REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYERI

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

2021

SEPTEMBER, 2021

To obtain a copy of the document, please contact:

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Foreword

The County Budget Review and Outlook Paper (CBROP), 2021, is prepared against a background of expected global and national economic recovery after a slump in 2020 occasioned by the negative effects of the Covid-19 pandemic. Economic growth in the sub-Saharan Africa region is projected at 3.4 percent in 2021 from a contraction of 1.8 percent in 2020 due to improved exports and commodity prices, and the rollout of vaccination programmes. This growth will also be supported by a recovery in both private consumption and investment as economies re-open. However, the recent increase in infection rates in sub-Saharan Africa and limitation of Covid 19 vaccines are expected to weigh down the region's recovery in 2022.

In the year 2020, the Kenyan economy was adversely affected by the outbreak of COVID-19 pandemic and the containment measures, which disrupted economic activities. Additionally, the country faced two other shocks: The invasion of swarms of desert locusts that damaged crops and floods following receipt of above normal rainfall in May 2020. As a result, economic growth slowed down in 2020.

In the country, the pandemic and its containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business and farming. In the first three quarters of the year 2020 the economy contracted by an average of 0.4 percent compared to an average growth of 5.3 percent over the same period in 2019. Similar to the global economy, Kenya's economy is projected to rebound in 2021 to 6.6 percent from an earlier projection of 7.0 percent in the 2021 BPS. The downward revision was due to the impact of containment measures between March and July period as a result of the third wave of the COVID-19 pandemic. The economic growth is expected to slow down to 5.8 percent in 2022 on vaccine-powered recovery.

To support the recovery efforts, the government prepared the Post-Covid 19 Economic Recovery Strategy which addresses the issue of resuscitating businesses and job creation while remaining focused on the "Big Four Agenda". The budget outlays for the financial year 2020/2021 will greatly determine the expenditure priorities for the FY 2021/2022 due to the issues of escalating wage bill, pending bills, uncompleted projects and continued Covid-19 containment measures.

In the process of preparation of the County Fiscal Strategy Paper, 2022, allocation of funds to programs will be done on the basis of how they demonstrate alignment to the objectives as identified in the Economic Recovery Strategy, the ADP for FY 2022/2023 and the CIDP 2018-2022. I call upon all Accounting Officers to adhere to the schedule of activities and timelines as outlined in the Budget Circular issued earlier to enable finalization and appropriation of the FY 2022/2023 budget estimates.

Robert Thuo Mwangi.
County Executive Committee Member
FINANCE AND ECONOMIC PLANNING

Acknowledgement

The County Budget Review and Outlook Paper (CBROP), 2021 has been prepared in accordance with the provisions of the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides the fiscal outturn of the FY 2020/2021, the macro-economic projections and sets the departmental ceilings for the FY 2022/2023 and the Medium Term Budget.

The CBROP also provides an overview of the actual performance of the FY 2020/2021 and how it affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing adjustments made in the projections outlined in the County Fiscal Strategy Paper, 2021. Financial predictability (budgeting) is quite different from financial certainty (flow of funds) and the FY 2020/2021 was an year full of uncertainties due to erratic flow of funds from the National Treasury.

The CBROP, 2021, was prepared through a collaborative effort of all the county departments/entities who provided valuable and credible information for analysis and inclusion in this paper. We value their contributions to this noble undertaking which is an essential step in the preparation of the county budget for the financial year 2022/2023. Exceptional gratitude goes to the Executive Office of the Governor, the County Secretary, the County Executive Committee Members, Chief Officers, County Directors and other county authorities who offered their unwavering support during the process of preparation of this document.

Special thanks go to the team from the Department of Finance and Economic Planning who spent valuable time to ensure the success of this statutory requirement. The officers included Mr. Gibson Mwangi, Mr. Chris Gathogo and M/s Susan Njuguna under the guidance of Mr. Stephen Mwai, the Director of Economic Planning and Budgeting. Special regards also go to Mr. Joseph Mugi, Budget Coordinator- Nyeri County and the Chief of Staff, Mr. Paul Wambugu, for their invaluable input. To everyone who made this exercise a reality, I thank you and assure you that the time spent was not in vain as the document will be of insurmountable importance to the future planning and budgeting process in the county.

As we enter into the critical phase of the preparation of the FY 2022/2023 budget estimates, lets strictly adhere to the set guidelines and deadlines without forgetting the importance of public participation and consultation with other statutory institutions. Allocation of resources will be geared towards ensuring development is outcome and result oriented for increased household income in our county. The success in the implementation of any budget largely depends on its quality and thus the need of investing time and resources in its preparation.

Francis Maranga Kirira
Chief Officer
ECONOMIC PLANNING, BUDGETING, MONITORING AND EVALUATION

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

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

1) A County Treasury shall;
    a) prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
    b) Submit the paper to the County Executive Committee by 30th September of that year.
2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify-
    a) the details of actual fiscal performance in the previous financial 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 the financial objectives in the CFSP for that 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 County Executive Committee 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 County Executive Committee, the County Treasury shall:
    (a) arrange for the CBROP to be laid before the County Assembly; and
    (b) as soon as practicable after having done so, publish and publicize the paper.

Fiscal Responsibility principles in the Public Financial Management Law

Section 107(2) of the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

(a) the county government's recurrent expenditure shall not exceed the county government's total revenue;
(b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
(c) the county government's expenditures on wages and benefits shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly
(d) over the medium term, the county government's borrowings shall be used only for the purpose for financing development expenditure and not for recurrent expenditure;
(e) the county debt shall be maintained at a sustainable level as approved by the County Assembly.
(f) the fiscal risks shall be managed prudently; and
(g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

EXECUTIVE SUMMARY

The County Budget Review and Outlook Paper (CBROP), 2021 reviews the budget implementation for the FY 2020/2021 as well as projecting the broad outlook for county's development agenda for FY 2022/2023. The CBROP provides a reflection of fiscal framework for chatting a strong basis for fiscal discipline and public funds accountability. The CBROP reminds us the need for maintaining an ideal balance between government receipts and expenditures.

The document provides objectives and the legal basis under which it is prepared and how the performance of the FY 2020/2021 budget adhered to the fiscal responsibility principles and financial objectives spelt out in the PFM Act, 2012. It also provides the economic performance at both the global and national level, in the face of the ravaging effects of Covid 19 pandemic, and the expected projections.

The CBROP is a key policy document that will guide the preparation of the CFSP, 2022. It shows the macro-economic projections at the national level as they will have a significant impact on the county's development performance in the medium term. The CFSP, 2022 will highlight the progress in the implementation of the projects and programmes prioritized in the FY 2021/2022 Budget while also taking into account the recent macroeconomic developments.

In the review of the fiscal performance in FY 2020/2021, the CBROP provides some of reasons as to why there were delays in implementation of development projects. During the financial year, the exchequer releases to the county were highly erratic throughout the period. This led to slow execution of the planned projects and programmes thus affecting the overall absorption due uncertainty experienced in the first three quarters. All in all, the budgeted equitable share was disbursed at the tail end of the financial year 2020/2021 and the County Treasury was able to settle most of the pending bills accruing from the FY 2019/2020. By the end of the FY, 85 per cent of the revenue had been realized while overall spending stood at 94.5 and 68 percent on recurrent and development votes respectively.

The document also provides an analysis of the county's recent economic development which summarizes all development projects and programmes undertaken during the last financial year, 2020/2021, in all sectors. Most of the development resources were spent on infrastructure as they are critical enablers of socioeconomic progression.

The CBROP provides the factors to be considered in allocation of resources under the MTEF budgeting process. During the FY 2020/2021 the County Treasury revised the budget twice and thus it becomes difficult to give projections for the FY 2022/2023 although generally it will not be very different from the amounts provided in the current FY 2021/2022 budget estimates.

The county has continued to operate under tight resources constraints with lots of unpredictable scenarios. Prudency will be observed at all levels to ensure value-for-money from the limited resources.

INTRODUCTION

Background

1. The County Budget Review and Outlook Paper (CBROP) is developed as per the requirements of section 118 of the Public Finance Management Act, 2012 which states that every county must prepare a CBROP by 30th September, of every fiscal year, and submit the same to the County Executive Committee (ExCom). The ExCom shall in turn:

- Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments.
- Not later than seven days after the ExCom has approved the paper, the County Treasury shall;
- Arrange for the paper to be laid before the County Assembly
- As soon as practicable after having done so, publish and publicize the Paper.

Objectives of CBROP

2. The objective of the County Budget Review and Outlook Paper (CBROP), 2021 is to provide a review of fiscal performance for the FY 2020/21 and how this performance affects the financial objectives and fiscal responsibility principles set out in the PFM Act, and outlined in the County Fiscal Strategy Paper(CFSP), 2021. This, together with updated macroeconomic developments and outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the FY 2021/22 and the medium-term budget. Details of the fiscal framework and the medium term policy priorities will be firmed up in the CFSP, 2022.

3. The CBROP, 2021 is a key policy document that will guide the development of the CFSP, 2022. The CFSP, 2022 will highlight the progress in the implementation of the projects and programmes prioritized in the FY 2021/2022 Budget while also taking into account the recent macroeconomic developments.

4. The performance in revenue collection during the FY 2020/21 greatly improved which is attributed to issuance of waivers on penalties as well as enforcement of the fees and charges, amid adverse effects of the Covid-19 Pandemic.

5. As required by the PFM Act, 2012, the budget process emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities. This will in turn ensure that the debt situation remains sustainable and enhances continued fiscal discipline. In order to meet the resource requirements of the FY 2021/22, the County Government will continue to apply prudent measures aimed at enhancing local revenue collection and rationalizing expenditures.

REVIEW OF FISCAL PERFORMANCE IN 2020/2021

A. Overview

6. In the 2020/21 financial year, the County Government operations continued to suffer the effects of Covid-19 Pandemic which were further compounded by the resultant containment measures. Some revenue streams were adversely affected thus affecting the overall revenue performance. However due to concerted efforts in revenue mobilization, the expected own source revenue for the period under review was 11.6 percent below the target but increased by 33.4 percent as compared to the previous year's performance.

7. It is notable that due to the impact of the Covid- 19 pandemic, most capital projects were concentrated in the last quarter of the financial year. Further, the implementation of the projects and programmes was also hampered by the containment measures due to ban of social gathering and reduction of operation hours occasioned by curfew thereby restraining the teams undertaking the tasks.

8. During the financial year under review, exchequer releases of county equitable share was highly erratic throughout the period. This led to slow execution of the planned projects and programmes thus affecting the overall absorption. However, all the budgeted equitable share was disbursed at the tail end of the financial year 2020/21 and the County Treasury was able to settle most of the pending bills accruing from the FY 2019/20. Due to the challenges of late fund disbursal, the county government was not able to pay all the suppliers in time leading to pending bills and commitments which will be paid in the current financial year after appropriation of funds.

9. In the FY 2020/21, the County Treasury revised its budgets twice to align the estimates with the changing social needs, prevailing economic trends and the County Allocation of Revenue Act (CARA), 2020. Further, the budget revision was necessary to appropriate the balances brought forward from FY 2019/2020 into the FY 2020/21 through a supplementary budget to allow the amount brought forward to qualify for spending. By the end of the FY 2020/21, the approved second supplementary budget for the FY 2020/2021 amounted to Kshs. 9,098,018,005 comprising of Kshs. 5,899,438,370 for recurrent and Kshs 3,198,579,635 for development.

B. Fiscal Performance in FY 2020/21

Revenue Performance

10. In the financial year 2020/21, cumulative revenues received by the County Government from the National Government releases, conditional grants and unspent balances in FY2019/20 amounted to Kshs. 8,585,749,858 while Kshs. 886,892,734 was received from the county own revenue sources. Out of the amount received as conditional grants, Kshs. 184,795,683 had not been budgeted for initially was **as** shown in Table 1 below.

Table 1: Revenue Performance in Financial Year 2020/21

Revenue Sources and Expenditure	Approved Appropriation (Kshs)	Revised Appropriation (Kshs.)	Actual Performance (Kshs.)	Deviation (Kshs.)	Performance %
Balance B/F	0	1,345,146,970	1,345,146,970	0	100
Equitable Share	5,095,650,000	5,412,150,000	5,877,594,900	465,444,900	109
Level 5 Hospitals	407,861,272	407,861,272	407,861,271	-1	100
Road Maintenance Fuel Levy Fund	151,875,577	151,875,577	190,282,444	38,406,867	125
User Fees Forgone	13,701,379	13,701,379	13,701,379	0	100
Development of Youth Polytechnics	48,949,894	48,949,894	48,949,894	0	100
Kenya Urban Support Program (UDG)	234,000,000	236,639,100	128,687,212	(107,951,888)	54
Kenya Devolution Support Program (KDSP) Level I	45,000,000	75,000,000	45,000,000	(30,000,000)	60
Kenya Devolution Support Program (KDSP) Level II Grant	0	0	184,795,683	184,795,683	100
Transforming Health Systems for Universal Health Care (THSUCP)	28,800,000	28,800,000	27,352,242	(1,447,758)	95
DANIDA	15,390,000	15,390,000	15,390,000	0	100
Agriculture Sector Development Support Programme (ASDSP)	11,958,572	26,276,263	11,459,306	(14,816,957)	44
Kenya Climate Smart Agriculture Project (KCSAP)	312,177,550	316,227,550	282,341,990	(33,885,560)	89
CDC for HIV Programme	0	20,000,000	7,186,567	(12,813,433)	36
Covid -19 Grants	124,390,000	0	0	0	0
Sub-total	**6,489,754,244**	**8,098,018,005**	**8,585,749,858**	487,731,853	106
Own Source Revenue	1,000,000,000	1,000,000,000	886,892,734	(113,107,266)	88.7
Total Revenue	**7,489,754,244**	**9,098,018,005**	**9,472,642,592**	**374,624,587**	**104.1**
Salaries & Wages	3,255,059,989	3,863,445,699	3,843,400,950	(20,044,749)	99
Operations & Maintenance (O&M)	1,825,233,632	2,035,992,670	1,734,727,453	(301,265,217)	85
Development	2,409,460,623	3,198,579,636	2,171,998,661	(1,026,580,975)	68
Total Expenditure	**7,489,754,244**	**9,098,018,005**	**7,750,127,064**	**(1,347,890,941)**	**85**

Source: County Treasury, 2021

11. As at the end of June 2021, most of the targeted revenues had been realized apart from own source revenue, Kenya Devolution Support Programme Level I Grant, World Bank Loan for Transforming Health Systems for Universal Health Coverage (UHC), Kenya Urban Support Programme (KUSP), Kenya Climate Smart Agriculture Programme (KCSAP), Agricultural

Sector Development Support Programme (ASDSP) and Centre for Disease Control (HIV) grant. The unspent cash balances accruing from the financial year 2019/20 amounted to Kshs. 1,345,146,970 which necessitated the preparation of the first supplementary budget to appropriate the balances.

12. In the financial year 2020/2021, the County received Kshs. 5,877,594,900 as shareable revenues from the National Government which included Kshs 465,444,900 as undisbursed amount for June 2020. Further the county received Kshs. 407,861,272 as Conditional Grants for Nyeri Level V Hospital. Kshs. 13,701,379 as compensation for user fees foregone and 190,282,444 from the Road Maintenance Fuel Levy. The County also received Kshs. 15,390,000 as a grant from DANIDA, Kshs. 45,000,000 as Level 1 grant for KDSP, Kshs. 184,795,683 for Level II grant for KDSP, Kshs. 27,352,242 as World Bank Loan for transforming health systems for universal care project, Kshs. 128,687,212 for Kenya Urban Support Programme, Kshs. 282,341,990 for Kenya Climate Smart Agricultural Project, Kshs. 11,459,306 for Agricultural Sector Development Support Programme, Kshs 48,949,894 for Capitation of youth polytechnics and Kshs. 7,186,567 as grant from Centre for Disease Control for Prevention and management of HIV

13. The County Government was able to collect a total of Kshs. 886,892,734 as own source revenue against a target of Kshs. 1,000,000,000 during the financial year 2020/21. The performance shows a significant increase by 33.4 percent as compared to the previous financial year’s achievement. The rise in revenue collection despite the challenging environment occasioned by Covid- 19 and its containment measures can be attributed to heightened enforcement and supervision of revenue collection thereby maximizing on the already existing streams of revenue.

14. The county government will continue to explore ways of achieving the set own revenue targets to ensure that more resources are available for development projects and programmes and reduce the amount of pending bills resulting from expected revenue shortfalls. The enforcement and inspectorate units will also continue to be capacity built so that all the identified sources of revenue are reached and realized.

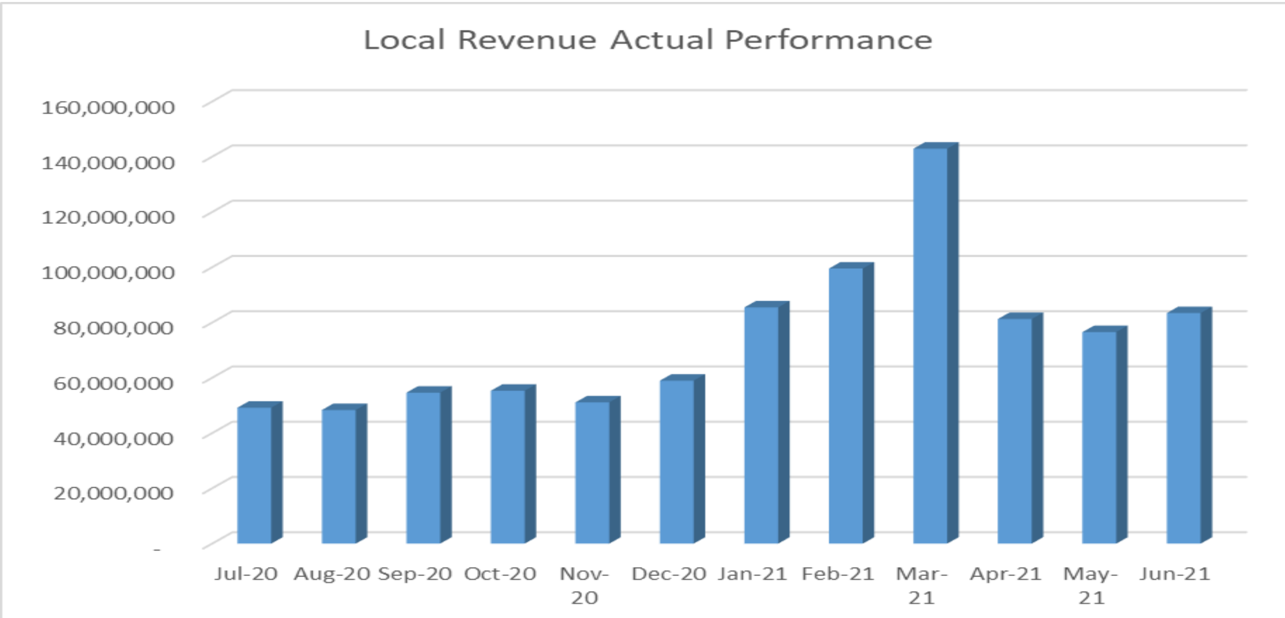
Table 2: Local Revenue Performance – FY 2020/21

Revenue Stream	Annual Targeted Revenue (Kshs.)	Revenue Performance in 2020/2021 (Kshs.)	Deviation (Kshs.)	Percentage Performance in 2020/21 (%)
Liquor License	54,000,000	55,597,054	(1,597,054)	102.96
Agricultural Mechanization Station	1,100,000	523,655	576,345	47.61
Wambugu Agricultural Training Centre	6,500,000	2,589,105	3,910,895	39.83
Veterinary Charges (Slaughtering Fees & Slaughter House Inspection Fees/ vaccination)	11,800,000	9,797,908	2,002,092	83.03
Nyeri Slaughter House	480,000	600,000	(120,000)	125
Kiganjo Slaughter House	120,000	140,000	(20,000)	116.67
Sale of Fertilizer/lime	3,000,000	1,064,900	1,935,100	35.5
Coffee License	800,000	930,700	(130,700)	116.34
Fisheries (Including Gura Fishing Camp)	50,000	9,500	40,500	19
Market Entrance/Stalls/Shop Rents	44,144,200	49,806,069	(5,661,869)	112.83
Weights and Measures	3,000,000	3,048,043	(48,043)	101.6
Co-operative Audit	2,500,000	1,730,120	769,880	69.2
Hospital Services	300,000,000	182,735,460	117,264,540	60.91
Public Health	17,000,000	11,753,421	5,246,579	69.14
Commission 3%	5,500,000	5,983,579	(483,579)	108.79
Business Permits	107,650,000	116,987,121	(9,337,121)	108.67
Ambulant Hawkers Licences (Other than BSS Permits)	1,200,000	1,463,780	(263,780)	121.98
Miscellaneous Income	3,000,000	3,911,450	(911,450)	130.38
Document Search Fee	650,000	683,501	(33,501)	105.15
Impounding Charges/Court Fines, penalties, and forfeitures	1,800,000	2,735,300	(935,300)	151.96
Application Fee	15,000,000	18,944,787	(3,944,787)	126.3
Central Kenya show annual permit	500,000	-		0
Right-of-Way / Way-Leave Fee (KPLN, Telkom, e.t.c.)	10,500,000	7,402,060	3,097,940	70.5
Cess (Quarry, Produce, Kaolin, e.t.c.)	55,000,000	67,235,190	(12,235,190)	122.25
street Parking Fees	40,000,000	37,467,525	2,532,475	93.67
Enclosed Bus Park	70,000,000	73,471,960	(3,471,960)	104.96
Parking Clamping/Penalties/Offences fees	4,000,000	2,924,170	1,075,830	73.1
Land Rates/other property charges	75,000,000	58,421,171	16,578,829	77.89
Ground Rent - Current Year/Temporary Occupation License (TOL), New Occupation, Space Rent, Retainers fees	5,000,000	3,678,747	1,321,253	73.57
Ground Rent - Other Years	4,000,000	6,053,190	(2,053,190)	151.33
Plot Transfer Fee/Business Subletting / Transfer Fee	1,000,000	834,500	165,500	83.45
Housing Estates Monthly Rent	30,000,000	36,160,640	(6,160,640)	120.54
Approvals (Extension of users, Pegging for Kiosk, Subdivision, transfer, Amalgamation, survey, Occupation Cert, boundary dispute e.t.c.)	9,565,800	5,649,858	3,915,942	59.06
Sign Boards & Advertisement Fee	30,000,000	30,654,719	(654,719)	102.18
Buildings Plan Approval Fee	12,000,000	11,064,214	935,786	92.2
Buildings Inspection Fee	8,000,000	6,793,000	1,207,000	84.91
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	2,100,000	1,976,400	123,600	94.11
Sales of Council's Minutes / Bylaws	500,000	458,500	41,500	91.7
Debts Clearance Certificate Fee	2,400,000	1,740,000	660,000	72.5
Social Hall Hire/Hire of Grounds (Kamukunji,Whispers park)	1,000,000	818,041	181,959	81.8
Fire-Fighting Services	17,500,000	15,777,100	1,722,900	90.15
Nursery Schools Fee (KRT)	70,000	-		0
Nursery Schools Fee (Kingongo)	50,000	1,000	49,000	2
Nursery Schools Fee (Nyakinyua)	70,000	-		0
Stadium Hire(Ruringu, Karatina etc)/Registration of School, Training/Learning Center Fee	50,000	23,250	26,750	46.5
Public Toilets/Use of public toilets	300,000	241,235	58,765	80.41
Refuse Collection Fee/Tipping charges/Garbage Dumping Fee/waste disposal charges	42,000,000	46,880,512	(4,880,512)	111.62
Burial Fees	100,000	130,300	(30,300)	130.3
Sub-total	**1,000,000,000**	**886,892,734**	**113,107,266**	**88.69**

Source: County Treasury, 2021

15. The monthly review of the county government's local revenue collection indicates that the month of March 2021 registered the highest amount as shown in the figure below. This is due to the fact that Single Business Permits and land rates, which are among the major sources of local revenue have a deadline of the month of March before starting to attract penalties.

Figure 1: Monthly revenue collections in FY 2020/2021



Source: County Treasury, 2021

Expenditure Performance

16. The Total expenditure in the 2020/21 financial year amounted to Kshs. 7,750,127,064 against a budget of Kshs. 9,098,018,005 representing an under spending of Kshs. 1,347,890,941 as shown in Table 3 below. This shortfall in absorption was attributed to late release of funds by the National Treasury and slow activities due to the Covid-19 making it hard to spend at the tail end of the financial year. There was also an underperformance of Kshs. 113,107,266 from the projected local revenue targets contributing to the low absorption. Further, donor funds could not be absorbed due late release and the fact that most of the projects are multiyear.

Table 3: Expenditure Performance in FY 2020/21

Expenditure Classification	Approved Appropriation (Kshs)	Revised Appropriation (Kshs.)	Actual Performance (Kshs.)	Deviation (Kshs.)	Percentage Performance
Salaries & Wages	3,255,059,989	3,863,445,699	3,843,400,950	20,044,749	99
O&M	1,825,233,632	2,035,992,670	1,734,727,453	301,265,217	85
Total Recurrent	**5,080,293,621**	**5,899,438,369**	**5,578,128,403**	**321,309,966**	**95**
Development	2,409,460,623	3,198,579,636	2,171,998,661	1,026,580,975	68
Total Expenditure	**7,489,754,244**	**9,098,018,005**	**7,750,127,064**	**1,347,890,941**	**85**

Source: County Treasury, 2021

17. In the FY 2020/21 the County Government incurred recurrent expenditure totaling Kshs 5,578,128,403 against a proposed budget of Kshs 5,899,438,369 representing an under-spending of Kshs 301,265,217. The County spent Kshs. 3,843,400,950 on personnel emoluments and Kshs. 1,734,727,453 on operations and maintenance.

18. On the other hand, the expenditure on development amounted to Kshs 2,171,998,661 against a revised estimate of Kshs 3,198,579,636, representing an under-spending of Kshs 1,026,580,975. The underspending can be attributed mainly to late disbursement of funds by the National Treasury and shortfall in Own Source revenue collection coupled with subdued activities owing to Covid-19 pandemic in the financial year.

Performance by Departments and Other County Units

19. Analysis of the performance by departments and other county units indicates that the Office of the Governor and Deputy Governor had the highest percentage of recurrent expenditure at 98.3 percent while the Agriculture Livestock and Fisheries had the lowest at 88.7 percent as shown in Table 4 below;

Table 4 : Performance of Recurrent Budget in FY 2020/21

No	Department/Entity	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Performance (%)
1.	Office of the Governor & Deputy Governor	124,752,337	129,352,337	127,138,301	2,214,036	98.3
2.	Office of the County Secretary	283,353,266	350,222,672	340,131,306	10,091,366	97.1
3.	Finance and Economic Planning	520,873,496	870,235,761	777,491,197	92,744,564	89.3
4.	Lands, Physical Planning, Housing and Urban Development	43,122,583	44,272,583	42,456,888	1,815,695	95.9
5.	Health Services	2,500,492,815	2,689,242,815	2,574,338,742	114,904,073	95.7
6.	Gender, Youth and Social Services	64,909,974	67,909,974	64,493,494	3,416,480	95.0
7.	County Public Service and Solid Waste Management	110,727,808	106,277,808	101,841,848	4,435,960	95.8
8.	Agriculture, Livestock and Fisheries	201,270,924	301,270,924	267,373,069	33,897,855	88.7
9.	Trade, Culture, Tourism & Cooperative Development	51,538,810	54,238,810	50,857,133	3,381,677	93.8
10.	Education and Sports	280,495,963	326,727,708	294,327,089	32,400,619	90.1
11.	Water, Irrigation, Environment & Climate Change	76,410,989	77,910,989	76,520,133	1,390,856	98.2
12.	County Assembly	706,085,232	706,085,232	687,587,749	18,497,483	97.4
13.	County Public Service Board	42,546,848	44,559,278	43,544,334	1,014,944	97.7
14.	Transport, Public Works, Infrastructure and Energy	73,712,576	131,131,479	127,005,030	4,126,449	96.9
	TOTAL	**5,080,293,621**	**5,899,438,370**	**5,575,106,313**	**324,332,057**	**94.5**

Source: County Treasury, 2021

20. From the analysis of the development outlay below, the department of Agriculture, Livestock and Fisheries had the highest absorption rate of development budget at 94 percent followed by Department of Finance and Economic Planning with 88 percent. The County

Assembly had the lowest absorption at 26 percent followed by the Department of Trade, Culture, Tourism & Cooperative Development with 43 percent. Table 5 below shows the performance of the departments and units. However, the figures on the tables may change slightly due to year-end adjustments.

Table 5: Performance of the Development Budget in FY 2020/21

No	Department	Approved Appropriation (Kshs)	Revised Appropriation (Kshs)	Actual Performance (Kshs)	Deviation (Kshs)	Performance (%)
1.	Office of the Governor & Deputy Governor	20,000,000	0	0	-	-
2.	Office of the County Secretary	26,000,000	7,700,000	4,617,792	3,082,208	60
3.	Finance and Economic Planning	72,000,000	529,566,772	465,491,897	64,074,876	88
4.	Lands, Physical Planning, Housing and Urban Development	342,300,000	600,960,757	293,834,472	307,126,285	49
5.	Health Services	361,219,026	317,031,478	162,130,428	154,901,051	51
6.	Gender, Youth and Social Services	52,700,000	61,600,000	41,875,243	19,724,757	68
7.	County Public Service and Solid Waste Management	64,500,000	41000000	20537446.9	20,462,553	50
8.	Agriculture, Livestock and Fisheries	352,297,472	371,966,875	349,928,461	22,038,414	94
9.	Trade, Culture, Tourism & Cooperative Development	75,150,000	42,200,000	18,201,226	23,998,774	43
10.	Education and Sports	86,900,000	73,219,566	35,593,744	37,625,822	49
11.	Water, Irrigation, Environment & Climate Change	45,149,171	55,375,059	43,172,332	12,202,727	78
12.	County Assembly	50,000,000	50,000,000	13,195,425	36,804,575	26
13.	County Public Service Board	5,000,000	8000000	3717745.2	4,282,255	46
14.	Transport, Public Works, Infrastructure and Energy	856,244,954	1,039,959,128	722,255,597	317,703,531	69
	TOTAL	**2,409,460,623**	**3,198,579,635**	**2,174,551,808**	**1,024,027,827**	**68**

Source: County Treasury, 2021

C. Fiscal performance of the FY 2020/2021 in relation to fiscal responsibility principles and financial objectives

21. The performance in the fiscal year 2020/21 had an enormous bearing on the financial objectives as outlined in the 2020 CFSP and the fiscal responsibility principles, in the following ways;

22. The targeted revenue projections for the current FY 2021/2022 did not receive any significant increase as compared to FY 2020/21. This is because most of the conditional grants have been converted into equitable share countering the notable increase. These includes the county level V hospital grant, capitation for youth polytechnics, roads levy and user fees forgone. Based on the County Allocation of Revenue Act (CARA 2021) the amount of revenue to be received as equitable share is Kshs 6,228,728,555, while Kshs. 5,412,150,000 was allocated in FY 2020/21. However, the target for Own Source Revenue in FY2021/22 is Kshs. 1000,000,000 which is the same as the previous year’s target. It is notable that the contribution of local revenues has remained below 15 percent of the projected total county revenue in both FY 2019/2020 and 2020/2021. Actual contribution of local revenue to total county budget in FY 2020/21 amounted to only 8.3%.

23. The amount of local revenue collected by the County Government in FY2020/21 increased significantly as compared to FY2019/20. This is expected to further improve due to the expansion in the county's revenue base, strengthening existing revenue streams and reduction in litigations by engaging all stakeholders in formulation of related legislation. The enforcement and inspectorate units have been empowered and will continue to be capacity built to be more effective in revenue mobilization.

24. For the FY 2020/21 budget, adjustments will be introduced on fiscal aggregates as provided for under section 108 (2) of the PFM Act, 2012; CARA, 2021 and the unspent balances as at 30th June, 2020. The pending bills for the FY 2020/2021 totaled Kshs 106,432,694. These will partly be paid as first charge in respective departmental votes and the remaining amount will be provided for during supplementary budget from the amount brought forward from 2020/21 financial year.

25. In accordance with section 25(1) (b) of the PFM (County Governments) Regulations, the county government is required not to spend more than 35 percent of its cumulative revenue on salaries and wages. Since the advent of devolution, pressure has been mounting for counties to adhere to this provision on wage bill ceiling despite the fact that the rise was triggered, mainly, by external factors. These includes the signing of CBA's nationally and the effects being imposed on counties to execute without additional resource provisions e.g. the CBA for nurses and doctors that has continued to strain the county's resource basket.

26. The County's allocation on salaries and wages in FY 2020/21 stood at Kshs. 3,863,445,699 representing 42.5 percent of the total county budget. Furthermore, the recruitment of professional staff and the demand for promotions from deserving workers whenever they are due has also contributed significantly to the continued rise in the wage bill. By the end of FY 2020/21 the County Government expenditure on wages and salaries was Kshs. 3,843,400,950 which translated to 49.6 percent of county's total expenditure. The county government has continued to explore ways of reducing the wage bill so as to release funds to development activities. These include internal advertisements for any openings, rationalization of the public service and seeking of funds from development partners/donors.

27. During the financial year 2020/2021, the amount allocated for the development expenditure was 35.2% of the total county budget which was within the legal requirement in line with the PFM Act 2012 that requires the county government to allocate at least 30% of their annual budget towards development expenditure over the medium term. By the end of this period only Kshs. 2,171,998,661 of the development budgets had been spent which translates to 23.9 percent of the total county expenditure.

28. It is worth noting that the low absorption of capital expenditure can be attributed to reduced activities occasioned by the late release of funds and effects of the Covid-19 pandemic containment measures. Further, the delay and late release of funds by the National Treasury also contributed to projects being completed and not being paid for thus contributing to pending bill accumulation.

29. The County Government did not incur any debt through borrowing within the FY 2020/21 and almost all the eligible pending bills were budgeted and paid for. The cash balances carried forward to FY 2021/22 amounts to Kshs. 509,083,991, consisting mainly of donor/conditional grants, and will therefore require to be appropriated through a supplementary budget to allow the funds to be utilized.

30. During the financial year 2020/21, a finance bill was prepared in accordance with the provisions of the PFM Act, 2012. The preparation process was participatory, consultative and all-inclusive and later the document was submitted to the County Assembly for consideration and approval. The involvement of all key stakeholders and members of the public in the process was meant to ensure that the beneficiaries are aware of the various charges and accruing potential benefits thus minimizing the chances of conflict in settlement of fees, rates and charges.

31. During the financial year for instance there has been minimal court cases in relation to payment of property rates, fees and charges despite the tough moments occasioned by Covid-19 pandemic. In this moment of recovery from the effects of the pandemic, amicable and out of court agreements and approaches have been encouraged and employed constantly in solving emerging disputes to eliminate any possible revenue leakage. Further, to cushion the citizenly and business owners from adverse effects from closure and business losses, the County Treasury has continued to consider issuance of waivers on penalties which tend to encourage payment of accrued principal amounts and hence the improvement in local revenue performance.

32. Over the medium term, the County Government through the CIDP 2018-2022 has prioritized the following development strategies:

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

33. The development objectives of the County Government over the medium term are meaningfully reliant on fiscal and monetary developments occurring at the national level. These objectives are clearly outlined in the Kenya's Vision 2030, Medium Term Plan III and the Big Four Agenda. The County Integrated Development Plan (CIDP) 2018-2022 was prepared in line with the national development agenda. The identified projects and programmes in the CIDP are normally actualized through Annual Development Plans and prioritized through County Fiscal Strategy Papers.

34. It is also important to note that any change in the national economic and financial trends have a huge impact on the county government's expenditure trends in the long run. Economic instabilities will lead to adverse national expenditure trends thereby negatively affecting the county government's development agenda.

35. The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures has slowed down development activities in the country. For instance, the night curfew and cessation of movement greatly destabilized the economy and led to great job losses and thus reduced economic activities. Resources were also diverted from the initially planned activities and directed towards mitigation against the pandemic. It is evident that the county's economic growth is largely dependent on how the nation plans to deal with economic destabilizers.

36. The county will therefore prioritize post Covid-19 recovery strategies to revamp the economy by promoting job creation and provide incentives for restoring businesses affected by the pandemic.

A. Recent National Economic Developments

37. This CBROP has been prepared against a background of a projected global economic recovery amidst uncertainty relating to new COVID-19 mutations particularly the Delta variant that could require broader reinstatement of containment measures.

38. Global growth in 2021 is projected at 6.0 percent from a contraction of 3.2 percent in 2020 (World Economic Outlook, July 2021). However, economic prospects vary across countries with the emerging markets and developing economies expected to pick up slowly compared to advanced economies given different country policy responses to the pandemic.

39. The projected recovery in advanced economies, particularly the United States, reflects the anticipated legislation of additional fiscal support in the second half of 2021 and broader vaccinations coverage across the group.

40. Economic growth in the sub-Saharan Africa region is projected at 3.4 percent in 2021 from a contraction of 1.8 percent in 2020 due to improved exports and commodity prices, and the rollout of vaccination programmes. This growth will also be supported by a recovery in both private consumption and investment as economies re-open. However, the recent increase in infection rates in sub-Saharan Africa are expected to weigh down the region's recovery in 2022

41. In 2020, the Kenyan economy was adversely affected by the outbreak of COVID-19 pandemic and the swift containment measures, which disrupted economic activities. Additionally, Kenya faced two other shocks: The invasion of swarms of desert locusts that damaged crops and floods following receipt of above normal rainfall in May 2020. As a result, economic growth slowed down in FY 2020/21.

42. In the first three quarters of 2020 the economy contracted by an average of 0.4 percent compared to an average growth of 5.3 percent over the same period in 2019. The decline was largely characterized by contractions in the services sector especially Accommodation and Restaurant (45.1 percent), Education (31.2 percent), Wholesale and Retail trade (1.3 percent) and Transport and Storage (0.9 percent) subsectors. However, the performance in the third quarter of 2020, albeit constrained, was relatively better compared to the second quarter of 2020 due to partial easing of COVID-19 containment measures.

43. The overall performance of the economy during the first three quarters of 2020 was cushioned from a deeper slump by improved growth in Mining and Quarrying activities (12.6 percent); Construction (8.6 percent); Health Services (7.3 percent) and Agriculture, Forestry and Fishing activities (6.4 percent). Other sectors of the economy that supported growth in the first three quarters of 2020 are Information and Communication (7.5 percent); Financial and Insurance activities (5.3 percent); Real Estate Activities (4.0 percent) and Electricity and Water supply (3.3 percent).

44. The Agriculture sector recorded an improved growth at an average of 6.4 percent in the first three quarters of 2020 compared to a growth of 3.6 percent in the corresponding period of 2019. The sector's performance was supported by a notable increase in tea production, exports of fruits and sugarcane production. The Service and Industry sectors were adversely affected by the COVID-19 pandemic. As a result, the sectors contracted by an average of 2.1 percent in the first three quarters of 2020 down from an average growth of 6.1 percent in a similar period in 2019.

45. Economic indicators by sector for the fourth quarter of 2020 point to strong recovery. Agriculture sector is expected to have performed well following favorable weather conditions which prevailed during the fourth quarter of 2020, resulting in improved production of key crops. Industrial activity is also expected to have recovered strongly as reflected in the economic indicators of the following sectors; Construction (cement consumption), Manufacturing (cement production), and Electricity and Water supply (electricity generation). However, performance of some Service sectors (Accommodation and Restaurant and, Transport and Storage) are likely to remain subdued due to the COVID-19 containment measures which prevailed during the quarter under review.

46. Leading indicators point to a relatively strong recovery in the first quarter of 2021, supported by strong performance of Agriculture, Construction, Information and Communication, Real Estate, and Finance and Insurance sectors. The enhanced COVID-19 containment measures implemented in five counties (Nairobi, Kiambu, Machakos, Kajiado and Nakuru) between March 26 and May 1, and the 13 western lake basin region between June 18 and July 30 are expected to have had a moderate impact on output in the second and third quarters as businesses in most sectors were in operation.

47. Similar to the global economy, Kenya's economy is projected to rebound in 2021 to 6.6 percent from an earlier projection of 7.0 percent in the 2021 BPS. The downward revision was due to the impact of containment measures between March and July period as a result of the third wave of the COVID-19 pandemic. The economic growth is expected to slow down to 5.8 percent in 2022 on vaccine-powered recovery.

48. The recovery in 2021 reflects the lower base of 2020 when most service sectors were adversely affected by the closure of the economy thereby recording negative growths. The outlook in 2021 will be reinforced by the prevailing stable macroeconomic environment and the ongoing implementation of the strategic priorities of the Government under the “Big Four” Agenda, Economic Recovery Strategy and other priority programmes as outlined in the Third Medium Term of Vision 2030. Weather conditions are expected to be favourable supporting agricultural output. As a result, export of goods and services will expand as global demand normalizes.

49. Year-on-year overall inflation rate has remained low, stable and within the policy target range of 5+/-2.5 percent since end 2017. The year-on-year inflation rate increased in July 2021 but remained within the target range at 6.4 percent from 4.4 percent in July 2020, mainly on account of higher food and fuel prices

50. Food inflation remained the main driver of overall inflation in July 2021, contributing 3.5 percentage points, an increase, compared to a contribution of 2.4 percentage points in July 2020. The increase is on account of a rise in prices of key food items particularly tomatoes, white bread, cabbages, spinach, Sukuma wiki and cooking oil. Fuel inflation contributed 1.9 percentage points to overall inflation in July 2021 compared to 1.2 percentage points in July 2020 following a pickup in international oil prices. Fuel inflation in July 2021 is reflected in higher electricity costs and increased fares attributed to a rise in petrol prices.

51. Kenya’s rate of inflation compares favorably with the rest of Sub-Saharan Africa countries. In July 2021, Kenya recorded a lower inflation rate than Ghana, Burundi, Nigeria, Zambia, and Ethiopia

52. The foreign exchange market has largely remained stable but partly affected by tight global financial conditions attributed to uncertainty with regard to the COVID-19 pandemic. In this regard, the Kenya Shilling to the US Dollar exchanged at Ksh 108.1 in July 2021 compared to Ksh 107.3 in July 2020. The stability in the Kenya Shilling was supported by increased remittances, adequate foreign exchange reserves and favourable horticultural exports (fruits, vegetables and cut flowers.

53. Short-term interest rates remained fairly low and stable. The Central Bank Rate was retained at 7.0 percent in July 2021 to signal lower lending rates in order to support credit access by borrowers especially the Small and Medium Enterprises distressed by COVID-19 pandemic. The money market was relatively liquid in July 2021 supported by government payments, which offset tax remittances. As such, the interbank rate remained low but increased slightly to 3.3 percent in July 2021 from 2.1 percent in July 2020

54. Interest rates on the Treasury bills remained relatively stable in July 2021. The 91-day Treasury Bills rate was at 6.6 percent in July 2021 compared to 6.2 percent in July 2020. Over the same period, the 182-day Treasury Bills rate increased to 7.1 percent from 6.7 percent while the 364-day decreased to 7.5 percent from 7.6 percent.

55. The improved liquidity in the money market has resulted in stable commercial bank rates. The average lending rate remained stable at 12.0 percent in June 2021 compared to 11.9 percent in June 2020 while the average deposit rates declined from 6.9 percent to 6.4 percent over the same period. This led to a marginal increase in the average interest rate spread by 0.4 percentage points over the review period

56. Broad money supply, M3, grew by 6.3 percent in the year to June 2021 compared to a growth of 9.1 percent in June 2020. The growth in M3 was attributed to an increase in the Net Domestic Assets particularly improvement in net credit flows to the government and the private sector.

57. Private sector credit grew by 7.7 percent in the 12 months to June 2021 compared to a growth of 7.6 percent in the year to June 2020. Strong credit growth was mainly observed in manufacturing (8.1 percent) consumer durables (23.4 percent); transport and communication (11.8 percent). The number of loan applications picked up in June reflecting improved demand with increased economic activities. The Credit Guarantee Scheme for the vulnerable Micro, Small and Medium Enterprises (MSMEs), that was launched in October 2020, continues to de-risk lending by commercial banks and is critical to increasing credit to this sector.

58. The overall balance of payments position improved to a surplus of USD 1,970.0 million (2.0 percent of GDP) in the year to May 2021 from a surplus of USD 210.5 million (0.2 percent of

GDP) in the year to May 2020. This was mainly due to reduced payments on imports, and improved export earnings despite lower receipts from services. The capital account also improved during the review period

59. The banking system's foreign exchange holdings remained strong at USD 12,745.4 million in May 2021 from USD 13,805.7 million in May 2020. The official foreign exchange reserves held by the Central Bank was at USD 7,871.6 million (4.8 months of import cover) in May 2021 compared with USD 9,738.3 million (5.9 months of import cover) in May 2020. This fulfills the requirement to maintain reserves at minimum of 4.0 months of import cover to provide adequate buffer against short term shocks in the foreign exchange market. Commercial banks holdings increased to USD 4,873.8 million in May 2021 from USD 4,067.3 million in May 2020.

60. 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 with prospects across countries and regions remaining highly uncertain. Kenya has not been spared.

61. 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 the calendar year 2020 compared to the initial projection of 6.1 percent in the 2020 Budget Policy Statement.

62. 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. The slowdown in the first quarter of 2020 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.

63. The contribution of 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. Indicators in the sector also points to continued strong performance in the second quarter majorly on account of improved weather conditions and increased credit extension to the sector.

64. 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 growth in the first quarter of 2020 mainly supported by strong performance in the services sector.

65. 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 to 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. Kenya's rate of inflation compares favorably with the rest of Sub-Saharan Africa countries,

66. Despite the foreign exchange market volatility in 2020 largely due to uncertainties relating to the Covid-19 Pandemic and a significant strengthening of the US Dollar in the global markets, the Kenya Shilling has remained competitive supported by a stable current account deficit. The Shilling depreciated against the US Dollar, Sterling pound and the Euro exchanging at an average of Ksh 107.3, Ksh 135.3 and Ksh 122.5 in July 2020 from Ksh 103.2, Ksh 128.7 and Ksh 115.8 in July 2019, respectively.

67. Short-term interest rates have remained fairly low and stable. The Central Bank Rate was retained at 7.0 percent on July 29, 2020 same as in April 2020 to signal lower lending rates in order to support credit access by borrowers especially the Small and Medium Enterprises distressed by Covid-19 pandemic. The interbank rate remained low and fairly stable at 2.5 percent in August 2020 from 3.6 percent in August 2019 in line with the easing of the monetary policy and adequate liquidity in the money market

68. Growth in broad money supply, M3, declined to 8.4 percent in the year to June 2020 compared to a growth of 9.2 percent in the year to June 2019. The decline in growth of M3 is attributed to decline in growth of other deposits at CBK and foreign currency deposits. However, the growth in M3 was supported by improvement in the growth of demand deposits, time and savings deposits as well as currency outside banks.

69. The overall balance of payments position improved to a surplus of US$ 179.3 million (0.2 percent of GDP) in the year to June 2020 from a deficit of US$ 492.7 million (0.5 percent of

GDP) in the year to June 2019. This was mainly due to narrowing of the financial account deficit.

B. County Recent Economic Developments

70. The financial year, 2020/21 started well despite the delay in release of funds by the National Treasury that altered the timelines for implementation of various county projects and programmes. Further, the continued spread of the Covid-19 Pandemic and the ensuing containment measures have devastated economies across the globe and the county was not spared. Despite all these challenges, the County Government managed to carry out most of its planned activities.

71. Agriculture remains the backbone to the county's economy and plays a critical role to the big four agenda on food security. The county has continued to direct its efforts towards value addition to agricultural products to ensure sustainable food and nutritional security thereby boosting the financial well-being of Nyeri residents and overall economic growth and development.

In the financial year 2020/21 the county government continued with improvement of its breeding stock by providing artificial insemination services where 14,178 animals were served. Further, 32,533 improved indigenous chicken and 31 dairy goats were distributed to the county farmers which is expected to boost production and farmer incomes. Further, to mitigate against livestock diseases, 85,942 animals were vaccinated during the period under review across the county.

72. The county has been able to achieve the following: procurement of a tractor and equipment for Naromoru AMS, construction of a milk cooler housing and procurement of a milk pasteurizer, and 50,000 fruit tree seedlings to promote county greening.

73. Through the Kenya Climate Smart Agriculture Project, the county supported packaging of climate change resilient technologies through funding of 4 producer cooperative societies and 2 Dairy Products Limited Companies. Through ASDSP, the county also gave grants to Micro Projects in 6 wards across the County. The County also invested in promotion of modern technologies in aquaculture by restocking of ponds and dams with 167,000 fingerlings as well as provision of fish feeds to fish caging programme.

74. To avoid overreliance on rain fed agriculture and ensure food security, the county government is committed to continue investing in water and irrigation programmes. In the financial year 2020/21, the county rehabilitated Thiha-Sagana irrigation project and desilted Kiria and Lusoi earth dams. These programmes are geared towards ensuring adequate water supply for irrigation throughout the year.

75. The county has a total of 1120Km, 3,550.85Km and 488.95Km of earth, gravel and bitumen roads respectively. In order to improve access to the rural areas and make agricultural products accessible to the market, the County Government has continually improved various access and feeder roads. In the FY 2020/21 the county graded 643Km and graveled 393Km of road surface. The target is to improve all the county roads into all-weather standards. The county through the Kenya Roads Board also tarmacked about 0.7Km of its urban roads in Nyeri and Karatina Towns.

76. To improve business environment and security in the trading and market centres, the county has installed 18.59Km of streetlights, 2 high mast flood lights and 131 standalone high mast lights as well as continued with the maintenance of the existing high mast flood lights. In promotion of alternative and renewable sources of energy a total of 17 biogas systems were constructed.

77. There are 39 public youth polytechnics and 436 public ECDE centers across the county. In the financial year 2020/21, the County Government renovated 9 ECDEs classrooms and constructed 5 new ECDE classrooms blocks across the county. In our efforts to promote sporting activities for the youth, the County Government has continued to fence Ruringu Stadium as well as improve facilities in Ihururu, Mbiriri and Kiarithaini stadia and playing grounds in the county.

78. The County Government had a total of Kshs 40,000,000 available for distribution as bursaries during the FY 2020/2021. This was distributed to 11,003 needy students to enable them continue with their education.

79. In order to enhance technical skills for the youth, the County continue to invest in Youth Polytechnics. During the financial year 2020/2021, the County Government undertook completion of Karatina Youth Polytechnic, renovations at Gathuthi Youth Polytechnic, construction of a toilet block at Gitero Youth Polytechnic and construction of a multipurpose hall at Nairutia Youth Polytechnic.

80. During the financial year 2020/2021 the County Government was able to improve 17 markets through construction of market stalls, sheds and ablution blocks. Through the Enterprise Development Fund programme, the county identified potential beneficiaries and Kshs. 26,204,150 was disbursed to 83 successful traders.

81. As required by section 46 of the Kenya constitution, the County continues to enforce fair trade practice and consumer protection. During the year, the Weights and Measures Unit verified 14,116 weights and measures equipment and issued 3,127 certificates of Verification for the equipment. The county also audited 65 cooperative societies and registered 15 new ones as well as training their management teams on areas of governance and financial management.

82. In order to promote tourism, the County organized a virtual annual world tourism day 2020, conducted two baseline surveys on the impacts and strategies during and post Covid -19 pandemic and also started development of four community based tourism enterprises which is ongoing.

83. The county government during the financial year 2020/21 undertook the completion of Gatitu/Muruguru, Chinga and Iria-ini (Mathira) community halls, renovation, fencing and landscaping of Mweiga Social Hall, Construction of 8 water hydrants, Construction of Kiawara fire station toilet and purchase of various merchandise for community groups in various wards. Further, to improve the living standards of our vulnerable children, the county constructed a dining hall and kitchen at Karatina children's home as well as purchasing a motor vehicle for the home (awaiting delivery), and construction and equipping of Ihururu rehabilitation centre.

84. All the emerging incidences on disasters were timely reported and responded to. This has been facilitated through training of fire disaster teams, rehabilitation of fire engine trucks and vehicles, as well as expansion and rehabilitation of various fire stations. The County during the year under review also carried out various activities to promote and spearhead youth and gender matters which include; Women, Youth and PWD program, ICT incubation at Mweiga hall, Kuza Kazi program, Wajane program (Widow's program), Employability Soft Skills Training program and Street Families Identification Card (ID) programme.

85. The county government is committed to quality service delivery to its citizen and this calls for a qualified and motivated personnel. To ensure this, the county facilitated the admission of officers to the county pension scheme who had acquired the status of permanent and pensionable terms of employment. Further, the county is also committed to equip young and fresh graduate with skills to facilitate employability and during the financial year 2020/21, 186 interns were engaged in various departments in their areas of specialization. There is also continuous training of staff in partnership, collaboration and networking with other state and non-state actors.

86. The county has been heavily burdened by wage bill that is way above 50 percent of its total budget despite having existing staffing gaps in some critical areas. The following are some of the strategies proposed to be adopted for the management of the wage bill: translation of terms for the contractual staff from contract to permanent and pensionable; implementation of a Voluntary Early Retirement; covering gaps through the Internship Programme; and employment of rare skills or uncommon skills only and matching positions with the skills

87. To conserve the environment and address issues of public health, the county is committed to effectively manage its liquid and solid waste. During the financial year 2020/21, the County collected approximately 41,300 tonnes of garbage. This was facilitated by: construction of waste receptacles in Kiawarigi, Ithekahuno, Gikondi, Mweiga and Kiamahuri wards; Pushing and compacting of waste at Karindundu, Gikeu, Mweiga and Narumoru dumpsites; and murraming of 4Km dumpsite roads and around refuse chambers. The county also established the Nyeri County Solid Waste Management bill, 2020 which has already been signed into Law.

88. The outbreak of the Covid-19 pandemic reaffirmed the role of health in economic development. In the financial year 2020/21, the county continued with construction of Naromoru Level IV hospital with 175 bed capacity under the Kenya Devolution Support Programme Level II grants. Further, there was installation of a generator, renovation of staff houses and establishment of a bulk oxygen plant and piping in Mt Kenya Hospital; renovation of diabetic clinic and tiling, painting of labour ward and waiting areas of maternity block at the County Referral Hospital; completion of new born unit, construction of power house, renovation works at the morgue and theatre at Karatina Hospital; as well as construction of stores at Othaya sub-county hospital. In addition, 3 health centers and 11 dispensaries were renovated across the county. The County also procured various specialized equipment for distribution across the county health facilities.

89. During the financial year 2020/21 the county government continued with construction of Nyeri Town Main Transport Termini at the Asian Quarters which is at about 98 percent completion. Once complete, the project will ease congestion in Nyeri town and create employment opportunities. The Lands Department has also continued with planning of 10 colonial villages as well as survey and titling of five (5) settlements. Further, through the Municipal Board, the County prepared the Nyeri Municipality Integrated Development Plan (IDeP), trained the traffic Marshalls as well as preparation of Nyeri municipality Traffic management by-laws

90. Through Kenya Devolution Support Programme (KDSP), the County held 60 civic education forums in 2020/21 where citizens were sensitized on understanding devolution, the role of public participation and Covid -19 prevention and vaccination.

91. To enhance connectivity and security the county invested in ICT Development program and projects which included installation of Local Area Network at Karatina, Mathira East, Othaya and Nyeri Town Sub County Offices as well as installation of C.C.T.V security Surveillance system at Town Hall Offices.

C. Economic Outlook

Growth prospects

92. The global economic recovery continues to strengthen, largely supported by gradual reopening of economies, relaxation of COVID-19 restrictions, particularly in the major economies, ongoing administration of vaccines, and strong policy measures. Nevertheless, the outlook for global growth remains highly uncertain, due to the resurgence of infections, the reintroduction of containment measures, and the uneven pace of vaccinations across the globe. As such, global economy is projected to grow at 6.0 percent in 2021, moderating to 4.9 percent in 2022 from the contraction of 3.2 percent in 2020

93. Like the rest of the world, the domestic economy was not spared from the adverse impact of the Pandemic in FY 2020/21. As such, economic growth is estimated to have slowed down in FY 2020/21. However, growth is expected to rebound to 6.2 percent in FY 2021/22 and above 6.0 percent over the medium term.

94. This outlook will be reinforced by the prevailing stable macroeconomic environment and the ongoing implementation of the strategic priorities of the Government under the “Big Four” Agenda and Economic Recovery Strategy. Weather conditions are expected to be favorable supporting agricultural output. As a result, export of goods and services will expand as global demand normalizes. 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) of the Vision 2030.

Monetary Policy outlook

95. The main objective of monetary policy, over the medium term will be to maintain price stability with overall inflation expected to remain within the target range. The Central Bank of Kenya will continue to monitor developments in the money and foreign exchange market and take appropriate measures in the event of adverse shocks.

External sector outlook

96. The Kenya Shilling is expected to be stable in 2022 on account of a narrower and stable current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow from 5.4 percent of GDP in May 2021 largely supported by an improvement in the merchandise account balance, the net primary income balance and the net secondary income balance.

Fiscal Policy Outlook

97. Fiscal policy over the medium-term aims at enhancing revenue mobilisation, expenditure rationalization and strengthening management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects. This is geared towards economic recovery to support sustained, rapid and inclusive economic growth, safeguard livelihoods and continue the fiscal consolidation programme to create fiscal space for the implementation of the "Big Four" Agenda.

Risks to the Domestic Economic Outlook

98. There are risks to this macroeconomic outlook emanating from domestic as well external sources. On the domestic front, the emergence of new COVID-19 variants that may require broader reinstatement of containment measures, in the country and its trading partners could lead to renewed disruptions to trade and tourism. Other risks relate to lower agricultural output due to potential adverse weather conditions and continued desert locust infestation in the northern region of the country, which could potentially reduce production of food crops and animal feeds. Additionally, increased public expenditure pressures, particularly wage and other recurrent expenditures would put a strain to the fiscal space.

99. The upside risk to the domestic economy relate to faster than projected rebound in economic activities that would result in higher Government revenues providing fiscal space that would support faster reduction in fiscal deficit and debt accumulation. Additionally, potential lower oil prices in the international market would result in improved terms of trade.

100. On the external side, risks will depend on how the world responds to the health crisis, including whether the new COVID-19 strains are responsive to vaccines. Additionally, growth would be weaker than projected if logistical hurdles in procuring and distributing vaccines especially in emerging market and developing economies will be slow. The delays would allow the new variants to spread, with possibly higher risks of infections among the vaccinated populations. World economies will be shaped by policies taken to limit persistent economic disruptions; the evolution of financial conditions and commodity prices especially oil in the international market; and, the adjustment capacity of the economies.

101. On the upside, better global cooperation on vaccines could help prevent renewed waves of infection and the emergence of new variants, end the health crisis sooner than assumed, and allow for faster normalization of activity, particularly among emerging market and developing economies. The Kenya Government continues to monitor the domestic and external environment and will take appropriate policy measures to safeguard the economy against the adverse effects were the risks to materialize.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2021/22 Budget

102. The Medium Term Fiscal Framework (MTFF) for the FY 2021/22 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory.

103. It will improve business and governance which will restore climate of confidence, stability, and growth that will enable businesses to reopen post-COVID 19 and support them to gradually recover by providing stimulus and incentives. This will in turn ensure that the debt situation remains sustainable and enhances continued fiscal discipline.

104. The underperformance in both revenue collection and expenditure in the FY 2020/21 has implications on the financial objectives outlined in the 2021 CFSP and the FY 2021/22 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2021/22 and the medium term has changed given the outcome of FY 2020/21 and the first two months of FY 2021/22.

105. Increase in local revenue is paramount and more efforts will be geared towards growing the revenue base. In the long run, we expect better performance of revenue streams from both local sources and national exchequer transfers.

106. The county fiscal framework guiding the FY 2021/22 is informed by the performance in FY 2020/21 budget and the updated fiscal outlook, the risks to the FY 2020/21 budget include the covd-19 pandemic, late or non-disbursements of the last exchequer tranche & short fall in the projected local revenue which hindered full implementation of the budget and led to pending commitments by the end of the financial year.

107. Expenditure burdens with respect to personal emoluments that are way above the ceiling prescribed in the PFM (county government) regulations), 2015 also limits the amount for development, operations and maintenance. In addition, implementation pace in the spending units and county departments continues to be a source of concern especially with regard to the development expenditures and absorption of funds. These risks will be monitored closely and the County Treasury will take the appropriate measures through revised budgets.

108. The revised budget will also be necessitated by the need to realign the budget with the CARA, 2021 and also appropriate, afresh, the funds that were carried forward from the FY 2020/21 most of which are conditional grants. This means that we will contain expenditures by adhering to the fiscal responsibilities defined in the Public Finance Management Act, 2012.

109. Adjustments to the FY 2021/22 budget will also take into account the critical areas like salaries and wages, pending bills and the county key strategic objectives as outlined in the County Integrated Development Plan (2018-2022) in order to fast-track economic growth for social economic transformation and prosperity. Over the medium term, the county will endeavor to reprioritize development expenditures in order to achieve her goals and aspirations. However, resources earmarked for development purposes will be utilized for development projects and will not be spent as recurrent.

110. In adjusting the 2021/22 budget, rationalization of expenditure is critical and this will be guided by the approved revenue allocations, projected local revenue collection, revised timeframes for implementation of programmes and emerging issues/concerns. However, county flagship programmes and projects, as outlined in the Annual Development Plan 2021/2022 and on-going projects would always be given first priority.

111. In the Finance Bill, 2021, the County Treasury proposed measures to help expand the revenue base and curb possible revenue leakages. This will be achieved through enhancement of compliance and enforcement. The revenue management system and automation of the revenue streams has greatly enhanced revenue collection and more efforts will put towards improvement and excellence of this system.

112. According to the provisions of the PFM Act Section 107(2) (a), it is stated that, ―the county government's recurrent expenditure shall not exceed the county government's total revenue. In section 107(2) (b), it is added that, ―over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure. The county has and continues to struggled to adhere to this and more effort in needed to achieve the same.

Medium-Term Expenditure Framework (MTEF)

113. The Medium-Term Budget Framework for the period 2021/2022-2023/2024 will mainly focus on adjusting non priority expenditure and concentrating the resources to priority areas as identified in the Annual Development Plan 2021/2022 and in the CFSP 2021. These priority areas were identified during public participation and stakeholder engagement which ensures improved ownership of development projects and programmes by the community.

114. The County Integrated Development Plan 2018-2022, being the county blue print for the five years, continue to guide the county in allocating funds to development programmes under the five broad areas of the county's economic transformation. The FY 2020/2021-2022/2023 MTEF Budget will therefore focus on the following areas as outlined in the CIDP;

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.

- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

115. In the FY 2021/22, the approved budget amounts to Kshs. 8,194,994,227 as compared to Kshs 7,489,754,244 in FY 2020/21. This scenario will change once the adjustments are factored in the supplementary budget.

MTEF Budget Ceilings

116. Reflecting the above medium-term expenditure framework, the table 7 below provides the baseline ceilings for the FY 2020/2021, and FY 2021/2022 as per the County Fiscal Strategy Paper (CFSP) 2020 and 2021 in addition to the changes approved through a memorandum during budget submission.

Table 6: MTEF Ceilings by Department

No	Department/Spending Unit	FY 2020/2021			FY 2021/2022		
		Recurrent	**Development**	**Total**	**Recurrent**	**Development**	**Total**
1.	Executive Office of the Governor and Deputy Governor	124,752,337	20,000,000	144,752,337	113,083,962	20,000,000	133,083,962
2.	Office of the County Secretary	283,353,266	26,000,000	309,353,266	310,932,648	40,000,000	350,932,648
3.	Finance & Economic Planning	520,873,496	72,000,000	592,873,496	758,122,903	242,795,683	1,000,918,585
4.	Lands, Housing, Physical Planning and Urbanization	43,122,583	342,300,000	385,422,583	49,379,640	363,000,000	412,379,640
5.	Health Services	2,500,492,815	361,219,026	2,861,711,841	2,575,080,164	170,614,815	2,745,694,979
6.	Gender, Youth and Social Services	64,909,974	52,700,000	117,609,974	56,164,024	25,000,000	81,164,024
7.	County Public Service & Solid Waste Management	110,727,808	64,500,000	175,227,808	109,385,107	81,500,000	190,885,107
8.	Agriculture, Livestock and Fisheries	201,270,924	352,297,472	553,568,396	244,766,843	475,580,826	720,347,669
9.	Trade, Culture, Tourism and Cooperative Development	51,538,810	75,150,000	126,688,810	50,245,025	152,426,956	202,671,981
10.	Education & Sports	280,495,963	86,900,000	367,395,963	349,394,783	58,500,000	407,894,783
11.	Water, Irrigation, Environment & Climate Change	76,410,989	45,149,171	121,560,160	75,724,101	255,553,519	331,277,620
12.	County Public Service Board	42,546,848	5,000,000	47,546,848	34,048,187	5,000,000	39,048,187
13.	Transport, Public Works, Infrastructure and Energy	73,712,576	856,244,954	929,957,530	73,155,887	729,453,923	802,609,810
14.	County Assembly	706,085,232	50,000,000	756,085,232	676,085,232	50,000,000	726,085,232
	TOTAL	**5,080,293,621**	**2,409,460,623**	**7,489,754,244**	**5,475,568,506**	**2,669,425,722**	**8,144,994,228**
		67.83	**32.17**	**100%**	**67.23**	**32.77**	**100%**

Source: County Treasury, 2021

2021/22 Budget framework

117. The FY 2021/22 budget framework builds up on the Government's efforts through the Post Covid-19 Economic Recovery Strategy to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory. This is in addition to expenditure rationalization and revenue mobilization programmes that the Government has been implementing.

118. The budget framework builds on fiscal consolidation agenda through which the County Government aims to contain the growth of expenditure and increase the revenue raised. Some of the policy measures being implemented include adoption of the zero-based budgeting process, prioritization of the ongoing projects and enhancing monitoring and evaluation of projects to guarantee quality and sustainability. The County Government will also ensure that all the projects are aligned to its overall development agenda to avoid spending on non-priority areas.

Revenue projections

119. The 2021/2022 approved budget of Kshs 8,194,994,227 will be financed through the equitable share from the national resources of Kshs. 6,228,728,555, Conditional grants of Kshs. 966,256,672 and internally generated revenue estimated at Ksh. 1,000,000,000.

120. The main sources of internally generated revenue will be parking fees, single business permits and land rates. It is important to note that the County Allocation of Revenue Act, 2021 was approved on 30th of June, 2021 with slight changes in the allocation and the county budget will therefore be aligned with it through a supplementary budget.

Expenditure Forecasts

121. In FY 2021/2022 approved budget, recurrent expenditures are at 69.5 percent of county's annual budget i.e. Kshs 5,694,667,557 as compared to 67.83 for the FY 2020/21 budget. Development expenditure are at 30.5 percent of county's annual budget i.e. Kshs 2,500,326,670 as compared to Kshs. 2,409,460,623 i.e. 32.17 percent for the FY 2020/21 budget due to constraint in the available resources.

122. The deficit calls for the need of enhanced revenue mobilisation strategies and prudent public spending. Particular emphasis will be placed on:

a. Increasing efficiency, effectiveness and accountability of public spending;
b. Containing the growth of recurrent expenditure in favour of capital investment; and
c. Ensuring capital expenditures are thoroughly scrutinized and aligned with "the Big Four Plan", the Third MTP and strategic policy interventions by the government.

123. The Allocations in the FY 2021/2022 budget will form the basis of expenditure ceilings on goods and services for departments/entities not disregarding the absorption capacity in FY 2022/2023. The PFM Act, 2012 requires that a minimum of thirty percent of the budget be allocated to development expenditure over the medium term, therefore, measures need to be put in place to ensure more resources are devoted to development and support critical infrastructure as we move forward.

V. CONCLUSION

124. The approved FY 2021/2022 budget estimates are based on the approved County Fiscal Strategy Paper (CFSP), 2021. The County Government will continue with fiscal consolidation efforts while ensuring resources are directed to high priority areas. Changes in the budget will be done through supplementary budget to accommodate the dynamic fiscal environment and address emerging needs. For instance, the CARA, 2021 has been enacted and will therefore necessitate a supplementary budget to realign it with the approved budget for FY 2021/2022.

125. Further, the county government will continue implementing policies that aims at guaranteeing the ease of doing business and thereby sustain a favorable business environment that will promote investment, growth, and employment creation. More measures will be instituted in revenue mobilisation to improve its administration and contain the growth of total expenditure. This will involve shifting the composition of expenditure from recurrent to capital outlays and eliminating unproductive spending. The fiscal policy will also target to rationalize and direct resources to projects with high economic impact as informed by the Post Covid-19 Economic Recovery Strategy. The resource envelope and ceilings for each sector/department will be provided by the County Fiscal Strategy Paper, CFSP, 2022, considering the zero based approach in preparing the county budget.

126. The resource envelope and ceilings which will be provided in the County Fiscal Strategy Paper, 2022 (CFSP) for each department/ entity will be the only available resources for which to budget.