REPUBLIC OF KENYA

COUNTY GOVERNMENT OF THARAKA-NITHI

COUNTY TREASURY AND ECONOMIC PLANNING DEPARTMENT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

FOR 2013-2014 FY

NOVEMBER 2014

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.

For the purposes of PFM Act, 2012 requirements:

- the County Budget Review and Outlook and associated financial targets disclosures 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 2013-14 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.

Eliud Mate Muriithi

Deputy Governor and CEC Member for County Treasury

November 2014

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SECTION I: INTRODUCTION

Background

Tharaka Nithi County is one of the 47 counties and it is located in Eastern part of Kenya. It borders Embu, Meru, Kitui, Kirinyaga and Nyeri Counties. The County has a surface area of 2,662.1 Km^2; including shared Mt Kenya forest estimated to have 360Km^2. The County is endowed with many resources which include mineral resources, attractive tourism destinations, rivers, forest reserves, game parks and wildlife conservancies. However, over reliance on subsistence farming by majority population (80%) has contributed to high poverty levels (40%). Agricultural land is limited and supply of farm inputs is irregular especially to non-cash crop growers who are not members of cooperative societies. In addition, the prices of inputs are high and distribution chain is not well coordinated. This has resulted in perennial food shortage that has negatively affected the livelihoods of the community.

This County Budget Review and Outlook Paper (CBROP) is the first to be prepared by the County Government of Tharaka Nithi as mandated by the Constitution of Kenya and the Public Finance Management Act, 2012. In line with the statutes detailing its preparation and presentation, the CBROP contains a review of the fiscal performance of the financial year 2013-14 and outlook of financial year 2014-15. In addition, it provides forward information for MTEF 2015-16 to 2017-2018.

Objective of CBROP

The objective of the CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles as set out in the PFM Act, 2012.This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the County Fiscal Strategy paper 2015.

The CBROP is a key document in linking policy, planning and budgeting. 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. In the interim, this year's CBROP is embedded on the 2013-14FY Budget which was approved by the County Assembly, implemented partly by Transitional Authority and newly appointed staffs of the County Government, and taking into account emerging challenges in the transition to a devolved system of government. On the dawn of the Constitution of Kenya on August 2010 and subsequent successive general on 4th March 2013, the County Government of Tharaka Nithiprepared the County Integrated Development Plan that establishes programmes for the current Medium Term Expenditure Framework (MTEF) with a particular focus on development infrastructure and integrated development in the county. The updates on macroeconomic outlook will be firmed up in the County Fiscal Strategy Paper 2015 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.

Overview

The fiscal performance in 2013/14 was generally satisfactory, despite the wait and see attitude that had been taken by stakeholders awaiting the outcome of petition after the general election and the uncertainty about the fate of the staff that worked under the defunct Local Authorities. Revenue collection for the period under review was satisfactory as a rise in the revenue collected was realized.

On the expenditure side, the County Government had to incur huge expenditure on salary awards as the County Government had to fill the important vacancies in high offices including appointment of Chief Officers. Adjustments to the original budget provided in August 2013 were approved by the County Assembly in September 2013 in the context of the Supplementary Estimates.

SECTION II: REVIEW OF COUNTY FISCAL PERFORMANCE 2013-14FY

The Section Overview

This section details the county's fiscal performance and should be made up of three sub-sections; overview, fiscal performance and implications of fiscal performance.

The Fiscal Performance of the County 2013-14FY

During the period under review, the County received Ksh 1.9 billion from exchequer as equitable share and an additional Ksh 350 million which was attached as wages and salaries paid by National government on behalf of County Government for devolved functions. In addition, the County raised 85.4 million from local sources and had Ksh 61.6 million as balance brought forward from FY 2012-2013.

	2013-2014 (Est.)	**2013-2014 (Actual)**	**2014-2015 (Est.)**
Total Revenue	2,518,590,070	2,091,483,106	3,958,691,089
Balance b/f	-	61,600,000	240,218,687
Share of National Government Revenue	2,294,827,946	1,944,510,163	2,671,360,382
Loans and Grants	139,762,124	-	797,112,020
Local Revenue	84,000,000	85,372,943	250,000,000
Total Expenditure	2,518,590,070	1,851,264,418	3,718,472,402
Recurrent Expenditure	1,546,427,946	1,321,562,223	1,830,893,621
Salaries and wages	995,460,685	814,226,886	1,153,868,904
Use of goods and services	550,967,261	507,335,337	677,024,717
Development Expenditure	972,162,124	529,702,195	1,887,578,781
Surplus/(Deficit)	-	240,218,688	240,218,687

Table 1: Summary of revenue and expenditure for FY 2013-2014

Table 2 and 3 below present the fiscal performance for the 2012-13FY and the deviations from the Original and Revised budget estimates.

County Own Revenue Performance

The total cumulative revenue collection from local sources for the period between July 2013 and June 2014 totaled Kshs. 85,372,943 against a target of Kshs. 84,000,000. This represents an over-collection of 1,372,943 which reflects an over-performance of 1.6%. On quarterly basis, the County collected Ksh 33 million in the fourth quarter compared to a total of Ksh 33 million collected in the second and third quarters. The first quarter recorded Ksh 19 million. Therefore, the average collection per quarter was Ksh 21.2 million with the median collection lying in the months of March to September when farmers harvest after long and short rains.

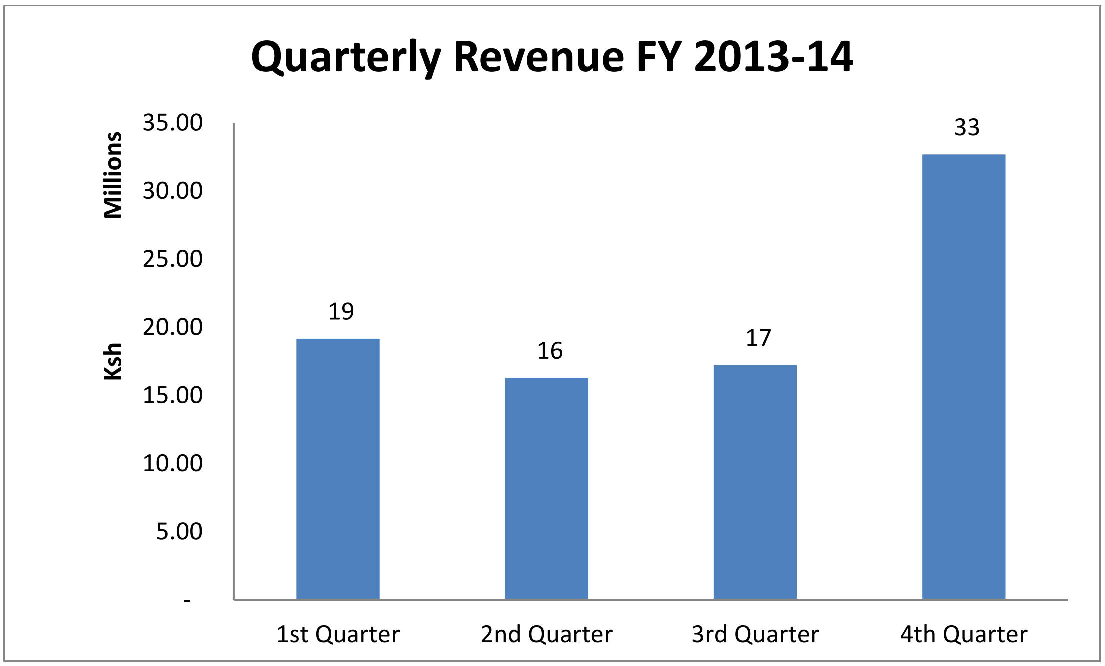

Figure 1-: Revenue collection per quarter FY 2013-14

This duteous performance in revenue collection was largely on account of stringent revenue collection mechanisms that were water-tight sealing of leakages through enhanced supervision. In addition, improved procedures and reporting framework which resulted in reshuffle of staff within the Sub counties. However, unfavorable microeconomic conditions in the second half of 2013 due to significant labour unrest in the health sector combined with under capacity challenges in collecting county taxes had significant hindrances to even better performance.

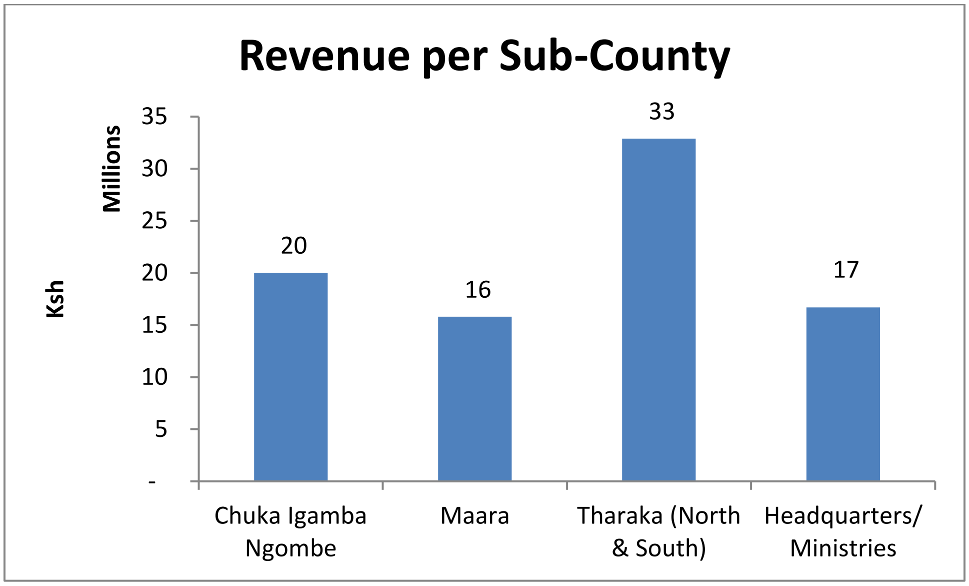

Figure 2: Revenue collection per sub-regions

The total local revenue raised during the period under review represents 102 percent performance against the targeted local annual revenue for FY 2013-2014.

	ESTIMATES	ACTUAL
Land Rates	1,000,000	1,495,508
PLOT RENT	10,774,900	10,788,562
SINGLE BUSINESS PERMIT	20,690,000	7,080,745
CESS fee	14,623,817	8,870,875
MARKETS & SLAUGHTER	18,333,581	19,079,101
VEHICLE PARKING	13,231,637	18,319,695
HOUSE AND STALLS	1,023,500	517,872
HIRE OF HALL &lorry	750,000	3,296,390
Plan Approval Fee	2,050,000	3,422,470
Others/Unclassified	1,522,565	12,501,725
	84,000,000	**85,372,943**

Table 2: Estimates and actual revenue collection for FY 2013-15

From the National Government, the county received total disbursements of Kshs. 2.3 billion of which Ksh 350 million was used to offset a debt due to National Treasury for salaries and wages paid on behalf the County Government attributable to devolved functions.

County Expenditure Performance

Total recurrent expenditure for the period under review amounted to Ksh 1.3 billion against a target of Kshs. 1.6 billion, representing an under spending of 304 million (or 19 percent deviation from the revised budget). The total development expenditure amounted to 529 million against a target of 972 million, representing an under-spending of 46 percent.

The shortfall was attributed to delays by the National Treasury to release funds to Counties, slow procurement procedures which had to be followed, claims by the National Government for personal emoluments of health workers paid on behalf of the County Government and excessive bureaucracy by the National Government on clearance and financing.

In addition, the deviations of recurrent expenditure from the estimates were largely attributable to inadequate staffing both in quantity and quality. Shifts in County Government policy also resulted in recruitment freezes greatly affected the absorption rate of resources allocated. In this regard, the budget estimates for 2015-2016FY should be drafted in a manner that reflects the adjustments in fiscal and economic outlook outlined in this paper.

THARAKA NITHI COUNTY GOVERNMENT	
SUMMARY OF BUDGET ESTIMATES FOR 2015-2016 FY	
	Kshs.
Wages and Salaries	1,225,647,395
Operations and Maintenance	410,220,673
Total Recurrent Expenditure	**1,635,868,068**
Development Expenditure	**1,667,984,530**
TOTAL EXPENDITURE	**3,303,852,598**
Local Revenues sources	173,290,328
Appropriations In Aid (Health Services)	73,500,000
Equitable Share of Domestic Revenue	3,057,062,270
TOTAL EXPECTED REVENUE	**3,303,852,598**
BALANCE/(DEFICIT)	**-**
Operatons & Maintenance	**Kshs. Millions**
Wages and Salaries	1,080.00
Operations and Maintenance	355.70
Total County Executive Expenditure	**1,435.70**
Wages and Salaries	153.30
Operations and Maintenance	46.90
Total County Assembly Expenditure	**200.20**

Table 3: Expenditure Actual and Estimates

Fiscal Balance

The overall fiscal position of the county was a surplus which was attributed to delayed implementation of projects and late release of funds from the National Government. 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 2014-2015.

Implication of 2014-2014FY fiscal performance

The performance in the FY 2013/14 has affected the financial objectives set out in the Budget for FY 2013/14 in the following ways: (i) the macroeconomic assumptions underpinning the 2014/15 budget and medium term will need to be modified in light of the slower-than-envisaged real GDP growth and the significant deceleration in inflation; (ii) the base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term; and (iii) arising from (i) and (ii), as well as taking into account the slower pace of execution of the budget by the departments resulting from the uncertainty surrounding release of funds by the National Treasury, the baseline ceilings for spending agencies will be adjusted and then firmed up in the County Fiscal Strategy Paper 2015.

Given the above deviations, 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 2015. 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.

Tharaka Nithi County being an Agricultural economy, endeavors to revamp agriculture through promotion of agriculture by improving input access, soil testing and sampling, establishment of farmed fish auction centres, revival of ginneries, alongside other activities that had been given priority in the FY2013/2014 Budget. These activities are expected to spur economic activities and support favorable growth prospects in the county. Meanwhile, stability in interest rates and exchange rates is expected to promote access to credit for private sector and boost investments and consumption to stimulate growth and hence enable the county to realize an increase in the local sources of revenue.

SECTION III: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The macroeconomic environment has continued to improve, after the wait and see attitude adopted awaiting the outcome of the general election, going forward, the macroeconomic outlook remains favorable.

Recent Economic Developments

The Budget Statement released by National Governments for the fiscal year 2013/2014 indicates that the real GDP is anticipated to grow by 4.8 percent in 2015 up from a growth rate of 5.2 percent in 2014. In Tharaka Nithi County, this is expected to be driven by: Improving productivity and competitiveness; supporting SMEs through financial and skill development; continued investment in key infrastructure projects in the roads and energy sub- sectors; boosting food security; maintaining a stable macroeconomic environment ; sealing revenue leakages in revenue collection system and supporting devolution through capacity building.

Growth remained resilient in 2013-14, data from the Kenya Bureau of statistics (KNBS) shows that the economy registered a strong growth rate of 5.2 percent in the first quarter of 2014 up from 4.6 percent in a similar quarter of 2013. These auspicious macroeconomic conditions are expected to significantly influence the general economic conditions in the county in tandem with that of the entire nation. Therefore, the county will mainly expect macroeconomic stability characterized by a low and stable inflation rate and a stable exchange rate.

Overview of recent developments

The early drought warning system indicates that the County is likely to face severe famine in the first and second quarter of the FY 2014-2015. This has resulted from poor harvest in the last two seasons in which the County received dismal rainfall quantities. The drought and consequent famine have triggered the disaster response from both the County and National Governments to issue relief food in additional to establishing appropriate response mechanisms.

The weather patterns over the last six months ending August 2014 have been very unpredictable due to continuing global warmingcaused humanitarian activities. Major rivers are almost drying up due to unprecedented tapping of water for either domestic use or water for irrigation. As a result, the lower zones of the County have experienced lack of sufficient water and the future of river water isn't guaranteed.

The County has initiated programmes in Trade and Tourism dockets that are geared towards marketing the County products within and outside its borders. The focus on value addition, value chain management, value for money and producer as beneficiary of the value added is intended to boost the household income of majority residents involved in farming activities. Consequently, the inter-county trade is expected to be at the pick over the second and third quarter resulting from grain harvest in Tharaka region, milk collection in parts of Maara and dried coffee beans from Chuka and Maara regions.

Progress on 2013/14 budget Implementation

Challenges with regard to funding of County Governments by the National Government delayed implementation of the FY 2013/14 budget by two months. This has now been addressed after the County received its first disbursement of Kshs. 290,054,354 for recurrent expenditure and county government operations are continuing in earnest. Revenue collected for the first two months of the year was Kshs. 43,077,654 against an annual target of Kshs. 229,799,000 from the local sources. This is an indication that with enhanced administrative measures to seal revenue source leakages, coupled with review of rates and increase in sources of revenue, 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 gainconsiderable 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

External risks:

The key external risks to the economic outlook relate to the magnitude and timing of expected declines in business investment over the medium term period. This has flow-on implications for the timing of exports, and the outlook for labour demand and population growth.

Business Investment

As investment in major infrastructure developments escalates, it is expected that these increases will partially offset decreases in the non-resources sectors of the economy. It is also assumed that some new major project investment, such as standard gauge railway, will proceed across the medium term. However, if this additional investment is not realized, the declines in business investment are likely to be larger than currently estimated, particularly in the final two years of the medium term period.

Exports

The potential for project delays represents a significant risk to the projected ramp-up of agriculture and tourism exports. This is because complex operations are particularly susceptible to project delays and unplanned shutdowns. Larger than expected delays could result in lower export volumes and lower than forecast growth in GDP. However, it is also possible that exports from these projects will ramp up faster than currently expected.

Labour Demand

Labour market conditions are expected to improve slightly from 2015-16, reflecting a modest pick-up in domestic economic activity. However, consistent with downside risks to the business investment outlook, labour market conditions are likely to be weaker than projected if the decline in resource investment is more pronounced than currently anticipated, and activity in the non-resource sectors of the economy fails to gain momentum.

Dwelling Investment

In the short-term, dwelling investment may be stronger for longer than the current outlook suggests if supply constraints (such as limited skilled labour and titled land) reduce the speed at which the demand for new housing translates into actual construction. However, across the medium term, growth in dwelling investment may be softer than expected if housing supply meets demand sooner than expected. This risk will be heightened if expectations decline in business investment have a bigger than anticipated impact on other sectors of the economy.

Fiscal risks:

The risk to the outlook for the year 2013 and medium-term include further weakening in global economic growth and unfavorable weather conditions should there be any drought, floods in Budalangi in the year and years ahead, resurgence of threats of terrorism since the county has two border towns, emergence of alternative competitive markets in the great lakes i.e. in neighboring Uganda where the prices of commodities are lower, risk of power failure that is common in the county, crop failure, high cost of production, in addition to the VAT Act which has placed a lot of burden to the common Mwananchi. Finally, Challenges faced by the County Government with regard to transition to a decentralized system of government could weaken investor confidence and slow down growth. Should these risks materialize; the County government in consultation with the National government will undertake appropriate measures to safeguard macroeconomic stability.

Opportunities:

Renewed investor confidence with the new county government especially within the energy sector, tourism, agriculture and ICT coupled the general public enthusiasm to devolution.

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-sectionsas discussed below:

a) Adjustment to the proposed (2014-2015) budget;
b) The medium term expenditure framework;
c) Proposed (2014-2015) budget framework; and
d) Projected fiscal balance and likely financing.

Adjustment to the proposed 2014/15 Budget

Given the performance in 2013-2014 FY and the updated macroeconomic outlook, the risk to the FY 2014-2015 budget include weak growth in advanced economies that will impact negatively on our exports and tourism activities and geopolitical uncertainty on the international oil market.

Expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the Constitution of Kenya and the devolution of governance to sub-counties may limit continued funding for development expenditure.

Adjustments to the 2013/14 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. In addition, the review will also address the accounts payables to suppliers of goods services that were due on or after 30th June 2014. Because of the resource constraints, the County Government will rationalize expenditures by cutting those that are non-priority. These may include slowing down or reprioritizing development expenditures in order for the Government to live within its means. Utilization of contingencies/ emergency funds will be within the criteria specified in the new PFM law.

Any review of salaries and benefits for the County workers will be conducted by the Salaries and Remunerations Commission (SRC) in accordance with Article 230 of the Constitution and Regulations and the County Public Service Board which will be guided by the SRC and article

Medium-Term Expenditure Framework

Going forward, and in view of the recent macroeconomic circumstance and limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The County Integrated Development Plan CIDP (2013-2017) is currently under preparation and will guide resource allocation, going forward. In the Meantime, the resource allocation will be based on the updated First Medium Term Plan developed in November 2011:

The priority social sectors, early childhood education, vocational training and health, will continue to receive adequate resources. Both sectors (education and health) 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, livestock and fish farming will receive increased share of resources to boost agricultural productivity with a view to deal with threats in food security in the county.

With the County Government's commitment in improving infrastructure countywide, the share of resources going to priority physical infrastructure sector, such as roads, energy, water and irrigation, will continue to rise over the medium term. This will help the sectors provide increased communication, reliable and affordable energy, as well as increased access to water and development of irrigation projects countywide.

Other priority sectors including Community Development, Gender, Sports, Culture and youth development, ICT, Lands, Housing Cooperative development, Tourism, Trade and industry will also continue to receive adequate resources.

Reflecting the above medium-term expenditure framework, the **table** below provides the tentative projected baseline ceilings for the 2015-2016FY, classified by sector/county department.

Table 4: 2015-2016FY Sector Ceiling

	RECURRENT EXPENDITURE		DEVELOPMENT EXPENDITURE	
COUNTY DEPARTMENT	2014-2015	2015-2016	2014-2015	2015-2016
COUNTY EXECUTIVE	157,488,397	116,692,899	-	-
COUNTY PUBLIC SERVICE BOARD	17,220,000	18,039,798	-	-
ROADS, TRANSPORT, PUBLIC WORKS AND LEGAL AFFAIRS	40,745,237	38,248,581	476,150,000	584,149,684
HEALTH SERVICES	722,997,659	678,696,122	196,000,000	158,129,451
PHYSICAL PLANNING, LANDS, ENERGY AND ICT	43,242,596	40,592,915	195,238,781	157,515,313
AGRICULTURE, LIVESTOCK, FISHERIES AND WATER SERVICES	188,108,055	176,581,772	182,840,000	147,512,188
PUBLIC SERVICE, URBAN DEVELOPMENT AND DISASTER MANAGEMENT	91,380,286	104,271,443	124,200,000	100,202,438
EDUCATION, YOUTH, CULTURE AND SOCIAL SERVICES	60,370,000	56,670,840	240,650,000	194,152,308
TOURISM, ENVIRONMENT AND NATURAL RESOURCES	39,291,220	36,883,658	140,350,000	113,231,982
TRADE, INDUSTRY AND CO-OPERATIVE DEVELOPMENT	39,147,090	36,748,360	91,200,000	73,578,602
FINANCE AND ECONOMIC PLANNING	140,873,686	132,241,679	110,950,000	89,512,564
COUNTY ASSEMBLY	290,029,395	200,200,000	130,000,000	50,000,000
TOTAL	**1,830,893,621**	**1,635,868,068**	**1,887,578,781**	**1,667,984,530**

The proposed budget framework

The context of the proposed budget plan is set to be rolled out against the background of updated medium term framework of resource allocation as indicated in the table above. The county macroeconomic performance is expected to be synonymous to the general macroeconomic conditions. Kenya's economy has continued to recover since 2014 from the slowdown experienced in 2011. The real GDP is expected to remain resilient at 5.9% in 2015 from 5.7% in 2014. However, the projected growth is based on the assumption that weather conditions remains favourable, inflation remains stable and other macroeconomic conditions remaining favourable.

Revenue projections

The proposed 2014-2015 budget targets to raise Ksh 3.959 billion while the targets in MTEF will be Ksh 4.1billion and Ksh 4.4 billion in 2015-16 and 2016-2017 FY respectively. This amount includes funding from National Government which is anticipated to increase from Ksh 3.4 billion in 2014-15 to Ksh 4.1 billion in the medium term. The county own revenue is targeted at Ksh 250 million in 2014-15 and expected to increase to Ksh 273 million and Ksh 298 million in the medium term. The revenue targets are inclusive of Appropriations –in – Aid (AiA) and county's own revenue, which is 6 percent of total targeted revenue and is expected to increase to 7 percent in the medium term.

The county has continued toextensively invest on rationalization of revenue collection procedures, rules and policies to ensure that the targeted collection is attained. Specifically, the county government has invested cumulatively Ksh 10 million on acquisition of relevant computerized systems that are geared towards minimizing revenue linkages and improving overall efficiency. In addition, the resource mobilization department will initiate the performance review to ensure that the set revenue targets are realized.

Expenditure forecasts

The proposed 2014-15 budget forecasts a total expenditure of Ksh 3.7 billion in 2014-15 budget projected to increase to Ksh 4.3 billion in the medium.

The recurrent expenditure is estimated at Ksh 1.8 in 2014-15 and is expected to increase to Ksh 1.9 and Ksh 2.0 billion in 2015-16 and 2016-17 respectively. The major driver of the anticipated increase in the recurrent expenditure in the medium term is the personal emoluments resulting from hiring of new employees in key sectors to fill the existing lack of capacity both qualitatively and quantitatively.

The capital expenditure is targeted to be Ksh 1.9 billion in 2014-15 compared to Ksh 0.97 billion in 2013-14 financial year. However, the county anticipatesinvestingsubstantially in the medium such that the expenditure is expected to increase to Ksh 2.2 billion in the medium. This targeted expenditure is inclusive of Ksh 787 million of on-going donor funded projects for 2014-15FY and is expected to increase to Ksh 940 million in the medium. The county anticipates strengthening public-private partnerships (PPP)in the medium and this will result in increased financing of projects and programmes from private investors.

Recurrent vs Development

The proposed 2014-15 budget targets a recurrent expenditure of Ksh 1.8 billion representing 49% of total budgeted expenditure. The development expenditure targeted is Ksh 1.9 billion which represent 51% of total expenditure. These percentages of recurrent and development expenditures demonstrate that the ratios are compliant with PFM Act, 2012 of 70:30. This ratio is expected to improve even further in the medium term as the county invests more in rationalization of expenditure framework, development policies and overall *efficiency* in service delivery.

Debt obligations

The county has no external debt obligations and doesn’t intend to have external financing in the medium term. However, pending bills and bills payable from 2013-14FY have been full provided for in the proposed 2014-15 budget. This means that no major events that are likely to impact on County Government debt position and credibility.

Wage bill

The wage bill for 2013-14 was Ksh 808.9 million compared to budget of Ksh 995.5 million. This means that the county had under absorption of Ksh 186.6 million which resulted from employment freeze rolled out in the middle of the year lasting up to the end of the year. In addition, the County Government had anticipated hiring ECDE teachers but the pending court case at the High Court by KNUT and TSC has delayed hiring to date. However, the proposed 2014-15 budget targets a wage bill of Ksh 1.0 billion with the increase attributable to expected new staffs to give the county the required capacity in the medium term.***It is important to note that the escalating trend of wage bill is worrying and calls for review of our human resource policy***.

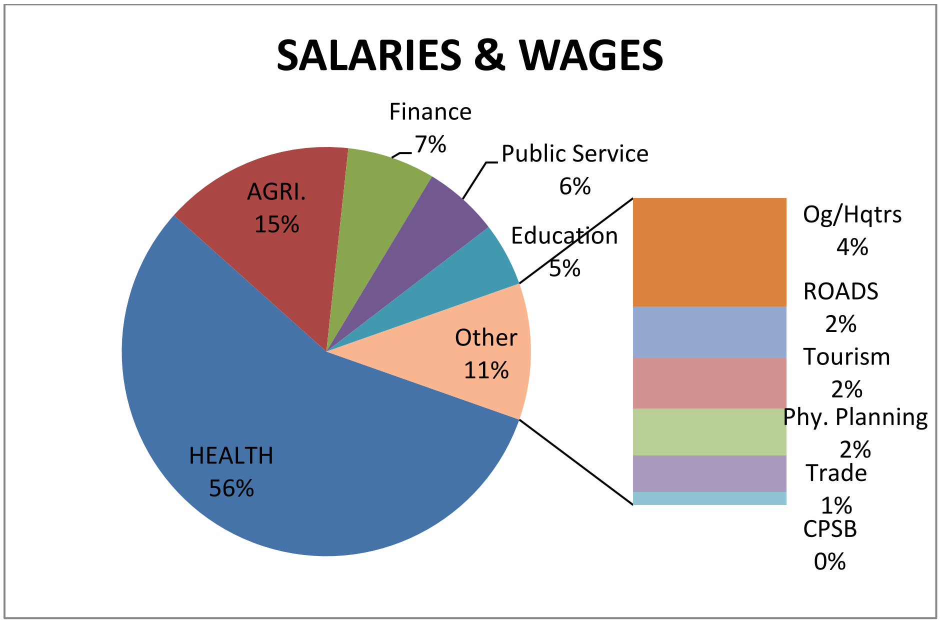

Figure 3: 2014-15 salaries and wages

Expenditure Ceilings

There will be minimal changes in the ministerial allocations from 2014-15 budget for the proposed 2015-16 budget. However, sufficient provision will be made to finance all programmes/projects proposed during sector working group sessions. The 2014-2015 budget estimates will be adjusted to account for inflation and as a result will lay the baseline ceilings for proposed 2015-2016 budget. However, this is not automatic since they are primarily subject to the revenue projections that follow assessment of macroeconomic variables as discussed in Budget Policy Statement issued by National Treasury and rectified by County Fiscal Strategy Paper prepared by County Treasury and submitted to County Assembly by the end of February every year.

Projected fiscal Balance (deficit) and likely financing

For the last two years the County Government has maintained a balanced budget with neither deficit nor surplus. This is in compliance with advisory issued by National Treasury to counties to maintain a budget matching their resource envelope. Therefore, the entire budget expenditure for the proposed 2014-45 budget will be covered from the anticipated resources and through rationalization of the county's public service as well as reforming the service delivery model in order to increase the use of outsourced services from private sector.

SECTION V: CONCLUSION

The fiscal outcome for 2012/13 together with the updated macroeconomic forecast have had ramification of the financial objectives. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the

PFM law. They are also consistent with the national strategic objectives pursued by the National Government as a basis of allocation of public resources.

The County shall also endeavor to mobilize more resources through enhanced revenue collection, private public partnership and creation of a conducive environment for investor attraction.

Meanwhile, preparation of the County Integrated Development Plan (CIDP) that will guide the county's budgetary provisions for the next five years is under way.