REPUBLIC OF KENYA

COUNTY GOVERNMENT OF THARAKA-NITHI

COUNTY TREASURY AND ECONOMIC PLANNING DEPARTMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

FOR FY 2014-2015

DECEMBER 2015

KENYA VISION 2030

A Globally Competitive and Prosperous Kenya

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Forward

The Public Finance Management Act, 2012 (PFM) requires that the County Treasury release a County Budget Review and Outlook Paper each financial year (section 118)be tabled in the County Executive Committee for approval and thereafter tabled in the County Assembly within seven days. The required content of this paper is detailed in sections 118(2) of the Act.

The CBROP is presented as follows:

- The review of FY 2014/15 expenditure and associated budget targets are detailed in section II: Review of County Fiscal Performance;
- Section I to IV and conclusion in Section V in this Budget Review and Outlook Paper, meets all the disclosure requirements outlined in PFM Act, 2012 section 118(2(a-d)). In particular: Section II details actual expenditure of 2014-15 compared to budget appropriations of the same period as required by section 118(2(a)) of PFM Act, 2012; − Section III and IV detail the economic and other assumptions underlying the Budget projections as required by section 118(2(b)) and − the Statement of Risks in Section III details the sensitivity of the projections to various economic and financial assumptions and other risks section 118(2(c and d)).

The County Budget Review and Outlook Paper presents County Government decisions that were made by County Treasury, together with other relevant information known to Treasury which have material effects on the county's financial projections.

The C-BROP has been prepared in accordance with applicable Accounting Standards and Government Finance principles, and is based on the economic forecasts and assumptions outlined in Section I: review of fiscal performance, Section II: Review of county fiscal performance, Section III: recent economic developments and outlook and Section IV: resource allocation framework.

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CEC Member for County Treasury

November 2015

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Acronyms

CA	County Assembly
CBROP	County Budget Review and Outlook Paper
CEC	Chief Executive Committee
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CT	County Treasury
ECD	Early Childhood Development
ECDE	Early Childhood Development and Education
FY	Financial Year
GDP	Gross Domestic Product
HSSP	Health Sector Support Programme
ICT	Information Communication Technology
IFMIS	Integrated Financial Management Information System
KNUT	Kenya National Union of Teachers
Kshs	Kenyan Shillings
MTEF	Medium Term Expenditure Framework
NT	National Treasury
OCB	Office of the Controller of Budget
PFM	Public Financial Management
PPP	Public Private Partnership
SRC	Salaries and Remuneration Commission
TSC	Teachers Service Commission
USAid-AHADI	United States Aid – Agile and Harmonized Assistance to Devolved Institutions

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SECTION I: INTRODUCTION

Background

The CBROP is a key document in linking policy, planning and budgeting at the county level. The Tharaka Nithi County Government embarked on preparing the County Integrated Development Plan (CIDP) that guides budget preparation and programming for the MTEF 2014-15 to 2017-18.

This second County Budget Review and Outlook Paper (CBROP) is prepared in line with Article 201(a) of Constitution of Kenya and section 118 of the Public Finance Management Act, 2012. The CBROP contains a review of the fiscal performance of the financial year 2014-15 and outlook of financial year 2015-16. In addition, it provides forward information for MTEF 2016-17 to 2018-2019.

In the interim, this year's CBROP is embedded on the 2014-15 FY Budget which was approved by the County Assembly with the slogan aiming to promote "economic growth through optimal utilization of resources."

The County Government of Tharaka Nithi through the County Integrated Development Plan (CIDP) establish programmes for the current Medium Term Expenditure Framework (MTEF) with a particular focus on development infrastructure and integrated planning of the county. The updates on macroeconomic outlook will be firmed up in the County Fiscal Strategy Paper 2016 to reflect any changes in economic and financial conditions. The Public Finance Management Act, 2012 provides a deadline of February 28th for County Governments to come up with CFSP.

Objective of CBROP

This County Budget Review and Outlook Paper has the following key objectives;

i. Review the county fiscal performance in the financial year 2014/15 in relation to the appropriations approved by the County Assembly that year. In addition establish how the deviations from approved budget estimates affected the economic performance of the county.
ii. Provide an updated economic and financial outlook with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP).
iii. Provide information on any changes in the forecasts compared with the CFSP.
iv. Provide reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

Overview

The fiscal performance in 2014/15 was generally satisfactory. Revenue collection for the period under review was almost double the revenue collected in the previous FY 2013/14.

On the expenditure side, the County Government had to incur huge expenditure as compensation to employees of the County Government and continued hiring of technical staff by the dockets.

Adjustments to the original budget were approved by the County Assembly in May 2015 in the context of the Supplementary Estimates.

SECTION II: REVIEW OF COUNTY FISCAL PERFORMANCE 2014-15FY

The Section Overview

This section details the county's fiscal performance and has three sub-sections; overview, details of fiscal performance and the final sections elaborates the implications of fiscal performance.

The Fiscal Performance of the County 2014-15FY

During the period under review, the County received Kshs 2.3 billion from exchequer as equitable share. In addition, the County raised 115.73 million from local revenue sources compared to Kshs 85.4 million realized in 2013-2014 financial year. This was 36.15 percent improvement over the collection for 2013-2014 FY. The resources realized from conditional grants amounted to Kshs 9.6 million received from DANIDA which one of the donors under Health Sector Support Programme (HSSP) while Kshs 251.68 million was balance brought forward from FY 2013-2014.

Classification	Actual (Millions)	Estimate 2014-15 (Millions)	Variance (Millions)	Variance %
Own Revenue	115.73[1]	180.00[2]	(64.27)	-35.7%
Appropriations -In-Aid	46.23	70.00	(23.77)	-34.0%
Equitable Share	2,363.56	2,671.36	(307.80)	-11.5%
Grants and Donations	9.95	787.16	(777.21)	-98.7%
Total	2,535.47	3,708.52	(1,173.05)	-31.63%

Table 1: Summary of revenue and receipts for FY 2014-2015. Source: BPS 2014

Table 1 and 2 presents the actual fiscal performance for the 2012-13FY and the deviations from the Original budget estimates.

County Own Revenue Performance

The total cumulative revenue collection from local sources for the period between July 2014 and June 2015 was Kshs 148.3 million against a target of Kshs 250 million. Comparatively, this performance was seventy four percent (74.5%) improvement over Kshs 85 million collected in 2013/14 financial year. This represents an under-collection of Ksh 101 million against the target of Kshs 250 million set in 2014-15 financial year budget. The Ksh 148 million included Kshs 46 million which was Appropriations-In-Aid (AIA) to the level four hospitals namely Chuka, Marimanti and Magutuni.

[1] Source: Budget 2014-2015

[2] Source: Budget 2014-2015 and excludes Appropriations-In-Aid in all Level-4 hopitals

SOURCE OF INCOME	2013/2014 ACTUAL (12mths)	2014/2015 ESTIMATES	2014/2015 FY ACTUAL	VARIANCE
Land and Rates	1,185,864	3,000,000	2,711,600	-9.6%
Plot Rents	6,919,781	9,300,000	4,090,664	-56.0%
Single Business Permits	21,285,048	35,000,000	25,745,346	-26.4%
Cess Fees	20,063,781	35,000,000	22,566,754	-35.5%
Market & Slaughter	18,711,181	30,000,000	19,258,960	-35.8%
Vehicle Parking	15,367,573	30,000,000	12,387,955	-58.7%
House & Stalls	1,904,999	2,300,000	1,198,600	-47.9%
Hire of Hall & Lorry	68,533	200,000	-	-100.0%
Plan Approval Fees	1,302,333	2,500,000	1,476,700	-40.9%
Weights and Measures	-	100,000	-	-100.0%
Penalties	516,765	620,000	373,198	-39.8%
Livestock Sales	4,273,467	7,000,000	1,220,090	-82.6%
Mt. Kenya Lodge/Local tourism	163,833	1,780,000	565,200	-68.2%
Transfer, Application & Adjudication	1,340,224	2,000,000	555,040	-72.2%
Search fees, Minutes EXT	685,653	800,000	292,000	-63.5%
Advertisement	805,140	5,000,000	550,870	-89.0%
Motor Cycle	61,640	3,600,000	603,780	-83.2%
Miscellaneous	-	4,000,000	3,491,808	-12.7%
Plan Approval	45,333	500,000	134,800	-73.0%
School Inspection	37,333	2,000,000	27,200	-98.6%
Private Clinics Permits	13,333	500,000	12,200	-97.6%
Food Premises Permit	346,667	2,080,000	-	-100.0%
Liquor Inspection	173,333	1,040,000	4,871,300	368.4%
Medical Examination	280,000	1,680,000	25,600	-98.5%
Appropriation to Hospitals/Dispensaries		70,000,000	46,163,102	-34.1%
TOTAL LOCAL REVENUE	**85,551,817**	**250,000,000**	**148,322,767**	**-40.7%**

Table 2: Summary of revenue against targets. Source: Revenue Returns 2014 - 2015

On quarterly basis, the County collected Ksh 22.6 million in the fourth quarter compared to a total of Ksh 33.1 million collected in the third quarter which was the highest. The first quarter recorded Ksh 26.7 while the second quarter had the lowest collection at Ksh 19.5 million. This excluded Kshs 46.2 milion collected and appropriated by level four health facilities. The average collection per quarter was Ksh 25.5 million with the highest monthly collections being made in the months of July 2014, March 2015 and June 2015 when farmers harvest after long and short rains.

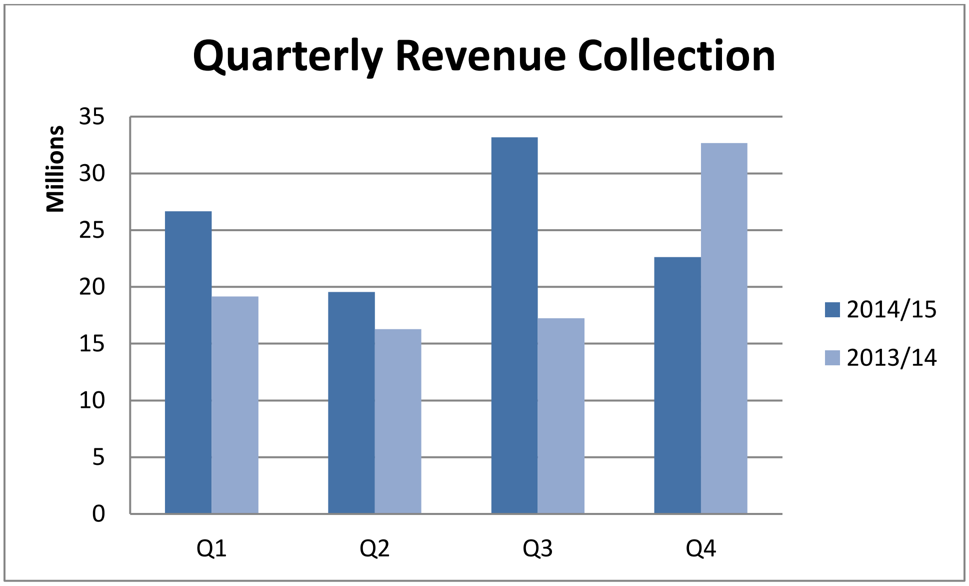

Figure 1-: Revenue collection per quarter FY 2014-15. Source: OCB Expenditure Review Reports 2015

Generally, this impressive performance can be attributed to enactment of new revenue policies as stated in the Finance Bill 2014 which embroiled reformist agenda in resource mobilization mechanisms. These reforms included, inter alia, stringent water-proof revenue collection measures, enhanced supervision, sealing revenue linkages and enhanced overall revenue administration. In addition, the revenue department focused on improving revenue reporting procedures and overall reporting framework which improved tracking the progress in revenue collection.

Revenue collection per region was generally impressive with all major regions posting above average results. Tharaka Nithi being dominantly rural county derives 54.7 percent of local resources from expansive rural community and only 46.29 percent from the three recognized urban areas. The figure below shows a summary of performance by region.

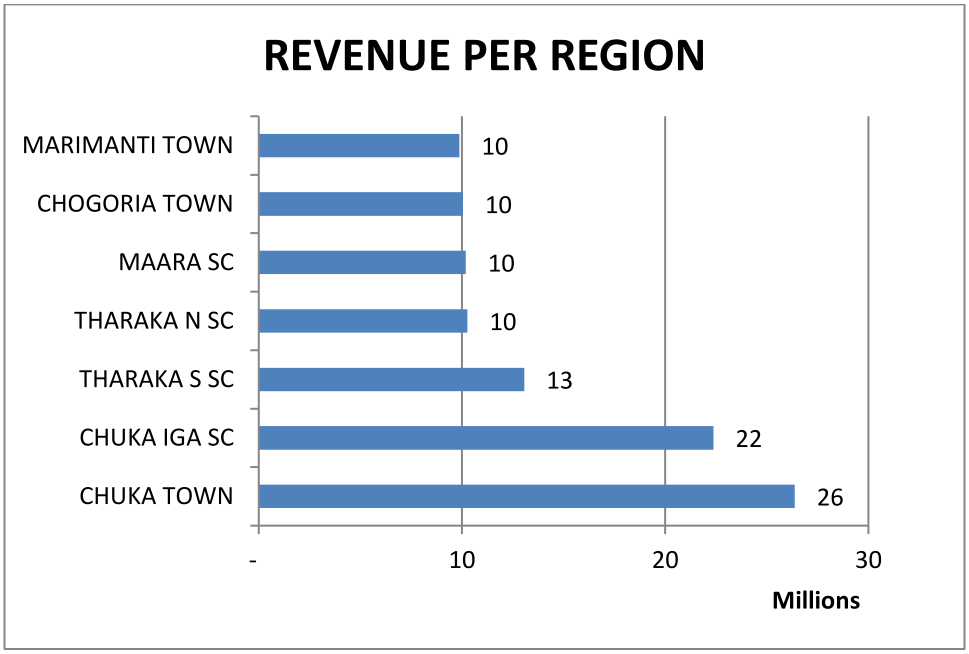

Figure 2: Revenue collection per sub-regions. Source: Revenue Reports 2015

Chuka Town had the highest collection of Kshs 26.37 million closely followed by Chuka Igamba Ngombe Sub-County with Kshs 22.36 million. Tharaka South Sub-county had third best performance of Kshs 13.06 million while Tharaka North Sub-county, Maara Sub-county and Chogoria Town had made a collection of Kshs 10.27 million, Kshs 10.19 million and Kshs 10.05 million respectively. Marimanti Town had the recorded the lowest collection at Kshs 9.87 millions.

The top four major sources of local revenue contributed 78.43 percent of total revenue mainly single business permit, Cess fees, market and slaughter and motor vehicle parking fees contributing Kshs 25.75 million, Kshs 22.57 million, Kshs 19.26 million and 12.39 million respectively. In urban areas the major sources of revenue were single business permit and motor vehicle parking charges. However, Marimanti Town had the lowest collection for motor vehicle parking fees at Ksh 0.09 million while Chuka Town had the highest collection at Kshs 7.88 million. Another major source of revenue in all regions was market and slaughter charges and was highest in Chuka Igamba Ngombe, Chuka Town and Marimanti Town all of which recorded collections exceeding Kshs 3.0 million. Annex I shows revenue collection per revenue lines per region.

From the National Government, the county received total disbursements of Kshs. 2.4 billion of which Ksh 9.95 million was donor funding from Danida as part of HSSF. However, a sum of Ksh 787.16 million classified as donor funds was not received by end of the year despite constant follow-ups with National Treasury. This had effects on implementation of development programmes and projects which remained unfunded at end of the year.

Additionally, unfavorable macroeconomic conditions prevalent throughout the financial year arising from labour unrest in the health sector, rising political temperatures, falling prices of cereals and depreciating Kenyan shilling had significant hindrances to targeted performance.

County Expenditure Performance

The total expenditure for the county was Kshs 2.79 billion during FY 2014/15 which translated to 94.5 per cent of the total funds available in County Revenue Fund (CRF). This was an improvement from Kshs 2.3 billion spent in FY 2013/14. A total of Kshs 1.8 billion (58.2 per cent) was spent on recurrent expenditure related activities while Ksh 1.0 billion (41.8 per cent) was spent on development activities. The recurrent expenditure was 90.9 per cent of the funds released for recurrent activities while development expenditure accounted for 104.1 percent of the funds released for development activities.

Analysis of Expenditures by Economic Classification – FY 2014/15

	Approved Estimates 2014/15	**Actual Expenditure 2014/15**
Economic Classification		
Use of goods and services	690,228,816	658,015,467
Compensation of employees	1,140,664,805	1,140,808,873
Total Recurrent Expenditure	**1,830,893,621**	**1,798,824,340**
Development Budget	1,888,428,781	994,334,265
Total Development Expenditure	**1,888,428,781**	**994,334,265**
Total Expenditures	**3,719,322,402**	**2,793,158,605**

Table 3: Analysis of Expenditures by Economic Classification. Source: Expenditure Returns 2014-2015

In relation to the budget absorption, the total expenditure of Kshs 2.8 billion represented 83.2 per cent absorption rate. The recurrent expenditure of Kshs 1.8 billion represented 98.2 per cent absorption rate, decrease from 99.9 per cent realized in FY 2013/14, while development expenditure of Kshs 1.0 billion represented 68.5 per cent absorption rate, an improvement from 54.8 per cent realized in FY 2013/14.

Analysis of the recurrent expenditure of Kshs 1.8 billion shows that the County spent Kshs 1.14 billion (63.4 per cent) on personnel emoluments and Kshs 658.0 million (36.6 per cent) on operations and maintenance expenditure. The expenditure on personnel emoluments accounted for 36.9 per cent of total expenditure which was a significant increase from Kshs 1.02 billion County spent in FY 2013/14

The lower-than-expected absorption rate was attributed to delay in release of funds to Counties by the National Treasury, lengthy and slow procurement procedures including e-procurement which had to be followed and failure by the National Government to release donor funds. In this regard, the budget estimates for FY 2016-2017 should be adjusted accordingly to reflect the changing fiscal and economic outlook as outlined in this paper.

Summary of expenditure by economic classification per department

	BUDGETED EXPENDITURE 2014/15 FY				ACTUAL EXPENDITURE 2014/15FY				EXPENDITURE VARIANCE			
COUNTY DEPARTMENT	Use of goods and services	Compensation of employees	Other Development	Total	Use of goods and services 2	Compensation of employees3	Other Development4	Total5	Use of goods and services 6	Compensation of employees7	Development	Average
Office of the Governor	126,079,200	48,629,197	0	174,708,397	121,523,547	48,629,197	0	170,152,744	-3.6%	0.0%	0.0%	-2.6%
Finance and Economic Planning	71,180,000	69,693,686	122,950,000	263,823,686	69,263,040	69,263,686	79,563,590	218,090,316	-2.7%	-0.6%	-35.3%	-17.3%
Infrastructure, Housing, Public Works and Legal Affairs	22,560,000	18,185,237	463,000,000	503,745,237	18,888,973	18,185,237	440,072,585	477,146,795	-16.3%	0.0%	-5.0%	-5.3%
Health Services	163,604,217	559,393,442	196,000,000	918,997,659	124,348,790	559,393,442	52,932,872	736,675,104	-24.0%	0.0%	-73.0%	-19.8%
Physical Planning, Energy, Lands and ICT	26,622,000	16,620,596	195,238,781	238,481,377	23,169,566	16,620,596	22,487,428	62,277,590	-13.0%	0.0%	-88.5%	-73.9%
Agriculture, Livestock, Veterinary, Fisheries and Irrigation	36,233,780	151,874,275	182,840,000	370,948,055	21,788,374	151,874,275	127,768,512	301,431,161	-39.9%	0.0%	-30.1%	-18.7%
Public Service, Urban Development and Disaster Management	31,600,800	59,779,486	124,200,000	215,580,286	28,836,178	59,779,485	58,818,008	147,433,671	-8.7%	0.0%	-52.6%	-31.6%
Education, Culture, Social Services and Youth Development	17,712,800	42,657,200	242,650,000	303,020,000	10,366,955	42,520,000	169,642,998	222,529,953	-41.5%	-0.3%	-30.1%	-26.6%
Tourism, Environment, Natural Resources and Water Services	21,291,220	18,000,000	140,350,000	179,641,220	9,229,051	17,992,856	12,774,607	39,996,514	-56.7%	0.0%	-90.9%	-77.7%
Trade, Industry and Cooperative Development	21,881,500	17,265,590	91,200,000	130,347,090	18,072,207	17,206,581	9,513,541	44,792,329	-17.4%	-0.3%	-89.6%	-65.6%
County Assembly	151,463,299	138,566,096	130,000,000	420,029,395	212,528,786	139,343,518	20,760,124	372,632,428	40.3%	0.6%	-84.0%	-11.3%
TOTAL	690,228,816	1,140,664,805	1,888,428,781	3,719,322,402	658,015,467	1,140,808,873	994,334,265	2,793,158,605	-4.7%	0.0%	-47.3%	-24.9%

Table 4: Actual Expenditure and Estimates for FY 2014/15. Source: Expenditure Returns 2014-2015

Fiscal Balance

The overall fiscal position of the county was a deficit attributable to unmatched surge in spending on both recurrent and development priorities to ensure the CG delivers on its core mandate, delays in release of funds from the National Government and failure to realized allocated donor funds. However, the County Government had taken pre-emptive measures that were targeting to ensure that projects and other payables that were likely to be affected were sufficiently provided for in the proposed budget for 2015-2016 FY. Also this paper proposes that the projects not implemented but their funding received and carried forward to 2015-16 FY should be included in the budget for FY 2015/16 through supplementary adjustments.

Implication of 2014-2014FY fiscal performance

The underperformance in collection of own county revenue in the FY 2014/15 had significant impact on resource envelop and the base used to project the revenue for the taxable items in FY 2015/16 budget. In this regard, the county own revenue projected for FY 2015/16 and the forward years FY 2016/17 and FY 2017/18 will have a new base which takes into consideration the current level of revenue collection as reported in FY 2014/15.

The underperformance reported in both the recurrent and development spending for the FY 2014/15 has implications on the base used to project expenditures in the FY 2015/16 and the subsequent forward years in the Medium Term Expenditure Framework (MTEF) 2015/16-2017/2018. Therefore, corrective measures will be undertaken during the preparation of the supplementary budget for FY 2015/16 as well as in subsequent MTEF budgets where the base for projecting expenditure will be modified to reflect the emerging trends in both resource mobilization and spending.

In summary, the baseline ceilings for spending agencies will be adjusted and then firmed up in the County Fiscal Strategy Paper 2016, the revision in revenues and expenditures will be based on the revised macroeconomic assumptions which will be firmed up in the context of the County Fiscal Strategy Paper 2016 and the Budget Policy Statement 2016 to be released by National Treasury. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modification to the financial objectives to be contained in the CFSP to reflect the changed circumstances.

SECTION III: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Generally, the fiscal performance of the County Government (CG) is dependent on both the macroeconomic environment and CG internal environment which is characterized with prudently formulated and implemented policies. In this regard, the CG operated under stable macroeconomic environment featuring perpetual labour unrests by health workers on delayed wages and remittances which was eventually sufficiently addressed by County Treasury.

Recent Economic Developments

Kenya's economic performance remains solid, underpinned by strong infrastructure spending and consumer demand, which are driving growth. The economic growth in 2015 is projected at 5.4 percent though it is a decline from the 6.0 percent projected in December 2014. This is a reflection of headwinds in the economy resulting from the exchange market and the monetary policy response being instituted by Central Bank to calm the fears.

The fact that the country is aggressively seeking expansionary fiscal path is an indication that results will be unsustainable and posits risk to growth. The heavy infrastructural spending which is a boon for Kenya's production space and future growth is considered to lender short-term to medium-term macroeconomic framework vulnerable. Currently, the country has a fiscal deficit of 8.3 percent of GDP and a budgeted 8.7 percent of GDP in FY 2015/16.

Narrowing down, CG has increased its investment in flagship projects with long term impact as a way of ensuring sustained development. In this regard, CG has contracted the construction of County Headquarters at Kathwana which is expected to be completed in three years with the funding being spread across the same period. The counter-part funding in the budget has significantly increased to 10 percent and may exceed 15 per cent in 2017. The counter-part funding includes conditional grants, conditional loans, donor funding, community partnership, PPP and other forms of concessionary agreements.

Overview of Recent Developments

Several reports have recognized the considerable progress made by the county governments in implementing constitutional and legal provisions for transparency, accountability and participation. Precisely, Tharaka Nithi County Government under the leadership of H.E S.M Ragwa has prioritized setting up of structures and systems that facilitate public participation in governance. The CG has built communication frameworks, established participatory forums as per the legislative requirements and has gone beyond to adopt innovative initiatives to engage citizen which include use of social media. However, the high cost of participation has deterred much anticipated progress although, the partnership with Plan International and USAID – AHADI, the CG is developing administrative capacity and training staff implementing participatory process.

The county embarked on extensive opening, grading and gravelling of roads making the roads and infrastructure department the largest spender in the FY 2014/15. The County Government through the docket in charge of infrastructure development improved accessibility by grading 780 kilometers, gravelling 50 kilometers and constructing several footbridges and drifts**.** This has greatly improved accessibility to health facilities, ECD centers and schools, market places and work places by all residents in the county. In addition, the Department of Physical Planning, Lands, Energy and ICT in collaboration with Rural Electrification Authority has increased electricity connectivity within the county by installing more transformers making the much coveted *"the Last Mile"* programme a reality to many residents.

The County has also embraced a comprehensive strategy targeting to improving patience experience and health care system in all our health facilities. This was achieved through continuous consultations with health workers union that ended perpetual strikes by health workers, purchasing of hospital equipments, acquisition of ambulances shortening access to referral services, construction and refurbishment of several health facilities at a total cost of Kshs 61.8 million and equipping of Marimanti and Chuka Hospitals at a cost of Kshs 200 million through the Managed Equipment Service (MES) Programme being fielded by National Government. The targeted institutions included Chuka, Marimanti sub-county and Magutuni Level 4 hospitals, Chiakariga, Karambani, Ntoroni and Mpukoni dispensaries among others. These improved infrastructures were coupled with timely provision of hospital consumables including medicinal drugs, non-pharmaceuticals, chemicals and gases, food and rations etc.

Notably, the County Government while addressing the major challenge of accessibility of clean and safe water for domestic purposes as well as adequate irrigation water has embarked on a no-return mission to expand connection to water points by households. In this regard, the CG has supplied water pipes, water storage tanks, built new intakes and in the process funded several community water projects. Public schools have been major beneficiaries of water storage tanks while pipes have been supplied to community water projects. As a result, CG has spent over Kshs. 118 million to acquire and distribute pipes to several community water projects supplying domestic water. This has promoted access to clean and portable water for domestic purposes.

In agriculture, which is the highest contributor to the county economy, significant efforts have been made especially in improving access to quality and affordable inputs. The CG has procured and distributed for free certified seeds worth in excess of Kshs. 5 million, delivered subsidized fertilizers in conjunction with State Department of Agriculture, trained farmers on best agricultural practices, improved post-harvest handling through the ongoing construction of stores at Mitheru and Mukuuni with support of National Government while stores at Gatunga and Mukothima are aligned for construction. Fish farmers have been issued with liners, fingerings, fish feeds and extension services. The CG is keen on nutritional levels of the residents and has promoted aggressively the consumption of fish. In this regard, the Kinondoni trout hatchery located at the grassland section of Mt. Kenya at Chogoria will be the region leader hatchery in rearing and providing fingerings for trout fish. In addition, the CG has put in adopted strategies to ensure value addition of both agriculture and livestock products especially in milk where coolers are being procured for Mitheru and other identified areas. As such strategies can result in to agriculture sector creating new sources of income for households as well as be a source employment for our youth.

In improving the enrollment and retention rate at ECDE centres the County Government through the Department of Education, Culture, Social Services and Youth Development has established a programmes targeting to build at least one ECDE classroom in every school. In addition, the department issues bursary worth Kshs. 15 million to the needy and bright students in secondary schools and colleges. The remaining balance of the bursary was scheduled to be distributed by the end of the first quarter 2015/16 FY when the schools will be opening for third term. The department has also put adequate measures to address the rate of unemployment amongst the youth by offering them 30% of tenders and providing adequate skills through youth training in polytechnics, empowerment centres and sport promotion.

The department of Tourism, Environment, Natural Resources and Water Services has identified and is developing tourism sites and markets and construction of cultural centre at Chiakariga. In addition, CG has embarked in aggressive strategy that focuses on construction and branding of tourism sites and tourism niche markets including waters falls at Gikwa along Kathita River, Kandakane along Nithi River, Mitheru Tourism Market, Ura Gate Tourism Market, Chiakariga Cultural Centre and renovation of Kinondoni Lodge among others. In the FY 2014/15 the CG established a tree nursery at Mutonga River and embarked on tree planting/greening programme targeting schools, hillsides, highways and even private farmlands. This will ensure the county takes prime position as the regional leader in agro-forestry, afforestation and environmental conservation.

In order to improve access to affordable credit and ease the doing of business in the county the department of Trade, Cooperatives and Industry has achieved the following: established Tharaka Nithi County Staff SACCO with recruitment of members ongoing, re-organization of Tharaka Nithi County Cereals Marketing Cooperative Union, drafted Trade Loans Bill which is at public participation stage, drafted a bill establishing Tharaka Nithi County Investment and Development Corporation which will be county's investment vehicle and will provide the CG with legal framework for Public Private Partnership (PPP). The Department has also rehabilitated seventeen markets across the County with Kathwana and Kaanwa markets nearly completion.

The early drought warning system indicates that several parts of the County are likely to be hit by El Nino rains in the second quarter of the FY 2015-2016. Tharaka Nithi County has been highlighted as one of the counties that are at higher risk of the El Nino deluge and with possibilities of flash floods along major rivers, mad slides in the upper region and outbreak of waterborne diseases. Consequently, the CG will be required to initiate disaster response mechanisms and in collaboration with National Government to provide emergency relief in additional to establishing appropriate response mechanisms.

Progress on 2015/16 Budget Implementation

The County Government is facing challenges with regard to funding planned programmes due to delays in releasing allocated fund by National Government. For instance, the first tranche for the month of July 2015 was released late in the month of September 2015. This has resulted in delayed payment of salaries and related deductions, slowed implementation of budgeted programmes and projects as well penalties associated with statutory deductions.

However, CG has moved in swift to rectify the anomaly through engaging relevant government agencies including the Office of Controller of Budget, Commission on Revenue Allocation, Council of Governors and National Treasury. In addition, CG has aggressively collected local revenue for the first two quarter of FY 2015/16 was Kshs. 36.6 million compared to Kshs. 31.0 million and Kshs. 26.7 million collected in the FY 2014/15 and 2013/14 respectively. This is an indication that with enhanced administrative measures to seal revenue source leakages, coupled with review of rates as proposed in the Finance Bill 2015 and widening the revenue base, the county’s collection will definitely exceed its target by a huge margin.

County economic outlook and policies

The County Government will continue to invest in agriculture and infrastructure development as drivers of economy in the county. In addition, the county government through the County Department of Trade, Industry and Cooperative Development has established robust policies on cross-county trade development with county focusing on promoting trade agreements, cross-border infrastructure developments and promotion of products of the county in other counties. This has been achieved through collaborative activities with neighboring counties as well as participative approach in national economic policies and events. The labour market is expected to improve with the fall of short and long rains expected in the month of November 2014 through July 2015. This means that the consumer prices are expected to remain relatively constant over the next year.

Agriculture remains the backbone of the County economy with increasing contribution to the County GDP at a national aggregate of 24.1% in 2009 and 25.4% in 2013. Further, it is also expected that the emerging sectors will gain considerable significance in the economy with the investment in real estate and ICT expected to contribute about 8.2% of National GDP. The manufacturing sector is expected to contribute 11.3% towards the National GDP. However, despite the fact that manufacturing is not an established sector in our economy, continued investment by the County Government in value addition, economies of production and mineral ores mining are expected to ‘burst the bubble’ of manufacturing in the county.

Medium Term Fiscal Framework

Our prudent fiscal policy objective will provide an avenue to support economic activities, while allowing for implementation of the Governor’s manifesto within sustainable public finances.

With respect to revenue, the County Government will maintain a strong revenue effort over the medium term. Measures to achieve this effort include simplification of the taxes, fees and charges with an effort to encourage compliance and enhanced administrative measures for example automation of revenue collection points. In addition, the County Government will introduce tax incentives and expand the tax base as envisaged in the Tharaka Nithi County Finance Bill 2013 that is under consideration by the County Assembly and review all other tax legislations in order to simplify and modernize them as will be indicated in the FY 2014/15 Budget Statement.

As a County we do recognize the vast natural resources at our disposal. Our County Government is engaging with stakeholders to develop a comprehensive policy and legislative framework covering ways of attracting investors, licensing, revenue raising measures, taxation and sustainable use of the resources. This will ensure that we derive maximum benefit from these natural resources.

On the expenditure side, the County Government will continue with rationalization of expenditure to improve efficiency and reduce wastage. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across departments and subsequently at the sub county level following decentralization. Above all, the Public Finance Management Act, 2012 is expected to accelerate reforms in expenditure management system.

Risks to the outlook

Although the Tharaka Nithi County economy on resilient growth path, it is still prone to shocks emanating from macro environment affecting the larger country economy. The continued interventions in the economy by the Central Bank and National Treasury through renewed macroeconomic policies, austerity expenditure measures, revamped revenue raising strategies and investment in mega infrastructure projects will have significant effect on the performance of county's key sectors.

The following key risk factors are likely to have an impact on the performance of the county economy;

External risks:

The continued weakening of Kenyan Shilling against the dollar will negatively affect dollar denominated imports and dollar-based loans. This is expected to increase the costs of farm inputs and machinery which are generally imported. However, coffee, tea and grain farmers are likely to leap big from export trade though the structural high prices might not be sustainable. The adjustment of base lending rates for inter-bank lending by Central Bank as resulted in rising interest rates thus high cost of doing business. However, the interventions by the Central Bank and National Treasury targeting both monetary and fiscal policies will guarantee stable business environment characterized with stable inflation rate, exchange rate and moderate interest rates.

The vulnerability of the Kenya's macroeconomic stability to the external shocks resulting from the current high deficit which is 8.5 percent of GDP has effect on sustained economic growth. In this regard, low country's economic growth will have a negative impact of the growth of the counties especially on creation of jobs, wealth and sustainable development.

Business Risks

Public expenditure pressures originating from recurrent expenditures being driven by enormous wage bill pose serious fiscal risks. The runaway pending bills and other commitments (Kshs. 790 million) are expected drain resources available for programmes and projects scheduled for this FY 2015/16. The CG is committed to improve the county infrastructure and enormous share of available resources is going to the prioritize sectors which include physical infrastructure sector such as roads, irrigation, water, and energy.

Agriculture is the main driver of the county economy. However it faces unreliable weather patterns, poor post-harvest handling practices and lack of commercialization. The CG has embarked on transformative strategy that target to rely down appropriate structures to address overreliance on rain fed production, reduce post-harvest loses, link farmers to markets through future contracts and to offer comprehensive extension services.

Therefore, the county is aware of all potential risks and will take appropriate measures to safeguard the stability of the county economy.

SECTION IV: RESOURCE ALLOCATION FRAMEWORK

This section sets out how the County Government intends to live within its means. It establishes the resource envelope or total revenues it expects by sector then allocates these across the County Government departments by setting expenditure limits or ceilings for each government department. It has the following sub-sections as discussed below:

a) Adjustment to the proposed (2015-2016) budget;
b) The medium term expenditure framework;
c) Proposed (2016-2017) budget framework; and
d) Projected fiscal balance and likely financing.

Adjustment to the proposed 2015/16 Budget

Considering the developments outlined earlier for FY 2014/15 and the changes in the outlook discussed the risk apparent in the FY 2015/16 will include volatility of Kenyan shilling, high interest rates and slower economic growth. This volatility in macroeconomic environment will affect negatively the implementation of FY 2015/16 budget.

Although the CG as a fiscal responsibility to ensure the recurrent expenditure does not exceed 70 percent in the medium term, the increasing recurrent expenditure pressures, especially rising wage bill, pose a serious fiscal risk. Wage pressures, establishment of devolved units at ward and village levels, structural reforms proposed in rationalization report and implementation of Constitution in governance on participation and civil education may limit the level of funding for development programmes.

Adjustments to the 2015/16 budget will take into account actual performance of department so far and absorption capacity in the previous financial year 2014/15. In addition, the review will also address the accounts payables to suppliers of goods services that were brought forward from FY 2014/15 ending 30th June, 2015. The basis for adjustment will take into the consideration resource constraints such that the CG will rationalize expenditures by cutting on non-priority areas. Additionally, the CG will require the departments to spread the planned expenditure in adherence to the departmental work plans. The reason for slowing down or reprioritizing development expenditures is to ensure that the Government lives within its means. Utilization of contingencies/ emergency funds and other funds established in the FY 2015/16 budget will be within the criteria specified in the PFM law.

In implementation of Capacity and Rationalization of Public Service Report, Report on Job Evaluation and Tharaka Nithi Staff Audit Report the CG will review salaries and benefits for the County workers in accordance with Article 230 of the Constitution , recommendations by County Public Service Board, recommendations by SRC and any other relevant law.

Medium-Term Expenditure Framework

As a way forward, medium term expenditure framework (MTEF) will refocus expenditure on priority sectors by reducing non-priority expenditures in remaining MTEF budgets. The revised County Integrated Development Plan (2013-2017) will be used to guide resource sharing amongst the departments as well as guaranteeing regional distribution balance in terms of capital investment projects. Therefore, it is important to note the only projects and programmes to be funded in the MTEF 2015/16-2017/18 are those captured in the CIDP 2013-17. Meanwhile, the resource allocation will be based on Annual Development Plan 2016/17 which will be submitted to the county assembly for approval within the course of FY 2015/16.

The education and health social sectors - early childhood education, vocational training and health - will continue to receive adequate resources. Both sectors are already receiving a significant share of resources in the budget and are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

The economic sectors including agriculture, trade, tourism and economic affairs will receive increased share of resources to boost productivity with a view to deal with threats in food security in the county.

On improving infrastructure the CG will commit a substantial share of resources targeting physical infrastructures, such as roads, energy, water and irrigation. The funding to these sectors will increase interconnectivity, communication, reliable and affordable energy, as well as increased access to clean domestic water and irrigation water.

The CG will also initiate flagship projects in Roads, Lands, ICT, Housing, Industry, Culture, Youth Development, Physical Planning and Cooperative Development where they have been previously underfunded. Particularly, the CG is in the process of developing an integrated spatial plan, GIS lab, housing units at Kathwana for county employees and development of stadia at strategic points to engage our youth constructively.

The proposed budget framework for FY 2016/17

The proposed budget FY 2016/17 will be rolled out on the background of updated medium term framework and outlook with allocation ceilings for the department being proposed in the County Fiscal Strategy Paper 2016 to be released in February 2016. In addition, the general macroeconomic condition for the county is expected to be stable synonymous to the overarching country macroeconomic environment. Therefore, the envisioned resource envelope and expenditure outlook will be based on inflation rate, exchange rate, interest rate and other macroeconomic conditions which are all assumed stable and favourable.

Revenue projections for MTEF 2015-18

The current budget targets a total resource envelop of Kshs. 3.6 billion comprising of an equitable share of Kshs. 3.1 billion, county own revenue of Kshs. 248 million and grants of Kshs. 189 million. The MTEF fiscal requirement is Kshs. 11.18 billion targeted for the MTEF 2015/16-2017/18.

The county revenue is expected to remain relatively stable with standard variation of less than Kshs. 10 million from the mean of Kshs. 250 million adopted for the MTEF which is approximately 5-6 percent of total county revenue. However, this fiscal performance on own revenue collection will be a drop against the 7-9 percent projected in the medium term according to the previous County Budget Review and Outlook Paper. The Kshs. 250 million county own revenue includes Appropriations – In – Aid (AIA) of Kshs 60 million on average targeted in the medium term from level four hospitals.

On the other hand, the revenue resources from grants and equitable share of domestic resources as allocated by the National Government are expected to increase significantly over the MTEF period. The increase in equitable share will be derived by larger audited national government budget accounts, review of policies on sharing formula, and increasing pressures by the Council of Governors to have the National Government devolve more functions to county governments. The increase in both conditional grants and non-conditional grants will be based on increasing and strengthening capacity of CG to mobilize stakeholder resources in support of the development agenda envisioned by the CG.

The County Treasury has continued to focus extensively on instituting structural reforms aiming at rationalization of revenue collection procedures, harmonizing revenue laws and policies, as well as fiscal reforms targeting optimization of personnel costs, operation costs and minimizing financial wastages. The CG has embarked on realizing higher revenue collection targets from Kshs. 84 million in FY 2013/14 to Kshs. 250 million for current the MTEF period. Therefore, the planned acquisition and implementation of electronic revenue system in this FY 2015/16 will ensure that the CG realizes the revenue target of Kshs. 248 million against the revenue collection of Kshs. 149.2 million in FY 2014/15.

Expenditure Forecasts

The current 2015-16 FY budget has a total forecasted expenditure of Kshs. 3.6 billion and projected total expenditure of Kshs. 11.2 billion in the MTEF period. The projected expenditure for FY 2016/17 is Kshs. 3.7 billion. The recurrent expenditure is estimated at Kshs. 2.0 billion, Kshs. 2.2 billion, and Kshs. 2.3 billion for FY 2014/15, FY 2016/17 and FY 2017/18 respectively. The expenditure pressures from wage bill and operations costs are the major drivers for the MTEF period. The increasing demand for crucial qualified skills including civil engineers, architects, accountants, lawyers, and economists among others has been on rise and will continue to push the wage higher as the departments try to fill their capacities. However, the County Treasury is advising on staff rationalization with a possibility of reducing the number of redundant staff.

The capital expenditure for FY 2015/16 is Kshs. 1.5 billion compared to Kshs 1.6 billion and Kshs. 1.7 billion anticipated in FY 2016/17 and 2017/18 respectively. The major focus of development will be on infrastructure including rural roads, water infrastructure, electricity and urban infrastructures. However, the county anticipates investing substantially in the medium term on school infrastructure such construction of ECD classes in 410 centres across the county with each centre having at least one class. The total investment in ECD classes will exceed Kshs. 400 million in the medium term with a class costing Kshs. 800,000 on average. The CG will continue to foster stronger public-private partnerships (PPP) in the medium term with Investment Conference slotted for early 2016 which will result in increased financing of projects and programmes from private investors.

Recurrent vs Development

The FY 2015/16 budget targets a recurrent expenditure of Ksh 2.0 billion against Kshs. 1.8 billion expended in FY 2014/15. This recurrent expenditure represents 59 percent of total budgeted expenditure compared to 62 percent targeted FY 2014/15. However, the proportion of the recurrent expenditure to total targeted expenditure will drop to 58 percent over the medium term.

The development expenditure targeted for FY 2015/16 is Kshs. 1.5 billion which represent 41 percent of total expenditure. This is expected to increase to Kshs. 1.6 billion and Kshs. 1.7 billion in FY 2016/17 and 2017/18 respectively representing 42 percent of the total budgeted expenditure in the medium term. These proportions of recurrent and development expenditures indicates that the CG is compliant with PFM Act, 2012 requirement that the development expenditure shall not be lower than 30 percent in the medium term. The development ratio will be strengthened further in the medium term by anticipated rationalization of expenditure framework, development policies and overall *efficiency* in service delivery.

Debt Obligations

The county has no or planned external debt obligations. However, bills payable from FY 2014/15 of Kshs. 790 million will be provided for in the supplementary budget for FY 2015/16 and MTEF budgets. Therefore, there are no major events that are likely to impact negatively on CG debt position and credibility.

Wage bill

The CG spent a total of Kshs. 1.14 billion in paying remuneration and compensation related benefits to its employees over the FY 2014/15 which represents 40.5 percent of total expenditure by the CG. When compared to previous FY 2013/14 the amount spent on wages and salaries represent 14 percent increase from Kshs 995.5 million. This is against the fiscal responsibility principles as stated in PFM Act, 2012 Section 107(2)(c) which indicates that the expenditure on wages and benefits for CG shall not exceed a percentage of the total revenue as prescribed in the regulations. The rate normally adopted in the national government regulations which is expected to be the prevalent rate is 35 percent of total revenues for the CG.

Despite this County Government has anticipated hiring ECDE care givers in this FY 2015/16 after the High Court issued orders restraining the County Governments from hiring ECDE teachers pending the determination of the case by KNUT and TSC thus delayed hiring to date. Also targeted are devolved employees in the village polytechnics, additional health personnel to ensure that our health facilities are adequately staffed especially level five facilities and key skills in other departments such as architects, engineers, accountants, etc. As a result, the proposed budget for FY 2015/16 targets a wage bill of Kshs. 1.2 billion with the increase attributable to expected new staffs to give the county the required capacity in the medium term***. Therefore, it is important to reiterate that the ever growing wage bill is detrimental to development prospects of CG and the recommendations from SRC on Capacity***

Assessment and Rationalization, CPSB Human Resource audit and other reports should be adopted and implemented.

Expenditure Ceilings

The expenditure ceilings for the county departments shall be outlined in the County Fiscal Strategy Paper 2016 which will be published before the end of the month of February 2016. Although this is not the normal practice the postponement has been necessitated by the need to allow sufficient time for identifying ward projects and aligning them to the county departments.

Projected fiscal Balance (deficit) and likely financing

The county governments are required to maintain a balanced budget in the medium term. Therefore, the CG has complied with this advisory by the National Treasury and has maintained a planned expenditure equal to the planned total revenue. However, technical deficits arises especially where there is under collection of own revenue, delay by the national government to release all monies allocated to the county governments before 30th June and donor funds not received before 30th June.

SECTION V: CONCLUSION

The review of implementation of FY 2014/15 budget shows that the fiscal outcome coupled with updated macroeconomic forecast advises the need for review of the financial objectives for FY 2015/16. Therefore, the reviewed expenditures reflect the real circumstances as projected in the FY 2014/15 budget and are broadly within the fiscal responsibility principles outlined in the PFM Act, 2012, Section 107(2). The fiscal outcomes are also consistent with the national financial objectives as outlined in relevant policy documents and various legislations including the Constitution of Kenya, County Government Act, 2010, PFM Act, 2012 and PFM Regulations 2015.

The CG is devoted to ensuring services delivered are aligned to specific needs of our communities. In doing so, the CG will endeavor to mobilize more resources through innovative and enhanced revenue collection mechanisms, embracing private-public partnership and creation of a conducive environment for business to thrive. This will be achieved through equity and fairness in distribution of resources and prioritization of development based on thematic approach for a particular financial year.

Finally, the CG needs to adopt a strong human resource policy for the county to cap the escalating wage bill in order to ensure sustainable development.

APPENDIX I: Detailed Summary of Revenue by Region

REGION	THARAKA NORTH SC	MARIMANTI TOWN	CHOGORIA TOWN	THARAKA SOUT SC	CHUKA TOWN	MAARA SC	CHUKA IGA SC	TOTAL
LAND & RATE RATE - R001	0	0	0	0	2,711,600	0	0	2,711,600
PLOT-RENT R-R002	341,977	214,456	168,523	1,225,188	39,034	737,916	1,363,570	4,090,664
S.B.P - R003	1,660,777	2,289,085	3,987,790	1,919,321	7,211,188	3,841,030	4,836,155	25,745,346
CESS FEE-R004	5,469,940	2,865,760	0	7,142,180	0	901,310	6,187,564	22,566,754
MARKET & SLAUGHTER-R005	2,330,695	3,823,970	1,776,930	1,831,125	3,568,370	1,437,990	4,489,880	19,258,960
VEHICLE PARKING -R006	21,470	89,600	3,084,290	223,530	7,880,530	944,445	144,090	12,387,955
HOUSE & STALLS -R007	0	0	0	65,600	1,133,000	0	0	1,198,600
HIRE OF HALL &LORRY-R008	0	0	0	0	0	0	0	0
PLAN APPROVAL FEES-R009	39,000	118,100	151,000	149,500	668,600	16,800	333,700	1,476,700
WEIGHTS & MEASURES-R010	0	0	0	0	0	0	0	0
PENALTIES -R011	32,906	7,690	106,290	8,414	105,422	21,540	90,936	373,198
LIVESTOCK SALES -R012	0	0	0	0	0	198,860	1,021,230	1,220,090
MT. KENYA LODGE/TOURISM-R013	0	0	0	67,400	0	497,800	0	565,200
TRNS,APPL,& ADJ.-R014	29,650	32,990	38,500	154,900	60,500	96,500	142,000	555,040
SEARCH , MIN, EXT-R015	0	1,500	3,000	5,000	81,500	7,000	194,000	292,000
ADVERT-R016	0	0	68,370	0	432,000	36,500	14,000	550,870
MOTOR/C-R017	36,460	54,360	273,000	55,000	27,360	118,600	39,000	603,780
MISCELLAREOUS -R018	49,160	37,420	23,030	10,132	514,750	149,745	2,707,571	3,491,808
PLAN APP.FEES,HEALTH-R019	4,000	95,300	0	0	2,000	2,000	31,500	134,800
SCH.INSP.-R020	12,200	0	0	0	0	10,000	5,000	27,200
PRIVATE CLINIC PERMIT-R021	12,200	0	0	0	0	0	0	12,200
FOOD PREMISES PERMITS- R022	0	0	0	0	0	0	0	0
LIQOUR -R023	229,000	243,000	343,000	208,000	1,935,000	1,171,500	741,800	4,871,300

MEDICAL EXAM-R024	0	0	23,400	0	0	0	2200	25600
APPROPRIATION TO HOSP-R025	0	0	0	0	0	0	46,024,000	46,024,000
TOTALS	**10,269,435**	**9,873,231**	**10,047,123**	**13,065,290**	**26,370,854**	**10,189,536**	**48,368,196**	**148,183,665**