

The National Treasury  
Harambee Avenue, Treasury Building,  
P.O Box 30007-00100 Nairobi  
Tel. +254 20 2252299  
Email: [pstnt@treasury.go.ke](mailto:pstnt@treasury.go.ke)



THE NATIONAL TREASURY  
AND ECONOMIC PLANNING

COUNTY GOVERNMENT BUDGET MANUAL 2024

# COUNTY GOVERNMENT BUDGET MANUAL

## 2024

---

## Foreword



Budgets are tools for implementing government programmes and policies. They are the means by which the strategic objectives of our country are realised by translating strategic goals and objectives into programmes that meet the social, political and economic needs of the people. Budgeting is also the process through which resources are allocated to county governments, and how those governments allocate resources to their priorities.

The National Treasury and Economic Planning has developed this County Government Budget Manual. It sets out the legal provisions, rules, regulations, practices and procedures to guide county governments on the budget process. The manual is intended for use by budget practitioners, public finance management officials, Members of County Assemblies and other stakeholders involved in the budget process. It will serve to improve county government budgeting and financial management.

Over the past two decades, the national government has undertaken a series of public financial management (PFM) reforms to improve the efficiency and effectiveness of public spending. These included introducing medium-term budgeting or what is popularly known as the Medium Term Expenditure Framework (MTEF) in 2000/01; integrating the internationally recognised Government Finance Statistics in the Standard Chart of Accounts (SCOA) and re-engineering the Integrated Financial Management Information System in 2008/09; adopting Programme Based Budgeting (PBB) with effect from 2012/13 and in line with the Public Finance Management Act 2012 (PFMA); and more recently reforms in Public Investment Management (PIM). The adoption of the Constitution of Kenya, 2010 and enactment of the PFMA and accompanying regulations have made these reforms even more important, considering the need to link budgets with tangible results for the citizens of Kenya.

---

The main sections of this manual present key principles and concepts that should underpin the approach to budgeting. The annexes provide technical tools that will support practitioners in their daily work.

Budget formulation requires that choices between different priorities be informed by strong technical analysis – and the PFMA enjoins the government to reform the budget process in line with best practice. This demands capacity building among PFM officials and other stakeholders. Publication of the County Government Budget Manual is an important contribution to building PFM capacity across the government.

A central tenet of effective budget preparation is the full participation of all stakeholders. I therefore call upon all Kenyans to actively participate in the annual budget process to ensure that the budget has wide ownership and that it addresses the most relevant priorities that have maximum benefits to the citizenry.

**NJUGUNA NDUNG’U, CBS**  
**CABINET SECRETARY**

---

## Statement of the Chairperson, Council of Governors



The promulgation of the Constitution of Kenya 2010 brought forth several reforms, key among them is a devolved system of governance. Chapter 12 of the Constitution outlines the principles of Public Finance for both levels of government and in particular Article 201 emphasizes that financial management shall be responsible, and fiscal reporting shall be clear, and also maintain openness and accountability, including public participation in financial matters.

The County Governments Budget Manual has therefore been prepared in strict compliance with these provisions of the Constitution and other Public Financial Management laws and Regulations and tailored to the context of Kenyan County governments.

Overall, County governments have been preparing their budgets since the advent of devolution as required by law. However, the process has neither been consistent nor harmonious across the 47 Counties. There have also been capacity challenges due to high turnover and natural attrition among other challenges across the Counties. The County Governments Budget Manual will therefore be instrumental in improving the effectiveness, transparency, and accountability of budgetary processes at the County level.

The manual provides clear instructions and guidance on the steps involved in the budgeting process to ensure consistency, efficiency, compliance with relevant laws and regulations by clearly outlining the roles and responsibilities of different stakeholders, as well as the criteria and procedures for allocating resources and management and control of expenditure. It will also serve as a tool for capacity building; providing training materials and resources to enhance the skills of County governments' officials involved in the budget preparation process; provides common templates, timelines, tools and methodology for budget making and in so doing creates a 'level playing field' for all Counties on the structure, process and procedure of budget preparation.

---

I acknowledge the National Treasury's initiative and in fulfilment of the provisions of the law that the manual was prepared through a participatory process that involved technical officers from the County Governments and COG. This is also in line with Fourth Schedule and the PFM Act where the National Government is assigned among other functions, capacity building and technical assistance to the Counties.

The 47 County Governments on their part are also committed to continue working closely with the National Government to ensure that the principles of Public Finance are promoted through efficient and effective planning and budgeting and respond to any other matter that may arise within the intergovernmental fiscal relations space. County governments have been preparing and implementing their own budgets setting out priorities, programmes and initiatives that have supported them to improve delivery of devolved services to citizens since the advent of devolution. The manual shall support the County governments to refine their budgeting process to align with the Constitutional and legal timelines and similarly provide adequate guidance to County PFM Officers.

Aware of the need for coordination and consultation between the National Government and County Governments, Section 19 of the Intergovernmental Relations Act (IGRA, 2012) established the Council of Governors charged with the responsibilities to, among others, provide a forum for (i) consultation amongst County Governments (ii) sharing of information on the performance of the Counties in the execution of their functions with the objective of learning and promotion of best practice and where necessary, initiating preventive or corrective action. Premised on the above, the COG will continue to coordinate any engagement between the two levels and among the Counties on the dissemination, operationalization, review and continuous capacity building.

**H.E ANNE WAIGURU, EGH**  
**CHAIRPERSON COUNCIL OF GOVERNORS**

---

## Acknowledgement



The preparation of this County Government Budget Manual was a collaborative effort across government. I wish to recognise and express my thanks to all those individuals and institutions that were in one way or another involved in this process. I also acknowledge the support received from the PFM Reform Secretariat, which facilitated meetings and workshops that brought together different stakeholders, county departments and agencies and departments

within the County Treasuries to draft the manual.

In particular, I wish to acknowledge the role played by the Director General - Budget, Fiscal and Economic Affairs Directorate, Mr. Albert Mwenda, MBS for providing leadership in the process; Director of Budget, Mr. Francis Anyona, MBS, in providing technical guidance and coordinating the process; and the devoted efforts of the members of the Budget Policy Unit headed by Mr. Samuel Kiiru, Director of Planning/Budget. In addition, the Intergovernmental Fiscal Relations Department team led by Ms. Elizabeth Nzyoka, Director Planning/IGFRD has provided expert guidance for this manual. I also acknowledge the sector Conveners and Co-conveners together with their technical teams in the secretariat for their contributions, which greatly enriched this publication.

I also want to recognise the valuable inputs from Macro Fiscal Affairs, Government Investment and Public Enterprises, Public Investment Management, Resource Mobilisation and their representatives who participated in the development of the manual. Special thanks to the Council of Governors, County Executive Committee Members for Finance and officers from county departments and agencies that worked with us in developing the manual. I also wish to thank the administrative and support team of the National Treasury and Planning, which provided logistical and administrative services.

---

The National Treasury acknowledges the technical assistance provided by the International Monetary Fund's Regional Technical Assistance Centre for East Africa during the drafting process – in particular the contributions received from Messrs. Imran Aziz, Samuel Moon, Matthew Quillinan, Greg Rosenberg and Gerhard Steger. We further acknowledge the support of Japan International Cooperation Agency (JICA) in the development, drafting and publication of this manual.

This manual will create awareness of the budget formulation process and motivation to abide by international best practices – and in so doing, support efficient and effective public spending. The manual will be reviewed and updated as and when need arises, especially when there are changes in laws, regulations, and guidelines.

**DR. CHRIS K. KIPTOO, CBS**  
**PRINCIPAL SECRETARY NATIONAL TREASURY**

---

# Contents

<b>Foreword</b>	<b>1</b>
<b>Statement of the Chairperson, Council of Governors</b>	<b>3</b>
<b>Acknowledgement</b>	<b>5</b>
<b>Abbreviations</b>	<b>8</b>
<b>1 Purpose and structure of the manual</b>	<b>9</b>
1.1 Purpose of the manual	9
1.2 Structure of the manual	9
<b>2 Legal, regulatory, institutional and stakeholder framework</b>	<b>12</b>
2.1 Legal and regulatory framework	12
2.2 Institutional framework	12
2.3 Role of stakeholders in the budget process	16
<b>3 Principles and concepts for sustainable budgeting</b>	<b>18</b>
3.1 Overview	18
3.2 The concept of medium-term budgeting	18
3.3 A rolling medium-term expenditure framework	19
3.4 Budget baseline	19
3.5 Fiscal rules	25
3.6 Fiscal space	27
3.7 Expenditure ceilings	28
<b>4 Preparing the county budget</b>	<b>30</b>
4.1 Overview	30
4.2 Budget cycle and calendar	30
4.3 Purpose and timing of the macroeconomic projections	31
4.4 Setting the framework for budget preparation	32
4.5 Conducting the budget baseline	33
4.6 Comparing baseline results with Fiscal Responsibility Principles	36

4.7	Setting medium-term expenditure ceilings	37
4.8	Final budget preparation and budget approval	40
<b>5</b>	<b>Costing the county budget</b>	<b>43</b>
5.1	Overview	43
5.2	Rationale for a costing methodology	43
5.3	Costing techniques	44
5.4	Application of the costing tool	48
5.5	Conducting a budget baseline forecast for the recurrent budget	49
5.6	Conducting a budget baseline forecast for the development budget	53
<b>6</b>	<b>Budgeting and monitoring for results</b>	<b>60</b>
6.1	Overview	60
6.2	Using PBB for budgetary decision-making	60
6.3	Programme classification	61
6.4	Alignment of organisational structures and programmes	62
6.5	Design of effective results chains	64
6.6	In-year and end-year reporting on outputs and outcomes	66
	<b>Glossary</b>	<b>69</b>
	<b>Annex 1: County budget calendar</b>	<b>60</b>
	<b>Annex 2: Sector-specific action plan template</b>	<b>72</b>
	<b>Annex 3: Programme-based budgeting templates for planning and budgeting</b>	<b>78</b>
	<b>Annex 4: S.M.A.R.T and C.R.E.A.M methodology</b>	<b>81</b>
	<b>Annex 5: Programme monitoring and evaluation template</b>	<b>83</b>
	<b>Annex 6: Sub-programme monitoring and evaluation template</b>	<b>85</b>

---

## Tables:

Table 5 1: Examples of applying quantity x price	46
Table 5 2: Project status definitions	53
Table 5 3: Costing considerations for project prerequisites	57
Table 5 4: Costing/baseline implications on the project status	59

## Figures:

Figure 4 1: Key phases of the county budget preparation calendar	31
Figure 4 2: County budget calendar	32
Figure 5 1: The costing process	43
Figure 6 1: Illustration of PBB architecture	62
Figure 6 2: Conducting policy diagnosis: the challenge tree	65
Figure 6 3: Conducting policy diagnosis: the challenge tree	65

## Boxes:

Box 4 1: The budget review process of the County Treasury	34
Box 4 2: Variation of fiscal space	37
Box 4 3: How updated macroeconomic forecasts can affect spending ceilings	38
Box 4 4: Options for reducing a budget requirement	39
Box 4 5: Budget documents for submission to the County Assembly as per the PFMA	40
Box 5 1: Examples of key expenditure and revenue drivers	44
Box 5 2: Examples of ad hoc spending	47
Box 5 3: Factoring salary and wage increases into the budget baseline calculation	50
Box 5 4: Defining multi-year commitments	54
Box 5 5: Routine and periodic maintenance	55
Box 5 6: Factors to be considered in potential project termination	56
Box 6 1: Tasks for lead and contributing delivery units	63
Box 6 2: Governance arrangements for linking programme and organisational structures	63

---

## Abbreviations

<b>C-BROP</b>	County Budget Review and Outlook Paper
<b>CEC</b>	County Executive Committee
<b>CECMF</b>	County Executive Committee Member for Finance
<b>CFSP</b>	County Fiscal Strategy Paper
<b>CIDP</b>	County Integrated Development Plan
<b>CIMES</b>	County Integrated Monitoring and Evaluation System
<b>CSWG</b>	County Sector Working Group
<b>FRP</b>	Fiscal Responsibility Principle
<b>GDP</b>	Gross domestic product
<b>IMF</b>	International Monetary Fund
<b>KWh</b>	Kilowatt hour
<b>MTEF</b>	Medium Term Expenditure Framework
<b>MTFF</b>	Medium Term Fiscal Framework
<b>PBB</b>	Programme-based budgeting
<b>PCN</b>	Project concept note
<b>PFM</b>	Public financial management
<b>PFMA</b>	Public Finance Management Act, 2012
<b>PIM</b>	Public investment management
<b>PPP</b>	Public-private partnership
<b>RAP</b>	Resource Allocation Panel
<b>SCOA</b>	Standard Chart of Accounts

---

# PURPOSE AND STRUCTURE OF THE MANUAL

## 1.1 Purpose of the manual

1. The purpose of this manual is to provide guidance on the county government budget process. It provides key stakeholders, including budget practitioners, PFM officials and Members of County Assembly with a "one-stop-shop" reference document for all key stages in the budget process.

## 1.2 Structure of the manual

2. The main sections of the manual cover principles and concepts that support sustainable budgeting. The manual is organised as follows:

**Chapter 1** provides the purpose and structure of the manual.

**Chapter 2** sets out a broad overview of the legal and institutional framework that underpins the budget process.

**Chapter 3** introduces key elements of sustainable budget preparation, centred on the development of the budget baseline. It outlines fiscal rules, fiscal space and the use of expenditure ceilings, which are introduced in the context of fiscal responsibility principles.

**Chapter 4** applies these principles to form guidelines for the county budget preparation calendar and the role of different stakeholders in the preparation of the budget. It further outlines the analysis and review to ensure that fiscal discipline is maintained and that spending is prioritised within stated expenditure limits

**Chapter 5** provides the rationale for costing methodology for the recurrent and development budgets. It introduces different costing techniques, provides an overview of the costing tool, and sets out guidance on how to conduct a budget baseline.

**Chapter 6** introduces the concept of programme based budgeting and its application in budgeting, planning, monitoring and evaluation of government policies.

Annexures provide technical tools and templates that will support practitioners and will be issued through regular County Treasury circulars as part of the budget process.

---

# LEGAL, REGULATORY, INSTITUTIONAL AND STAKEHOLDER FRAMEWORK

3. This chapter sets out a broad overview of the legal and institutional framework that underpins the budget process. It provides an overview of the legal and regulatory framework and sets out the institutional framework for expenditure prioritization.

## 2.1 Legal and regulatory framework

4. Preparing the county budget involves several interrelated components. Budget preparation is a process through which county departments and agencies plan, prepare, approve, implement and account for public resources. This process includes:

- The review of existing policies and the formulation of new ones
- Strategic and operational planning
- Budget formulation, adoption and approval
- Budget implementation or execution
- Accounting for resources and reporting
- Monitoring and evaluation
- Audit.

5. These processes are enshrined in various legal and regulatory frameworks, which include:<sup>1</sup>

- Constitution of Kenya, 2010 – in particular Chapter 12
- Public Finance Management Act, 2012
- Public Financial Management (County Governments) Regulations, 2015
- Public Finance Management (Public Investment Management) Regulations, 2022 – hereafter referred to as the PIM Regulations.
- Public Procurement and Asset Disposal Act, 2015
- Public Audit Act, 2015
- Public Procurement and Asset Disposal Regulations, 2020
- Division of Revenue Acts
- County Allocation of Revenue Acts
- County Governments Additional Allocations Acts
- County Governments Act, 2012
- Other legal and regulatory frameworks.

---

<sup>1</sup>For the legislation and regulation listed the year reflects the year of promulgation, subsequent references in this manual will not include the year of promulgation, unless otherwise specified.

---

## 2.2 Institutional framework

### 2.2.1 Sector classification

6. For purposes of budget preparation, county departments and agencies are organised into sectors that share goals across a range of closely related functions. Using the United Nations Classification of the Functions of Government, which allows for international comparability, county government functions are mapped into the following sectors:

- Agriculture, Rural and Urban Development
- Education
- Energy, Infrastructure and Information, Communication and Technology
- Environment Protection, Water and Natural Resources
- General Economic and Commercial Affairs
- Health
- Public Administration and Intergovernmental Relations
- Social Protection, Culture and Recreation.

### 2.2.2 County Sector Working Group composition

7. In each of the 8 sectors, County Sector Working Groups (CSWGs) are responsible to prioritise and formulate sector budget proposals. The composition of CSWGs is as follows:

- The Chairperson is an Accounting Officer chosen by consensus from among the Accounting Officers in a respective sector
- The Convener is appointed by the County Treasury
- The Co-Convener is appointed by the department responsible for county economic planning
- The Technical Working Group appointed by the CSWG
- The Secretariat, consisting of technical officers appointed by respective Accounting Officers<sup>0</sup> of county departments and agencies in the sector to coordinate activities
- Representatives from development partners who support county departments and agencies in a given sector
- Representatives from civil society
- Representatives from the private sector.<sup>2</sup>

---

<sup>2</sup>For example, representatives of the Kenya Private Sector Alliance and the manufacturing sector.

---

8. The CSWG guides the prioritisation process to ensure that the available resource envelope is aligned with identified competing priorities. Following the first estimate of the macro and fiscal forecasts, CSWGs prioritise and formulate sector budget proposals. Sector Conveners and Co-Conveners from the County Treasury, together with representatives from county departments and agencies, rationalise and prioritise funding proposals through a series of working sessions using agreed criteria, such as:

- Achieving the objectives of County Integrated Development Plans (CIDPs) and national development plans
- Furthering constitutional objectives
- Creating jobs and reducing poverty
- Achieving the core mandate of county departments and agencies
- Expected outputs and outcomes
- Cost effectiveness and sustainability of the programme.

### **2.2.3 Terms of reference for County Sector Working Groups**

9. CSWGs are expected to ensure that proposed programmes and projects are in line with the government's economic blueprint. The CSWG process draws on programme-based budgeting, where programmes and projects are analysed and spending proposals are assessed in the context of sector resource ceilings, based on the intended results of the expenditure.

10. The specific terms of reference for each CSWG are to:

- Review sector goals, objectives and strategies and align them with the aspirations of the long-term government's economic blueprint.
- Identify the programmes and necessary policy, legal and institutional reforms required in the sector.
- Prioritise programmes and allocate resources in accordance with agreed criteria.
- Approve the list of projects to be funded and propose the sources of funding.
- Analyse the medium-term cost implications of proposed programmes/projects.
- Identify programmes and projects that may require funding under public-private partnerships (PPPs).
- Analyse baseline expenditures and remove any one-off expenditure for the previous years.
- Allocate resources to projects that have been fully processed and estimate requirements within the project cycle.<sup>3</sup>

- 
- Introduce efficiency savings in sector budgets by reducing operating costs and non-core service delivery activities.
  - Coordinate activities leading to the development of sector reports and indicative sector budget proposals.
  - Identify critical stakeholders and engage them in programme prioritisation.
  - Implement any other requirements that may be prescribed by the County Treasury from time to time.

#### **2.2.4 Resource Allocation Panel**

11. The CSWGs present their proposals for resource allocation to the Resource Allocation Panel<sup>4</sup> in the County Treasury, which reviews the proposals and makes recommendations. The panel consists of members from the following departments (or their equivalents) in the County Treasury:

- The Department responsible for Budget, which chairs and provides the panel secretariat
- The Department responsible for Economic Planning
- The Department responsible for Financial Reporting / Accounting Services
- The Department responsible for Monitoring & Evaluation / Performance Management
- The panel may include any other officer appointed by the accounting officer of the County Treasury.

12. The Resource Allocation Panel scrutinises the prioritised expenditure programmes for policy consistency. This includes reviewing:

- Prioritised projects in the pipeline.
- Budget and project implementation documents for on-going projects.
- Absorption capacity for financed projects.
- On-going project performance
- Proposed budget allocations for compliance with budget circulars.
- The integrity of overall ceilings, including medium-term ceilings, as set out in the fiscal framework.

---

<sup>3</sup>A project being fully processed includes the completion of feasibility and design studies, land acquisition and project approvals.

<sup>4</sup>PIM Regulations 2022 Regulation 27(1)

## 2.3 Role of stakeholders in the budget process

13. Stakeholders play key roles in the budget process and help to ensure adherence to legal and regulatory frameworks. Table 2-1 below outlines the main stakeholders and summarises their primary responsibilities.

**Table 2-1: Key stakeholders in the budget process**

Stakeholder/Institution	Responsibility
Commission on Revenue Allocation	Makes recommendations to guide the basis of equitable sharing of revenue between national and county governments, and submits these to Parliament
	Makes recommendations to guide financing and financial management of county governments, which give effect to the criteria of equitable share.
	Determines policy to identify marginalised areas.
	Develop and issue guidelines on County Own Source Revenue (OSR)
County Executive Committee Member for Finance (CECMF)	Guides the budget process at the county level.
County Executive Committee	Review, consider and approve budget proposals before submission to the County Assembly
County Assembly	Approve allocation of revenue within the county government.
	Reviews and approves the county budget.
	Provides oversight during budget implementation
County Treasury	Guides the county budget preparation and execution process.
County departments and agencies	Contribute to budget preparation and execution within their mandate. Provide technical support on planning, policy formulation, and implementation of policies, projects, and programmes.
Senate / National Assembly	Reviews the Division of Revenue Bill as per the PFMA, determines revenue allocation among counties and exercises oversight of the county budget process.

Controller of Budget	Oversees budget implementation by authorising withdrawals from the Exchequer and other public funds.
	Prepares reports on budget implementation.
Auditor General	Audits accounts of all government entities at national and county level.
National Treasury	Conducts macroeconomic forecasts that culminate in medium-term fiscal frameworks
County Budget and Economic Forum	Provides a means for consultation on matters relating to budgeting, the economy and financial management at the county level.
Citizens	Contribute and give their input on planning and budgeting through public participation.
Non-State Actors	Citizen awareness and advocacy
Development partners	Provide technical and financial assistance.

Source: National Treasury

### 2.3.1 Public participation

14. Consistent with the Constitution and the PFMA, the public has opportunities to participate in the budget process. Article 201(a) and 232(d) of the Constitution Section 87 of the County Government Act Section 125 (2) and Section 137 (3) of the PFMA require the CECMF to ensure public participation in the budget process.

15. Public participation in the budget process has three main objectives:

- To share information and create public awareness on policies, programmes and projects to be undertaken by the government on their behalf;
- To ensure that the issues of concern from the public are considered in the decision-making process.
- To enhance public understanding and collaboration in deciding on programmes and projects that best suit the interests of citizens.

16. Public participation is conducted in line with the budget calendar as guided in the Budget Circular. Such engagements include holding public hearings and invitation of submission of memoranda from stakeholders to give and receive feedback on priority areas

---

# PRINCIPLES AND CONCEPTS FOR SUSTAINABLE BUDGETING

## 3.1 Overview

17. This chapter introduces the key principles of sustainable budget preparation, which include budgeting in a medium-term context, analysis of fiscal space, compliance with fiscal rules, and analysis of fiscal risks.

18. Budgets are policy-making tools. Through the budget, the government translates the county's strategic objectives into programmes and services that meet the social and economic needs of the people.

## 3.2 The concept of medium-term budgeting

19. Medium-term budgeting enables the government to prioritise programmes in the face of resource constraints. Programmes that have the greatest impact on economic and social development should be given priority. Programmes are continuously reviewed for performance to ensure that they are operating efficiently, effectively, and providing the best possible value for money to citizens.

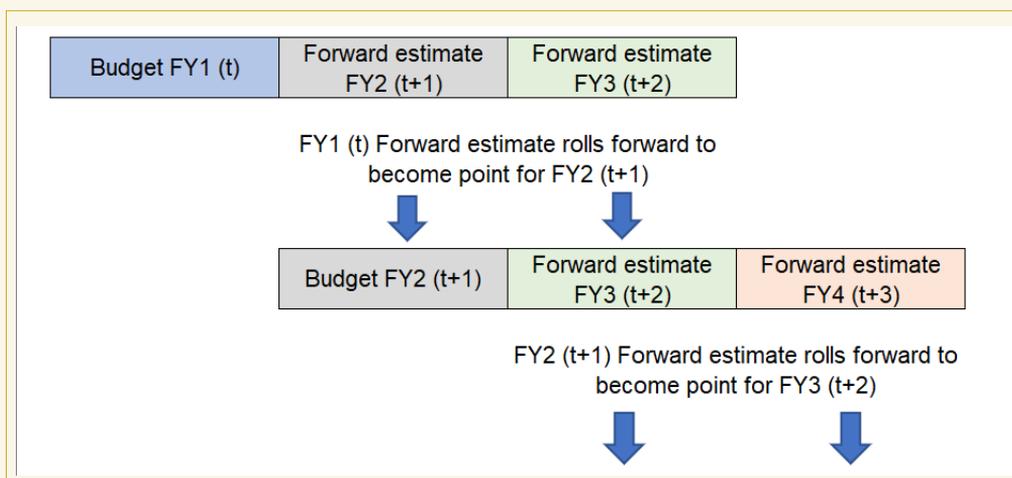
20. The Medium-Term Expenditure Framework (MTEF) sets out the government's three-year spending plans. The MTEF is an annual rolling budget and planning tool. That is, budgets for three financial years are prepared, but the projections are revised annually considering the previous year's performance and incorporating policy changes. The MTEF is underpinned by comprehensive technical analysis and aligned to the Medium-Term Fiscal Framework (MTFF), which establishes a firm expenditure ceiling over the three-year period. This fiscal constraint identifies the sustainable level of expenditure on government's priorities.

21. Medium-term budgeting significantly enhances budget formulation, implementation and monitoring. First, it guards against annual incremental budgeting, by providing a comprehensive and realistic framework for the planning and management of public expenditure. Second, it increases the predictability of resources through more reliable revenue and expenditure estimates over a three-year period. Third, it better links resource allocation to policy and programme priorities, and ensures these priorities are funded.

### 3.3 A rolling medium-term expenditure framework

22. In a rolling medium-term budget plan, the first year forms the base for the following year’s budget (Figure 3-1). Subsequent changes in policies (for example, new priority spending, approved policies and programmes, and adjustments) are added or subtracted to the starting point to provide the updated budget estimates. Changes that have implications for succeeding years are also reflected in the updated forward estimates. Budget resources continue to be appropriated on an annual basis, but the budget planning process includes estimates of expenditure and revenue for the two forward estimate years.

**Figure 3-1: A rolling medium term budget plan**



Source: National Treasury

### 3.4 Budget baseline

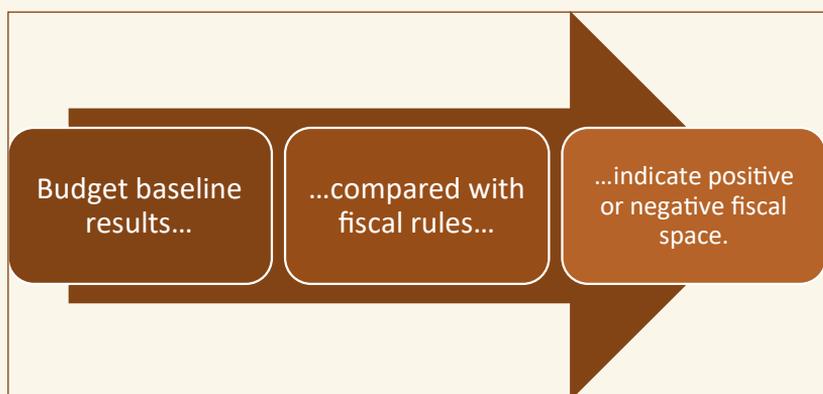
#### 3.4.1 Rationale for the budget baseline

23. A budget baseline shows the budgetary consequences of existing policies for each financial year over the MTEF period. The baseline calculates the cost of current policies (including plans, programmes, projects and activities) in future years—in other words, today’s policies costed at tomorrow’s prices. This includes projections of expenditure, revenue and the budget balance. The expenditure and revenue forecast should be based on a costing methodology as discussed in Chapter 5.

24. The results of the budget baseline should be compared to fiscal rules to determine available fiscal space. Fiscal rules are yardsticks for fiscal sustainability and show whether the government is increasing, decreasing or maintaining fiscal space. Fiscal space is the room in a government’s budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy.

25. The comparison of budget baseline results and fiscal rules reveals whether existing policies will be affordable in the future. Figure 3-2 depicts this process.

**Figure 3-2: How to use a budget baseline**



Source: National Treasury

26. The government then sets expenditure ceilings to comply with available fiscal space. Spending ceilings are the maximum amount that the government allocates in the budget in a given year to a target sector or expenditure category.

### **3.4.2 Scope and timeline of the budget baseline**

27. The baseline covers all existing policies. Existing policies refer to plans, programmes, and projects financed through the various budget votes and expenditure categories.

28. The costing of existing policies is not constrained by expenditure ceilings. The purpose of a budget baseline is to show the budgetary implications of existing policies and compare the results with affordable spending levels as expressed in fiscal rules.

---

The overall magnitude of expenditure on existing policies needs to be revealed to ensure a realistic estimation of their spending impact.

29. The baseline calculation indicates whether required spending for existing policies complies with expenditure ceilings. Baseline results that breach ceilings set in compliance with fiscal rules indicate negative fiscal space and require prioritisation of expenditure to comply with the fiscal rules.

30. Existing or ongoing policies are defined as those currently being implemented, and include new policies formally approved by the County Executive Committee (CEC) or the County Assembly. Proposals that await County government approval are not part of existing policies and are not included in the baseline.

31. Spending dynamics of existing policies are included. If the design of a policy automatically leads to increased expenditure from one financial year to the next (for instance, where beneficiaries of a government transfer increase over time in response to demographic shifts) this is included in the baseline.<sup>6</sup> However, if a sector proposes to enlarge an existing programme by increasing transfers per beneficiary, but the CEC has not yet decided on the proposed increase, it should not be included.

32. Planned efficiency gains should only be factored into the baseline if they are based on approved measures and there is certainty that the efficiency gains will materialise. Efficiency gains are measures aimed at reducing expenditure or increasing revenue.<sup>7</sup> For these gains to be factored into the baseline calculation as existing policy, the measures must first be approved by the responsible authority (CEC or County Assembly) based on realistic costing.

33. To fulfil its purpose, a budget baseline must be comprehensive. The more complete the budget forecast, the more useful it is for credible budget preparation. Table 3-1 indicates what should—and what should not—be included in the baseline.

---

<sup>5</sup>For example, measures from a stimulus package in response to the COVID-19 pandemic.

<sup>6</sup>Examples could include the publicly funded Linda Mama maternity healthcare programme, which aims to ensure that expectant women and infants have access to quality and affordable health services. The number of births per year is a variable that drives the transfer to the National Health Insurance Fund.

<sup>7</sup>Examples of expenditure measures include more efficient administrative structures, steps to combat fraud or waste, or cancelling ineffective programmes. Revenue measures could include improving tax collection efficiency.

**Table 3-1: Calculating the baseline**

Included	Not included
All policies currently being implemented, and new policies formally approved by the CEC or County Assembly	Proposals that await government approval
Automatic adjustments as defined by policy design	Unapproved proposals for design changes to policies
Approved and realistic efficiency gain estimates	Unrealistic expenditure or revenue estimates
Verified pending bills (expenditure arrears)	Unverified pending bills
Multi-annual contractual commitments	
Extra-budgetary funds	
Major fiscal risks that are likely to materialise	

Source: National Treasury

34. A budget baseline needs to be realistic. Revenue and expenditure forecasts should be based on the most likely scenario. Overestimating revenues or underestimating expenditure distorts the purpose of the exercise, which is to depict the most realistic budgetary impact of existing policies (Box 3-1).

**Box 3-1: Avoiding distortions of the budget baseline by overestimating revenue and/or underestimating expenditure**

The hypothetical examples below illustrate the potential costs of overestimating revenues and underestimating expenditure.

**Overestimating revenue:** Overly optimistic revenue forecasting are conducted to simulate room for a certain level of expenditure required to cover high-priority programmes. However, during budget execution, revenue inflow is substantially less than planned, leading to in-year expenditure cuts (particularly for capital expenditure) that hamper planning certainty for county departments and agencies, or higher deficits—or both.

**Underestimating expenditure:** The expenditure dynamic for important categories (such as salaries or transfer schemes) is underestimated to simulate fiscal space allowing for additional prioritised expenditure in other policy areas. However, during budget execution, expenditure in the under-budgeted areas substantially exceeds budgeted amounts, creating the need for in-year budget cuts, or leading to higher deficits—or both.

Source: National Treasury

35. The calculation of the baseline occurs at the beginning of the budget process in July and comprises the three years of the MTEF. Each county department and agency is required to prepare and submit a budget baseline to the County Treasury. The baseline is informed by practical experience and updated information consistent with the budget planning horizon. A detailed schedule of the main stages of conducting the budget baseline exercise is provided in Table 3-2.

**Table 3-2: Stages of the budget baseline process**

Steps	Activity and deliverable	Responsibility	Rationale
1	The budget baseline for each year of the MTEF is calculated using the costing tool and County Treasury guidelines and submitted to the County Treasury.	Relevant county departments in their sectors	Important analytical prerequisites can be done earlier in the year.
2	County Treasury assesses the baseline calculations for validity and proposes adjustments where necessary.	County Treasury	Ensures credibility of baseline calculations.
3	Proposed adjustments to baseline calculations are submitted. The County Treasury conducts a further check and either confirms the estimates or requests additional changes. This process of iterative adjustments continues until the County Treasury is satisfied with the validity of the baseline calculations.	Sectors and their county departments and agencies	If required, meetings are conducted between the County Treasury and sectors and their county departments and agencies to discuss the required adjustments.
4	The budget baseline results of each sector, together with the contributions of other County Treasury units, are integrated into one comprehensive county budget baseline projection, which is factored into key fiscal aggregates to allow a comparison with County Fiscal Responsibility Principles.	County Treasury	This avoids double counting of expenditure and revenue, and explicitly outlines which major fiscal risks have been included in the baseline projection—and to what value.

Source: National Treasury

---

### 3.4.3 Fiscal risks

36. Fiscal risks are factors that can cause fiscal outcomes to deviate from expectations (as contained in the budget or other forecasts). Major areas of potential risk include macroeconomic shocks, and specific fiscal risks associated with expenditure overruns, debt and government guarantees, county corporations, the financial sector, health emergencies and natural disasters among others.

37. Fiscal risk management is an essential part of the County budget process. Decision makers need to be aware of the existence, magnitude, and likelihood of major fiscal risks when preparing the budget. Fiscal risk management includes identifying, quantifying and, where possible, mitigating the impact of such risks.

38. Fiscal risk analysis supports comprehensive budget planning and sustainable public finances. Where the magnitude of fiscal risks is significant, the county government may be justified in taking a more conservative approach to budget decisions. This avoids unexpected revenue shortfalls or expenditure overruns affecting budget sustainability and execution. The county government may also wish to manage certain fiscal risks by specifically budgeting for them.

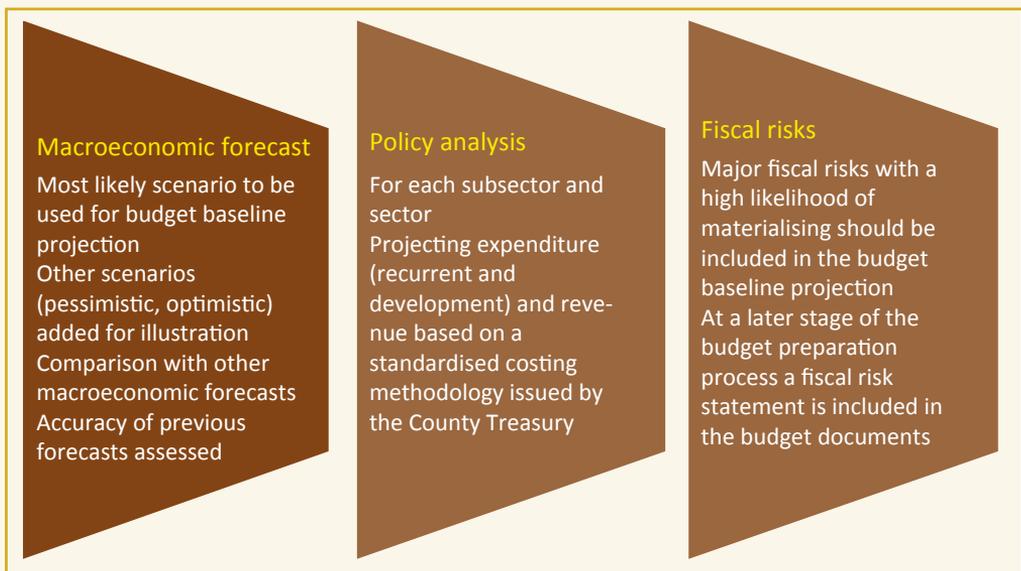
39. The County Fiscal Risk Statement identifies and quantifies key fiscal risks and sets out mitigation measures. It is published as part of the County Fiscal Strategy Paper (CFSP). This is important both to provide a comprehensive view of public finances and for budget transparency.

40. County departments and agencies play a significant role in managing fiscal risks through the budget process. This includes:

- Identification and notification of fiscal risks to the County Treasury. County departments and agencies should provide information to the County Treasury that supports their analysis of fiscal risks, and identify where realisation of a fiscal risk is imminent (e.g. additional expenditure requirements for natural disasters, excessive use of oversight facilities and unpaid bills to contractors leading to potential legal claims).
- Incorporation of high-probability fiscal risks in the baseline. Budget baseline projections should factor in major fiscal risks that are likely to occur. Not all fiscal risks should be included in

the baseline because it would lead to an unreasonable projection. County departments and agencies can assess the likelihood of risk materialisation through analysis of previously occurring risks, modelling and obtaining additional information. Where risks have materialised repeatedly (e.g. persistent expenditure underestimates or infrastructure overruns), costing estimates should be improved. Where periodic risks are expected to occur but remain uncertain (e.g. natural disasters), the County Treasury may wish to specifically provide for them in the baseline. The County Treasury can assist in determining fiscal risks and their budget treatment. Figure 3-3 shows the main elements of a budget baseline forecast for each financial year of the MTEF cycle.

**Figure 3-3: Main elements of a budget baseline projection**



Source: National Treasury

### 3.5 Fiscal rules

#### 3.5.1 Rationale for fiscal rules

41. Fiscal rules are commitments to constrain fiscal policy to ensure sustainable public finances. Setting limits on and targets for key indicators—such as the debt-to-revenue ratio—enables the county government to contain spending pressures and maintain debt sustainability.

42. Fiscal rules should meet several criteria to effectively guide

---

**budget decision-making.** Compliance with the rules promotes long-term fiscal sustainability (especially debt) and stability through decreasing economic volatility. Well-defined fiscal rules can be translated into clear operational guidance through budget instructions. They should be simple to understand and stable over time, and compliance with the rules should be easily verifiable.

### **3.5.2 Fiscal rules and the Fiscal Responsibility Principles**

43. **Kenya's fiscal rules are set out as FRPs.** According to the PFMA and the PFM Regulations (County Governments), 2015 the County Treasury shall enforce the following principles:

- County government recurrent expenditure shall not exceed its total revenue.
- Over the medium term a minimum of 30 percent of the county government budget shall be allocated to development expenditure.
- County government expenditure on wages and benefits for its public officers shall not exceed 35 percent of county revenue.
- Over the medium term, county government borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- County debt and obligations shall not exceed 20 percent of total revenue at any time, and the county annual fiscal primary balance shall be consistent with the debt target.
- Fiscal risks shall be managed prudently.
- A reasonable degree of predictability with respect to tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.
- Short-term borrowing shall be restricted to managing cash flows and, in case of a bank overdraft facility, it shall not exceed 5 percent of the most recent audited county government revenue.

44. **The county government reports annually on the implementation of the FRPs.** This is done through the County Budget Review and Outlook Paper (C-BROP) and the CFSP, which discuss each of the principles and provide data on their implementation.

### 3.5.3 How to use fiscal rules for budgetary decision-making

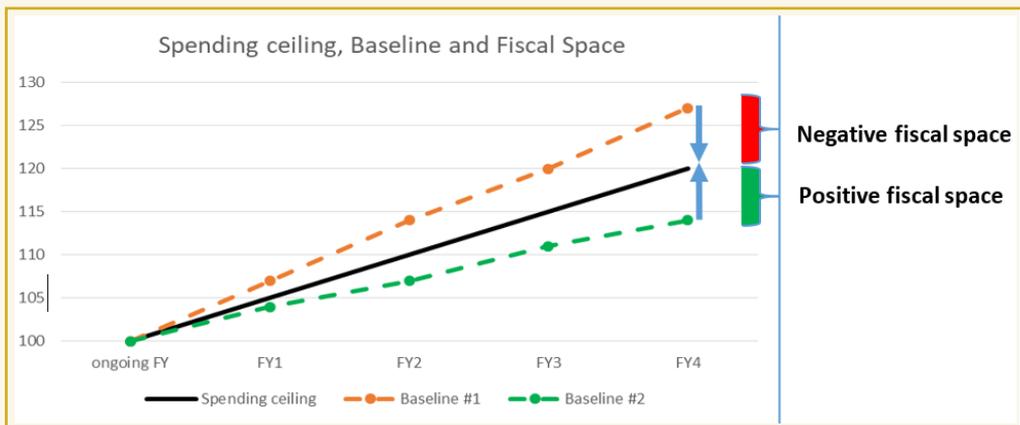
45. County government annual budgets and MTEFs are prepared and executed in line with the fiscal rules. This requires a clear assessment as part of the budget preparation process. Fiscal rules and affordable spending levels can be effectively supported by expenditure ceilings covering the entire budget and the various individual sectors. Fiscal rules enable the county government to gauge the results of the budget baseline projection, creating an important indicator of affordability.

## 3.6 Fiscal space

### 3.6.1 The concept of fiscal space

46. Fiscal space is the room in the budget that allows the government to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy. Positive or negative fiscal space is calculated as the difference between the expenditure levels and budget baseline in line with the fiscal rules. Where fiscal space is positive (revenue available is above the baseline), there is room for additional, sustainable spending, but where it is negative, savings need to be made, or revenue raised to restore the budget to sustainability and/or fund spending decisions. Fiscal space can be adjusted through raising revenue or reducing expenditure in line with fiscal rules. Figure 3-4 outlines the concept of fiscal space.

**Figure 3-4: The concept of fiscal space**



Source: National Treasury

### 3.6.2 How to use fiscal space for budgetary decision-making

47. Awareness of fiscal space is a precondition for good budgetary decision-making. Without knowing the available fiscal space, the budget easily runs into execution challenges because budget policy decisions have not been aligned with fiscal sustainability requirements (Figure 3-5).

**Figure 3-5: Problems when fiscal space is not calculated properly**



Source: National Treasury

48. Fiscal space needs to be disclosed to influence decision-making. Making the comparison of fiscal rules and budget baseline results available informs sound, evidence-based decisions and public debate on the county budget.

49. In case of negative fiscal space, existing policies need to be modified to comply with the fiscal rules. This means that there is no room for new policies prior to modifying existing policies to eliminate negative fiscal space. This can be done either by taking action to increase revenue, cut existing expenditure, or both.

50. Where positive fiscal space is identified, additional policies can be implemented. In such a case, government(s) could budget additional expenditure for new or enlarged programmes, narrow the budget deficit (or increase the surplus) to reduce debt and debt-service costs, or cut taxes.

## 3.7 Expenditure ceilings

### 3.7.1 Rationale for expenditure ceilings

51. Expenditure ceilings limit spending to levels compliant with fiscal sustainability. The total ceiling sets a limit on the county government's overall spending for a specific financial year.

---

County sector ceilings set these limits at the individual sector level. Expenditure ceilings are set for each financial year within the MTEF period.

52. **Medium-term expenditure ceilings must be reliable.** The County Treasury sets expenditure ceilings and ensures they are adhered to. Frequent changes to expenditure ceilings undermine budget and policy planning. Changing the ceiling for a specific financial year should be the rare exception, not the rule, undertaken in response to significant unforeseen shocks (such as the COVID-19 pandemic).

### **3.7.2 Setting expenditure ceilings**

53. **The overall expenditure ceiling reflects the affordable level of total county government expenditure compliant with fiscal rules.** The County Treasury calculates the ceiling, which is reliant on credible revenue estimates. Overly optimistic revenue forecasts would lead to unsustainable expenditure.

54. **The total of sector expenditure ceilings complies with the overall expenditure ceiling.** The sum of all individual county sector expenditure ceilings (including those for debt repayments, contingency funds and so on) must not exceed the overall expenditure ceilings.

55. **Expenditure ceilings must be credible and based on accurate costing.** For ceilings to be effective in guiding the budget, they should be underpinned by proper costing by county departments and agencies. This ensures that the County Treasury can effectively review budget submissions by county departments and agencies and ensure ceilings are adhered to.

---

# PREPARING THE COUNTY BUDGET

## 4.1 Overview

56. This chapter describes the key features of the county budget preparation process. It explains the annual preparation of the medium-term budget step by step. The chapter starts with a summary of the budget preparation calendar, and subsequently reviews each step in more detail. Annex 1 provides the full calendar.

## 4.2 Budget cycle and calendar

57. Counties should begin preparing their budgets in July. The PFMA requires the budget circular to be issued by 30th August, however to create time for conducting the baseline, the county budget circular should be issued by the end of July which is consistent with Section 128 of the PFMA. This process kicks off with the issuance of the County Budget Circular, which sets out key milestones in the three broad phases of budget preparation (Figure 4-1). In the first phase (July – October), county departments and agencies prepare and submit their Annual Development Paper (ADP's), review the previous year's budget performance, calculate their baselines and determine affordable expenditure levels consistent with fiscal objectives over the next MTEF period. This information is published in the County Budget Review and Outlook Paper (the C-BROP).

58. The second phase (November-February) involves sector-based consultations to align and prioritise sector policies within expenditure ceilings, which are set out in the CFSP published by the County Treasury and submitted by end-February together with the County Debt Management Strategy Paper (C-DMSP). The third phase consists of detailed budget preparation, and the submission and approval of budget documents by the County Assembly.

**Figure 4 1: Key phases of the county budget preparation calendar**

Baseline and set expenditure limits (July - Oct)	Prioritisation and policy choices (Nov - Feb)	Budget finalisation and approval (Mar-Jun)
<ul style="list-style-type: none"> <li>•County Budget circular issued</li> <li>•ADP prepared and submitted</li> <li>•Baseline determined</li> <li>•Review conducted</li> <li>•C-BROP issued</li> </ul>	<ul style="list-style-type: none"> <li>•Prioritise sector policies within expenditure ceilings (CSWG)</li> <li>•CFSP communicates policy choices</li> <li>•CDMSP communicates the debt policies</li> </ul>	<ul style="list-style-type: none"> <li>•Detailed budget finalised</li> <li>•Submitted to County Assembly for approval</li> </ul>

Source: National Treasury

### 4.3 Purpose and timing of the macroeconomic projections

59. County budgets are prepared based on macroeconomic forecasts prepared by the National Treasury. The National Treasury uses a forecast model that incorporates factors such as GDP, inflation, interest and exchange rates, imports and exports, consumption, and commodity prices. Revenue and expenditure are significantly affected by the economic outlook. A clear and credible economic forecast is a precondition for a realistic county budget baseline projection.

60. The macroeconomic forecasts used for the budget baseline are available by mid-July. They are reflected in the County Budget Circular issued at the end of July, and the outlook needs to be factored into budget baselines. The three-year forecast covers each year of the forthcoming MTEF period.

61. The macroeconomic forecast prepared in July is updated by mid-January of the following year and published in the BPS. The update is required given the speed at which the economic and fiscal outlook can change in response to global and domestic developments. Crucially, the revised forecast informs the indicative expenditure ceilings for both levels of government set out in the BPS, which is prepared and submitted by Mid-February.

62. The BPS contains projected allocations to county governments. According to the Constitution, not less than 15 percent of nationally raised revenue must be transferred to county governments. The equitable share comprises the majority of these transfers, along with other allocations from national government. County governments

also receive development partner funding channelled through national government.

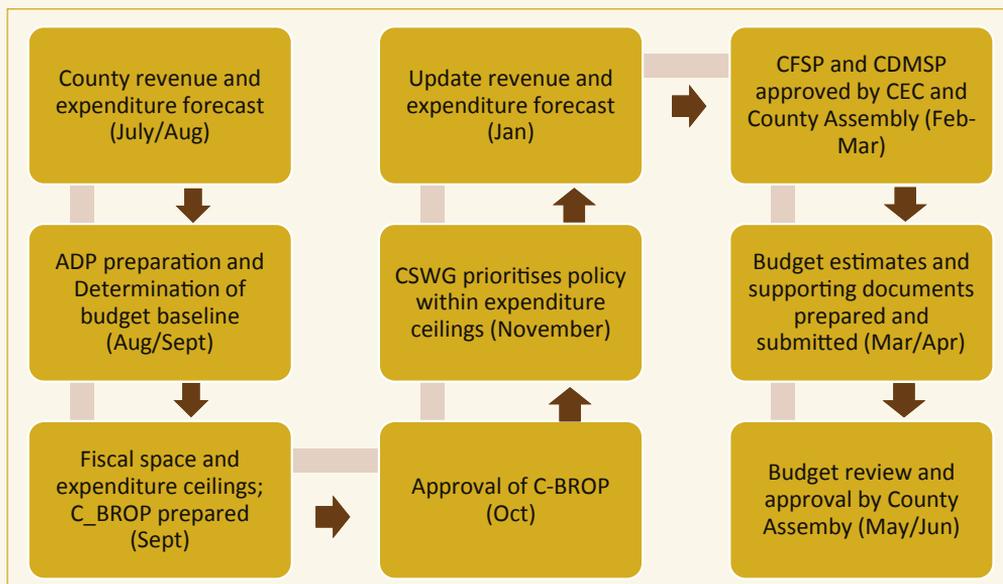
63. County government revenue and expenditure projections are updated in line with the BPS projections, and included in the CFSP. The CECMF submits the CFSP, which also contains the county government’s policy priorities and sector ceilings for the next financial year, to the County Executive Committee for review and approval. To ensure that the budget preparation is based on a credible fiscal forecast, an updated fiscal projection is required by mid-February. Following approval, the CFSP is presented in the County Assembly by 28th February. This leaves time for the County Treasury to manage the impact of the updated forecast on the budget in consultation with sectors.

#### 4.4 Setting the framework for budget preparation

##### 4.4.1 County Budget Circular

64. The County Treasury issues a budget circular which contains a budget calendar to guide budget preparation. The calendar is implemented through decision points consistent with constitutional requirements and the PFMA. Figure 4.2 illustrates a number of important milestones in the budget calendar.

**Figure 4 2: County budget calendar**



Source: National Treasury

---

65. The County Budget Circular, contains the budget guidelines to county departments and agencies on how to prepare the upcoming annual budget and the MTEF. In addition, the circular contains a budget preparation calendar, procedures for the review and projections of revenues and expenditure, key policy considerations, public participation procedures, budget submission formats and any other information that may assist the budget preparation process.

66. The County Budget Circular sets out specific guidance on several processes that this manual discusses in a general manner. It discusses how to conduct the budget baseline; costing methodology; identification and quantification of fiscal space; assumptions guiding expenditure ceilings; and costing sector-specific action plans to foster compliance with set expenditure ceilings.

67. County departments and agencies must follow the guidelines of the County Budget Circular. They participate in the budget preparation process and submit their proposals as outlined in the County Budget Circular. Where county departments and agencies identify compliance concerns, they seek clarification and, if possible, support from the County Treasury.

#### **4.5 Conducting the budget baseline**

68. The purpose of the budget baseline process is to determine the financial implications of existing policies over the MTEF period. This enables the government to gauge whether existing policies are affordable over the three-year spending period.

69. The budget baseline process starts at the beginning of August based on guidance provided in the County Budget Circular. The compilation of the budget baseline for each sector, and its review and aggregation by the relevant departments in the County Treasury, is finalised by the second week of September. The County Budget Circular includes a detailed calendar for the budget baseline exercise, guiding sectors and their county departments and agencies to deliver the required calculations.

70. Some important prerequisites for calculating the budget baseline can be addressed prior to the beginning of August. In particular, sectors and their county departments and agencies can:

- Analyse budget data to identify key revenue and expenditure drivers

- Identify the budget line items that are directly affected by projected revenues and expenditures.

These prerequisites should be completed by end-July so that the budget baseline exercise is completed by the second week of September.

71. The Sectors calculate medium-term baseline projections for their policies and the results are reviewed by the County Treasury. The calculations are done as part of the sector strategic reviews conducted in August by CSWGs, which bring together county departments and agencies within the sector. Based on the approved costing methodology, each CSWG costs all of its programmes, compares the result with the sector expenditure ceiling, and submits the results to the County Treasury.

72. Sector budget baseline results are integrated into one comprehensive county government budget baseline projection. This requires quality assurance, such as checking the proper application of the standardised costing tool, avoiding double counting of expenditure and revenue positions, and identifying major fiscal risks (and their estimated costs) that have been included or excluded from baseline projections.

73. The County Treasury guides and coordinates the budget baseline process. All county departments and agencies are required to conduct standardised costing. In scrutinising the baseline, the County Treasury reviews budget submissions (Box 4-1), following which the results are aggregated into a comprehensive budget baseline projection for the county government. In determining the budget baseline, the County Treasury also consults with and considers inputs from other stakeholders and, where required, reviews them for the purpose of quality assurance.

#### Box 4 1: The budget review process of the County Treasury

The County Treasury is the custodian of the budget. It is responsible for coordinating the preparation of a budget compliant with fiscal rules, ensuring that the draft budget presented to CEC and subsequently to the County Assembly is comprehensive and aligned to a realistic forecast. In this capacity the County Treasury:

- Ensures the expenditure ceilings set for each sector are adhered to and requires sectors to prioritise their budget requests consistent with these ceilings.

#### Box 4 1: The budget review process of the County Treasury

- Scrutinises sector budget requests to determine whether they correctly apply the costing methodology and, if not, requires them to re-cost their budget requests.
- Ensures that the budget baseline is anchored on agreed county priorities as outlined in the CIDP and the respective sector plans.

Source: National Treasury

74. Other units within the County Treasury contribute to budget baseline projections. In particular, these are the units responsible for:

- Economic and financial planning and policy formulation
- Debt management
- Own-source revenue management
- External resource mobilisation
- Public investment management
- Fiscal relations between the national and county governments, and among counties.

75. Expenditure and revenue are estimated separately for each year of the MTEF period. This estimation applies for the entire sector budget and all existing policies. Expenditure estimates are derived by sectors and revenue projected by the County Treasury. To this end the expenditure and revenue drivers for each of the policies of each sector are identified and their resource requirements quantified using the standardised costing methodology.

76. The budget baseline results are factored into key fiscal aggregates. This allows for a comparison between the budget baseline results (baseline for expenditure, revenue, budget deficit/surplus and debt) and the FRPs. Key fiscal aggregates include the overall level of the wage bill, and development expenditure.

77. The C-BROP contains the indicative expenditure ceilings after subjecting the budget baseline to fiscal constraints. The County Treasury submits the draft C-BROP to the CEC by 30th September for approval and subsequently submits it to the County Assembly for information purposes in the third week of October. Shortly thereafter, the County Treasury publishes and publicises the C-BROP to ensure public accountability and transparency.

---

## 4.6 Comparing baseline results with Fiscal Responsibility Principles

78. A comparison of the budget baseline results and the FRPs allows the County Treasury to identify and quantify the fiscal space. The results of the budget baseline should be compared with the FRPs over the MTEF period.

79. The fiscal space analysis is published in the C-BROP. Accordingly, the comparison of fiscal space and the FRPs must be ready in time to inform the draft C-BROP before it is submitted to the CEC for approval.

80. The C-BROP must disclose where fiscal space is deviating from the FRPs. Because the FRPs address different aspects of fiscal sustainability, it is likely that the comparison between the budget baseline projection and individual FRPs will result in different assessments of fiscal space. Gaps between baseline and individual FRPs could involve either the overall magnitude or the composition of expenditure. For example:

- Overall expenditure level: Negative fiscal space arising due to non-compliance with the debt level as approved by the County Assembly would suggest the need to cut expenditure or increase revenue.
- Composition of expenditure: Noncompliance with the requirement to spend at least 30 percent of the budget for development would suggest a need to increase development spending.

Such transparency supports informed decision-making and oversight regarding fiscal policy trade-offs.

81. Given that there are multiple FRPs, it is important that the one with the largest deviation of overall expenditure to the baseline results is addressed. This would likely eliminate the gap between the other FRPs with a smaller deviation to the baseline. Additionally, the composition of expenditure needs to be addressed properly, as shown in the example in Box 4-2.

---

<sup>11</sup>In accordance with PFMA, section 118, the CEC has 14 days to approve the draft C-BROP; not later than seven days after the approval the County Treasury submits the C-BROP to the County Assembly; subsequently the County Treasury publishes the C-BROP.

<sup>12</sup>PFMA, section 15 (2d).

#### Box 4 2: Variation of fiscal space

Nine FRPs apply to counties (see Section 3.5.2). The hypothetical examples below demonstrate the requirement for the County Treasury to calculate fiscal space for each FRP and ensure overall compliance.

- **Example 1:** A county government's recurrent expenditure shall not exceed its total revenue. Assume the baseline shows that recurrent expenditure will exceed revenue by Ksh. 300 million.
- **Example 2:** County government expenditure on wages and benefits for its public officers shall not exceed 35 percent of county revenue. Assume the baseline shows that this threshold will be breached by Ksh. 50 million.
- **Example 3:** County debt and obligations shall never exceed 20 percent of total revenue. Assume the baseline shows that this limit will be breached by Ksh. 200 million.
- **Example 4:** Over the medium term a minimum of 30 percent of the county government budget shall be allocated to development expenditure. Assume the baseline results indicate that this threshold will be missed by an amount equivalent to Ksh. 100 million.

In the situation outlined above, the largest gap between an FRP and the baseline is equivalent to Ksh. 300 million (example 1). Therefore, corrective measures totalling Ksh. 300 million are required, either by reducing expenditure or increasing revenue. Closing this Ksh. 300 million gap would likely eliminate the gaps in examples 2 and 3. However, it would still be necessary to close the gap shown in example 4, because this concerns the composition of expenditure with a specific minimum percentage level.

Source: National Treasury

#### 4.7 Setting medium-term expenditure ceilings

82. By law, expenditure ceilings must take the fiscal rules into consideration. The ceilings define limits for expenditure compliant with the FRPs. Overall sector recurrent and development ceilings should be consistent with expenditure ceilings for the County government. In addition, an emergency fund is appropriated within the total government expenditure ceiling to respond to urgent and unforeseen needs for which there is no specific legislative authority.

83. Indicative expenditure ceilings are set in the C-BROP, and firmed up and approved by the County Assembly in the CFSP. The

<sup>13</sup>PFM Regulations (County Governments), section 32 (1) c.

<sup>14</sup>PFM Regulations (County Governments), section 34(d).

<sup>15</sup>PFMA, section 25.

ceilings set in the C-BROP guide sectors on how to prioritise their policies and expenditure. The ceilings in the CFSP should be adopted in the County Assembly by mid-March. They should be consistent with the ones set in the C-BROP, provided those county projections for revenue and expenditure do not deviate from the initial forecasts. Where the outlook has changed significantly, with an impact on fiscal space, expenditure ceilings in the CFSP may be adjusted to be consistent with the FRPs. Box 4-3 shows how an updated macroeconomic forecast could affect expenditure ceilings.

#### Box 4 3: How updated macroeconomic forecasts can affect spending ceilings

**Example 1:** The updated macroeconomic projection is more favourable than the initial one. Higher budget revenue can be assumed, which allows for improving the budget deficit/surplus, lowering taxes or other revenue sources, or additional expenditure. In the latter case, expenditure ceilings set in the C-BROP at end-September might be increased according to political decisions, provided that they comply with the FRPs.

**Example 2:** The updated forecast is less favourable than the original projection. This is expected to reduce budget revenue. As a result, expenditure must be reduced to comply with the FRPs. This would require lowering expenditure ceilings in the CFSP compared to those set in the C-BROP.

In addition, counties make their own revenue projections. Updates to these projections – for example, higher own source revenue – can also affect the available resource envelope.

Source: National Treasury

84. The expenditure ceilings set in the CFSP are binding. PFM Regulations state that the development expenditure and personnel spending of the county government budget shall be approved by the County Assembly and be binding for the next two budget years.

85. For each sector, policies are prioritised in line with the set expenditure ceilings. This happens immediately after the approval of the C-BROP. During the CSWG meetings, sectors align their policies and spending plans to comply with the expenditure ceilings, and the County Treasury reviews them for compliance.

<sup>16</sup>PFM Regulations (County Governments), section 26(6).

86. Expenditure ceilings are supported by measures to ensure their credibility. If the County Treasury has concerns as to whether a sector can comply with set expenditure ceilings based on its existing policies (as calculated in the budget baseline projection) it will require a sector-specific action plan that will be presented and discussed at the CSWG. In such cases, sectors will be required to submit prioritised policies with costs (based on the standardised costing methodology), corrective measures to reduce the budget requirement and expected cost savings. Such measures may include terminating, scaling back or merging programmes; harmonising existing structures; or conducting spending reviews (see Box 4-4). Annex 2 includes templates for a sector-specific action plan.

#### **Box 4 4: Options for reducing a budget requirement**

##### **Terminating/scaling back programmes**

Some programmes may fall substantially short of delivering the intended results identified through the evaluation process, or persistently require more budget funds than initially planned. Such programmes may therefore not deliver sufficient value for money.

##### **Merging of programmes**

Programmes with similar objectives might exist within a county department and agency or among two or more such entities. This would result in parallel action and ineffective use of resources.

##### **Harmonisation of administrative structures**

Two or even more administrative units within one county department and agency or among several of them might be tasked with very similar duties. This would result in parallel administrative structures, which are inefficient and unnecessarily expensive.

##### **Conducting spending reviews**

Spending reviews are critical reassessments of existing expenditures, and of the policies they are based upon, viewed through the lenses of efficiency, effectiveness, economy, sustainability and/or affordability to identify potential savings in selected policy areas.

*Source: National Treasury*

87. Expenditure ceilings are approved at the political decision-making level. Limiting expenditure sets hard budget constraints for the entire county government, cascaded to each sector. Given their political and fiscal impact, such decisions need to be taken by first by CEC, and then by the County Assembly.

88. The County Treasury provides technical level guidance to support decision-makers. This includes: (i) presenting options for allocating the overall affordable expenditure ceilings to sectors; (ii) taking into account the validated results of the budget baseline projections; (iii) presenting costed savings options that enable compliance with expenditure ceilings; (iv) clarifying the concept of fiscal space and the budgetary impact of FRPs for decision-makers, and; (v) scrutinising sector-specific action plans to ensure compliance with expenditure ceilings.

89. Sectors are required to prioritise their programmes to adhere strictly to the expenditure ceilings set in the C-BROP. The County Treasury reviews sector priorities for compliance and, where necessary, recommends amendments. This process yields sector budget proposals.

#### 4.8 Final budget preparation and budget approval

90. Budget documents are prepared for submission to the County Assembly for final approval of the budget based on the adopted CFSP. The County Treasury prepares the documents. The documents' requirements, in line with the PFMA, are outlined in Box 4-5.

##### Box 4 5: Budget documents for submission to the County Assembly as per the PFMA

###### **Estimates of expenditure and revenue**

The estimates include a list of all entities that are appropriated from the budget; estimates and explanations of revenue and expenditures flows from and to the County Revenue Fund; all revenue allocations to county governments from the national government's share; all estimated revenue by broad economic classification; all estimated expenditure, by vote and by programme, clearly identifying both recurrent and development expenditure; an estimate of any budget deficit or surplus for each financial year over the MTEF—and the proposed sources of financing.

###### **Budget summary**

The summary outlines budget policies on revenue, expenditure, debt and deficit financing; explains how the budget relates to the FRPs; and discusses how the

#### **Box 4 5: Budget documents for submission to the County Assembly as per the PFMA**

resolutions adopted by the County Assembly on the CFSP have been taken into account.

#### **Specific information**

This refers to any payments and liabilities to be made or incurred by the county government for which an appropriation is not included in an Appropriation Act, together with the constitutional or national or county legislation for any such payments or liabilities and a statement by the CECMF specifying the measures taken by the county government to implement any recommendations made by the County Assembly with respect to the budget for the previous financial year.

#### **Appropriation Bill**

Upon approval of the budget estimates by the County Assembly, the CECMF shall prepare and submit an Appropriation Bill of the approved estimates to the County Assembly.

#### **Finance Bill**

The Finance Bill sets out the revenue-raising measures for the county government and is approved with or without amendments by the County Assembly.

*Source: PFMA, sections 130, 132 and 133.*

91. Following approval by CEC, the CECMF submits the documents to the County Assembly by 30th April. The submission consists of documentation supporting the submitted budget estimates and any other bills required to implement the budget. However, this package excludes budget estimates for the County Assembly; these are submitted to the County Assembly by its accounting officer. The County Treasury is provided with copies of these estimates and provides comments on them.

92. The County Assembly approves the budget estimates with or without amendments by 30th June for publication. Before the County Assembly considers the estimates of revenue and expenditure, the relevant committees of the house review the estimates and makes recommendations to the Assembly, considering the views of the CECMF and the public on the proposed recommendations. Budget amendments by the County Assembly have vested conditions: an increase in expenditure in a proposed appropriation must be matched by a reduction in expenditure elsewhere.

93. The County Treasury consolidates, publishes and publicises the budget. This must take place within 21 days of County Assembly

---

approval. The County Treasury should also publish a Citizens Budget which explains and summarizes the budget.

94. During implementation of the approved budget, county departments and agencies may request the County Treasury for authority to reallocate funds within and across programmes, or for additional funding to cater for emerging priorities. The County Treasury may grant such approvals under section 135 of the PFMA. This presents a variation from the original budget and therefore the County Assembly approves the revised budget estimates through a Supplementary Budget.

95. Section 154 of the PFMA gives power to accounting officers of county government entities to reallocate funds between programmes in the budget for a financial year, in the following circumstances:

- Where provisions made in the budget of a programme are available and are unlikely to be used.
- Where a request has been made to the County Treasury explaining the reasons for the proposed reallocation and the County Treasury has approved it.
- If the total of all reallocations to or from a programme does not exceed 10 percent of the total expenditure approved for that programme for that year.
- However, such powers are limited to the extent the accounting officer shall not authorise the transfer of an amount that is appropriated:
  - For transfer to another county government entity or person
  - For capital expenditure except to defray other capital expenditure
  - For wage to non-wage expenditures
- If the transfer may result in contravention of FRPs.

---

<sup>19</sup>These include departmental committees and the budget and appropriation committee

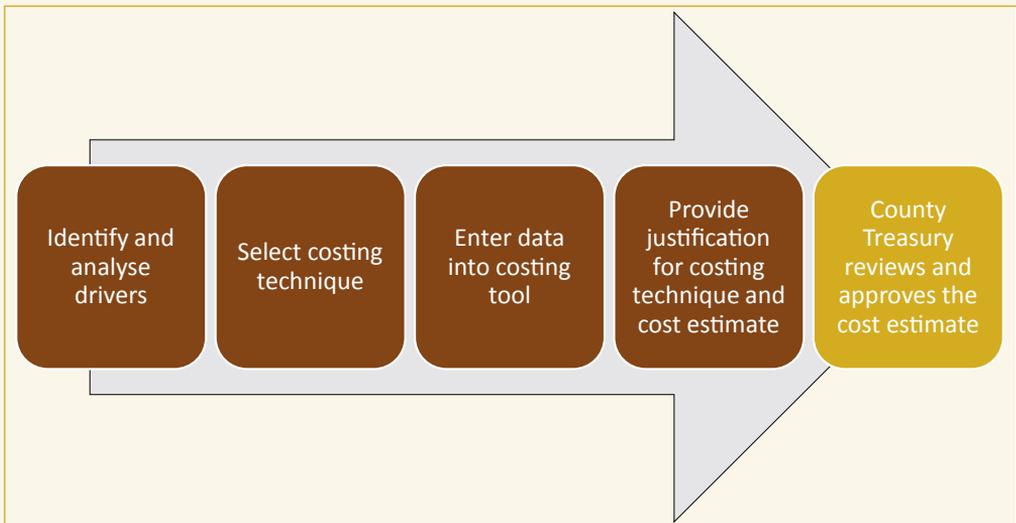
<sup>20</sup>PFMA, section 131.

# COSTING THE COUNTY BUDGET

## 5.1 Overview

96. This chapter sets out the rationale for costing the County budget. It introduces the costing process and sets out the rationale for a costing methodology and describes different costing techniques. It then provides an overview of the costing tool and guidance on how to conduct a budget baseline exercise for the recurrent and development budgets. The main stages of the costing process are shown in Figure 5-1.

**Figure 5 1: The costing process**



Source: National Treasury

## 5.2 Rationale for a costing methodology

97. A costing methodology is a precondition for calculating a budget baseline. It sets cross-cutting standards for costing policies of all sectors, thereby supporting data reliability and comparability. The benefits of costing policies in a standardised manner include reviewing estimates in a comparable way; fostering comparability of calculation results; facilitating a process of challenging the calculation results to verify data; providing verified data allow for matching policy priorities with an expenditure ceiling, and; measuring value for money performance.

98. A costing methodology is used for budget impact assessment of proposed new policies. County departments and agencies are required to develop a rapid assessment of the affordability of policy proposals in the budget preparation process. A standardised costing methodology facilitates a sound and objective determination. This will ensure that county departments and agencies produce more realistic budgets as opposed to wish lists.

99. Costing requires documentation to allow traceability and support validation of the estimates by County Treasury. Sectoral budget baseline calculations are documented according to costing methodology instructions provided in the County Budget Circular. The documentation is submitted to County Treasury with the calculation results, which is used to assess their validity.

100. Identifying and analysing the primary revenue and expenditure drivers of existing policies is a key element of costing. The medium-term factors influencing revenue and expenditure of each policy are identified, and their associated developments analysed, as shown in Box 5-1.

#### Box 5 1: Examples of key expenditure and revenue drivers

**Each driver has a quantitative component** (such as the number of teachers or doctors) and a price component (such as the average salary per teacher or doctor).

**Key expenditure drivers for education:** Pupils, teachers, schools.

**Key expenditure drivers for health:** Patients, nurses, doctors, other health staff, hospitals and medicine.

**Examples of revenue drivers:** number and types of businesses for business permits, number of housing units for rent and users of public services for user fees. Analysis reveals which drivers are relevant for which policy area and the forecasts for drivers over the MTEF. This requires good databases that should be updated regularly.

Source: National Treasury

### 5.3 Costing techniques

101. The costing methodology incorporates four techniques and covers both the recurrent and development budget. These are: (i) quantity x price; (ii) trend; (iii) lump sum, and; (iv) ad hoc. The

---

methodology is applied by all county departments and agencies during the budget baseline process, with specific costing guidelines communicated by the County Treasury to county departments and agencies in the County Budget Circular. An additional initial classification of projects is required for development expenditure to help identify which projects are selected for the budget.

102. The application of the costing techniques is applicable over the MTEF period. The projected ceilings communicated in the most recently published MTEF serve as a guide for the costing exercise. The outer year (FY+2) will not have been estimated in the previous MTEF period; for the purposes of the costing exercise, county departments and agencies are advised to use the outer year (FY+1) as the provisional ceiling for the outer year (FY+2).

### 5.3.1 Costing technique: quantity x price

103. The preferred costing technique is quantity x price. For each budget sub-item, the technique that provides the most plausible result should be identified and used for calculation. Where possible, quantity x price should be prioritised as the most transparent of the recommended techniques. For county departments and agencies to properly cost existing policies, they should have full knowledge of the cost drivers for their different interventions.

104. When applying Quantity x price, users identify the "cost drivers" for expenditure defined by the total quantity of units and price per unit. This method requires identifying the units of measurement, the quantities of each unit involved, and the different prices associated with the sub-items. Quantities are the result of the number of units multiplied by the frequency within a financial year. Examples are outlined in Table 5-1. The standardised calculation template includes columns for quantity (number of units multiplied by frequency) and price. county departments and agencies are required to use this calculation method and any deviations from this approach must be justified.

**Table 5 1: Examples of applying quantity x price**

<b>Expenditure</b>	<b>Quantity (number of units x annual frequency)</b>	<b>Price</b>
Basic salary	Number of employed staff per grade x 12	Average monthly salary per grade
Subsidy	Number of beneficiaries x 1	Average amount per beneficiary
Utilities	Number of kWh (energy) or cubic meters (water) x 1	Price per kWh or cubic meter
Road construction	Number of kilometres of a specific road category x 1	Price per kilometre

Source: National Treasury

105. When applying quantity x price a number of factors will be considered:

- Variations by financial year: Quantities and prices might differ from one financial year to the next; these numbers need to be disclosed.
- Inflation: The County Treasury will guide whether inflation shall be considered when calculating the prices and, if so, which inflation rate should be applied for which financial year within the medium-term timeframe.
- Exchange rate: For some sub-items (such as imported goods) exchange rates might apply. The County Treasury will guide which exchange rate should be applied for which foreign currency.
- Standard commodities: Some commodities (such as oil) might be important cost drivers for more than one county department and agency. To support comparability and plausibility of calculations the County Treasury will guide county departments and agencies on which price to use for which of these commodities and for which financial year.

### **5.3.2 Costing technique: trend**

106. This approach extrapolates past trends based on the expenditure pattern of the sub-item over a period of three or more years. This technique might be applied if quantity x price is not applicable (e.g. due to inadequate data for quantities and prices involved, or where calculations are too complex) or where there is no indication available that future developments might substantially deviate from the past. An example could include small stationery items.

---

### 5.3.3 Costing technique: lump sum

107. A lump sum is a fixed amount that is kept nominally constant for each of the three upcoming financial years. As a single figure, it does not require any additional calculation and analysis of cost drivers (quantity, price). Using a lump sum for estimating future expenditure is plausible when the expenditure amount on the sub-item level is below a certain threshold and there is no indication of a substantial change in the future. In this case, the lump sum calculation simplifies the baseline procedure without hampering credibility. An example could include payments for subscriptions to international organizations.

### 5.3.4 Costing technique: ad hoc

108. Expenditure is ad hoc if it is not regular and will only be relevant for one or two of the years of the MTEF period. It could refer to expenditure expiring in the first or second upcoming financial year; new, approved expenditure starting in the second or third year of the MTEF period; or one-off expenditure that only happens in one upcoming financial year. One-offs might require application of quantity x price technique for the relevant financial years as the amount might be driven by a certain quantity of units and unit prices, while in other cases one-offs might just be a lump sum as a fixed amount of expenditure might apply. Box 5-2 outlines some examples of ad hoc spending.

#### Box 5 2: Examples of ad hoc spending

**Large events that do not occur annually.** For instance, a conference organised by the government will usually incur expenditure in the financial year in which it is held. The previous and subsequent financial year will not be affected. Therefore, the expenditure required for the conference will be one-off and should only be calculated for that one particular financial year.

A court award that the government is expected to pay in one instalment.

*Source: National Treasury*

---

<sup>21</sup> As determined by the County Treasury

---

## 5.4 Application of the costing tool

109. Costing is conducted using a standardised tool provided by the National Treasury. This system uses the Standard Chart of Accounts (SCOA) definitions used by county departments and agencies to prepare the budget baseline at sub-programme, sub-head, sub-item, and geographic location.

110. The tool enables costing to be undertaken at the sub-item level and has four components that county departments and agencies use to conduct the costing exercise. County departments and agencies are required to identify programme objectives and responsibility, cost recurrent expenditure, update the status of development projects and cost development expenditure. The entire budget baseline of county departments and agencies will be consolidated within the costing tool.

111. Each cost centre is responsible and accountable for costing their expenditures. The costing tool adopts the same structure as part of the standard budget preparation process. The officers responsible for finance should request cost centre managers to prepare costing individually, submitting these for review, consolidation, and submission to the County Treasury by the accounting officer.

112. Costing is undertaken at the sub-item level, with the unit description, identification of costing technique and funding source required to be entered. With the spending sub-item identified with the SCOA, the tool then requires county department and agency to provide a description of the unit, including the costing technique used and the source of funds for the sub-item. The interface of the recurrent and development forms varies slightly: recurrent requires the identification of the policy as either new or ongoing, while development draws information on the status of the project and consequent implications for funding.

113. Costing is undertaken over the medium term and as such costing fields must be completed for each financial year in which there is an anticipated cost for the sub-item. The chosen costing technique has implications for the data required for costing and the tool provides fields for entering number of units, frequency, and price if the quantity x price technique is selected. If another methodology is selected then the amount is entered as "other".

---

114. Any verified pending bills must be included as per reporting date and legal requirements. Verified pending bills will generate expenditure and need to be considered when calculating the budget baseline.

115. The costing tool checks consistency with the latest expenditure ceiling. The tool automatically calculates total sub-item cost per financial year, including the verified pending bills, and then sums all sub-items of a vote to the calculated baseline expenditure of the vote for each financial year (for recurrent and development expenditure). The tool compares the baseline amount with the expenditure ceiling (recurrent or development) and calculates and illustrates any gap. This allows identification of negative or positive fiscal space for the given financial year at a glance.

116. Justification is required for costing, which is the entry point for budget scrutiny. Evidence here will be used within the county departments and agencies by officers responsible for finance to review the estimates made by cost centre managers. This will be utilised during CSWGs, Resource Allocation Panels and the County Treasury to review estimates delivered by county departments and agencies. The justification fields follow the same logic as the costing data: if the quantity x price technique is selected, the county departments and agencies are expected to justify first the quantity and frequency, then the price; if any other technique is selected, this choice and the cost itself is justified.

## **5.5 Conducting a budget baseline forecast for the recurrent budget**

117. This section guides users on how to calculate a budget baseline for recurrent expenditure. The costing tool covers the different categories of recurrent expenditure.

### **5.5.1 Wages, salaries, allowances and pensions**

118. The budget baseline projection will precisely quantify numbers of staff in each sector. Given that wages and salaries represent a significant share of government expenditure, forecasting them as accurately as possible is necessary for a credible budget projection and requires thorough analysis.

119. Staff numbers usually differ between approved and filled positions. The budget baseline projection aims to identify the most

---

likely result of staff numbers for each grade over the MTEF period. This requires sound and informed judgement on whether all vacant positions will be filled. This view can be based on experiences in previous financial years, as well as a clear assessment of the likelihood of a change in staffing levels based on the approvals provided by the County Public Service Board and the County Treasury.

120. **The budget baseline projection multiplies staff numbers with their wages and salaries.** The different amounts applicable to staff grades and allowances are factored into this calculation. Given that decisions about the distribution of non-payroll allowances might only be made during budget execution, baseline projections can use averages based on the experience of previous years. If there are strong arguments for doing so, projections can consider additional circumstances that may apply in the upcoming financial years.

121. **Salary increases can influence the wage bill substantially.** Contributing factors include the collective bargaining agreement, the creation of new offices, schemes of service, promotional arrangements and changes in government policies among others. County departments and agencies require approval from the County Public Service Board, Salaries and Remuneration Commission, and the County Treasury before including adjustments in the baseline. Box 5-3 shows options on how to address salary and wage increases in the baseline forecast.

### **Box 5 3: Factoring salary and wage increases into the budget baseline calculation**

There are several options to factor salary and wage increases into the budget baseline.

**Assume a salary increase aligned with the projected inflation rate:** While this seems to be an obvious option, it may conflict with requirements for budget cuts and/or wage bill negotiations. When the government assumes inflation-linked compensation into the budget, trade unions may use this as an argument that the government has already accepted inflation compensation and insist on additional salary and wage increases. This can be avoided by using the next option.

**Calculate a certain amount for salary and wage increases in the budget reserve:** Usually, the budget reserve is not specified by outlay, so it could be used to budget for salary and wage increases without revealing the respective magnitude. Although this approach might support the government's position in wage negotiations, it lacks transparency.

### Box 5 3: Factoring salary and wage increases into the budget baseline calculation

**Require sectors to cover salary increases within their expenditure ceilings:** In this approach the amount of any salary and wage increases is not budgeted for individually across county departments and agencies, which are required to manage the increase within their expenditure ceilings. County departments and agencies should be aware of this requirement in advance, so that they can reserve some space for covering the still unknown salary increase when projecting different line items.

**Clarify the salary increase in time to factor the result into the draft budget:** From the standpoint of reliable planning, this is the preferred option. However, such an early agreement on salary and wage increases might not be realistic given negotiation schedules.

**Wage increases are determined by a given wage drift.** The County Treasury computes the average wage drift. This is determined by the annual increments and considers any possible promotions, especially for common cadre officers.

*Source: National Treasury*

122. The budget baseline calculation for the wage bill should be comprehensive and realistic. This is necessary to avoid excessive supplementary budgets to fully cover an underestimated wage bill, and/or in-year budget cuts of other expenditure categories to compensate for a higher-than-budgeted wage bill. Either outcome would undermine the credibility of the budget and create budget execution challenges.

123. County Government's contribution to the Pension scheme is calculated based on a set percentage. The County's annual contribution to the scheme will be calculated as total contributing employees multiplied by a proportion of basic salary and 12 months.

#### 5.5.2 Use of goods and services

124. Calculating a budget baseline for goods and services may require various costing approaches. While some goods or services are suited for using quantity x price (such as cost of trainings, workshops, computers, utilities), others (such as stationery) comprise many small items where it may be practical to avoid a cumbersome detailed calculation. In this case, assumptions based on trend analysis (such as expenditure for stationery in previous financial years) may offer a pragmatic alternative.

---

### 5.5.3 Transfers and subsidies

125. Transfers and subsidies will in most cases be calculated by using quantity x price. For most transfers and subsidies, the number of beneficiaries and the (average) amount per beneficiary are known for recent financial years. Policy analysis should allow the sectors to assess how any of those parameters will presumably develop in each year of the upcoming MTEF period.

126. Estimating transfers and subsidies requires databases that are updated regularly. The responsible sector should document the number of beneficiaries per policy and the (average) amount per beneficiary in a database. Sectors should keep the databases current to provide a reliable foundation for policy analysis and should ensure that the County Treasury has this data available to scrutinise assumptions.

127. Transfers undertaken in the development budget should adopt the principles set out above. In most cases the calculations will use quantity x price. For most transfers the number of beneficiaries and the (average) amount per beneficiary should be known. Conditional grants that include donor financing will be included as development budget items and should include the quantity x price costing based on the grant agreements.

128. Transfers to County Corporations should follow the same timing and procedures as County Departments and Agencies. Parent county departments and agencies are responsible for delivering the required budget information for county corporations under their responsibility to the County Treasury, and the costing techniques outlined in this manual will be applied to these agencies.

### 5.5.4 Interest payments

129. Calculating interest payments for County domestic and foreign debt (guaranteed by the National Treasury) require specialized knowledge. Interest payments are driven by the size and structure of the loan, and the implications of the forward path of interest rates (for variable rate loans) and exchange rates (for those denominated in foreign currency). Debt projections factor in the debt stock and forecast additional debt that arises from the projected deficit for upcoming years.

## 5.6 Conducting a budget baseline forecast for the development budget

130. This section guides users on how to prepare the budget baseline for development expenditure. It covers the requirements of the PIM Regulations, 2022, and implications of these requirements for development budget costing, including for existing projects and proposed projects, and project selection for inclusion in the baseline.

### 5.6.1 Defining project status

131. The PIM Regulations define existing projects as either ongoing or stalled, and proposed projects as either pipeline or new. See Table 5-2. The regulations describe the actions required to achieve pipeline status.

**Table 5 2: Project status definitions**

Status	PIM Regulations definition
Existing projects	
Completed	A project that has been fully implemented, with expected output delivered as per the project implementation plan.
Ongoing	Implementation is under way, with works having commenced or contractual commitments entered into.
Stalled	Project implementation has halted, or the project has received minimal budget allocations over the medium term that cannot facilitate meaningful progress.
Proposed projects	
New	A pipeline project that has been prioritised and financed, but work is yet to begin.
Pipeline	A project that has been appraised and granted the necessary approvals.

Source: National Treasury

### 5.6.2 Costing of existing projects

132. Existing projects must be included in the baseline and fully costed for all existing commitments in accordance with the PIM Regulations. Existing projects include certain completed and all ongoing and stalled projects. The starting point for deriving the development budget baseline is project commitments. These include verified pending bills, contractual obligations, and other obligations related to externally financed projects. These commitments, defined in Box 5-4, should be used to estimate the development baseline.

#### Box 5 4: Defining multi-year commitments

Commitments are agreements or contracts made by county department and agency accounting officers to make payment(s) to another party in exchange for that party supplying goods and services or fulfilling other agreed conditions. Commitments can be for specific works, goods and services and arise when a formal action is taken by a county department and agency, such as issuance of a purchase order or signing of a contract.

**A multiyear commitment** arises if the stream of payments arising from a commitment extends over multiple years.

**Verified pending bills and agreed government contributions** to externally financed projects should be recognised as commitments.

*Source: National Treasury*

133. Existing project costs will use quantity x price for most items identified in project design documents. Costing of construction and fittings, plant and equipment, human resources and other administrative costs must all be quantified using the same units as described in the technical specifications, bill of quantities and other project documents. It is neither useful nor practical to cost very small items or detailed components of a larger item, so costing may be conducted at an aggregate level. In some cases, this may require the use of a lump sum approach.

134. As with the recurrent budget, certain cost drivers are considered. Accurate updates to the baseline are required for project implementation, indicating any cost changes as a result of phasing, frontloading, or re-scoping. Other common factors related to cost overruns include delays to schedule, penalty charges or increased interest payments, particularly for projects that have stalled due to the lack of adequate budget resources.

135. County departments and agencies should support the costing justification of on-going projects by submitting standard schedules of costs such as bill of quantity documents. The documents should be uploaded to the costing tool, attached to the costing item. Costs provided in the costing tool and/or in bills of quantities should be consistent with those submitted in the e-Procurement system and the Market Price Index regularly published by the Public Procurement Regulatory Authority.

---

136. County departments and agencies must review and update the maintenance and lifecycle costs for on-going projects provided in the project concept note (PCN). The PCN provides information on the estimated lifecycle costs of a project. While the project is under way, these estimated costs must be reviewed and updated and incorporated into the budget baseline. Where an existing project does not have a PCN, the county department or agency should prepare the information for part 9(D) of the PCN as prescribed in the PIM Regulations for inclusion in the costing tool. The PIM Regulations require county departments and agencies to carry out routine and periodic maintenance (Box 5-5) to ensure the sustainability of completed projects. Costing should differentiate between routine and periodic maintenance. Maintenance for regular operation of the asset should be costed under the recurrent budget as an on-going cost. Significant rehabilitation or extension works should be costed as new capital expenditure projects.

#### Box 5 5: Routine and periodic maintenance

**Routine maintenance** is typically cosmetic and preventive maintenance that is performed regularly to keep an asset operating according to its design. Funding needs are usually calculated using the age and number of assets in an asset class, not project by project. In other words, budgeting for routine maintenance can be estimated with a formula, rather than based on asset-by-asset inspection. Maintenance funded through the recurrent budget is usually routine maintenance.

**Periodic or capital maintenance** is often necessary to enable an asset to reach its planned life. Without periodic rehabilitation, for instance every 10 or 20 years, the asset may have to be phased out earlier than planned. Capital maintenance also includes activities to enable an asset to extend its life and to increase its capacity. This is often referred to as reconstruction. Rehabilitation and reconstruction activities typically are funded through the capital budget, and for convenience are collectively referred to as capital maintenance

Source: National Treasury

---

<sup>22</sup>The County Treasury will develop methodologies to identify funding needs for routine and capital maintenance.

137. Stalled projects may still incur costs associated with existing commitments and these costs must be included in the project baseline. Commitments including verified pending bills for stalled projects may include on-going maintenance fees, legal fees, compensation or other associated costs. These are costed in the same manner as with on-going projects.

138. Termination/cancellation costs are heterogeneous, depend on multiple factors, and are calculated on a case-by-case basis. Various factors need to be considered when assessing the financial consequences of termination or cancellation. These include the costs associated with closure of site offices, the sale or disposal of assets, on-going maintenance fees, legal fees, and compensation or other associated costs. These are included in the budget baseline if this decision is made for a particular project.

#### Box 5 6: Factors to be considered in potential project termination

Several factors should be considered in a potential project termination.

- **Are the relevant contract terms available for a judgment to be made?** If not, they should be requested early to avoid delays and/or gaming by CDAs. This request could be strengthened by informing that a “no response” would result in an assumption that there are no financial consequences.
- **Would termination incur explicit costs?** These would include contractual penalties, interest and other charges as well as the payment of any arrears.
- **Would termination incur contingent costs?** Might additional costs be incurred if the termination lasts beyond a certain timeframe? Would termination lead to costs being incurred to make an unoccupied site safe and secure? Would it result in unintended environmental costs? What would be the start-up costs if and when financing resumes?
- **What are the legal consequences?** Will the termination result in:
  - The government breaking any laws?
  - The violation of any international treaties?
  - Material breaches of agreements with development partners?
  - Material contractual breaches with private companies?

### 5.6.3 Costing of proposed projects

139. The costing process for pipeline and new projects is well documented in the PIM Regulations and related schedules. To be included in the pipeline, a project must be independently appraised and approved by the County Treasury having met the relevant requirements of the PIM Regulations including a completed PCN

and, where applicable a pre-feasibility and/or feasibility study.

140. Pre-feasibility and feasibility studies shall be undertaken with existing capacity or sourced from other government institutions. Activities shall be undertaken using internal capacity of the county department and agency or from another government institution. However, external expertise may be sought as provided in PIM Regulations. Such additional resources should be costed within the department providing the capacity or, if capacity from another government institution is used, any allocation for facilitation of the work must be costed by the county department and agency and included in the budget baseline. The cost of a feasibility study shall not exceed 5 percent of the estimated total cost of a project and the total budget of all feasibility studies should not exceed 5 percent of the county department and agency’s annual development budget.

141. Pipeline projects that require funds to complete conditions precedent and other prerequisites of the PIM Regulations require a consistent costing approach. Table 5-3 maps the major cost drivers for these prerequisites and their costing considerations. Wherever possible, County departments and agencies should use the same units as identified in the appraisal documents, including technical design documents and the environmental and social impact analysis.

**Table 5 3: Costing considerations for project prerequisites**

Prerequisites in PIM Regulations	Costing considerations
Ensure all conditions precedent have been fulfilled, including <b>land acquisition, compensation,</b> stakeholder management and other development partners’ requirements have been met.	<ul style="list-style-type: none"> <li>• Land acquisition and any compensation costs should use the quantity x price costing technique as a priority.</li> <li>• The price per square kilometre or compensation costs per person or other entity are extremely important to demonstrate clearly to compare with standards, regulations and other similar projects and assess value.</li> <li>• Legal fees related to project prerequisites may require the use of the lump sum costing technique.</li> </ul>
Ensure detailed <b>designs</b> have been completed.	<ul style="list-style-type: none"> <li>• Design costs are likely to be costed using the lump sum technique.</li> </ul>

Prerequisites in PIM Regulations	Costing considerations
Ensure that the project has received necessary <b>regulatory approvals</b> .	<ul style="list-style-type: none"> <li>Regulatory approvals are likely to be lump sum.</li> </ul>
Ensure that detailed resource requirements including source of funding and <b>personnel</b> to operationalise the project are planned for.	<ul style="list-style-type: none"> <li>Personnel requirements can be costed using quantity x price</li> </ul>

Source: National Treasury

### 5.6.4 Project selection and costing implications

142. The PIM Regulations outline structured criteria for project selection for budgeting. Existing projects must be funded first; then, where fiscal space allows, new projects may be considered. Clear decisions must be made for a pipeline project to be selected for budget resources to cover prerequisites or, if those are met, a separate decision must be made to include the project in the budget for full implementation.

143. Before projects are prioritised for resource allocation, a review of the status of all existing and new projects will be required to support the costing of the development baseline. The status of a project will change as it progresses through the project cycle. A review at the start of the baseline costing exercise ensures that the list of existing projects and project pipeline is complete, and the status of each project is verified. The status has implications for the costing of that project and whether it will be included in the budget baseline. All pipeline projects should be costed to ensure they are ready for entry into the budget baseline if selected for funding. Specific decisions around costing must be identified and made for projects of each status to enable clear cost estimates.

144. The status of the project and decisions for the forthcoming financial year have implications on whether the project will be

<sup>23</sup>For example, the PIM Regulations indicate that where the project prerequisites have not been met, the accounting officer shall only request for budgetary resources to meet these prerequisites in that financial year.

included in the budget baseline. On-going and stalled projects are prioritised for allocations to allow progress towards completion or, where the project is no longer viable, cancellation/termination. Each of these have cost implications that must be factored into the baseline. Table 5-4 outlines the related implication. The County Treasury must approve new and pipeline projects before they can be included in the status budget baseline. This will ensure that all new and pipeline projects meet the requirements of the PIM Regulations and the County Budget Circular.

**Table 5 4: Costing/baseline implications on the project status**

Status	Costing Implication
<b>Existing Projects</b>	
Completed	For projects that result in capital assets, ongoing operation and maintenance costs become the responsibility of the department managing the facility once handed over. MTEF allocations could include unpaid closure costs and those related to the defects and liabilities period.
Ongoing	The medium-term requirements shall be costed and be covered in the MTEF period.
Stalled	Costs of stalled projects shall inform the baseline; any other costs projected to be incurred in the medium term should be covered in the MTEF period.
<b>Proposed projects</b>	
New	All conceptualisation and preparation costs planned for the upcoming three fiscal years shall inform the baseline. The medium-term requirements shall be costed and be covered in the MTEF period.
Pipeline	All conceptualisation and preparation costs planned for the upcoming three FYs shall inform the baseline. The medium-term requirements shall be costed and be covered in the respective MTEF period.

Source: National Treasury

---

# Budgeting and monitoring for results

## 6.1 Overview

145. This chapter explains the purpose and application of programme-based budgeting (PBB). It provides a step-by-step process for county departments and agencies to apply PBB effectively as part of the budget process. The chapter:

- Defines programme classification and how it is aligned to the structure of county functions.
- Explains core principles required for designing effective results chains to guide medium-term budget planning.
- Outlines how monitoring, reporting and evaluation of programmes supports budgetary decision-making.

146. PBB is a means of linking the government budget to public policy objectives. PBB covers both financial and non-financial information and the results in terms of outcomes and outputs, which are used in the budget preparation process. Discussions on the allocation of financial resources and on the proposed or previously delivered policy results should be linked. The budget preparation calendar (Annex 1) identifies key stages for this in September and November during the CSWG process, where sectors are required to prioritise programmes within expenditure ceilings and produce a report on the choices made.

147. PBB results inform the setting of expenditure ceilings. Expenditure ceilings do not merely perpetuate past budget allocations but consider programme performance. Performance monitoring reports required by the PFM (County Governments) Regulations are, therefore, provided in due time prior to setting expenditure ceilings.

## 6.2 Using PBB for budgetary decision-making

148. PBB supports policy prioritisation as part of the CSWG process. The intended policy deliverables expressed in result chains of programmes, and the financial resources requested for them, should provide decision-makers with good arguments to prioritise scarce budget resources both among and within sectors.

149. PBB monitoring and evaluation results can be used to rank programmes to facilitate prioritisation decisions to maintain the integrity of budget ceilings. Furthermore, non-financial performance

---

information might reveal overlap among budget programmes, which would offer opportunities to make budget cuts without negatively impacting intended policy results.

150. Underperforming programmes should be subject to scrutiny. Options include improving service delivery by enhancing efficiency and effectiveness, scaling down budget allocations or discontinuing these programmes. Programmes with a low value for money record would indicate opportunities for reducing expenditure or redeploying resources to other programmes with a better performance, or to promising new initiatives. This requires using the monitoring and evaluation results for upcoming budget decisions.

### 6.3 Programme classification

151. County government policy and strategic planning is informed by eight devolved functional policy areas, each of which has specific objectives. These form the starting point and highest level of classification in the PBB structure.

152. Sectors are designed to allow stakeholders in the budget process to see which programmes are being implemented by the respective county governments. This includes relevant public services, and budget appropriations allocated to each sector at programme and sub-programme level. Programmes are groupings of activities aimed at achieving outcomes and outputs within the general objectives of a policy area.

153. Within the PBB architecture, budgets are costed, presented, and justified in terms of programmes with supporting performance information. A programme classification structures the budget to support efficient and effective planning and use of resources. Public services and activities with a common outcome in a given policy area are grouped together to form a programme.

154. PBB therefore structures the budget according to sectors, programmes and sub-programmes that implement specified general policy objectives. PBB requires multi-year programmes, definition and measurement of outcomes and outputs to assess achievement of general policy objectives. Figure 6-1 provides an illustration of the PBB architecture.

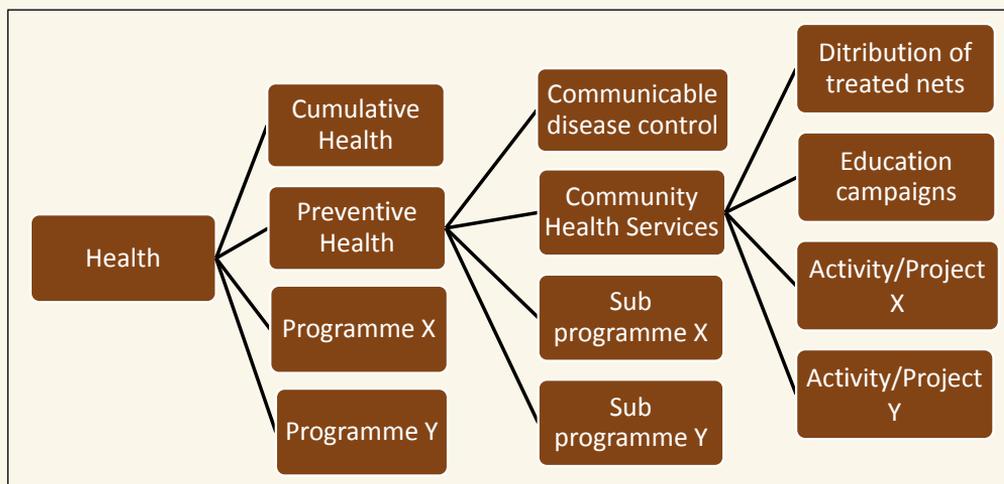
---

<sup>23</sup>Refer to section 2.2.

<sup>24</sup>Presentation of the budget in programme format is a legal requirement under Section 130 (1)(b)(v) of the PFMA, 2012.

**Figure 6 1: Illustration of PBB architecture**

<b>Sector</b> (several outcomes and objectives)	<b>Programme</b> (Outcome is defined at this level)	<b>Sub Programme</b> (Output is defined at this level)	<b>Activity/Project</b>
---	---	--	-------------------------



Source: National Treasury

#### **6.4 Alignment of organisational structures and programmes**

155. Programmes are aligned to specific lead implementing county departments and agencies. Efficient and effective management of public resources require a clear alignment of the administrative structure with programmes.

156. There should be clear organisational accountability for programmes. Each programme is assigned to one county department or agency and delivery unit responsible for its successful implementation, even if several units contribute. In such a case, one unit is responsible for leading the programme for accountability purposes and coordinating all contributions to ensure that the intended results are achieved. Box 6-1 outlines typical tasks that a leading and a contributing organisational unit is responsible for. Programme management structures should be kept as simple as possible to avoid accumulation of administrative costs.

### Box 6 1: Tasks for lead and contributing delivery units

#### Lead delivery unit:

- After consultation with the contributing delivery units, design and approve a programme results chain.
- Conduct policy analysis on the requirements for successful programme implementation.
- Work with contributing delivery units to define their specific programme contributions.
- Proactively monitor and evaluate the performance of the programme.
- Report on the financial and non-financial performance of the programme.
- In case of performance gaps, undertake corrective action.
- After discussions with contributing units define requirements (particularly undertake capacity building and data improvement) to successfully implement a programme.

#### Contributing delivery units:

- Review and provide input on the proposed results chain of the programme.
- Conduct policy analysis on the requirements for successful contribution to implementation.
- Deliver the agreed results/contribution of the unit to the programme.
- Proactively monitor and evaluate the performance of the contribution to the programme.
- Report on the financial and non-financial performance of the sub-programme to the lead delivery unit.
- In case of performance gaps, undertake corrective action.

Source: National Treasury

157. The programme structure is approved by the County Treasury to ensure the building blocks are sufficiently in place in accordance with the PFM (county governments) regulations 2015. The PFM (county governments) Regulation 129 (1) reinforce the point in terms of design of the results chain structure and 129 (2) for a robust IT system that can collect, exchange, and store non-financial information (Box 6-2). The non-financial information includes outcomes, outputs, indicators, and targets.

### Box 6 2: Governance arrangements for linking programme and organisational structures

The CECM responsible for Economic Planning prescribes a framework for monitoring and reporting on non-financial performance for use by accounting officers in evaluation of programmes and projects by measuring:

- Financial indicators that capture expenditure on implementation.
- Output indicators that measure what is directly supplied through implementation.

### Box 6 2: Governance arrangements for linking programme and organisational structures

- Outcome or results indicators that capture the expected effects on intended beneficiaries.

The CECM responsible for economic Planning also establishes a system to facilitate efficient and effective data collection, storage and exchange to monitor and report on non-financial performance of the County government entity's individual programmes and projects.

Source: PFM (County Governments) Regulations

158. County departments and agencies are required to seek approval from the County Treasury if any changes are to be made to the programme structure. Given that programmes are reflected in the SCOA and require budget allocations, issues around the creation and alignment of new programmes and consistency with the SCOA require strict controls through an automated IT system. This should be done before finalisation of the programme prioritisation and resource allocation.

## 6.5 Design of effective results chains

159. A results chain is a consistent sequence of elements for a policy or programmatic intervention to produce a defined result. County departments and agencies are required to develop results chains under programmes as part of the multiyear budget process and will report against these as part of in-year and annual reporting.

160. The design of a results chain should be easily implementable across County departments and agencies and as lean as possible to avoid information overload. Standardised templates are issued by the County Treasury (see Annexes 3-6). These are communicated as part of in-year instructions.

161. County departments and agencies are required to provide a full narrative of results in the annual and multi-year budget submissions. This includes:

- What the county department and agency accomplished in the previous three years and at what cost.
- The major challenges encountered during implementation of the previous medium-term budget and how to address the challenges in the forthcoming budget.
- Which outcomes and outputs (with which performance indicators and targets, respectively) the county department and agency plans to accomplish over the medium-term.

- What it will cost to realise the county departments and agencies' outcomes and outputs in the forthcoming budget and over the medium-term.

162. A precondition for formulating proper result chains is a **diagnosis of policy challenges**. Implementing government or sector strategies via PBB requires County departments and agencies to clarify obstacles to achieving the intended results. This provides the basis to properly formulate result chains, which should focus on overcoming these obstacles. Figure 6-2 outlines a methodology that can be used in that respect.

### Figure 6 2: Conducting policy diagnosis: the challenge tree

#### Figure 6 3: Conducting policy diagnosis: the challenge tree

Based on the results of the diagnosis, identify data required to quantify the challenge, its roots, and consequences, make the data available and analyse the data to identify the proper outcomes, outputs, indicators and targets for the programme in question. This exercise needs to be conducted for each challenge identified for implementing a policy priority.

Source: PFM (County Governments) Regulations



Three steps to discuss the challenge for implementing policy priorities:

**Step 1:** Discuss and agree on the challenge – which becomes the trunk of the tree (the focal challenge).

**Step 2:** Identify the causes of the focal challenge – these become the roots of the tree

**Step 3:** Identify the consequences of the focal challenge – these become the branches of the tree.

Source: National Treasury

---

163. The following elements should be considered when forming a results chain based on the policy diagnosis:

- Outcomes describe the expected result on intended beneficiaries of the programme within available resources. The outcome should be derived from the policy priority objective (s) outlined in a government or sector strategy. For instance, a programme to tackle malaria could have an outcome termed “Reduced prevalence of malaria cases by 20XX”.
- Outputs are specified policy results (such as goods, products, services) contributing to achieving a programme outcome. For the above-mentioned outcome an output could be “Mosquito nets provided to households”.
- Indicators measure the achievement of an outcome or of an output. One indicator alone usually cannot capture all the information related to the achievement of an outcome or of an output. The most appropriate indicators should be chosen to avoid complexity. This will involve limiting the number of indicators by outcome or output to ensure they are strategic and focused. For instance, an indicator for the above mentioned output could be “number of households provided with mosquito nets”.
- Targets measure whether an indicator has been achieved and thus, specify a value or milestone that the indicator should reach by a specific date in the future. For instance, “100,000 households provided with mosquito nets by the year 20XX”.

164. Result chains should highlight strategic policy issues that are guided by best practice principles. The performance information in budget documents should focus on the strategic policy results particularly on outcomes, their indicators, and targets. The S.M.A.R.T. and C.R.E.A.M. methodologies are stated in Annex 4 to provide guidance in these areas.

## 6.6 In-year and end-year reporting on outputs and outcomes

165. A monitoring and evaluation (M&E) framework is an integral part of the budget process. Monitoring and evaluation are separate but mutually reinforcing components of the budget process. Monitoring focuses on whether plans are being implemented and the intended results are being achieved, while evaluation focuses on assessing the efficiency, effectiveness, impact, relevance, coherence, and sustainability of programmes.

166. In-year and end-year reporting on outputs and outcomes

---

is relevant in all stages of the budget process. The starting point is to have outcomes, outputs, performance indicators and targets monitored throughout the budget cycle developed and incorporated to form the basis of PBB. This process can benefit from automation to support standardisation (for example through the SCOA) and reduce the administrative burden associated with manual processes.

167. M&E and reporting should focus on targets that were agreed to during the budget preparation stages and approved by County Assembly. Each programme has one outcome, which is tracked through clearly defined performance indicators and targets. Sub-programme outputs are tracked through clearly defined performance indicators and targets.

168. Monitoring, evaluation, and reporting should be based on a standardised framework guided by the CECM responsible for economic planning. Each County should put in place a County Integrated Monitoring and Evaluation System (CIMES) as guided by the CIMES guidelines and their respective M&E policies as required by PFM (County Governments) Regulation 129. The CIMES provides a systematic and comparable conduct of monitoring, reporting and evaluation and thereby, supports the proper use of its results for decision-making.

169. The County department responsible for economic planning, monitoring and evaluation coordinates development of outcomes, outputs, indicators and targets for the programmes in their respective county departments and agencies. During programme implementation, progress is tracked by collecting data to assess achievement of the targets based on the performance indicators. This information is used by County departments and agencies to report quarterly (for outputs) and annually (for outcomes) to the County Treasury.

170. Outcomes are monitored and reported at the end of each financial year. End-year monitoring, reporting and evaluation assesses whether intended programme results have been achieved and which lessons learned can be derived for upcoming financial years to avoid performance shortfalls. The actual performance should be compared to the respective annual target set for each outcome indicator. The end-year reporting formats for programme outcomes are outlined in Annex 5 and will be communicated through in-year Treasury circulars.

---

171. Although monitoring should be undertaken for all programmes, evaluation should focus on critical strategic programmes. Evaluations require substantial technical and administrative efforts, which is not realistic on an annual basis for a given programme.

172. Outputs will be monitored and reported quarterly. The purpose of the monitoring for the first three quarters of the year is to track in-year implementation progress of the annual output indicator target and trigger corrective action to comply with the target where required. The report for the fourth quarter assesses whether intended programme results have been achieved for the full year. The in-year and end-year reporting formats for sub-programme outputs are outlined in Annex 6 and will be communicated through in-year Treasury circulars.

## Glossary

Terms	Definition
Activity	An action taken to achieve a policy priority; generally the smallest building block within a programme that has a definable purpose and specific allocated costs.
Annual Development Plan (ADP)	A one-year county development plan that outlines the County development priorities drawn from the County Integrated Development Plan.
Budget	A statement of the government's proposed expenditures, revenues, borrowing and other financial transactions.
Budget baseline	
	The budget baseline quantifies the projected cost of existing policies on a "no-policy change" basis. This includes the costs of the current level of activity, which is the costs of on-going programmes adjusted in light of the macroeconomic forecast, demographics, legally mandated requirements, one-time expenditures, and the impact on a full year basis of decisions made in the current year.
Budget costing	An estimate of the fiscal cost of an existing or new policy over the MTEF period based on an understanding of the impact of key expenditure and revenue drivers.
County Budget Circular	A written instruction issued by the CECMF providing broad guidelines on the budget process of the county government.
County Budget Review and Outlook Paper	The C-BROP elaborates the medium-term fiscal framework that determines the overall resource envelope and provides the background and parameters which form the basis for the detailed budget. The C-BROP includes expenditure ceilings to guide sectors to prioritise their policies and expenditure.
County departments and agencies	County departments and agencies refers to any County government entity charged with delivering a specific county government mandate/function.
Contributing Delivery unit	This refers to an entity that takes part in the delivery of a particular result of a county government intervention(s) in a multi-agency arrangement under the coordination of a lead delivery unit.
County Debt Management Strategy Paper	A document that sets out the broad debt management strategies of a County Government over the medium-term with regard to its actual and potential liabilities.

County Executive Committee Member for Finance	The member of the CEC responsible for matters relating to finance for the county.
County Fiscal Strategy Paper	A document that sets out the broad strategic priorities and policy goals that will guide county governments in preparing their budgets for the financial year and over the medium term. The CFSP sets out historical budget performance, budget projections, policy decisions and priorities and binding expenditure ceilings.
County Integrated Development Plan	A five-year county development plan.
Development expenditure	Expenditure for the creation or renewal of assets that provide long-term public goods and services, such as roads and hospitals.
Fiscal risks	Factors that can cause fiscal outcomes to deviate from expectations as contained in the budget or other forecasts.
Fiscal rules	Commitments to constrain fiscal policy in the future by setting limits on and targets for key fiscal aggregates
Fiscal space	The room in a government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy.
Lead delivery unit	Lead delivery unit refers to the entity entrusted with the task of coordinating and reporting of the delivery of a particular result of a county government functional area in multi-agency interventions.
Medium-term Expenditure Framework	An annual, three-year rolling budget and planning process. Budgets for three years are prepared, with projections revised annually considering the previous year budget performance and incorporating policy changes.
Medium-Term Fiscal Framework	The top-down specification of the aggregate resource envelope and the allocation of resources across spending agencies.
Outcome	The expected result of a programme on intended beneficiaries within available resources.
Outputs	A specified policy result (such as goods, products, services) contributing to achieving a programme outcome.
Performance indicators	A yardstick to measure the achievement of an outcome or of an output.
Programme	

	A grouping of related activities contributing to a key outcome, based on the main functions performed or services delivered by a county department and agency.
Programme-based budgeting	A means of linking the budget and other resources to public policy objectives. A PBB is structured according to programmes that are designed to achieve a specified policy objective through a budget appropriation.
Recurrent budget	County government expenditure on goods and services, excluding development expenditure.
Standard Chart of Accounts	A framework for classifying, recording and reporting information on financial plans, transactions and events in a systematic and consistent way, using a standard structure of codes.

## Annex 1: County budget calendar

Activity	Responsibility	Timelines
Issue budget preparation process circular	County Treasury	By 31st July
Launch Sector Working Groups	County Treasury	By 7th August
Programme Performance Reviews	SWGs	By 5th September
Finalise and Submit Annual Development Plan to the County Assembly for Approval	CECM Responsible for Planning	By 1st September
Publish and publicise the ADP	CECM Responsible for Planning	By 8th September
Develop/Update the budget baseline	County Treasury and SWGs	From early August to 5th September
Submission of the updated budget baseline and Programme Performance Review to County Treasury	Sector Working Groups	By 6th September
Assess fiscal space and derive expenditure ceilings for the draft C-BROP; policy priorities and PBB results are considered for allocating the overall expenditure ceiling to individual sectors.	County Treasury	By 15th September
Compile the draft C-BROP	County Treasury	By 15th September
Circulate the Draft C-BROP to stakeholders for input	County Treasury	By 15th September
Incorporate stakeholder inputs	County Treasury	By 21st September
Submission of Draft CBROP to CEC	County Treasury	By 30th September
Submission of approved C-BROP to County Assembly	County Treasury	By 21st October
Publish and Publicise C-BROP	County Treasury	By 31st October
Prioritisation and alignment of sector policies to set expenditure ceilings (Drafting of Sector Budget Proposals)	CSWGs and County Treasury	By 15th November
Public hearing on sector budget proposals	County Treasury	By 30th November

Submission of Sector Reports to County Treasury	CSWGs	By 7th December
Issue guidelines for the Preparation of Annual Budget for County Corporations	County Treasury	By 15th December
Submission of County Corporations Revenue & Expenditure Estimates to County Treasury	County Corporations	By 31st January
Draft County Fiscal Strategy Paper & County Debt management Strategy Paper (CDMSP)	County Treasury	By 10th January
Circulate Draft CFSP and CDMSP to stakeholders for input	County Treasury	By 15th January
Incorporate comments from stakeholders	County Treasury	By 1st February
Submission of the draft CFSP and CDMSP to CEC for approval	County Treasury	By 15th February
Submission of the CFSP and CDMSP to County Assembly	County Treasury	By 28th February
Publish CFSP and CDMSP	County Treasury	By 6th March
Adoption of CFSP and CDMSP by County Assembly	County Assembly	By 14th March
Issue second call circular for the finalisation of MTEF budget estimates	County Treasury	By 21st March
Submission of Draft Budget Estimate to CEC for approval	County Treasury	By 20th April
Submission of Draft Budget Estimates and Other Budget Documents to County Assembly	County Treasury	By 30th April
Presentation of the Budget Statement (the Budget Speech) to the County Assembly.	County Treasury	Mid- June
Approval of Appropriation Bill	County Assembly	By 30th June
Approval of Finance Bill	County Assembly	By 30th September

## Annex 2: Sector-specific action plan template

This template compares baseline results and expenditure ceilings for each vote per fiscal year for total expenditure, economic classification and programmes.

The template is populated with the results of the expenditure prioritisation to ensure alignment of sector policies with set expenditure ceilings (conducted mid-November). Moreover, it discloses which corrective measures the sector plans to close the gap between baseline results and expenditure ceilings—in case the baseline is higher than the respective ceiling—and which savings each corrective measure is expected to contribute to which fiscal year. As each programme is assigned to a specific county department and agency, the template tracks which county department and agency is expected to contribute which amount to the savings.

**Table 2a. Recurrent expenditure by economic classification (Ksh. million)**

Sector Name	Economic Classification	Approved Budget <sup>1</sup>		Baseline/requirements			Expenditure Ceilings 3			GAP 4	
		FY(T <sub>0</sub> )	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)
	Sector Total										
Vote Code and Details	Economic Classification										
	Gross										
	AIA										
	NET										
	Compensation of Employees										
	Transfers & Subscriptions										
	Other Recurrent										

**Table 2b. Development expenditure by economic classification (Ksh. Million)**

Sector Name	Economic Classification	Approved Budget <sup>1</sup>		Baseline/requirements <sup>2</sup>		Expenditure Ceilings <sup>3</sup>		GAP <sup>4</sup>			
		FY(T <sub>0</sub> )	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)
	Sector Total										
	Economic Classification										
	Gross										
	Government of Kenya										
	Loans										
	Grants										
	Local AIA										

**Table 2c. Programmes and sub-programmes by economic classification (Ksh. million)**

Sector Name	Economic Classification	Approved Budget <sup>1</sup>		Baseline/requirements <sup>2</sup>		Expenditure Ceilings <sup>3</sup>		GAP <sup>4</sup>			
		FY(T <sub>0</sub> )	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)	FY(T)	FY(T+1)	FY(T+2)
	Sector Total										
	Economic Classification										

Sector Name	Economic Classification	Approved Budget <sup>1</sup>	Baseline/requirements <sup>2</sup>	Expenditure Ceilings <sup>3</sup>	GAP <sup>4</sup>
	Gross				
	Government of Kenya				
	Loans				
	Grants				
	Local AIA				
	Capital				
	Sub-total for sub-programme 1				
	Sub programme 2				
	Current				
	Capital				
	Sub-total for sub-programme 2				
	Grants				
	Local AIA				

## Explanatory notes to Table 2a to 2c

Component	Name	Description
1	Approved Budget	The appropriated budget plus any supplementary budgets that have been approved by the time the template is completed
2	Budget baseline/ requirements	The budget baseline quantifies the projected cost of existing policies on a 'no-policy change' basis. This includes the costs of the current level of activity, which is the costs of ongoing programmes adjusted for inflation services, demographics, legally mandated requirements, one-time expenditures, and the impact on a full year basis of decisions made in the current year.
3	Expenditure Ceilings	Expenditure ceilings communicated in the most recent published MTEF. These reflect the maximum amount that an institution is allowed to commit or spend.
4	Gap	The difference between baseline and expenditure ceiling
5	Corrective measure	Measures which the (sub) program will undertake to reconcile the gap indicated in (3). This should be a narrative description, which is quantified in columns of component 6.
6	Savings	The total amount of saving resulting from the corrective measures in (5)

# Annex 3: Programme-based budgeting templates for planning and budgeting

## A. Programme Template

<b>(1) County Department:</b>							
<b>(2) Budget Programme:</b>							
<b>(3) Outcome:</b>							
<b>(4) Implementation challenges and causes for achieving the outcome:</b>							
(5) Outcome indicator(s) Maximum 3	(6) Baseline (Year)	(7) Target for the indicator			(8) Total budget amount for programme in Mn. Ksh.		
		FY1	FY2	FY3	FY1	FY2	FY3

### Notes to the template

This template should be populated by the responsible County Department and validated by the County Treasury prior to inclusion in the budget document.

Component	Explanation
1	The first element of the template identifies the County Department responsible for the budget programme in question. This aims at highlighting the organisational responsibility for successfully implementing the budget programme and supports accountability for results.
2	The second element denotes the name of the budget programme as included in the SCOA.
3	The third element defines the outcome of the budget programme which needs to be S.M.A.R.T. and should be linked to strategic documents of the county government. The outcome is supposed to address the main policy result of the budget programme on a strategic policy level and in a wording that is simple and understandable. To reduce complexity of the PBB approach, only one outcome for a budget programme is accepted.

Component	Explanation
4	The fourth element very briefly (maximum of three lines) sums up the main challenges and their causes to implement the outcome. This should support addressees of the document to understand the main difficulties to achieve policy progress and the magnitude of the challenges and their causes. To this end, the text needs to include the most important reference numbers for challenges and causes and the wording should be well understandable for non-experts.
5	An outcome indicator provides a yardstick to measure achievement of the outcome. To reduce complexity of the PBB approach a maximum of three indicators for a budget programme is accepted. The wording of the indicator should be compliant with the C.R.E.A.M. approach and well understandable for non-experts.
6	The baseline of the target refers to the most recent year for which reliable data is available and allows addressees of the budget document to understand the magnitude of intended progress in each of the upcoming three FYs.
7	A target specifies a particular value or milestone that an indicator should reach by a specific date in the future. Thus, a target needs to be fully consistent with the respective indicator. The formulation of targets should be C.R.E.A.M. formulated in an ambitious but at the same time realistic manner. This includes that the target should be implementable within the amounts allocated to the budget programme in question. To reduce complexity of the PBB approach only one target is accepted per indicator. It is specified for each of the three financial years covered by the medium-term budget planning timeline separately.
8	The budget amount reflects the allocation to the budget programme in each of the three financial years covered by the budget planning timeline separately. As it would be too complex to assign the budget amounts to each indicator the amounts reflect the total annual budget allocation to the programme in question and are not disaggregated further.

## B. Sub-programme template

<b>(1) County Department:</b>								
<b>(2) Budget Programme:</b>								
<b>(3) Outcome:</b>								
<b>(4) Sub-programme:</b>								
<b>(5) Leading delivery unit of the sub-programme:</b>								
(6) Output(s) of the sub-programme Maximum 2	Output indicator(s) Maximum 4	(8) Baseline (Year)	(9) Target for the indicator			(10) Total Budget amount for sub programme in Mn. Ksh.		
			FY1	FY2	FY3	FY1	FY2	FY3

### Notes to the template

This template should be populated by the responsible leading delivery unit of the sub-programme and validated by the responsible county, department and agency and the County Treasury prior to publication.

Component	Explanation
1-3	The first three elements – County Department, Budget Programme and Outcome are explained in Template A.
4	The fourth element denotes the name of the budget sub-programme as included in the SCOA.
5	The leading delivery unit of the sub-programme identifies the unit which is responsible for the sub-programme implementation and thereby, coordinating contributing units if any. This aims at highlighting the organisational responsibility for successfully implementing the budget sub-programme and supports accountability for results.
6	Outputs of the sub-programme contribute to achieving the outcome on the budget programme level and need to be S.M.A.R.T. To reduce complexity of the PBB approach a maximum of two outputs for a budget sub-programme is accepted. The wording of the outputs should be well understandable for non-experts.
7	An output indicator provides a yardstick to measure achievement of the output. To reduce complexity of the PBB approach a

Component	Explanation
7	maximum of two indicators per output is accepted. The wording of the indicator should be compliant with the C.R.E.A.M. approach and well understandable for non-experts.
8-9	The explanation for baseline and target is provided in Template A but applies to output baseline and targets.
10	The total budget amount reflects the allocation to the budget sub-programme in each of the three financial years covered by the budget planning timeline separately. As it would be too complex to assign the budget amounts to each indicator the amounts reflect the total annual budget allocation to the sub-programme in question and are not disaggregated further.

**Both standardised templates are populated by the responsible organizational unit but require approval of the County Treasury.** As the templates combine financial and non-financial information the State Departments responsible for guiding policy and budget planning respectively, need to confirm adequacy and accuracy of the provided information.

## Annex 4: S.M.A.R.T and C.R.E.A.M methodology

Features of S.M.A.R.T.	Explanation
Specific	Outcomes and outputs should be formulated in a way which answers the questions "what is to be done?" "how will you know it is done?" and describes the result (end product) of the work to be done. The description is written in such a way that anyone reading the outcome or output will most likely interpret it the same way.
Measurable	Measurable answers the question "how will you know that the implementation of the outcome or the output meets expectations?" Measurement is conducted via indicators and targets.
Achievable	Achievable answers the questions "can the institution responsible for an outcome or output do it?" "Does the institution have the experience, knowledge or capability of fulfilling the expectation?" It also answers the question "Can the outcome or output be successfully implemented given the timeframe and available resources?"

Relevant	Relevant answers the questions “should it be done?”, “why?” and “what will be the impact?” This particularly relates to the findings of a diagnosis of policy challenges. Is the outcome or output meant to tackle an important challenge or is it just dealing with a random topic which does not have much policy impact?
Time-bound	Answers the question, “when will it be done?” Outcomes and outputs should be achieved by an end point (deliverable at the end of the envisaged process which might easily take a couple of years). Within that time horizon annual check points should be envisaged (yearly targets for indicators addressing the intended implementation progress).

Source: Wayne State University; <https://hr.wayne.edu/leads/phase1/smart-objectives>

<b>Features of C.R.E.A.M.</b>	<b>Explanation</b>	<b>Example: Literacy among girls living in rural areas aged 10 shall reach XX percent by the year 20YY.</b>
Clear	Precise and unambiguous. All readers should understand the same meaning of the indicators and targets to avoid misinterpretation.	The target is easy to understand and can barely be interpreted differently by different people.
Relevant	Dealing with important aspects of the outcome or output which the indicator and target are assigned to.	The target focuses on an important aspect of the output which in this case is: Improve literacy in rural areas.
Economic	Achievable at a reasonable cost and within the allocated amounts of the respective budget (sub)programme.	This requires a check if sufficient funds are available to achieve this based on efficient implementation.
Adequate	Provide a sufficient basis to assess performance of the outcome or output.	Allows to assess the performance of the output as it references to a key indicator for improving literacy in rural areas.
Monitorable	Amenable to independent validation both in-year and end-year.	The target is formulated sufficiently specific to allow for an independent validation.

Source: World Bank

## Annex 5: Programme monitoring and evaluation template

<b>County Department:</b>						
<b>Budget programme:</b>						
<b>Outcome:</b>						
<b>(1) Total Programme Expenditure (Mn. Ksh.)</b>						
	<b>Reporting FY</b>			<b>MTEF</b>		
<b>Expenditure Category</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Current FY Budget</b>	<b>Outer FY1</b>	<b>Outer FY2</b>
Recurrent						
Development						
<b>Total</b>						
<b>Programme Performance</b>						
	<b>(3) Reporting FY</b>			<b>(4) MTEF</b>		
<b>(2) Outcome Indicator</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>	<b>Current FY target</b>	<b>Outer FY1 target</b>	<b>Outer FY2 target</b>
Indicator 1:						
Indicator 2:						
Indicator 3:						
Indicator 1:						
<b>(5a) Analysis of variances</b>						
Name of cause 1:						
Brief explanation of cause 1:						
Quantified estimated impact on variance:						
Name of cause 2:						
Brief explanation of cause 2:						
Quantified estimated impact on variance:						
<b>(5b) Planned corrective measures within expenditure ceilings of MTEF</b>						
Name of cause 1:						
Name of corrective measure 1.1:						
Brief explanation of corrective measure 1.1:						
Quantified estimation of contribution to close variance:						
Name of corrective measure 1.2:						
Brief explanation of corrective measure 1.2:						
Quantified estimation of contribution to close variance:						
Indicator 2:						

### Notes for the monitoring and evaluation template for outcomes of budget programmes

Component <sup>32</sup>	Explanation
1	The total programme expenditure columns outline whether spending for the programme in the reporting financial year was in line with the respective expenditure ceiling for the programme and show the budget allocations for subsequent financial years to allow addressees to understand the planned expenditure development for the programme.

Component <sup>32</sup>	Explanation
2	This states the name of the outcome indicator.
3	Comparing target and actual of the reporting financial year and calculating the variance allows to monitor, whether or to which extent the target has been achieved.
4	The target columns for the current and the two outer financial years are included in the template to make addressees understand which progress is required from the actual of the reporting to subsequent financial years. This is particularly important in case of performance shortfalls experienced in the reporting financial year and allows to gauge the magnitude of the required catch-up.
5a	The analysis of variance outlines the causes for performance gaps and estimate the quantified impact of each cause on the performance variance for a given outcome indicator. After having dealt with the first indicator for components 5a and 5b the other indicators need to be dealt with in the same systematic and respective lines have to be added to the template. The quantification can be done either in percentages (total variance being 100 percent) or in nominal amounts. The template includes lines for the two most important causes per indicator which usually should be sufficient to explain the bulk of the variance. It is not recommended to try to explain 100 percent of the variance as this might result in a very cumbersome detailed analysis which may overburden the reporting unit. In case more than two causes are to be addressed to explain the performance gap in question additional lines need to be included in the template.
5b	For each cause of variance outlined in the template corrective measures should be identified to avoid repeating the performance shortfall in subsequent financial years. The corrective measures need to be implemented within the available budget allocations for the respective Department or lead delivery unit. The template includes lines for the two most important corrective measures per cause which usually should be sufficient to address the bulk of the variance generated by the respective cause. It is not recommended to try to address 100 percent of this variance as this might result in a very cumbersome detailed analysis which may overburden the reporting unit. In case more than two corrective measures are to be addressed to tackle the performance gap generated by the respective cause additional lines need to be added to the template.

Source: National Treasury

## Annex 6: Sub-programme monitoring and evaluation template

<b>County Department:</b>							
<b>Budget programme:</b>							
<b>Outcome:</b>							
<b>Sub-programme:</b>							
<b>Leading delivery unit of the sub-programme:</b>							
<b>Total Sub-programme Expenditure (Mn. Ksh.)</b>							
Expenditure Category	(1) Previous Year Actual	(2) Approved Budget	(3) Quarter Expenditure	(4) End Year Estimate	(5) Variance to Budget	Causes of Variance	
Recurrent							
Development							
<b>Total</b>							
<b>Cumulative quarterly Sub-programme Performance</b>							
Output/Indicator	(6) Baseline (Previous Year Actual)	(7) Current Year Target	(8) Required by quarter	(5) Actual by quarter	(10) Quarter Variance	(11) End year estimation	(12) Variance to target
<b>Output 1:</b>							
<b>Indicator 1:</b>							
Causes of the variance and planned corrective measures:							
<b>Indicator 2:</b>							
Causes of the variance and planned corrective measures:							
<b>Output 2:</b>							
<b>Indicator 1:</b>							
Causes of the variance and planned corrective measures:							
<b>Indicator 2:</b>							
Causes of the variance and planned corrective measures:							

### Notes on monitoring and evaluation template for sub-programme outputs

Component	Explanation
<b>Total Sub-programme Expenditure</b>	
1	Previous year actual: Actual expenditure incurred for the previous financial year.
2	Approved budget: The appropriated budget plus any supplementary budgets that have been approved by the time the template is completed.
3	Quarter expenditure: Cumulative expenditure for elapsed quarters in the financial year.
4	End year estimate: Estimated expenditure amount by the end of the financial year; applies for reports for the first three quarters of a financial year. To be left blank for the report for the fourth quarter.
5	Variance to budget: For the first three quarters: Variance of the estimated expenditure amount by end-year to the appropriated amount in the budget. For the fourth quarter: Variance of cumulative expenditure at the end of the fourth quarter the budget.

Cumulative quarterly sub-programme performance	
6	Previous year actual: The target achieved in the previous financial year
7	Current year target: The planned target for the year as outlined in the budget document
8	Required by quarter: This benchmark indicates which status (based on cumulative amounts for elapsed quarters) is considered to be compliant with the in-year service delivery pattern required to delivering the set target by end-year.
9	Actual by quarter: Cumulative performance for elapsed quarters
10	Quarter variance: Difference between (8) requirement by quarter and (9) Actual by quarter.
11	End-year estimation: This indicates the estimated result by the end of the year (based on cumulative performance for elapsed quarter plus the estimated performance for the remaining quarter (s) in the year. This applies for the first three quarters of the financial year and should be left blank for the fourth quarter.
12	End-year variance: Difference between (9) Actual by quarter and (7) current year target. This column only applies in quarter 4.
In addition, the narrative fields after the indicator should be used to very briefly specify causes for performance shortfalls (if any) and corrective measures to tackle them. If more space is needed for that an additional document can be added to the template to provide more details.	

Source: National Treasury

The National Treasury  
Harambee Avenue, Treasury Building,  
P.O Box 30007-00100 Nairobi  
Tel. +254 20 2252299  
Email: [pstnt@treasury.go.ke](mailto:pstnt@treasury.go.ke)



THE NATIONAL TREASURY  
AND ECONOMIC PLANNING

COUNTY GOVERNMENT BUDGET MANUAL 2024

# COUNTY GOVERNMENT BUDGET MANUAL

## 2024