REPUBLIC OF KENYA

EMBU COUNTY GOVERNMENT

## FINANCE & ECONOMIC PLANNING

# COUNTY BUDGET REVIEW AND OUTLOOK PAPER

**Vision**

A prosperous County with Equal Opportunities for all

**Mission**

To ensure effective resource mobilization and optimization for Wealth and Job Creation

**OCTOBER 2023**

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

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

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

**Fiscal Responsibility Principles in the Public Finance Management**

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government's recurrent expenditures shall not exceed the county government's total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained prudently; and

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

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# Abbreviations

| | |
|---|---|
| AiA | Appropriation in Aid |
| BROP | Budget Review and Outlook Paper |
| CBROP | County Budget Review and Outlook Paper |
| CIDP | County Integrated Development Plan |
| CPI | Consumer Price Index |
| FY | Financial Year |
| MTEF | Medium Term Expenditure Framework |
| PFMA | Public Finance Management Act |

# I. INTRODUCTION

## Overview

1. The County Budget Review Outlook Paper is prepared pursuant to PFM Act, 2012 and its Regulations. It provides an overview of the County's financial performance for the FY 2022/23 and the financial objectives spelt out in the PFM Act. It also presents macroeconomic projections and the sector ceilings for the FY 2024/25 and the medium-term budget as well as updates of the County's changing priorities.

### *A.* Objectives of BROP

2. The 2023 CBROP provides a review of the fiscal performance for the financial year 2022/23 including adherence to the objectives and principles outlined in the PFM Act, 2012. It also provides a basis for the revision of the current budget and the financial policies underpinning the medium-term plan.

3. The CBROP will form the basis of the development of the 2024/25 budget that will detail programmes and projects for implementation over the medium term as outlined in the CIDP(2023-2027).

4. As required by the PFM Act, 2012, the annual budget process aims to improve the efficiency and effectiveness of revenue mobilization and government spending to ensure debt sustainability and stimulate economic activity. In this regard, this BROP provides sector ceilings which will guide the budget preparation process for the FY 2024/25 and the medium term.

5. The rest of the document is organized as follows: Section II provides a review of the fiscal performance for the FY 2022/23 and its implications on the financial objectives set out in the 2023 CFSP; Section III highlights the recent economic developments and outlook; Section IV presents the proposed resource allocation framework; and Sections V presents conclusion.

# II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2022/23

## A. FY 2022/23 Fiscal Performance

6. The total revenue as per the approved budget estimates FY 2022/23 was Ksh 7,175,154,344 against an initial target of Ksh 6,075,243,762 in the CFSP 2022. The Equitable Share of Revenue from National Government as per the approved budget estimates 2022/23 was Ksh 5,125,243,762 while own source revenue target was Ksh 950,000,000 as also provided for in CFSP 2022. Table 1 provides a comparison between CFSP 2022 and the approved budget FY 2022/23.

Table 1: Comparison between CFSP 2022 and Approved Budget FY 2022/23

| Item | Approved CFSP 2021 | Approved Budget 2022/23 | Variation | % Change |
|---|---|---|---|---|
| Equitable Share of Revenue from National Government | 5,125,243,762 | 5,125,243,762 | 0 | 0.0% |
| Loans and Grants | 0 | 689,891,081 | 689,891,081 | 100.0% |
| Own Source Revenue and AiA | 950,000,000 | 950,000,000 | 0 | 0.0% |
| FY-2021/2022 June Exchequer Allocation | 0 | 410,019,501 | 410,019,501 | 100.0% |
| **Total** | **6,075,243,762** | **7,175,154,344** | **1,099,910,582** | **18.1%** |

7. There was a revenue projections variation in the approved budget estimates 2022/23 from the projections in the CFSP 2022 by Ksh 1,099,910,582 due to loans and grants of Ksh 689,891,081 and closing balances from FY 2021/22 of Ksh. 410,019,501. This represents a variation of 18.1 percent from the projections in CFSP 2022. Loans and grants were not included in the approved CFSP 2022 since there was no legal framework enacted by National Assembly or Senate towards their inclusion. On the other hand, the closing balances were only available after the closure of financial year 2021/22 hence their inclusion at budget approval stage.

8. The Approved Budget for FY 2022/23 was amended during subsequent supplementary budgets to cater for the inclusion of revised revenue item amounts. The revised revenue basket amounted to Ksh 7,301,073,051 in the 2$^{nd}$ Supplementary compared to Ksh 7,175,154,344 contained in the approved budget. This reflected a Ksh 125,918,707 increment representing a variation of about 1.8 percent. This is as a result of varying changes in the amounts for loans and grants. Table 2 provides a breakdown of the revenue basket for the approved budget and subsequent supplementary budgets.

Table 2: Revenue by Approved Budgets

| Description of Resource Item | Approved Budget Estimates 2022/2023 | First Supplementary Resource Basket | Second Supplementary Resource Basket | Variance (2nd Supplementary -Approved Budget) | % Change |
|---|---|---|---|---|---|
| Equitable Share of Revenue from National Government | 5,125,243,762 | 5,125,243,762 | 5,125,243,762 | - | 0.0% |
| Conditional Grant for Leasing of Medical Equipment | 110,638,298 | 110,638,298 | 110,638,298 | - | 0.0% |
| Transforming Healthcare Systems for Universal Care Project (THSUCP) | - | 5,888,057 | 5,888,057 | 5,888,057 | 100.0% |
| National Agricultural and Rural Inclusive Growth Project (NARIGP) | 387,946,601 | 506,739,540 | 506,739,540 | 118,792,939 | 30.6% |
| Sweden- Agricultural Sector Development Support Programme (ASDSP) | 8,546,282 | 30,083,798 | 30,083,798 | 21,537,516 | 252.0% |
| Primary Health Care in Devolved Context-DANIDA Grant | 9,071,200 | 17,731,471 | 17,731,471 | 8,660,271 | 95.5% |
| Emergency Locust Response Project (ELRP) | 27,688,700 | 77,539,482 | 77,539,482 | 49,850,782 | 180.0% |
| Financing Locally Led Climate Action Program (FLLoCA) | 125,000,000 | 11,000,000 | 22,000,000 | (103,000,000) | -82.4% |
| Embu Municipality UIG | - | 28,309 | 28,309 | 28,309 | 100% |
| Embu Municipality UDG | - | 1,386,325 | 3,726,240 | 3,726,240 | 100% |
| COVID 19 | - | 5,862,805 | 5,862,805 | 5,862,805 | 100% |
| Other Balances | - | 14,318,638 | 14,318,638 | 14,318,638 | 100% |
| Kenya Nutrition Support Grant | 21,000,000 | 21,253,150 | 21,253,150 | 253,150 | 1.2% |
| FY 2021/2022 June Exchequer Allocation | 410,019,501 | 410,019,501 | 410,019,501 | - | 0.0% |
| Local Sources | 514,140,000 | 514,140,000 | 514,140,000 | - | 0.0% |
| Appropriations In Aid (AiA)-Ministerial | 435,860,000 | 435,860,000 | 435,860,000 | - | 0.0% |
| **Total Revenue** | **7,175,154,344** | **7,287,733,136** | **7,301,073,051** | **125,918,707** | **1.8%** |

**Revenue Performance**

9. The actual total revenue collected was Ksh 6,857,324,941.16 against a target of Ksh 7,301,073,051 leading to a shortfall of Ksh 443,748,109.84. The total equitable share and conditional grants received was Ksh 6,178,682,527.35 against a target of Ksh 6,351,073,051 which reflects 97.3 percent performance. The total local revenue collection was Ksh. 678,642,413.81 against a target of Ksh 950,000,000 reflecting 71.4 percent performance. The underperformance in local revenue collection is attributed to the uncertain operating environment related to the general elections and revenue leakage during the 1st quarter of the FY 2022/23. The Table 3 provides a breakdown of revenue performance in FY 2022/23.

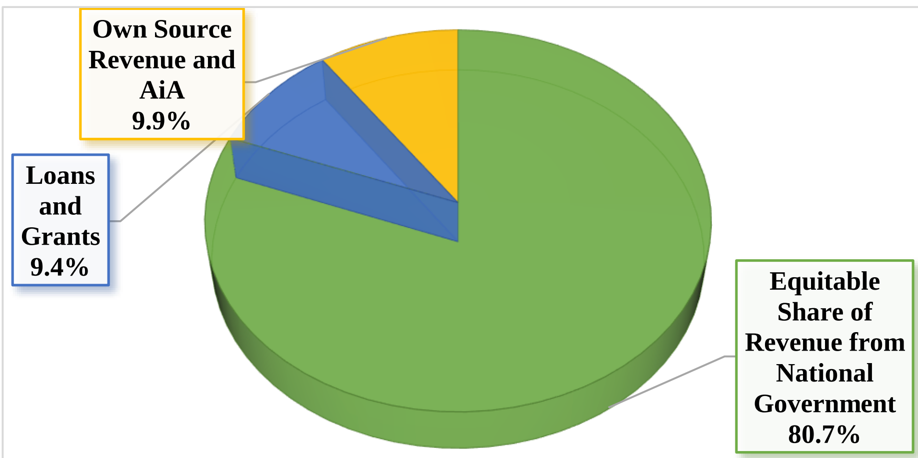
Table 3: Revenue Performance in FY 2022/23

| Revenue Stream | Annual Targeted Revenue (Ksh.) | Actual Revenue (Ksh.) | Variance (Ksh.) |
|---|---|---|---|
| | A | B | C=A-B |
| **Equitable Share and Conditional Grants** | | | |
| Equitable Share of Revenue from National Government | 5,535,263,263 | 5,535,263,261 | 2 |
| Conditional Grant for Leasing of Medical Equipment | 110,638,298 | 0 | 110,638,298 |
| National Agricultural and Rural Inclusive Growth Project (NARIGP) | 260,577,564 | 176,031,775 | 84,545,790 |
| Sweden- Agricultural Sector Development Support Programme (ASDSP) | 17,252,897 | 4,806,902 | 12,445,995 |
| Primary Health Care in Devolved Context-DANIDA Grant | 9,071,200 | 13,846,500 | (4,775,300) |
| Emergency Locust Response Project (ELRP) | 67,688,700 | 39,460,232 | 28,228,468 |
| Financing Locally Led Climate Action Program (FLLoCA) | 22,000,000 | 22,000,000 | 0 |
| Embu Municipality UDG | 2,339,915 | 2,339,915 | 0 |
| Kenya Nutrition Support Grant | 21,000,000 | 12,500,000 | 8,500,000 |
| Other Balances (Unspent Balances) | 305,241,214 | 305,241,214 | 0 |
| National Agriculture Value Chain Development Project (NAVCDP) | - | 67,192,729 | (67,192,729) |
| **Sub-Total** | **6,351,073,051** | **6,178,682,527.35** | **172,390,523.65** |
| **Own Source Revenue and AiA** | | | |
| Local Sources | 514,140,000 | 383,178,337 | 130,961,663 |
| Appropriations in Aid (Ministerial) | 435,860,000 | 295,464,077 | 140,395,923 |
| **Sub-Total** | **950,000,000.00** | **678,642,413.81** | **271,357,586.19** |
| **Total Revenue** | **7,301,073,051.00** | **6,857,324,941.16** | **443,748,109.84** |

10. Loans and grants had a variance amounting to Ksh 172,390,523.65 as a result of a Conditional Grant for Leasing of Medical Equipment that was not disbursed to the tune of Ksh 110,638,298 while National Agricultural and Rural Inclusive Growth Project (NARIGP) had Ksh 84,545,790 less that was disbursed. National Agriculture Value Chain Development Project (NAVCDP) received Ksh 67,192,729 that was not included in the second supplementary budget 2022/23. There was a shortfall of local revenue to the tune of Ksh 271,357,586.19 though the performance of this revenue was the highest ever recorded

11. The Equitable share contributed 80.7 percent of the overall revenue with loans and grants contributing 9.4 percent while own source revenue stood at 9.9 percent. Figure 1 provides a percentage contribution of various revenue source to the revenue basket.

Figure 1: Revenue sources contribution to the resource basket FY 2022/23

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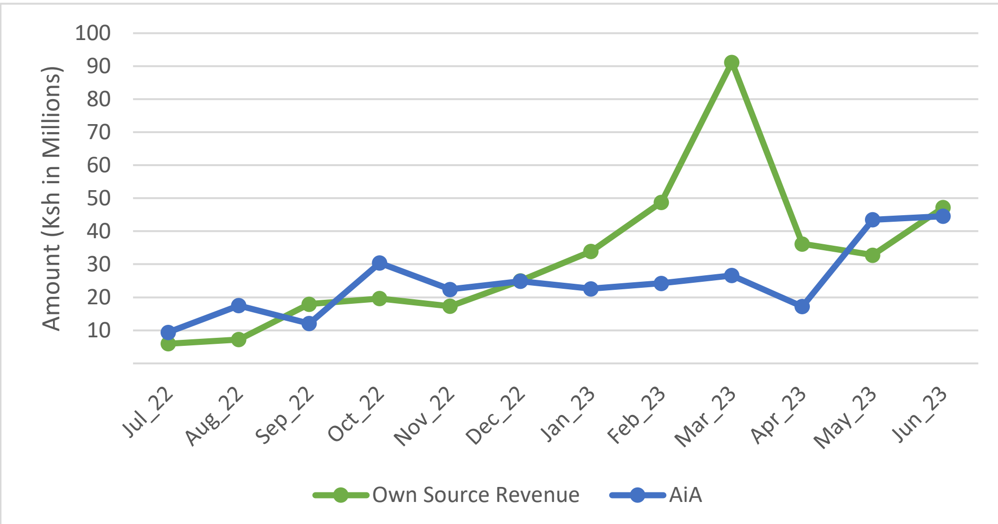
## Local Revenue Performance

12. The total local revenue collected amounted to Ksh. 678,642,414 against a target of Ksh. 950,000,000 which is 71.4 percent achievement. Ordinary local revenue contributed Ksh. 383,178,337 against a target of 514,140,000 which is equivalent to 74.5 percent performance. On the other hand, appropriation in aid contributed Ksh. 295,464,077 against a target of Ksh. 435,860,000 equivalent to 67.8 percent performance. The performance trends of both own source revenue and appropriation in aid is provided in Figure 3.

Figure 2: Revenue sources contribution to the resource basket FY 2022/23




13. The data shows that there has been substantive growth in revenue peaking in the month of March 2023. This is attributable to the single business permit revenue with business permit renewals being undertaken in the months of January, February and March. The own source revenue by stream is provided in Table 4 against the set target.

Table 4: Own Source revenue achievement against target

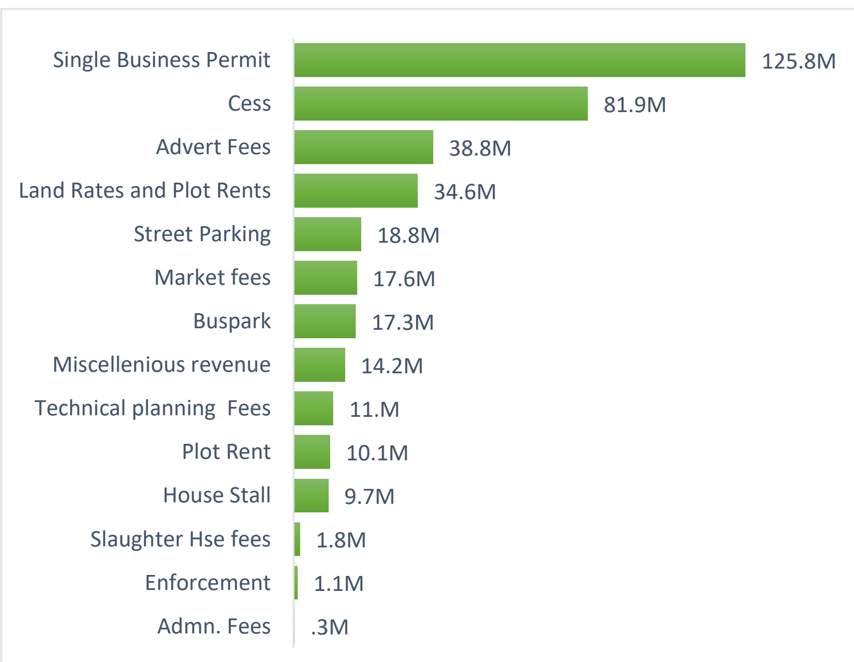
| Source | Target | Actual | %Achievement |
|---|---|---|---|
| Single Business | 152,435,111 | 125,823,950 | 82.5% |
| House Stall | 17,752,387 | 9,716,721 | 54.7% |
| Market fees | 26,628,581 | 17,619,678 | 66.2% |
| Street Parking, Bus Parking Fees | 35,504,774 | 36,104,409 | 101.7% |
| Technical planning Fees | 13,314,290 | 11,032,636 | 82.9% |
| Cess | 53,257,162 | 81,931,346 | 153.8% |
| Land Rates and Plot Rents | 182,849,588 | 44,715,753 | 24.5% |
| Enforcement | 1,331,429 | 1,097,604 | 82.4% |

| | | | |
|---|---|---|---|
| Administration Fees | 887,619 | 290,282 | 32.7% |
| Advert Fees | 22,190,484 | 38,817,097 | 174.9% |
| Slaughter House fees | 2,662,858 | 1,784,160 | 67.0% |
| Other miscellaneous revenue | 1,775,239 | 14,244,701 | 802.4% |
| Stock fees | 2,662,858 | 0 | 0.0% |
| Water Charges | 887,619 | 0 | 0.0% |
| **Total** | **514,140,000** | **383,178,337** | **74.5%** |

14. The own revenue collection was Ksh 383,178,337 which reflects 74.5 percent performance against the target of Ksh 514,140,000. Notably, other miscellaneous revenue achieved 802.4 percent actual revenue against the set target which is the highest. However, this requires further scrutiny to determine where the revenue ought to be categorized to reduce cases of revenue being qualified as miscellaneous. The Advertisement fees and Cess followed at 174.9 percent and 153.8 percent respectively as the second and third highest performers.

15. The disaggregated data on ordinary local revenue collection shows that single business permits was the highest contributor at Ksh. 125,823,950 accounting for 32.8 percent of the total amount collected. Cess was the second highest contributor at Ksh. 81,931,346 accounting for 21.4 percent of the overall ordinary local revenue collected. Figure 2 provides a visual representation of the various streams performance.

Figure 3: Ordinary Local revenue by revenue streams



The actual appropriation in aid collection was Ksh 295,464,077 against a target of Ksh 435,860,000 reflecting 67.8 percent performance. Table 5 provides a breakdown of actual AiA collected against the target AiA.

Table 5: Appropriation in aid achievement against target

| Department | AiA | Target | Actual | % Achievement |
|---|---|---|---|---|
| Trade, Tourism, Investment, Industrial Development and Marketing | Weight And Measures | | 791,640 | |
| | Alcoholic | | 46,177,579 | |
| | **Sub-Total** | **25,000,000** | **46,969,219** | **187.9%** |
| Youth Empowerment and Sports, Gender, Culture, Children and Social Services | Users Fees For Social Halls | | 128,600 | |
| | Stadium Users Fees | | - | |
| | **Sub-Total** | **1,000,000** | **128,600** | **12.9%** |
| Health | PGH Embu-Level 5. | | 209,383,168 | |
| | Siakago Hospital | | 4,806,241 | |
| | Runyenjes Hospital | | 8,118,366 | |
| | Ishiara Hospital | | 8,060,556 | |
| | P.H.O Embu West Manyatta | | 5,459,660 | |
| | P.H.O. Mbeere North.Mbeere | | 2,705,300 | |
| | P.H.O. Mbeere South Kiritiri | | 3,241,100 | |
| | P.H O Embu East Runyenjes | | 3,336,700 | |
| | **Sub-Total** | **396,860,000** | **245,111,091** | **61.8%** |
| Agriculture, Livestock, Blue Economy and Cooperative Development | Veterinary | | 3,255,167 | |
| | **Sub-Total** | **10,000,000** | **3,255,167** | **32.6%** |
| Lands, Physical Planning and Urban Development | Survey Fees | | - | |
| | Physical Planning | | - | |
| | **Sub-Total** | **3,000,000** | **-** | **0.0%** |
| **TOTAL** | | **435,860,000** | **295,464,077** | **67.8%** |

16. The Appropriation in aid data shows that Health sector contributed the largest portion of funds at Ksh. 245,111,091 against a target of Ksh. 396,860,000 reflecting a 61.8 percent performance. The Embu level 5 hospital contributed Ksh. 209,383,168 which accounts for 85.4 percent of the total amount collected from the health sector. Notably, the Trade, Tourism, Investment, Industrial Development and Marketing sector was the highest performer based on achievement having a high of 187.9 percent against the set target with alcohol licensing taking the lion share.

## Expenditure Performance

17. The Public Finance Management (PFM) Act, 2012 provides for fiscal responsibility principles to be enforced by the County Governments in management of public finances. The PFM Act under Section 102(2) and PFM Regulations, 2015 outline that, 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 expenditure on wages shall not exceed 35 percent of total revenue as prescribed by the County Executive Committee for Finance.

18. The total Approved Budget 2022/23 amounted to Ksh 7,175.2 million against the Approved CFSP total amount of Ksh 6,075.2 million reflecting a substantive variation of 18.1 percent.

Table 6: Comparison of CFSP and Approved Budget Estimates for FY 2022/23

| Portfolio | Recurrent Ceilings in Millions | | | Development Ceilings in Millions | | | Total Ceilings in Millions | | |
|---|---|---|---|---|---|---|---|---|---|
| | CFSP Ceilings 2022/2023 | Approved Budget 2022/23 | %Variation | CFSP Ceilings 2022/2023 | Approved Budget 2022/23 | %Variation | CFSP Ceilings 2022/2023 | Approved Budget 2022/23 | %Variation |
| Office of Governor | 149.5 | 157.5 | 5.4% | . | . | 0.0% | 149.5 | 157.5 | 5.4% |
| Finance and Economic Planning | 332.6 | 125. | -62.4% | 703.8 | . | -100.0% | 1,036.5 | 125. | -87.9% |
| Embu County Revenue Authority | 5. | 5. | 0.0% | 10. | 10. | 0.0% | 15. | 15. | 0.0% |
| Education, Science and Technology | 338. | 357.3 | 5.7% | 40. | 62.4 | 56.1% | 378. | 419.7 | 11.0% |
| Health | 1,690.9 | 1,794.1 | 6.1% | 80. | 259.4 | 224.2% | 1,770.9 | 2,053.5 | 16.0% |
| Embu Level 5 Hospital | 126. | 165. | 30.9% | 40. | 92.9 | 132.3% | 166. | 257.9 | 55.3% |
| Infrastructure, Public Works, Energy and Transport | 47.8 | 48.3 | 1.1% | 200. | 1,075.2 | 437.6% | 247.8 | 1,123.5 | 353.4% |
| Trade, Tourism, Investment and Industrialization | 29.3 | 39.4 | 34.3% | 20. | 68.1 | 240.4% | 49.3 | 107.5 | 117.8% |
| Agriculture, Livestock, Fisheries and Co-operative Development | 201.6 | 245.9 | 21.9% | 10. | 418.5 | 4085.0% | 211.6 | 664.4 | 213.9% |
| Lands, Physical Planning, Urban Development, Housing, Water ,Irrigation, Environment and Natural Resources | 101.5 | 105.9 | 4.3% | 20. | 93.2 | 365.8% | 121.5 | 199. | 63.9% |
| Youth Empowerment and Sports | 14.9 | 14.9 | 0.0% | 20. | 45.8 | 129.0% | 34.9 | 60.7 | 74.0% |
| Gender, Children, Culture and Social Services | 22.1 | 22.1 | 0.0% | 10. | 52.8 | 427.7% | 32.1 | 74.9 | 133.3% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Public Service, Administration and Devolution | 372.7 | 604.5 | 62.2% | 5.8 | 29. | 404.4% | 378.5 | 633.5 | 67.4% |
| County Public Service Board | 30.7 | 30.7 | 0.0% | . | . | 0.0% | 30.7 | 30.7 | 0.0% |
| County Assembly | 740.1 | 842.4 | 13.8% | 143. | 245. | 71.3% | 883.1 | 1,087.4 | 23.1% |
| Ward Equalization Projects | 50. | . | -100.0% | 520. | . | -100.0% | 570. | . | -100.0% |
| Climate Change Unit | . | 42.9 | 100.0% | . | 122.1 | 100.0% | . | 165. | 100.0% |
| TOTAL | **4,252.7** | **4,600.9** | **8.2%** | **1,822.6** | **2,574.3** | **41.2%** | **6,075.2** | **7,175.2** | **18.1%** |

19. The Infrastructure, Public Works, Energy and Transport sector had the highest growth at 353.4 percent emanating from the closing balances from FY 2021/22. The Agriculture, Livestock, Fisheries and Co-operative Development sector had the second highest growth at 213.9 percent as a result of inclusion of loan and grants from various donors. Table 6 provides a breakdown of approved CFSP and Budget Estimates for FY 2022/23.

20. Total expenditure in the FY 2022/23 amounted to Ksh 5,878.2 million against a target of Ksh 7,301.1 million, representing an under spending of Ksh 1,422.8 million representing 19.4 percent deviation from the second supplementary budget. The shortfall was attributed to low spending on development expenditure. This was as a result of delayed project implementation, shortfall in local revenue collection as well as donor funds that were not disbursed.

21. The total recurrent expenditure was Ksh 4,841.9 million against a target of Ksh 5,109.4 million, representing an under-spending of Ksh 267.4 million. The below par spending was largely due to shortfall in revenue collection which affected both recurrent and development expenditure.

22. Development expenditure amounted to Ksh 1,036.3 million against a target of Ksh 2,191.7 million reflecting a shortfall of Ksh 1,155.4 million. This was mainly due to delayed project implementation, shortfall in local revenue collection as well as donor funds allocated in development vote not having been disbursed.

Table 7: Expenditure under FY 2022/23 in Millions

| **Sector** | **Recurrent** | | | **Development** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** |
| Office of The Governor | 281.8 | 253.5 | 28.3 | . | . | . | 281.8 | 253.5 | 28.3 |
| Finance And Economic Planning | 191.1 | 186.5 | 4.6 | 11. | 11. | . | 202.2 | 197.5 | 4.6 |
| Education, Vocational Training Centers | 429.3 | 420.7 | 8.6 | 48.6 | 19.1 | 29.5 | 477.9 | 439.7 | 38.1 |
| Health | 1,808.3 | 1,781.6 | 26.7 | 188.2 | 34.4 | 153.8 | 1,996.5 | 1,816. | 180.5 |
| Roads, Public Works, Energy and Transport | 45.9 | 44.4 | 1.5 | 668.1 | 373.9 | 294.2 | 714. | 418.4 | 295.7 |
| Trade, Tourism, Investment, Industrial Development and Marketing | 38.1 | 37.2 | .9 | 172.4 | 133.4 | 39. | 210.5 | 170.6 | 39.9 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Agriculture, Livestock, Blue Economy and Cooperative Development | 255.9 | 241.7 | 14.2 | 628.9 | 276.3 | 352.6 | 884.8 | 518.1 | 366.8 |
| Lands, Mining Housing, Physical Planning and Urban Development | 56.8 | 55.5 | 1.3 | 35.5 | 8.8 | 26.6 | 92.3 | 64.3 | 27.9 |
| Water, Irrigation, Environment, Climate Change and Natural Resources | 35.6 | 34.7 | .9 | 52.4 | 34.5 | 17.8 | 88. | 69.3 | 18.7 |
| Youth Empowerment And Sports, Gender, Culture, Children and Social Services | 41.4 | 34.2 | 7.2 | 101.2 | 39.8 | 61.4 | 142.6 | 74. | 68.6 |
| Administration, Public Service, Devolution, Governance, ICT and GDU | 677.8 | 701. | -23.2 | 37.7 | 6.5 | 31.3 | 715.5 | 707.4 | 8.1 |
| County Public Service Board | 30.7 | 28.5 | 2.2 | . | . | . | 30.7 | 28.5 | 2.2 |
| County Assembly | 847.9 | 788.6 | 59.3 | 80. | . | 80. | 927.9 | 788.6 | 139.3 |
| Embu Level 5 Hospital | 308.8 | 208.3 | 100.5 | 57.6 | 8.9 | 48.7 | 366.4 | 217.2 | 149.2 |
| Embu County Revenue Authority | 31.6 | 20.2 | 11.4 | 8. | . | 8. | 39.6 | 20.2 | 19.4 |
| Climate Change Unit | 11. | 4.4 | 6.6 | 53. | 42. | 11. | 64. | 46.4 | 17.6 |
| Embu Municipal Board | 17.2 | .9 | 16.4 | 49. | 47.6 | 1.4 | 66.3 | 48.5 | 17.8 |
| **Total** | **5,109.4** | **4,841.9** | **267.4** | **2,191.7** | **1,036.3** | **1,155.4** | **7,301.1** | **5,878.2** | **1,422.8** |

## Absorption Rate

**23.** The total expenditure was Ksh 5,878.2 million against a target of Ksh 7,301.1 million. Recurrent expenditure was Ksh 4,841.9 million against a target of Ksh 5,109.4 million while development expenditure amounted to Ksh 1,036.3 million against a target of Ksh 2,191.7 million. The absorption rate measures the performance of actual expenditure against the approved budget. During the period, analysis of recurrent absorption rate shows that the overall absorption rate stood at 80.5 percent. Recurrent expenditure absorption rate stood at 94.8 percent while development expenditure stood at 47.3 percent. Table 8 provides a breakdown of absorption rates by department.

Table 8: Absorption rate for Expenditure

| Sector | Recurrent | | | Development | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Absorption rate** | **Budget** | **Actual** | **Absorption rate** | **Budget** | **Actual** | **Absorption rate** |
| Office of The Governor | 281.8 | 253.5 | 90.0% | . | . | - | 281.8 | 253.5 | 90.0% |
| Finance And Economic Planning | 191.1 | 186.5 | 97.6% | 11. | 11. | 100.0% | 202.2 | 197.5 | 97.7% |
| Education, Vocational Training Centers | 429.3 | 420.7 | 98.0% | 48.6 | 19.1 | 39.2% | 477.9 | 439.7 | 92.0% |
| Health | 1,808.3 | 1,781.6 | 98.5% | 188.2 | 34.4 | 18.3% | 1,996.5 | 1,816. | 91.0% |
| Roads, Public Works, Energy and Transport | 45.9 | 44.4 | 96.8% | 668.1 | 373.9 | 56.0% | 714. | 418.4 | 58.6% |
| Trade, Tourism, Investment, Industrial Development and Marketing | 38.1 | 37.2 | 97.6% | 172.4 | 133.4 | 77.4% | 210.5 | 170.6 | 81.0% |
| Agriculture, Livestock, Blue Economy and Cooperative Development | 255.9 | 241.7 | 94.4% | 628.9 | 276.3 | 43.9% | 884.8 | 518.1 | 58.5% |
| Lands, Mining Housing, Physical Planning and Urban Development | 56.8 | 55.5 | 97.7% | 35.5 | 8.8 | 24.9% | 92.3 | 64.3 | 69.7% |
| Water, Irrigation, Environment, Climate Change and Natural Resources | 35.6 | 34.7 | 97.5% | 52.4 | 34.5 | 65.9% | 88. | 69.3 | 78.7% |
| Youth Empowerment And Sports, Gender, Culture, Children and Social Services | 41.4 | 34.2 | 82.7% | 101.2 | 39.8 | 39.3% | 142.6 | 74. | 51.9% |
| Administration, Public Service, Devolution, Governance, ICT and GDU | 677.8 | 701. | 103.4% | 37.7 | 6.5 | 17.2% | 715.5 | 707.4 | 98.9% |
| County Public Service Board | 30.7 | 28.5 | 93.0% | . | . | - | 30.7 | 28.5 | 93.0% |
| County Assembly | 847.9 | 788.6 | 93.0% | 80. | . | 0.0% | 927.9 | 788.6 | 85.0% |
| Embu Level 5 Hospital | 308.8 | 208.3 | 67.5% | 57.6 | 8.9 | 15.5% | 366.4 | 217.2 | 59.3% |
| Embu County Revenue Authority | 31.6 | 20.2 | 63.8% | 8. | . | 0.0% | 39.6 | 20.2 | 50.9% |
| Climate Change Unit | 11. | 4.4 | 39.9% | 53. | 42. | 79.2% | 64. | 46.4 | 72.5% |
| Embu Municipal Board | 17.2 | .9 | 5.2% | 49. | 47.6 | 97.1% | 66.3 | 48.5 | 73.2% |
| **Total** | **5,109.4** | **4,841.9** | **94.8%** | **2,191.7** | **1,036.3** | **47.3%** | **7,301.1** | **5,878.2** | **80.5%** |

24. The Administration, Public Service, Devolution, Governance, ICT and GDU department had the highest absorption rate at 98.9 percent closely followed by Finance and Economic Planning department at 97.7 percent. The actual recurrent expenditure largely contributed to the high departmental absorption rates with Administration, Public Service, Devolution, Governance, ICT and GDU department leading at 103.4 percent followed by Lands, Mining Housing, Physical Planning and Urban Development department at 97. 7 percent. The development expenditure showed low absorption rates with only two departments surpassing the 90 percent absorption rate. Finance and Economic planning department had absorption rate of

development expenditure at 100 percent while that of Embu municipal board stood at 97.1 percent.

## Pending Bills

25. The County Government continues in its commitment of maintaining debt owed to suppliers at sustainable levels as per section 123 of the PFM Act. In the period under review, the County had an accumulated Pending Bills amounting to Kshs. 2,126,816,791. Out of the total, Kshs. 1,044,473,502 and Kshs. 1,082,343,288 was for recurrent and development pending bills respectively. Before settling the pending bills, a verification committee was formed and tasked to audit and identify the eligible pending bills. Upon conclusion of the verification exercise, pending bills worth Ksh 705.2 million were found to be eligible and ready for settlement. During the year under review, eligible pending bills amounting to Ksh 361.6 million were paid reducing the pending bills balance to Ksh 343.5 million. The settlement status of eligible pending bills in FY 2022/23 is as provided in Table 9

Table 9: Settlement Status of Eligible Pending Bills in FY 2022/23

| S/No. | Department | Total Eligible (Ksh) | Settled Pending Bills (Ksh) | Balance (Ksh) |
|---|---|---|---|---|
| 1. | Education, Vocational Training Centers | 20,490,580.80 | 6,994,407.95 | 13,496,172.85 |
| 2. | Health | 83,677,035.79 | 23,467,794.00 | 60,209,241.79 |
| 3. | Embu Level 5 | 120,154,212.65 | - | 120,154,212.65 |
| 4. | Roads, Public Works, Energy and Transport | 214,652,338.27 | 142,282,972.32 | 72,369,365.95 |
| 5. | Trade, Tourism, Investment, Industrial Development and Marketing | 21,701,157.41 | 10,688,477.00 | 11,012,680.41 |
| 6. | Agriculture, Livestock, Blue Economy and Cooperative Development | 3,890,854.00 | 3,171,599.40 | 719,254.60 |
| 7. | Lands, Mining Housing, Physical Planning and Urban Development | 13,227,800.00 | 8,845,000.00 | 4,382,800.00 |
| 8. | Water, Irrigation, Environment, Climate Change and Natural Resources | 15,897,422.26 | 3,990,000.00 | 11,907,422.26 |
| 9. | Youth Empowerment And Sports, Gender, Culture, Children and Social Services | 4,531,651.20 | 1,494,259.00 | 3,037,392.20 |
| 10. | Administration, Public Service, Devolution, Governance, ICT and GDU | 205,399,918.00 | 160,697,675.00 | 44,702,243.00 |
| 11. | Embu County Revenue Authority (ECRA) | 1,593,280.00 | - | 1,593,280.00 |
| | **Total** | **705,216,250.38** | **361,632,184.67** | **343,584,065.71** |

26. Further, the unremitted statutory deductions amounted to Ksh 588,528,436 at the closure of financial year 2022/23. The approved Budget Estimates 2023/24 allocated Ksh 300,000,000 towards payment of unremitted statutory deductions which is expected to reduce the unremitted statutory deductions to Ksh 288,528,436.

27. The county will continue encouraging fiscal discipline across all departments to avoid accumulation of pending bills. Further, The County has revised the revenue targets to realistic figures to help address the recurring revenue gap that has resulted to pending bills.

## B. County Governments' Compliance with Fiscal Responsibility Principles

28. In line with the Public Finance Management Act, 2012 and the Public Finance Management Regulations 2015, and in keeping in line with prudent and transparent management of public resources, the county government as adhered to the fiscal responsibility principles to some extent as per the following:

**Recurrent Expenditure as a percentage of Total Revenue**

29. The PFM Act, 2012 requires that a County Government's recurrent expenditure shall not exceed the County Government's total revenue. In the FY 2022/23, the total recurrent expenditure was Ksh 4,841.9 million, while the total revenue available was Ksh 7,301.1 million which represented 66.3 percent of the total revenue. This in essence means that the total recurrent expenditure was within the Public Finance Management Act threshold as at the end of the FY 2022/23.

**Development Budget as a Percentage of the Total Budget**

30. The Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. The supplementary budget for FY 2022/23 amounted to Ksh 7,301.1 million comprising of Ksh 5,109.4 million allocated to recurrent expenditure and Ksh 2,191.7 million for development expenditure. The development expenditure is equivalent to 30.02 percent of the overall budget allocation. This means that development expenditure allocation conforms to Section 107 (2(b)) of the PFM Act, 2012, which requires that at least 30 percent of the budget be allocated to development expenditure.

**Expenditure on Personnel Emoluments**

31. The Public Finance Management (County Government) Regulations, 2015 requires that expenditure on wages and benefits for public officers shall not exceed 35 percent of the total revenues. The total expenditure on emoluments amounted to Ksh 3,372.7 million in the FY 2022/2023 against the total revenue of Ksh 7,301.1 million. This translates to 46.2 percent over the overall budget allocation. This means that that the county has not conformed to this fiscal

responsibility principle. However, the huge wage bill has arisen due to factors, which are beyond the county government. The county is disadvantaged by the current revenue distribution formula, which takes no account of inherited non-discretionary devolved costs. The county also inherited provincial staff since Embu town was the Headquarters of the former Eastern Province.

# III. RECENT ECONOMIC DEVELOPMENT AND OUTLOOK

## A. Recent Economic Development

### International Overview

32. World economic growth slowed to 3.5 percent in 2022 from a growth of 6.3 percent in 2021 as high global inflation, energy and value chain disruptions, and impact of monetary policy tightening in most world economies weighed on economic activity. Global food prices all and the prices of coffee and tea declined throughout 2022. Global inflationary pressures have responded to policy tightening but inflation exceeds central bank targets in most countries. Recent actions by authorities to contain banking sector challenges in the United States and Swiss Banking have reduced the immediate risk of financial sector instability. However, intensification of the conflict in Ukraine, volatility in the global oil prices and extreme weather related shocks could weigh on the global economic outlook.

### Regional overview

33. Economic growth in sub-Saharan Africa continues to weaken. Economic activity in sub-Saharan Africa is estimated to have slowed to 3.9 percent in 2022 from 4.7 percent in 2021. However, it is expected to shrink to 3.5 in 2023 and then recover to 4.1 in 2024. Despite multifaceted challenges, the economies of the East Africa Community showed resilient performances. Tanzania's economy expanded by 4.6 percent in 2022, up from 4.3 percent in 2021, and is projected to increase by 5.1 percent in 2023.

### Domestic overview

34. In the first quarter of 2023, real GDP growth was at 5.3 percent mainly due to a 5.8 percent recovery in the agricultural activities that reflected improved rainfall conditions and the impact of fertilizer and seed subsidies provided to the farmers by the Government. The recovery in agriculture was reflected in enhanced production, especially of food crops that led to significant increase in export of vegetables and fruits. In Embu County farmers received subsided fertilizer and certified seeds. This coupled by good rains increased agricultural production across the County

35. Manufacturing sub-sector expanded by 2.0 percent in the first quarter of 2023 mainly supported by the manufacture of food products that included bakery products and processing and preservation of fish. In the non-food manufacturing the growth performance was supported by substantial growth in the manufacture of basic metals and fabricated metal products.

36. Electricity and Water Supply sub-sector expanded by 2.3 percent supported by increased generation of electricity from renewable sources such as geothermal and wind that more than offset the decline in generation from hydroelectric sources. However, construction activities

slowed down due to the decline in the volume of cement consumption and imports of various construction materials such as bitumen and iron and steel. In Embu County, Embu University has embarked on renewable energy and has so far generated a total of 117kwp grid tied solar system and intends to grow to 200Kwp by 2028

37. The activities in the services sector remained strong in the first quarter of 2023 growing by 6.0 percent largely characterized by significant growths in accommodation and food Service; information and communication technology; transportation and storage; financial and insurance; and wholesale and retail trade sub-sectors.

**Inflation**

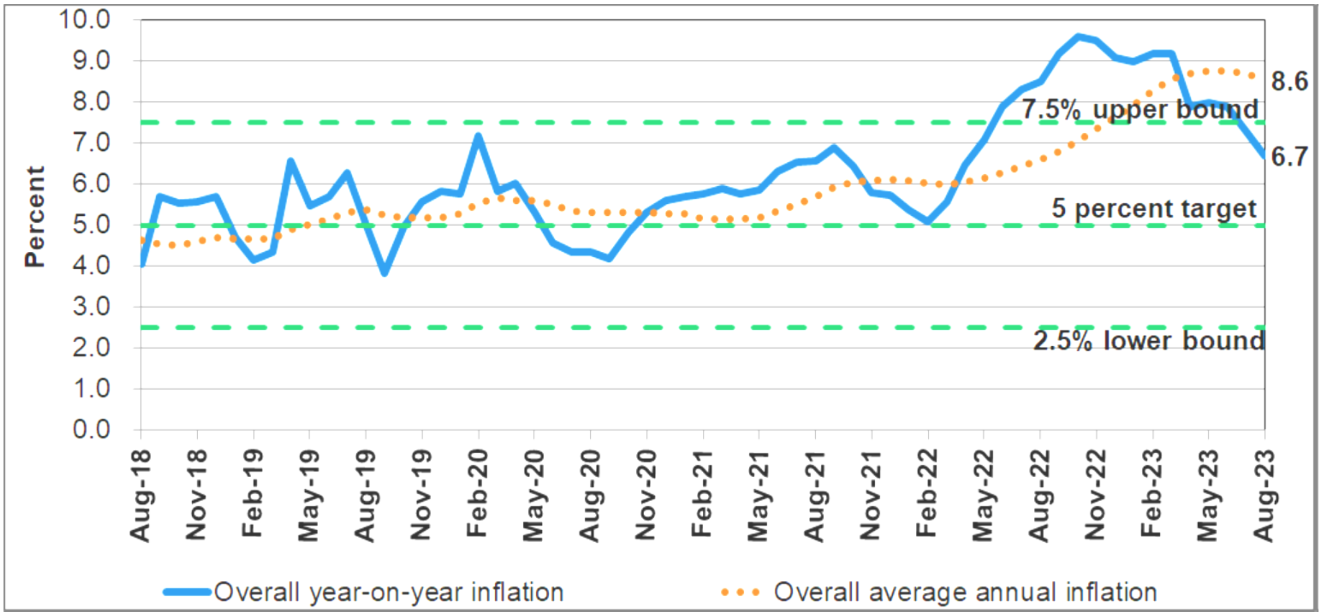
38. Inflation remained above the Government target range of 5±2.5 percent from June 2022 to June 2023. In order to anchor inflation expectations and bring down inflation within the target range, the Monetary Policy Committee (MPC) gradually raised the policy rate (Central Bank Rate (CBR)) from 7.50 percent in May 2022 to 10.50 percent in June 2023. The MPC retained the 10.50 percent in August 2023. Consequently, inflation declined significantly to 6.7 percent in August 2023, from a peak of 9.6 percent in October 2022. The decline largely reflects the easing of food prices and impact of monetary policy tightening.

39. Food inflation remained the dominant driver of overall inflation in August 2023. However, it declined to 7.5 percent in August 2023 from a peak of 15.0 percent in August 2022 reflecting easing of food prices arising from increased supply due to ongoing harvests, seasonally factors, international developments and Government measures on zero rated imports. Nonetheless, sugar prices remained elevated driven by domestic and global factors.

40. Fuel inflation remained elevated driven by high energy prices. It increased to 14.2 percent in August 2023 from 8.6 percent in August 2022. The increase reflects gradual withdraw of the fuel subsidize from September 2022 and the upward adjustment of electricity tariff from April 2023. In addition, the upward adjustment of VAT on petroleum product in July 2023 from 8.0 percent to 16.0 percent exacted upward pressures on prices. However, prices of cooking gas continued to decline and moderated inflation reflecting the impact of the zero-rating of VAT on liquefied petroleum gas (LPG).

41. At the County level, high rates of inflation continue to affect the costs of service delivery, including the operations and maintenance costs and the cost of implementing priority projects. In the overall, inflation reduces the value of county government total revenues

Figure 4: Inflation Rate Percent




*Source of Data: 2023 National Budget Review and Outlook Paper*

## B. Medium Term Economic Outlook

### Global and Regional outlook

42. Global growth is expected to decelerate sharply in 2023The growth is projected to slow down to 3.0 percent in 2023 and 2024 due to the impact of ongoing monetary policy tightening to address inflationary pressures. Global food prices are expected to continue to fall in 2023. Despite the declining global prices of agricultural commodities, domestic food price inflation across the world stays at historic high levels due to the slow price transmission from global to local prices and the stronger US dollar

43. Advanced economies are projected to record a slower growth of 1.5 percent in 2023 and 1.4 percent in 2024 from 2.7 percent in 2022. About 93 percent of the countries in the advanced economies are projected to have a lower growth in 2023 and 2024. This slowdown is largely driven by aggressive monetary policy tightening in advanced economies that have increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector.

44. Growth in the emerging market and developing economies is projected to be broadly stable at 4.0 percent in 2023 and 4.1 percent in 2024, although with notable shifts across regions. The sluggish global growth, high inflation rates and the challenging global and domestic financial conditions continue to weigh on the growth for sub-Saharan Africa region. The region economic growth is projected to slow down to 3.5 percent in 2023 from 3.9 percent in 2022, before picking up to 4.1 percent in 2024

**Domestic Growth Outlook**

45. Kenya’s economic performance is projected to remain strong and resilient over the medium term. The economy recorded a strong growth of 5.3 percent in the first quarter reflecting a strong recovery in agriculture sector and buoyant services sector including financial and insurance, information and communication, wholesale and retail trade and transport and storage.

46. Available economic indicators in the first three quarters of 2023 remain strong with the continued recovery in the agricultural sector and sustained performance of the services sector. In this respect, economic growth is projected at 5.5 percent in 2023 and 5.7 percent in 2024 supported by broad-based private sector growth and sustained government investment in the nine priority value chains ( Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, public sector investments in infrastructure and implementation of prudent fiscal and monetary policies will continue to support economic activity

47. This growth will be supported by the strong recovery in agriculture and resilient services sector that both drive the industrial sector. The adequate rainfall during the long rain season in most parts of the country and the anticipated short rains later in 2023 will continue to support activities in the agriculture, electricity, and water supply sectors. The improved availability of raw materials following the recovery in agriculture and a decline in global commodity prices will support food processing in the manufacturing sector. Additionally, activities in the construction sector will be boosted by the affordable housing programme. Services sector will be supported by resilient activities in the financial and insurance, information and communication, wholesale and retail trade and transport and storage, among others. The easing of global commodity prices and supply chain constraints coupled with robust private sector investment are expected to support domestic demand.

48. On the demand side, private consumption is expected to remain on a robust growth path in the near term. The easing of inflationary pressures will result in strong household disposable income, which in turn will support household consumption. The interventions by the Government through the financial inclusion initiative popularly known as the Hustlers Fund will strengthen MSMEs thereby correcting market failures for the vast majority of Kenya's at the bottom of the pyramid. This will strengthen the private sector led growth opportunities. The multi-year fiscal consolidation program by the Government has been incorporated in the projections and is expected to lower the fiscal deficit and achieve a positive primary balance over the medium term. This will reduce debt vulnerabilities and strengthen debt sustainability and lead to improvement in investors’ confidence, leading to robust private investment and economic growth over the medium term. The lower domestic financing needs of the Government will enable the expanded lending to the private sector by the banking sector.

49. The development spending in the budget will be retained at an average of 5.6 percent of GDP so as not to impact on growth momentum. This will enhance Government investment in the

nine priority value chains (Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, it will support investments in key projects under the Bottom-Up Economic Transformation Agenda (BETA) including construction of dams, improvement of road networks and ports and laying of additional National Fiber Optic network. Enhanced digitalization is expected to improve efficiency and productivity in the economy. In particular, investment in digital superhighway will result in enhanced connectivity and access to broadband services which will lower the cost of doing business, enhance efficiency and create employment opportunity.

50. Kenya's exports of goods and services is expected to continue strengthening supported by receipts from tourism and implementation of crops and livestock value chains, specifically, exports of tea, coffee, vegetables and fresh horticultural produce, among others. The expected recovery of Kenya's trading partners and the implementation of Africa Continental Free Trade Area (AfCFTA) will enhance demand for exports of Kenyan manufactured products. Current account deficit will average 5.4 percent of GDP between 2023 and 2027.

51. The projected robust domestic demand sustained by private investment, will sustain imports of raw materials, machinery and equipment for private construction, and household consumption. In addition, global oil price continues to stabilize lowering the oil import bill. In the Balance of Payments Statement, external financing needs will be met mainly by equity inflows and foreign direct investment given the conducive business climate that Government has created particularly the fiscal policy predictability. Improvement in the current account, boosted by robust export earnings and strong remittance inflows the will continue to support stability in the foreign exchange market.

52. Land preparation in October for short rains is expected to provide agricultural labour activities enhancing household waged labour income hence bettering the purchasing power further there is expectation that the rains will increase agricultural production especially coffee, tea and dairy.

**Monetary Policy Management**

53. The monetary policy stance is aimed at achieving price stability and providing adequate credit to support economic activity. Consequently, overall inflation is expected to remain within the Government target range of 5±2.5 percent in the medium term. This will be supported by muted demand pressures consistent with prudent monetary policy and easing domestic and global food prices. In addition, Government measures to support sufficient supply of staple food items through zero rated imports and lower the cost of production through the ongoing fertilizer and seeds subsidy program will exact downward pressure on inflation.

54. The Central Bank has continued to implement reforms to modernize its Monetary Policy Framework and Operations in Kenya, designed to enhance monetary policy transmission. In particular, CBK has implemented a new monetary policy framework based on inflation targeting. To facilitate alignment of the short term rates with the Central Bank Rate (CBR), reduce volatility in the interbank rate and improve monetary policy transmission, CBK has implemented an interest rate corridor. The interest rate corridor is set at ± 250 basis points around the CBR. In addition, the CBK has reduced the applicable interest rate to the Discount Window from 600 basis points to 400 basis points above CBR to improve access to the Window.

55. The Central Bank has also introduced DhowCSD, an upgraded Central Securities Depository infrastructure that offers a simple, efficient, and secure portal by the Central Bank of Kenya (CBK) to enable the public to invest in Government of Kenya securities. The platform enables investors to participate and trade in Government securities market (Treasury Bills and Bonds) on their mobile phones and on web based devices. The DhowCSD will transform Kenya's financial markets through enhanced operational efficiency and expansion of digital access, market deepening for broader financial inclusion, and improved monetary policy operations. Additionally, the DhowCSD will also improve the functioning of the interbank market by facilitating collateralized lending amongst commercial banks and further reduce segmentation in the interbank market.

**Non-monetary measures**

56. The Government has continued to come up with non-monetary measures to address rising living expenses, inflation and economic expansion to mitigate the negative consequences of increased interest rates. Such measures include the provision of subsidized fertilizer to lower the cost of farm inputs, the provision of duty-free importation of key food items particularly maize, cooking oil, rice and sugar, and the planned investment in critical economic value chains. In Embu County, the government has prioritized the provision of subsidized fertilizer and other farm input to caution farmers on high inflation.

## C. Risks to Fiscal Outlook

57. Inflationary shocks: The high inflation caused by disruptions in the global supply chain, high cost of fuel and reduction in food production is likely to affect production and consumption prices over the medium term. This could raise the cost of implementing County Government projects and costs of delivering public services.

58. Over-reliance on Agriculture: Risks relate to unpredictable weather conditions due to the impact of climate change which could adversely affect agricultural production and result to domestic inflationary pressures and food insecurity.

59. Late disbursement of funds: The risk is associated with the timely release of resources from the National Government to the Counties and the expected reduction of the loans and grants by the National Government. The observed delays in effecting the transfer of funds to the County will definitely affect the performance and if the equitable is reduced the development budget will suffer adversely. However, the county shall engage the concerned institutions for timely release of funds

60. Budgetary Implementation: The over-estimation and under-performance of Own Source Revenues has over the years affected the budget implementation. The Own Source Revenue projections are subject to a number of general risks that can affect collections. These include resistance that may arise from County Finance Bill, 2022, tax evasion and avoidance, weak revenue administrative structures and significant fluctuations in major revenue sources due to changes in the economic environment.

61. Wage bill: Section 25(1) (b) of the PFM (County Governments) Regulations, 2015 requires that County Governments' wage bill shall not exceed 35 percent of their total revenue. The total expenditure on emoluments amounted to3.3billion in the FY 2022/2023 against a total revenue of 7.3Billiion which translates to 46.2 per cent which is far beyond the recommended. This can be explained first by the fact that Embu County was the former Eastern Province headquarters and secondly the level five Hospital draws a large wage of 46% from the whole basket of emoluments. The raising wage bill leaves the county will just a few resources to do projects.

62. Pending bills: The County has outstanding pending bills which have accrued over the years. The county face risks related to debt management as pending bill affect the implementation of the current budget.

## IV. RESOURCE ALLOCATION FRAMEWORK

### A. Implementation of the FY2023/24 Budget

63. The implementation of the FY 2023 /2024 budget commenced against the backdrop of the hard economic period.However, local revenue collection indicates a huge improvement due to automation and more emphases on cashless collection. This performance indicates the projections for FY 2023/24 are realistic supporting expenditure estimates in FY 2023/24 and the Medium-Term Budget. Close monitoring of revenue streams and sealing of loopholes is essential in order to maximize revenue collection and minimize any leakages. Over the years there has been under performance in AiA collection and more effort should be redirected to enhance revenue.

64. The budget will be reviewed to take into consideration accumulation of pending bills amounting to Kshs 300M. The pending bills will be cleared once the revised budget is approved. Additionally, the revised budget will consider all ongoing projects to ensure their full completion to achieve the envisaged results.

65. Adjustments to the 2023/24 budget will focus on implementing projects supporting inclusive economic growth, while focusing on the priority areas. The resources allocated for development purposes will be utilized in the priority areas which include provision of accessible and affordable health care services, promotion of agricultural production and value addition to achieve food security and development of infrastructure among others.

### B. Fiscal Policy for FY 2024/25 and Medium Term Budget

66. The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan (CIDP), which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments.

67. In agriculture, the county government will prioritize on value addition by creation of county cooperative creameries and a state of the art fruit processing plant. In addition, the county government will enhance provision of AI services at reasonable prices. Moreover, the government will establish an animal feeds factory in collaboration with the national government, among other priorities.

68. In Infrastructure, the Government’s will focus on improving accessibility through tarmacking and completion of County roads, routine maintenance of County Roads, scaling up of water distribution infrastructure, and establishment of waste management company.

69. In trade, tourism and investment sector, the county government will continue to establish proper marketing strategy aimed at opening up of some key tourist destinations. It will also establish a County Aggregation and Development Centre to catalyse economic activities.

70. In the health sector, the county will prioritize on rolling out universal health care, upgrade the existing services to offer specialized/expanded services, improve welfare for health workers and ensure all families have access to health centres within five kilometers from their homes.

71. Education, Science and Technology priorities will include Employment of ECDE teachers, adequately equipping of VTCs and construction/ completion/ renovation of ECDE classes, provision of bursaries to enhance retention and completion rates for those in higher education facilities. Provision of funds for capitation of the ECDE children

72. In Finance and planning sector, the county continues to implement strategies to enhance revenue collections and strengthening of Monitoring & Evaluation.

73. Interventions;

a) Enhancing food and nutrition security through investment on agriculture, livestock development and fisheries development;

b) Providing universal health coverage and guaranteeing quality and affordable healthcare to our citizens. This is done through investing on improving sub County hospitals

c) Supporting value addition by investing on macadamia, coffee processing and avocado production.

## Fiscal Revenue projections

74. The budget for FY2023/24 is projected to increase from 7,160,728,853.00 in FY 2023/24 to 7,876,801,738.30 in FY 2024/25, which will comprise of equitable share, conditional grants and loans from National Government and other development partners and Own Source Revenue. The Own Source Revenue will be raised through levies, permits, rents, service charge and rates. The 2023/24 budget target for revenue collection is expected to be Ksh. 750,000.00 and projected to increase to 825,000,000 in FY 2024/2025, which represents a 10% increase. In the medium term the local revenues are projected to grow from Kshs: 907,500,000 in the FY 2025/26 to Kshs: 998,250,000 in the FY 2026/27.Table 10 below highlights the various revenue streams and their expected target over the medium term period.

*Table 10: Projected Revenues FY 2024/25-2026/27 MTEF period*

| Description Of Revenue Item | 2023/2024 | 2024/2025 | 2025/2026 | 2026/2027 |
|---|---|---|---|---|
| Equitable Share Of Revenue From National Government | 5,341,810,744 | 5,875,991,818 | 6,463,591,000 | 7,109,950,100 |
| Conditional Grant For Leasing Of Medical Equipment | 124,723,404 | 137,195,745 | 150,915,319 | 166,006,851 |
| Conditional Grant for Aggregated Industrial Parks Programme | 250,000,000 | 0 | 0 | 0 |
| Conditional Grant for Provision of Fertilizer Subsidy Programme | 110,930,145 | 122,023,160 | 134,225,475 | 147,648,023 |

| | | | | |
|---|---|---|---|---|
| Unconditional Allocations to County Governments from Court Fines and Mineral Royalties | 2,142 | 2,356 | 2,592 | 2,851 |
| National Agricultural and Rural Inclusive Growth Project(NARIGP) | 150,000,000 | 0 | 0 | 0 |
| Conditional Allocation for National Agricultural Value Chain Development Project(NAVCDP) | 250,000,000 | 275,000,000 | 302,500,000 | 332,750,000 |
| Livestock Value Chain Support Project | 35,809,200 | 39,390,120 | 43,329,132 | 47,662,045 |
| Conditional Allocation for Primary Health Care in Devolved Context-DANIDA Grant | 7,854,000 | 8,639,400 | 9,503,340 | 10,453,674 |
| Financing Locally Led Climate Action(FLLoCA)-County Climate Institutional Support (CCIS) Grant | 11,000,000 | 11,000,000 | 11,000,000 | 11,000,000 |
| Agricultural Sector Development Support Programme (ASDSP) | 961,306 | 0 | 0 | 0 |
| Emergency Locust Response Project (ELRP) | 106,400,361 | 117,040,397 | 128,744,437 | 141,618,881 |
| Aquaculture Business Development Project(ABDP) | 10,237,551 | 11,261,306 | 12,387,437 | 13,626,180 |
| Kenya Nutrition Support Grant | 11,000,000 | 11,000,000 | 11,000,000 | 11,000,000 |
| Financing Locally Led Climate Action(FLLoCA)-Development Grant | 0 | 137,000,000 | 150,700,000 | 165,770,000 |
| Local Sources | 382,801,875 | 421,082,063 | 463,190,269 | 509,509,296 |
| Appropriations In Aid (AiA)- Ministerial | 367,198,125 | 403,917,938 | 444,309,731 | 488,740,704 |
| **Total** | **7,160,728,853** | **7,571,644,302** | **8,327,708,732** | **9,159,379,606** |

*Table 11: Summary of Local Revenue Collection*

| **Revenue Streams** | **Approved budget** | **Projections** | | |
|---|---|---|---|---|
| | **2023/2024** | **2024/2025** | **2025/2026** | **2026/2027** |
| Local Revenue | 382,801,875.0 | 421,082,062.5 | 463,190,268.8 | 509,509,295.6 |
| Appropriation in Aid | 367,198,125.0 | 403,917,937.5 | 444,309,731.3 | 488,740,704.4 |
| **Total Revenue Collection** | **750,000,000.0** | **825,000,000.0** | **907,500,000.0** | **998,250,000.0** |

### External resource mobilization; strengthening partnerships and collaborations

75. The County acknowledges that for accelerated development, it is critical to involve and engage other key stakeholder, towards this end the county will:

- Develop and strengthen strategic partnerships to mobilize resources and maximize development outcomes. This action will target the National Government, neighboring counties, development partners, civil society organizations, and private sector institutions among others.

- Develop the County PPP regulatory framework to enhance PPP engagements with the private sector in the medium term. This will be enhanced through the establishment of a County Public Private Partnership (PPP) Unit that will be tasked to promote participation of the private sector in the county development
- Strengthen and build the capacity of the County external resource and donor liaison units.

### Conditional allocations, Loans & Grants

76. The county government will enhance its engagement with development partners and the National Government to fund specific County Government development initiatives through conditional allocations, loans and grants. The funding for the FY 2023/24 is 1,068,918,109 Million this is expected to grow in medium term to Kshs 1,175,809,920.38 Million in the medium term.

### Expenditure Forecasts

### Expenditure Projections in FY 2023/2024 budget

77. The overall expenditure amounts to Ksh 7,762,125,613. These expenditures comprises of development of Ksh 2,533,941,392 (32.6 percent) and recurrent of Ksh 5,228,184,221 (67.4percent). The recurrent expenditure comprises of remuneration of Kshs 3,802,806,389 (49 percent) and operations & maintenance of Kshs 1,425,377,832 (18 percent). Under the remuneration amount Kshs 3,802,806,389; (Three Hundred Million) were set aside to pay verified statutory and third party salary deductions pending bills.

*Table 12: Projected expenditures FY 2024/25-2026/27 MTEF period*

| Economic classification | FY 2023/20234 | FY 2024/2025 | FY 2025/2026 | FY 2026/2027 |
|---|---|---|---|---|
| Personal Emoluments | 3,502,806,389.00 | 3,642,918,644.56 | 3,788,635,390.34 | 3,940,180,805.96 |
| Statutory Deduction - Pending Bills | 300,000,000.00 | 288,000,000.00 | - | - |
| Net Personal Emoluments | 3,202,806,389.00 | 3,330,918,644.56 | 3,464,155,390.34 | 3,602,721,605.96 |
| Operation and Maintenance | 1,425,377,832.00 | 1,609,915,615.20 | 2,058,907,176.72 | 2,264,797,894.39 |
| **Total Recurrent** | **4,928,184,221.00** | **5,252,834,259.76** | **5,847,542,567.06** | **6,204,978,700.35** |
| Development | 2,533,941,392.00 | 2,787,335,531.20 | 3,066,069,084.32 | 3,372,675,992.75 |
| **Total Development** | **7,462,125,613.00** | **8,040,169,790.96** | **8,913,611,651.38** | **9,577,654,693.10** |

| | | | | |
|---|---|---|---|---|
| Development Index | 33.96% | 34.67% | 34.40% | 35.21% |
| Emoluments Index | 46.94% | 45.31% | 42.50% | 41.14% |
| Operation and Maintenance Index | 19.10% | 20.02% | 23.10% | 23.65% |

**Sector indicative ceilings**

78. The County Government will continue with its policy of expenditure prioritization with a view to achieving the transformative development agenda, which is anchored on provision of core services. This will ensure equity, minimize costs through the elimination of duplication, inefficiencies, and improving the general welfare of the people. Realization of these objectives will have implications in the budget ceilings to be provided in this Budget Review and Outlook Paper.

79. The following criteria will serve as a guide for allocating resources:

a) Completion of the ongoing projects

b) Prioritization of the Flagship projects

c) Linkage of Programmes to the 'BETA' Plan either as drivers or enablers;

d) Linkage of the Programme with the objectives of CIDP and ADP

e) Expected outputs and outcomes from a Programme; and

f) Cost effectiveness and sustainability of the Programme.

*Table 13: Indicative Sector Ceilings for MTEF period FY 2024/27 – FY 2026/2027*

| **Portfolio** | **Approved Budget** | **Projections** | | |
|---|---|---|---|---|
| | **2023/2024** | **2024/2025** | **2025/2026** | **2026/2027** |
| Office Of The Governor | 271,084,841 | 288,189,120 | 334,103,659 | 356,693,477 |
| Finance And Economic Planning | 532,217,789 | 265,455,753 | 307,258,161 | 330,971,083 |
| Education, Vocational Training Centers | 467,270,245 | 538,595,575 | 707,489,371 | 754,873,916 |
| Health | 2,036,711,795 | 2,142,640,040 | 2,275,251,391 | 2,397,057,772 |
| Roads, Public Works, Energy And Transport | 644,722,559 | 806,919,911 | 902,786,002 | 991,685,666 |
| Trade, Tourism, Investment, Industrial Development And Marketing | 509,378,761 | 999,293,259 | 1,109,158,272 | 1,218,967,214 |
| Agriculture, Livestock, Blue Economy And Cooperative Development | 1,021,837,698 | 946,405,952 | 1,043,326,144 | 1,135,157,540 |
| Lands, Mining Housing, Physical Planning and Urban Development | 126,401,012 | 135,316,657 | 155,974,888 | 167,544,005 |
| Water, Irrigation, Environment, Climate Change And Natural Resources | 152,506,194 | 166,085,092 | 197,455,011 | 215,392,378 |

| | | | | |
|---|---|---|---|---|
| Youth Empowerment And Sports, Gender, Culture, Children and Social Services | 185,137,787 | 202,050,107 | 231,589,600 | 253,016,421 |
| Administration, Public Service, Devolution, Governance, ICT And GDU | 730,639,866 | 772,420,811 | 833,628,528 | 883,155,643 |
| County Public Service Board | 29,565,052 | 31,131,654 | 43,799,320 | 46,675,933 |
| County Assembly | 654,021,950 | 698,615,353 | 746,835,745 | 799,012,531 |
| Embu Level 5 Hospital | 303,110,700 | 333,421,770 | 366,763,947 | 403,440,342 |
| Embu County Revenue Authority | 15,161,423 | 16,677,565 | 18,345,322 | 20,179,854 |
| Climate Change Unit | 24,000,000 | 71,400,000 | 78,540,000 | 86,394,000 |
| Embu Municipal Board | 58,357,941 | 64,193,735 | 70,613,109 | 77,674,419 |
| **Total** | **7,762,125,613** | **8,478,812,354** | **9,422,918,471** | **10,137,892,195** |

## CONCLUSION AND NEXT STEPS

80. In the FY 2023/2024, the county is focusing on health, infrastructure, agriculture, trade and proper resource management to ensure inclusive sustainable growth and development. The county is also developing infrastructure to scale up distribution of clean water, improve education through capitation of ECDE children and employment of more teachers, build prototype TVET centres, improve collection of revenue through cashless payments and sealing of existing loopholes among others.