



**COUNTY GOVERNMENT OF ELGEYO MARAKWET**

**THE COUNTY TREASURY**

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**COUNTY BUDGET REVIEW AND OUTLOOK PAPER**

**(CBROP)**

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**SEPTEMBER 2020**

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## FOREWORD

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The County Budget Review and Outlook Paper (CBROP) is a policy document that reviews the performance of the previous financial year. This document covers 2019/2020 financial year. 2020 CBROP is the seventh after the enactment of devolved governance following the implementation of Constitution of Kenya, 2010. It presents the fiscal framework which provides a strong basis for building a common future regarding Fiscal discipline and accountability.

The CBROP presents the fiscal outcome for 2019/2020 FY. It is one of the budget policies documents that enhances financial discipline and fiscal responsibilities within the county's financial management framework as provided for in the Public Finance Management Act (PFM) Act, 2012. further, the county is committed to ensuring that there is transparency and accountability by providing feedback on the county's performance indicators as required by the Constitution of Kenya, 2010, the Public Finance Management Act, 2012 and County Public Finance Management Regulations Act, 2015.

Fiscal discipline will seek to ensure that the county's programs, sub-programs and development priorities work harmoniously towards ensuring sustainable economic growth and development. This will further lead to socio-economic wellbeing of county citizens.

The initiatives also work toward improving the residents' livelihoods by instituting mechanisms that enhance financial efficiency and effectiveness. The county is committed to maintaining the trend of economic growth and development as desired by the residents.

The county government is also committed to national and international plans such as Big Four Agenda, Vision 2030 and attainment of Sustainable Development Goals (SDGs). The period under review saw strides and initiatives that guided the county towards realization of the vision and goals.

**ISAAC KIPCHIRCHIR KAMAR**

**CECM FINANCE AND ECONOMIC PLANNING**

## **ACKNOWLEDGEMENTS**

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The development of this County Budget Review and Outlook Paper (CBROP) received valuable input from all the Departments. It was prepared with the support and dedication of various officers. This is to appreciate their efforts, which culminated in the production of this document.

Special appreciation goes to CECM Finance and Economic Planning and Director Economic Planning for their roles in leading a technical team of officers from Economic Planning Directorate in preparing this document.

I am confident the county will find this CBROP document a means to enhance transparency, accountability, service provision and successful implementation of programs in the remaining CIDP period.

**TIMOTHY KOECH**

**CHIEF OFFICER ECONOMIC PLANNING AND BUDGETING**

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## ABBREVIATIONS AND ACRONYMS

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ADP	Annual Development Plan
ASDSP	Agricultural Sector Development Support Programme
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
COB	Controller of Budget
COVID-19	Corona Virus Disease 2019
CRA	Commission on Revenue Allocation
DANIDA	Danish International Development Agency
EDA	Equitable Development Act
FY	Financial Year
KUSP	Kenya Urban Support Programme
KDSP	Kenya Devolution Support Programme
MTEF	Medium-Term Expenditure Framework
OSR	Own Source Revenue
PFMA	Public Financial Management Act

POS	Point of Sale Services
PPP	Public Private Partnership
SDGs	Sustainable Development Goals
SRC	Salaries and Remunerations Commission
SRC	Salaries and Remunerations Commission



## CHAPTER ONE: INTRODUCTION

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### 1.1 Background

This is the 7<sup>th</sup> Budget Review and Outlook Paper (BROP) to be prepared by the Elgeyo Marakwet County as provided for under the Public Financial Management Act, 2012 section 118. In line with the law, the BROP contains a review of the fiscal performance of the financial year 2019/20, updated macroeconomic forecast and the experiences in the implementation of the budget estimates for financial year 2019/2020.

### 1.2 Legal Framework for the Publication of the Budget Review and Outlook Paper

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

- (1) The County Treasury shall
  - a) Prepare a County Budget Review and Outlook Paper in respect of the County for each of the financial year and
  - b) Submit the paper to the County Executive Committee by the 30th September of that year
- (2) The Budget Review and Outlook Paper shall include:
  - a) 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 any changes in the forecasts compared with the County Fiscal Strategy Paper; and 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;

- 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.

### **1.3 Fiscal responsibility principles in the Public Financial Management Law**

In line with the constitution the Public Financial Management Act 2012 sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law under 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 government's budget shall be allocated to development expenditure.
- 3. The county governments expenditure on wages and benefits to employees shall not exceed a percentage of the county government's total revenue by regulations.
- 4. Over the medium term, the government's borrowings shall only be used only for the purpose of financing development expenditure only; and short-term borrowings shall only be restricted to management of cash flows and shall not exceed five (5%) of most recent audited county government revenue,
- 5. The County debt shall be maintained at a sustainable level as approved by County assembly.
- 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 future.

As will be shown in the subsequent chapters of this document, the county government has laid strategies to comply with these principles and legal requirements.

#### **1.4 Objectives of CBROP**

The objective of the 2020 CBROP is to provide a review of the previous fiscal performance in the financial year 2019/20 and how this impacts the financial objectives and fiscal responsibility principles set out in the last Fiscal Strategy Paper (CFSP), 2020. This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of any supplementary estimates and the broad fiscal parameters underpinning the next budget and the medium term. The CBROP will be a key document in linking policy, planning and budgeting. PFMA 2012 has set high standards for compliance with the MTEF budgeting process.

## CHAPTER TWO: REVIEW OF FISCAL PERFORMANCE IN FY 2019/20

### 2.1 Overview

The 2020 CBROP is based on the priorities and emerging challenges in the county. Prioritization of resource allocation was based on the County Integrated Development Plan 2018-2022, broad development policies of the County Government, short term as well as the medium-term priorities identified during the County-wide public consultative forums held across the county, captured in the Annual Development Plan and eventual Programme Based Budget for FY 2019/2020. In this paper, provisional indicative sector ceilings for the 2021/2022 budget have been set informed by the forecasted revenue bases, i.e. Own Source Revenue, CRA allocation, and conditional grants.

### 2.2 Overview of Fiscal Performance in FY 2019/20

During the period under review, the county government had a total budget of Ksh 5,773,518,235 which comprised Ksh. 3,363,636,267 as recurrent budget and Ksh 2,409,881,967 as development budget. The fiscal performance was successful given that the county government surpassed its revenue target.

The table below presents the overview of the fiscal performance of the county during the financial year 2019/2020.

**Table 1: Fiscal outturn in FY 2019/20**

Receiver/ Item	Total Funding Revised Estimates 2019/2020 (KShs.)
<b>4409001101 Equitable Share</b>	3,861,300,000
9910301 Transfers from CRF A/C to County Ministries	
9910300 Exchequer Provisions	3,861,300,000
<b>4409001303 Compensation for User Fees Forgone</b>	
1330203 Grants rec'd by Local Auth. -	13,099,803
1330200 Grants Received by Local Authorities from General Government Units	13,099,803
<b>4409001304 Leasing of Medical Equipment</b>	
9910201 Exchequer Releases/ Receipts / Provisioning Account	131,914,894
9910200 General Provisions	131,914,894
<b>4409001401 World Bank</b>	
1310101 Current Grants from Foreign Governments	132,658,264

1310102 Capital Grants from Foreign Governments	614,122,485
1310100 Grants from Foreign Governments - Cash Through Exchequer	746,780,749
<b>4409001402 DANIDA</b>	
1310101 Current Grants from Foreign Governments	11,250,000
1310100 Grants from Foreign Governments - Cash Through Exchequer	11,250,000
<b>4409001501 Other Grants &amp; Loans</b>	
1310102 Capital Grants from Foreign Governments	81,041,661
1310100 Grants from Foreign Governments - Cash Through Exchequer	81,041,661
<b>4409001601 Returned CRF Issues</b>	
9910201 Exchequer Releases/ Receipts / Provisioning Account	568,313,952
9910200 General Provisions	568,313,952
9910309 Remittances to Exchequer Miscellaneous Revenue	-
9910300 Exchequer Provisions	-
<b>4409002101 Road Maintenance Fuel Levy Fund</b>	
1330202 Funds Received from Road Maintenance Levy Fund	175,246,930
1330200 Grants Received by Local Authorities from General Government Units	175,246,930
Total Revenues from Other Sources	5,588,947,989
Surplus revenue collected in 2017/18 FY	11,170,247
<b>Total Revenues from County Sources</b>	184,570,246
<b>Total Revenues for County 4409000000</b>	
<b>Elgeyo/Marakwet County - County Revenue Fund for All Sources</b>	<b>5,773,518,235</b>

## 2.3 Revenue Performance

### 2.3.1 Internal Revenue

Total actual internal revenue realized by the county government amounted to Ksh 153,819,514 against a target of Ksh 184,570,247. The local revenue target was not met in the financial year 2019/20. This represents a decrease compared to previous year, The targets were not achieved due to outbreak of COVID 19 Pandemic which led to disturbance of the business operating environment i.e. restricted movements, business closures amongst others.

The table below present the breakdown of internal revenue realised during the financial year 2019/2020

**Table 2: Internal Revenue Break down FY 2019/20**

Revenue Sources	Approved Estimates (Net)	Actual Ksh (Net)	Variance	Percent of Total (%)
Animal Stock auction fees	2,820,450	1,176,840	(1,643,610)	41.73
Produce and other cess	23,789,204	25,107,567	1,318,363	105.54
Single Business Permit	13,932,050	10,634,465	(3,297,585)	76.33
single business permit-liquor license	4,000,000	1,560,080	(2,439,920)	39.00
Lands Rates/Plot Rent	2,500,392	2,517,493	17,101	100.68
Bus park/motorcycle fees	2,836,350	5,113,020	2,276,670	180.27
Trade applications fees	1,910,890	1,533,350	(377,540)	80.24
Slaughter fees	1,551,000	933,790	(617,210)	60.21
House rent/stall/ground	1,730,500	439,445	(1,291,055)	25.39
Conservancy fees	1,967,105	911,980	(1,055,125)	46.36
Plan approval fees	150,550	25,200	(125,350)	16.74
Clearance fees	-	18,800	18,800	-
Hide and skins	50,000	2,360	(47,640)	4.72
Promotion/advert	1,103,580	2,666,410	1,562,830	241.61
Tender Documents	50,000	-	(50,000)	-
Hire of road field	218,230	-	(218,230)	-
Trade	185,000	11,690	(173,310)	6.32
Fines	810,150	450,161	(359,989)	55.57
FI Funds	66,400,000	54,583,079	(11,816,921)	82.20
VSD Funds		1,454,240	1,454,240	-
Water Department	1,519,688	186,910	(1,332,778)	12.30
Health Services-Public Health	7,513,975	2,573,990	(4,939,985)	34.26
Youth Affairs and sports	-	5,374,000	5,374,000	-
Agriculture	-	264,650	264,650	-

Tourism	1,556,923	704,200	(852,723)	45.23
Market fees and others	5,303,713	8,018,965	2,715,252	151.20
Recoveries	-	620,562	620,562	-
Surplus Revenue 2018/19 FY	11,170,247	11,170,247	-	100.00
Tampere University (Revenue Not Classified Elsewhere)	23,000,000	10,684,152	(12,315,848)	46.45
Others	8,500,250	5,081,868	(3,418,382)	59.78
<b>TOTALS</b>	<b>184,570,247</b>	<b>153,819,514</b>	<b>(30,750,733)</b>	<b>83.34</b>

### 2.3.2 External Revenue

For the period under review, the county was allocated equitable share amounting to Kshs 3,861,300,000 from the national government. In F/Y 2018/19 the equitable share allocated to the county was Kshs 3,768,000,000. This shows there was an increase of Kshs 93,300,000 from the previous financial year representing a 2.4% increase.

The table below shows external revenue breakdown from national government and donors.

**Table 3: External Revenue Performance Report F/Y 2019-20**

Revenue Sources	Approved Supplementary Estimates (Net)	Actual Disbursement ( KSH)	Percent of total ( % )
CRA Share	3,861,300,000	3,529,228,200	91.40%
Local Revenue	184,570,246	153,819,514	83.34%
Balance b/d	568,313,952	568,313,952	100.00%
Dev. Of Youth Polytechnics	40,741,543	30,228,298	74.20%
DANIDA -Universal Health Care	11,250,000	11,250,000	100.00%
World Bank -Maternal Health	6,751,373	0	0.00%
Lease of Medical Equipment	131,914,894	0	0.00%
Kenya Climate Smart Agriculture Project	219,784,901	104,150,751	47.39%
Agricultural Sector Dev. Support (ASDSP)	36,041,661	16,277,269	45.16%

KDSP	237,806,513	30,000,000	12.62%
KUSP	184,342,447	73,029,946	39.62%
EU Water Support	45,000,000	0	0.00%
World Bank -Transforming Health Systems	57,353,972	33,891,972	59.09%
Support to Abolishment of User Fees in H/C & Dispensaries	13,099,803	8,788,919	67.09%
Roads Maintenance Levy Funds (RMLF)	175,246,930	109,605,564	62.54%
<b>Total</b>	<b>5,773,518,235</b>	<b>4,668,584,385</b>	<b>80.86%</b>

### 2.3 Expenditure Performance

The total expenditure for the period under review amounted to Ksh 4,369,175,006 against approved supplementary budget of Ksh 5,773,518,234 representing an under spending of Kshs 1,404,343,228 which translates to 75.68%

**Table 4: Aggregate Expenditure**

DEPARTMENT	Recurrent	Development	Budget Total	Actual Expenditure	Balance	% on Total Expenditure
County Assembly	536,844,007	1,028,790	537,872,797	536,737,370	1,135,427	<b>99.79%</b>
Governor's Office	177,129,830	0	177,129,830	176,084,178	1,045,652	<b>99.41%</b>
Finance and Economic Planning	290,238,102	0	290,238,102	237,372,620	52,865,482	<b>81.79%</b>
Agriculture and Irrigation	98,633,546	516,342,662	614,976,208	214,687,328	400,288,880	<b>34.91%</b>
Education & Technical Training	251,114,231	307,818,894	558,933,125	402,226,731	156,706,394	<b>71.96%</b>
Health and Sanitation Services	1,507,581,053	438,631,441	1,946,212,494	1,661,564,787	284,647,707	<b>85.37%</b>
Water, Lands and Physical Planning	77,665,210	430,914,244	508,579,454	296,813,278	211,766,176	<b>58.36%</b>



Roads, Transport & Public Works	71,360,144	440,191,005	511,551,149	339,427,759	172,123,390	<b>66.35%</b>
Trade, Tourism & Industrialization	33,992,393	19,146,107	53,138,500	48,030,425	5,108,075	<b>90.39%</b>
Youth, Sports, ICT and Gender	39,495,075	123,524,907	163,019,982	112,875,927	50,144,055	<b>69.24%</b>
Public Service Management	138,562,309	35,074,749	173,637,058	159,157,256	14,479,802	<b>91.66%</b>
County Public Service Board	39,878,421	0	39,878,421	39,598,358	280,063	<b>99.30%</b>
Livestock, Fisheries and Co-operatives	101,141,946	97,209,168	198,351,114	144,598,989	53,752,125	<b>72.90%</b>
<b>TOTAL</b>	<b>3,363,636,267</b>	<b>2,409,881,967</b>	<b>5,773,518,234</b>	<b>4,369,175,006</b>	<b>1,404,343,228</b>	<b>75.68%</b>

### 2.3.1 Recurrent Expenditure

Total Recurrent Expenditure amounted to Kshs 3,264,355,470 against an approved budget of Kshs 3,363,636,267 reflecting an under-absorption percentage of 2.95%

The table below shows the analysis of the recurrent expenditure

**Table 5: Analysis of the Recurrent Expenditure**

CODE	DEPARTMENT	Approved Supp. Budget Recurrent	Recurrent Expenditure	Balance	% on Total Expenditure
4361	County Assembly	536,844,007	536,737,370	106,637	99.98%
4362	Governor's Office	177,129,830	176,084,178	1,045,652	99.41%
4363	Finance and Economic Planning	290,238,102	237,372,620	52,865,482	81.79%
4364	Agriculture and Irrigation	98,633,546	98,193,528	440,018	99.55%
4366	Education & Technical Training	251,114,231	225,261,124	25,853,107	89.70%
4367	Health and Sanitation Services	1,507,581,053	1,505,176,896	2,404,157	99.84%
4368	Water, Lands and Physical Planning	77,665,210	76,374,277	1,290,933	98.34%

4369	Roads, Transport & Public Works	71,360,144	69,535,330	1,824,814	97.44%
4371	Trade, Tourism & Industrialization	33,992,393	33,662,086	330,307	99.03%
4372	Youth, Sports, ICT and Gender	39,495,075	33,551,198	5,943,877	84.95%
4373	Public Service Management	138,562,309	135,493,486	3,068,823	97.79%
4374	County Public Service Board	39,878,421	39,598,358	280,063	99.30%
4377	Livestock, Fisheries and Co-operatives	101,141,946	97,315,019	3,826,927	96.22%
	<b>TOTAL</b>	<b>3,363,636,267</b>	<b>3,264,355,470</b>	<b>99,280,797</b>	<b>97.05%</b>

### 2.3.2 Development Expenditure

Total cumulative development expenditure for the period under review amounts to Ksh 1,104,819,536 against an approved supplementary budget of Ksh 2,409,881,967.

This reflects an absorption rate of 45.85%. The table below shows the breakdown of Development expenditure by departments.

**Table 6: Development Expenditures**

CODE	DEPARTMENT	Approved Supp. Budget Development	Development Expenditure	Balance	% on Total Expenditure
4361	County Assembly	1,028,790	0	1,028,790	0.00%
4362	Governor's Office	0	0	0	0.00%
4363	Finance and Economic Planning	0	0	0	0.00%
4364	Agriculture and Irrigation	516,342,662	116,493,800	399,848,862	22.56%
4366	Education & Technical Training	307,818,894	176,965,607	130,853,287	57.49%
4367	Health and Sanitation Services	438,631,441	156,387,891	282,243,550	35.65%
4368	Water, Lands and Physical Planning	430,914,244	220,439,001	210,475,243	51.16%
4369	Roads, Transport & Public Works	440,191,005	269,892,429	170,298,576	61.31%
4371	Trade, Tourism & Industrialization	19,146,107	14,368,339	4,777,768	75.05%
4372	Youth, Sports, ICT and Gender	123,524,907	79,324,729	44,200,178	64.22%
4373	Public Service Management	35,074,749	23,663,770	11,410,979	67.47%

4374	County Public Service Board	0	0	0	0.00%
4377	Livestock, Fisheries and Co-operatives	97,209,168	47,283,970	49,925,198	48.64%
	<b>TOTAL</b>	<b>2,409,881,967</b>	<b>1,104,819,536</b>	<b>1,305,062,431</b>	<b>45.85%</b>

## 2.4 2019/20 Financing and Balance

The analysis in Table 6, shows that Ksh. 1,305,062,431 for development was not absorbed in the financial year 2019/20. This translates to 54.15% of the total capital allocation.

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

### 2.5.1 Implications on the financial objectives

The performance in the FY 2018/19 affected the financial objectives set out in the 2019 County Fiscal Strategy Paper and the Budget for FY 2019/2020. Programs and projects initially projected for the period FY 2019/2020 were affected by pending bills being accommodated from FY 2018/2019. Also, revenue projections and expenditure needed slight adjustments to reduce chances of generating pending bills at the end of the period.

The main reasons for the deviations mentioned above were the late approval of the County Allocation of Revenue Act (CARA) which led to delayed disbursement of funds from national treasury.

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

- Capitalizing in County infrastructure and social welfare services in order to unlock the county's potential and improve competitiveness.
- Enhancing the capacity of contractors and suppliers to ensure that they adhere to project/ programme implementation timelines so as to reduce the amounts of pending bills being rolled over to the subsequent financial year
- Strengthening capacity in public financial management to ensure good governance and effective service delivery that will in turn lead to increased absorption of funds.

### 2.5.2 Implication on the Fiscal Responsibility Principles

The implication of the FY 2019/20 Fiscal Performance on the Fiscal Responsibility Principles was as follows: -

- The County Government will continue to put in place measures to ensure increased revenue collections
- The county will continue to strive to ensure that 30% of the County's allocation principles further require that 30% of total expenditure should be development. The county will continue to work and ensure that this minimum threshold is met.

## CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

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### 3.1 Macroeconomic Outlook

Covid-19 Pandemic led to devastation of global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain. In Kenya, the Pandemic and the containment measures slowed down economic activities in key sectors of the economy in the first quarter of 2020, resulting to a lower growth of 4.9 percent compared to a growth of 5.5 percent in a similar period in 2019. Overall, taking into account the available indicators for second quarter for 2020, the economy is projected to grow by 2.6 percent in 2020 compared to the initial projection of 6.1 percent. The economy is projected to rebound to 5.3 percent in 2021 and 5.9 percent over the medium term. In terms of fiscal years, the economy is projected to grow by 4.0 percent in the FY 2020/21 and 5.9 percent over the medium term.

In the first quarter of 2020, the slowdown was mainly due to the uncertainty surrounding the Covid-19 pandemic that was already slowing economic activity in most of the country's major trading partners. The contraction by 9.3 percent in the accommodation and food services sector exacerbated the decelerated growth in the first quarter of 2020. On the positive side, the economy was supported by strong agricultural activities that strengthened to 4.9 percent in the first quarter of 2020 from 4.7 percent over the same period in 2019. A resilient non-agriculture sector also supported growth, despite a slowdown to 5.2 percent from 5.9 percent over the period under review.

The agriculture sector grew by 4.9 percent in the first quarter of 2020 compared to a growth of 4.7 percent in the same period in 2019 supported by favorable weather conditions. The first quarter of 2020 recorded strong growth in earnings from agricultural exports. Earnings from the exports of fruits, cut flowers, coffee, tea and vegetables grew by 128.8 percent, 112.4 percent, 94.8 percent, 56.6 percent and 29.6 percent in the quarter under review relative to the same quarter of 2019.

The non-agricultural sector (service, industry and mining and quarrying) remained resilient and grew by 5.2 percent in the first quarter of 2020, down from 5.9 percent in the same quarter of 2019. The services and industry sector contributed 3.3 percentage points to real GDP. On the other hand, the contribution of the agricultural sector to the overall GDP growth was 1.3 percentage points in the first quarter of 2020, an increase from 1.2 percentage points in the same quarter of 2019.

The manufacturing sector is estimated to have expanded by 2.9 percent in the first quarter of 2020 compared to a growth of 3.5 percent in a similar quarter of 2019. This is reflected by the decline in consumption of electricity to a growth of 2.4 percent in the first quarter of 2020 compared to a growth of 2.8 percent in the first quarter of 2019. Growth in the sector was mainly supported by the manufacture of non-food products such as cement production, assembly of motor vehicles and cigarette production. The sector's contribution to growth was 0.3 percentage points in the first quarter of 2020. The performance of the manufacturing is poised to improve with recovery observed in June 2020 from a contraction in the previous months. Credit extended to the sector will be partly to support pandemic induced manufacturing, working capital requirements and new activities in the sector

Year-on-year overall inflation has remained within the government target range since end 2017 demonstrating prudent monetary policies. The inflation rate was at 4.4 percent in August 2020, declining from 5.0 percent in August 2019. This decline reflected favorable weather conditions which resulted in declines in the prices of key food items such as cabbages, tomatoes, Irish potatoes, spinach and loose maize grain. Paraffin, petrol, diesel and 200KWh electricity prices also declined during the same period due to lower international oil prices.

### **3.2 Medium Term Fiscal Framework**

#### ***Global Growth Outlook***

The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019. This economic outlook is worse than

the growth reported during the 2008 - 2009 global financial crisis. On a positive note, world economic growth is projected to rebound to 5.4 percent in 2021 mainly supported by a gradual strengthening in consumption and investment.

Growth in the advanced economies is projected at -8.0 percent in 2020 recovering to 4.8 percent in 2021. This reflects deeper than anticipated effects of the pandemic on economic activity in the first half of 2020 and more gradual recovery in the second half of the year. Significant contraction of the economy is projected in the United States (-8.0 percent), Japan (-5.8 percent), the United Kingdom (-10.2 percent), Germany (-7.8 percent), France (12.5 percent), and Italy and Spain (-12.8) percent. Growth in the Euro area is expected to contract by 10.2 percent in 2020 before recovering to grow at 6.0 percent in 2021. The Sub-Saharan African region also recorded a negative impact due to the pandemic with the region projected to contract by 3.2 percent in 2020. Consistent with forecasts in the other regions, economic growth in the region is expected to recover to 3.4 percent in 2021 as most of the economies in the region recover from the adverse effects of the Covid-19 pandemic.

### ***Domestic Growth Outlook***

On the domestic scene, prior to the outbreak of Covid-19 pandemic, Kenya's economy was strong and resilient despite the challenging global environment. The economy expanded by 4.9 percent in the first quarter of 2020 supported by the agricultural sector on account of favorable weather conditions.

Leading economic indicators for the second quarter point to continued strong performance in agriculture, mainly due to favorable weather conditions and lifting of restrictions in the key export markets. However, the negative effects of covid-19 on the economy are projected to more than offset the gains in the agricultural sector. On a positive note, economic growth is projected to recover to 5.3 percent in 2021 and 5.9 percent in the medium term. In terms of fiscal years, economic growth is projected to grow by 4.0 percent in FY 2020/21 and further to 5.9 percent over the medium term.

This growth outlook for the FY 2020/21 and the medium term will be supported by the stable macroeconomic environment, investments in the strategic areas under CIDP 2nd generation and priorities set out in the national's "Big Four" agenda.

The county pursued prudent fiscal policy to ensure economic stability. This was guided by Public Finance Management Act, 2012, amongst other legislations specifically Equitable Development Act, 2015. The ongoing public investments in infrastructure projects, as spelled out by Annual Development Plans, ADPs the Economic Stimulus Program being implemented and the planned Post Covid-19 Economic Recovery Strategy. These factors will push up consumer demand and increase both public and private sector investment reinforcing the projected growth. The economic growth projections over the medium term are aligned to those of the Third Medium Term Plan (2018-2022)

With respect to revenue, the County Government aimed to improve revenue collections. The target for year under review was not realized, due to the shrinking economy brought about by COVID-19 restrictions. Measures to achieve targets in the medium-term include enhanced compliance of finance bill with enhanced administrative measures such as strengthening of the enforcement team and further sealing of revenue loopholes and leakages. Specifically, the collection of revenue has been digitized through the use of Point of Sale Services (POS).

### **3.3 Fiscal Risks to the Outlook**

This outlook is not without risks from both within and without the county. The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated economic activities within and without the county; it has greatly affected streams for the county government own source revenue and thus pose a fiscal risk to the 2020/21 county budget.

The continued spread of Covid 19 threatens the county health system, reduces labour productivity as well as drains household financial resources. The outbreak occasioned the re



organization FY 2019/20 budget to contain the situation and since the threat still exists it will lead to budgetary alignment in the FY 2020/21 to support the public health system as well as

The declining national revenue performance in FY 2019/20, led to stagnation of National Treasury allocation to county governments in FY 2020/21; this meant that allocation to county development programmes stagnated and thus may slow down the development agenda of the county.

Wage bill is a major risk to the fiscal outlook for FY 2020/21 and the medium-term. The burgeoning public expenditure pressures are heightened mainly by implementation of the last phase of SRC basic salary harmonization circular and the demands for promotions backlog from staff. The burden that wage-bill weighs on the budget is heavy and it is expected to continue posing fiscal risk to the County Government.

The county is prone to natural disasters including landslides, flooding and drought, these disasters pose huge risk to life and property. The disasters also threaten food security, utilities, road network and public health. Occurrence of such disasters will require huge financial resources and thus pose fiscal risk to the county government.

## CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

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### 4.1 Adjustment to 2020/21 Budget

As of the time of preparation of this C-BROP, there wasn't any adjustment to the original budget, however the release of SRC circular on the final phase of harmonization of basic pay across public service which took effect from 1st July and it had not been communicated to the counties in earnest before preparation of budget estimates, it will necessitate running a supplementary budget to adjust 2020/21 FY to take these adjustments into account. Additionally, the shortfall in the projected OSR revenue largely attributed COVID-19 pandemic that constrained the various revenue streams in the late 2019/20 FY will call for adjustments to 2020/21 budget together with taking into consideration the actual performance of expenditure and absorption capacity in the remainder of the financial year in order to ensure all departments utilize the budgeted funds.

### 4.2 Medium-Term Expenditure Framework

Medium-Term Fiscal Framework for the County is geared towards supporting socio-economic empowerment, expansion of infrastructure as a development enabler. In this regard, the 2020/21 budget will be based on the third-generation formulae which was passed recently at the Senate which will determine the allocative CRA equitable share to the county. Although the county might be expecting additional allocation from CRA share, there is no guarantee national revenue would substantially increase to trigger this additional allocation. The 2018-2022 County Integrated development plan (CIDP), third Medium Term Plan together with the Governments' strategic priorities contained in the 'Big Four' Agenda will also guide the 2020/21 budget. Additionally, Equitable Development Act, 2015 at the county level will continue guiding resource allocation to wards. This can be affirmed by the relevant policies, strategies, and projects that have been incorporated into the Annual Development Plan for 2020/21 as identified by the public during the project/ programme identification and prioritization process taking into account the technical inputs from departments.

The medium-term budget framework for 2020/21- 2022/23 will ensure resources are allocated based on prioritized interventions as identified by the public during the project/ programme identification and prioritization process taking into account the technical inputs from departments together with the macroeconomic outlook of the national and global outlook effects of COVID-19 pandemic. The Senate of Kenya successfully passed a 3rd basis allocating revenue among county governments. The formula will now be used for the next 5 financial years. It will also take into consideration the recently third revenue allocation formula, that has the following parameters: population (18%), health (17%), agriculture (10%) urban services (5%) roads (8%) poverty 14%) Basic share (20%) and land areas (8%).

### **4.3 2020/21 Budget Framework**

#### **4.3.1 Revenue projections**

The cumulative revenue forecasts for FY 2020/21 including Appropriation in Aid will reduce marginally by approximately 5 % owing to constant equitable share by CRA, reduced conditional grant allocation and constrained OSR performance as a result of COVID 19 pandemic. The national transfers i.e. equitable share of revenue remained constant with conditional grants decreasing by 27%. Equitable share of revenue continues to constitute the largest share of total county receipts.

The County Government is expected to generate revenue amounting to Ksh 144 million from own local sources which is a decrease of Kshs 8 Million from the projected local revenue for FY 2019/20. The decrease is as a result of the constrained revenue base owing to Covid 19 pandemic.

#### **4.3.2 Expenditure Forecasts**

In pursuing a balanced budget requirement, the County Government has projected that overall expenditure will equal the forecasted County receipts for FY 2020/2021. In this regard, the county government's total expenditure will reach Ksh 4.7 billion in the FY 2020/2021 (excluding balances carried forward).

Compensation to employees will account for 54.4 percent of the total County budget approximately Ksh 2.5 billion. Although, this proportion of the County wage bill is still way above the envisaged level of 35 percent of total revenues as recommended in section 25 of the PFM (County Government Regulations) 2015. In trying to adhere to this provision, the County Government has initiated austerity measures including rationalization of staff across the public service for common cadres, recruitment of only key technical competency to replace retiring staff at entry levels.

The marginal growth in County allocation for salaries and wages is mainly on account of rise in annual increments and harmonization of wages across the public service by the Salaries and Remuneration Commission (SRC). Further, allocation for other recurrent expenditures shall decrease despite the marginal increase in County revenues because of the wage increase and adherence to 30% allocations to development expenditures.

## CHAPTER FIVE: CONCLUSION AND WAY FORWARD

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### 5.1 Conclusion and Way Forward

The set of policies outlined in this County Budget Review and Outlook Paper reflects the changed fiscal circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act. They are also consistent with the 2018-2022 County Integrated Development Plan (CIDP) and national strategic objectives perused by the county government as the basis of allocating public resources.

The fiscal outcome for FY 2019/20 had implication of the financial objectives elaborated in the last county fiscal strategy paper approved by County Assembly in March 2020. The county government continued to struggle with high wage bill, low local revenue collection and increased service delivery demands. This occurrence subdued the county government fiscal policy initiatives and responsibilities.

Going forward, the cumulative revenue forecast for FY 2021/22 will rise marginally while county own source revenues are expected to increase slightly. The reforms in local revenue administration as well as legislative reviews of the current revenue related laws through the Finance bill, 2020 are expected to strengthen local revenue base and performance.

The policies and provisional departmental ceilings annexed herewith will guide the county sectors and sub sectors in preparation of the FY 2021/22 budget. These ceilings will form inputs of the next CFSP which will be finalized by end of February 2021.

## ANNEXES

### Annex 1: County Government Operations 2019/20 – 2021/22

Sub Sector / Department	2019/20 APPROVED BUDGET			2020/21 APPROVED BUDGET			2021/22 PROJECTIONS		
	Recurrent	Development	Total	Recurrent	Development	Totals	Recurrent	Development	Totals
Office of the Governor & Executive Administration	177,129,830	-	177,129,830	143,881,512	15,253,618	159,135,130	151,075,588	16,016,299	167,091,887
County Assembly	536,844,007	1,028,790	537,872,797	557,721,163	-	557,721,163	585,607,221	-	585,607,221
Finance & Economic Planning	290,238,102	-	290,238,102	223,846,869	-	223,846,869	235,039,212	-	235,039,212
Public Service Management and County Administration	138,562,309	35,074,749	173,637,058	152,260,578	31,971,009	184,231,587	159,873,607	33,569,559	193,443,166
County Public Service Board	39,878,421	-	39,878,421	46,738,274	-	46,738,274	49,075,188	-	49,075,188
Roads, Transport, Public Works and Energy	71,360,144	440,191,005	511,551,149	66,968,217	499,065,857	566,034,074	70,316,628	524,019,150	594,335,778
Sports, Youth affairs, ICT and Social Services	39,495,075	123,524,907	163,019,982	38,369,182	111,442,206	149,811,388	40,287,641	117,014,316	157,301,957
Education and Technical Training	251,114,231	307,818,894	558,933,125	196,390,607	280,613,534	477,004,141	206,210,137	294,644,211	500,854,348
Health and Sanitation	1,507,581,053	438,631,441	1,946,212,494	1,545,876,304	299,102,466	1,844,978,770	1,623,170,119	314,057,589	1,937,227,709
Water, Lands, Environment and Climate Change Management	77,665,210	430,914,244	508,579,454	78,059,121	518,709,963	596,769,084	81,962,077	544,645,461	626,607,538
Tourism, Culture, Wildlife, Trade and Industry	33,992,393	19,146,107	53,138,500	35,609,808	15,678,318	51,288,126	37,390,298	16,462,234	53,852,532
Agriculture and irrigation	98,633,546	516,342,662	614,976,208	100,777,147	751,249,338	852,026,485	105,816,004	788,811,805	894,627,809
Livestock Production, Fisheries and Cooperatives Development	101,141,946	97,209,168	198,351,114	97,522,268	98,446,438	195,968,706	102,398,381	103,368,760	205,767,141
<b>TOTALS</b>	<b>3,363,636,267</b>	<b>2,409,881,967</b>	<b>5,773,518,234</b>	<b>3,284,021,050</b>	<b>2,621,532,747</b>	<b>5,905,553,797</b>	<b>3,448,222,103</b>	<b>2,752,609,384</b>	<b>6,200,831,487</b>

## Annex 2: Total Sector Ceilings for the MTEF Period 2019/20 – 2021/22

SECTOR	Sub Sector /Department	APPROVED	APPROVED	PROJECTIONS
		2019/20	2020/21	2021/22
Public Service Administration & Governance	Office of the Governor & Executive Administration	177,129,830	159,135,130	167,091,887
	County Assembly	537,872,797	557,721,163	585,607,221
	Finance & Economic Planning	290,238,102	223,846,869	235,039,212
	Public Service Management and County Administration	173,637,058	184,231,587	193,443,166
	County Public Service Board	39,878,421	46,738,274	49,075,188
Infrastructure	Roads, Transport, Public Works and Energy	511,551,149	566,034,074	594,335,778
Social Protection and Empowerment	Sports, Youth affairs, ICT and Social Services	163,019,982	149,811,388	157,301,957
	Education and Technical Training	558,933,125	477,004,141	500,854,348
Health, Water and Sanitation	Health and Sanitation	1,946,212,494	1,844,978,770	1,937,227,709
	Water, Lands, Environment and Climate Change Management	508,579,454	596,769,084	626,607,538
Productive and Economic Sector	Tourism, Culture, Wildlife, Trade and Industry	53,138,500	51,288,126	53,852,532
	Agriculture and irrigation	614,976,208	852,026,485	894,627,809
	Livestock Production, Fisheries and Cooperatives Development	198,351,114	195,968,706	205,767,141
<b>TOTALS</b>		<b>5,773,518,234</b>	<b>5,905,553,797</b>	<b>6,200,831,487</b>

### Annex 3: Recurrent Sector Ceilings for the MTEF Period 2019/20 – 2021/22

Sector	Sub Sector / Department	RECURRENT APPROVED		PROJECTIONS
		2019/20	2020/21	2021/22
Public Service Administration & Governance	Office of the Governor & Executive Administration	177,129,830	143,881,512	151,075,588
	County Assembly	536,844,007	557,721,163	585,607,221
	Finance & Economic Planning	290,238,102	223,846,869	235,039,212
	Public Service Management and County Administration	138,562,309	152,260,578	159,873,607
	County Public Service Board	39,878,421	46,738,274	49,075,188
Infrastructure	Roads, Transport, Public Works and Energy	71,360,144	66,968,217	70,316,628
Social Protection and Empowerment	Sports, Youth affairs, ICT and Social Services	39,495,075	38,369,182	40,287,641
	Education and Technical Training	251,114,231	196,390,607	206,210,137
Health, Water and Sanitation	Health and Sanitation	1,507,581,053	1,545,876,304	1,623,170,119
	Water, Lands, Environment and Climate Change Management	77,665,210	78,059,121	81,962,077
Productive and Economic Sector	Tourism, Culture, Wildlife, Trade and Industry	33,992,393	35,609,808	37,390,298
	Agriculture and irrigation	98,633,546	100,777,147	105,816,004
	Livestock Production, Fisheries and Cooperatives Development	101,141,946	97,522,268	102,398,381
<b>TOTALS</b>		<b>3,363,636,267</b>	<b>3,284,021,050</b>	<b>3,448,222,103</b>



#### Annex 4: Development Sector Ceilings for the MTEF Period 2019/20 – 2021/20

SECTOR	DEPARTMENT/ SUB SECTOR	APPROVED	ESTIMATES	PROJECTIONS
		2019/20	2020/21	2021/22
Public Service Administration & Governance	Office of the Governor & Executive Administration	-	15,253,618	16,016,299
	County Assembly	1,028,790	-	-
	Finance & Economic Planning	-	-	-
	Public Service Management and County Administration	35,074,749	31,971,009	33,569,559
	County Public Service Board	-	-	-
Infrastructure	Roads, Transport, Public Works and Energy	440,191,005	499,065,857	524,019,150
Social Protection and Empowerment	Sports, Youth affairs, ICT and Social Services	123,524,907	111,442,206	117,014,316
	Education and Technical Training	307,818,894	280,613,534	294,644,211
Health, Water and Sanitation	Health and Sanitation	438,631,441	299,102,466	314,057,589
	Water, Lands, Environment and Climate Change Management	430,914,244	518,709,963	544,645,461
Productive and Economic Sector	Tourism, Culture, Wildlife, Trade and Industry	19,146,107	15,678,318	16,462,234
	Agriculture and irrigation	516,342,662	751,249,338	788,811,805
	Livestock Production, Fisheries and Cooperatives Development	97,209,168	98,446,438	103,368,760
<b>TOTALS</b>		<b>2,409,881,967</b>	<b>2,621,532,747</b>	<b>2,752,609,384</b>

## Annex 5: Budget Process Activity Calendar for FY 2020/21 MTEF Budget

In accordance with Article 221 of the Constitution and the relevant sections of the Public Finance Management Act (PFM), 2012, there are budget timelines and accompanying outputs that must be complied with. The budget calendar is enumerated in the table below;

No.	TIMELINE	BUDGET ACTIVITY
1.	30 <sup>th</sup> August	County Executive Committee member for Finance issues budget circular to all county entities. <b>s.128 of PFM Act, 2012</b> <b>The circular contains limits (ceilings) of each department/entity as recommended, key policy areas and issues to be taken into consideration when preparing the budgets</b>
2.	1 <sup>st</sup> September	County Executive Member for Planning submits <b>Annual Development Plan</b> (ADP) to County Assembly for approval, with copy to the CRA and National Treasury as per s.126(3) of PFM Act, 2012 The ADP contains long term and medium-term plans as per <b>s.125(1)(a) of PFM Act, 2012</b>
3.	30 <sup>th</sup> September	<b>County Budget Review and Outlook Paper</b> (CBROP) to be prepared by county treasury and submitted to the county executive committee. CBROP will cover: (a) Details of actual fiscal performance in the previous year compared to the budget appropriation (b) Updated fiscal and economic forecasts (c) Changes in forecasts from the county fiscal strategy paper. (d) How actual fiscal performance affected compliance with fiscal responsibility principles and Budget Policy Statement. <b>s.118(1)-(2) of PFM Act, 2012</b> County Executive committee considers and approves CBROP with or without amendments <b>s.118(3) of PFM Act, 2012</b> County Treasury causes CBROP to be laid before county assembly. <b>s.118(4)(a) of PFM Act, 2012</b> County Treasury to Submit the <b>Finance Bill</b> to the County Assembly for Approval
4.	By 15 <sup>th</sup> October	CBROP is published and publicized <b>s.118(4)(b) of PFM Act, 2012</b>
5.	28 <sup>th</sup> February	County Treasury prepares and submits <b>County Fiscal Strategy Paper</b> (CFSP) to the County Assembly. The CFSP must be aligned to national objectives in the Budget Policy Statement. <b>s. 117(1) &amp; (2) of PFM Act, 2012</b> In preparing the <b>CFSP</b> , the County Treasury will seek the views of the CRA, the public, interested persons or groups and any forum that is established by legislation. <b>s.117(4) of PFM Act, 2012</b> County Treasury will submit the CFSP to the county executive committee for approval before submission to the County Assembly <b>s. 117(1) of PFM Act, 2012</b>
6.	14 <sup>th</sup> March	County Treasury submits <b>County Debt Management Strategy</b> to County Assembly. <b>s.123(1) of PFM Act, 2012</b> County Executive Member for Finance submits copy of County Debt Management Strategy to CRA and Intergovernmental Budget and Economic Council. <b>s.123(3) of PFM Act, 2012</b>
7.	14 <sup>th</sup> March	Within 14 days of the County Fiscal Strategy being submitted to the county assembly, the county assembly shall consider and adopt it with or without amendments.

		<b>s.117(6) of PFM Act, 2012</b>
8.	21 <sup>st</sup> March Mid-March to Mid-April	County Fiscal Strategy Paper to be published and publicized. <b>s.117(8) of PFM Act, 2012</b> Public participation for Budget Estimates
9.	30 <sup>th</sup> April	County CEC Finance submits <b>budget estimates</b> to county assembly. Must be in line with resolutions of the Assembly on the County Fiscal Strategy Paper. <b>s. 129(2) of PFM Act, 2012</b>
10.	30 <sup>th</sup> April	County Assembly clerk submits <b>Budget Estimates for County Assembly</b> with a copy to the CEC Finance <b>s.129(3) of PFM Act, 2012</b>
11.	15 <sup>th</sup> May	CEC Finance publishes and publicizes Budget Estimates. <b>s.129(6) of PFM Act, 2012</b>
12.	15 <sup>th</sup> May	CEC Finance presents <b>comments on the budget estimates to the county assembly</b> <b>s.129(4) of PFM Act, 2012</b>
13.	15 <sup>th</sup> June	County government must submit annual <b>cash flow projection</b> to the Controller of Budget. <b>s.127(1) of PFM Act, 2012</b>
14.	Before County Assembly considers the estimates	Before County Assembly considers the estimates the relevant committee of the County Assembly shall meet and consider the estimates and make <b>recommendations</b> to the County Assembly, but should take into account the views of the CEC Finance. <b>s.131(2) of PFM Act, 2012</b>
15.	30 <sup>th</sup> June	County assembly to consider estimates with a view to approving with or without amendments in time for the <b>county appropriation law</b> to be passed by 30 <sup>th</sup> June. <b>s.131 s.131(2) of PFM Act, 2012</b>
16.	30 <sup>th</sup> June	County Assembly may amend estimates only if a) any proposed increase is balanced with reduction in another appropriation and b) any proposed reduction is used to reduce the deficit. <b>s.131(3) of PFM Act, 2012</b>
17.	30 <sup>th</sup> June	After county assembly has approved estimates, CEC for finance shall prepare and submit a <b>County Appropriation Bill</b> to the county assembly. <b>s.129(7) of PFM Act, 2012</b>
18.	30 <sup>th</sup> June	Appropriation Bill to be passed by the County Assembly <b>s.131(1) of PFM Act, 2012</b>
19.	As soon as the Budget Estimates have been approved	CEC Finance makes a pronouncement on <b>revenue raising measures</b> . <b>s.132(1) of PFM Act, 2012</b> At the same time as making the pronouncement under s.132 (1) the CEC Finance must submit the <b>Finance Bill</b> to the county assembly. <b>s.132(2) s.131(1) of PFM Act, 2012</b>
20.	As soon as the Budget Estimates have been approved	County Assembly may consider the revenue measures but must (a) ensure the total amount of revenue is consistent with the fiscal framework and the County Allocation of Revenue Act, and (b) must take into account various matters including the recommendation of the CEC Finance. <b>s.132(3) &amp; (4) of PFM Act, 2012</b>
21.	Not later than 90 days after Appropriation Act passed	County Assembly must consider the Finance Bill and approve with or without amendments. <b>s.133 of PFM Act, 2012</b>