
THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF MURANGA

COUNTY BUDGET REVIEW AND OUTLOOK

PAPER



SEPTEMBER 2022

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Foreword

The County Budget Review and Outlook Paper (CBROP) 2022 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012 which requires the county government to prepare the County budget review and outlook paper in respect for each financial year.

This CBROP reviews fiscal performance of the county for the 2021/22 financial year while comparing it with the budget appropriation for the same year. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2022; and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It further gives reasons for any deviation from the county financial objectives in the fiscal strategy paper together with proposals to address the deviations. Most importantly, this CBROP is the final one reviewing the performance of the County Government in implementing the second generation CIDP and also provides the future outlook for the remaining implementation period 2023/24 and beyond.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters for preparation of the next budget 2023/2024. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities outlined in section 107 of the PFM Act 2012 that will contribute towards the realization of aspiration of the residents of the county.

David W. Waweru
County Executive Committee Member
Murang'a County.

Acknowledgement

The County Budget Review and Outlook paper 2022 reviewing the performance of the year 2021/22 has been prepared in line with section 118 (1) (a) of the Public Finance Management Act 2012. The CBROP is reviewing performance of the year and provides the Budget outlook in the medium term.

In its preparation, consideration has been made of the prevailing economic situation globally and locally; the likely effects of the prevailing economic situation to realization of the County vision and also makes reference to the implementation of the CIDP 2022-2027. It is therefore my firm belief that this CBROP 2022 shall achieve its intended objective of guiding various county entities in the preparation of their 2023/2024 budget.

The information contained was obtained from the County Treasury and I want to appreciate the efforts made by the Directorate of Budget in preparing this CBROP 2022.

Peter G. Kahora
Chief Officer-Finance, IT and Economic planning

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CRA	Commission of Revenue Allocation
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PE	Personnel Emoluments
PFM	Public Finance Management
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group

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Preamble

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

The Budget Review and Outlook Paper (CBROP) is prepared in accordance with Section 118 of the Public Finance Management (PFM) Act 2012. The law stipulates that:

- 1) A county Treasury shall;
 - a. Prepare a CBROP in respect of the County for each year; and
 - b. Submit the paper to the County Executive Committee (CEC) by 30th September of that year.
- 2) In preparing its CBROP, 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 (CFSP)
 - c. Information on:
 - (i) Any changes in the forecasts compared with the CFSP; or
 - (ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or financial objectives in the CFSP for that financial year; and
 - d. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
- 3) The CEC shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the CBROP is approved by the CEC, the County Treasury shall:

- a. Arrange for the paper to be laid before the County Assembly; and
- b. As soon as practicable after having done so, publish and publicise the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution of Kenya 2010, the PFM Act, 2012 sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 of the PFM Act, 2012 states that: The County Government's recurrent expenditure shall not exceed the County Government's total revenue;

- 1) Over the medium term, a minimum of thirty (30) per cent of the County Government's budget shall be allocated to the development expenditure;
- 2) The county Government's expenditure on wages 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;
- 3) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure;
- 4) The County debt shall be maintained at a sustainable level as approved by County Assembly;
- 5) The fiscal risks shall be managed prudently; and
- 6) 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.

1. INTRODUCTION

The County Budget Review and Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the county for the financial year 2021/2022; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2021 and the reasons for such deviations.

1.1 Objective of CBROP

The County Budget Review and Outlook Paper (CBROP) provides a review of the previous fiscal year's performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in the CFSP. This together with the macroeconomic outlook provides a basis for revision of the current year's (2022/2023) budget in the context of the broad fiscal parameters underpinning the next budget (2023/2024) and the medium term (2024/2025 -2025/2026). The fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy Paper 2023.

Specifically, the CBROP provides:

- i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- iii. Any changes in the forecasts compared with the CFSP;
- iv. Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

The paper is a policy document that links planning with budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF), as it reviews previous year's fiscal performance and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal

responsibility principles were adhered to as provided for in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2022/2023 budget and in the medium term to guide Sector Workings groups (SWGs) before being affirmed in the CFSP 2022.

1.3 Structure

This paper has four other sections. Section Two, reviews the county's fiscal performance for the year 2021/2022. The section is further divided into three sub-sections, namely: The Overview; Fiscal Performance; and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections comprising of: Recent Economic Developments; Economic Outlook & Policies; Medium Term Fiscal Framework and Risks to the Outlook. Section four, sets out how the county government intends to operate within its resource envelope. It establishes the resources envelope (total revenues) it expects, and allocates these across departments by setting expenditure ceilings for each department. In addition, the section has four other sub-sections: adjustment to the proposed budget; the medium term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. Lastly, section five gives a conclusion of the entire paper.

2. REVIEW OF COUNTY FISCAL PERFORMANCE IN 2021/22.

2.1 Overview

In the year 2021/22 the County Government had a total budget of KShs. 10,656,671,244.80. The Development allocation was KShs. 3,410,849,151 and the recurrent allocation was KShs. 7,245,822,094. The estimates were revised upwards to KShs. 10,688,564,269.80. The revised estimates comprised of recurrent allocation of KShs. 7,372,371,261 and Development allocation of KShs. 3,316,193,009. The expenditure outturn was; Development expenditure KShs. 1,374,406,247 and Recurrent expenditure KShs. 6,685,907,815 comprising an absorption rate of 76%.

2.2 Fiscal Performance

The fiscal year 2021/2022 was the last year of a regime's five years in office as enshrined in the constitution of Kenya. As such, it was an electioneering year that comes with numerous challenges. However, this fiscal year the challenges ravaging the County were not tied to the electioneering period only, but also arose from macroeconomic challenges of high global inflation that affected purchasing power of the local economy, poor rainfall that affected the agricultural based economy of our county and our the country at large.

The County received total revenues of KShs. 8,060,314,062 comprising of Equitable share KShs. 6,454,806,037; realized own source revenue of KShs. 520,317,425 and grants of KShs. 359,840,782.

The summary of the county fiscal performance is as indicated in table 2.1 below.

Table 2.1: Summary of County Fiscal Performance

	2020/21 FY	2021/22 FY			Growth %
	Actual	Approved	Actual	% Deviation	
TOTAL REVENUE & GRANTS	6,993,447,783	10,668,564,270	8,060,314,062	-24%	13.24%
Unspent Bal from Previous FY	0	907,020,780	725,349,818	-20%	0.00%
Revenue (Total)	6,993,447,783	9,761,543,490	7,334,964,244	-25%	4.66%
Equitable Share Allocation	5,530,594,420	7,180,155,855	6,454,806,037	-10.10%	14.32%
Local Revenue	627,164,598	1,580,000,000	520,317,425	-67%	-20.53%
Grants (Total)	835,688,765	1,001,387,635	359,840,782	-64%	-132.24%
Total Expenditure	6,993,447,783	10,668,564,270	8,060,314,062	-24%	13.24%
Recurrent	4,451,616,451	7,372,371,261	6,685,907,815	-9%	33.42%
Development	2,541,831,332	3,296,193,009	1,374,406,247	-58%	-84.94%
Unspent Bal Current FY	1,021,490,277	907,020,780	725,349,818	-20%	-40.83%

2.2.1 Revenue Performance

The County collected a total of KShs. 520,317,425 against the previous year's collection of KShs. 627,164,598. This was a decrease of 17% in revenue from the previous year's performance. The decrease in revenue is attributed to the harsh economic environment in the country caused by high inflation of basic commodities and the prevailing drought situation further complicated by the Ukraine and Russia conflict. Locally, revenue declined due to among other reasons; political interference where some politicians incited the public not to pay their charges, low and poor enforcement mechanisms due to an inadequate legislative framework. All these factors contributed to the decline in revenue especially on the major revenue streams.

Table: 2.2: Analysis of County Revenue Streams

This table shows revenue collected per stream over the last five years.

<u>SOURCE</u>	<u>2017/2018</u>	<u>2018/2019</u>	<u>2019/2020</u>	<u>2020/2021</u>	<u>2021/2022</u>
LICENCES	100,095,924	126,378,883	98,535,344.19	137,683,456	106,214,073
PLOT RENT/LAND RATES	37,600,098	60,126,961	53,226,460.86	64,442,748	52,727,019
MARKET FEES	27,204,081	53,712,820	42,109,538.92	45,390,801	42,663,662
PENALTIES		1,625,805	461,200.18	1,632,704	2,121,027
BUILDING MATERIAL CESS (sand, stones)	45,758,290	62,713,630	44,979,407.02	29,827,952	33,045,131
BUS PARK FEES	16,185,040	28,719,937	18,962,827.79	24,631,551	26,647,768
PARKING FEE	10,202,620	18,592,165	21,238,708.70	26,056,136	21,125,468
MOTOR BIKES	2,365,460	6,833,610	2,216,045.75	2,651,387	1,075,519
LIQOUR LICENCE	25,642,410	28,003,100	36,924,059.00	22,056,184	16,098,213
PLAN APPROVAL	12,434,670	36,907,306	9,738,904.39	2,848,192	2,837,038
CONSERVANCY	8,563,200	13,515,289	10,244,978.00	16,085,549	12,160,977
OTHER CESS REVENUE	719,900	20,174,817	6,918,950.14	41,272,008	37,553,539
SALE OF FORMS	5,192,420	8,565,260	3,126,132.98	7,884,076	5,366,238
TENDER FORMS	20,340	10,000	-		-
ADVERTISEMENTS	10,371,043	17,027,999	7,848,196.10	10,463,947	11,312,809
SELF HELP GROUP	1,705,070	3,825,810	1,335,807.87	1,471,325	998,187
LAND SUBDIVISION/TRANSFER	7,015,130	7,114,440	6,285,858.08	8,692,414	4,760,952
HOUSE/STALLS RENT/S.HALL	5,976,080	8,151,673	5,423,449.18	6,088,784	3,864,556
OTHER LAND BASED REVENUE	1,669,776	3,242,610	3,781,063.49	2,749,224	2,507,105
MORGUE FEES	2,020,870	2,341,690	1,784,566.13	1,545,454	1,589,982
SLAUGHTER FEES	466,850	3,010,010	1,925,601.73	1,068,984	1,013,666
IMPOUNDING	830,490	5,277,070	1,477,577.65	1,544,129	1,653,322
COFFEE CESS			-		-

EDUCATION & POLYTECHNICS	144,000	2,380,606	166,189.00	139,776	45,350
FIRE			11,692,551.06	17,373,124	14,014,973
OTHERS	982,060	3,183,230	-		-
SUB-TOTAL		521,434,721	-		401,396,575
B) DEVOLVED FUNCTIONS					
HOSPITALS	68,928,546	139,482,031	126,185,812.73	104,427,094	81,250,808
NHIF			-		
PUBLIC HEALTH	21,484,306	24,008,915	19,469,831.38	24,866,755	18,825,281
LIVESTOCK (A.I)	1,102,360	3,331,125	2,188,222.76	1,357,474	153,290
MEAT INSPECTION	6,284,060	8,210,880	8,861,763.34	10,920,614	12,318,686
VET.CLINICAL SERVICES	220,370	47,220	1,489,553.00	-	657,090
FISHERIES	126,000		-		-
COOPERATIVES	481,890	840,110	651,505.78	495,988	272,106
HOUSING & PHYSICAL PLANNING	646,990	1,302,650	1,266,919.67	8,421,631	2,246,989
WEIGHT & MEASURES	601,950	1,067,250	943,422.17	2,879,303	3,055,938
MARIIRA FARM	472,067	2,483,171	216,773.38	195,835	140,662
WATER	482,621	123,930	-		-
NEMA			-		-
SUB-TOTAL		180,897,282			118,920,850
TOTAL	423,996,982	702,332,003	551,677,222.40	627,164,598.42	520,317,425.01

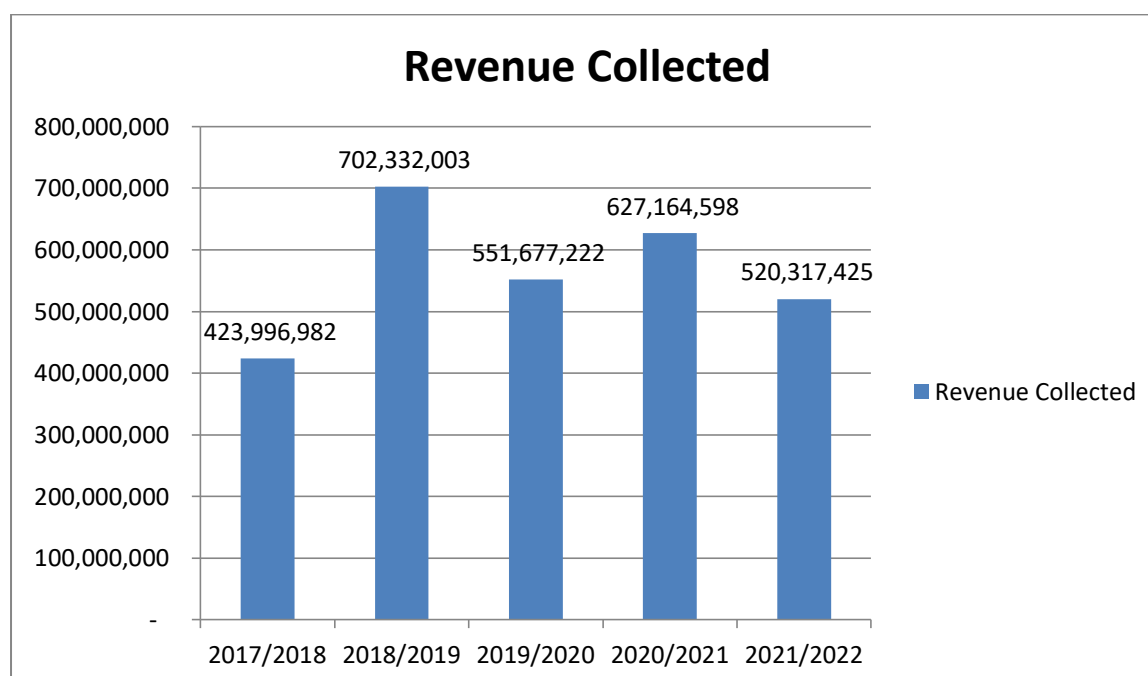


Table 2.2.1 Revenue Performance per stream

During the financial year 2021/2022 the County had a revenue target of KShs. 1.58 Billion. Of this, KShs. 1Bn was own source revenue and KShs. 580 Million was from privatization of Murang'a County Creamearies. The county managed to collect 52% of own source revenue,

while privatization of the creameries did not materialize. The County's top ten sources of revenue that declined in performance from the previous years are as indicated in the table below:

	<u>2020/2021</u>	<u>2021/2022</u>	<u>DECLINE</u>
Licences	137,683,456	106,214,073	23%
Plot Rent/Land Rates	64,442,748	52,727,019	18%
Market Fees	45,390,801	42,663,662	6%
Parking Fee	26,056,136	21,125,468	19%
Other Cess Revenue	41,272,008	37,553,539	9%
Hospitals	104,427,094	81,250,808	22%
Public Health	24,866,755	18,825,281	24%
Liquor License	22,056,184	16,098,213	27%

The County's top sources of revenue that improved were as shown in the table below:

	<u>2020/2021</u>	<u>2021/2022</u>	<u>INCREASE</u>
BUILDING MATERIAL CESS (sand, stones)	29,827,952	33,045,131	11%
BUS PARK FEES	24,631,551	26,647,768	8%

2.2.2 Expenditure Performance

The County had a budget of KShs. 10,656,671,245 in the year 2021/2022. Out of this budget, the County Assembly's budget was KShs. 1,071,307,014 comprising of KShs. 981,743,240 as recurrent and KShs. 89,563,774 as development. The County Executive's budget on the other hand, was 9,585,364,230.8. This comprised of KShs. 6,264,078,854 as recurrent allocation and KShs. 3,321,285,377 as development allocation. This was revised to KShs 10,668,564,270 in the last supplementary of the fiscal year. From this estimate, the County Assembly had KShs. 971,307,014 as its total budget and the County Executive had KShs. 9,697,257,255.80. From this budget, the County executive's recurrent allocation was KShs. 6,431,628,021 and the development allocation was KShs. 3,265,629,235. The County Assembly on the other hand had an allocation of KShs. 940,743,240 for recurrent and KShs. 30,503,774 for development.

Out of this budget, Equitable share was KShs. 8,087,176,635; Conditional Grants from the National Government amounted to KShs. 204,339,553; Grants from foreign donors amounted to KShs. 797,048,082 and own source revenue was KShs.1,580,000,000.

During the period, the County Government absorbed a total of KShs. 8,060,314,062 representing an absorption rate of 76%. Of this, the county executive's expenditure was KShs. 7,274,252,539 and the County Assembly's expenditure was KShs. 786,061,523. The total recurrent expenditure was KShs. 6,685,907,815 and development expenditure was

KShs. 1,374,406,247. This represented absorption rates of 91% and 42% respectively for recurrent and development expenditure. However, in the absence of the Assembly's expenditure, the County Executive realized an absorption rate of 41% on development expenditure.

The absorption rate of 76% was less than the realized absorption rate of 91% achieved in the year 2020/2021. The decline in absorption rate can be attributed to un-realization of the set revenue target for the year and low absorption of donor grants. It is therefore paramount that concerted efforts are made to ensure that this two revenue streams are enhanced.

As can be seen in table 2.3 most Departments had more than 50% budget absorption rate. The department with the highest budget allocation was the Department of Health with a total Budget of KShs. 4.595Bn. Out of the KShs.4.595Bn the department realized an expenditure of approximately KShs.4 Bn comprising of an absorption rate of 87%. This was a decrease of 7% in absorption from the previous year's expenditure.

Equally, all departments recorded less than 50% absorption of development allocations. The departments with the highest absorption of development expenditure were: Roads and Public Works at 49%, water and irrigation at 45%, Agriculture at 35% and Trade at 33%. This is attributable to reduced implementation of projects to control the ever increasing pending bills.

Table 2.3 Showing Absorption rates by sectors and Comparison with CFSP 2021 (Illustrative) ¹

SECTOR	MINISTERIAL DEPARTMENTS	C-FSP 2021			BUDGET ALLOCATION 2021/22		Cumulative Expenditure 2020/21			Absorption (%)	Deviation (%) CFSP - BUDGET
		REC	DEV	TOTAL	REC	DEV TOTAL	REC	DEV	TOTAL		
PUBLIC ADMIN	Governor's Office										
	Finance										
	County Public Service Board										
	Public Administration										
	Public Service Management										
	Economic Planning										
	County Assembly										
	SUB-TOTALS										
INFRASTRUCTURE	ICT and E-Government										
	Roads, Transport and Infrastructure										
	Water, Environment, Energy and Natural Resources										
	SUB-TOTALS										
HEALTH	Health Services										
	TOTAL										

¹ See annex 1 on this Document.

2.2.2.1 Recurrent and development expenditure

The County Government had a recurrent expenditure of KSh. 6,685,907,815. This comprised of KShs. 4,262,364,576 as compensation to employees and KShs. 1,648,408,886 as costs of operation and maintenance. This was achieved from a budget allocation of KShs. 4,275,170,330 to compensation to employees and an allocation of KShs. 2,156,457,691 to costs of operations and maintenance thus leading to an absorption rate of 100% and 76% respectively of each of the category's budget allocation. The County assembly on the other hand had a recurrent budget allocation of KShs. 940,743,240, out of which they achieved an expenditure of KShs. 775,134,353. This translates to an absorption rate of 82%, a decline of 11% from the previous years absorption of 93%.

Development expenditure was KShs. 1,363,479,077 against a budget allocation of KShs. 3,265,629,235. This represented an absorption rate of 41% over the overall allocation of development in the budget. The County assembly achieved development expenditure of KShs. 10,927,170 against an allocation of KShs. 30.5M representing an absorption rate of 36% which was a decline of 10% from the previous year's absorption rate of 46%.

2.2.2.3 Implications for the FY 2022/23 performance

The fiscal year 2021/22 was a very challenging year for the economy and the County as well. The fiscal year implementation cycle was delayed since the County was still implementing the fiscal year 2020/21 as late as July 29th. This was a whole month into the fiscal year 2021/22. Further, failure to achieve the target for own source revenue affected implementation of various programmes that had been planned for the year.

The fiscal year 2022/2023, will be the first year of a new regime inaugurated after the General elections. As such, the budget proposed for the period shall be amended in line with the priorities identified by the regime. To this extent, the County Treasury is contemplating a supplementary budget to align the programmes and their respective projects to the new regime's priorities.

In the year 2022/2023, macro-economic factors of inflationary shocks due to both local and global factors, exchange rate pressure on the local currency shall remain a risk to observe and can affect realization of some of the budgeted programmes. This is especially given the increase in fuel and food prices which have an impact on all sectors of the economy. This situation could be exacerbated by any drought that could be experienced in the country.

That notwithstanding, the new regime is addressing the challenge of low own source revenue through automation of revenue collection and stringent enforcement in an effort to curb possible revenue leakages. Equally, efforts are in place to streamline and control the high wage bill that has been a challenge on the county resources. Further, measures to address staff productivity through motivation of the workforce shall enhance public service.

The County Government shall also adhere to stringent planning and monitoring of its intended programmes and projects. This is intended to enhance absorption of development funds by implementing projects according to plan and ensuring that intended outcomes are achieved. This shall also address the challenge of accumulating pending bills which have also hampered implementation of planned programmes since they take a first charge in every year's budget.

3. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3.1 Recent Economic Developments

The financial year 2021/2022 was characterized by slowdown in global economic activity. This was caused by invasion of Ukraine by Russia, post covid-19 effects, rising levels of inflation, and tightening monetary policy. All these led to a decline in global growth.

In sub Saharan Africa the economy is predicted to grow by 3.6% in 2022 down from 4% in 2021. This is attributed to slowdown in global economic activity, high inflation and rising financial risk as a result of high and increasing foreign denominated debt levels. The east African economy on the other hand, is expected to continue recovering from the recession by 3.1% in 2022 down from 4.1% in 2021 and settle at 3.8% in 2024.

The Kenyan economy grew by 7.5% in 2021 attributed to recovery in the service and industry sector. However, this is expected to reduce to 5.5% in 2022 and stabilize at 5.8% in the fiscal year 2022-23 and average at 6.2% in the medium term. Despite these expectations, the economy is still predisposed to various risks; such as low agricultural output due to adverse weather conditions, strained fiscal space due to pressure from wages and other non-discretionary expenditures, a depreciating currency due to tightening of monetary policy in advanced economies, inflationary pressures as well as potential Covid-19 pandemic related disruptions.

3.1.1 County Economic Outlook and Policies

The County Government shall continue to invest in programs that shall empower its' citizenry. These programs shall involve implementation of ward development fund which shall address the specific development needs of the particular ward; implement universal health care while enhancing health care services through improvement of health care facilities and interventions in the agricultural sector meant to raise productivity of farmers and increase their returns.

The County shall also build on the gains of the national government's economic model which seeks to focus on healthcare, agriculture, housing, and manufacturing with emphasis on micro small and medium enterprises.

3.2 Medium Term Expenditure Framework

In the medium term the County Government, shall seek to spend its resources on improving the welfare of its citizens. In this light, its resources shall be deployed in development and efforts shall be put into fiscal consolidation to ensure that

recurrent expenditure is minimized in order to free resources for development. The main sectors for focus shall be Agriculture, Infrastructure, Health and Agromarketing. These are the sectors with significant multiplier effects to the economy and touch on the livelihoods of all the County's citizens.

To achieve this, the County shall ensure that it realizes its local revenue targets, constantly monitor its expenditures and various fiscal risks inherent in its budget implementation. This shall ensure that any unforeseen deficits are addressed during supplementary in order to ensure that the County reigns on pending bills and other debts. The County Government shall also seek to foster working relationships with development partners in order to raise financing and attract investments in these high multiplier areas.

In order to expand the resource envelope, the County Government shall continue to look at ways in which it can raise its own source revenue. Efforts shall be made to ensure that plot and land rates are collected in full and their arrears realized as well. The County Government shall also widen its revenue base by finding revenue lines that have not been exploited to now such as land rates on big farms, local agricultural cess on big farms and also creating an investor friendly environment that shall lead to firms investing in the County and paying relevant licenses.

3.3 Risks to the Outlook

The County's main economic activity is agriculture, and the various factors affecting the agricultural sector such as drought, poor quality of farm inputs or a shock to the sector will have a negative effect to the County's economy. However, intervention efforts in this sector are expected to bear fruits in the medium term and contribute to the county's gross county product.

The Country's high debt levels continue posing an inherent risk. This is especially so since debt servicing consumes a behemoth portion of the Nation's resources and could impact on exchequer releases.

Further, the tightening monetary conditions in advanced economies leading to decline in the value of the shilling coupled with rising inflation pose significant risk to the national and to the county economy.

The ever evolving Covid-19 virus variant, and it's attendant containment measure continues to remain a risk. This is because it has led to negative dire effects in economic activity.

4. RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the county expects and how it will be allocated across all the sectors for 2022/23 Financial Year and the MTEF.

4.1 Adjustment to the FY 2022/23 Budget

The County Government prepared a balanced budget totaling to KShs. 9,619,783,603. This will be funded with; Equitable share KShs. 7,480,155,855 (Equitable share C/F – 300M); Grants from Donor agencies total to KShs. 466,191,275, Grants from National Government KShs. 173,436,473 and Local revenues total to KShs. 1,500,000,000.

The County Government shall consider within the law, need for adjustment to the budget for the financial year 2022/2023. Some of the projections on local revenues will be reviewed, and as such local revenue shall be reduced to a realistic level and consequently, some expenditure votes shall be reduced. Equally, the new regime needs to include some of their priorities that have not been budgeted for and review some of the programs in the current estimates for enhancement and re - prioritisation. All these shall necessity a supplementary budget.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in county integrated development plan 2022-2027 and other county plans; and in accordance with section 107 of the PFM Act 2012 on fiscal responsibility principles. For effective utilization of public finances for enhanced expenditure productivity, the county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities. Equally, recurrent allocation as appropriated in the year 2022/2023 shall remain as so. Allocation to the County Assembly shall also be reduced to the allocation as shall be approved by the County Allocation of Revenue act. Any surplus above this set ceiling shall be appropriated in accordance with the priorities of the assembly.

Table 5 below therefore provides indicative sector ceilings for the 2023/2024 – 2025/26 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

Table 5 Summary of Indicative Sector Ceilings for FY 2023/24 MTEF²

		Total Expenditure Kshs.					% Share of Total Expenditure				
Sector	MDAs	Revised Estimates	Estimates	Projections			Estimates	Ceilings	Projections		
		2020/21	2021/22	2022/23	2023/24	2024/25	2020/21	2021/22	2022/23	2023/24	2024/2025
PUBLIC ADMIN.	Governor's Office										
	Finance										
	Economic Planning										
	Public Service Management										
	Devolution & Public										
	County Public Service Board										
	County Assembly										
	Livestock Development & Fisheries										
	Trade, Investment & Industrialisation										
	Co-op & Enterprise Dev										
	Physical Planning & Urban										
	Land s and Housing										
	Water, Environment, Natural Resource										
	ICT & e-govt.										
Health	Health Services										

See annex 2 of the Document.

² See Annex 3

The Department of Health and Sanitation shall take the highest allocation within the MTEF period at 42.51%, followed by agriculture at 9.22%, Assembly 8.77%, Public service at 7.98%, Education at 6.49%, and roads at 5.43%. This is guided by the need to address the health of the citizenry, food security, a responsive workforce and reliable transport network. It is also in accordance with the manifesto of the new regime which lays emphasis on guaranteed minimum returns to the agricultural sector; affordable and accessible healthcare for all; and a ward fund to address the specific needs of each ward in the County.

In the medium term, the share of allocation to public service shall reduce while allocation to health, agriculture and roads shall increase. Overall, the County Government shall put effort to mobilize resources from partners to fund the ever increasing needs of it's citizenry.

4.3 The Proposed 2022/23 Budget Framework

In the fiscal year 2023/24 the County Government expects its equitable allocation shall remain at KShs. 7,180,155,855, local revenues KShs. 1Bn and donor funds KShs. 573,436,473.

4.3.1 Revenue Projections

PROJECTED REVENUE BUDGETS PER SOURCE FOR F/Y 2022/23/24/25			
FINANCIAL YEAR	2022/23	2023/24	2024/25
Equitable share	7,180,155,855	7,180,155,855	7,251,957,414
Equitable share C/F	600,000,000	600,000,000	600,000,000
Local Revenue	1,000,000,000	1,100,000,000	1,200,000,000
Donor Grants	400,000,000	400,000,000	400,000,000
Grants from National Government	173,436,473	173,436,473	173,436,473
	9,353,592,328	9,453,592,328	9,625,393,887
TOTAL REVENUE(KSHS)	9,353,592,328	9,280,155,855	9,625,393,887

In projecting the estimates of revenue the County Treasury has taken a cautious approach. The County Treasury going by past history, foresees a carrying KShs. 600m of its current year's equitable allocation, which shall be utilized in the following financial year. The target own source of revenue shall remain at KShs. 1B, this is given the County's efforts to automate revenue collection and address the systemic challenges that have been affecting revenue collection. Most of the

agreements with Donor agencies are set to expire in the fiscal year 2022/2023. Notable donor grants that are likely to be renewed further include National Agricultural Rural and Inclusive Growth Project (NARIGP) and Agricultural Sector Deepening Support Program (ASDSP) in the department of Agriculture, and Danish Development Agency (DANIDA) in the department of health. For DANIDA, the donor shall reduce her allocation and the County Government shall provide counterpart funding to top up the reduction.

4.3.2 Projected Fiscal Balance

The proposed county budget 2023/24 and the medium term is balanced, however, any shortfall in revenue that may occur within the year will be addressed through supplementary as approved by the Public Finance Management Act 2012.

5. CONCLUSION

Due to the prevailing economic situation, the County Government shall continue exercising prudence in its expenditure and budget management. Further, the effects of ongoing economic shocks of rising inflation, interest rates and security shocks affecting the global economy, the adverse effects of climate change causing unpredictable rain patterns shall remain risks to be monitored closely. This is because their effects shall be realized even in the domestic economy.

Going by the constrained resource envelope vis-à-vis the competing priority needs of the County Government, departments shall be required to prepare and adhere to their medium term plans. Equally, they shall be required to enforce fiscal responsibility principles and adhere to their approved budgets.

The ceilings indicated shall be reevaluated and firmed up in the County Fiscal Strategy Paper 2023. These provisional ceilings shall act as a guide to departments in preparing their budgets for the year 2023/24. However, once the ceilings for the medium term period 2024/25 and 2025/26 are firmed in the CFSP, they shall be expected to remain the same unless there is a significant change in the county's macroeconomic indicators and assumptions of revenue sources.

ANNEX 1: Table 2.3 Showing Absorption rates by sectors and Comparison with CFSP 2021

MINISTRIAL DEPARTMENT S	CFSP 2022			BUDGET ALLOCATION 2021/22			CUMULATIVE EXPENDITURE 2021/22			Absorption %	DEVIATION (%) CFSP - BUDGET
	REC	DEV	TOTAL	REC	DEV	TOTAL	REC	DEV	TOTAL		
Governor's Office	335,362,510	25,000,000	360,362,510	319,262,510	1,000,000	320,262,510	258,004,585		258,004,585	81%	102,357,925
Finance	400,830,060	25,000,000	425,830,060	451,230,060	7,343,858	458,573,918	320,835,512	-	320,835,512	70%	104,994,548
County Public Service Board	67,317,945		67,317,945	35,717,945		35,717,945	22,565,698		22,565,698	63%	44,752,247
Education	534,756,877	97,000,000	631,756,877	570,506,877	75,999,947	646,506,824	453,787,127	61,898,298	515,685,425	80%	116,071,452
Public Service Management	661,462,989	-	661,462,989	705,962,989		705,962,989	670,687,509		670,687,509	95%	- 9,224,520
Trade Industry and Investments	39,261,000	223,890,269	263,151,269	39,261,000	473,890,269	513,151,269	20,443,745	169,881,669	190,325,414	37%	72,825,855
County Assembly	882,000,000	89,000,000	971,000,000	940,743,240	30,563,774	971,307,014	775,134,353	10,927,170	786,061,523	81%	184,938,477
Agriculture Livestock and Fisheries	266,436,766	696,707,759	963,144,525	268,386,766	918,939,318	1,187,326,084	254,403,266	410,732,815	665,136,081	56%	298,008,444
Municipality & Urban Development	34,102,889	75,000,000	109,102,889	56,452,889	179,036,084	235,488,973	42,407,428	25,498,484	67,905,912	29%	41,196,977
Youth, Sports, Culture, Gender and Social Services	107,438,029	50,387,104	157,825,133	111,438,029	75,000,000	186,438,029	101,811,349	16,239,023	118,050,372	63%	39,774,761
SUB-TOTALS	3,328,969,065			3,498,962,305						69%	
Roads, Transport and Infrastructure	27,418,911	723,000,000	750,418,911	26,599,911	558,000,000	584,599,911	18,100,331	286,535,760	304,636,091	52%	445,782,820

Environment, Energy and Natural Resources	47,547,807	33,000,000	80,547,807	18,090,793	26,500,000	44,590,793	5,595,158	1,998,999	7,594,157	17%	72,953,650
Water and Irrigation	54,718,686	70,000,000	124,718,686	56,718,686	80,000,000	136,718,686	50,037,334	61,913,741	111,951,075	82%	12,767,611
Lands Housing and Physical Planning	43,740,871	11,000,000	54,740,871	37,540,871	9,000,000	46,540,871	13,497,611	2,102,000	15,599,611	34%	39,141,260
SUB-TOTALS	173,426,275	837,000,000	1,010,426,275	138,950,261	673,500,000	812,450,261	87,230,434	352,550,501	439,780,935	54%	570,645,340
Health Services	2,916,990,528	711,369,943	3,628,360,471	3,734,458,695	860,919,759	4,595,378,454	3,678,596,810	326,678,287	4,005,275,097	87%	- 376,914,626
TOTAL	6,419,385,868	2,830,355,075	9,249,740,943	7,372,371,261	3,296,193,009	10,668,564,270	6,685,907,815	1,374,406,246	8,060,314,061	76%	1,189,426,882

	ANNEX 2: Table 5 Summary of Indicative Sector Ceilings for FY 2023/24 MTEF										
		Total Expenditure Kshs.					% Share of Total Expenditure				
Sector	MDAs	Revised Estimates	Estimates	Projections			Estimates	Ceilings	Projections		
		2021/2022	2022/23	2023/24	2024/25	2025/26	2021/22	2022/23	2023/24	2024/25	2025/20
PUBLIC ADMIN.	Governor's Office	320,262,510	380,363,902	399,382,097	399,382,097	399,382,097	310,362,510	3.90%	4.27%	4.22%	4.15%
	Finance	458,573,918	449,896,609	406,391,439	410,391,439	410,391,439	488,830,060	4.60%	4.34%	4.34%	4.26%
	County Public Service Board	35,717,945	53,509,490	56,184,964	56,184,964	56,184,964	67,317,945	0.73%	0.60%	0.59%	0.58%
	Public Service Management	705,962,989	739,130,876	740,087,419	740,087,419	740,087,419	661,462,989	7.15%	7.91%	7.83%	7.69%
	Education	646,506,824	673,763,868	607,452,061	642,282,752	647,282,752	536,756,877	6.83%	6.49%	6.79%	6.72%
	Municipality & Urban Development	235,488,973	196,309,147	113,124,604	112,907,198	112,907,198	211,420,295	1.18%	1.21%	1.19%	1.17%
	County Assembly	971,307,014	1,071,000,000	820,550,000	820,550,000	830,550,000	1,071,307,014	10.50%	8.77%	8.68%	8.63%
	Agriculture Livestock Development & Fisheries	1,187,326,084	848,415,031	890,835,783	864,793,367	940,932,058	1,263,144,525	10.41%	9.52%	9.15%	9.78%
	Trade, Investment & Industrialisation	513,151,269	175,508,307	184,283,722	184,283,722	184,283,722	533,151,269	2.84%	1.97%	1.95%	1.91%
	Roads, Transport and Infrastructure	584,599,911	436,058,800	507,861,740	563,861,740	604,099,811	900,418,911	8.11%	5.43%	5.96%	6.28%
	Youth, Sports, culture	186,438,029	277,506,085	191,381,389	191,381,389	231,381,389	207,438,029	1.71%	2.05%	2.02%	2.40%
	Lands and Housing	46,540,871	66,316,078	69,631,882	69,631,882	69,631,882	54,740,871	0.59%	0.74%	0.74%	0.72%
	Environment, Natural Resources & Wildlife	44,590,793	48,179,312	50,588,278	60,588,278	60,588,278	52,240,793	0.87%	0.54%	0.64%	0.63%
	Water and Irrigation	136,718,686	270,683,939	333,590,217	330,721,566	330,721,566	119,718,686	1.35%	3.57%	3.50%	3.44%
Health	Health Services	4,595,378,454	3,933,142,160	3,982,246,732	4,006,544,514	4,006,969,310	4,178,360,471	39.23%	42.57%	42.38%	41.63%
	Total	10,668,564,270	9,619,783,603	9,353,592,328	9,453,592,328	9,625,393,886	10,656,671,245				

ANNEX 3: TREND IN REVENUE COLLECTION.

ANNUAL COMPARATIVE LOCAL REVENUE COLLECTIONS (FIGURES IN KSHS.)							
SOURCE	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
LICENCES	101,037,870	101,119,123	100,095,924	126,378,883	98,535,344.19	137,683,456	106,214,073
PLOT RENT/LAND RATES	48,341,146	45,816,216	37,600,098	60,126,961	53,226,460.86	64,442,748	52,727,019
MARKET FEES	50,231,815	35,292,095	27,204,081	53,712,820	42,109,538.92	45,390,801	42,663,662
PENALTIES	2,701,982	2,806,646		1,625,805	461,200.18	1,632,704	2,121,027
BUILDING MATERIAL CESS (sand, stones)	70,653,549	58,177,928	45,758,290	62,713,630	44,979,407.02	29,827,952	33,045,131
BUS PARK FEES	34,140,150	26,907,130	16,185,040	28,719,937	18,962,827.79	24,631,551	26,647,768
PARKING FEE	21,439,740	19,233,498	10,202,620	18,592,165	21,238,708.70	26,056,136	21,125,468
MOTOR BIKES	10,998,690	4,740,250	2,365,460	6,833,610	2,216,045.75	2,651,387	1,075,519
LIQUOR LICENCE	39,136,100	31,093,760	25,642,410	28,003,100	36,924,059.00	22,056,184	16,098,213
PLAN APPROVAL	21,248,784	16,962,594	12,434,670	36,907,306	9,738,904.39	2,848,192	2,837,038
CONSERVANCY	13,484,790	12,155,100	8,563,200	13,515,289	10,244,978.00	16,085,549	12,160,977
OTHER CESS REVENUE	1,077,920	2,321,190	719,900	20,174,817	6,918,950.14	41,272,008	37,553,539
SALE OF FORMS	11,425,650	5,727,400	5,192,420	8,565,260	3,126,132.98	7,884,076	5,366,238
TENDER FORMS	146,500	35,000	20,340	10,000	-		-
ADVERTISEMENTS	9,438,404	10,082,140	10,371,043	17,027,999	7,848,196.10	10,463,947	11,312,809
SELF HELP GROUP	1,899,470	1,764,900	1,705,070	3,825,810	1,335,807.87	1,471,325	998,187
LAND SUBDIVISION/TRANSFER	11,282,340	9,492,012	7,015,130	7,114,440	6,285,858.08	8,692,414	4,760,952
HOUSE/STALLS RENT/S.HALL	5,881,123	5,813,211	5,976,080	8,151,673	5,423,449.18	6,088,784	3,864,556
OTHER LAND BASED REVENUE	3,429,400	2,056,700	1,669,776	3,242,610	3,781,063.49	2,749,224	2,507,105
MORGUE FEES	1,715,000	3,016,490	2,020,870	2,341,690	1,784,566.13	1,545,454	1,589,982
SLAUGHTER FEES	779,660	594,850	466,850	3,010,010	1,925,601.73	1,068,984	1,013,666
IMPOUNDING	5,736,400	2,063,160	830,490	5,277,070	1,477,577.65	1,544,129	1,653,322
COFFEE CESS	11,686,680	10,500			-		-
EDUCATION & POLYTECHNICS	660,650	154,300	144,000	2,380,606	166,189.00	139,776	45,350
FIRE	156,650	401,000			11,692,551.06	17,373,124	14,014,973

OTHERS	27,994,702	32,978,275	982,060	3,183,230	-		-
SUB-TOTAL	506,725,165	430,815,468		521,434,721	-		
<u>B) DEVOLVED FUNCTIONS</u>							
HOSPITALS	85,933,391	62,167,855	68,928,546	139,482,031	126,185,812.73	104,427,094	81,250,808
NHIF		3,437,000			-		
PUBLIC HEALTH	26,148,580	22,342,165	21,484,306	24,008,915	19,469,831.38	24,866,755	18,825,281
LIVESTOCK (A.I)	5,302,745	1,888,460	1,102,360	3,331,125	2,188,222.76	1,357,474	153,290
MEAT INSPECTION	9,867,840	9,011,605	6,284,060	8,210,880	8,861,763.34	10,920,614	12,318,686
VET.CLINICAL SERVICES	2,230,630	915,315	220,370	47,220	1,489,553.00	-	657,090
FISHERIES	103,790	99,850	126,000		-		-
COOPERATIVES	579,970	452,690	481,890	840,110	651,505.78	495,988	272,106
HOUSING & PHYSICAL PLANNING	736,956	160,000	646,990	1,302,650	1,266,919.67	8,421,631	2,246,989
WEIGHT & MEASURES	1,353,880	1,122,850	601,950	1,067,250	943,422.17	2,879,303	3,055,938
MARIIRA FARM	2,301,710	2,918,385	472,067	2,483,171	216,773.38	195,835	140,662
WATER	521,373	244,135	482,621	123,930	-		-
NEMA	6,000	8,200			-		-
SUB-TOTAL	135,086,865	104,768,510		180,897,282			
<u>TOTAL</u>	641,812,030	535,583,978	423,996,982	702,332,003	551,677,222.40	627,164,598.42	520,317,425.01