



**COUNTY TREASURY**  
**COUNTY GOVERNMENT OF KIAMBU**

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**COUNTY BUDGET REVIEW**  
**AND OUTLOOK PAPER**

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**SEPTEMBER 2019**

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## FOREWORD

This County Budget Review and Outlook Paper (CBROP) has been prepared in accordance with section 118 of the Public Finance Management Act, 2012 and its regulations. The paper provides actual fiscal performance for the FY 2018/2019 given the budget appropriations for the same year as well as a review of the recent economic developments. It further provides an overview of how the actual performance of the FY 2018/19 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing changes from the projections outlined in the 2019 County Fiscal Strategy Paper. It presents the recent economic developments and actual fiscal performance of the FY 2018/2019 and makes comparisons to the budget appropriations for the same year. It further provides updated forecasts with sufficient information to show changes from the projections outlined in the latest County Fiscal Strategy Paper (CFSP), released in February 2019.

The fiscal performance for the FY 2018/19 budget was generally satisfactory despite the overall revenue shortfalls registered and the rising expenditure pressures. In this CBROP we are re-emphasizing the Government's fiscal policy strategy, which focuses on initiation of a number of reforms to boost revenues and trim expenditures from recurrent to productive capital expenditures and optimally ensuring efficiency and effectiveness in the use of public resources. A strategy that recognizes the need to strike a balance between growth and fiscal sustainability, with emphasis on higher investments in Agriculture, Trade, Health, Water, Roads, Physical Planning and Housing.

We expect revenue collection in the FY 2019/20 to spring back buoyed by the improving economic environment and revenue administration measures that we have put in place. Together with expenditure rationalization measures that we have introduced in the FY 2019/20 budget, we expect the funding pressures to ease and create fiscal space for priority programmes in the FY 2020/21 Medium-Term Budget.

Lastly, I wish to note that due to tight timelines provided in the PFMA, 2012, this CBROP has been prepared before the release of the provisional ceilings by the Commission of Revenue Allocation and Controller of Budget. Therefore the ceilings provided in this CBROP are indicative and will be affirmed by the County Fiscal Strategy Paper (2020 CFSP). The timelines of the budget calendar should strictly be adhered to as doing so will enable the County Treasury meet the stipulated timelines of the PFM Act, 2012.

**HON. CPA. FRANCIS KIGO NJENGA  
COUNTY EXECUTIVE COMMITTEE MEMBER  
FINANCE AND ECONOMIC PLANNING**

## **ACKNOWLEDGEMENT**

The 2019 Budget Review and Outlook Paper has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. Its preparation process was a collaborative effort among various County departments and was spearheaded by the County Executive Committee Member, Department of Finance and Economic Planning.

The County is indebted to the Deputy Governor Hon. Dr. James Nyoro for his leadership and support in the preparation of this report. I wish to thank the core team especially Ms. Nduta Kahiu, Ms. Sophiah Kamau and Mr. Stephen Mungai. Their relentless commitment and teamwork is duly acknowledged. We further express our appreciation to the County Treasury staff for their invaluable contribution in developing this paper.

Lastly, I take this opportunity to thank all our partners who directly or indirectly supported preparation of this paper.

**William Kimani**  
**Chief Officer, Finance & Economic Planning**

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

**Paper**

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

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

### **Fiscal Responsibility Principles to be enforced by the County Treasury**

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

- 1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.
- 2) In managing the County Government's public finances, the County Treasury shall enforce the following fiscal responsibility principles
  - a) the County Government's recurrent expenditure shall not exceed the County Government's total revenue;
  - b) over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure;
  - c) the County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
  - d) over the medium term, the County Governments' borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
  - e) the county debt shall be maintained at a sustainable level as approved by County Assembly;
  - f) the fiscal risks shall be managed prudently; and
  - g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.
- 3) For the purposes of subsection (2)(d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- 4) Every County Government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.
- 5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

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## ABBREVIATIONS AND ACRONYMS

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

## **I. INTRODUCTION**

### **Objective of the 2019 County Budget Review and Outlook Paper**

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

2. The 2019 CBROP is a key policy document that will guide the development of the 2020 CFSP. It will highlight the progress in the implementation of County projects/programmes prioritized in the CIDP (2018-2022), the “Big Four” National Plan and Third Medium Term Plan (MTP III 2018-2022), while also taking into account emerging macroeconomic challenges. The County Government has finalized the preparation of the County Annual Development Plan (ADP) for FY 2020-2021 which spells out County priorities and will guide budgetary preparation and programming for FY 2020/21.

3. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources. To meet the resource requirements of the FY 2020/21 budget and the medium term, the County Government will continue to implement prudent measures aimed at enhancing the revenue and rationalizing expenditures. In this regard, this CBROP provides sector ceilings which will set in motion the budget preparation for the FY 2020/21 and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in this document. Budgetary allocations in this CBROP is in line with 2019 CFSP.

4. Performance in both revenue collection and expenditure in the FY 2018/19 had implications on the financial objectives outlined in the 2019 CFSP and the fiscal

projections of the 2019/20 Budget. During the FY 2018/19, the County Government surpassed revenue collection from its own sources of revenue target but underperformed in expenditure due to delays of exchequer releases. The underperformance in expenditure in the FY 2018/19 had implications on the financial objectives outlined in the 2019 CFSP and the fiscal projections of the 2019/20 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2019/20 and the medium term has changed given the outcome of FY 2018/19 and the first two months in FY 2019/20. To remedy these deviations, the 2019 CBROP details appropriate revisions of the FY 2019/20.

5. In addition, this CBROP presents a fiscal outlook underpinned by revenue administration measures to promote compliance and facilitate economic growth. To complement the revenue reforms, the County Government has cut down on non-priority expenditures, thereby availing resources for high priority projects that have the highest impact on Kiambu Residents.

6. With this background, the rest of the document is organized as follows: Section I provides the introduction, Section II Provides review of the fiscal performance in the FY 2018/19 and its implications on the financial objectives set out in the County Fiscal Strategy Paper submitted to the County Assembly in February 2019, Section III gives brief highlights of the recent economic developments and updated macroeconomic outlook; Section IV looks at Implementation of FY 2019-2020 Budget; Section V provides the resources allocation framework, and Section VI concludes the paper.

## II. REVIEW OF FISCAL PERFORMANCE ON THE FY 2018/19 BUDGET

### A. Overview

7. The fiscal performance for the FY 2018/19 was broadly satisfactory in view of challenges emanating from revenue shortfall and growing expenditure pressures resulting from broad policy measures and revenue shortfalls from projected total revenue targets. Own sources of revenue overall target was met despite a few of the revenue streams underperforming in projected targets. However, the county did not receive some grants from development partners as budgeted.

### 2018/19 Fiscal Performance

*Table 1: Fiscal Out-turn of the FY 2018/19*

	Actual Revenue	Approved Revenue Budget	Deviation
	A	B	A-B
<b>Total Revenue</b>	<b>16,223,658,592</b>	<b>16,914,352,377</b>	<b>(690,693,784.70)</b>
National Government Transfer	12,712,155,918	13,403,582,849	(691,426,930.70)
Local Revenue	2,737,467,841	2,736,734,640	733,201.00
Unspent Balances B/f FY 2018/2019	774,034,888	774,034,888	-
	Actual Expenditure	Approved Budget	Deviation
	A	AB	A-AB
<b>Total Expenditure</b>	<b>14,948,824,891</b>	<b>16,914,352,387</b>	<b>(1,965,527,496)</b>
Recurrent	10,491,366,357	10,949,234,614	(457,868,257)
Development	4,457,458,534	5,965,117,773	(1,507,659,239)

*Source: County Treasury*

### B. Revenue Performance

8. At the end of June 2019, total cumulative revenue including Own Sources of Revenue amounted to Kshs. 16.22 Billion (95.9 percent of the revised revenue target). This represented a revenue shortfall of Kshs. 690.6 million of the targeted revenue of Kshs. 16.91 Billion. Revenue from the National government amounted to Kshs. 12.61 Billion against a target of Kshs 13. 4 Billion.

9. Own Source of Revenue collection amounted to Kshs. 2.737 Billion against a target of Kshs. 2.736 Billion. This represents a surplus of Kshs. 733.2 Million. This was a result of setting of realistic revenue targets. The over performance was mainly attributable to Health services, physical planning, Land Rates and Business permits management Unit with collection of Kshs. 962.65 Million, Kshs. 483.91 Million, Kshs.326 Million and Kshs. 249 Million respectively. However some revenue streams under Own Source of Revenues were largely below the revised target and included Agriculture, livestock and fisheries and Education management units (see table 2).

10. The performance of OSR was affected negatively by various factors; first the delayed enactment of the Finance Act 2018 which frustrated the implementation of the revenue yielding measures, noncompliance by traders, poor enforcement on revenue collection and political interferences. Revenue collection under housing unit was affected by challenges of separating rent deductions done at the payroll for employees under the national government and County houses.

11. Despite delays in exchequer releases, the county was able to meet its Own Source of Revenue Targets and had a surplus. The budget FY 2018/2019 was fully funded and there was no budgetary fiscal deficit.

*Table 2: Own Sources of Revenue Analysis FY 2018/19*

Revenue Stream	Actual Revenue 2018/19FY	Revenue Budget 2018/19FY	Variance	Actual Revenue as a % of Annual Targets
Agriculture, Livestock and Fisheries Management unit	2,832,869	37,653,296	(34,820,426)	8%
Physical Planning unit	483,910,889	653,774,735	(169,863,846)	74%
Business Permit Management Unit	249,035,018	262,248,785	(13,213,767)	95%
Cess Management Unit	115,085,406	94,671,626	20,413,780	122%
Education, Culture, ICT & Social Services Unit	194,602	-	194,602	0%
Health Services Management unit	962,654,501	545,612,064	417,042,437	176%
Housing Management unit	25,480,144	62,495,303	(37,015,159)	41%
Land rates Management unit	326,030,188	360,794,062	(34,763,874)	90%
Market Management unit	25,649,324	80,148,704	(54,499,380)	32%
Others	8,633,614	19,326,649	(10,693,035)	45%
Roads, Transport, Public Works Management unit	64,753,815	154,718,128	(89,964,313)	42%
Slaughter House Management unit	110,404,322	52,786,698	57,617,624	209%
Trade, Tourism Industry and Cooperative units	28,221,206	15,547,107	12,674,099	182%
Vehicle Parking Management unit	221,824,347	319,017,810	(97,193,463)	70%
Water Environment & Natural Resources Management unit	57,411,897	58,613,027	(1,201,130)	98%
Liquor Licenses Management unit	55,345,700	19,326,647	36,019,053	286%
<b>Total</b>	<b>2,737,467,842</b>	<b>2,736,734,640</b>	<b>733,202</b>	<b>100%</b>

*Source: County Treasury*

### **Equitable Share and Conditional Grant from National Government Revenue**

12. The county Government received Kshs. 10.284 Billion as equitable share and conditional grant from National government against a revised revenue target of Kshs 10.645 Billion as per revised 2018 County Allocation of Revenue Act(2018 CARA). The county received full allocation of the Equitable Share, User Fee forgone, Fuel Levy, and conditional grant for level 5 hospitals. Of these grant, conditional grant for youth polytechnic was Kshs 51.423 Billion against allocation of Kshs 68.11 Billion which was

less by Kshs 16.686 Billion. The County also received additional conditional grants as unreleased arrears FY 2017-18 fuel levy amounting to of Kshs. 56.563 Million and a further Kshs. 99.999 Million as other revenues.

13. The county received Kshs. 2.427 Billion as conditional grant from development partners against revised 2018 CARA allocation of Kshs. 2.758 Billion. This was a shortfall of Kshs. 331.3 Million of the targeted Revenue.(see table 3 below)

**Table 3: Revenue Analysis by Source**

<b>REVENUE RECEIPTS FY 2018-2019</b>	<b>Actual Revenue</b>	<b>Budgeted Revenue</b>	<b>Deviation</b>
<b>Total Revenue from National Government</b>	<b>10,284,942,140</b>	<b>10,645,065,232</b>	<b>(360,123,092)</b>
Equitable share	9,357,200,000	9,357,200,000	-
<b>Conditional Grants from National Government</b>	<b>927,742,140</b>	<b>1,287,865,232</b>	<b>(360,123,092)</b>
Level 5	538,716,762	538,716,763	(1)
Fuel Levy	302,930,786	246,366,927	56,563,859
Youth Polytechnic	51,423,050	68,110,000	(16,686,950)
User Fee Fore Gone	34,671,542	34,671,542	-
Leasing of Medical Equipment	0	200,000,000	(200,000,000)
Githurai Market	0	200,000,000	(200,000,000)
<b>Conditional Grants from Development partners</b>	<b>2,427,213,723</b>	<b>2,758,517,617</b>	<b>(331,303,894)</b>
THSUCP	20,524,353	50,000,000	(29,475,647)
NaGRIP	50,078,476	140,435,161	(90,356,685)
KDSP-level 1	0	60,455,156	(60,455,156)
KUSP-UDG	1,885,993,000	1,885,993,000	-
DANIDA	32,400,000	32,400,000	-
KDSP level2	289,565,839	289,565,839	-
KUSP-UIG	41,200,000	41,200,000	-
ASDSP-Agriculture	7,452,110	20,468,461	(13,016,351)
KDSP-Level 2 2017/18	0	238,000,000	(238,000,000)
Other Revenue	99,999,945	-	99,999,945
Own Source Of revenue(OSR)	2,737,467,841	2,736,734,640	733,201
Unspent balance	774,034,888	774,034,888	-
<b>Total</b>	<b>16,223,658,592</b>	<b>16,914,352,377</b>	<b>(690,693,785)</b>

*Source: County Treasury*

## **Performance of Expenditure**

14. Total expenditures by the end of June 2019 was Kshs. 14.95 Billion (88.38 percent) against a total revised budget of Kshs. 16.91 Billion. This translates into a shortfall of Kshs. 1.97 Billion (11.62 percent) which was occasioned by inadequate financing in both the recurrent and development expenditures due to late exchequer releases.

### **Recurrent expenditure**

15. The County Government's recurrent expenditure amounted to Kshs. 10.49 Billion (95.82 percent of revised recurrent budget) against a budget allocation of Kshs. 10.95 Billion. This represent an under-spending of Kshs 457.87 Million (4.18 percent deviation from the revised recurrent expenditure). The under-spending was in respect of conditional grants that were not released by the National government for the financial year under review.

### **Development expenditure**

16. In the FY 2018/19 development expenditure amounted to Kshs. 4.46 Billion (74.73 percent of revised development budget) compared to a revised budgetary allocation of Kshs. 5.96 Billion representing an under-spending of Kshs. 1.507 Billion (25.27 percent deviation from the revised development expenditure).

17. The County could not finance some of the planned projects due to inadequate funds hence underperformance. Pending bills and carryovers will be accommodated in the first supplementary budget of 2019/20 Financial Year. Through Treasury Circular on supplementary budget number 1 of 2019/20, accounting officers of all departments are required to rationalize and re-prioritize planned activities to provide for the pending bills/carry over from within the voted provision. This will affect some of the programs and projects for the current financial year. However, priority will be given to pending bills and ongoing projects before embarking on new ones.



## 2018/19 BUDGET ABSORPTION

18. The County government was able to absorb 14.95 billion (88.38% of the total revised budget) against a total revised budget of 16.91 Billion.

### Recurrent Budget

19. On recurrent expenditure, the County Assembly was able to absorb 1.1 Billion (91.76 percent of Revised recurrent budget) against a budget allocation of 1.2 Billion. The County Executive was able to absorb 9.389 Billion (96.32 percent of Revised recurrent budget) against a budget allocation of 9.748 Billion.

### Development Budget

20. On development expenditure, the county Assembly was able to absorb 8.89 million (16.17 percent of Revised development budget) against a budget allocation of 55 Million. The county executive was able to absorb 4.448 Billion (75.27 percent of Revised development budget) against a budget allocation of 5.91 Billion

**Table 4: FY 2018/19 Budget Absorption**

	Approved Budget	Actual Expenditure	Deviation	Absorption % AE/AB
	AB	AE	AB-AE	
<b>Total Expenditure</b>	<b>16,914,352,387</b>	<b>14,948,824,891</b>	<b>1,965,527,496</b>	<b>88.38</b>
<b>Recurrent</b>	<b>10,949,234,614</b>	<b>10,491,366,357</b>	<b>457,868,257</b>	<b>95.82</b>
County Assembly	1,200,864,621	1,101,890,160	98,974,461	91.76
County Executive	9,748,369,993	9,389,476,197	358,893,796	96.32
<b>Development</b>	<b>5,965,117,773</b>	<b>4,457,458,534</b>	<b>1,507,659,239</b>	<b>74.73</b>
County Assembly	55,000,000	8,891,477	46,108,523	16.17
County Executive	5,910,117,773	4,448,567,057	1,461,550,716	75.27

*Source: County Treasury*

**Table 5: Absorption per Department**

Vote	Department	Approved Budget (AB)	Cumulative Expenditure(AE)	Deviation AB-AE)	Absorption (AE/AB)%
	Recurrent	Amount	Amount	Amount	%
4061	County Assembly	1,200,864,621	1,101,890,160	98,974,461	91.76
4062	County Executive	409,941,638	330,251,719	79,689,919	80.56
4063	County Public Service Board	76,322,096	69,881,143	6,440,953	91.56
4064	Finance & Economic Planning	1,118,975,817	1,094,262,379	24,713,438	97.79
4065	Administration & Public Service	1,212,031,268	1,168,640,912	43,390,356	96.42
4066	Agriculture, Crop Irrigation & Marketing	239,258,769	233,451,246	5,807,523	97.57
4067	Water, Environment & Natural Resources	290,681,895	275,127,314	15,554,581	94.65
4068	Health Services	4,234,488,304	4,222,494,040	11,994,264	99.72
4069	Education, Culture, Youth, Sports & Social Services	1,065,764,714	959,605,493	106,159,221	90.04
4070	Youth and Sports	90,681,661	83,285,931	7,395,730	91.84
4071	Lands, Physical Planning & Housing	262,203,643	215,487,910	46,715,733	82.18
4072	Trade, Tourism, Industry & Co-Operative	159,484,132	152,870,001	6,614,131	95.85
4073	Roads, Transport & Public Works	347,890,959	346,853,358	1,037,601	99.70
4074	Livestock, fisheries	240,645,097	237,264,751	3,380,346	98.60
	<b>TOTAL</b>	<b>10,949,234,614</b>	<b>10,491,366,357</b>	<b>457,868,257</b>	<b>95.82</b>
<b>Development</b>					
4061	County Assembly	55,000,000	8,891,477	46,108,523	16.17
4062	County Executive	8,558,889	5,980,538	2,578,351	69.88
4063	County Public Service Board	-	-	-	0.00
4064	Finance & Economic Planning	573,774,719	252,281,416	321,493,303	43.97
4065	Administration & Public Service	14,497,949	14,497,949	-	100.00
4066	Agriculture, Crop Irrigation & Marketing	284,587,166	224,120,341	60,466,825	78.75
4067	Water, Environment & Natural Resources	223,227,935	188,858,086	34,369,849	84.60
4068	Health Services	833,074,920	755,982,761	77,092,159	90.75
4069	Education, Culture, Youth, Sports & Social Services	417,535,149	160,241,779	257,293,370	38.38
4070	Youth and Sports	25,130,661	-	25,130,661	0.00
4071	Lands, Physical Planning & Housing	1,937,760,698	1,891,947,216	45,813,482	97.64
4072	Trade, Tourism, Industry & Co-Operative	259,886,912	30,845,864	229,041,048	11.87
4073	Roads, Transport & Public Works	1,208,111,209	894,591,507	313,519,702	74.05
4074	Livestock, fisheries	123,971,566	29,219,600	94,751,966	23.57
	<b>TOTAL</b>	<b>5,965,117,773</b>	<b>4,457,458,534</b>	<b>1,507,659,239</b>	<b>74.73</b>
	<b>Total Budget Recurrent + Expenditure</b>	<b>16,914,352,387</b>	<b>14,948,824,891</b>	<b>1,965,527,496</b>	<b>88.38</b>

Source: County Assembly

## 2018/19 Financing and balance

21. The analysis above for the FY 2018/19 budget performance shows that the budget was fully financed.

## **Implication of 2018/19 Fiscal Performance on Fiscal Responsibility Principles and Financial Objectives contained in the 2019 County Fiscal Strategy Paper**

22. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM regulations, and in keeping with prudent and transparent management of public resources, the County Government has largely adhered to the fiscal responsibility principles as set out in the statute as follows:

### **Fiscal Responsibility Principles**

23. The implication of the FY 2018/19 Fiscal Performance on the Fiscal Responsibility Principles was as follows;

#### ***Allocation on Compensation of Employees***

- Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed thirty-five (35) percent of the county government's total revenue. The County's total expenditure on employees' wages and benefits amounted to Kshs. 6.93 Billion translating to 40.9 percent of the revised budget estimates FY 2018/19. This is higher than the required 35 percent. However, the County Government is committed into bringing the proportion of the expenditure on wages down in the long term. The County Government have frozen recruitment of new staff and will also implement measures to increase our Own Source of Revenue collections that will enhance spending on development projects hence lowering the percent of wages to the required levels.

#### ***Allocation on Development Expenditure***

- In managing the County Government's finances, the Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. In the FY 2018/19 outturn, budgetary allocation to development expenditures amounted to 5.97 Billion of the revised estimates accounting for 35.2 percent. Nonetheless, actual expenditure

on development spending was Kshs. 4.457 billion which was 26.35 percent of the total revised budget. This was less than 30 percent meaning that the County governments did not meet this requirement for actual expenditure. However, this was an improvement from the previous FY 2017/18 of 17.1 percent. The County Government will work towards attaining the required levels by reducing recurrent and improving revenue collection to increase fiscal space for spending on development.

#### ***Recurrent Expenditure to total county revenue***

- On the principle of total recurrent not exceeding total revenue, the County Government's actual recurrent expenditure which was Kshs. 10.491 billion did not exceed the County Government's total revenue of Kshs. 16.14 billion hence the County has complied with the fiscal responsibility principle.

#### ***Borrowing of funds***

- The County Government did not borrow any funds during the year to supplement budget financing.

#### ***Degree of predictability on tax rates and tax bases***

- On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the County Government continues to carry out revenue reforms and amendments by revising its fees and charges through a proposed 2019 Finance bill.

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

### **Fiscal Performance for the FY 2018/19 in Relation to Financial Objectives**

27. The performance in the FY 2018/19 affected the financial objectives set out in the 2019 County Fiscal Strategy Paper and the Budget for the FY 2019/20 in the following ways;

- Revenue projections and expenditure were adjusted downward to reflect realistic revenue targets and to reduce the chances of generating pending bills at the end of the period.
- Pending bills/carryovers from 2018/19 FY will be accommodated hence affecting Programs and projects initially projected for the period FY 2019/20.
- The base used to project expenditures in the FY 2019/20 and the medium term is affected as a result of unmet revenue targets.
- Taking into account the budget outturn for the FY 2018/19, appropriate revisions have been undertaken in the context of this CBROP.
- Consequently, the baseline ceilings for the formulation of 2020 CFSP will be lower than set out in the previous year.

28. As explained above, the main reasons for the deviations include: delayed release of exchequer and under-spending mostly in development

29. The County government will focus on the following in order to remedy these variances :-

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

### III. RECENT ECONOMIC DEVELOPMENTS IN KENYA'S ECONOMY

30. The County performance is largely dependent on the Country's economic performance and prudent policies formulated and implemented by the County Government (CG). Generally the County operated under a stable macroeconomic environment.

31. Kenya's economy remained resilient in 2018 despite adverse weather conditions and continued subdued private sector investment dragging down growth. Economic growth for 2018 is estimated at 6.3 percent from 4.9 percent in 2017. The growth was attributed to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities.

32. Over the medium term, growth is projected to increase by more than 7.0 percent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and delivering at least five hundred thousand (500,000) affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth

33. Kenya is ranked favorably in the ease of doing business and as a top investment destination. According to the World Bank's Doing Business Report 2019, Kenya's ranking improved by 19 positions from 80 in 2018 to 61 in 2019. The Country also ranked position 3 in Africa. The score improved by 5.1 points from 65.2 in 2018 to 70.3 in 2019. Kenya was the 7th most improved country in terms of comprehensive ranking in ease of doing business, with a total of 5 reforms implemented among the 11 areas of focus.

34. The annual Inflation rate has remained within the Government target range of 5+/-2.5 percent in the period 2013 to 2019 as a result of prudent monetary and fiscal policies. The overall annual inflation rate was 6.27 percent in July 2019 compared to 4.35 percent in July 2018. This was majorly as a result of considerable declines in the prices of food after the shortage experienced in 2017.

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

36. Narrowing of the current account deficit and adequate reserve buffer has continued to support stability of the Kenya Shilling. The current account deficit narrowed to stand at KSh 441.8 billion in 2018 compared to KSh 503.4 billion in 2017, mainly due to a faster growth of imports of goods and services. Further, the Shilling appreciated against the Euro and the Sterling pound exchanging at Kshs 114.9 and Kshs 125.5 in August 2019 from Kshs 116.2 and Kshs 129.7 in August 2018, respectively. However, against the US Dollar, the Shilling weakened in August 2019 exchanging at 103.3 compared to the same period in 2018 where Kshs 100.6 were required to buy one Dollar. The depreciation of the shilling is attributed to increased demand for import and excess liquidity in the money market.

37. Short-term interest rates have remained fairly low and stable. The Central Bank rate remained at 9.0 percent in July 2019 while the interbank rate remained low at 3.6 percent in August 2019 from 6.52 percent in August 2018 due to ample liquidity in the money market. The decision was aimed at boosting growth and stimulating higher private-sector lending. Growth this year should be fueled by an ongoing recovery in the agricultural sector, completion of key infrastructure projects, and a focus on investment in sectors prioritized by the government's "Big Four" agenda.

38. The 91-day Treasury bill rate declined by 1.2 percent from 7.6 percent in August 2018 to 6.4 percent in August 2019. Activity in the capital market slowed down with equity share prices declining as shown by the NSE 20 Share Index, which stood at 2,467.68 points by end August 2019 compared to 3,245.16 points by end July 2018. The depressed share prices resulted in lower market capitalization of Kshs. 2,221.97 billion from Kshs. 2,546.32 billion over the same period in 2018.

39. The County Government of Kiambu will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will

be strengthened with implementation of all modules of the Integrated Financial Management Information System (IFMIS) across Departments.

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

41. The County Government of Kiambu made an effort to achieve a broad-based expansion touching in all sectors of the economy. Emphasis was given to key sectors of agricultural development, health, tourism and supportive services such as infrastructural investment, information communication and technology.

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



#### **IV. IMPLEMENTATION OF THE FY 2019/20 BUDGET**

43. The County's FY 2019/20 Approved Budget is Kshs. 15,638,800,000, comprising of Kshs.10, 130,239,266 (64.77 per cent) and Kshs. 5,508,560,734 (35.22 per cent) allocation for recurrent and development expenditure respectively. To finance the budget, the County expects to receive Kshs. 9,357,200,000 (59 per cent) as equitable share of revenue raised nationally, Kshs. 3,409,550,929 (22 percent) as total conditional grants, and generate Kshs.2,991,249,071 (19 per cent) from own-sources of revenue.

44. The revenue collection for the FY 2019/20 is generally within the target range and is expected to remain so in the course of the financial year. Total Revenue available to the county as at 31st August 2019 was Kshs. 1,534,128,278 which comprised of Own Source of revenue of Kshs. 339,376,476 and the unspent balances carried forward from FY 2018/19 amounted to Kshs. 1,194,751,802. The County had nil receipts from the National Government. This was attributed to delay in passing of Division of Revenue Bill 2019.

45. Total expenditure as at 31st August 2019 was Kshs. 1,534,128,278 as compared to a budget allocation of Kshs. 2,606,466,667 for the same period under review. The low absorption has been occasioned by delayed disbursement of revenues from the National Government (NG) and low absorption of development expenditure as payments are not yet due. The absorption rate is expected to rise in the coming months as revenue flows both from the National Government and own sources picks up as well as payment from development projects become due.

46. Spending on non-discretionary expenditures like personnel emoluments will be given first priority. Development expenditures are therefore considered after settling these non-discretionary expenditures hence any delay in the release of funds or revenue flows has negative impact on them.

47. The County will continue to enhance public finance management systems at all levels in order to increase efficiency; increased service delivery; sealed leakages and increased productivity.

## **V. RESOURCE ALLOCATION FRAMEWORK**

48. The Medium Term Fiscal Framework (MTFF) for the FY 2019/20 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure provision of core services with the aim of achieving economic empowerment for the people of Kiambu. Resource allocation and priority expenditure in the 2019/2020 financial year and the medium term will be guided by the following policy documents;

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

### **Adjustments to the FY 2019/20 Budget**

49. The over performance in revenue collection in the FY 2018/19 and addition of equitable share as provided in 2019 CARA has implications on the financial objectives outlined in the 2019 BPS and the 2019/20 Budget. In particular, the baseline for projecting revenue and expenditures for the FY 2019/20 and the medium term has changed given the outcome of FY 2018/19 and the approval of 2019 CARA.

50. In light of these new developments, Revenue for FY 2019/20 will be revised to take into account increased allocation in equitable share as per the CARA 2019 and unspent balances of 2018/19 FY. Similarly, Own Source of Revenue will be adjusted upward given the over performance of OSR in the 2018/19 Financial year. The adjustments are contained in the proposed 2019 Finance Bill which has been submitted to the assembly for approval.

51. In light of the above adjustments in revenue projections for the 2019/20 Financial Year, Expenditure projections for FY 2019/20 will also be revised to accommodate the revenue adjustment through trade-offs and reallocations of existing

budgetary provisions supported by austerity measures instituted on less productive areas of spending across the County Government.

## **RISKS TO THE 2019/20 BUDGET IMPLEMENTATION**

52. Given the fiscal performance in the FY 2018/19 and the updated macroeconomic outlook for the FY 2019/20, some of the inherent risks to the FY 2019/20 budget framework includes; fluctuating local revenue performance, political instability, public expenditure pressures, particularly wage related expenditures among others. These risks will be monitored closely and appropriate measures taken on time.

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

## **VI. FY 2020/21 Budget Framework**

### ***Revenue Projections***

54. The FY 2020/2021 resource envelope is projected at Kshs. 15.938 Billion Constituting: Kshs. 3.29 Billion Own Source Revenue and Kshs. 12.647 Billion from the National Government. The County will continue to periodically review the revenue administration policies to enhance performance on County's own source revenue. These figures are indicative and will be firmed up in the 2020 CFSP.

### **Expenditure Forecasts**

55. The overall budgetary expenditure for FY 2019/20 stands at Kshs. 15.639 Billion. This is projected to increase to Kshs. 15.939 Billion in the FY 2020/2021. Recurrent expenditures are expected to increase from Kshs. 10.130 Billion in the FY 2019/20 to Kshs. 10.197 Billion in the FY 2020/21.

56. Development expenditure are expected to increase from Kshs. 5.509 Billion in FY 2019/20 to Kshs. 5.741 Billion in FY 2020/21. More resources will be shifted to development and a large proportion of development expenditure is expected to support critical infrastructure as the County realigns to meet the fiscal responsibility requirements.

## VI. CONCLUSION AND NEXT STEPS

57. Empowerment of our people and revenue enhancement. Agriculture, Trade, Health, Water, Roads, Physical Planning and Housing will be prioritized in allocating resources over the Medium term. To finance the identified key priority areas, mobilisation of Own Source of Revenue through broadening of revenue base backed by an effective enforcement strategy will be key.

58. The indicative departmental ceilings annexed herewith will guide the County Departments in preparation of the FY 2020/21 budget. These ceilings will be firmed up in the 2020 CFSP. (annex III)

Annex 1: Revenue Projections FY 2020-2021

	2018/19 FY Actual Revenue	2019/20 Revenue Projection	2020/21 Revenue Projection
<b>Total Grants From National Treasury &amp; Dev. Partners</b>	<b>13,486,190,751</b>	<b>12,647,550,929</b>	<b>12,647,550,929</b>
Equitable Share	9,357,200,000	9,238,000,000	9,238,000,000
<b>Conditional Grant From National Gov. Share Of Revenue</b>	<b>927,742,140</b>	<b>1,028,141,560</b>	<b>1,028,141,560</b>
Level 5	538,716,762	538,716,763	538,716,763
Fuel Levy	302,930,786	267,725,063	267,725,063
Youth Polytecnic	51,423,050	55,113,298	55,113,298
Leasing Of Medical Equipment	-	131,914,894	131,914,894
User Fee	34,671,542	34,671,542	34,671,542
<b>Conditional Grant From Dev't Partners</b>	<b>2,427,213,723</b>	<b>2,381,409,369</b>	<b>2,381,409,369</b>
Thsucp	20,524,353	80,079,440	80,079,440
Danida	32,400,000	27,937,500	27,937,500
Kdsp Level2	289,565,839		
Kdsp Level 1	-	30,000,000	30,000,000
Kusp-Uig	41,200,000	8,800,000	8,800,000
Narigp	50,078,476	331,195,210	331,195,210
Asdsp-Agriculture	7,452,110	17,404,219	17,404,219
Kusp-Udg	1,885,993,000	1,885,993,000	1,885,993,000
Other Revenue	99,999,945	-	-
<b>Unspent Balance</b>	<b>774,034,888</b>	<b>-</b>	<b>-</b>
<b>Own Sources of Revenue Streams</b>	<b>2,737,467,842</b>	<b>2,991,249,071</b>	<b>3,290,373,978</b>
Agriculture Livestock & Fisheries Management Unit	2,832,869	3,462,222	3,808,444
Physical Planning Management Unit	483,910,889	589,431,470	648,374,617
Business Permit Management Unit	249,035,018	330,271,835	363,299,019
Cess Management Unit	115,085,406	139,804,076	153,784,484
Education Culture Ict & Social Services Unit	194,602	45,548	50,103
Health Services Management Unit	962,654,501	941,828,024	1,036,010,826
Housing Management Unit	25,480,144	1,380,558	1,518,614
Land Rates Management Unit	326,030,188	373,531,224	410,884,346
Market Management Unit	25,649,324	33,880,265	37,268,292
Others	8,633,614	6,093,993	6,703,392
Roads Transport Public Works Management Unit	64,753,815	76,848,667	84,533,534
Slaughterhouse Management Unit	110,404,322	46,357,013	50,992,714
Trade Tourism Industry & Cooperatives Unit	28,221,206	18,727,582	20,600,340
Vehicle Parking Management Unit	221,824,347	292,334,813	321,568,294
Water Environment & Natural Resources Mgt Unit	57,411,897	74,300,369	81,730,406
Liquor Management Unit	55,345,700	62,951,412	69,246,553
<b>TOTAL REVENUE</b>	<b>16,223,658,593</b>	<b>15,638,800,000</b>	<b>15,937,924,907</b>

**Annex II: Medium Term Expenditure Framework 2020/21-2022/2023**

<b>Department</b>	<b>PRINTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>
<b>Recurrent</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
County Assembly	1,200,864,621	1,085,527,936	1,150,659,612	1,219,699,189
Executive	339,107,458	356,062,831	377,426,601	400,072,197
County Public Service	78,962,096	82,910,201	87,884,813	93,157,902
Finance & Econ. Planning	1,252,000,861	1,252,000,861	1,327,120,913	1,406,748,167
Admin.& Public Service	554,798,619	582,538,550	617,490,863	654,540,315
Agric., Livestock & Fisheries	491,320,569	515,886,597	546,839,793	579,650,181
Water, Environment & Natural Resources	241,811,792	290,011,792	307,412,500	325,857,249
Health Services	4,214,216,907	4,259,833,847	4,515,423,878	4,786,349,310
Education, Culture, & Social Services	948,096,202	873,163,742	925,553,567	981,086,781
Youth Affairs & Sports, ICT and Communication	159,538,962	167,515,910	177,566,865	188,220,877
Lands, Physical Planning & Housing	203,534,698	213,711,433	226,534,119	240,126,166
Trade, Industry, Tourism & Cooperatives	140,457,571	147,480,450	156,329,277	165,709,033
Roads, Transport & Public Works	305,528,910	370,528,910	392,760,645	416,326,283
<b>Total Recurrent</b>	<b>10,130,239,266</b>	<b>10,197,173,060</b>	<b>10,809,003,443</b>	<b>11,457,543,650</b>
<b>Development</b>				
County Assembly	175,000,000	-	-	-
County Executive	-	-	-	-
Finance& Econ Planning	55,459,859	43,435,300	55,459,859	55,459,859
Admin & Public Services	85,497,949	85,497,949	90,627,826	96,065,495
Agric, Livestock & Fisheries	281,636,480	513,832,284	544,662,221	577,341,954
Water, Environment & Natural Resources	204,944,735	204,944,735	217,241,419	230,275,904
Health Services	838,716,765	838,716,765	889,039,771	942,382,157
Education, Culture, & Social Services	266,299,402	266,299,402	282,277,366	299,214,008
Youth Affairs & Sports, ICT and Communication	166,418,611	200,418,611	212,443,728	225,190,351
Lands, Physical Planning & Housing	1,900,372,548	2,053,392,417	2,176,595,962	2,307,191,719
Trade, Industry, Tourism & Co-	386,386,912	386,386,912	409,570,127	434,144,334

<b>Department</b>	<b>PRINTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>	<b>PROJECTED ESTIMATES</b>
operatives				
Roads, Transport & Public Works	1,147,827,473	1,147,827,473	1,216,697,121	1,289,698,949
<b>Total Development</b>	<b>5,508,560,734</b>	<b>5,740,751,847</b>	<b>6,094,615,399</b>	<b>6,456,964,732</b>
<b>Totals</b>	<b>15,638,800,000</b>	<b>15,937,924,907</b>	<b>16,903,618,843</b>	<b>17,914,508,382</b>

### ANNEX III: County Budget Calendar FY 2020-2021

Activity	Responsibility	Timeframe/Deadline
Develop and issue circular on Budget Preparation and MTEF Guidelines	C.E.C Finance & Economic Planning	30 <sup>th</sup> August, 2019
Undertaking of Departmental Expenditure Reviews	All Departments	16 <sup>th</sup> September, 2019
Submission of County Annual Development Plan	CEC Finance and Economic Planning	1 <sup>st</sup> September, 2019
Development of County Budget Review and Outlook Paper(BROP)	County Treasury	20 <sup>th</sup> September, 2019
Approval of County Budget Review and Outlook Paper the County Executive Committee	C.E.C Finance	30 <sup>th</sup> September, 2019
Submission of County Budget Review and Outlook Paper(BROP) to the County Assembly	County Treasury	7 <sup>th</sup> October, 2019
Start of Sector Consultations	All Departments- Finance and planning to coordinate	1 <sup>st</sup> November 2019
Submission of final sector reports to Treasury	All C.E.Cs for their respective Departments	17 <sup>th</sup> January, 2019
Draft 2020 County Fiscal Strategy Paper(CFSP)	County Treasury	31 <sup>st</sup> January 2019
Presentation of County Fiscal Strategy Paper to County Budget and Economic Forum(CBEF)	C.E.C Finance & Economic Planning in consultation with the Governor	3 <sup>rd</sup> February 2019
Submission of 2020 County Fiscal Strategy Paper(CFSP) to County Executive Committee for approval	County Treasury	19 <sup>th</sup> February, 2020
Submission of County Fiscal Strategy Paper(CFSP) to County Assembly	County Treasury	28 <sup>th</sup> February 2020
Issue of circular for finalization of 2020/21-2022/23 MTEF estimates and PBB	County Treasury	9 <sup>th</sup> March, 2020
Submission of Budget proposals to County Treasury	All Departments	13 <sup>th</sup> April, 2020
Consolidation of Final budget	County Treasury	20 <sup>th</sup> April, 2020
Submission of Budget Estimates to County Executive for approval	County Treasury	20 <sup>th</sup> April 2020
Presentation of Budget to County Assembly	C.E.C Finance & Economic Planning	30 <sup>th</sup> April 2020