agricultural extension services** | 10,850,000 | 13,535,000 | | | |
| **SUBSIDIZED ARTIFICIAL INSEMINATION** | 11,550,000 | 10,200,000 | | | |
| **Sub total** | 327,784,253 | 389,420,098 | 328,453,759 | 344,876,447.26 | 362,120,269.62 |
| **INDUSTRIALIZATION,TRADE ANDCOOPERATIVES** | | | | | |
| **Financial and Trade Services** | 133,276,051 | 36,077,731 | | | |
| **Industrial and enterprise development (Inclusive of KDSP )** | 20,174,000 | 401,321,811 | | | |
| **Cooperative development** | 15,320,000 | 16,790,000 | | | |
| **Weights & Measures** | 1,520,000 | 1,520,000 | | | |
| **Sub total** | 170,290,051 | 455,709,542 | 300,365,144 | 315,383,401.66 | 331,152,571.74 |
| **SPORTS YOUTH AND ARTS** | | | | | |
| **Sports Development** | 69,466,200 | 71,491,200 | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Youth Affairs** | 18,692,895 | 20,492,895 | | | |
| **Arts & Theater** | 6,500,000 | 6,500,000 | | | |
| **Sub total** | 94,659,095 | 98,484,095 | 103,065,747 | 108,219,034.07 | 113,629,985.77 |
| **WATER, ENVIRONMENT, TOURISM AND NATURAL RESOURCES** | | | | | |
| **Water Resource development.** | 216,447,210 | 233,202,076 | | | |
| **Environment** | 24,815,000 | 23,217,190 | | | |
| **Tourism** | 10,490,000 | 12,290,000 | | | |
| **irrigation and drainage** | 17,640,000 | 20,240,000 | | | |
| **Sub total** | 269,392,210 | 288,949,266 | 261,712,313 | 274,797,928.25 | 288,537,824.66 |
| **COUNTY ASSEMBLY** | | | | | |
| **County Assembly** | | | | | |
| **Sub total** | 829,474,296 | 839,574,296 | 700,000,000 | 735,000,000.00 | 771,750,000.00 |
| **GRAND TOTAL** | 6,319,643,479 | 7,669,536,086 | 6,169,442,021 | 6,460,911,617 | 6,766,954,693 |

**Fig 3.1 COMPARATIVE DEPARTMENTAL ALLOCATIONS FOR FYs 2018/19 &2019/20**




**3.4 Adherence to Fiscal Responsibility Principles**

Section 107 of the PFM Act, 2012 and regulation 25 of the PFM (County Governments) Regulations, 2015 sets out the fiscal responsibility principles which the County Governments have to observe and enforce through the County Treasury.

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

i. The requirement that the County public debt shall never exceed twenty (20) percent of the County Government's total revenue at any one time.

ii. The County Government wages shall be contained at thirty five (35) percent of the County Government's total revenue in the medium term;
iii. The approved expenditures of a County assembly will be as per senate's recommendations. This shall not exceed 7% of the total revenues of the County Government or twice the personnel emoluments of that County assembly, whichever is lower.
iv. The County Government actual expenditure on development shall be at least thirty percent of the County Government's total expenditure.
v. fiscal risks shall be managed prudently; and
vi. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

In the 2019/20 FY and the medium term, the County Treasury will ensure that the budgets are prepared in a way that ensures strict adherence to these principle. Table 3.2 gives a summary of the indicators on the fiscal responsibility.

### 3.5 Presentation of County's adherence to the fiscal responsibility principles for 2019/20 FY and the medium term

**Table 3.2 County fiscal responsibility adherence**

| INDICATOR | | Amount (Kshs) | % share of total budget |
|---|---|---|---|
| **County expenditure** | Recurrent | 4,010,137,314 | 65 |
| | Development | 2,159,304,707 | 35 |
| | **Total** | **6,169,442,021** | **100** |
| **Expenditure on wages & benefits including Medical Insurance, County Pension & Gratuity Fund (EXECUTIVE ONLY)** | | 2,115,050,100 | 34.28 |
| **Expenditure by County Assembly** | Recurrent | | |
| | Development | | |
| | **Total** | **700,000,000** | **11.34** |
| **County Debt financing** | | 0 | |

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

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

In the 2019/20 FY and the medium term, the County will not consider debt financing either through internal or external borrowing to finance budget. The budgets will therefore be financed by the equitable share, conditional grants and locally generated revenues. The County Government will at the same time ensure that all its obligation to the suppliers are met on a timely basis to avoid accumulation of pending bills.

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

In 2019/20 FY, The County's expenditure on wages and benefits will account for 34.25% of the total expenditure. This includes the employees' pension and gratuity funds and medical schemes which have increased the County's expenditure on wages and benefits. The County is therefore in line with the set limit of 35 % of the County revenues.

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

The expenditure of the County Assembly will account for 11.34% of the total expenditure in 2019/20. The county is not in adherence to this principle.

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

It is projected that the County Government will spend 35% of its budget on development in 2019/20 FY. This will be mostly on expenditure towards the completion of on-going projects, flagship projects and other service delivery initiatives. This allocation will also be continued over the medium term

v. **Fiscal risks shall be managed prudently**

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

Further, a provision of Kshs.30 million has been factored to cater for urgent and unforeseen expenditure. This will ensure that emergencies can be handled without disorienting the plans and budgets.

vi. **A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future**

To ensure a reasonable degree of predictability with respect to level of tax rates, charges and tax bases, legislation on property rates, entertainment tax and produce cess will be amended through the Finance Acts depending on the fiscal strategy in a given year. The legislations will also contain clear justification for the fees and charges to be charged and the modalities for charging the same. The County Finance Acts will make reference to the substantive legislation, while proposing amendments to the charges, fees and taxes hence maintain a degree of predictability.

# CHAPTER FOUR:

# SECTORAL PRIORITIES ASSUMPTIONS AND RISKS UNDERLYING BUDGETARY AND FISCAL POLICY

## 4.0 Sectoral priorities in the medium term

### Agriculture sector

This sector comprises of four sub-sectors namely:

i. Agriculture
ii. Livestock Development
iii. Veterinary services
iv. Fisheries development

Agriculture is the backbone of Nyandarua's economy due to the fertile soils and favourable climate. It is considered the food basket of Kenya because of its high production of potatoes, cabbages, carrots, peas and milk. The sector has been a key economic driver creating over 70% of the available employment opportunities directly & indirectly. The sector has also been a key contributor towards local revenue generation.

In this Financial Year 2019/20 the sector has been allocated a Budget Kshs.328,453,759.

**The priorities for this Sector in 2019/20 will be:**

1. Strengthening institutional, policy and legal framework to support production, marketing and value addition;
2. Strengthening extension services through integrated extension approaches;
3. Enhancing access to quality and affordable agricultural inputs;
4. Promotion of post-harvest handling for reduction of produce losses;
5. Promote Food Security through Monitoring of Crop Situation and Food Balances;
6. Promote Market Access and value addition;
7. Enhance quality and safety of food products both animal and crops;
8. Promote sustainable land use and environmental conservation;
9. Promotion of mechanization in agricultural production;
10. Animal and crop pest surveillance and control; and
11. Enhance the fisheries subsector.

### Water, Environment, Tourism and Natural Resources

The sector comprises of the following subsectors;

i. Water Resource Development;

ii. Environment Management and Conservation;
iii. Tourism Development and Marketing;
iv. Natural Resources Management; and
v. Irrigation and Drainage.

In this Financial Year 2019/20 the sector has been allocated a Budget Kshs.261,712,313.

**The priorities for this Sector will be:**

**Water resources Development**

1. To provide adequate, accessible and sustainable water supply for domestic, livestock, sanitation and for industrial purposes.
2. constructing water harvesting storage facilities, rehabilitation of existing water supply infrastructure and developing new water supply infrastructure to cover unserved areas.
3. strengthening the management capacity of community water projects to ensure that they are professionally and sustainably managed.
4. mobilizing resources and sensitizing the beneficiaries to own, operate and maintain the water supply infrastructure.
5. 5develop affordable, operational and maintenance cost recovery water tariffs.

**Environment Management**

1. To promote integration of environmental requirements in policies, plan, programs and projects in all sectors.
2. Advice on, and monitor implementation of environment impact assessments on new projects and audit on ongoing projects and engaging all stakeholders to manage and conserve the environment,
3. Integrated service provision, capacity building for key stakeholders, operationalization of County environment committee and collaboration with lead agencies.
4. Promote, conserve and protect the environment and provide sustainable development.

**Tourism and Natural resources**

1 To map, develop, market and promote Nyandarua as a preferred tourist destination

2 To promote conservation, sustainable access and use of natural resources

3 Enhance exploitation of natural resources.

**Irrigation**

Priority will be to increase area of acreage under irrigation to ensure production.

**Finance and Economic Development Sector**

The sector comprises of the following subsectors:

i. Economic Development;
ii. Local Revenue and Business Development;
iii. Supply Chain Management;
iv. Internal Audit; and
v. Public Finance Management.

The mandate of the sector is to monitor, evaluate and oversee the management of public finances and economic affairs of the County Government.

**The priorities for the Sector will be:**

1. Strengthening all County Institutions concerned with financial matters;
2. Enhancing resource mobilization both local and external;
3. Strengthening County economic development;
4. Budgeting process;
5. Procurement process;
6. Revenue collections;
7. Tracking of results and risk management through mapping risks and proactive mitigating strategies; and
8. Regular audits of County systems.

In the 2019/20 FY the sector has been allocated Kshs.131,653,0644.

**Governance Sector**

This Sector comprises of the Office of the Governor, Office of the Deputy Governor, Office of the County Secretary, the Service Delivery Unit, Office of County Attorney and the Directorate of the Governor Press service.

In the 2019/20 FY the Sector has been allocated Kshs.131,130,125.

The priorities for the sector will be:

1. Performing such State functions within the County as the President may from time to time assign on the basis of mutual consultations;
2. Representing the County in national and international fora and events;
3. Submitting the County Plans and Policies to the County Assembly for approval;

4. Considering, approving and assenting to Bills passed by the County Assembly;
5. Submitting to the County Assembly an Annual Report on the implementation status of the County Policies and Plans;
6. Delivering Annual State of the County Address;
7. Promoting investments;
8. Promoting inter-Governmental relations; and
9. Coordinating Civic Education and Public Participation on County matters.

**Public Administration and ICT**

The Sector comprises of ICT, Enforcement and Compliance and Public Administration.

The priorities of this sector will be:

1. To provide security of County assets and ensure compliance with County Legislation and relevant National Laws;
2. Coordination of Government functions for efficient service delivery;
3. To automate all County services while minimizing the risk exposed to the Systems; and
4. Provide ICT technical support services to internal clients.

In the 2019/20 FY the sector has been allocated Kshs43,682,726 which comprises of 100 % recurrent

**County Public Service Board**

This is a sub-sector under the Office of the County Secretary. In the 2019/20 FY the sub-sector has been allocated Kshs10, 532,799 which is 100% recurrent.

**The priorities of the sector will be:**

1. Establishment and abolition of offices;
2. Appoint persons to hold or act in public offices of the County public service and to confirm appointments;
3. Disciplinary control;
4. Monitoring and reporting;
5. Promotion of values and principles; and
6. Human resource Planning, Management and Development.

**Transport, Energy and Public Works**

This department is in charge of provision of road infrastructural facilities for sustainable economic growth and development through maintenance of existing road networks and opening up rural areas.

During the Financial Year 2019/20, the department has been allocated Kshs.673,950,718 to finance its operations.

**Sub sectors**

i. Transport;
ii. Public works; and
iii. Energy

The Sector Priorities will include**:**

1. Providing Road Connectivity and Accessibility: This will include providing road connectivity to counties, Grading, gravelling, upgrading to bitumen, drainage works and maintenance of existing roads. Also it includes opening up of new access roads, maintenance and improving road networks to motorable standards and drainage works across the County;
2. Infrastructure: Design, documentation, construction and supervision of structures including County headquarters;
3. Lighting: Erection of more floodlights and streetlights; and
4. Development of energy.

**Industrialization, Trade and Cooperatives**

The department aims to promote, coordinate and implement integrated socio economic Policies and Programs for a rapidly industrializing economy through promotion and creation of enabling environment to facilitate growth in trade, commerce, and enterprise development.

The Sector has been allocated a total of Kshs.300,365,144 for development and recurrent expenditure respectively for the FY 2018/19.

The Department comprises of four sections:

i. Industrialization;
ii. Trade;
iii. Cooperative; and
iv. Weights and Measures.

**The priorities of the Sector will be:**

1. Promotion of trade;
2. Promotion of Cooperative movement;
3. Promote cottage industries and enterprises;
4. Enhance value addition to reduce post-harvest losses and stabilize market prices;
5. Facilitate access to affordable credit; and
6. Ensure fair trade practices through verification of in weight and measures.

**Youth, Sports and Arts**

The department's aspiration is to create a cohesive, secure, socially, culturally and economically empowered youth through enhanced access to information, skills and adoption of modern technologies by increasing awareness in existing opportunities on job creation for improved livelihoods while promoting sports and talent development within the County.It aims is to maximize the full potential of Nyandarua youth through participatory engagements that will safeguard the rights and welfare of all.

The Sector has been allocated a total of Kshs.103,065,747 for recurrent and development expenditure respectively for the FY 2019/20.

This department comprises of:

i. Youth affairs;
ii. Sports; and
iii. Arts/Theatre directorates.

The Sector Priorities will be:

1. Strengthen institutional policy and legal framework for development of sports ,Arts and youth empowerment;
2. Establishment and operationalization of the County Youth Master plan;
3. Enhance access to information on Youth empowerment especially concerning 30% tender opportunities;
4. Promotion of sports activities through formation of a County league and introduction of other sports activities;
5. Establishment of high altitude training centres; and
6. Establishment of sports academies, production studio and theatre.

**Health Services**

This Sector has three programs:

i. Curative;

ii. Preventive Health Care; and

iii. Solid Waste Management and Cemeteries.

These programs play a key role in the prevention of disease, provision of curative and rehabilitative services as a key pillar in the health transformative agenda. The ultimate goal of the County Government being investing in quality, affordable and accessible (curative, preventive and solid waste management and cemeteries) healthcare services through infrastructural development by upgrading and equipping of County health facilities as well as ensuring continuous supply of drugs and other non-pharmaceuticals.

During the Financial Year 2019/20 the department was allocated Kshs.636,308,869.

**The Sector Priorities will be:**

1. To improve health infrastructure as a key pillar in the health transformative agenda. Some critical services are still missing or being provided sub-optimally. The County will endeavour to bring critical services closer to the citizenry by expanding the scope of services being offered at the sub-County level. This will be achieved by upgrade of several health facilities to a sub-County level hospital. These facilities are Ndaragwa, Bamboo, Manunga, Mirangine and Ngano health facilities. Critical staff gaps will continue being filled so that quality services can be offered. Other supportive pillars will continue being improved so that the health transformative agenda can be realised;
2. To improve the quality and scope of services being provided in its health facilities. This will be achieved through capacity building of health personnel as well as improving infrastructures used in service provision. Adequate health products will be procured for sustenance of health service provision. The department has planned to operationalize some 4 health facilities in this Financial Year Community mobilization will be a key input in the year under consideration where the County will even be paying premiums to some members of the society who are needy to be able to accelerate the County towards universal health care; and
3. Health management and governance shall be revamped so that management can be result oriented. Data shall be collected and collated appropriately for use in decision making.

Financing of health facilities shall be goal oriented whereas operational research shall be conducted to inform the operations of the health facilities.

**Education, Culture and Social Services**

This department comprises of:

i. Early Childhood Development Education (ECDE); and

ii Gender, Culture and Social Development.

**The subsector Priorities will be;**

**Education Sub-Sector:**

1. Employ more qualified teachers on a permanent and pensionable basis.
2. Construct more suitable classrooms and sanitation facilities, playing equipment's, teaching and learning materials.
3. Continue the milk feeding program
4. Invest in a robust curriculum for learners.

**Gender, Culture and Social Development:**

1. Harness cultural assets
2. Establish libraries
3. Empower pwds, plwas, widows and drug users by including them in decision making stages and incorporate them in implementation of programs by giving them jobs.

This department was allocated Kshs 194,748,162 in 2019/20.

**Land, Housing and Physical Planning**

Land being the foundation upon which all economic activities are based its effective Management is paramount for social, economic and political development.

The objectives of the department are to promote, coordinate and implement integrated socio-economic policies and programs in the management of Lands, Housing and Physical Planning within Nyandarua County.

In the FY 2019/20, the department was allocated Kshs. 277,731,242.

**Sector priorities will be:**

1. **Survey and mapping;** to implement approved plans and enhancement Development control and regulations;

2. **Physical planning;** to update and enhance availability of geospatial data in a framework for coordinated development as well as enhancing decision making;
3. **Land Administration and Management;** to avail land for social amenities, investment and to enhance road connectivity; and
4. **Housing and Urban Development;** to bring services strategically closer to the people. Provide all land related services under one roof.

### 4.1 Assumptions

All projections in the fiscal framework rest on assumptions regarding particular variables. In constructing projections, the revenue performance will be improved by the on-going reforms in revenue administration. The county will institute corrective measures in local revenue collection to enable revenue increase from the local sources. This will include strengthening the county revenue directorate for efficient and effective revenue collections, improve enforcement of local revenue laws and regulations, maintain and expand the automation of revenue collection systems. In addition, the need to improve the human resource capacity technically trained will be considered to increase the revenue mobilization.

Of course, these projections are based on critical assumptions about GDP growth, wage and productivity trends, interest rates and much more.

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

### 4.2 Risks

There are potential risks associated with implementation of County fiscal policies. These include:

1. **Over reliance on National Government transfers**

   This is a risk that undermines the county's fiscal autonomy. Coupled with the unpredictability on account of the delays in release of resources, it poses another risk to proper implementation of the County budget.

2. **Under performance in revenue collection.**

   The risk for the fiscal framework for the FY 2019/2020 also include under performance in in revenue collection due to unforeseen factors. This remains a major challenge as it can generate pending bills and cause general cash flow problems or even cause undue demand for borrowing. To counter this, the county will put in structural reforms aimed at sealing loopholes, revenue enhancement, while ensuring there are efficient and effective methods of collecting the revenue.

**3. Wage bill**

The high wage bill will also be a major challenge in the implementation of the budget. There has been demand for promotion and strikes especially by the health workers on pay increment. Furthermore, the county is waiting for the proposed recommendations under the CARPS programs. Lack of clear guidelines for the clarity, harmony of operations and delay by the National Government in finalizing the CARPS exercise is a drawback it's expected that once the exercise is completed, the national treasury will allocate enough funds for implementation for recommendation, which may include staff compensation in the event of rationalization

**4. Domestic and External shocks**

The Kenyan economy is susceptible to various domestic and external shocks, such as droughts, volatility in commodity prices. More recently, the slowdown in global growth has posed challenges to attainment of projected expansion of our economy. To this end, maintaining fiscal stability is critical for safeguarding against these adverse shocks and ensuring that growth is sustained despite challenging circumstances. Therefore, Nyandarua County is not an exception being part of the country "Kenya".

5. **Revenue projections exposure**

The delayed implementation of the same in the FY 2018/19 will lead to projected revenue not being realized resulting in revenue shortfall adversely affecting the implementation of the proposed programmes and projects which will affect the overall development in the county.

This risk will be mitigated by implementing the programs and projects speedy.

The County Government continues to pursue strong revenue collection and identification of new sources of revenues from the devolved functions e.g. revenue from lake Olbollost, parking's, Liquor Licensing by rating the restaurants, mau mau caves and the happy valleys, Recreation facilities among others.

The County Government will ensure that fees and charges are collected according to the Finance Act 2017.

6. **Non – compliance with financial acts**

During the year there is likelihood that the financial resources could be affected by noncompliance with revenue raising measures and laws e.g. Non- payment of fees, land rates etc. which occasionally have been experienced in most markets within the county due to various issues raised by the stakeholders. Such non-compliance acts result to revenue shortfalls. To address such risks the directorate of enforcement would be empowered by employment of competent enforcement officers and allocation of adequate resources for that purposes.

7. **Frequent downing of IFMIS**

The county government will also ensure that there will be effective Market Management systems and; will address the infrastructural needs in our markets. Stakeholders will be involved in the routine management of all markets within the county. Budget implementation continues to be a challenge due to frequent downing of Integrated Financial Management Information (IFMIS) to the main server at the National Treasury. There is therefore an urgent need to address the challenge of connectivity and the corresponding bandwidth to increase the transaction speed. The inadequate human capacity and infrastructure to operationalize the system more efficiently also needs redress.

8. **Low absorption of budget**

This a major challenge in the county which will be contributed by the following among other factors such as; Logistic challenges in the procurement processes, government policies and regulations for example impromptu implementation of E-procurement system which is very new to the county, conflict in budget making process resulting to delay in supply of resources and allocations.

Nyandarua County like other counties is bound to face political risks especially differences between executive and assembly in the budget making process. This brings budget stalemate due to external interests. During the period of stalemate, the county development progress is affected adversely as programs and projects stall. To curb and improve the situation, the Executive will ensure timely planning by various implementing organs within the county, formulation of implementation strategies and enhance periodic monitoring and evaluation of programmes and projects.

Officers involved in the e-procurement process will be trained to enhance efficiency and ensure accountability.

Adequate budget consultations forums will be enforced to ensure compromises and agreements are achieved within the law on timely basis and avoid stalement. Also, to minimize conflict, both the Executive and the county assembly shall ensure the provisions of the public finance act and regulations are adhered to while considering the budget.

Macroeconomic assumptions have been broadly accurate, although revenue collections, and low absorption of budget remains a key concern. Looking ahead, due to revenue shortfalls, the ever-increasing pending bills, continues to pose a threat of a budget deficit. Systems are being put in place to improve local revenue performance following revenue collection reforms and moderation in recurrent expenditure, so as to increase the revenue bases and the fiscal position.

9. **low national economic performance**

   Due to uncertainties associated with global and national influences such as price of crude oil that affect cost of production and exchange rate fluctuations which impact on the performance of the County's economy. Recently the country experienced the increase in 16% VAT in fuel cost. This contributed to an increase in all commodities prices.

10. **Uncertainties of revenue flows**.

    This may be due to changes in policy by Governments leading to unrealized projected revenue

11. **Adverse weather conditions and Global warming.**

    Agricultural production decreases due to the potential consequence of weather changes, effects of the warming create stress to health systems and also brings changes to trade pattern. This lowers revenue from agricultural products which is among the top local revenue sources. As such reduction in agriculture production will greatly affect this revenue stream hence the fiscal framework.

    Natural disasters like floods and drought will have a significant impact on social welfare. This will impact on agriculture and infrastructure affecting households both directly and indirectly. To return normalcy after the occurrence, the Government may feel obligated to cushion social welfare by incurring the cost either through emergency fund. The unforeseen impact could be of greater magnitude than the provision and hence pose fiscal risk to the County Government.

**12. Other restrictions in Agricultural sector**

Diminishing agricultural land sizes due to increased population pressure and real estate development; inadequate water harvesting and storage; high costs and low quality agricultural inputs; low quality seeds/breeds; inadequate organised marketing structures for agricultural produce; limited use of modern irrigation technology; vulnerability to crop disease outbreak and pollution of water sources.

13. **Infrastructure issues**

Poor topography on some areas resulting to great challenges in road maintenance, poor storm water drainage systems, neglected roads, encroachment of roads reserves, frequent breakdown of heavy equipment particularly graders and fire engines thus paralysing operations and related high cost of repair and maintenance and inadequate funding.

# CHAPTER FIVE

## CONCLUSION AND WAY FORWARD

The set of policies outlined in this CFSP aims at striking a balance between circumstances which keep changing and the emerging issues and are broadly in line with the CIDP and the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives which set a basis for County Government allocation of public resources.

Details of these strategic objectives are contained in the County Integrated Development Plan (2018-2022). The policies and sector ceilings annexed herewith will guide the Sectors/departments in Final adjustments of the 2018/19 MTEF budget.

Budgetary resources are usually limited thus it is imperative that departments prioritize their programs within the available resources to ensure that utilization of public funds are in line with county government priorities. Departments need to carefully consider detailed costing of projects, strategic significance, deliverables (output and outcomes), alternative interventions, administration and implementation plans in allocating resources. There is also need to ensure that recurrent resources are being utilized efficiently and effectively before funding is considered for programs.

Proper implementation of the budget is critical towards providing services that will promote sustainable growth. Sustainability requires greater effort from all the stakeholders including County Government Departments, civil Society, Communities, County Assembly and development partners to get things done. This means providing for continuous consultations with each other, finding solutions and encouraging innovation to build a sustainable County.