THE COUNTY TREASURY

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER-2022

SEPTEMBER 2022

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FOREWORD

This paper has been prepared in accordance with section 118 of the Public Finance Management Act, 2012 and its regulations. It provides actual fiscal performance for the FY 2021/2022 given the budget appropriations for the same year. It further provides an overview of how the actual performance of the FY 2021/2022 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing changes from the projections outlined in the 2021 County Fiscal Strategy Paper. It reviews the recent economic developments and provides updated forecasts with sufficient information to show changes from the projections outlined in the recent County Fiscal Strategy Paper (2021 CFSP).

The 2022 County Budget Review and Outlook Paper (CBROP) is being prepared against a background of global economic downturn and under a new administration. The year 2022 having been an election year with heightened political activities especially in the fourth quarter of 2021.22 could have likely eroded investor confidence and affected projected growth. Several economic shocks resulting from Covid-19 pandemic and Ukraine- Russia war also have largely contributed to slow down of economic activities, higher than expected inflation and weakening of the major global currencies thus affecting the economic recovery in the country.

The fiscal performance in the FY 2021/22 was satisfactory, this was largely attributed to improved operating business environment following the recovery from the adverse impact of the COVID-19 pandemic. Revenue performance recorded a revenue of Kshs. 15.14 billion compared to Kshs. 15.12 billion in FY 2020.21. The growth in revenue collection was recorded in all revenue sources in the period under review. The good performance was however dampened by increased prices on fuel and commodity prices which had a negative effect in the delivery of goods and services to our people. The increased fuel and commodity prices meant that provisions of goods and services earmarked in the budget estimates could only be provided at a higher cost. This notwithstanding, implementation of the FY 2022/23 budget picked up smoothly and we expect this to continue during the remainder of the financial year. The strong outcome in revenue collection in the FY 2021/22 offers a strong base for supporting the expenditure estimates in the FY 2023/24 and the Medium-Term Budget.

As we prepare for the FY 2023/24 and the Medium-Term Budget, emphasis will be on aggressive revenue mobilization including policy measures to whip in additional revenue and reign on expenditures to restrict its growth. Considering the tight resource envelope that is available for FY 2022/23 and the medium term, all departments are required to scrutinize their budget proposals and ensure that they are not only directed towards improving productivity but are also aligned to the achievement of the objectives. I therefore, call upon all to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization and appropriation of the FY 2023/24 and the medium-term budget.

The ceilings provided in this CBROP are indicative for the purpose of developing sector reports and will be affirmed by the 2022 County Fiscal Strategy Paper (CFSP). Finally, I wish to reiterate the importance of public participation in the FY 2023.24 and the medium-term budget preparation process by calling upon all sector Working Groups to ensure engagement and open public and stakeholders' participation during their sector consultations.

WILSON MBURU KANG'ETHE
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE, ICT AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2022 CBROP has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides the fiscal outturn for the FY 2021/22, the macro-economic projections and sets indicative sector ceilings for the FY 2023/24 and the Medium-Term Budget. The document also provides an overview of how the actual performance of FY 2021/22 affected compliance with the fiscal responsibility principles and the financial objectives outlined in the PFM Act as well as information showing adjustments made in the projections outlined in the 2022 County Fiscal Strategy Paper (CFSP).

The county is operating under tight resource constraints amidst significant revenue shortfalls occasioned by unusual delay in release of exchequer by the national government. Several economic shocks resulting from Covid-19 pandemic and Ukraine- Russia war which have largely contributed to slow down of economic activities, higher than expected inflation, increase in fuel and commodity prices and weakening of the major global currencies thus affecting the economic recovery in the country. Thus, all departments are expected to ensure that their budgets are aligned to the overall County Government priorities while utilizing the available resources in the most efficient and effective manner. So far, budget implementation for FY 2022/23 has picked up smoothly and we expect this to continue during the remainder of the financial year.

The preparation of the 2022 CBROP was a collaborative effort of various County departments and was spearheaded by the County Executive Committee Member, Finance, ICT and Economic Planning. The County is indebted to H.E the Governor Dr. Kimani Wamatangi for his leadership and support in the preparation of this report. We thank all the County Government Departments for the timely provision of useful data and information on their budget execution for the FY 2021/22. I wish to thank the core team from the Directorate of Economic Planning and Budget for spearheading the completion of this paper. The team reviewed this paper to ensure it satisfies the PFM Act, 2012. This document benefited from key inputs from various Directorates and units within the County Treasury. This document also incorporated key inputs from various Departments within the county.

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

WILLIAM KIMANI
CHIEF OFFICER, FINANCE & ECONOMIC PLANNING

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

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

1) A County Treasury shall-
   a) prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
   b) Submit the paper to the County Executive Committee by the 30th of September of that year.

2) In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify—
   a) the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year.
   b) the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.
   c) information on—
      (i) any changes in the forecasts compared with the County Fiscal Strategy Paper; or
      (ii) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
   d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.
3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall—
   a) arrange for the Paper to be laid before the County Assembly; and
   b) as soon as practicable after having done so, publish and publicize the Paper

Fiscal Responsibility Principles to be enforced by the County Treasury

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

1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2) and shall not exceed the limits stated in the regulations.

2) In managing the County Government's public finances, the County Treasury shall enforce the following fiscal responsibility principles

   a) the County Government's recurrent expenditure shall not exceed the County Government's total revenue.

   b) over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure.

   c) the County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.

   d) over the medium term, the County Governments' borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

   e) the county debt shall be maintained at a sustainable level as approved by County Assembly.

   f) the fiscal risks shall be managed prudently; and

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

3) For the purposes of subsection (2)(d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

4) Every County Government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.

5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

Table of Contents

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

CADP	County Annual Development Plan
CARA	County Allocation of Revenue Act
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
COVID	Coronavirus Disease
FY	Financial Year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
KDSP	Kenya Devolution Support Program
KUSP	Kenya Urban Support Program
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NG	National Government
OSR	Own Source of Revenue
PFMA	Public Financial Management Act
UDG	Urban Development Grant
USSD	Unstructured Supplementary Service Data

I. INTRODUCTION

Objective of the 2022 County Budget Review and Outlook Paper (CBROP)

1. The 2022 CBROP objective is to provide a review of fiscal performance for the financial year 2021/2022 and how it impacts on the financial objectives and fiscal responsibility principles set out in the PFM Act and outlined in the 2022 County Fiscal Strategy Paper (CFSP). It provides a basis for the revision of the current budget in the context of a Supplementary Estimates and the financial policies underpinning the FY 2022/23 and the medium-term budget. The 2022 CBROP will guide development of the 2023 CFSP that will summarize the various projects and initiatives undertaken during the planned period as per the County Integrated Development Plan (CIDP 2023-2027) and fourth Medium Term Plan (MTP IV 2023-2027).

2. 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 ensure high levels of service delivery while ensuring that the levels of pending bills remain at a sustainable level. This will require high levels of fiscal discipline as enumerated in this paper and also in the 2023 County Fiscal Strategy Paper.

3. During the FY 2021/22, the underperformance in revenue collection and expenditure pressures was largely due to adverse effects of the COVID-19 Pandemic that had significant implications in the financial objectives outlined in the 2021 CFSP and the fiscal projections of the 2021/2022 budget. The County Government expenditure was negatively affected by missed targets on own sources of revenue (OSR), delays of exchequer releases, non-remittance of the June exchequer by the national treasury and partial disbursement of some conditional grants. The underperformance of OSR collection and lower absorption of funds in the FY 2021/22 affected the financial objectives outlined in the 2020 CFSP.

4. The 2022 CBROP therefore, presents a revised fiscal outlook considering the revenue performance by end of June 2022 and uncertainty occasioned by; the just concluded 2022 elections which culminated in new county leadership, with heightened political activities especially in the fourth quarter of 2021 could have likely eroded investor confidence and affected projected growth, Several economic shocks resulting from Covid-19 pandemic and Ukraine- Russia war also have largely contributed to slow down of economic activities, higher than expected inflation and weakening of the major global currencies thus affecting the economic recovery in the country.

5. In particular, the baseline for projecting both the revenue and expenditures for the FY 2022/23 and the medium term has changed given the outcome of FY 2021/22 and the first two months in FY 2022/23. To remedy these deviations, the 2022 CBROP details appropriate revisions of the FY 2022/23 of both the revenue and expenditure estimates.

6. As required by the PFM Act, 2012, the annual budget process aims to improve the efficiency and effectiveness of revenue mobilization and county government spending to ensure debt sustainability and stimulate economic activity. To meet the resource requirements of the FY 2022/23 budget and the medium term, the County Government will continue to implement prudent measures aimed at enhancing the revenue and rationalizing expenditures. In this regard, this CBROP provides indicative sector ceilings which will set in motion the budget preparation for the FY 2023/24 and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in this document. Budgetary allocations in this CBROP are in line with the 2022 CFSP.

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

8. With this background, This paper is organized as follows: Section l provides the introduction, Section II Provides review of the fiscal performance in the FY 2021/2022 and its implications on the financial objectives set out in the County Fiscal Strategy Paper, Section III gives brief highlights of the recent economic developments and updated macroeconomic outlook; Section IV looks at Implementation of FY 2021-2022 Budget; Section V provides the resources allocation framework, and Section VI concludes the paper.

II. REVIEW OF FISCAL PERFORMANCE ON THE FY 2021/2022 BUDGET

Overview

9. Execution of the FY 2021/22 budget advanced well and picked up towards the end of the financial year. The total revenues, including Equitable share and own source, amounted to KShs. 15.14 billion against the revised target of KShs.17.50 billion. This represented a revenue performance of 86 percent of the revenue target. The actual expenditure for the financial year 2021.22 was Kshs.14.90 billion against a budget estimate of Kshs. 17.50 billion. This represented an overall absorption of 85 percent. The expenditure for the financial year was 1.17 percent increase compared to that of the previous year. The absorption in the recurrent expenditure was 87.6 percent while development expenditure was 65 percent. A 15.20 percent increase in recurrent expenditure and a negative growth of 30 percent in development expenditure was recorded during the financial year compared to the previous financial year. The under absorption was occasioned by missed revenue targets on Own source and also unremitted exchequer by the national treasury.

10. Total revenue grew from Kshs. 15.12 billion in the 2020.21 financial year to Kshs. 15.14 billion in the 2021.22 financial year. This represents 0.1 percent revenue growth. Own Source Revenue grew by 31.63 percent from Kshs. 2.39 billion in 2020.21 FY to Kshs. 3.14 billion in the 2021.22 financial year.

11. As a result of underperformance in both revenue and expenditures in the FY 2021/22 budget, there was a fiscal deficit of KShs. 2.36 Billion (13.51 per cent) as compared to the revised budget estimate

Table 1: Budget Outturn for the FY 2021/22

	2020/21	2021/2022			Percentage Growth
	Actual	Actual	Target	Deviation	
Total Revenue	**15,126,298,917**	**15,141,264,997**	**17,506,867,082**	**(2,365,602,085)**	**0.10%**
National Government Transfer	10,711,366,300	11,079,108,463	12,306,764,974	(1,227,656,511)	3.43%
Own Source Revenue	2,392,873,847	3,149,853,580	4,288,015,282	(1,138,161,702)	31.63%
Adjustment to Cash basis	1,989,985,029	870,686,826	870,686,826	-	-56.25%
Other Revenues-MSF Belgium	32,073,740	37,066,728	26,400,000	10,666,728	15.57%
Nutrition International	-	4,549,400	15,000,000	(10,450,600)	100.00%
	Actual	**Actual**	**Target**	**Deviation**	**Percentage Growth**
Total Expenditure	**14,728,834,033**	**14,901,227,519**	**17,508,792,526**	**(2,607,565,007)**	**1.17%**
Recurrent	9,178,134,124	10,524,461,516	11,231,112,947	(706,651,431)	**14.67%**
Development	4,520,669,986	3,127,731,088	4,779,657,585	(1,651,926,497)	**-30.81%**
Assembly Transfers	1,030,029,923	1,249,034,915	1,498,021,994	(248,987,079)	**21.26%**

Source: County Treasury

A. FY 2021/2022 Fiscal performance

Revenue Performance

12. The main source of revenue for the County Governments in the FY 2021/22 was the Equitable Share accounting for 71 percent of the total County revenue. During the FY 2021/22 additional allocations to the County Governments from the National Government's share of revenue as well as from proceeds of loans and grants accounted for 2 percent of the total County revenue while own source revenue was Ksh 3.149 billion translating to 21 percent of the total County Government revenue. Unspent balances from the previous financial year of Kshs. 870 million was 6 percent while other revenues of Kshs 41 million accounted for 0.27 percent of the total revenues. Other revenues were Kshs 37 million from MSF Belgium and 4 million from Nutrition international project. The County did not report borrowing as a source of revenue in FY 2021/22.

Transfers from National Government

13. As provided for under the County Allocation of Revenue Act (CARA), 2021 and the County Governments Additional Allocations Act, 2022, Kiambu County Government was allocated Ksh 12.30 billion for the FY 2021/22. Out of this, a total of Ksh 11.08 billion was disbursed by 30th June 2022, comprising Equitable Share of Ksh. 10.78 billion and Additional Allocation of Ksh 298 million.

Equitable Share

14. During the FY 2021/22, a total of Ksh 11.72 billion was allocated to the Kiambu county as equitable share as reflected in the County Allocation of Revenue Act (CARA), 2021. Total disbursements of equitable share stood at Ksh 10.78 billion representing 92 percent of the total allocations during the FY 2021/22, the balance was disbursed to the County Governments by 29th August, 2022.

Table 2: Revenue Performance in Financial Year 2021.22

TOTAL REVENUE FOR THE COUNTY GOVERNMENT FY 2021/2022 (Kshs in Millions)						
		2020/21	**2021/22**			**% Growth**
		Actual	**Actual**	**Target**	**Deviation Kshs**	
	Total Revenue from National Government	**10,711,366,300**	**11,079,108,463**	**12,306,764,974**	**(1,227,656,511)**	**3%**
A	**EQUITABLE SHARE**	9,431,700,000	10,780,123,663	11,717,525,720	**(937,402,057)**	**14%**
B	**Conditional grant from NG share of Revenue**	**928,747,759**	-	-	-	
	Users Fees Foregone	34,671,542	-	-	-	-100%
	Road Maintenance Fuel Levy Fund	293,374,560	-	-	-	-100%
	Level 5 Hospitals	538,716,763	-	-	-	-100%
	Development of Youth Polytechnic	61,984,894	-	-	-	-100%
	Leasing of medical equipment	-			-	-
C	**Conditional grant- loans and grants**	**350,918,541**	**298,984,800**	**589,239,254**	**(290,254,454)**	**-15%**
1	Transforming Health System for Universal Care	46,398,807	8,735,717	11,433,390	(2,697,673)	-81%
2	World Bank-National Agriculture & Rural Growth Project	221,762,739	203,149,442	402,836,649	(199,687,207)	-8%
3	KDSP level 1	45,000,000	73,731,600	73,731,600	-	64%
5	DANIDA	26,820,000	10,368,041	20,897,250	(10,529,209)	-61%
	KISIP II	-	-	50,000,000	(50,000,000)	
7	ASDSP	10,936,995	3,000,000	30,340,365	(27,340,365)	-73%
D	**Own Source Revenue**	**2,392,873,847**	**3,149,853,580**	**4,288,015,282**	**(1,138,161,702)**	**32%**
E	**Other Revenue**	**2,022,058,769**	**912,302,954**	**912,086,826**	**216,128**	**-55%**
	Adjustment to cash Basis	1,989,985,029	870,686,826	870,686,826	-	-56%
	MSF BELGIUM	32,073,740	37,066,728	26,400,000	10,666,728	16%
	Nutrition International	-	4,549,400	15,000,000	(10,450,600)	100%
	TOTAL	**15,126,298,917**	**15,141,264,997**	**17,506,867,082**	**(2,365,602,085)**	**0.10%**

Source: County Treasury

15. The revenue out-turn of Kshs.15.14 billion generated by the county government was 80.7 per cent of the annual target of Kshs.17.50 billion, an increase compared to Kshs.15.12 billion generated in FY 2021.22, which was 87.3 percent of the annual target.

16. Actual conditional grant received during the financial year amounted to Kshs. 298 million which was 50.74 percent of the annual target of Kshs. 589 million. The conditional grant received represents a decline of 15 percent from Kshs. 350 million received in the 2020.21 financial year to Kshs. 298 million received in 2021.22.

17. The actual OSR realized during the financial year was Kshs. 3.149 billion which was 73 percent of the annual target of Kshs. 4.28 billion. The OSR realized during the financial year under review represents a significant increase of 32 percent from Kshs. 2.392 realized in a similar period in FY 2020.21. The increase in OSR despite the unstable macroeconomic environment can be attributed to aggressive revenue enhancement strategies employed by the county treasury as well as a relatively stable political stable environment despite being an election year.

18. Other revenue realized during the financial year include unspent balance from the previous financial year of Kshs. 870 million, grant from MSF Belgium to support drug and substance rehabilitation programme at Karuri level 4 hospital of Kshs 37 million and Kshs. 4.5 million from Nutritional international.

19. The FY 2021/2022 budget was not fully funded, and therefore a budgetary fiscal deficit of Kshs. 2.36 billion was occasioned.

20. The county government will come up with robust strategies of OSR mobilization to ensure that more resources are available for development projects and programmes and reduce over reliance from national government revenue which are characterized by delays in disbursement and sometimes non remittance especially disbursements that’s coincide with the end of the financial year. This will enhance county autonomy in the management of its resources and thereby improving in the provisions of public goods and services and also reducing the levels of the pending bills.

County Own Source Revenue Performance

21. During FY 2021/22, the County generated a total of Kshs. 3.14 billion as own-source revenue, representing 73 percent of the annual target. This amount represented an increase of 31.6 percent from Kshs. 2.39 billion realized in FY 2020/21. The increase was attributed to revamped efforts in revenue collection through implementation of revenue raising measures such as development of an integrated revenue management system to curb revenue leakages, mapping of revenue streams, equipping revenue officers with supervisory skills and having a strong and disciplined enforcement team.

22. The revenue streams that recorded the highest amount of revenue collection are; health services, physical planning, land rates, vehicle parking and business permits, which collected Kshs. 1.1 billion (69 percent of annual target), Kshs. 0.63 billion (62 percent of annual target), Kshs. 0.35 billion (97 percent of annual target), Kshs. 0.28 billion (68 percent of annual target), and Kshs. 0.24 billion (90 percent of annual target) respectively. Further, there was marked improvement across the revenue streams with most of them recording a growth of above 100 percent from the previous financial year 2020/2021. This was attributed to enhanced enforcement and better administration of the revenue streams. In addition, proper coordination of revenue collection at the sub county level by a dedicated team positively impacted on revenue collection in respective streams.

Table 3: Own Source Revenue FY 2021/2022

Performance of the Own Source Revenue					
OSR STREAMS	**FY 2020.2021**	**FY 2021.2022**			
	ACTUAL	**ACTUAL**	**TARGET**	**VARIANCE**	**GROWTH**
Agriculture Livestock & Fisheries Management Unit	2,435,532	3,128,053	8,000,000	(4,871,947)	28%
Physical Planning Management Unit	618,545,946	634,319,888	1,016,555,032	(382,235,144)	103%
Business Permit Management Unit	244,995,000	249,817,482	277,788,593	(27,971,111)	102%
Cess Management Unit	127,316,008	92,137,523	135,666,722	(43,529,199)	72%
Education Culture ICT & Social Services Unit	344,500	231,500	31,000	200,500	67%
Health Services Management Unit	670,847,454	1,106,728,631	1,602,992,754	(496,264,123)	165%
Housing Management Unit	27,201,382	18,501,521	25,635,308	(7,133,787)	68%
Land Rates Management Unit	292,531,794	353,175,454	362,964,554	(9,789,100)	121%
Market Management Unit	11,038,680	6,688,473	50,039,568	(43,351,095)	61%
Others	8,682,656	14,226,075	-	14,226,075	164%
Roads Transport Public Works Management Unit	64,406,580	65,556,232	79,307,496	(13,751,264)	102%
Slaughterhouse Management Unit	42,376,068	32,551,886	55,530,867	(22,978,981)	77%
Trade Tourism Industry & Cooperatives Unit	4,541,662	4,733,717	42,723,554	(37,989,837)	104%
Vehicle Parking Management Unit	164,055,999	286,712,501	419,824,990	(133,112,489)	175%

Water Environment & Natural Resources Mgt Unit	82,913,868	69,096,418	77,273,663	(8,177,245)	83%
liquor management unit	30,640,719	212,248,226	133,681,181	78,567,045	693%
Total for OSR	**2,392,873,847**	**3,149,853,580**	**4,288,015,282**	**(1,138,161,702)**	132%

Source: County Treasury

Conditional Grants

23. The County did not receive all conditional grants from the National Government as per the County Government Grants Act, 2021 (CGGA,2021). Shortfall was for the following Grants: Transforming Health Systems for Universal Care Project (THSUCP) by Kshs. 2.69 million, National Agricultural and Rural Inclusive Growth Project (NARIGP) by Kshs. 199.68 million, Danida by Kshs. 10.52 million, Kenya Informal Settlements Improvement Project (KISIP II) by Kshs. 50 million and Agricultural Sector Development Support Programme (ASDSP II) by Kshs. The county treasury will write a letter to the national treasury to clarify on the status of the conditional grant not released during the financial year under review.

Table 4: Revenue from the Conditional Grant for the FY 2021.22

TOTAL CONDITIONAL GRANT FOR FY 2021/2022				
	Actual Revenue	**County Governmen t Grants Act, 2021**	**Deviation**	**Actual receipt as percent of annual allocation**
Transforming Health System for Universal Care	8,735,717	11,433,390	(2,697,673)	76.4%
World Bank-NatioAgriculture & Rural Growth Project	203,149,442	402,836,649	(199,687,207)	50.4%
KDSP level 1	73,731,600	73,731,600	-	100.0%
DANIDA	10,368,041	20,897,250	(10,529,209)	49.6%
KISIP II	-	50,000,000	(50,000,000)	0.0%
Agriculture sector Development support programme -ASDSP	3,000,000	30,340,365	(27,340,365)	9.9%
TOTAL	**298,984,800**	**589,239,254**	**(290,254,454)**	**50.7%**

Source: County Treasury

COUNTY EXPENDITURE PERFORMANCE

Overall Expenditure Review

24. The County's approved first supplementary budget for FY 2021/22 was Kshs.17.50 billion, comprising Kshs.4.87 billion (27.8 per cent) and Kshs.12.64 billion (72.2 per cent) allocation for development and recurrent programmes, respectively. To finance the budget, the County expected to receive Kshs.11.72 billion (66.9 per cent) as the equitable share of revenue raised nationally, generate Kshs.4.29 billion (24.5 per cent) from its own sources of revenue, and use a cash balance of Kshs.870.69 million (5 percent) from FY 2020/21. Similarly, The County also expected to also receive Kshs.589.24 million (3.4 per cent) as conditional grants as

proceeds of loans and grants from national government , which consisted of Transforming Health Systems for Universal Care Project (WB) Kshs.11.43 million, National Agricultural and Rural Inclusive Growth Project (NAGRIP) Kshs.402.84 million, Kenya Devolution Support Project (KDSP) Level 2 Grant Kshs.73.73 million, DANIDA Grant Kshs.20.89 million, Sweden - Agricultural Sector Development Support Programme (ASDSP) II Kshs.30.34 million, and Kenya Informal Settlement Improvement Project (KISIP II) Kshs.50 million. Other revenues were Kshs.41.4 million (0.2 per cent), which include Kshs.26.40 million from the MSF Belgium, and Nutrition International project of Kshs.15 million.

25. During the reporting period, the County spent Kshs.14.90 billion on development and recurrent programmes. This expenditure represented 99.9 per cent of the total funds released by the CoB and comprised Kshs.3.14 billion and Kshs.11.75 billion on development and recurrent programmes, respectively. Expenditure on development programmes represented an absorption rate of 65 per cent of the annual development budget, while recurrent expenditure represented 93 per cent of the annual recurrent expenditure budget.

Recurrent expenditure

26. The County Government's recurrent expenditure was Kshs. 11.75 billion which translates to 93 percent of the revised budget allocation of Kshs.12.63 billion. This represents an under-spending of Kshs 879 million (7 percent deviation from the revised recurrent expenditure). This underspending resulted from the unrealized projected revenues notably unreleased exchequer by the national treasury, shortfall on conditional grant remittance and missed targets on OSR.

27. Under recurrent expenditure, the department of health services; finance and economic planning, recorded the highest absorption of 99.2 percent and 97.1 percent respectively while the County public services board recorded the lowest absorption rate of 65.7 percent.

Expenditure on Personnel Emoluments

28. Personnel emoluments (PE) amounting to Kshs.6.85 billion were processed through the Integrated Personnel and Payroll Database (IPPD) system. At the same time, those paid through manual payroll, including casuals, were Kshs.776.11 million. The manual payroll accounted for 10 per cent of the total P.E costs. Manual payroll is used in case of newly employed staff awaiting processing of personal numbers and for those staff whose designation does not exist in the IPPD. The wage bill of Kshs.7.80 billion includes Kshs.3.96 billion

attributable to the health sector, which translates to 55.9 percent of the total wage bill in the reporting period.

Development Expenditure

29. The total development expenditure for FY 2021.22 was Kshs. 3.14 billion which is 65 percent of the revised development budgetary allocation of Kshs. 4.86 billion. This represents an under-spending of Kshs. 1.72 billion (65 percent deviation from the revised development expenditure). Increased expenditure pressures in recurrent expenditure especially in the health sector to fight covid 19 pandemic, non-remittance of June 2022 exchequer and underperformance in OSR negatively affected absorption in development expenditures. The County assembly and the department of Land Housing and physical planning recorded the lowest development absorption of 17 and 9 percent respectively.

30. The County could not finance some of the planned projects due to inadequate funds hence underperformance. All departments will therefore be required to rationalize, and re-prioritize planned activities to provide for the pending bills/carryovers, which will be accommodated in the first supplementary budget of FY 2022/2023. Priority will be given to pending bills and ongoing projects before embarking on new ones, which will affect the implementation of some of the programs and projects planned for the current FY 2022/2023.

Table 5: Budget Absorption per Department FY 2021/2022

Budget Absorption per Department (Kshs)

Vote	Department	Approved Budget (AB)	Actual Expenditure (AE)	Deviation (AE-AB)	Absorption (AE/AB)%
	Recurrent	**Amount**	**Amount**	**Amount**	
4061	County Assembly	1,408,021,994	1,233,358,508	(174,663,486)	87.6%
4062	County Executive	385,580,991	307,565,028	(78,015,963)	79.8%
4063	County Public Service Board	62,096,211	40,786,725	(21,309,486)	65.7%
4064	Finance & Economic Planning	1,885,271,633	1,830,994,681	(54,276,952)	97.1%
4065	Administration & Public Service	860,988,341	812,708,651	(48,279,690)	94.4%
4066	Agriculture, Livestock and fisheries	463,162,497	404,393,024	(58,769,473)	87.3%
4067	Water, Environment & Natural Resources	371,523,466	339,354,461	(32,169,005)	91.3%
4068	Health Services	5,099,020,001	5,056,918,789	(42,101,212)	99.2%
4069	Education, Culture & Social Services	1,119,681,747	923,977,208	(195,704,539)	82.5%
4070	Youth Sports and communication	148,445,280	98,965,104	(49,480,176)	66.7%
4071	Lands, Physical Planning & Housing	234,659,654	170,100,082	(64,559,572)	72.5%
4072	Trade, Tourism, Industry & Co-Operative	142,002,334	98,784,194	(43,218,140)	69.6%
4073	Roads, Transport & Public Works	456,755,348	439,913,569	(16,841,779)	96.3%
	SUB TOTAL	**12,637,209,497**	**11,757,820,024**	**(879,389,473)**	**93.0%**

					Development
4061	County Assembly	90,000,000	15,676,407	(74,323,593)	17%
4062	County Executive	-		-	-
4063	County Public Service Board	-		-	-
4064	Finance & Economic Planning	278,731,600	177,497,078	(101,234,522)	64%
4065	Administration & Public Service	31,000,000	30,794,706	(205,294)	99%
4066	Agriculture Livestock and Fisheries	816,027,252	317,925,868	(498,101,384)	39%
4067	Water, Environment & Natural Resources	293,000,000	225,151,029	(67,848,971)	77%
4068	Health Services	802,636,481	473,254,334	(329,382,147)	59%
4069	Education Culturee & Social Services	145,187,527	45,475,993	(99,711,534)	31%
4070	Youth and Sports	327,538,853	284,806,307	(42,732,546)	87%
4071	Lands, Physical Planning & Housing	264,282,261	22,597,296	(241,684,965)	9%
4072	Trade, Tourism, Industry & Co-Operative	386,098,578	339,520,139	(46,578,439)	88%
4073	Roads, Transport & Public Works	1,435,155,033	1,210,708,338	(224,446,695)	84%
	SUB TOTAL	**4,869,657,585**	**3,143,407,495**	**(1,726,250,090)**	**65%**
	TOTAL: RECURRENT+DEVELOPMENT	**17,506,867,082**	**14,901,227,519**	**(2,605,639,563)**	**85%**

Source: county Treasury

County Established Funds

31. Section 116 of the PFM Act, 2012 allows County governments to establish other public funds with approval from the County Executive Committee and the County Assembly. The County allocated Ksh.484.30 million to county established funds in FY 2021/22, constituting 2.8 per cent of the County's overall budget for the year. The County spent Kshs. 203.21 million on the established funds during the financial year 2021/2022. Table 6 summarizes each established Fund's budget allocation and performance during the reporting period

Table 6: Performance of County Established Funds

County Established Fund performance as at 30th June 2022				
S/No	**Name of the Fund**	**approved budget allocation**	**Actual Expenses as at 30th June 2022**	**Absorption**
1	Kiambu County Assembly Car loan & Mortgage scheme fund	-	-	-
2	Kiambu County Assembly Staff Mortgage Scheme Fund	50,000,000	-	-
3	Kiambu County Alcoholic Drinks Control Fund	31,300,000	23,210,000	74%
4	Kiambu County Education Bursary Fund	231,000,000	176,621,646	76%
5	Kiambu County Emergency Fund	30,000,000	-	-
6	Kiambu County Executive Car Loan & Mortgage Scheme Fund	-	-	-
7	Kiambu County Jiinue Fund	142,000,000	-	-
	Total	**484,300,000**	**199,831,646**	**41%**

Source: County Treasury

PENDING BILL

32. As of 30th June 2022, the County Government of Kiambu had pending bills amounting to KShs. 5.62 billion, comprising KShs 3.62 billion owed to external suppliers Kshs. 3.89 million staff payables and Kshs. 2 billion transfers of facility improvement fund

33. In the FY 2022/23 the county government has made an allocation of Kshs 1.16 billion in the approved budget estimates to pay pending bills for both recurrent and development. Recurrent budget allocation for pending bills is Kshs. 280 million while development allocation for the same purpose is Kshs. 8.82 billion. To ensure that fiscal risk is managed prudently, the county government should ensure that both the level and rate of growth in pending bills is managed at a sustainable level since a huge pending bill will continue to negatively affect service delivery to the people of Kiambu County as a large part of funds meant for development is diverted to pay these pending bills. This can be done by cutting down county expenditure while coming up with ways and means of increasing resource envelope to avoid budgetary deficits. In addition, the National Government should consider increasing the sharable revenues to the counties. Table 7 gives a summary of pending bills owed by the county government as of 30th June 2022.

Table 7: Summary of pending bills as at 30th June 2022

Summary of Pending Bills as at 30th June 2022	
Category	**Amount**
Audited eligible Pending Bills (suppliers) as per OAG June 2020 report	1,331,421,979.93
Audited eligible Staff Payables (staff)	909,260.00
Audited Transfers-(NHIF/FIF)	1,266,369,778.00
Unaudited pending Bills (FY 2020/2021 and 2021/2022) (Suppliers)	1,503,866,047.33
Unaudited Transfers-(FIF, other transfers)	734,196,172.58
Audited Ineligible Pending Bills (suppliers) as per OAG June 2020 report	789,643,657.51
Audited Ineligible Staff Payables	2,984,835.00
Total	**5,629,391,730.35**

Source: County Treasury

FISCAL PERFORMANCE FOR THE FINANCIAL YEAR 2021/22 WITH REGARD TO FISCAL RESPONSIBILITIES PRINCIPLES AND THE FINANCIAL OBJECTIVES

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

Allocation on Compensation of Employees

35. Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed thirty-five (35) percent of the county government's total revenue. The County's total expenditure on employees' wages and benefits was Kshs. 7.80 billion translates to 53 percent of the annual realized revenue of Kshs. 15.14 billion. This is higher than the legal provision threshold of 35 percent. Since the advent of devolution, pressure has been that counties have been struggling to adhere to this provision on wage bill ceiling despite the fact that this sad state is mainly due to external factors. These include 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 envelope, large workforce inherited from the devolved units especially health sector and defunct local authorities, inadequate resource allocation by the national government to counties. 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.

36. Going forward, the County Government is committed to bringing the proportion of the expenditure on wages down so as to release more resources for development activities as to comply with the legal requirement. These include internal advertisements for any openings, rationalization of the public service, negotiating with the national government through the Council of Governors and intergovernmental Budget and Economic Forum (IBEC) to release more resources to the counties and mobilization of more OSR.

Allocation on Development Expenditures

37. During the financial year 2021/2022, the amount allocated for the development expenditure was 30 percent of the revised total county budget which was within the legal requirement in line with the provisions of section 107(b) of 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. 3.14 billion of the development budgets had been spent which translates to 21 percent of the total expenditure for the year under review. The County Government will work towards attaining the required levels by reducing recurrent expenditure and improving revenue collection to increase fiscal space for spending on development.

38. Missed revenue targets affect development expenditure absorption since most recurrent expenditures are non-discretionary in nature and therefore cannot be postponed. It is worth noting that the low absorption of capital expenditure can be attributed to reduced activities occasioned by the late release of funds, underperformance in OSR and non-remittance of the June 2022 exchequer and some conditional grants for development activities.

Recurrent Expenditure to total County Revenue

39. On the principle of total recurrent expenditure not exceeding total revenue, the County Government's actual recurrent expenditure of Kshs. 11.75 billion did not exceed the County Government's total revenue of Kshs. 15.14 billion hence the County has complied with the fiscal responsibility principle.

Borrowing of funds

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

Degree of predictability on tax rates and tax bases

41. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the County Government continues to carry out revenue reforms and amendments by revising its fees and charges through the proposed 2022 Finance bill.
42. The fiscal performance was generally satisfactory in both recurrent and development in the approved revised budget estimates.

Fiscal Performance for the FY 2021/2022 in Relation to Financial Objectives

43. The fiscal performance in the FY 2021/22 is broadly in line with the financial objectives outlined in the PFM Act, 2012 and the 2022 CFSP.
44. The performance of all sources of revenue for the county government was below the Supplementary II targets resulting in a budgetary deficit of 2.36 billion. This revenue outcome requires a robust strategy in the revenue mobilization and projections for the FY 2022/23 and over the medium term. As such, the overall OSR projections will be slightly adjusted upward from the levels outlined in the 2022 BPS. Any adjustments to the revenue targets from the national government will be aligned with the CARA, 2022 and the County Government Additional Allocation Act, 2022.

45. With revenues projections remaining almost at the same levels as the 2022 CFSP, the overall resource envelope therefore remains relatively unchanged from the 2022 CFSP position. Therefore, the overall baseline expenditure ceilings for county departments will largely be retained at the same levels as per the 2022 CFSP. Any adjustments would be to reflect any change in priority across the departments and any identified one-off expenditures; and

46. The under-spending in both recurrent and development budget for the FY 2021/22 can be explained by low non disbursement of June 2022 exchequer and late disbursement by the national treasury and missed OSR targets during the financial year. The Government will put in place appropriate measures to improve absorption of resources and also embark on an aggressive mobilization of OSR in the financial year to ensure the budget is fully funded.

III. RECENT ECONOMIC DEVELOPMENTS IN KENYA'S ECONOMY AND OUTLOOK

Global economic performance

47. This County Budget Review and Outlook paper is prepared against the background of the global economic downturn amidst the adverse effects of Covid19 pandemic, Ukraine-Russia war and new administration following the just concluded elections. These economic shocks have largely contributed to the slowdown of the economic activities, higher than expected inflation and weakening of the major global currencies.

48. The global growth in 2022 was initially projected at 6.1 percent but has been revised down to 3.2 percent to reflect uncertainties and gloomy outlook of most of the economies. Advanced economies are projected to slow down from 5.2 percent in 2021 to 2.5 percent in 2022 to reflect the weaker-than-expected growth in the United States and the Euro area. Slowdown in growth in the United States resulted due to significant reduction in private consumption while spillovers from the war in Ukraine as well as the assumption of tighter financial conditions slowed down growth in the euro area. The growth was projected to slow down to 3.6 percent in 2022 from 6.8 percent in 2021 in emerging markets and developing countries while the growth of Sub-Saharan Africa was projected to slow down from 4.6 percent in 2021 to 3.8 percent in 2022 due to several economic shocks such as high/surging food and fuel prices.

Domestic economic performance

49. Like most of the economies all over the world in recent times, the performance of Kenyan economy in 2022 largely depends on the disruptions of the economic activities. The year 2022 being an election year was also characterized by heightened political activities especially in the fourth quarter of 2021 which could have likely eroded investor confidence and affected projected growth. The economy however demonstrated remarkable resilience and recovery to the COVID-19 shock due to the diversified nature of the economy and the proactive measures by the Government to support businesses. The economy expanded by 7.5 percent in 2021 from a contraction of 0.3 percent in 2020. This economic recovery was mainly supported by the recovery in the service and industry sectors despite the subdued performance in the agricultural sector.

50. The economy expanded further by a remarkable 6.8 percent in the first quarter of 2022, compared with a growth of 2.7 percent in a similar quarter in 2021. The strong performance was supported by continued recovery in manufacturing, transport and storage, accommodation and food services, wholesale and retail trade, Professional, administration and support services and financial and insurance.

51. Activities in agriculture, forestry and fishing sector remained subdued in the first quarter of 2022 as a result of erratic weather conditions, mainly depressed rainfall during the fourth quarter of 2021 as well as delayed onset of rains during the first quarter of 2022. This led to reduced agricultural production. The sector is estimated to have contracted by 0.7 percent in the first quarter of 2022 compared to 0.4 percent growth in the first quarter of 2021.

52. Disruptions in the supply chains led to higher food and fuel prices. The global inflation therefore has been revised upwards to reflect these changes. The Ukraine – Russia war and imposition of export restrictions by a number of countries has been the main driver of food price inflation. As a result, the inflation was projected to reach 6.6 percent in advanced economies and 9.5 percent in emerging markets and developing economies in 2022. The rate of inflation in Kenya compares favorably with the rest of Sub-Saharan Africa countries. In August 2022, Kenya recorded a lower inflation rate than Ghana, Rwanda, Nigeria, Burundi, Zambia and Uganda.

53. Kenya relies on food imports such as cereals that are likely to be affected by the global inflation and weakening of global currencies. Due to increase in prices of fuel and food, and supply chain disruptions, the economy recorded the year-on-year inflation rate of 8.5 percent in August 2022 which was the highest reading since June 2017 and above the government target range of 5 +/-2.5 percent. This increase translated to 1.9 percent increase from 6.6 percent in August 2021 and was moderated by Government measures to stabilize fuel prices, lower electricity tariffs and subsidies on fertilizer prices. Overall annual average inflation stood at 6.6 percent in August 2022 compared to the 5.7 percent recorded in August 2021 which was within Government target range.

54. The overall balance of payments position improved from a surplus of USD 119.4 million (0.1 percent of GDP) in July 2021 to a surplus of US 1,790.4 million (1.6 percent of GDP). This resulted due to an improvement in the capital and financial account and increased receipts in net services and net secondary income despite a decline in the merchandise

account and net primary income. In July 2022, the current account deficit was at USD 5,876.6 million (5.2 percent of GDP) compared to USD 5,494.7 million (4.9 percent of GDP) in July 2021. Improvement in the net receipts on the services account and the net secondary income balance supported the current account balance despite a deterioration in the net primary income balance and merchandise account.

55. The foreign exchange market has largely remained stable despite tight global financial conditions and the high demand for the US Dollar in the international market. The Kenya shilling to the US dollar exchanged at Ksh. 119.4 in August 2022 compared to Ksh. 109.2 in August 2021. Over the same period, the Kenyan Shilling strengthened against other major international currencies. The Euro exchanged at Ksh 121.0 in August 2022 compared to Ksh. 128.6 in August 2021 while the Sterling Pound exchanged at Ksh 143.5 compared to Ksh 150.9 over the same period. In comparison with most Sub-Saharan African currencies, the Kenyan Shilling remained relatively stable, weakening by 9.3 percent against the US dollar in August 2022. The depreciation rate of the Kenya Shilling was lower than that of Namibian Dollar, Botswana pula, South African Rand and Malawi Kwacha. The stability in the Kenya Shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports.

56. Short-term interest rates have remained fairly low and stable supported by ample liquidity in the money market. The Central Bank Rate was raised from 7.0 percent to 7.5 percent on 30th May 2022. The tightening of the monetary policy stance was to anchor inflation expectations due to the elevated risks to the inflation outlook as a result of increased global commodity prices and supply chain disruptions. The interbank rate increased from 3.1 percent in August 2021 to 5.4 percent in August 2022. Commercial banks' lending rates remained relatively stable in July 2022 supported by the prevailing monetary policy stance during the period and liquidity conditions in the market. The average lending rate was at 12.3 percent in July 2022 from 12.1 percent in July 2021 while the average deposit rate increased to 6.7 percent from 6.3 percent over the same period.

57. In August 2022, interest rates on the Treasury bills remained relatively low (below 10 percent). The 91-day Treasury Bills rate was at 8.6 percent in August 2022 compared to 6.6 percent in August 2021. Equally, the 182-day Treasury Bills rate increased to 9.5 percent from 7.1 percent while the 364-day also increased to 9.9 percent from 7.4 percent. As shown

by the NSE 20 Share Index, the activity in the capital markets slowed down in August 2022 due to the outflow of investors as advanced economies tightened their monetary policy amid recession fears. The NSE 20 Share Index declined to 1,751 points in August 2022 compared to 2,020 points in August 2021 while Market capitalization also declined to Ksh 2,142 billion from Ksh 2,841 billion over the same period.

Implication of macroeconomic indicators on County performance

58. The performance of the County depends largely on the economic performance of the Country. The higher-than-expected rate of inflation and the weakening of global currencies erode the purchasing power of the suppliers since the price of the raw materials and other inputs are high. This affects implementation of the priority programmes and projects in the County where the programmes/projects will not be completed as scheduled. To achieve the County development objective, the County should formulate and implement sound and prudent policies.

59. The low and stable interest rates motivate people to spend and invest. The government should develop a policy that ensures the interest rates remain low and stable in order to build confidence and encourage investors to borrow and invest in different parts of the country. During the review period, the positive effect of stable interest rate was not realized due to high prices of inputs caused by high prices of fuel and food. This further impacted negatively on priorities earmarked for implementation in the CFSP.

60. Agriculture remains the predominant economic activity in the County. During the period under review, the County experienced low agricultural productivity due to high cost of farm inputs and erratic weather conditions. This affected the realization of food security hence the County should have plans to subsidize farm inputs, promote value addition and develop sound infrastructure while setting development strategies and priorities. This will further create employment to the majority of the County residents who depend on agriculture as their form of livelihood.

61. Going forward, the County Government will continue to revamp and expand the economic activities so as to create employment and self-sustainability for the citizens. This will be reinforced by a stable macroeconomic environment and the ongoing implementation of strategic priorities in the County. The County development agenda will be guided by the five

pillars namely Democratic Governance; People-centered; Resources, competitiveness and Harmony as enumerated by the Governors manifesto. The County will also continue to invest in sectors implementing the Big Four Agenda. There will be increased focus on improved healthcare for all residents through upgrading and expansion of health services, food nutrition and security, housing, road and water infrastructure will be prioritized. The County Government will further continue to invest in socio-economic sectors of education and social protection.

IV. IMPLEMENTATION OF THE FY 2022/2023 BUDGET

62. Implementation of the FY 2022/23 Budget has begun well with indicators in the first month pointing to meeting the end year target especially in revenue collection. This performance coupled with a strong outcome in revenue collection in the FY 2021/22 indicate that the projections for the FY 2022/23 are realistic and offers a strong base for supporting the expenditure estimates in the FY 2023/24 and the Medium-Term Budget. Building from this confidence, the revenue projections and the expenditure estimates for the FY 2022/23 have been retained as approved by the county assembly in June 2022 and are broadly in line with the 2022 CFSP.

63. The County's Approved Budget for the FY 2022/23 is Kshs. 16.46 billion consisting of Kshs. 11.58 billion (70 percent) and Kshs. 4.88 billion (30 percent) allocation for recurrent and development expenditure respectively. To finance the budget, the County expects to receive Kshs. 11.71 billion (71.14 percent) as an equitable share of revenue raised nationally, Kshs. 0.615 billion (3.74 percent) as conditional grants from development partners and generate Kshs. 4.13 billion (25.12 percent) from its own sources of revenue.

64. Revenue collection for the FY 2022/2023 has started on a slow pace owing to the 2022 general elections held in August 2022, high fuel and food prices that have affected the cost of living and the economy. However, we are optimistic that revenue performance is expected to improve with the new administrations now in office both at the County and National Governments. Total Revenue available to the County as at 28th September 2022 was Kshs. 2.45 billion which comprised Own Source of revenue of Kshs. 523 million and exchequer issue from National government of Kshs. 1.93 billion.

65. Total expenditure as of 29th September 2022 was Kshs. 821 billion as compared to Kshs.874 million absorbed during the same period in the previous financial year. This comprised Kshs. 714 million and Kshs. 107 million being recurrent and development expenditure respectively. The low absorption of budget has been occasioned by delayed disbursement of revenues from the National Government (NG). The absorption rate is expected to rise in the coming months as revenue flows both from the National Government and own sources picks up.

66. Spending on non-discretionary expenditures like personnel emoluments will be given priority. Development expenditures will therefore be considered after settling these non-

discretionary expenditures thus any delay in the release of funds or revenue flows will have a negative impact on them.

67. The County will continue to enhance public finance management systems at all levels to increase efficiency; increase service delivery; seal leakages and increase productivity.

Adjustments to the FY 2022/2023 Budget

68. The underperformance in revenue collection in the FY 2021/2022 and delay of release of equitable share as provided in CARA 2021 has implications on the financial objectives outlined in the 2022 CFSP and the 2022/2023 Budget. In particular, the baseline for projecting revenue and expenditures for the FY 2022/2023 and the medium term has changed given the outcome of FY 2021/2022 and the first two months of FY 2022/2023.

69. In light of the above, a supplementary budget estimate will be necessitated to appropriate unspent balances from the previous financial year, align revenues from the national government with CARA, 2022 and the County Government Additional Allocation Act, 2022 and also to align the budget estimates with the governor's manifesto.

70. In the Finance Bill, 2022, the County Treasury has 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 be put towards improvement and excellence of this system.

RISKS TO THE 2022/2023 BUDGET IMPLEMENTATION

71. Given the fiscal performance in the FY 2021/2022 and the updated macroeconomic outlook for the FY 2022/2023, some of the inherent risks to the FY 2022/2023 budget framework includes:

72. The **emergence of new omicron COVID-19 variants** which may cause restrictive measures and the low uptake in vaccination programmes. Other risks relate to **lower agricultural output** due to potential adverse weather conditions. Additionally, increased public expenditure pressures, particularly wage and other recurrent expenditures are likely to strain the fiscal space.

73. On the external front, the **ongoing conflict in Eastern Europe** has created uncertainties that will affect the global economic outlook through disruption of supply chains, rising global oil prices and increased inflationary pressures. This is a risk to the County budget implementation since the bulk of revenue that funds the county budget is received from the national government which may experience reduced revenues.

74. **Projected Own Source Revenue Shortfalls:** Missed targets on county OSR is another fiscal risk that is likely to be faced by the County Government. Missed revenue targets from internal sources must be progressively mitigated to achieve county development goals. Further, the first quarter of FY 2022/23 fell within the electioneering period, and as such, the uncertainties associated with this political environment may have reduced the pace of economic development and investment leading to a drop in own source of revenue. The County has continued to undertake revenue enhancement measures aimed at improving its own source revenue, such as, installation of a new integrated revenue management system to curb leakages, equipping revenue officers with supervisory skills relevant for revenue collection, as well as enhancing capacity of officers involved in monitoring of revenue collection, among others.

75. **Funds transfers from National Government:** Unpredictability and timeliness of fund transfers from the National Government poses a risk to proper implementation of the County's budget. In FY 2021/22 and in the current financial year, this risk was worsened by delays in the release of resources from the National Government due to adverse effects of Covid-19 pandemic. In this regard, the County Government has continued to implement strategies aimed at increasing its own source of revenue collection to finance the budget.

76. **Pending bills:** The issue of pending debts/bills continues to be a major fiscal challenge facing the County Government. The huge pending bills will continue to negatively affect the service delivery by the County Government. To mitigate this, the county has prioritized settlement of all eligible bills by allowing the bills to take first charge in the departments' budgets. The County has put in place measures to mitigate the problem of pending bills by strictly spending within the approved budget and by setting realistic revenue targets.

77. **Wage bill:** The County has a huge wage bill which is way above the recommended 35 percent which has continued to pose a risk to the budget framework. Over time, the need for technical and critical staff has occasioned the county to inevitably recruit more staff which has largely contributed to the increasing wage bill.

V. RESOURCE ALLOCATION FRAMEWORK

78. The Medium-Term Fiscal Framework (MTFF) for the FY 2023/2024 emphasizes on efficiency and effectiveness in expenditure and improving revenue collection in order to ensure economic recovery and achieve the County's transformative development agenda. This agenda is anchored on provision of core services, creating sustainable job opportunities, improving the general welfare of the people of Kiambu and ensuring equity while minimizing costs through the elimination of duplication and inefficiencies. Resource allocation and priority expenditure in the 2023/2024 financial year and the medium term will be guided by the following;

i. County Integrated Development Plan (2023-2027)

Ii. County Annual Development Plan (2023-2024)

iii. Ongoing projects

iv. Emerging priorities

v. Public Finance Management Act, 2012

Vi. Medium Term Plan IV (2023-2027)

VI. FY 2023/2024 BUDGET FRAMEWORK

79. The medium-term budget for FY 2023/24 - 2025/26 builds on the County government's effort to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and reposition the county on a sustainable and inclusive economic growth trajectory. This will be achieved through implementation of programmes outlined in the County Integrated Development Plan (2023-2027). Additionally, the medium-term budget is being prepared under a new administration which is anchored under five pillars; Governor, people, resources, competition and harmony. These five pillars will also guide the development plans and the MTEF budget 2023/24-2025/26 to implement the ambitious plans under the new administration,

80. As outlined in the Public Finance Management Act, 2012 and its attendant regulations, the budget process involves preparation of key policy documents for approval by the County Executive Committee and the County Assembly. In this regard, the following policy documents will require to be prepared and approved within stipulated time frames:

i. County Integrated Development Plan 2023-2027
ii. Annual development Plan (ADP)
iii. County Budget and Review and Outlook Paper (CBROP)
iv. Sector Proposals/Reports
v. County Fiscal Strategy Paper (CFSP)
vi. County Debt Management Strategy paper
vii. Programme Based Budget and the supporting details (PBB)
viii. The Annual Appropriation Bill
ix. The Finance Bill

81. To facilitate finalization and approval of the above policy documents and Bills within the stipulated timelines, Accounting Officers are required to strictly undertake the outlined activities in the Budget Calendar within the set timeframes. The timeframes for delivery of the Policy Documents, reports, and relevant Bills, and the **Budget Calendar** for the FY 2023/24 is provided in **Annex III** of this paper.

Revenue Projections

82. The FY 2023/24 resource envelope is projected at Kshs. 16.63 billion constituting: Kshs. 12.47 billion total grants from National Treasury & Development Partners, Kshs. 4.12 billion as Own Source Revenue, Kshs. 29.04 million from MSF Belgium and Kshs. 9.5 million from Nutrition International. The County will continue to undertake reforms in revenue administration policies and enhancement measures to enhance performance on the county's own-source revenue. These figures are indicative and will be firmed up in the 2023 CFSP**. Annex I**

Expenditure Projections

60. The overall projected budgetary expenditure for FY 2023/2024 is Kshs. 16.63 billion. This is projected to increase to Kshs. 18.12 billion in the FY 2024/2025 and further to Kshs. 18.94 billion in the FY 2025/26. (**Annex II**)

61. The recurrent expenditure is expected to increase from Kshs. 11.64 billion in the FY 2023/24 to Kshs. 12.68 billion in the FY 2024/2025 and Kshs. 13.26 in FY 2025/2026. Similarly, the development expenditure is also expected to increase from Kshs. 4.99 billion in the FY

2023/24 to Kshs. 5.43 billion in the FY 2024/2025 and Kshs. 5.68 in FY 2025/2026. More resources will be directed towards development to support key priority areas as the County realigns to meet the fiscal responsibility requirements.

VII. CONCLUSION AND NEXT STEPS

62. The revenue performance in the FY 2021/22 offers a strong base for supporting the expenditure estimates in the FY 2023/24 and the Medium-Term Budget. The budget for FY 2023/24 and the medium term will focus on revenue mobilization and reduction on non-core expenditures in order to reduce the fiscal deficit and ensure prudent resource management.
63. This outlook will be reinforced by implementation of strategic priorities and interventions contained in the County Development Integrated Plan (2023-2027). Road infrastructure, Health services, Education, Agriculture, Water, Housing and Physical Planning, will be prioritized in allocating resources over the Medium-term given the tight resource constraints amidst significant revenue shortfalls occasioned by the emerging domestic and external risks. On the domestic front, re-emergence of COVID-19 variants and possible adverse weather conditions could reverse the projected economic recovery. On the external front, the ongoing conflict in Eastern Europe has created uncertainties that will affect the global economic outlook through disruption of supply chains, rising global oil prices and increased inflationary pressures. Mobilization of Own Source of Revenue through enhancement of revenue collection backed by an effective enforcement strategy will be implemented to finance the identified key priority areas.
64. The indicative departmental ceilings annexed herewith will guide the County Departments in preparation of the FY 2023/2024 budget. These ceilings will be firmed up in the 2023 CFSP. The departments are required to ensure that their budgets for FY 2023/24 and the medium term are not only directed towards improving productivity but are also aligned to the achievement of their objectives. In this regard, the departments are expected to develop policies, programmes and projects for implementation over the medium-term period. The 2022 CBROP will form inputs into the 2023 CFSP that will summarize the various projects and initiatives that will be undertaken during the Medium Term (FY 2023/2024 – 2025/2026).

Annex I: Revenue Projections FY 2023.2024-2025.26

Revenue Projections for the FY 2023/24-2025/26 MTEF Period (Kshs)

	Actual	Estimates			Projections
	FY 2021/2022	FY 2022/2023	FY 2023/2024	FY 2024/2025	FY 2025/2026
Total grants from National Treasury & Dev Partners	**11,079,108,463**	**12,318,158,432**	**12,476,503,374**	**12,641,182,114**	**13,432,906,825**
EQUITABLE SHARE	10,780,123,663	11,717,525,720	11,875,870,662	12,040,549,402	12,832,274,113
County Government Grants	**298,984,800**	**600,632,712**	**600,632,712**	**600,632,712**	**600,632,712**
Transforming Health System for Universal Health Care	8,735,717				
World Bank-NatioAgriculture & Rural GrowthProject	203,149,442	402,836,649	402,836,649	402,836,649	402,836,649
KDSP level 2	73,731,600	-	-	-	-
DANIDA	10,368,041	19,876,600	19,876,600	19,876,600	19,876,600
Agriculture sector Development support programme -ASDSP	3,000,000	10,462,555	10,462,555	10,462,555	10,462,555
KISIP 11	-	42,456,908	42,456,908	42,456,908	42,456,908
FLLoCA		125,000,000	125,000,000	125,000,000	125,000,000
Adjustment to cash basis	**870,686,826**				
OSR STREAMS					
Agriculture Livestock & Fisheries Management Unit	3,128,053	8,000,000	3,440,858	8,800,000	3,784,944
Physical Planning Management Unit	634,319,888	1,016,555,032	951,479,832	1,524,832,548	1,427,219,748
Business Permit Management Unit	249,817,482	277,788,593	274,799,230	305,567,452	302,279,153
Cess Management Unit	92,137,523	135,666,722	101,351,275	149,233,394	111,486,403
Education Culture ICT & Social Services Unit	231,500	31,000	254,650	34,100	280,115
Health Services Management Unit	1,106,728,631	1,001,798,980	1,438,747,220	1,302,338,674	1,870,371,387
Housing Management Unit	18,501,521	25,635,308	20,351,673	28,198,839	22,386,840
Land Rates Management Unit	353,175,454	492,964,554	529,763,181	739,446,831	794,644,772
Market Management Unit	6,688,473	50,039,568	7,357,320	55,043,525	8,093,052
Others	14,226,075	20,000,000	15,648,683	22,000,000	17,213,551
Roads Transport Public Works Management Unit	65,556,232	79,307,496	72,111,855	87,238,246	79,323,041
Slaughterhouse Management Unit	32,551,886	55,530,867	35,807,075	61,083,954	39,387,782
Trade Tourism Industry & Cooperatives Unit	4,733,717	42,723,554	5,207,089	46,995,909	5,727,798
Vehicle Parking Management Unit	286,712,501	419,824,990	315,383,751	461,807,489	346,922,126
Water Environment & Natural Resources Mgt Unit	69,096,418	77,273,663	76,006,060	85,001,029	83,606,666
liquor management unit	212,248,226	433,681,180	275,922,694	563,785,534	358,699,502
Total for OSR	**3,149,853,580**	**4,136,821,507**	**4,123,632,447**	**5,441,407,524**	**5,471,426,880**

other revenues-MSF Belgium	**37,066,728.00**	**26,400,000**	**29,040,000**	**31,944,000**	**35,138,400**
Nutrition International	**4,549,400.00**	**9,500,000**	**9,500,000**	**9,500,000**	**9,500,000**
TOTAL REVENUE	**15,141,264,997**	**16,490,879,939**	**16,638,675,821**	**18,124,033,638**	**18,948,972,104**

Annex II: Medium Term Expenditure Framework 2023/24-2025/26

Department Ceilings for the FY 2023/24-2025/26 MTEF Period (Kshs)					
	REVISED ESTIMATES	PRINTED ESTIMATES	CBROP PROJECTIONS		
Recurrent	**2021/2022**	**2022/2023**	**2023/2024**	**2024/2025**	**2025/2026**
County Assembly	1,408,021,994	1,401,698,533	1,164,698,533	1,164,698,533	1,164,698,533
Executive	385,580,991	341,580,991	351,574,572	386,447,380	405,815,050
County Public Service	62,096,211	78,096,211	80,381,060	88,354,086	92,782,147
Finance & Econ. Planning	1,885,271,633	1,412,254,568	1,453,572,678	1,597,753,071	1,677,828,020
Admin.& Public Service	860,988,341	835,988,341	860,446,720	945,794,738	993,195,345
Agric., Livestock & Fisheries	463,162,497	463,162,497	476,713,169	523,998,519	550,259,870
Water, Environment & Natural Resources	371,523,466	341,523,466	351,515,364	386,382,299	405,746,707
Health Services	5,099,020,001	4,874,439,927	5,017,050,650	5,514,693,694	5,791,074,836
Education, Culture, & Social Services	1,119,681,747	971,202,219	999,616,530	1,098,768,850	1,153,836,095
Youth Affairs & Sports, ICT and Communication	148,445,280	111,245,280	114,499,966	125,857,258	132,164,875
Lands, Physical Planning & Housing	234,659,654	214,659,654	220,939,918	242,855,027	255,026,247
Trade, Industry, Tourism & Cooperatives	142,002,334	145,502,334	149,759,273	164,613,949	172,863,943
Roads, Transport & Public Works	456,755,348	394,755,347	406,304,642	446,606,145	468,988,805
Total Recurrent	**12,637,209,497**	**11,586,109,368**	**11,647,073,075**	**12,686,823,546**	**13,264,280,473**
Development					
County Assembly	90,000,000	100,000,000	102,205,740	111,329,789	116,397,106
Finance & Econ Planning	278,731,600	203,861,778	208,358,439	226,958,888	237,289,210
Admin & Public Services	31,000,000	31,000,000	31,683,779	34,512,235	36,083,103
Agric, Livestock &Fisheries	816,027,252	887,778,887	907,360,981	988,362,363	1,033,348,934
Water, Environment & Natural Resources	293,000,000	310,580,000	317,430,587	345,768,059	361,506,133
Health Services	802,636,481	821,636,481	839,759,646	914,726,162	956,361,088
Education, Culture, & Social Services	145,187,527	248,007,975	253,478,386	276,106,756	288,674,106
Youth Affairs & Sports, ICT and Communication	327,538,853	175,538,853	179,410,784	195,427,035	204,322,145
Lands, Physical Planning &Housing	264,282,261	280,000,000	286,176,072	311,723,410	325,911,897
Trade, Industry, Tourism & Co-operatives	386,098,578	386,098,578	394,614,909	429,842,733	449,407,572
Roads, Transport & Public Works	1,435,155,033	1,439,374,561	1,471,123,422	1,602,452,663	1,675,390,337
Total Development	**4,869,657,585**	**4,883,877,113**	**4,991,602,746**	**5,437,210,091**	**5,684,691,631**
Totals	**17,506,867,082**	**16,469,986,481**	**16,638,675,821**	**18,124,033,637**	**18,948,972,104**

Annex III: Kiambu County Budget Calendar FY 2022-2023

Activity	Responsibility	Timeframe/Deadline
1. Develop and issue circular on Budget Preparation and MTEF Guidelines	**County Treasury**	**30th August, 2022**
2. Submission of County Annual Development Plan	**CECM Finance and Economic Planning**	**1st September, 2022**
3. Development of County Budget Review and Outlook Paper (CBROP)	**County Treasury**	
3.1 Estimation of the Resource Envelope	County Treasury	15th September 2022
3.2 Determination of policy priorities	County Executive Committee Members	15th September 2022
3.3 preliminary resource allocation to departments and the county assembly	County Treasury	15th September 2022
3.4 Draft County Budget Review and Outlook Paper (CBROP)	County Treasury	15th -23rd September 2022
3.6 Submission of the County Budget Review and Outlook Paper to the County Executive	County Treasury	30th September 2022
3.7 Submission of the approved CBROP to the County assembly	County Treasury	14th October 2022
4. Preparation of Draft MTEF Budget proposals	**All Departments**	
4.1 Retreats to draft sector reports	All Departments- Finance and planning to coordinate	16th Oct–13th November 2022
4.2 Public Sector Hearing	All departments	3rd November 2022
4.3 Review and incorporation of stakeholders input into the sector proposals	Sector Working Group	30th November 2022
4.4 Submission of final sector reports to Treasury	All CECMs for their respective Departments	1st December, 2022
4.5 Consultative meeting with All Chief Officers, CECMs on sector proposals	All Departments	5th December 2022
5.0 Draft 2023 County Fiscal Strategy Paper (CFSP)	**County Treasury**	
5.1 Draft CFSP	County Treasury	16th January 2023
5.2 Presentation of County Fiscal Strategy Paper to County Budget and Economic Forum (CBEF)	C.E.C Finance & Economic Planning in consultation with the Governor	18th January 2023
5.3 Submission of the draft County Fiscal Strategy Paper (CFSP) to County Executive Committee for approval	County Treasury	14th February 2023
5.4 Submission of County Fiscal Strategy Paper (CFSP) to County Assembly	County Treasury	28th February, 2023
6.0 Preparation and Approval of the Final MTEF budgets		
6.1 Develop and Issue of final guidelines on preparation of 2023/24-2025/26 MTEF Budget	County Treasury	22nd March, 2023
6.2 Submission of Budget proposals to County Treasury	All Departments	5th April, 2023
6.3 Consolidation of draft Budget Estimates	County Treasury	12th April, 2023
6.4 Presentation of the budget estimates to County Budget and Economic Forum (CBEF)	C.E.C Finance & Economic Planning in consultation with the Governor	13th April,2023
6.4 Submission of Budget Estimates to County Executive for approval	County Executive Committee Members	18th April, 2023
6.5 Submission of Budget to County Assembly	County Treasury	28th April, 2023

Activity	Responsibility	Timeframe/Deadline
7.0 Submission of the appropriation Bill by the County Treasury	**County Treasury**	**19th June 2022**
7.1 Appropriation Bill Passed	County Assembly	30th June 2023