COUNTY ASSEMBLIES FORUM (CAF)
P. O. Box 73552 - 00200,
NAIROBI, KENYA

THE REPUBLIC OF KENYA

MURANGA COUNTY GOVERNMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2023

COUNTY ASSEMBLIES FORUM (CAF)
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Foreword

The County Budget Review and Outlook Paper (CBROP) 2023 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012, which requires the county government to prepare a County Budget Review and Outlook Paper for each financial year.

This CBROP reviews fiscal performance of the county for the 2022/23 financial year and also compares it with the budget appropriation for the same year. In addition, it provides information on changes in forecasts that are captured in the County Fiscal Strategy Paper (CFSP) 2023 as well as how the actual financial performance of the previous financial year may have affected compliance with the fiscal responsibility principles and the county financial objectives for the year. It also gives reasons for any deviation from the county financial objectives captured in the county fiscal strategy paper and offers proposals to address the deviations.

The updated economic and financial outlook presented in this paper will set out the broad fiscal parameters in preparation for the next budget cycle of 2024/2025. In particular, the provisional ceilings presented are intended to act as a guide to sector working groups in preparing their budgets.

It is, therefore, expected that this policy paper will be useful in enhancing the fiscal discipline and responsibilities outlined in section 107 of the PFM Act 2012, which facilitates the implementation of county government objectives.

Prof. Kiarie Mwaura
County Executive Committee Member
Murang'a County Government

Acknowledgement

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The County Budget Review and Outlook Paper 2023, which reviews the performance of the 2022/23 financial year and provides the medium term budget outlook, has been prepared in line with section 118 (1) (a) of the Public Finance Management Act 2012.

In its preparation, consideration has been given to the prevailing global and local economic conditions as well as the CIDP for 2022-2027. It is, therefore, my firm belief that this CBROP will achieve its intended objective of guiding various county entities in the preparation of their 2024/2025 budget.

The information contained in this paper was obtained from the County Treasury and I appreciate the efforts made by the Directorate of Budget in the preparation of this paper.

Peter G. Kahora
Chief Officer-Finance and Economic Planning

ABBREVIATIONS AND ACRONYMS

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

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Preamble

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

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

1) A County Treasury shall;

a. Prepare a CBROP in respect of the County for each year; and

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

2) In preparing its CBROP, the County Treasury shall specify;

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

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

c. Information on:

(i) Any changes in the forecasts compared with the CFSP; or

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

d. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

3) The County Executive Committee (CEC) shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.

4) Not later than seven days after the CBROP is approved by the CEC, the County Treasury shall:

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a. Arrange for the paper to be laid before the County Assembly; and

b. As soon as practicable after having done so, publish and publicise the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

The Constitution of Kenya 2010 as well as the PFM Act 2012 set out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. Section 107 of the PFM Act 2012 states that: the County Government's recurrent expenditure shall not exceed the County Government's total revenue;

1) Over the medium term, a minimum of thirty (30) per cent of the County Government's budget shall be allocated to the development expenditure;

2) The County Government's expenditure on wages shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive Member for Finance in regulations approved by the County Assembly;

3) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure;

4) The County debt shall be maintained at a sustainable level as approved by County Assembly;

5) The fiscal risks shall be managed prudently; and

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

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1. INTRODUCTION

The County Budget Review and Outlook Paper (CBROP) is prepared in line with section 118 of the Public Finance Management (PFM) Act 2012. The paper reviews the following: fiscal performance of the county for the financial year 2022/2023; the updated macro-economic and financial forecasts; deviations from the approved County Fiscal Strategy Paper (CFSP) 2023; and the reasons for such deviations.

1.1 Objective of CBROP

The County Budget Review and Outlook Paper (CBROP) provides a review of the previous fiscal year's performance and how this impacts on the financial objectives and fiscal responsibility principles set out in the CFSP. This, together with the macroeconomic outlook, provides a basis for revision of the current year's (2023/2024) budget in the context of the broad fiscal parameters underpinning the next budget (2024/2025) and the medium term (2025/2026 -2026/2027). The fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy Paper 2024.

Specifically, the CBROP provides:

i. Updated economic and financial forecasts in relation to the changes expected from the most recent County Fiscal Strategy Paper (CFSP);

ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

iii. Any changes in the forecasts captured in the CFSP;

iv. Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and

v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so

1.2 Significance of CBROP

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The paper is a policy document that links planning with budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF), as it reviews previous year's fiscal performance and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered to as provided for in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2024/2025 budget and in the medium term to guide Sector Workings Groups (SWGs) before being affirmed in the CFSP 2024.

1.3 Structure

This paper has four other sections. Section Two, reviews the county's fiscal performance for the year 2022/2023. The section is further divided into three sub-sections, namely: The Overview; Fiscal Performance; and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections comprising of: Recent Economic Developments; Economic Outlook & Policies; Medium Term Fiscal Framework and Risks to the Outlook. Section four sets out how the county government intends to operate within its resource envelope. It establishes the resources envelope (total revenues) it expects, and allocates these across departments by setting expenditure ceilings for each department. In addition, the section has four other sub-sections: adjustment to the proposed budget; the medium term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing.

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2. REVIEW OF COUNTY FISCAL PERFORMANCE IN 2022/23

2.1 Overview

In the year 2022/23, the County Government had an approved budget of KShs. 9,619,783,603. The development allocation was KShs. 2,851,311,455 and the recurrent allocation was KShs. 6,768,472,148. The estimates were revised upwards to total KShs. 9,803,879,955. The revised estimates comprised of recurrent allocation of KShs. 6,861,822,389 and development allocation of KShs. 2,942,057,567. The expenditure outturn totaled KShs 8,470,336,885.81; development expenditure KShs. 2,037,799,896.10 and recurrent expenditure KShs. 6,432,536,989.71 comprising an absorption rate of 86%.

2.2 Fiscal Performance

The fiscal year 2022/2023 was a transition year for the County. The County ushered in new leadership, which had to set up the requisite offices as stipulated by the Constitution, reorganize the existing development plans, and prepare a supplementary budget to finance its manifesto projects.

The County Government also verified and ascertained the status of its liabilities. From this exercise, pending bills worth KShs. 642,197,909.70 were found to be eligible. A settlement plan was agreed upon and it is expected that, with consistent exchequer releases, the County Government will settle these bills within the fiscal year 2023/2024.

In its quest to promote economic growth and enhance the quality of life in Murang'a County, the County Integrated Development Plan (2023-2027) has committed to support the key flagship projects of the county government, namely: improve health care, support milk and mango farmers with subsidy, build ECDE classes, create smart cities, improve access roads, enhance water connectivity, provide porridge to ECDE learners, promote the youth with a variety of short courses and placement opportunities, enhance automation, and provide maternal support to expectant mothers.

These programs have been implemented in the fiscal year 2022/2023 and, as a result, the County has experienced significant growth in the identified areas, despite the experienced challenges of drought, rising inflation, and the slow disbursement of the county's allocation of equitable share.

The County had budgeted for an equitable share of KShs. 7,560,655,855, conditional grants of KShs. 743,224,100 and own source revenue of KShs. 1.bn.

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In the preceding financial year, the County received total revenues of KShs. 8,555,954,013 comprising of equitable share of KShs. 7,560,655,855; grants of KShs. 337,131,194 and realized own source revenue of KShs. 658,166,964.80.

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

Table 2.1: Summary of County Fiscal Performance

	2021/22 FY	2022/23 FY			
	Actual	Approved	Actual	% Deviation (Actual-Approved)	% Growth in Actual Expenditure
TOTAL REVENUE & GRANTS	8,060,314,062	9,803,879,955	8,555,954,013	87%	6.15%
Unspent Bal from Previous FY	725,349,818	380,500,000	380,500,000	100%	-47.54%
Revenue (Total)	7,334,964,244	9,423,379,955	8,175,454,013	87%	11.46%
Equitable Share Allocation	6,454,806,037	7,180,155,855	7,180,155,855	100%	11.24%
Local Revenue	520,317,425	1,500,000,000	658,166,964	44%	26.49%
Grants (Total)	359,840,782	743,224,100	337,131,194	45%	-6.31%
Total Expenditure	8,060,314,062	9,803,879,954.60	8,470,336,886	86%	5.09%
Recurrent	6,685,907,815	6,861,822,387.50	6,432,536,990	94%	-3.79%
Development	1,374,406,247	2,942,057,567.10	2,037,799,896	69%	48.27%
Unspent Bal Current FY	725,349,818	380,500,000	693,108,583	182%	-4.44%

2.2.1 Revenue Performance

The County collected a total of KShs. 658,166,964 against the previous year's collection of KShs. 520,317,425. This was an increase of 26% in revenue from the previous year's (2021/2022) performance. This increase was as a result of automation coupled with continuous enforcement that ensured the sealing of revenue leakages. As a result of these

interventions, the County realized revenues it had previously never realized in many streams, such as Single Business Permits and liquor licensing.

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Table: 2.2: Analysis of County Revenue Streams

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

SOURCE	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**
LICENCES	126,378,883	98,535,344.19	137,683,456	106,214,073	214,814,773
PLOT RENT/LAND RATES	60,126,961	53,226,460.86	64,442,748	52,727,019	40,447,179
MARKET FEES	53,712,820	42,109,538.92	45,390,801	42,663,662	35,172,310
PENALTIES	1,625,805	461,200.18	1,632,704	2,121,027	1,788,639
BUILDING MATERIAL CESS (sand, stones)	62,713,630	44,979,407.02	29,827,952	33,045,131	40,059,246
BUS PARK FEES	28,719,937	18,962,827.79	24,631,551	26,647,768	29,971,067
PARKING FEE	18,592,165	21,238,708.70	26,056,136	21,125,468	15,908,355
MOTOR BIKES	6,833,610	2,216,045.75	2,651,387	1,075,519	1,041,139
LIQOUR LICENCE	28,003,100	36,924,059.00	22,056,184	16,098,213	54,707,214
PLAN APPROVAL	36,907,306	9,738,904.39	2,848,192	2,837,038	16,540,791
CONSERVANCY	13,515,289	10,244,978.00	16,085,549	12,160,977	1,117,107
OTHER CESS REVENUE	20,174,817	6,918,950.14	41,272,008	37,553,539	31,084,349
SALE OF FORMS	8,565,260	3,126,132.98	7,884,076	5,366,238	471,066
TENDER FORMS	10,000	-		-	
ADVERVISEMENTS	17,027,999	7,848,196.10	10,463,947	11,312,809	4,293,552
SELF HELP GROUP	3,825,810	1,335,807.87	1,471,325	998,187	636,214
LAND SUBDIVISION/TRANSFER	7,114,440	6,285,858.08	8,692,414	4,760,952	3,858,376
HOUSE/STALLS RENT/S.HALL	8,151,673	5,423,449.18	6,088,784	3,864,556	2,757,556
OTHER LAND BASED REVENUE	3,242,610	3,781,063.49	2,749,224	2,507,105	8,293,530
MORGUE FEES	2,341,690	1,784,566.13	1,545,454	1,589,982	861,328
SLAUGHTER FEES	3,010,010	1,925,601.73	1,068,984	1,013,666	1,493,411
IMPOUNDING	5,277,070	1,477,577.65	1,544,129	1,653,322	1,446,449
COFFEE CESS		-		-	
EDUCATION & POLYTECHNICS	2,380,606	166,189.00	139,776	45,350	5,350

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FIRE		11,692,551.06	17,373,124	1,400,000	2,072,003
OTHERS	3,183,230	-			
SUB-TOTAL	**521,434,721**	**-**		**401,396,575**	
B) DEVOLVED FUNCTIONS					
HOSPITALS	139,482,031	126,185,812.73	104,427,094	81,250,808	123,750,039
PUBLIC HEALTH	24,008,915	19,469,831.38	24,866,755	18,825,281	5,959,574
LIVESTOCK (A.I)	3,331,125	2,188,222.76	1,357,474	153,290	147,167
MEAT INSPECTION	8,210,880	8,861,763.34	10,920,614	12,318,686	7,380,070
VET.CLINICAL SERVICES	47,220	1,489,553.00	-	657,090	10,197,776
COOPERATIVES	840,110	651,505.78	495,988	272,106	126,111
HOUSING & PHYSICAL PLANNING	1,302,650	1,266,919.67	8,421,631	2,246,989	2,577,113
WEIGHT & MEASURES	1,067,250	943,422.17	2,879,303	3,055,938	429,615
MARIIRA FARM	2,483,171	216,773.38	195,835	140,662	58,497
WATER	123,930	-		-	
SUB-TOTAL	180,897,282			118,920,850	
TOTAL	702,332,003	551,677,222.40	627,164,598.42	520,317,425.01	658,166,964.80

Table 2.2.1 Revenue Performance per stream

In the fiscal year 2022/2023, the County had a revenue target of KShs. 1.58 bn. Of this, KShs. 1bn was expected to be collected from own source revenue and KShs. 500 Million from the privatization of Murang'a County Creamearies. The county managed to collect 65% of the target own source revenue. However, privatization of the County Creameries did not materialize. The County Government is still exploring the most effective and optimal route to divest from this investment. The avenue sought is one that shall ensure the County Government delivers value to the farmers.

The County registered increase in revenue collected in six of its major revenue sources as indicated below:

	SOURCE	2021/2022	2022/2023	% INCREASE
1	PLAN APPROVAL	2,837,038	16,540,791	483%
2	LIQUOR LICENCE	16,098,213	54,707,214	240%

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3	LICENCES	106,214,073	214,814,773	102%
4	HOSPITALS	81,250,808	123,750,039	52%
5	BUILDING MATERIAL CESS (sand, stones)	33,045,131	40,059,246	21%
6	BUS PARK FEES	26,647,768	29,971,067	12%

These revenue streams have been the biggest contributor to the overall revenue collected. It is expected that they will collect more revenue in the fiscal year 2023/2024, especially with automation. Equally, the County Government has embarked on a program to improve health facilities as well as improve services offered in its facilities.

The County also experienced a decrease in revenue in four of its major revenue streams as follows:

	SOURCE	2021/2022	2022/2023	% DECREASE
1	PARKING FEE	21,125,468	15,908,355	-25%
2	PLOT RENT/LAND RATES	52,727,019	40,447,179	-23%
3	MARKET FEES	42,663,662	35,172,310	-18%
4	OTHER CESS REVENUE	37,553,539	31,084,349	-17%

2.2.2 Expenditure Performance

The County had an approved budget of KShs. 9,619,783,603 in the year 2022/2023. Out of this budget, the County Assembly's budget was KShs. 1,071,000,000 comprising KShs. 1,010,000,000 as recurrent and Kshs. 61,000,000 as development. The County Executive's budget, on the other hand, was 8,548,783,603. This comprised of KShs. 5,758,472,148 as recurrent allocation and Kshs. 2,790,311,455 as development allocation.

Within the fiscal year, the County Government revised its estimates to KShs 9,803,879,956. From this estimate, the County Assembly's allocation was revised to KShs. 977,000,000 comprising of KShs. 927,000,000 as recurrent and KShs. 50,000,000 as development allocation. The County Executive's budget on the other hand was revised to KShs. 8,826,879,956. From this budget, the County Executive's recurrent allocation was KShs. 5,934,822,389 and the development allocation was KShs. 2,892,057,567.

During the period, the County Government absorbed a total of KShs. 8,470,336,885.81 representing an absorption rate of 86% of the total budget. Out of this expenditure, the County Executive's total

expenditure was KShs. 7,585,930,978.06 and the County Assembly's total expenditure was KShs. 884,405,907.75.

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2.2.2.1 County Recurrent Expenditure

From the County's total expenditure of KShs 8,470,336,885.81, recurrent expenditure was KShs. 6,432,536,989.71 which represents an absorption rate of 76% of the County's total expenditure and 66% of the County's total budget.

From the total expenditure, compensation to employees was KShs. 4,271,264,056.12. This represented 43% of the total budget. On the other hand, operations and maintenance was KShs. 2,161,272,933.59 representing 22% of the total budget.

Absorption per department is as indicated by the Table 2.3 below. The Department of Health has the highest absorption rate followed by the Department of Education and Technical training. These two departments handle programs that have multiplier effects in the local economy in terms of increasing productivity of the populace. These programs are the Scholarship (Bursary) program and the universal health care and curative program.

Table 2.3: Percentage (%) Absorption of Recurrent Budget.

COUNTY EXECUTIVE	BUDGET	RECURRENT EXPENDITURE	ABSORPTION %
Governorship, County Coordination and Administration	271,763,902	222,478,682.05	82%
Finance, Information Technology and Economic Planning	344,896,609	300,722,288.25	87%
Agriculture, Livestock and Fisheries	239,785,035	213,319,492.05	89%
Energy Transport and Roads	21,758,800	16,523,734.60	76%
Commerce, Trade, Industry and Tourism	49,153,307	39,867,768.55	81%
Education & Technical Training	676,963,868	659,004,923.70	97%
Health and Sanitation	3,254,165,172	3,185,144,605.61	98%
Lands, Housing & Physical Planning	31,416,078	19,164,281.60	61%
County Public Service Board	38,509,490	28,000,185.25	73%
Youth, Culture, Gender, Social Services & Special Programs	66,306,085	51,741,685.60	78%
Environment & Natural Resources	23,179,312	16,313,562.75	70%
Public Service Administration	760,130,876	671,764,972.35	88%

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Water & Irrigation	90,183,939	83,814,729.35	93%
Murang'a Municipality	66,609,915.00	54,428,378.25	82%
County Assembly	927,000,000	870,247,699.75	94%
TOTAL	**6,861,822,387.50**	**6,432,536,989.71**	**94%**

2.2.2.2 County Development Expenditure

The development expenditure was KShs. 2,037,799,896.10. The County Executive's share of development expenditure was KShs. 2,023,641,688.10 and the County Assembly's share was KShs. 14,158,208. This development expenditure represented an absorption rate of 21% of the total budget and 24% of the total actual expenditure for 2022-23.

Table 2.4 Percentage (%) Absorption of Development Budget.

COUNTY EXECUTIVE	BUDGET	DEVELOPMENT EXPENDITURE	ABSORPTION %
Governorship, County Coordination and Administration	-	-	-
Finance, Information Technology and Economic Planning	77,000,000.00	62,715,440.00	81%
Agriculture, Livestock and Fisheries	900,976,108.00	787,734,117.00	87%
Energy Transport and Public Works	548,300,000.00	529,002,113.85	96%
Commerce, Trade, Industry and Tourism	103,255,000.00	25,527,043.50	25%
Education & Technical Training	52,800,000.00	29,659,070.65	56%
Health And Sanitation	743,487,027.50	455,869,301.75	61%
Lands, Housing & Physical Planning	63,700,000.00	1,231,041.35	2%
County Public Service Board	-	-	-
Youth, Culture, Gender, Social Services & Special Programs	100,000,000.00	35,956,814.00	36%

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Environment & Natural Resources	95,000,285.00	44,550,650.00	47%
Public Service Administration	-	-	
Water & Irrigation	85,500,000.00	51,396,096.00	60%
Murang'a Municipality	122,039,146.60	-	-
County Assembly	50,000,000.00	14,158,208.00	28%
TOTAL	**2,942,057,567.10**	**2,037,799,896.10**	**69%**

The Department of Energy, Transport and Public works had the highest absorption of 96%. This was realised through the implementation of community projects, one of the county government's flagship projects. This project involves equitable development of the wards through infrastructural development of ECDE centres, health centres, and development of road networks.

The Department of Agriculture, Livestock and Fisheries had the second highest absorption rate at 87%. This department was involved in the implementation of the guaranteed minimum returns flagship project which entails incentivizing dairy and mango farmers to increase production. Equally, the department has been implementing the National Rural Inclusive Growth Project (NARIGP). This is a World Bank project that involves supporting community driven development; strengthening producer organisations and value chain development; and supporting county community led development. Within the fiscal year 2023/2024, the County Government availed its share of counterpart funding to this program in full, including the previous years' allocation. While the program is coming to its closure, its successor the National Value Chain Development Program (NAVCDP) will consolidate the gains emanating from NARIGP and continue supporting the existing beneficiaries as well as include new additional beneficiaries. Full absorption of the two donor grants in this department coupled with implementation of the guaranteed minimum returns program enhanced the absorption rate. The county government will continue to support the agricultural sector with a view to enhancing the standards of living in the county.

The Department of Finance, IT and Planning, had a high absorption rate due to automation by the ICT sector. The county automated revenue collection, physical planning and building approvals, human capital recruitment process, and health information management systems. In future, this sector will be domiciled in the Lands Department. Automation is expected to raise the county's level of efficiency and therefore enable it achieve its targeted outcomes.

The Department of Health and Sanitation undertook new construction, completion, upgrading and equipping of county's health facilities. Within the year, the department improved existing wards, constructed new ones, installed additional oxygen plants in Murang'a level 5 hospitals; improved Maragua level V hospital; constructed Kirwara Hospital, and improved several dispensaries within the county. Some of these are rolling projects and will run into the fiscal year 2023/2024.

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In an effort to support micro and medium small enterprises that had supplied the County Government with various categories of goods, works and services, the County Government prepared a plan to settle all eligible outstanding bills. The County has initiated measures to control accumulation of colossal pending bills. These measures include: prioritizing pending bills as the first charge in the following fiscal year; monitoring and matching budget implementation with realizable own source revenues and proper project planning to avoid unexpected project costs variation.

It is worth noting that as a result of the way expenditure is classified, the County Government is undertaking programs that are classified as recurrent, but are still aligned to the United Nations Sustainable Development Goals (SDGs). As such, some of the programs classified as recurrent have developmental outcomes and, therefore, they would qualify as developmental expenditure. Such programs include: the universal healthcare program targeting the vulnerable; the scholarship program (bursary) meant to ensure quality education and address poverty; and the school feeding program which is meant to raise enrollment in ECDEs thus addressing SDG Goal 4 on quality education.

2.2.2.3 Implications for the FY 2023/24 performance

Given that the fiscal year 2022/2023 was a transition year, the previously approved development plans had to be amended and the County Integrated Development Plan completed. Various key constitutional office holders had to be appointed and inducted. These are some of the challenges that may have affected budget implementation. Despite this, the County Government managed to implement transformative programs during the fiscal year and attain 86% budget absorption rate.

The fiscal year 2023/2024 has started in earnest with all the above challenges resolved. The County Government has a clear road map of what it plans to achieve in the medium term and has identified the means to achieve these plans. The County Government has partnered with the National Government to implement various programs that will address inequality challenges at the county level. To this end, the County Government has planned to develop an industrial park. This is expected to create employment and raise the income levels of the local population. The County Government plans to clear the verified pending bills within the first half of the year 2023/2024.

In the County Government's assessment, although most of the shocks that affected the year 2022/2023 are still lurking, they will be addressed, especially because the National Government has committed to release exchequer requests promptly. As such, the County Government anticipates that the implementation of the budget for the fiscal year 2023/2024 will be smooth.

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3. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3.1 INTERNATIONAL ECONOMIC ENVIRONMENT

Global economic growth is projected to increase by approximately 2.8% in the year 2023 down from 3.4% in the year 2022 and to grow moderately to 3% in 2024. The decline in 2023 has been attributed to reduced economic activity in the advanced economy, caused by increased concerns about financial markets uncertainty, particularly persistent high interest rates and vulnerability of banking sector.

In the advanced economy group, growth is expected to grow by 1.2% in 2023 and improve to 1.4% in 2024. In the emerging market and developing economies (EMDEs), growth is projected to slowdown, from an estimate of 4.0 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024.

In Sub-Saharan Africa, growth is projected at 3.6 percent in 2023, and improve to 4.2 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.1 percent, and 5.3 percent in 2023, respectively. In 2024, they are expected to grow by 3.0 percent (Nigeria), 1.8 percent (South Africa), and 5.4 percent (Kenya).

Global financial conditions are expected to remain volatile, due to uncertainties with regard to the pace of monetary policy tightening in major economies as major central banks continue to raise interest rates to reign on inflation. This increase in interest rates could raise the risk of vulnerabilities in emerging market economies, increase debt servicing costs and capital outflows, and reduce credit availability for borrowers relying on foreign lenders. Another key downside risk to the outlook relates to the uncertain course of Russia's war against Ukraine and the associated risks of renewed disruptions in global energy and food markets. On the upside, reduced uncertainty from an early end of the war, easier-than-expected financial conditions, more robust labour force growth, and greater use of accumulated savings by households and businesses would improve growth and investment prospects. However, the impact of these individual shocks on inflation could vary (OECD, 2023).

From the foregoing, the OECD proposes various measures that can be undertaken to address the challenges. These interventions include: maintaining restrictive monetary policy until there are clear signs that underlying inflationary pressures are controlled. This should be implemented while ensuring that liquidity is maintained in the financial system and contagion risk minimized. Careful choices should be undertaken to preserve scarce budget resources for future policy priorities and ensure debt sustainability. Finally, enacting measures that boost

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supply in the economy. These measures range from strengthening investment, enhancing productivity through skills improvement and removing barriers to labour formalization.

3.2 Domestic Economic Environment

3.2.1 Gross Domestic Product (GDP)

In 2022, Kenya's real GDP grew by 5.6% down from 7.5% realized in 2021. This growth was mainly driven by growth of the services sector that includes financial services, tourism and transport sector. Financial services grew due to strong private sector credit growth and lending to the Government. Tourism sector experienced increase in number of international arrivals due to international conferences and number of visitors to museum and national parks. Other sectors that contributed to the growth are wholesale and retail trade, real estate and information and communication. This growth was greater than 3.6% realized in the Sub Saharan region. During the year, the economy faced challenging global financial conditions, fuel and food price shocks, a severe drought in the last half of the year coupled with the General Elections of 2022.

In 2023, real GDP is projected to rise to 5% in 2023 and to 5.2% in 2024-2025. Real per capita income is also projected to increase by 3.1% in the medium term. Robust growth in GDP will be driven by the Government's fiscal consolidation efforts that will lower financing needs of the Government and expand funds available for lending to the private sector. The tourism sector and foreign remittances are expected to continue growing. Equally, recovery of the Agriculture sector arising from reliable rainfall and resilience of the services sector will contribute to supply driven growth.

The economy, however, faces various risks which in the event they materialize would affect growth as anticipated. If the economy experiences short rains, inflationary and food security pressures would worsen. Political uncertainties and tension could constrain activities of contact intensive activities like education, hotels and accommodation. A weak global demand as a result of geopolitical risks could hurt Kenya through lower net exports and foreign investments. Projected slowdown in the developed economies could also affect recovery of the tourism sector and remittances.

3.2.2 INFLATION

Inflation rate is expected to rise to 7.8% in 2023 from 7.6% in 2022. The increase in prices has been driven by the declining shilling that has affected import of commodities to the country. This has further been affected by increase in fuel prices and electricity tariffs. The expected rains leading to high agricultural output, declining global commodity prices and ongoing Government fertilizer subsidy program could bring inflation down.

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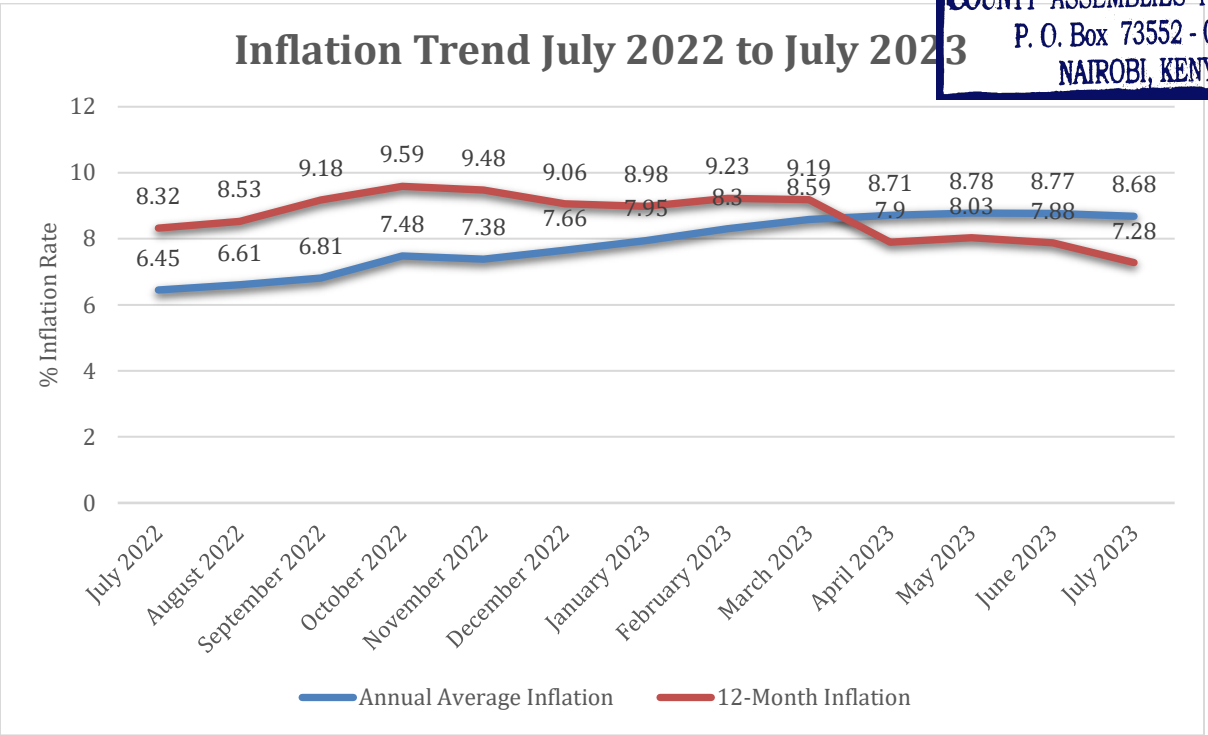

Source: Central Bank of Kenya.

3.2.3 EXCHANGE RATE

The Kenya Shilling depreciated against major currencies among them the Dollar, the Euro and the Sterling Pound. Against the dollar, the Kenya Shilling depreciated by 20.5% in the 12-month period ending in August 2023. This was majorly driven by increased interest rates in the advanced economies in response to inflationary pressures in those economies. The shilling was, however, supported by increased remittances, adequate foreign exchange reserves and improved export receipts. The outlook of the Kenya shilling is still bleak, especially if the advanced economies continue raising interest rates to control inflation.

3.2.4 COUNTY ECONOMIC OUTLOOK

The County Government is implementing programs that are meant to support its agriculture based economy. In the previous year, the County Government implemented the Murang'a County Agricultural Farm Input Subsidy. This fund is meant to support farmers in the milk and mango value chains in order to increase their production and thus raise their household incomes. Further to this, the County Government aggregated farmers into co-operative societies to market their produce. The County Government will enroll additional farmers into this program in order to increase the number of beneficiaries. The long term plan of the County Government is to bring the peasant farmers into the mainstream economy.

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In the year 2023/2024, the County is supporting the lower zones of Murang'a that remain marginalised due to the harsh prevailing climatic conditions. Intervention in this regard has seen the introduction of sorghum cultivation as well as Rhodes grass. This initiative is meant to raise the incomes of farmers in the medium term and cushion them from the effects of harsh economic conditions.

The County Government is also implementing a youth empowerment program to address challenges facing the youth, including: unemployment, drug abuse, and lack of skills. The youths enrolled in this program will gain practical skills through community service and will earn a stipend.

On revenue, the County Government is streamlining collection of its own source revenue in order to maximize revenue. It is also working closely with various development partners to ensure that various donor funded projects achieve their intended outcomes and hence qualify for any additional funding as a result of compliance with the set guidelines.

These programs coupled with the ongoing infrastructure development that the County Government is undertaking will support the county economy in the current year and in the medium term.

3.3 Risks to the Outlook

The county economy is still exposed to various risks that affect the country, including the ongoing Russia - Ukraine conflict, which has the potential to disrupt global supply chains with the net effect of raising commodity prices of oil and other goods and, as a result, leading to higher inflation. This could affect the incomes and welfare of the citizens.

The county's major economic activity is agriculture. As such, inadequate rainfall could lead to drought and poor harvest. This has the effect of reducing revenues that are realizable from cess on agricultural produce.

The high stock of pending bills inherited from their previous regime continue to pose a risk to implementation and realization of county development objectives. The county is alive to this risk and has put in place measures to ensure that it pays off the bills and ensures that there is no further accumulation of pending bills.

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4. RESOURCE ALLOCATION FRAMEWORK

4.1 Implementation of the FY 2023/24 Budget

The County Government prepared a balanced budget for KShs. 10,758,970,426. This will be funded with: equitable share of KShs. 7,473,786,703, equitable share carried forward from 2022/23of KShs.650,313,248; grants from donor agencies totaling KShs. 502,538,811, grants from National Government of KShs. 657,331,664 and local revenues totaling KShs. 1,475,000,000. The recurrent allocation of KShs. 7,176,918,270 and development allocation of KShs. 3,582,052,155.

The County Government is implementing the budget for the year 2023/2024 smoothly. The County has received its equitable disbursement for the first two months of the financial year 2023/2024. Revenue enforcement measures are ongoing and are expected to net in new business entities that have not paid their permits.

The County Government will consider revising its budget estimates within the year to include various donor grants that were omitted in the main budget. Equally, the supplementary estimates will align various vote codes according to their needs based on absorption levels in the first half of the financial year. While undertaking revision of the estimates, the County Government will ensure that the revision does not deviate from the financial objectives in the County Fiscal Strategy Paper 2023.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in the County Integrated Development Plan 2022-2027 and other county plans; and in accordance with section 107 of the PFM Act 2012 on fiscal responsibility principles. In allocation of resources, the County Government will be looking to achieve more outcomes at the least cost achievable. As such, recurrent allocation as appropriated in the year 2023/2024 shall continue in the year 2024/2025 with insignificant increase to the entities' ceilings.

Table 5 below therefore provides indicative sector ceilings for the 2024/2025 – 2026/27 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

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		Total Budget Kshs.					% Share of Total Expenditure				
Sector	MDAs	Revised Estimates	Estimates	Projections			Ceilings as per Estimates	Ceilings as per CFSP	Projections		
		2022/2023	2023/24	2024/25	2025/26	2026/27	2022/23	2022/23	2024/25	2025/26	2026/27
PUBLIC ADMIN.	Governor's Office	271,763,902	409,906,886	340,449,209	347,462,463	356,253,263	2.8%	3.90%	3.52%	3.52%	3.52%
	Finance	421,896,609	386,669,107	347,140,291	354,291,381	363,254,953	4.3%	4.60%	3.59%	3.59%	3.59%
	County Public Service Board	38,509,490	57,815,881	51,815,881	52,883,288	54,221,235	0.4%	0.73%	0.54%	0.54%	0.54%
	ICT & Public Service	760,130,876	1,107,520,241	1,027,900,964	1,049,075,724	1,075,617,339	7.8%	7.15%	10.62%	10.62%	10.62%
	Education & Technical Training	729,763,868	843,117,284	708,690,284	723,289,304	741,588,523	7.4%	6.83%	7.32%	7.32%	7.32%
	Municipality & Urban Development	188,649,062	89,370,000	86,370,000	88,149,222	90,379,397	1.9%	1.18%	0.89%	0.89%	0.89%
	County Assembly	977,000,000	900,709,033	763,642,935	779,373,979	799,092,141	10.0%	10.50%	7.89%	7.89%	7.89%

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	Agriculture Livestock Fisheries & Veterinary Services	1,140,761,143	1,277,191,101	1,265,691,101	1,291,764,338	1,324,445,975	11.6%	10.41%	13.07%	13.07%	13.07%
	Trade, Investment & Industrialisation	152,408,307	711,543,600	167,870,706	171,328,843	175,663,462	1.6%	2.84%	1.73%	1.73%	1.73%
	Roads, Housing and Infrastructure	570,058,800	682,135,387	681,135,387	695,166,776	712,754,495	5.8%	8.11%	7.04%	7.04%	7.04%
	Youths,Sports, culture Gender and Social Services	166,306,085	243,367,167	233,570,667	238,382,223	244,413,293	1.7%	1.71%	2.41%	2.41%	2.41%
	Lands Physical Planning and Urban Development	95,116,078	97,059,460	96,059,460	98,038,285	100,518,654	1.0%	0.59%	0.99%	0.99%	0.99%
	Water, Irrigation,Environment and Natural Resources	293,863,536	302,437,501	419,987,501	428,639,244	439,483,816	3.0%	0.87%	4.34%	4.34%	4.34%
Health	Health Services	3,997,652,201	3,650,127,777	3,490,247,054	3,562,726,371	3,652,884,891	40.8%	39.23%	36.05%	36.06%	36.06%
	Total	**9,803,879,956**	**10,758,970,426**	**9,680,571,440**	**9,880,571,440**	**10,130,571,440**					

Table 5 Summary of Indicative Sector Ceilings for FY 2024/25 and the MTEF[1]

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In the above ceilings, the total budget expenditure equals the revenues expected in the medium term and thus the budget is balanced. The ratio for development budget to the total budget is set at 30% and counterpart funding required by the various development partners has been factored.

4.3 The Proposed 2024/25 and the Medium Term Budget Framework

In the fiscal year 2024/25, the County Government expects an equitable allocation of KShs. 7.5bn, local revenues of KShs. 0.8 bn, conditional grants of KShs. 269.6 bn funds and donor grants of KShs. 510.9 bn.

4.3.1 Revenue Projections

PROJECTED REVENUE BUDGETS PER SOURCE FOR F/Y 2024/25 to 2026/27			
FINANCIAL YEAR	**2024/25**	**2025/26**	**2026/27**
Equitable share	7,500,000,000	7,550,000,000	7,600,000,000
Equitable share C/F	600,000,000	600,000,000	600,000,000
Local Revenue	800,000,000	950,000,000	1,150,000,000
Donor Grants	510,992,250	510,992,250	510,992,250
Grants from National Government	269,579,190	269,579,190	269,579,190
TOTAL REVENUE(KSHS)	**9,680,571,440**	**9,880,571,440**	**10,130,571,440**

In projecting the estimates of revenue, the County Treasury has taken a conservative approach. Going by past history, there is likelihood that KShs. 600m being equivalent to one month disbursement will be carried forward to the FY 2024-2025 alongside the June 2024 staff salary. Own Source Revenue is expected to grow to KShs. 0.8 bn. The County shall also comply with the set conditions from the various grants partners to ensure that this source of revenue is fully maximized.

4.3.2 Projected Fiscal Balance

The proposed county budget 2024/25 and the medium term is balanced. Any shortfall in revenue that may occur within the period will be addressed through a supplementary budget in accordance with the Public Finance Management Act 2012.

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5. CONCLUSION

Due to the prevailing economic situation, the County Government shall continue to exercise prudence in its expenditure and budget management. Further, it shall continue to monitor closely risks that could affect the realization of its objectives, including: the ongoing economic shocks of rising inflation, interest rates; security shocks affecting the global economy; and the adverse effects of climate change causing unpredictable rain patterns.

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

The ceilings indicated shall be re-evaluated and firmed up in the County Fiscal Strategy Paper 2024. These provisional ceilings shall act as a guide to departments in preparing their budgets for the year 2024/25. However, once the ceilings for the medium term period 2025/26 and 2026/27 are firmed in the CFSP, they shall be expected to remain the same unless there is a significant change in the county's macroeconomic indicators and assumptions of revenue sources.