THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF THARAKA NITHI

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2018

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FOREWORD

The County Budget Review and Outlook Paper (CBROP) 2018 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012 which requires the county government to prepare a budget review and outlook paper in respect for each financial year; and submit it to the County Executive Committee by 30th September.

The paper reviews fiscal performance of the county for the 2017/18 financial year while comparing it with the budget appropriation. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2018; and how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the county financial objectives for that year. It further gives reasons for any deviation from the county financial objectives in the fiscal strategy paper together with proposals to address the deviations.

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

It is therefore my expectation that the policy paper will be useful in enhancing financial discipline and fiscal responsibilities outlined in section 107 of the PFM Act 2012 that will contribute towards the realization of aspiration of the residents of the county.

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County Executive Committee Member,
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ACKNOWLEDGEMENT

It is with great pleasure for Tharaka Nithi County Government to register its appreciation to all those persons who sacrificed their time, skills and other resources in the preparation of the CBROP 2018. The County takes this opportunity to specially acknowledge the unrelenting efforts portrayed by all the departments and directorates in this noble process during the consultative workshop on reviewing the performance for 2017/18 FY and undertaking the outlook for 2019/20 and medium term. The workshop was held on 18^{th}- 20^{th} September 2018 at Lowlands Hotel, Tharaka Nithi County.

Much appreciation to the Department of Finance & Economic Planning, and the Secretariat who followed through the entire process. I particularly, thank the Head of Treasury, Budget and Expenditure Management, Mr. Lawrence Micheni; and Head of Economic Planning, Mr. Dennis Kwendo assisted by Josephine Mumbua for steering the process up to completion.

Likewise, I acknowledge the continued partnership with USAID-AHADI. Specifically, the invaluable support and technical assistance from USAID-AHADI team comprising of Waceke Wachira (Chief of Party), Angela Kabiru (Head of Governance), Gilbert Momanyi (Programme Officer), Zachary Kaimenyi (Regional Coordinator), Caroline Gathii (PFM Expert) and Paul Kamaku (Consultant).

To all that were involved, receive my heartfelt appreciation.

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ABBREVIATIONS AND ACRONYMS

AI	Artificial Insemination
ATC	Agricultural Training Centre
CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CG	County Government
CGTN	County Government of Tharaka Nithi
CIDP	County Integrated Development Plan
COMESA	Common Market for East and Central Africa
CRA	Commission on Revenue Allocation
EAC	East African Community
ECDE	Early Child Development Education
FY	Financial Year
GDP	Gross Domestic Product
IBEC	Inter-Governmental Budget and Economic Council
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
KMTC	Kenya Medical Training College
KPLC	Kenya Power and Lighting Company
LAE	Last Annual Estimate
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NHIF	National Hospital Insurance Fund
OPD	Out Patient Department
PACJA	Pan African Climate Justice Alliance
PE	Personnel Emoluments
PFM	Public Finance Management
PPP	Public Private Partnership
PSASB	Public Sector Accounting Standards Board
PWD	People with Disabilities
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group
UK	United Kingdom
USA	United States of America
AHADI	Agile and Harmonized Assistance to Devolved Institutions
YTD	Year to Date

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PREAMBLE

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

1) A county Treasury shall;

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

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

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

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

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

c. Information on:

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

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

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

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

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

Fiscal Responsibility Principles in the Public Financial Management Law

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

1) Over the medium term, a minimum of thirty (30) per cent of the County Government's budget shall be allocated to the development expenditure;
2) The county Government's expenditure on wages shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive Member for Finance in regulations and approved by the County Assembly;
3) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure;
4) The County debt shall be maintained at a sustainable level as approved by County Assembly;
5) The fiscal risks shall be managed prudently; and
6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

SECTION I: INTRODUCTION

The County Budget Review and Outlook Paper (CBROP) is prepared in line section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the county for the financial year 2017/2018; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2018 and reasons for such deviations.

1.1 Objective of CBROP

The objective of CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in the CFSP. This together with macroeconomic outlook provides a basis for revision of the current budget in the context of 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 in the CFSP.

Specifically, the CBROP provides:

i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
ii. Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
iii. Any changes in the forecasts compared with the CFSP;
iv. Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
v. Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

The paper is a policy document and links planning with budgeting. It is significant in the budget making process within the Medium Term Expenditure Framework (MTEF) as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2019/2020 budget and in the medium term to guide Sector Workings groups (SWGs) before being affirmed in the CFSP 2019

1.3 Structure

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

2 SECTION II: REVIEW OF COUNTY FISCAL PERFORMANCE IN 2017/18 FY

This section details the county's fiscal performance for the financial year 2017/18 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 Overview

The fiscal performance in FY 2017/18 was averagely impressive with an increase in the total revenues of 18.35% compared to FY 2016/17 as highlighted in Summary of County Fiscal Performance for FY 2017/18. Development expenditure was recorded at 68% of the total development allocation, which included visible development projects like improved transport networks, market construction and construction of ECD classes among others.

On recurrent expenditure, the County Government optimized operational and administrative costs. The measures adopted in the FY 2017/18 fiscal framework led to a recurrent expenditure of 85% of the total recurrent allocation. These measures included austerity measures on discretionary expenditures such as travel expenses, increased restriction of administrative-related costs, effective expenditure management controls through introduction of Authority to Incur Expenditure (AIE) procedures and enforcement of human resource policies.

2.2 Fiscal Performance for FY 2017/18

During the period under review, the County total revenue basket was Kshs 4.46 billion comprising of Kshs 3.68 billion from exchequer as equitable share of domestic revenues raised nationally, Kshs 343 million realized from conditional grants and Kshs 143 million being revenues raised locally (CORe). In addition, the County had Kshs 287.6 million as balance brought forward from FY 2016-2017. This is summarized in the table below.

Table 1: Summary of County Fiscal Performance for FY 2017/18

	2016/17 FY	**2017/18 FY**				
	Actual	**Approved**	**Actual**	**% performance**	**% Deviation**	**Growth %**
TOTAL REVENUE & GRANTS	**3,767,230,728**	**4,632,233,415**	**4,458,358,510**	**96%**	**-3.75%**	**18.35%**
Unspent Bal from Previous FY	145,629,764	287,553,292	287,553,292	**100%**	0%	97%
Revenue (Total)	3,621,600,964	4,344,680,123	4,170,805,218	**96%**	-4%	15%
Equitable Share Allocation	3,446,616,779	3,684,400,000	3,684,400,000	**100%**	0%	7%

Local Revenue	76,297,196	179,915,283	143,314,734	**80%**	-20%	88%
Grants (Total)	98,686,989	480,364,840	343,090,484	**71%**	-29%	248%
Total Expenditure	**3,479,677,436**	**4,632,233,415**	**3,708,427,271**	**80%**	**- 20%**	**%**
Recurrent	2,192,890,074	2,752,058,415	2,341,655,030	**85%**	-15%	7%
Development	946,716,254	1,496,175,000	1,022,654,329	**68%**	-32%	8%
County Assembly	340,071,108	384,000,000	344,117,911	**90%**	-10%	1%
Unspent Bal Current FY	**287,553,292**	**(0)**	**749,931,239**		**-**	**161%**

2.3 County Own Revenue Performance and Conditional Grants

The total amount of County Own Revenue (CORe) collected in FY 2017/18 was Kshs 143,314,734 a decrease of 8.3 percent from Kshs 156.35 million realized in FY 2016/17. This also represents a 20 percent under collection given the annual CORe target of Kshs 179,915,283 approved in the FY 2017/18 budget.

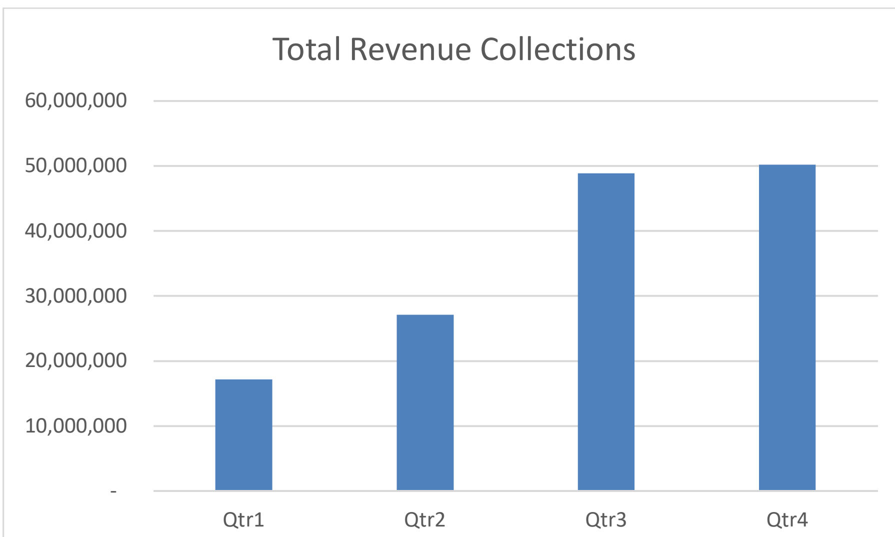


Figure 1: Revenue collections for FY 2017-18 by quarters

Annex 2 gives a full analysis of the revenue performance per stream for FY 2017/18.

2.3.1 Common causes of revenue underperformance

The under-performance in CORe collection can be attributed to challenges in procurement of automated system, delayed disbursements of maternity reimbursements and bureaucracies hindering revenue collection in the health department. In addition, labor unrests, incomplete mapping of revenue streams contributed to these dismal results. Lack of requisite legislations regulating liquor businesses and continuing legal battles also negatively affected revenue collection efforts by the County Government. Even though these factors contributed to the revenue shortfall on one side, there is need to step-up monitoring in order to significantly improve CORe performance.

Automation of revenue collection systems was implemented in response to delayed banking of collections and has proven to be an effective approach to revenue collection in urban centers. The table below gives a breakdown of the top five revenue streams. Other revenue streams are as shown in table attached under **Annex II.**

ANNUAL REPORT REVENUE 2017-2018					
REVENUE STREAMS	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**TOTAL**
APPROPRIATION TO HOSP-R023	3,885,645	9,712,135	13,985,554	20,695,505	48,278,839
CESS FEE-R004	4,310,700	7,410,730	7,773,310	6,851,981	26,346,721
S.B.P - R003	618,750	1,024,163	14,336,187	9,790,463	25,769,563
MARKET & SLAUGHTER-R005	3,988,210	4,468,735	4,092,670	3,775,381	16,324,996
VEHICLE PARKING -R006	1,951,420	2,246,790	2,853,980	2,784,530	9,836,720
Others	2,423,494	2,263,347	5,777,299	6,293,755	16,757,895

The conditional allocations received of Kshs 343.09 million in form of loans and grants which includes DANIDA and other conditional grants. These supplemented the equitable share funds.

The table below analyzes Conditional Grants released in FY 2017/18.

Table 2: Summary of release of conditional grants

No.	Conditional Grant	Estimate FY 2016/17 (CARA, 2016) Kshs	Actual Receipts in Kshs	Percentage Actual Receipts as per annual allocation (%)	Estimate FY 2017/18 (CARA, 2017) Kshs	Actual Receipts in Kshs	Percentage Actual Receipts as per annual allocation (%)
1	Road Maintenance Fuel Levy Fund	52,017,792	52,017,792	100	133,682,063	133,582,063	100
2	Free Maternal Healthcare	29,853,703	32,085,000	107.5	0	0	0

3	DANIDA Grant	6,165,000	6,165,000	100	9,053,820	9,058,820	100
4	User Fees Foregone	8,419,197	8,419,197	100	8,419,197	8,419,197	100
5	World Bank Grant	44,654,343	44,654,343	100	44,654,343	44,654,343	100
6	Supplement for Construction		21,766,211.51	100	121,000,000	63,265,074	52.3
7	Universal Health Care				10,000,000	10,000,000	100
8	Polytechnic Grant				38,121,638	38,121,638	100
9	KDSP Grant				35,989,349	35,989,349	100
	Total	**141,110,035**	**98,686,989**	**69.9**	**400,920,410**	**343,090,484**	

2.4 County Expenditure Performance

The total expenditure was Kshs 3.709 billion, the recurrent expenditure was Kshs. 2.341billion (not inclusive of County Assembly allocation) representing 63.1 percent of the total County expenditure, while the development expenditure was 1.022 billion representing 27.6 per cent of the total budget and the County Assembly expenditure of Ksh 344 Million representing 9.3% of the total county expenditure. The budget was financed by the equitable share of Kshs 3.684 billion, County Own Revenue of Kshs 143.3 Million, Conditional grants of Kshs 343 Million and the balance b/f of Kshs 287.55 Million

2.4.1 Recurrent Expenditure

The total recurrent expenditure of Kshs 2.685 billion (60.2 percent of total revenue realized and including expenditure by County Assembly) comprised of 71.7 per cent of total recurrent expenditure (Kshs 1.924 billion) spent on payment of wages and salaries and 28.3 per cent (Kshs 761.34 million) spent on operations and maintenance. The analysis includes Kshs 344.32 million (7.7 percent of total revenue realised) spent by the County Assembly against an allocation of Kshs 384.0 million. The Figure 2 elaborates this expenditure pattern. The reported expenditure on salaries and wages, being personnel emoluments, represented an increase of 26.2 per cent when compared to similar spending of Kshs 1.06 billion in FY 2016/17.

Figure 2 below gives a graphical comparison of the recurrent expenditures for FY 2016/17 and FY 2017/18, inclusive of County Assembly allocation.

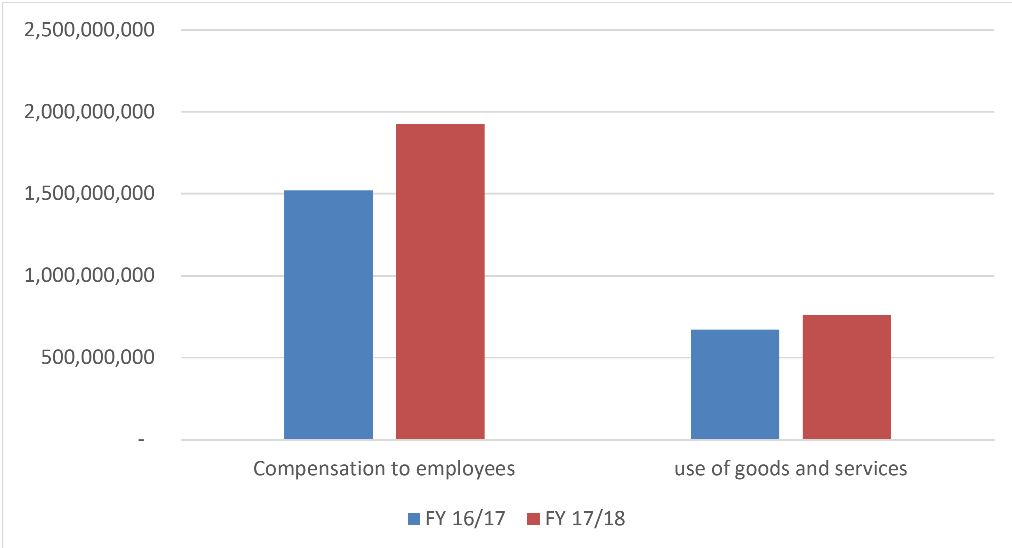


Figure 2: Comparison of recurrent expenditure for 2016/17 and 2017/18.

2.4.2 Development expenditure

The total development expenditure of Kshs 1.02 billion represented 68 per cent of total development appropriations of Kshs 1.496 billion for FY 2017/18.

Further analysis of development indicated that the highest expenditure was incurred on maintenance and improvement of feeder roads across the county being Kshs 133.68 million against the budget of Kshs 1.496 billion. Construction of markets 106.4 million. Other major projects with significant expenditure included Water bowser purchase Kshs 8.84 million, market construction of Kshs 18.40 million, Construction of a modern outpatient block at Chuka hospital costing 22.61million.

2.4.3 Expenditure per economic classification

Table 3 below gives a breakdown of the county expenditure performance per economic classification.

Table 3: County expenditure performance per economic classification

DEPARTMENT	Sum of REVISED ESTIMATE II FY 2017/18	Actual expenditure
A. Total Budget [1+2]	**4,632,233,415**	3,708,427,271
1.0 Total Recurrent Expenditure	**3,036,058,415**	2,685,772,941
1.1 Compensation to Employees	2,034,666,273	1,924,430,317

1.2 Use of Goods and Services	1,001,392,143	761,342,624
2.0 Total Capital Expenditure	**1,596,175,000**	1,022,654,329
2.1 Other Development	1,596,175,000	1,022,654,329
Financed by:		
B. Total Revenue	**4,632,233,415**	4,458,358,510
3.1 Equitable Share	3,684,400,000	3,684,400,000
3.2 County Own Revenue [CORe]	179,915,283	143,314,734
3.3 Conditional Grants	480,364,840	343,090,484
3.4 Balance b/f	287,553,292	287,553,292
C. Net Financing [B-A]	**0**	749,931,239

2.4.4 Common causes of expenditure underperformance:

The underperformance in expenditure absorption can be attributed to slow procurement processes that the spending departments had to comply with, slow disbursement of funds from exchequer to County Revenue Fund account by the National Treasury, lack of requisite legislations to facilitate disbursements (policies on donor funds, lack of policies to utilize the budget for the bursaries) inadequate staff capacity at the departmental level hence inadequate management and supervision of programmes and projects and finally poor linkages of cash flows and procurement plans

Table 4: Absorption rates by sectors and comparison with CFSP 2017

SECTOR	MINISTE RIAL DEPARTMENTS	C-FSP 2017			BUDGET ALLOCATION 2017/18		Cumulative Expenditure 2017/18				Absorption	Deviation (%)
		REC	DEV	TOTAL	REC	DEV TOTAL	TOTAL	REC	DEV	TOTAL	(%)	CFSP - BUDGET
PUBLIC ADMIN.	Governor's Office	155,565,549	-	155,565,549	174,193,549		174,193,549	133,476,836		133,476,836	76.6%	12.0%
	Finance and Economic Planning	335,316,751	160,000,000	495,316,751	466,428,390	79,400,000	545,828,390	393,817,251	77,699,412	471,516,663	86.4%	10.2%
	County Public Service Board	30,362,084		30,362,084	22,396,084		22,396,084	8,702,411		8,702,411	38.9%	-26.2%
	Administration and Public Service	168,535,334		168,535,334	150,635,158		150,635,158	128,643,484		128,643,484	85.4%	-10.6%
	County Assembly	402,249,361	100,000,000	502,249,361	384,900,000	100,000,000	484,900,000	65,342,082		65,342,082	13.5%	-3.5%
	SUB-TOTALS	**1,092,029,079**	**260,000,000**	**1,352,029,079**	**1,198,553,181**	**179,400,000**	**1,377,953,181**	**729,982,064**	**77,699,412**	**807,681,476**	**58.6%**	**1.9%**
ENERGY AND ICT	Energy and ICT	-	102,000,000	102,000,000	47,864,256	104,900,000	152,764,256	23,920,195	104,156,035	128,076,230	83.8%	49.8%
	SUB-TOTALS	**-**	**102,000,000**	**102,000,000**	**47,864,256**	**104,900,000**	**152,764,256**	**23,920,195**	**104,156,035**	**128,076,230**	**83.8%**	**49.8%**
INFRASTRUCTURE	Roads, Transport and Infrastructure	73,939,643	504,600,000	578,539,643	56,025,799	508,600,000	564,625,799	19,580,577	246,788,334	266,368,911	47.2%	-2.4%
	SUB-TOTALS	**73,939,643**	**504,600,000**	**578,539,643**	**56,025,799**	**508,600,000**	**564,625,799**	**19,580,577**	**246,788,334**	**266,368,911**	**47.2%**	**-2.4%**
HEALTH	Medical Services	1,060,164,865	106,750,000	1,166,914,865	1,091,554,226	106,750,000	1,198,304,226	1,068,118,588	58,616,571	1,126,735,160	94.0%	2.7%
	Public Health and Sanitation	-	-	-	22,909,225	0	22,909,225	16,263,636	-	16,263,636	71.0%	
	SUB-TOTALS	**1,060,164,865**	**106,750,000**	**1,166,914,865**	**1,114,463,451**	**106,750,000**	**1,221,213,451**	**1,084,382,224**	**58,616,571**	**1,142,998,796**	**93.6%**	**4.7%**
EDUCATION	Youth, Sports, Culture and Tourism	-		-	14,465,725		14,465,725	1,314,780		1,314,780	9.1%	
	Education and Vocation Training	165,290,224	97,050,000	262,340,224	196,837,027	106,050,000	302,887,027	155,289,424	34,228,677	189,518,101	62.6%	15.5%
	SUB-TOTALS	**165,290,224**	**97,050,000**	**262,340,224**	**211,302,752**	**106,050,000**	**317,352,752**	**156,604,204**	**34,228,677**	**190,832,881**	**60.1%**	**21.0%**
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Trade, Industry and Cooperatives	45,441,626	108,000,000	153,441,626	54,726,707	143,000,000	197,726,707	33,568,149	108,657,811	142,225,959	71.9%	28.9%
	SUB-TOTALS	**45,441,626**	**108,000,000**	**153,441,626**	**54,726,707**	**143,000,000**	**197,726,707**	**33,568,149**	**108,657,811**	**142,225,959**	**71.9%**	**28.9%**

AGRICULTURE	Agriculture	204,181,555	109,275,000	313,456,555	261,624,667	108,275,000	369,899,667	246,765,611	86,515,280	333,280,892	90.1%	18.0%
	Livestock and Fisheries	-		-	13,157,970		13,157,970	502,807		502,807	3.8%	
	Lands, Physical Planning and Urban	56,027,193	57,800,000	113,827,193	30,097,475	47,800,000	77,897,475	16,468,388	30,841,966	47,310,354	60.7%	-31.6%
	SUB-TOTALS	**260,208,748**	**167,075,000**	**427,283,748**	**304,880,112**	**156,075,000**	**460,955,112**	**263,736,806**	**117,357,246**	**381,094,053**	**82.7%**	**7.9%**
ENVIRONMENT AND NATURAL RESOURCES	Environment and Natural Resources	48,754,200	53,200,000	101,954,200	28,811,157	59,000,000	87,811,157	23,066,311	50,181,283	73,247,594	83.4%	-13.9%
	Water Services and Irrigation	8,920,000	217,500,000	226,420,000	19,431,000	232,400,000	251,831,000	6,814,500	224,968,960	231,783,460	92.0%	11.2%
	SUB-TOTALS	**57,674,200**	**270,700,000**	**328,374,200**	**48,242,157**	**291,400,000**	**339,642,157**	**29,880,811**	**275,150,243**	**305,031,054**	**89.8%**	**3.4%**
	GRAND TOTAL	**2,754,748,385**	**1,616,175,000**	**4,370,923,385**	**3,036,058,415**	**1,596,175,000**	**4,632,233,415**	**2,341,655,030**	**1,022,654,329**	**3,364,309,360**	**72.6%**	**6.0%**

2.4.5 Implications for the FY 2017/18 performance

The performance in the FY 2017/18 affected the financial objectives set out in the County Fiscal Strategy Paper 2017 in the following ways:

i. That the CORe base has changed from Kshs 179 Million projected to Kshs 143 Million realized in FY 2017/18. This short fall can be realized if more stringent measures are put in place to achieve a higher projection in the FY 2018/2019 and MTEF.

ii. That development absorption rates by County departments were above average (64%). The county couldn't absorb 100% as a result of bureaucracies (late release of funds), lack of proper and advance planning and poor management of cash flows and the procurement plans. To overcome this there is need for good management of cash flows and maintaining zero balances and the treasury to consider advance payments; and

iii. That the expenditure on personnel emoluments was (51.89%) above the 35 per cent of all revenues to the County Government as required by PFM regulations 2015 hence appropriate preemptive measures should be taken to reduce this expenditure and enable release more funds for development activities.

Given the above deviations, the revision of revenues and expenditure ceilings for FY 2018/19 and FY 2019/20 will be based on the revised macroeconomic assumptions and be affirmed in the County Fiscal Strategy Paper 2019. The County Government will not deviate from the fiscal responsibility principles stipulated in Section 107 of the PFM Act 2012 but will make appropriate modification to the financial objectives to be contained in the CFSP to reflect the changed circumstances.

The table below provides projections for the MTEF period of FY 2019/20, FY 2020/21 and FY 2021/22.

Table 5: County Government Fiscal Projections in the Medium Term

	2016/17 FY	2017/18 FY		2018/19 FY	2019/20 FY	2020/21 FY	2021/22 FY
	Actual	Budget	Actual	Budget	CB ROP 2018	CB ROP 18	CB ROP 18'
TOTAL REVENUE & GRANTS	**3,959,903,385**	**4,395,093,436**	**4,458,358,510**	**5,143,175,861**	**5,129,017,353**	**5,385,468,220**	**5,654,741,631**
Unspent Bal b/f \Previous FY	145,629,764	287,553,292	287,553,292	258,397,430	-	-	-
Revenue (Total)	**3,814,273,621**	**4,107,540,144**	**4,170,805,218**	**4,884,778,431**	**5,129,017,353**	**5,385,468,220**	**5,654,741,631**
Equitable Share Allocation	3,385,470,000	3,684,400,000	3,684,400,000	3,642,400,000	3,824,520,000	4,015,746,000	4,216,533,300
Local Revenue	200,000,000	143,314,734	143,314,734	300,000,000	250,000,000	262,500,000	275,625,000
Grant (Total)	228,803,621	279,825,410	343,090,484	643,981,001	650,000,000	682,500,000	716,625,000
Total Expenditure	**4,030,900,000**	**4,632,233,415**	**3,708,427,270**	**4,844,778,431**	**4,752,017,353**	**4,989,618,220**	**5,239,099,131**
Recurrent	2,754,740,000	3,036,058,415	2,685,772,941	3,241,188,431	3,231,371,800	3,392,940,390	3,562,587,409
Recurrent as % of CG Total Revenue	*72%*	*82%*	*72%*	*66%*	*70%*	*63%*	*63%*
Personnel Emolument	1,524,740,000	2,038,639,623	1,924,430,317	1,862,685,766	2,550,450,000	2,677,972,500.00	2,811,871,125.00
Operations & Maintenance	1,230,000,000	808,815,126	761,342,624	1,378,502,665	680,921,800	714,967,889.83	750,716,284.32
Personnel Emoluments as % of CG Revenue	*40%*	*50%*		*38%*	*50%*	*50%*	*50%*
Development	1,276,160,000	1,596,175,000	1,022,654,329	1,603,590,000	1,520,645,552.87	1,596,677,830.51	1,676,511,722.03
Development as % of CG Total Revenue	*33%*	*43%*	*28%*	*33%*	*35%*	*36%*	*30%*
Unspent Bal Current FY	228,800,000.00	-	749,931,239	-	0	0	0

3 SECTION III: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The County Government of Tharaka Nithi has a focus on quality and growth strategies to ensure that the way of life of its residents is improved. The administration has ensured that it consistently maintains a more than 30% development budget threshold recommended by the PFM Act, 2012 to support direct growth across all the sectors. This strategy has been effective in initiating sustainable social economic programmes that has consequently led to improving the lives of the citizens.

Kenya has invested in numerous corridors to promote trade and development. Tharaka Nithi has mirrored the efforts of the national government by continuous improvement of transport infrastructure that connect major towns and incentivized new development to build up along these roads. Although the county government has a key target on access roads, feeder roads and opening of new rural in-roads it is important to note that the big picture is to have universal development which is inclusive and non-discriminative. This robust countywide strategy includes improvement of elements such as social amenities and accessibility across sub-counties, towns and wards for purposes of ensuring benefits are shared and that urban sprawl is controlled where towns are growing at an impressive rate.

3.1.1 Recent Economic Developments

Kenya's economy showed signs of acceleration in the first quarter of 2018, growing by 5.7% as compared to 4.8 % same period in 2017. This significant acceleration in growth was mainly attributed to improved weather conditions and a boost in business and consumer confidence after the conclusion of general election in 2017. However, recently, several economic challenges with reference to commodity prices have been experienced. Such commodities include sugar, electricity and fuel. The CPI increased by 0.31% from 191.59 in July 2018 to 192.18 in august 2018. The overall year on year inflation stood at 4.04% in August 2018.

Key macroeconomic indicators were largely favourable to growth during the first quarter of 2018. Inflation averaged at 4.49 per cent during the review quarter compared to an average of 8.77 per cent experienced during the same period of 2017. The slowdown in inflation was mainly influenced by lower food prices during the period under review. In the money market, the Kenya Shilling recorded mixed performance against its major trading currencies. The most noticeable was a significant weakening of the Shilling against the Euro and the Pound Sterling

The figure below summarizes the first quarter GDP rates since 2013. GDP is an important indicator of expected economic growth which is a driving factor in revenue determination for the government. Consequently, county governments have an obligation to follow this indicator in determining their revenue projections.

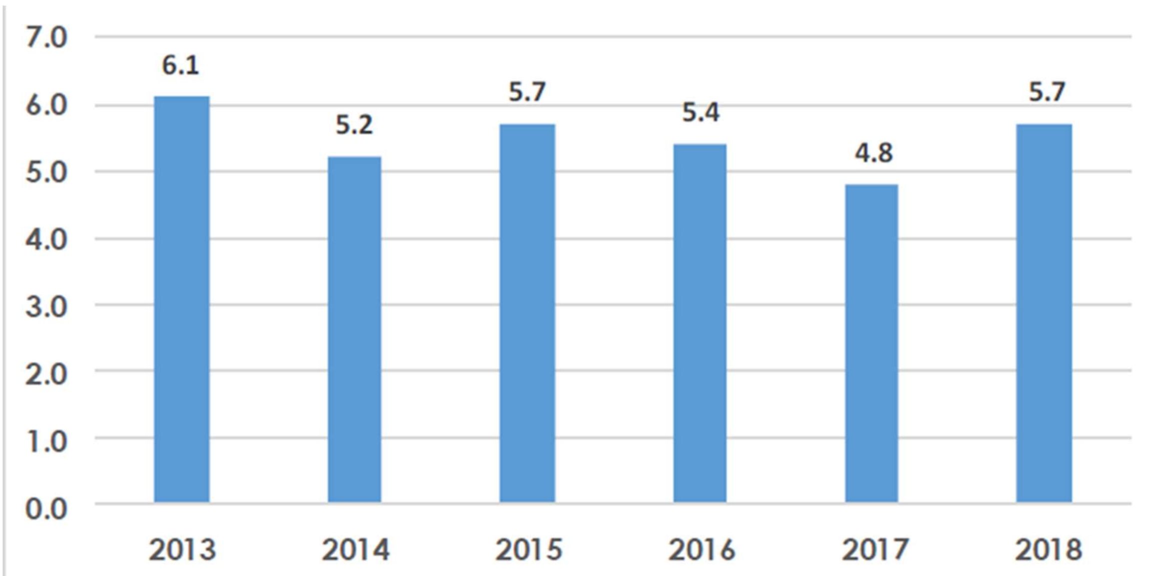


Figure 3: GDP growth 2013-2018

3.1.2 Overview of recent economic developments

Tharaka Nithi County has aligned its development priorities with the country's Big Four Agenda. The County Government has increased its investment in flagship projects with long term impact as a way of ensuring sustained development. Counter-part funding which includes conditional grants, conditional loans, donor funding, community partnership, PPP and other forms of concessionary agreements was considered in the development of the 2018/19 budget.

The county takes pride in going beyond the threshold requirements to adopt innovative initiatives to engage citizen which include use of social and printed media to ensure that information necessary for decisions and opinions is available to all. Despite the high cost of participation, the County, led by the County Treasury has made progress on improving county awareness of ongoing matters of concern. Through the ongoing partnership with USAID – AHADI, the CG has developed administrative capacity and training staff implementing participatory governance and progress which has yielded impressive results during the past financial year.

The county embarked on extensive opening, grading, gravelling of roads and constructed several footbridges (Muragara, Kiroo) and drifts through the department of Roads and Infrastructure**.** Kaanwa- Mitheru road is being upgraded to Bitumen standards. The government targets to tarmac 10km of road every financial year. The department has procured 1 grader and repaired the existing one and it is planning to procure more in the coming years. Through this department, the Governor's office was constructed.

The Department of Energy and ICT in collaboration with Rural Electrification Authority increased electricity connectivity within the county by supporting the national urban electrification project, which seeks to bring light to urban areas throughout the country. Kathangachini and Ruungu markets are being connected. Kenya targets a nationwide target of 70% connectivity; 37% of the country is connected to the electricity grid. The partnership with the national government to provide street lights throughout urban centers in the county has been underway. The department has procured, installed and operationalized the Human Resource Management System to ensure effective service delivery.

The department of Lands, physical planning, urban development has carried out a spatial plan for Kathwana town, the county headquarters, which is awaiting approval by county assembly. This will also roll to other markets within the county. This will help in future planning for the town. Opening and grading of town streets has been on course. The department has also done Parking lots at Chuka and Chogoria.

Environment and Natural resources department through its waste management programme has been able to procure skip loader, lorry, install Skips, litter bins and floodlights within the major markets. To manage the waste effectively, it is in the process of acquiring an incinerator. It has embarked on environmental beautification and conservation through planting of trees mainly along the County headquarters and major towns.

The department of education and vocational training is continuing to construct 75 ECDE classes and rehabilitation of youth polytechnics that will see an increase in enrolment rates. Youth, Sports, Culture and Tourism department is in the process of completing Kathwana and Marimanti (Nyangumi) stadia that will boost sports activities within the county.

Trade and revenue department has embarked on a number of development projects ranging from construction and upgrading of markets like Kaare, Tunyai, Kathangacini and Chuka markets that are aimed at creating a conducive environment for doing business consequently leading to increased revenues. It has also done stage sheds and market stalls at Chuka and Chogoria respectively. The department in collaboration with the ICT and energy department has automated the revenue collection and management to increase efficiency and effectiveness.

Universal health care is a critical component of the big four Agenda. In this regard, the department of Health services has initiated several steps towards incorporating thousands of households in the health cover scheme through NHIF. The county government will be remitting Kshs 250 for every household enrolled. The household will be required to pay the other half of cover premium of Ksh 250 as well. This will go a long way in ensuring that the residents receive medical services at all NHIF registered facilities. The department is as well in completing the mortuary at Tharaka level 4 hospital. The maternity ward in Gatunga model hospital is awaiting final finishing before being operational. The installation of instant generator at Gatunga model hospital will go a long way in cutting losses in medical preservations when the electricity goes off. Chuka Level 4 hospital is being upgraded into a county referral hospital with the construction of OPD, Oxygen plant and specialized units as key notable projects. Construction of KMTC at Chuka has also kicked off. For effective service delivery, the department in collaboration with the ICT department has procured, installed and operationalized the Health Management Information system.

To ensure the county is food secure, the department of Agriculture has embarked on several projects. The major capital projects are: ongoing construction of ATC at Itugururu, Veterinary Lab at Marimanti, Cereals stores at Mukothima, installation of coolers at various milk coolants plants among others. Subsidizations helps in cutting the cost of farming majorly to poor households. In this regard, the department has severally issued certified seeds, AI services and fertilizers to various farmers across the county.

Accessibility and availability of clean drinking water is a major agenda to county government of Tharaka Nithi. In line with this the department of water and irrigation has embarked on a number of capital projects ranging from procurement of water bowser, installation of solar systems in boreholes in order to connect several households and institutions that were unable to access water easily, digging of earth dams, provision of water pipes to various water projects like Kakimiki water project, Ntuntuni-Mukungugu water project, Ndagani KK water project, Giankaja water project, Ndigia water project among others.

With such capital and other sustainable projects, the County will highly experience a trajectory growth in its economy. Consequently, this will lead to better and improved living standards of its residents.

Through the department of economic planning, the county government has gone further to carry out continuous monitoring and periodic evaluation of these and more county projects and programmes to ensure the delivery of these projects in terms of quality and timing is guaranteed.

3.1.3 Progress Report on Budget Implementation

The County Government continues to address challenges that affect resources mobilization for planned programmes. Budget implementation will be guided on the fiscal responsibility principles outlined in the PFM Act, 2012, Section 107(2). The fiscal outcomes proposed within this paper are consistent with the national financial objectives as outlined in relevant policy documents and various legislations.

The impediments towards the success of budget implementation included IFMIS system network downturns as well as e-procurement system that affected spending of funds. Emerging roles in the usability of the systems posed a challenge to the personnel tasked with processing of payments through the system thereby delaying the process flow.

The total amount of County Own Revenue (CORe) collected in FY 2017/18 was Kshs 143,314,734 a decrease of 8.3 percent from Kshs 156.35 million realized in FY 2016/17. This also represents a 20 percent under collection given the annual CORe target of Kshs 179,915,283 million approved in the FY 2017/18 budget.

County own revenue targets for FY 2018/19 is Kshs. 300M, the County endeavors to achieve this through the various revenue streams. The county needs to ensure it fully exploits the existing revenue potentials by mapping the revenue sources, utilizing revenue automation services as well as enactment of relevant legislation to support the collection of the revenue.

The table below Summarizes the County Fiscal performance for FY 2016/17 to FY 2017/18.

Table 6: County Fiscal performance for FY 2016/17 to FY 2017/18

	2016/17 FY	**2017/18 FY**			
	Actual	**Approved**	**Actual**	**% Deviation**	**Growth %**
TOTAL REVENUE & GRANTS	**3,767,230,728**	**4,632,233,415**	**4,458,358,510**	**96.25%**	**18.35%**
Unspent Bal from Previous FY	145,629,764	287,553,292	287,553,292	100%	97%
Revenue (Total)	3,621,600,964	4,344,680,123	4,170,805,218	96%	15%
Equitable Share Allocation	3,446,616,779	3,684,400,000	3,684,400,000	100%	7%
Local Revenue	76,297,196	179,915,283	143,314,734	80%	88%
Grants (Total)	98,686,989	480,364,840	343,090,484	71%	248%
Total Expenditure	**2,456,121,539**	**4,632,233,415**	**3,708,427,271**	**74%**	**20%**
Recurrent	1,909,405,285	3,036,058,415	2,341,655,030	77%	23%
Development	546,716,254	1,596,175,000	1,022,654,329	64%	87%
County Assembly	340,071,108	384,000,000	344,117,911	90%	01%
Unspent Bal Current FY	287,553,292	0	749,931,239	0%	0%

3.1.4 County Economic Outlook and Policies

International, National finance and economic reports review the importance of the improved relations between governments, better fiscal balance and management of economic disparities. County Government of Tharaka Nithi will continue to invest in its readily available resources to improve food security, infrastructure, security, trade, social and health services for its residents through stringent control of projects and nationally-promoted initiatives. The CG has identified the time line as one major factor affecting oversight and management of fiscal policies set annually for the control of current status of projects to align with national priorities. This is especially true during the process of determining current Year to Date (YTD) and Last Annual Estimate (LAE) in the supplementary budget.

In addition, the CG's focus on further devolution of services is projected to yield results in the medium term due to the well estimated sector ceilings and resource envelope consideration

The county government has fully adopted the big four agenda such as, launching of universal health care through subsidizing NHIF contributions. The government has embarked on spatial planning in all of its three sub-counties, this will help to identify space available for development and also put up affordable housing through partnership with the Housing Corporation of Kenya. For to achieve food security, the county has been proving affordable farm inputs to its residents. Additionally, the CG is buying cereals from farmers to reduce exploitation by middle men. For the storage of these cereals, the CG is constructing a cereals storage facility at Mukothima. On manufacturing, the county is encouraging construction of a bamboo factory, growing of bamboo and seeking adoption of the same in other counties. The CG has also embarked on value addition of milk by supporting dairy cooperatives with milk processing machines and animal feeds.

The County Government of Tharaka Nithi fiscal policy and budget framework has been designed to promote trade agreements like being a member of MT Kenya trade block, cross-border infrastructure developments and promotion of its products in other counties. Periodic reports indicate that this has been achieved through collaborative activities with neighboring counties as well as participative approach in national economic policies and events with stakeholders such as the National Treasury, Public Sector Accounting Standards Board (PSASB) and the recommendations that they share.

The county government is joining other counties to exchange ideas and information, share experiences and experiences and perspectives on their role in the implementation of climate actions at the county and national level. This has been facilitated by the council of governors in collaboration with other institutions like Pan African Climate Justice Alliance (PACJA).

The level of development and expenditure needs are factors witnessing growth in the county. This means that the annual budgets will reflect this through various indicators that were used to arrive at the figures therein. In comparison to a similar period in 2017, real GDP growth for Quarter 1 2017 is 5.5%. However, inflation rose to 7.7%; and is expected to generate shocks due to changes in the global currency markets.

3.1.5 Medium Term Fiscal Framework

The macroeconomic stability experienced in 2017-18 has spilled into the better part of 2018 and is likely to continue to the rest of the year. However, macroeconomic stability is likely to be affected by projected rising inflation and interest rates, decreasing private and government spending. A possible restraint in domestic government borrowing and foreign borrowing, increased tax rates on petroleum products are anticipated to increase the cost of county operations, leading to higher operations and management costs. The national GDP for the first quarter of 2018 grew by 5.7%, according to the Kenya National Bureau of Statistics and inflation was recorded as 4.95 % in July 2018.

These challenges may affect the investment climate, despite progress made in structural and legal reforms. This is because the competitiveness of the private sector will be affected by increased tax rates and possibly slow down overall productivity in the economy.

The County Government has the fiscal policy of maintaining a zero-fiscal balance. In this regard, FY 2017/18 posted a performance without budget deficit and in compliance with recommendation from the National Treasury for counties to ensure that total planned expenditures equal total expected revenues.

In 2016/17, the ratio of development to recurrent expenditure was 32 percent to 68 percent. During 2017/18, the ratio was 30.27 percent to 69.73 percent. More funds are required for infrastructure development, health, agriculture, water and irrigation, garbage management and quality service delivery among others so as to meet the desired county development targets as envisioned in the CIDP.

The huge wage-bill the county incurs leaves little allocation towards county endeavors thus curtailing achievement of key targets. The ballooning wage bill has hampered delivery of quality public services and it has led to reduced capital investment.

Through this paper, policy suggestions that can be implemented in the short to medium term, in order to tame the rising wage-bill include: review of recruitment practices, freeze on employment on need basis, and streamlining payroll and control systems (cleaning of payroll) in the county.

The increasing National Government debt has a negative effect both on short and long-term economic growth and development in both the national and county governments. Currently, the county government has no registered commercial loans but accruing debts to suppliers of goods and servicese amounting to Kshs 1.01 billion as at 30th June 2018. This continues to be great threat to the county fiscal stability. The committee on pending bills recommended payment amounting to Kshs 728 million to suppliers. Upon further analysis, it was realized that Kshs 316 million had been paid. The balance of Kshs 412 million was to be budgeted for in subsequent periods. The current pending bills amount to Kshs 312 million for FY 2016/17 after Kshs 100 million was paid out.

These pending bills affect current and future capital investment and service delivery in the county. Substantial resources meant for efficient and productive purposes have to be committed to the repayment of these pending bills over the years as negotiated with suppliers.

3.1.6 Risks to the Outlook

Although the Tharaka Nithi County economy has exhibited a resilient growth trend, it is still vulnerable to shocks emanating from macro environment affecting the larger national economy. The continued interventions in the economy by the Central Bank and National Treasury through modified 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 had an impact on the performance of the county economy;

a) **External risks:**

Country Risk: Tharaka Nithi County was affected by the combined risks associated with investing in Kenya:

Political risk: the repeat election of October 2017 culminated to financial uncertainty in the previous financial year. The countries that Kenya benchmarks its country risk – USA, South Africa, China, UK, Israel, Cuba, Nigeria and the countries within East African Communities – have considered long term repercussions of the political climate in the country and will remain so for the foreseeable future. Similarly, CGTN was prone to dynamics in the political arena within the country and the prolonged electioneering period has affected both fiscal position of the county and project implementation.

Sovereign and Exchange rate risk: Fluctuation of Kenyan Shilling against the dollar negatively affected dollar denominated imports and dollar-based loans. The costs of farm inputs and machinery generally imported were higher than current market rate, however, Tharaka Nithi County buffered this by providing subsidized inputs to farmers. 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 5.5 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.

Trading blocs Risk: Regional trade between Kenya and its border countries has been considered as one of the major drivers towards economic growth. Policies to promote trade such as reduction of taxes and custom duties were adopted but still the Kenyan economy experiences low economic growth, this raises the question, to what factors should be put in place to encourage more growth. Regional trade between member countries such as East African Community (EAC) and Common Market for East and Central Africa (COMESA) are guided by common trade laws whereby the member countries are exempted from tax, however, the same goods are expensive in our country as compared to other member countries, hence, making it discouraging local production. Kenya stands to gain from trading within the region if the appropriate policy measures included in the vision 2030 blueprint which seeks to address issues like infrastructure development, promote security, enhanced food security, public private partnership among others are fully implemented.

Environmental risks –Agriculture being a major source of livelihood in Tharaka Nithi county, unpredictable climate change had negative effects on agricultural and livestock productivity. For instance, continuous dry spell in the 1st quarter led to low farm produce.

b) Fiscal Risks

Economic risk: The country faced various shortcomings, such as, inflation that remained at 7%, drought in the 1st half of the financial year, Heavy rains experienced in the second half led to high production of farm products resulting to surplus farm products consequently leading to low prices in the market as a result of low demand. The rains as well affected infrastructure, for instance, landslides hindering smooth transportation that contributed to economic risks. The national government policies such as the proposed16% fuel price increase. Corruption cases such as, sugar scandal, tax free maize scandal, Kenya Pipeline, KPLC et, attributed to loss of money.

Current debts: The government will have to impose high taxes on its citizens so as to be able to pay the national debt which is now at 3trillion. Also this will lead to delay in disbursement of equitable share to the economy hence delaying development.

Early campaigns: The early onset of 2022 election campaigns will affect the economy because of fear of political instability that affects both local and foreign investment in the country.

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.415.13 million) is expected to drain resources available for programmes and projects scheduled for this FY 2017/18. During 2017/18, some key projects had been registered during the finance department's annual monitoring exercise.

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

The county is aware of all potential risks and will take appropriate measures to safeguard the stability of the county economy. This is a continuous effort and will require additional support from the national government through the establishment of county policies supplementing efforts currently underway to shield the population from uncertainty.

4 SECTION IV: RESOURCE ALLOCATION FRAMEWORK

This section sets out how the County Government intends to spend within its budget line. It establishes the total revenues it expects to raise during the period under review, and 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 (2018-2019) budget;
b) The medium term expenditure framework for 2019/20 – 2021/22 FYs;
c) Proposed (2019-2020) budget framework; and
d) Projected fiscal balance and likely financing.

4.1.1 Adjustment to the proposed 2017/18 Budget

Considering the recent economic developments outlined earlier during the first quarter of 2018/19 and the changes in the outlook discussed: the significant weakening of the Kenyan shilling against the Euro and sterling pound and slower economic growth, we expect the changing microeconomic environment to affect negatively the implementation of FY 2018/19 budgets. The presidential memo on the financial bill that is proposing a cut of Kshs 9.4B from the County share that is likely to affect the equitable share that trickles to the counties.

Although the County Government has a fiscal responsibility to ensure the recurrent expenditure does not exceed 70% in the medium term, the increasing recurrent expenditure pressures, especially arising from the high fuel cost and electricity, high wage bill poses a serious fiscal risk in the event that the revenues are not fully realized. This may limit continued funding for development expenditure to meet the constitutional threshold of at least 30% allocation.

Adjustments to the 2018/19 budget will take into account actual performance of departments so far and absorption capacity in the previous financial year 2017/18. It will also consider priority in financing the projects aimed at achieving the Big Four agenda and in completing any ongoing capital projects. In addition, the review will also address the pending accounts payables for goods and services rendered and brought forward from FY 2017/18 ending 30th June, 2018.

Further, the basis for adjustment will take into 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 and procurement plans, according to the PPRA regulations. The reason for slowing down or reprioritizing development expenditures is to ensure that the Government lives within its means or available resource envelope.

Additionally, the CG will strive to ensure that it maximizes on all its revenue sources to achieve the set CORe target of Kshs 300M. Among the measures the CG will ensure full operationalization of the revenue automated system. Additionally, the revenue department will be expected to carry out a routine inspection and reinforcement to ensure timely payments of fees and charges are done.

4.1.2 Medium Term Expenditure Framework

The education and health social sectors - early childhood education, vocational training and health will require adequate resources in the coming fiscal years. Both sectors received a significant share of resources in the FY 2017-18 budget, that is 6.85% and 26.36% respectively. Both departments are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors as is evident in the 2017/18 County Approved Budget. The following table summarizes specific activities that require significant increments in allocations:

Sector	Activities
Education	1. Sports: KICOSCA, KIYSA, Darts, athletics, 2. Culture: Ura Gate Festival, public holidays 3. Youth: National Youth Celebrations, 4. PWDs: Equipment, games, 5. Social services: sanitary pads, 6. Schools: school feeding programs, training ECDE teachers, training equipment,
Health Sector	1. Salaries and wages 2. New equipment & increased operations costs 3. Recruitment and training of new personnel 4. Pending promotions 5. Cost share in universal health care
Water Services and Irrigation	1. Research, feasibility Studies, Project Preparation and Design, Project S 2. Salaries and wages for field staff
Trade and Revenue	1. Upgrade more markets 2. Revamp revenue collection
Infrastructure	1. Recruitment and training

Table 7: Summary of Indicative Sector Ceilings for FY 2019/20 MTEF

		TOTAL EXPENDITURE KSHS					% SHARE OF TOTAL EXPENDITURE				
SECTOR	**MINISTERIAL DEPARTMENTS**	**Revised Estimates**	**Estimates**	**Ceilings**	**Projections**		**Revised Estimates**	**Estimates**	**Ceilings**	**Projections**	
		2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
PUBLIC ADMIN.	Governor's Office	174,193,549	136,428,186	123,249,595	135,574,555	149,132,010	3.76%	2.82%	2.59%	2.55%	2.51%
	Finance and Economic Planning	545,828,390	133,490,054	135,164,557	148,681,012	163,549,114	11.78%	2.76%	2.84%	2.80%	2.75%
	County Public Service Board	22,396,084	12,461,528	13,084,604	14,393,065	15,832,371	0.48%	0.26%	0.28%	0.27%	0.27%
	Administration and Public Service	150,635,158	283,209,679	287,370,163	316,107,180	347,717,898	3.25%	5.85%	6.05%	5.94%	5.84%
	County Assembly	484,900,000	369,000,000	372,450,000	409,695,000	450,664,500	10.47%	7.62%	7.84%	7.70%	7.57%
	SUB-TOTALS	-		-	-	-					
ENERGY AND ICT	Energy and ICT	152,764,256	48,562,576	50,990,705	56,089,775	61,698,753	3.30%	1.00%	1.07%	1.05%	1.04%
	SUB-TOTALS	-		-	-	-					0.00%
INFRASTRUCTURE	Roads, Transport and Infrastructure	564,625,799	655,738,098	538,525,003	592,377,503	651,615,254	12.19%	13.53%	11.33%	11.14%	10.95%
	SUB-TOTALS	-		-	-	-		0.00%	0.00%	0.00%	0.00%
HEALTH	Medical Services	1,198,304,226	1,688,679,881	1,733,113,875	1,993,080,956	2,292,043,100	25.87%	34.86%	36.47%	37.48%	38.50%
	Public Health and Sanitation	22,909,225	61,487,119	64,561,475	71,017,622	78,119,385	0.49%	1.27%	1.36%	1.34%	1.31%
	SUB-TOTALS	-	-	-	-	-					
EDUCATION	Youth, Sports, Culture and Tourism	14,465,725	76,016,113	74,816,919	86,039,456	98,945,375	0.31%	1.57%	1.57%	1.62%	1.66%
	Education and Vocation Training	302,887,027	284,497,503	288,722,378	317,594,616	349,354,078	6.54%	5.87%	6.08%	5.97%	5.87%
	SUB-TOTALS	-		-	-	-					0.00%
GENERAL ECONOMIC AND COMMERCIAL	Trade, Industry and Cooperatives	197,726,707	178,148,168	167,055,576	183,761,134	202,137,247	4.27%	3.68%	3.52%	3.46%	3.40%

AFFAIRS	SUB-TOTALS	-		-	-	-					
AGRICULTURE	Agriculture	369,899,667	315,508,325	311,283,741	342,412,115	376,653,327	7.99%	6.51%	6.55%	6.44%	6.33%
	Livestock and Fisheries Development	13,157,970	113,904,994	119,600,244	131,560,268	144,716,295	0.28%	2.35%	2.52%	2.47%	2.43%
	Lands, Physical Planning and Urban Development	77,897,475	213,184,271	203,843,485	224,227,833	246,650,616	1.68%	4.40%	4.29%	4.22%	4.14%
	SUB-TOTALS	-		-	-	-					
ENVIRONMENT, WATER AND NATURAL RESOURCES	Environment and Natural Resources	87,811,157	60,885,406	63,929,676	70,322,644	77,354,908	1.90%	1.26%	1.35%	1.32%	1.30%
	Water Services and Irrigation	251,831,000	213,576,530	204,255,357	224,680,892	247,148,981	5.44%	4.41%	4.30%	4.23%	4.15%
	SUB-TOTALS	-		-	-	-					
	TOTAL	**4,632,233,415**	**4,844,778,431**	**4,752,017,353**	**5,317,615,628**	**5,953,333,211**	**1**				

4.1.3 The Proposed 2019/20 Budget Framework

The proposed budget FY 2018/19 will be rolled out on the background of updated medium term framework and outlook with expenditure ceilings for the department being proposed in the County Fiscal Strategy Paper 2017 to be released in February 2018. 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 considered generally stable.

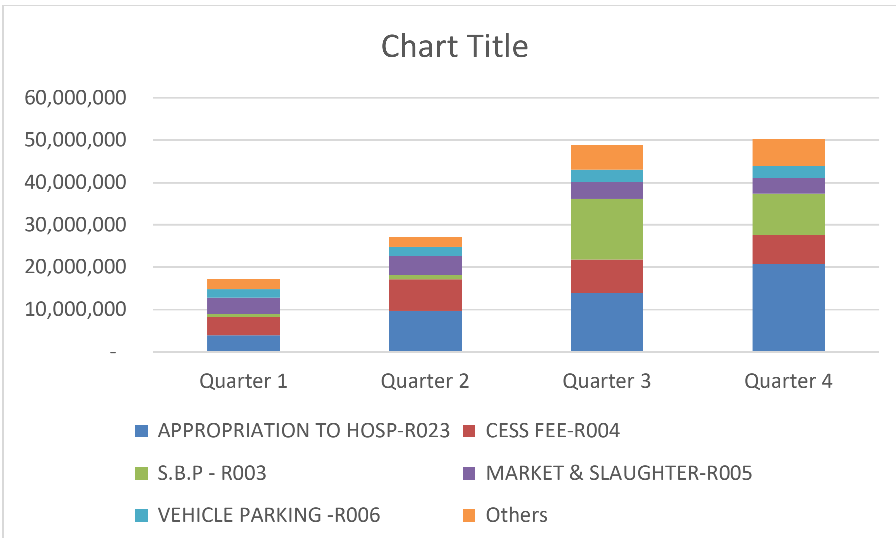
4.1.4 Revenue Projections

The projected budget for FY 2019/20 targets a total resource envelope of Kshs 4.75 billion comprising of an equitable share of Kshs 3.82 billion, county own revenue (CORe) of Kshs 250 million and grants of Kshs 650 million, up from 3.64 billion, 300 million, and 643.98 million respectively projected during 2018/19 FY.

The county revenue is expected to remain relatively stable with standard variation of less than Kshs 52 million from the mean of Kshs 226 million adopted for the MTEF is approximately 5.3 percent of total county revenue. However, this fiscal performance on CORe will be an increase from the 4 percent projected in the medium term according to County Fiscal Strategy Paper 2018. The Kshs 250 million CORe includes Appropriations – In – Aid (AIA) of Kshs 84 million on average targeted in the medium term from three (3) level four hospitals (Magutuni, Marimanti, Kibung'a) and our County Referral Hospital at Chuka.

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. Therefore, the planned acquisition and implementation of electronic revenue system in FY 2018/19 will ensure that the CG realizes the revenue target of Kshs 250 million against the actual revenue collection of Kshs 143 million in FY 2017/18. The revenue collection trends indicate a sharp increase as a result of political stability following prolonged electioneering period as shown in the figure below.



The above shows that there was significant increase from Ksh17.1 million in the first quarter to Kshs 50.2 million in the fourth quarter. This trend is expected to be maintained in the medium term.

4.1.5 Expenditure Forecasts

The 2018-19 FY budget has a total forecasted expenditure of Kshs 4.8 billion and projected total expenditure of Kshs 4.7 billion in FY 2019/20. The recurrent expenditure is estimated at Kshs 3.23 billion, Kshs 1.52 billion compared to Kshs 3.24 billion for recurrent spending and Kshs 1.6 billion FY 2018-19 respectively. The expenditure represents 68 percent and 32% for recurrent and development expenditure 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 directors 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 2019-20 is Kshs1.52 billion compared to Kshs 1.6 billion projected during FY 2018/19. The major focus of development will be universal health, infrastructure, food security and housing. However, the county anticipates investing substantially in the medium term on school infrastructure such as the ongoing construction of ECDE classes in 410 centres across the county with each centre having at least two classes. The total investment in ECDE classes will exceed Kshs 600 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 increased financing of projects and programmes from private investors.

Table 6 below indicates the projections for expenditure in the medium term period

Table 8: Summary of Expenditure Projections 2019/20 FY and MTEF

Expenditure Classification	Actual	Approved Budget Estimates	Projected Estimates		
	2017/18	2018/19	2019/20	2020/21	2021/22
Personnel	1,924,430,317	1,862,685,766	2,550,450,000	2,677,972,500.00	2,811,871,125.00
Operation s	761,342,624	1,378,502,665	680,921,800	714,967,889.83	750,716,284.32
Development	1,022,654,329	1,603,590,000	1,520,645,55		1,676,511,722.03
Un spent Bal	749,931,239	0	0	0	0
Total	**4,458,358,509**	**4,844,778,431**	**4,752,017,352.8**	**4,989,618,220.34**	**5,239,099,131.35**

4.1.6 Projected Fiscal Balance (Deficit) and likely financing

The proposed 2019/20 county budget is balanced, but however, any shortfall in revenue that may occur within the year will be addressed through supplementary or borrowing within the borrowing framework by sub-nationals as approved by the Intergovernmental Budget and Economic Forum (IBEC).

4.2 Recurrent vs Development Budget Expenditure

The FY 2019/20 budget targets a recurrent expenditure of Kshs 3.23 billion against Kshs 2.8 billion Expended in FY 2018/19. This recurrent expenditure represents 70.0 percent of total budgeted expenditure compared to 67 percent targeted FY 2016/17. However, the proportion of the recurrent expenditure to total targeted expenditure is expected to drop to 55 percent over the medium term as the fiscal measures capping on recurrent expenditure take effect.

The development expenditure targeted for FY 2018/19 was estimated at Kshs.1.30 billion which represented 32 percent of total expenditure. This figure increased to Kshs 1.52 billion and Kshs 1.8 billion in estimates for FY 2019/20 representing 32 percent of the total budgeted expenditure in the medium term.

These proportions of recurrent and development expenditures indicate that the County Government is compliant with PFM Act, 2012 requirement that the development expenditure shall not be lower than 30 percent in the medium term.

4.3 Debt Obligations

The county has no planned external debt obligations. However, bills payable from FY 2016/17 of Kshs 275 million. For the FY 2017/18, they amounted to Kshs 600 million. These obligations are being addressed by the county assembly, as discussed in sections addressing revenue management. Therefore, there are no major events that are likely to impact negatively on County Government debt position and credibility.

4.4 Wage bill

The County Government spent a total of Kshs 2.2 billion as compensation to employees and Kshs 680 million on operations. 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 County Government shall not exceed a percentage of the total revenue as prescribed in the regulations. The rate normally adopted by government is 35 percent of total revenues for the County Government.

The County Government has anticipated to employ additional technical staff and enhance service delivery. Specifically targeted for hiring are additional health personnel to ensure that our health facilities are adequately staffed especially the primary care facilities and fully utilize equipment and infrastructure invested in by the government. As a result, the proposed budget for FY 2018/19 targets an increase in the wage bill with the increase attributable to expected recruitment and training costs and promotions employees on either probation or contract to permanent terms.

4.5 Expenditure Ceilings

The expenditure ceilings for the county departments shall be outlined in the County Fiscal Strategy Paper 2018 published in February 2018and will have to be strictly followed. However, the departments are advised to consider guidance provided in the this CBROP as the basis of establishing the preliminary ceilings.

4.6 Projected fiscal Balance (deficit) and likely financing

The county governments are required to maintain a balanced budget in the medium term. Therefore, the County Government has complied with this advisory by the National Treasury and has maintained a planned expenditure equal to the planned total revenue. However, technical deficits arise 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 the end of a financial year.

5 SECTION V: CONCLUSION

The review of implementation of FY 2017/18 budget shows that the fiscal outcome coupled with updated macroeconomic forecast advises the need for review of the financial objectives for FY 2018/19. Therefore, the reviewed expenditures reflect the real circumstances that surrounded the implementation of FY 2017/18 budget and are broadly within the fiscal responsibility principles outlined in the PFM Act, 2012, Section 107(2) except for the wage bill which has gone beyond the 35% as recommended by the regulations. 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, and PFM Regulations 2015.

The County through its strategic plans is devoted to ensuring services delivered are aligned to specific needs of our communities as contained in the CIDP 2018-2022. 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 county government needs to adopt a strong human resource policy for the county to cap the escalating wage bill in order to ensure sustainable development.

ANNEXURES

Annex I: Budget Calendar for the 2019/20 Budget

ACTIVITY	RESPONSIBILITY	DEADLINE
1. Prepare and issue budget circular with guidelines	CEC Member for Finance	August 30th 2018
1.1 One day sensitization workshop		Sep18
2. Sector Woking Groups	County Treasury	
2.1 Launch and first meeting for SWGs and sensitization on SDGs		October 2018
2.2 Second meeting for SWGs		
Submission of projects and programmes to be implemented for FY 2019/20		14th December 2018
2.3 Third meeting for SWGs		March 2019
3. County Annual Progress Report	County Treasury (Economic Planning Department)	
3.1 Draft CAPR		15th September 2018
3.2 Validation of the CAPR		15th – 20th Sept 2018
3.3 Submission to CEC for Approval		30th September 2018
3.4 Submission to CA for Approval		21st October 2018
4. Monitoring and Evaluation	County Treasury (Economic Planning Department)	
4.1 M&E field work		September 2018 & August 2019
4.2 Annual M&E week		2nd week November 2018
5. Statistical abstract	County Treasury (Economic Planning Department	
5.1 Draft		Oct18
5.2 Launch		Nov18
6. Development of ADPs for FY 2019/20 and 2020/21	County Treasury (Economic Planning Department)	
6.1. Draft ADP FY 2019/20		23rd August 2018
6.2 Submission of ADP FY 2019/20 to CEC		27th August 2018
6.3. Submission of ADP FY 2019/20 to County Assembly		30th August 2018
6.4. Report of ADP from County Assembly		
6.5. Consolidation of CA recommendations to Final ADP		
6.6. Approval of ADP by County Assembly		
6.7. Meeting with TWGs for ADP FY 2020/21		30th May 2019
6.8. First draft ADP FY 2020/21		15th August 2019
6.9. Validation ADP FY 2020/21		15th – 20th August 2019
6.10. CEC Approval ADP FY 2020/21		20th August 2019
6.11. Submission ADP FY 2020/21 to County Assembly		30th August 2019
7. Development of County Budget Review	County Treasury	

and Outlook Paper (CBROP) 2018	(Budget Unit)	
7.1. Estimation of Resource Envelope		10th Sep 2018
7.2. Determination of policy priorities		“
7.3. Preliminary resource allocation to Sectors		“
7.4. Draft County Budget Review and Outlook Paper		16th Sep 2018
7.5. Validation		15th 20th September 2018
7.6. Submission and approval of CBROP by CEC		30th September 2018
7.7. Submission of approved CBROP to County Assembly		21st October 2018
7.8. Drafting CBROP 2019		30th August 2019
8. Preparation of Budget proposals for the MTEF	Departments	
8.1. First retreat to draft Sector Reports (Programmes and projects submitted)	SWGs	20th Dec 2018
8.2. Public Sector Hearings	County Treasury	30th January 2019
8.3. Review and Incorporation of stakeholder inputs in Sector proposals	SWGs	30th March 2019
8.4 Submission of Sector Reports to Treasury	Sector Chairpersons	5th April 2019
8.5. Consultative meeting with CECs/COs on budget proposals	County Treasury	15th April 2019
9. Draft County Fiscal Strategy Paper (CFSP) 2019		
9.1. Draft CFSP	County Treasury	30th Jan 2019
9.2. Draft Debt Management Strategy (DMS)	Budget Unit	“
9.3. Validation	Budget Unit	15th 20th February 2019
9.4. Submission of CFSP and DMS to CEC for approval	County Treasury	20th February 2019
9.5. Submission of CFSP & DMS to County Assembly for approval	County Assembly	28th February 2019
10. Preparation and approval of Final Departmental Budgets		
10.1. Develop and issue final guidelines on preparation of 2019/20 MTEF Budget	County Treasury	January, 2019
10.2. Submission of Draft Revenue Raising Measures (Finance Bill) to County Treasury	Line departments	30th March, 2019
10.3. Submission of Budget proposals to County Treasury (First draft)	Revenue Department	5th April, 2019
10.4. Consolidation of the Draft Budget Estimates (final draft)	County Treasury	15th April, 2019
10.5. Submission of Draft Budget Estimates to CEC	County Treasury	20th April, 2019

10.6. Submission of Draft Budget Estimates to County Assembly	County Treasury	30th April, 2019
10.7. Submission of Final Revenue Raising Measures (Finance Bill) to County Treasury	Revenue Department	30th April,2019
10.8. Review of Draft Budget Estimates by County Assembly	County Assembly	15th June, 2019
10.9. Report on Draft Budget Estimates from County Assembly	County Assembly	15th June, 2019
10.10. Consolidation of the Final Budget Estimates	County Treasury	15th June, 2019
10.11. Approval of Appropriation Bill by County Assembly	County Assembly	30th April, 2019
10.12. Approval of Vote on Account by County Assembly	County Assembly	30th April, 2019
11. Public participation	County Treasury (Economic Planning Department)	31st January 2019
12. Development committees (ward level)		
12.1. 1st meeting	County Treasury	30th October 2018
12.2. 2nd meeting		1st week February 2019
13. Budget Statement	CEC Finance	19th June, 2019
14. Appropriation Bill passed	County Assembly	30th June, 2019

Annex II: Revenue Performance per stream

Row Labels	Qtr1	Qtr2	Qtr3	Qtr4	Grand Total
APPROPRIATION TO HOSP-R023	3,885,645	9,712,135	13,985,554	20,695,505	48,278,839
CESS FEE-R004	4,310,700	7,410,730	7,773,310	6,851,981	26,346,721
S.B.P - R003	618,750	1,024,163	14,336,187	9,790,463	25,769,563
MARKET & SLAUGHTER-R005	3,988,210	4,468,735	4,092,670	3,775,381	16,324,996
VEHICLE PARKING -R006	1,951,420	2,246,790	2,853,980	2,784,530	9,836,720
PLOT-RENT R-R002	533,953	315,750	688,611	1,478,413	3,016,727
LIQOUR INSPECTION -R022	207,300	73,500	1,536,500	581,220	2,398,520
PLAN APPROVAL FEES-R009	188,500	586,304	662,900	653,500	2,091,204
HOUSE & STALLS -R007	311,590	153,730	374,800	663,416	1,503,536
LAND & RATES - R001	115,879	45,843	372,487	673,573	1,207,782
ADVERT-R016	18,200	169,900	413,610	497,100	1,098,810
MEDICAL EXAM-R025	250,400	101,500	270,800	437,300	1,060,000
MT. KENYA LODGE/TOURISM-R013	289,200	246,900	289,950	101,900	927,950
LIVESTOCK SALES -R012	183,000	202,580	236,500	234,990	857,070
TRNS,APPL,& ADJ.-R014	150,100	183,000	239,500	232,000	804,600
MISCELLAREOUS -R018	37,300	76,800	227,731	271,650	613,481
PLAN APP.FEES,HEALTH-R019	3,000	-	325,990	191,090	520,080
SEARCH , MIN, EXT-R015	82,000	77,000	98,500	64,500	322,000
WEIGHTS & MEASURES-R010	-	8,500	26,500	112,500	147,500
PENALTIES -R011	16,872	16,440	12,920	100,603	146,835
FOOD PREMISES R021	19,500	5,600	-	-	25,100
SCH.INSP.-R020	12,000	-	-	-	12,000
MOTOR/C-R017	4,700	-	-	-	4,700
Grand Total	**17,178,219**	**27,125,900**	**48,819,000**	**50,191,615**	**143,314,734**