THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF THARAKA NITHI

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2019

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FOREWORD

The County Budget Review and Outlook Paper (CBROP) 2019 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 FY 2018/19 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) 2019; 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 sets 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.

Ms. DOROTHY I. K NAIVASHA
County Executive Committee Member,
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ACKNOWLEDGEMENT

It is with great pleasure for County Treasury to register its appreciation to all persons who sacrificed their time, skills and other resources in the preparation of the CBROP 2019. The County Treasury takes this opportunity to specially acknowledge the unrelenting efforts portrayed by all the departments and directorates in spearheading the budgeting process which has lead to compilation of this paper. The preparation of the CBROP 2019 was carried out on 16th – 20th September 2019 at the County Headquarters, Kathwana.

Much appreciation to the Department of Finance & Economic Planning, and the Secretariat who followed through the entire process. I particularly, thank the Director Budget and Economic Planning, Mr. Lawrence Micheni; and Head of Economic Planning, Mr. Dennis Kwendo assisted by Josephine Mumbua, Frankline Munene, Ann Karambu, James Mwiti, Nicholus Mitambo, David Mutugi and Reflid Njeru 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 Gilbert Momanyi (Programme Team Lead), Sylvester Muiruti (Programme Assistant) and Paul Kamaku (Consultant).

To all that were involved, receive my heartfelt appreciation.

MR. ZEPHANIA RWANDA MBAKA,
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ABBREVIATIONS AND ACRONYMS

AHADI	**Agile and Harmonized Assistance to Devolved Institutions**
AIE	Authority to Incur Expenditure
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
CORe	County Own Revenue
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
PE	Personnel Emoluments
PFM	Public Finance Management
PPP	Public Private Partnership
PWD	People with Disabilities
SWG	Sector Working Group
USAID	United States Agency for International Development (USAID)

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LEGAL BASIS FOR PREPARATION OF CBROP

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.

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 – 35 percent;
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 and Chapter Five (5) of the County Budget Operations Manual, 2014 that gives guidelines on content and format of CBROP. The paper reviews the fiscal performance of the county for the Financial Year 2018/19; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2019 and reasons for such deviations.

1.1 Objective of CBROP

The objective of CBROP is to provide a review of the previous year fiscal performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in 2019 CFSP. This together with macroeconomic outlook provides a basis for revision of the current budget for FY 2019/20 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 2020 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 2020/21 budget and in the medium term to guide Sector Workings groups (SWGs) before being affirmed in the CFSP 2020.

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: 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 resource 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.

SECTION II: REVIEW OF COUNTY FISCAL PERFORMANCE IN FY 2018/19

This section details the county's fiscal performance for the Financial Year 2018/19 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 2018/19 was averagely impressive with an increase in the total revenues from KES 4,873.9 million compared to KES 4,458.4 million realized in FY 2017/18 as highlighted in Summary of County Fiscal Performance for FY 2018/1. Development expenditure was recorded at KES 1,348.2 million of the total development allocation of KES 2,178,062,408 representing a 62 percent performance. The development resources were utilized in financing key flagship projects and programs like construction of roads, water supply and development of early childhood education school infrastructure as well as upgrading of health facilities.

On recurrent expenditure, the County Government optimized operational and administrative costs to release more resources that enhance development agenda. The measures adopted in the FY 2018/19 fiscal framework led to a recurrent expenditure of 90% of KES 3,190,938,295 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 2018/19

During the period under review, the County total revenue basket was KES **4,873.9** million comprising of KES 3,642.4 million from exchequer as equitable share of domestic revenues raised nationally, KES 377.5 million realized from conditional grants and KES 243 million being revenues raised locally (CORe). In addition, the County had KES 611 million as balance brought forward from FY 2017-2018. This is summarized in the Table 1.

Table 1: Summary of County Fiscal Performance for FY 2018/19

	2017/18 FY	2018/19 FY				
	Actual	**Approved**	**Actual**	**% performance**	**% Deviation**	**Growth %**
TOTAL REVENUE & GRANTS	**4,458,358,510**	**5,717,000,703**	**4,873,932,327**	**85%**	**-3.75%**	**18.35%**
Unspent Bal from Previous FY	287,553,292	749,931,239	611,080,016.00	81%	0%	97%
Revenue (Total)	**4,170,805,218**	**4,967,069,464**	**4,262,852,311**	**86%**	**-4%**	**15%**
Equitable Share Allocation	3,684,400,000	3,642,400,000	3,642,400,000.00	100%	0%	7%
Local Revenue	143,314,734	300,000,000	242,951,703.00	81%	-20%	88%
Grants (Total)	343,090,484	1,024,669,464	377,500,608.00	37%	-29%	248%
Total Expenditure	**3,708,427,270**	**5,721,000,703**	**4,778,808,329**	**84%**	**-20%**	**7%**
Recurrent	2,341,655,030	3,190,938,295	3,078,641,095.00	96%	-15%	7%
Development	1,022,654,329	2,178,062,408	1,348,167,636	62%	-32%	8%
County Assembly	344,117,911	352,000,000.00	351,999,598.00	**100%**	-10%	1%
Unspent Bal Current FY	**749,931,239**	**0**	**95,123,998**		**-**	**161%**

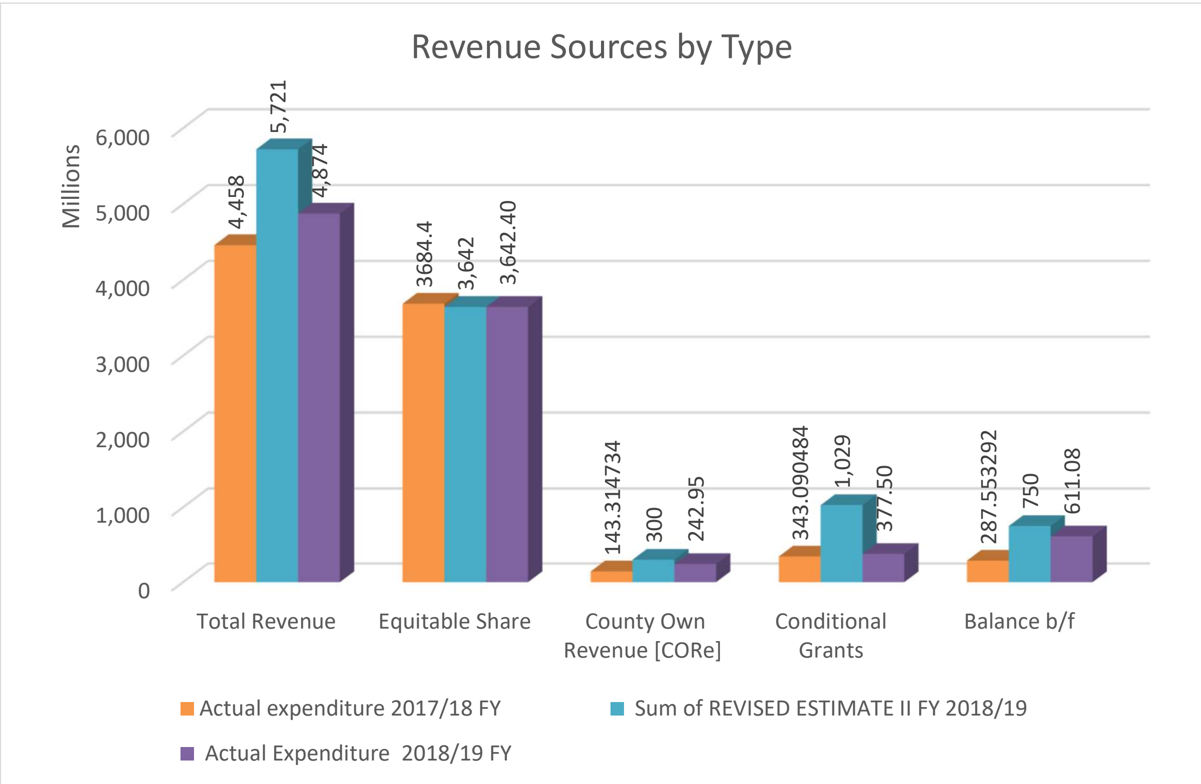

Figure 1: Fiscal Performance by for 2018/19 FY

2.3 County Own Revenue Performance and Conditional Grants

The total amount of County Own Revenue (CORe) collected in FY 2018/19 was KES 243 million constituting an increase of 70 percent from KES 143 million realized in FY 2017/18. This also represents a 19 percent under collection given the annual CORe target of KES 300 million approved in the FY 2018/19 budget.

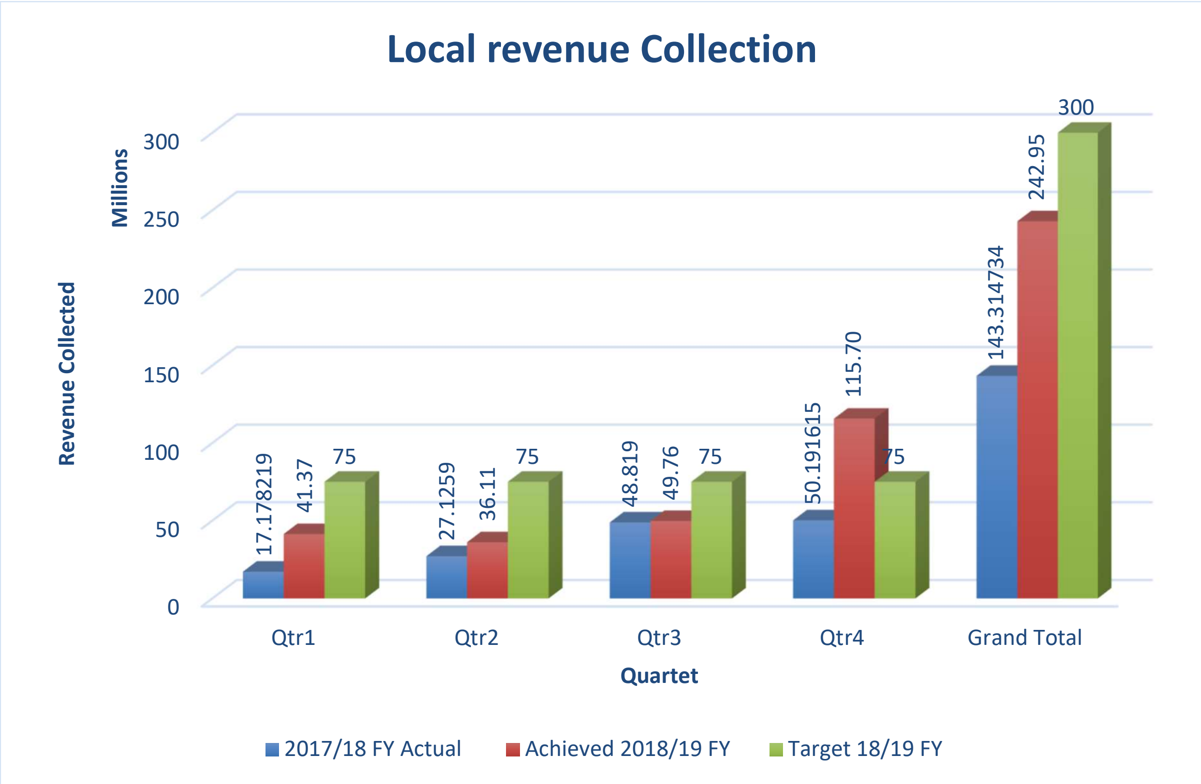

Figure 2: Revenue Collections for 2018/19 FY by Quarters

Annex 2 gives a full analysis of the revenue performance per stream for FY 2018/19.

2.3.1 Common Causes of Revenue performance

The improved performance in CORe collection can be attributed to deployment of in automated system, and increased enforcement and monitoring of revenue collection. On the other hand, the failure to meet the annual target can be attributed to labor unrests, incomplete mapping of revenue streams contributed to these dismal results. Delay in passing the requisite legislations regulating liquor businesses and continuing legal battles also negatively affected revenue collection efforts by the County Government. There is need to sensitize the general public on the taxation measures set out in the Finance bill to prevent protests and complains on the same.

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.

2.3.2 Conditional Loans and Grants

The conditional allocations received of KES 377 million in form of loans and grants which includes DANIDA, KSCAP, and Roads fuel Levy and other conditional grants. These supplemented the equitable share funds. The delay in disbursements of some of the loans and grants continue to hamper the smooth implementation of the key projects and programmes. The grants under KCSAP and Vocational institution have faced slow release hence very little development has been fully implemented in the two key programs. The low rating with respect to the KDSP grant also denied the county an opportunity to get development support due to the audit opinion from the 2016/17 financial year. The table below analyzes Conditional Grants released in FY 2018/19.

Table 2: Summary release of Conditional Loans and Grants

		FY 2017/18			FY 2018/19		
	Source of Revenue	**Revised Approved Estimates**	**Actual Receipts in**	**% Achieved**	**Revised Approved Estimates**	**Actual Receipts in KES**	**% Achieved**
1	UHDSP – DANIDA	9,053,820	9,058,820	100%	12,352,500	12,352,500	100%
2	Compensation for forgone user fees	8,419,197	8,419,197	100%	8,218,119	8,218,119	100%
3	Road Maintenance Fuel Levy Fund	133,682,063	133,682,063	100%	95,901,220	95,901,220	100%
4	Road Maintenance Fuel Levy (Bal b/f)	-	-	0%	32,200,000	32,200,000	100%
5	Other Conditional Grants	14,982,351	o	0%	453,361,325	-	-
6	THSUCP – WB	44,654,343	44,654,343	100%	50,000,000	17,451,239	35%

		FY 2017/18			FY 2018/19		
	Source of Revenue	**Revised Approved Estimates**	**Actual Receipts in**	**% Achieved**	**Revised Approved Estimates**	**Actual Receipts in KES**	**% Achieved**
7	ASDSP – Sweden	-	-	0%	12,352,500	6,509,045	53%
8	KCSAP – WB	-	-	0%	117,000,000	39,557,498	34%
9	KDSP – WB	35,989,349	35,989,349	100%	77,072,162	35,989,349	47%
10	UDG – WB	-	-	0%	50,000,000	50,000,000	100%
11	UIG – WB	-	-	0%	42,000,000	41,200,000	99%
12	Youth Polytechnics Grant	38,121,638	38,121,638	100%	78,211,638	38,121,638	49%
13	Own Sources of Revenue	179,915,283	143,314,734	80%	300,000,000	242,951,704	81%
14	Unspent Funds Returned	240,000,000	287,553,292	120%	749,931,239	504,116,242	67%
	Total Amount	704,818,044	700,793,436	99%	5,721,000,703	4,766,968,554	83%

2.4 County Expenditure Performance

The total expenditure was KES 4,779 million, the recurrent expenditure was KES.3431 million (inclusive of County Assembly allocation) representing 71.8 percent of the total County expenditure, while the development expenditure was KES 1,348 million representing 28.2 per cent of the total budget. The County Assembly expenditure of KES 351Million representing 7.0 % of the total county expenditure. The budget was financed by the equitable share of KES 3642 million, County Own Revenue of KES 243 Million, Conditional grants of KES 377 Million and the balance b/f of KES 611 Million. At the end of the year, there was a balance of KES 95 million that was unspent.

2.4.1 Recurrent Expenditure

The total recurrent expenditure of KES 3,430.6 million (71.8 percent of total revenue realized and including expenditure by County Assembly) comprised of KES 2,489.3 million of total recurrent expenditure (72.5 per cent) spent on payment of wages and salaries and KES 941 million (27.5 per cent) spent on operations and maintenance. The analysis includes KES 351 million (7.3 percent of total revenue realized) spent by the County Assembly against an allocation of KES 384.0 million. The **Error! Reference source not found.** elaborates this expenditure pattern. The reported expenditure on salaries and wages, being personnel emoluments, represented an increase of 24.4 per cent when compared to similar spending of KES 2billion in FY 2017/18.

Figure 2 below gives a graphical comparison of the recurrent expenditures for FY 2017/18 and FY 2018/19, inclusive of County Assembly allocation.

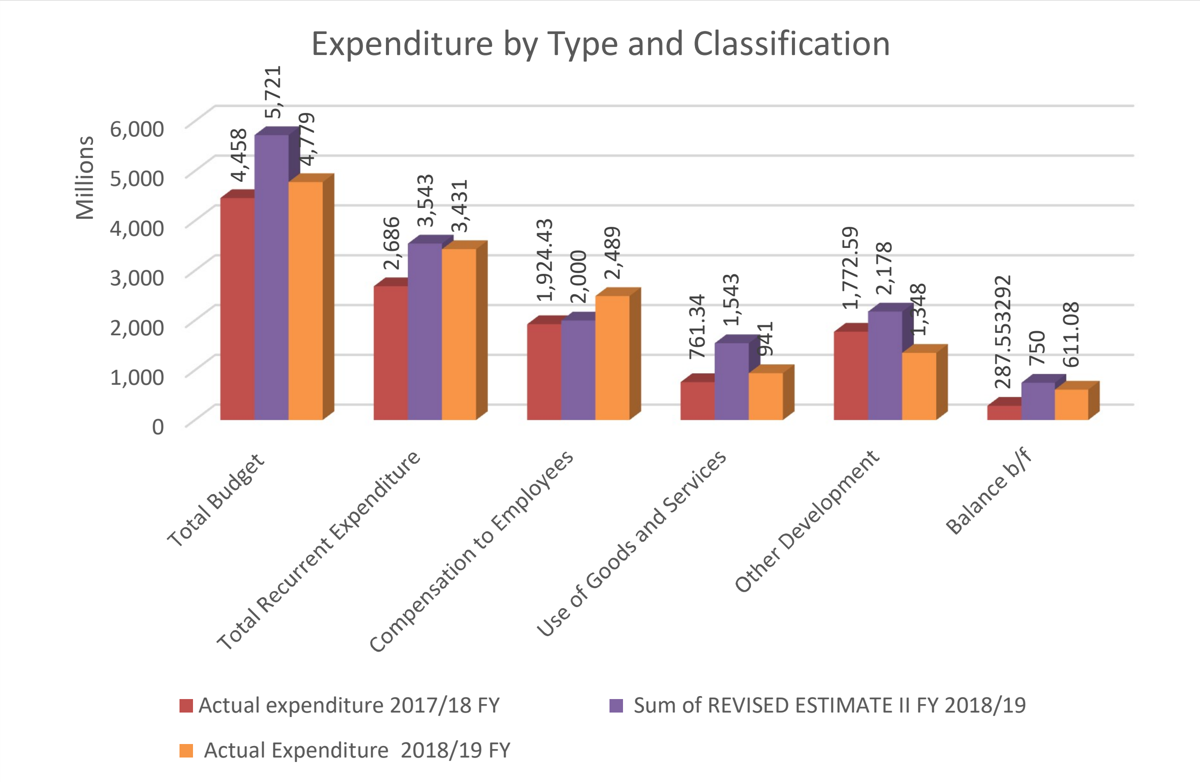

Figure 3: Comparison of recurrent expenditure for FYs 2017/18 and 2018/19.

2.4.2 Development expenditure

The total development expenditure for FY 2018/19 was KES 1,348 million representing 38.1 per cent reduction compared expenditure of KES 2,178 million for FY 2018/19.

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

DESCIPTION	Sum of REVISED ESTIMATE II FY 2018/19	Actual expenditure 2018/19 FY
A. Total Budget [1+2]	**5,720,995,703.00**	**4,778,808,329.00**
1.0 Total Recurrent Expenditure	**3,542,938,295.00**	**3,430,640,693.00**
1.1 Compensation to Employees	2,000,335,329.00	2,489,300,500.00
1.2 Use of Goods and Services	1,542,602,966.00	941,340,193.00
2.0 Total Capital Expenditure	**2,178,057,408.00**	**1,348,167,636.00**
2.1 Other Development	2,178,057,408.00	**1,348,167,636.00**
Financed by:		
B. Total Revenue	**5,721,000,703.00**	**4,873,932,327.00**
3.1 Equitable Share	3,642,400,000.00	3,642,400,000.00
3.2 County Own Revenue [CORe]	300,000,000.00	242,951,703.00
3.3 Conditional Grants	1,028,669,464.00	377,500,608.00
3.4 Balance b/f	749,931,239.00	611,080,016.00
C. Net Financing [B-A]	-	95,123,998.00

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

SECTOR	MINISTE RIAL DEPARTMENTS	C-FSP 2018			BUDGET ALLOCATION 2018/19			Cumulative Expenditure 2018/19			Absorption	Deviation (%)
		REC	DEV	TOTAL	REC	DEV	TOTAL	REC	DEV	TOTAL	(%)	CFSP - BUDGET
PUBLIC ADMIN.	Governor's Office	136,428,186	-	136,428,186	161,204,486	**0**	161,204,486	150,375,517	0	150,375,517	93.28%	-10.22%
	Finance and Economic Planning	117,543,973	-	117,543,973	311,223,804	234,124,808	545,348,612	237,518,983	163,986,117	401,505,100	73.62%	-241.58%
	County Public Service Board	12,461,528	0	12,461,528	12,276,528	0	12,276,528	2,591,200	0	2,591,200	21.11%	79.21%
	Administration and Public Service	283,209,679	0	283,209,679	298,814,148	0	298,814,148	266,159,987	0	266,159,987	89.07%	6.02%
	County Assembly	309,000,000	100,000,000	409,000,000	352,000,000	17,000,000	369,000,000	351,999,598	0	351,999,598	95.39%	13.94%
	SUB-TOTALS	**858,643,366**	**100,000,000**	**958,643,366**	**1,135,518,966**	**251,124,808**	**1,386,643,774**	**1,008,645,285**	**163,986,117**	**1,172,631,402**	84.57%	-22.32%
ENERGY AND ICT	Energy and ICT	28562576	20,000,000	48,562,576	32,307,576	24,000,000	56,307,576	31,721,206	23,945,320	55,666,526	98.86%	-14.63%
	SUB-TOTALS	**28562576**	**20000000**	**48562576**	**32307576**	**24000000**	**56307576**	**31721206**	**23945320**	**55666526**	98.86%	-14.63%
INFRASTRUCTURE	Roads, Transport and Infrastructure	38,238,098	553,750,000	591,988,098	49,892,648	783,242,600	833,135,248	42,159,987	480,886,541	523,046,528	62.78%	11.65%
	SUB-TOTALS	**38,238,098**	**553,750,000**	**591,988,098**	**49,892,648**	**783,242,600**	**833,135,248**	**42,159,987**	**480,886,541**	**523,046,528**	62.78%	11.65%
HEALTH	Medical Services	1,517,679,881	171,000,000	1,688,679,881	1,550,879,881	293,700,000	1,844,579,881	1,756,078,954	200,885,559	1,956,964,513	106.09%	-15.89%
	Public Health and Sanitation	61487119	0	61487119	54,235,119	0	54,235,119	24,620,210	0	24,620,210	45.40%	59.96%
	SUB-TOTALS	**1,579,167,000**	**171,000,000**	**1,750,167,000**	**1,605,115,000**	**293,700,000**	**1,898,815,000**	**1,780,699,164**	**200,885,559**	**1,981,584,723**	104.36%	-13.22%
EDUCATION	Youth, Sports, Culture and Tourism	48016113	28000000	76016113	52,316,788	41,000,000	93,316,788	40,274,074	11453089	51,727,163	55.43%	31.95%
	Education and Vocation Training	192,900,503	82,500,000	275400503	229,918,891	107,590,000	337,508,891	177,484,249	26,586,280	204,070,529	60.46%	25.90%
	SUB-TOTALS	**240,916,616**	**110,500,000**	**351,416,616**	**282,235,679**	**148,590,000**	**430,825,679**	**217,758,323**	**38,039,369**	**255,797,692**	59.37%	27.21%
GENERAL ECONOMIC	Trade, Industry and Cooperatives	106,648,168	71,500,000	178,148,168	94,204,962	0	94,204,962	92,045,064	0	92,045,064	97.71%	48.33%
	SUB-TOTALS	**106,648,168**	**71,500,000**	**178,148,168**	**94,204,962**	**0**	**94,204,962**	**92,045,064**	**0**	**92,045,064**	97.71%	48.33%
AGRICULTURE	Agriculture	106,508,325	209,000,000	315,508,325	104,926,250	219,000,000	323,926,250	92,578,082	106,076,754	198,654,836	61.33%	37.04%
	Livestock and Fisheries	71904994	42000000	113,904,994	69,452,994	53000000	122,452,994	58,615,137	44709767	103,324,904	84.38%	9.29%
	Lands, Physical Planning and Urban	90,184,271	71,000,000	161,184,271	121,397,690	208,400,000	329,797,690	62,851,134	157,332,925	220,184,059	66.76%	-36.60%
	SUB-TOTALS	**268,597,590**	**322,000,000**	**590,597,590**	**295,776,934**	**480,400,000**	**776,176,934**	**214,044,353**	**308,119,446**	**522,163,799**	67.27%	11.59%
ENVIRONMENT AND NATURAL RESOURCES	Environment and Natural Resources	8,885,406	52,000,000	60,885,406	990,000	35,000,000	35,990,000	715,300	35,000,000	35,715,300	99.24%	41.34%
	Water Services and Irrigation	51,576,530	170,000,000	221,576,530	46,896,530	162,000,000	208,896,530	42,852,011	97,305,284	140,157,295	67.09%	36.75%
	SUB-TOTALS	**60,461,936**	**222,000,000**	**282,461,936**	**47,886,530**	**197,000,000**	**244,886,530**	**43,567,311**	**132,305,284**	**175,872,595**	71.82%	37.74%
	GRAND TOTAL	**3,181,235,350**	**1,570,750,000**	**4,751,985,350**	**3,542,938,295**	**2,178,057,408**	**5,720,995,703**	**3,430,640,693**	**1,348,167,636**	**4,778,808,329**	83.53%	-0.56%

2.4.5 Implications for the FY 2018/19 performance

The performance in the FY 2018/19 affected the financial objectives set out in the County Fiscal Strategy Paper 2018 in the following ways:

(i) That the CORe base has changed from KES 179 Million projected in FY 2017/18 to KES 243 Million realized in FY 2018/19 and a higher target of KES 250 million projected in FY 2019/20. This upward trend can be sustained if more stringent measures are put in place to achieve a higher projection in the FY 2020/21 of KES 280.0 million and MTEF target of KES 308 million.

(ii) That development absorption rates by County departments were above average (64%). The absorption rate couldn't be 100% as a result of government bureaucracies (late release of funds), lack of proper and advance cash flow planning, inadequate project implementation monitoring and non-adherence to the procurement plans. To overcome this there is need for capacity building among administrative officers including CECs, Chief Officers and Directors on project management, good cash flow management practices such as adoption of Authority to Incur Expenditure (AIEs) quota system and the County Treasury to consider advance payments; and

(iii) That the expenditure on personnel emoluments was (46.9%) 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. Such austerity measures on human resource management were proposed in the March 2019 report by Ad-Hoc Committee on Wage-bill Mitigation.

Given the above deviations, the revision of revenues and expenditure ceilings for FY 2019/20 and medium term will be based on the revised macroeconomic assumptions and be affirmed in the County Fiscal Strategy Paper 2020. The County Government will not deviate from other 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.

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 programs that has consequently led to improving the lives of the citizens.

Kenya's economic growth has remained strong and resilient at an average growth of over 5% GDP growth over the last five years and projected to be 5.7% in 2019 and 6.1% in 2020 according to Kenya Economic Update report by World Bank. This is due to investments in agricultural and manufacturing activities underpinned by increased investor confidence, increasing exports and balance of payments, strong service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business confidence. Agricultural sector contribution to GDP remains resilient amidst threats of drought resulting from erratic weather conditions witnessed in 2018 with Kenya Meteorological Department predicting that it is expected that most parts of Kenya will experience enhanced (above average) rainfall in the forthcoming 'short rains' in the months of October-November 2019 that will be well distributed both in time and space.

The MTP III which focuses on delivering the "Big Four" initiatives thus increase real GDP annual growth from an average of 5.5 per cent achieved over the 2013-2017 period to 5.9 percent in FY 2018/19, 6.2 percent in 2019/20 and 7 per cent by end of the Plan period. Savings and Investments as a percentage of GDP are targeted to increase from 18.8 per cent to 23.2 per cent and 24.4 per cent to 27.2 per cent respectively in order to support higher economic growth and development and create over 6.5 million jobs.

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 be built 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 to public places 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 Recent Economic Developments

Global growth is projected to slow down to 3.2 percent in 2019 from 3.6 percent in 2018. This is occasioned by a weakening growth rate in both the advance and emerging market economies. This will pick up to 3.5 percent in 2020.

Growth in the advanced economics is expected to ease to 1.9 percent in 2019 and further to 1.7percent in 2020from 2.2percent in 2018 mainly due to trade tensions between the U.S. and China, subdued investment and demand, uncertainty in Brexit negotiations as well as the pace of normalization of monetary policy in the advanced economies.

Emerging economies is expected to grow at 4.1 percent in 2019 and 4.7 percent in 2020 from 4.5 percent in 2018 reflecting offsetting developments as growth moderates to a sustainable pace in China while it improves in India (7.2 percent in 2020 from 7.0 percent in 2019) and other economies.

The potential risks to the above entails downside trade and political tensions, prolonged uncertainty regarding Brexit negotiations, trade war between United States and China, financial market volatility, monetary policy normalization, political uncertainties and geopolitics in the Middle East and some countries in the sub- Saharan Africa region.

3.1.1 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 journey to transform Tharaka Nithi into a thriving, industrialized County whose people are inspired to achieve tremendous progress is steadily being realized. The relatively small geographical spread has ensured that development touches all corners of this great County.

Over the last two years, there has been tremendous progress and extraordinary success has been achieved despite facing numerous challenges. The clarion call to transform the lives of the people by unlocking the county's great potential is still on.

Socio-economic developments to improve the living standards of the people in line with the Sustainable Development Goals (SDGs) and Vision 2030 has been progressively achieved.

Improvement of the road network in the county is a true testimony that Devolution is working. The County department of roads prioritized the improvement of infrastructure each year. The county embarked on providing modern roads, bus parks, boda boda sheds, bridges and footbridges to the people of Tharaka Nithi. Heavy investment in the upgrading of roads to bitumen standards have been made since August 2017 to date leading to improvement of more than 10 kilometres of roads throughout the county, including ongoing works at Kathwana Municipality, Mitheru-Kaanwa road, Tunyai-Nthaara road and Kambandi-Chera-Ruguti road. The County has initiated tarmacking, gravelling, muramming, grading and maintenance of various roads.

More so, in order to ease the movement of people and goods to spur intra county trade, the County has progressively provided for the improvement of access roads in urban areas and markets. It is therefore important to note that the County Government is tarmacking 44 kilometers of roads which include:

a) Chogoria town roads
b) Tunyai-Nthaara road
c) Mitheru-Kaanwa road
d) Kambandi-Chera-Ruguti road
e) Kibugua town roads with Phase I complete
f) Kathwana[1] Town Roads with Phase I already complete.

In addition, the government has successfully marramed and graveled over 200 kilometers, opened-up and rehabilitated ward roads. This has been facilitated by acquisition of heavy road machinery which include excavator, graders, tippers, low-loader, roller and dozer

Energy and ICT being an enabler, all projects undertaken by the department are to ensure that service delivery is efficient, effective, timely and consistent to spur socio-economic growth.

There has been need to ensure accountability and increased productivity of employees working for the County Government. Consequently, the County has setup biometric system in over 120 stations across the county and all county employees have been registered and are

[1] Kathwana Town roads are being tarmacked under the Kenya Urban Support Programme (KUSP).

required to clock in and out of their work stations. In this regard, a reduction of absenteeism, ghost workers and streamlined service delivery in the public service has been realized.

To ensure smooth running of the hospitals and increased efficiency and productivity the County Government has deployed a Hospital Management and Information System in the three main hospitals: **Chuka, Magutuni** and **Marimanti**. This has enabled the hospitals to deliver expedient and efficient care, standardize their operations, minimize waiting times for the patients and improve patient data management. We have also ensured better inventory management through improved monitoring to manage wastage, shortage and pilferage.

In order to keep track of its fleet in a cost effective and efficient manner, the county vehicles have been fitted with fleet tracking and management system. As a result, it has managed to minimize operational costs by keeping track of fuel usage and motor vehicle routine maintenance.

The National Government has prioritized a 100% electricity connectivity to all households through the Last Mile programme. In this regard, the County government in partnership with the Rural Electrification Authority (REA) has recently facilitated the electrification of **Ruungu** and **Kathangacini** Markets among other public facilities such as markets, health centers and schools under consideration. These facilities serve as community connection points bringing previously off-grid homes and businesses within the close reach of national grid.

The department of Lands, physical planning & urban development has created an enabling business environment for the traders. To achieve this, the County has constructed modern market stalls at Chogoria and Chuka towns. The county has also constructed Chuka open air market, Kathangacini, Kaare, and Tunyai modern markets. Further, the process of finalizing construction of more modern markets at Kaanwa, Nkondi, Magutuni and Itugururu is on course.

In pursuit of enhancing economic activities and to improve security for the small and medium scale traders, the department has installed floodlights in various market centres such as Cheera, Magundu, Nturiri, Muthenge, Kathangacini, Ruungu, Kibung'a among others.

Solid waste management is a problem not only in Kenya but also across the globe. This has been exuberated by increasing e-waste and use of non-biodegradable materials. In combating this problem, tremendous efforts to employ modern technologies like incineration which has considerably helped the county to effectively manage its solid waste. Some of the interventions in solid waste collection and aggregation include acquisition of a skip loader, skips and litter bins.

Kathwana Municipality requires improvement of basic infrastructure such as sewerage, affordable and decent houses, urban roads and portable water in order to achieve the vibrancy that should come with a county headquarter.

The county government is mandated by the Constitution to provide pre-primary education and vocational training. In this regard, the department of education and vocational training has embarked on constructing five (5) Early Childhood Development Education (ECDE) classes in every ward annually targeting three thousand one hundred fifty (3150) children. To address the staffing needs, the County government so far has engaged 449 ECDE care givers.

In order to embrace the new national curriculum, the 449 ECDE care givers have been trained on the competence based curriculum. Additionally, the County has printed branded *skill grow series* book for ECDE syllabus (competence based curriculum), approved by Kenya Institute of Curriculum Development (KICD) from Kenya Literature Bureau (KLB).

The County has endeavored to strengthen the market oriented courses taken in our polytechnics to make them more responsive and functional to enable the graduates of the polytechnics to start business and positively contribute to the labour market with more innovative and creative ways. Over the last two years the County Government has undertaken development programmes to revamp the polytechnics by rehabilitating and equipping them. Consequently, there has been an upward trend in the number of trainees' enrolment from 600 in 2017 to 900 in 2019.

The county is committed to develop talents and boost sporting activities in the county thus harnessing the untapped talent, creating a cohesive society and ultimately promoting national unity. In this regard, construction of Marimanti (Nyangumi), Kathwana and Kairuni stadia where people can gather for sports and other leisure activities is almost complete.

The County government has ensured that it covers all the issues affecting people gifted differently. Social services sub-sector has procured and distributed wheelchairs and other assistive devices that have significantly improved the lives of those who previously could not afford them.

In FY 2017/18 the county total revenue basket was KES 4.46 billion which rose to KES 5.72 billion in the FY 2018/19 representing a 28.3 percent increase.

In FY 2017/18, the total amount of County Own Revenue collected was KES 143.0 million, an increase of 81 percent from KES 79.0 million realized in FY 2016/17. In the FY 2018/19, the total County Own Revenue collected rose to KES 242.9 million, an increase of 67.7 percent from FY 2017/18.

This upward trend in County Own Source Revenue collection is attributed to well-coordinated enforcement, effective supervision, staff reorganization and automation of revenue collection hence minimizing pilferage.

The County government has instituted and operationalized laws to streamline revenue collection such as Finance Act 2018, Enforcement Act 2016 and Liquor Regulations of 2018.

Going forward, mechanisms such as improvement of oversight along CESS collection points are bound to yield results and prevent incidences of non-compliance from those remitting the charges in every part of the county. The County has installed CCTV cameras for surveillance in key CESS collection points to improve enforcement and coordination efforts in revenue administration.

Access to quality and affordable health care services is critical to the social well-being of our society and one of the fundamental responsibilities of any government. Tharaka Nithi County Government is committed to offer world class health care services to its residents. To achieve this, the County government is focusing on standardizing and equipping the existing facilities as well as strengthening the county referral system.

In the last two years, numerous projects have been initiated including up scaling Chuka Level IV Hospital to a fully-fledged County Referral Hospital with the aim of getting Level V accreditation. The County is also upgrading Magutuni, Marimanti, and Kibung'a Level IV hospitals, 5 health centers and 18 dispensaries in order to offer the highest attainable standard of healthcare services. The County Government has partnered with Kenya Medical Training College (KMTC) Board towards construction of a tuition block within Chuka Referral Hospital. This will increase the number of health care practitioners training within the county which goes a long way in easing the burden of health care provision.

The key flagship projects in the health department include construction of an outpatient block at Chuka and Marimanti hospitals, installation of Computerized Tomography (CT) scan at Chuka hospital, modern laboratory and theatre at Magutuni hospital, maternity ward at Chuka hospital, radiology and dental unit at Kibung'a hospital and pathology unit at Marimanti hospital. This has improved access to health care whereby in the year 2018, Seven thousand Eight hundred Thirty-Six (7,836) deliveries were done in the health facilities compared to a target of ten thousand six hundred forty four (10,664) deliveries in the same year.

The County is also extending specialized services to boost the value of services offered in level II and level III health facilities to cater for special needs, for instance the dental unit at Nkangani in Ganga ward.

In order to streamline and improve referral services in the County, two state of the art ambulances have been procured and the County is in the process of acquiring a third one. This will ensure timely referral of patients. To solidify the commitments to improve healthcare, the health department has consistently been allocated sufficient funds for the procurement of medical supplies and commodities.

Food and nutrition security remains a key pillar of the Kenya Vision 2030 and Big Four Agenda. Consequently, agriculture forms the backbone of the Kenyan economy contributing to over 70 percent of the workforce and 25 percent of the annual GDP.

In Tharaka Nithi County, agriculture forms a proportion of about 60 percent of the county economic activities. In this regard new and innovative initiatives that will lead to 100% food security include increasing acreage under food production, increased irrigated agriculture, deployment of better post-harvest technologies, support to small holder farming, redesigning the subsidy model and elimination of multiple levies to farmers.

The county has continued to provide reforms in agriculture sector focused on improving both crop and animal productivity. Key among them are extension services, capital infrastructure projects and capacity building. Notably, the county has facilitated the provision of certified farm inputs and materials under the county subsidized arrangements. The inputs provided include seeds, fertilizer and chemicals especially during the fall army worm invasion. The national government through the National Cereals and Produce Board (NCPB) for complementing our efforts by availing 140,600 bags of planting and 96,550 bags of top dressing subsidized fertilizers this year. The County Government has constructed a cereal storage facility at Mukothima to address the post-harvest loses among our farmers.

The agriculture sector is currently facing a myriad of challenges key among them climate change effects. This has brought about unpredictable weather patterns, increased animal and plant pests and disease leading to delayed planting, crop failure and diminishing returns and a severe threat to food security in the county. It's no doubt that we must adopt the necessary measures to combat the challenges and avert the imminent disaster and cushion our people. One of the measures the County is implementing to address these challenges is irrigation expansion. This will reduce over-dependence on rain fed agriculture. The County has also prioritized implementation of the policies, programmes and projects under ending drought emergencies initiative.

To empower farmers through training programmes, the County has constructed an Agricultural Training Institute (ATI) at Itugururu in Igambang'ombe.

The County is also promoting enterprise diversification to cushion farmers from loses resulting from specialization. Model farms have been established to disseminate new technologies and best practices of agriculture. This involves promotion of integrated farming such as horticulture farming, bee keeping and promotion of drought resistant crops.

Tea and Coffee are the major cash crops in our county. However, coffee production has been adversely affected by the coffee rust epidemic. To address this, we have carried out interventions towards the management of the disease that affected about 3,000 acres of coffee in the county. The infestation level which was at 30 percent was brought down to below 13 percent. In view of this, there's need for all stakeholders in coffee value chain to collaborate in finding a lasting solution to the problem because the disease continues to pause a threat to this income generating crop for our people.

In order to reap more benefits from coffee, we need to support entrepreneurship within the sub-sector like the Tharaka Nithi Coffee Mill at Mitheru has installed a coffee mill that will have the coffee roasted and milled for packaging thus attracting better prices for the farmers. In addition, the County Government is going to support coffee societies in rehabilitating coffee factories to ensure improved drying quality and KES10 million has been set aside this financial year 2019/2020 for this programme.

Working in partnership with Kenya Tea Development Authority (KTDA), the County government through Weru Tea Factory, is in a programme of rehabilitating all tea buying centres to improve quality of tea by minimizing losses through contamination and handling at buying centres.

Livestock rearing is a very important sub-sector in the county as it is a key economic activity for most households in the lower ecological zones of our county. Most of the farmers from Tharaka South, Tharaka North and Igambang'ombe rely much on livestock rearing. The sector equally faces several challenges, key among them being livestock diseases and low prices for the animals. Some of notable livestock disease in the county include: anthrax, ringworms, foot and mouth diseases, rinderpest and tick fever among others. In the recent past, the county has experienced disease outbreaks which have called for timely response in order to prevent further loses. In view of this, the County is building a veterinary laboratory in Marimanti which will provide diagnostic medical testing for infectious, toxins and other causes of disease in animal diagnostic samples.

Dairy farming plays a significant role in meeting the economic goals in our development agenda. County government has embraced new innovations and technologies such as dairy improvement through artificial insemination (A.I), supporting of small scale dairy processing plants in value additions and setting up of milk cooling plants in partnership with National Government at Nturiri, Mugumango, Kibugua, Karamani among others. The County Government in collaboration with Kenya Genetic Resources Centre is going to open a sub-centre at Chuka in order to increase accessibility and availability of quality semen, nitrogen and other AI related services at affordable prices. This is in addition to 17 extension officers being employed with each ward getting at least one AI professional. The AI programme will lower the prices of ordinary semen from KES 1,200 to KES 200 while the sexed semen will now cost KES 4,000 from KES 7,000.

In addition, the County Government has also partnered with Muthiru Dairy in supply of subsidized animal feeds which shall be accessed through the 26 milk cooling plants. The price of dairy meal will be lowered from current KES 2,400 to KES 1,850 for a 70 kg bag. This will not only increase the average yield per cow but also set us rolling for the next step of milk processing. Currently, the County Government has advised the milk aggregators to embrace micro-processing at individual cooling plants as County Government embarks on boosting feasibility studies that will culminate in establishment of a milk processing plant. Therefore, this project is aimed at addressing the current milk marketing challenges as well as increasing the value addition of milk and other dairy products.

Provision of clean and safe water to our people is a constitutional right and a key priority of the government. Water supply in this county has been a monumental challenge and the government has initiated various sustainable programmes that will solve the problem. We are working on protecting our water towers through environmental protection efforts which include planting of six (6) million trees to increase forest cover, protection of water catchments including Mt Kenya forest that is the source of rivers Mutonga, Thuci and others, riparian areas and conservation of forests.

The County has supported various irrigation and domestic water projects in addition to other projects funded by our development partners. Such key projects include Chiakamakama water project which is aimed at addressing the perennial water shortages at Chiakariga market, Mwonge Water Range Project in Magumoni, Kathwana water treatment plant in Igambang'ombe, Murugi-Mugumango in Ganga, Kibung'a-Gakimiki and Marimanti-Maragwa water projects where residents already are enjoying the benefits of piped water in addition to rehabilitation of existing rock water catchments and construction of several earth dams among others.

The County has rehabilitated and installed solar pumping systems in more than 15 boreholes and established water kiosks within the proximity of supply to save residents the long journeys to the water points. There is also acquisition of a drilling rig with state of the art technology to accurately measure water availability in quantity, quality and depth before starting the drilling process. The cost of drilling will come down from about KES 2.5 million to only about KES 300,000. Consequently, the water department has a plan of drilling 200 boreholes in the next 5 years. In addition, we have also acquired a water bowser to be used in water tracking especially during the times we are experiencing drought. As part of efforts to ensure food security, the county will continue to increase the land under irrigation and reduce over reliance on rain fed agriculture. Recently, we have experienced massive crop failure due to the erratic weather patterns and this calls for urgent remedial measures as climate change becomes more pronounced. Given these realities, we have provided in FY 2019/20 budget KES 52.25 million to small holder irrigation programs. Going forward, we hope that the national government will actualize the plans to construct the High Grand Falls dam and the Mount Kenya High capacity dam which will provide sufficient water for irrigation.

3.2 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.

In FY 2017/18 the county total revenue basket was KES 4.46 billion which rose to KES 5.72 billion in the FY 2018/19 representing a 28.3 percent increase.

In FY 2017/18, the total amount of County Own Revenue collected was KES143.0 million, an increase of 81 percent from KES 79.0 million realized in FY 2016/17. In the FY 2018/19, the total County Own Revenue collected rose to KES 242.9 million, an increase of 67.7 percent from FY 2017/18.

This upward trend in County Own Source Revenue collection is attributed to well-coordinated enforcement, effective supervision, staff reorganization and automation of revenue collection hence minimizing pilferage. County own revenue targets for FY 2019/20 is KES. 250M, 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.

3.3 Medium Term Fiscal Framework

The 2020/21 Budget is prepared against the background of a weakening global economy; Growth projected to slowdown from 3.6% in 2018 to 3.2% in 2019.

Global growth is projected to slow down to 3.2% in 2019 from 3.6% in 2018 occasioned by a weakening growth rate in both the advanced and emerging market economies. This will pick up to 3.5% in 2020.

In Advanced economies growth is expected to ease to 1.9% in 2019 and further to 1.7% in 2020 from 2.2% in 2018 mainly due to trade tensions between the U.S. and China, subdued investment and demand, uncertainty in Brexit negotiations as well as the pace of normalization of monetary policy in the advanced economies.

The emerging economies are expected to grow at 4.1% in 2019 and 4.7% in 2020 from 4.5% in 2018, reflecting offsetting developments as growth moderates to a sustainable pace in China, while it improves in India (7.2% in 2020 from 7.0% in 2019) and other economies.

The macroeconomic stability experienced in 2018-19 has spilled into the better part of 2019 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 current account deficit narrowed to 3.8% of GDP in June 2019, from 5.4% in June 2018.The current account deficit is expected at 4.5 percent of GDP in 2019 from 5.0 percent in 2018.The Kenya Shilling is expected to be stable in 2019 on account of a narrower current account deficit and resilient foreign exchange inflows. The stability reflected strong inflows from tea and horticulture exports, diaspora remittances and tourism receipts.

For three consecutive years (2016, 2017 and 2018), Kenya emerged at position three in the ease of doing business in sub-Saharan Africa and among the top ten most reformed countries in the world. Improving business environment will continue to attract investors into the country. Today, Kenya is a top investment destination in the world. Therefore, throughout this favorable global business environment will boost the macro economy of Tharaka-Nithi County.

The 2020/21 to 2022/23 Medium Term fiscal budget will continue to provide enabling environment for the private sector to thrive by preserving macroeconomics stability; expanding infrastructure; improving security; business regulatory reforms; expanding access to finance and instituting government reforms so as to achieve “The Big Four Agenda” the county government will also support higher levels of value addition in domestically produced goods, strengthen the fight against corruption and counterfeits, enhance the use of public procurement to promote buy Kenya Build Kenya Initiative and support micro, small and medium Enterprises (MSME) sector.

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 2017/18, the ratio of development to recurrent expenditure was 32 percent to 68 percent while in 2018/19, the ratio was 30.27 percent to 69.73 percent. This decreasing performance can be attributed to increasing wage-bill pressures as more and more employees get employed to fill existing technical capacities and increasing agitations from trade unions for higher pay. Thus said, 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 unsettled debts to suppliers of goods and services amounting to KES 565.8 million as at 30th June 2019. This continues to be great threat to the county fiscal stability. The committee on pending bills recommended payment amounting to KES 728 million to suppliers in March 2018. Upon further analysis, it was realized that KES 316 million had been paid. The balance of KES 412 million was to be budgeted for in subsequent periods. The current pending bills amount to KES 118 million for FY 2017/18 after KES 167.0 million was paid out during the financial year.

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.

3.4 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: Increased volatility in the global financial markets due to tensions between the U.S. and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit, and the pace of normalization of monetary policy in the advanced economies. Uneven and sluggish growth in advanced and emerging market economies as well as impact of low commodity prices on our exports.

The repeat election of October 2017 culminated to financial uncertainty in the subsequent 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 recovery from prolonged electioneering period has strained both fiscal position of the county and project implementation as some of the key sectors are yet to recover to their full functionalities.

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 has 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 5.6 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 4.7%, drought in the 1st half of the financial year, experienced rain 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. Corruption cases such as, Kimwerer and Arror dam scandal, sugar scandal, tax free maize scandal, Kenya Pipeline and KPLC 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 KES 5.1 trillion; domestic at KES 2.54 trillion and external debt amounting to KES 2.61 trillion. 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 (KES 565.0 million) is expected to drain resources available for programmes and projects scheduled for this FY 2019/20. During 2018/19, 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.

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 (2019-2020) budget;
b) The medium term expenditure framework for 2020/21– 2022/23 FYs;
c) Proposed (2020-21) budget framework; and
d) Projected fiscal balance and likely financing.

4.1 Adjustment to the Proposed 2019/20 Budget

Considering the recent economic developments outlined earlier in the review of FY 2018/19 budget and the changes in the outlook discussed: the significant weakening of the Kenyan shilling against the Euro, Dollar, Sterling Pound and slower economic growth, we expect the changing microeconomic environment to affect negatively the implementation of FY 2019/20 budgets. The continuing national debate on vertical distribution of revenue between County Governments and National Government and Constitutional Referendum debates are likely to affect the equitable share of domestically collected national revenue that trickles to the counties. However, the results of these constitutional processes might take longer and are not likely to have immediate impact on the current FY 2019/20.

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 2019/20 budget will take into account actual performance of departments so far and absorption capacity in the previous financial year 2018/19. 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 2019/20 ending 30th June, 2019.

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 KES 250 million in FY 2019/20 and KES 308.0 million in the end of MTEF. 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 enforcement to ensure timely payments of fees and charges.

4.1.1 Medium Term Expenditure Framework

The county government, over the medium term, will allocate adequate resources to the County's priority sectors since their contribution to the county economy and its economic growth is noteworthy. Efficiency is a key aspect when it comes to the maximum use of the available resources. To pursue efficiency; the county government will monitor, evaluate and oversee allocation, re-allocation and management of the public finances.

The following table summarizes specific activities that require significant increments in allocations:

Sector	Interventions
Health	1. Salaries and wages 2. Cost share in universal health care 3. New equipment & increased operations costs 4. Pharmaceuticals and non-pharmaceuticals supplies 5. Automate services in more health facilities 6. Community health care services 7. Pending promotions
Agriculture	1. Extension services 2. Development of farmers Capacities 3. Offering high quality farm inputs 4. Constructing, improving and modernizing markets and urban centres 5. Irrigation agriculture 6. Salaries and wages for field staff
Infrastructure	1. Tarmacking more roads

Sector	Interventions
	2. Opening up, expansion and improvement of County feeder roads 3. Construction of more bridges and culverts
Education	1. Construction of ECDE Classes 2. Construction of stadiums 3. School feeding programs 4. Sports: KICOSCA, KIYSA, Darts, athletics,

Health Sector takes the biggest share (38.15%) in the 2019/20 FY since access to quality and affordable health services is a top priority and of key interest to the County Government and it is working hard to ensure that its citizens are healthy by providing efficient, effective and affordable health services. Agriculture sector follows by (14.28%) and infrastructure with (10.44%). All other sectors are contributors to the growth of the economy as well and allocations are fair and on priority basis.

4.1.2 The Proposed 2020/21 Budget Framework

The proposed budget FY 20120/21 will be rolled out amidst an updated medium term fiscal framework and economic outlook with anticipated changes in global economy driven by Brexit and increased trade wars. In addition, the general macroeconomic condition for the county is expected to be stable congruent to the national macroeconomic environment. Therefore, the envisioned resource envelope and expenditure outlook will be based on assumption of stable inflation rate, exchange rate, interest rate and other macroeconomic conditions. The expenditure ceilings for the departments will be proposed in the County Fiscal Strategy Paper 2020 to be released in February 2020 with these structural adjustments factored.

4.1.3 Revenue Projections

The projected budget for FY 2020/21 considers a total revenue of KES 5.06 billion comprising of an equitable share of KES 4.21 billion, county own revenue (CORe) of KES 280.0 million and grants of KES 639.5 million, up from KES 3.82 billion, KES 250.0 million, and KES 650.0 million respectively projected in 2019/20 FY.

The county revenue is expected to remain relatively stable with standard variation of less than KES 24.4 million from the mean of KES 274.4 million adopted for the MTEF which is approximately 5.2 percent of total projected revenue. This is 13.6 percent increase from KES 242.95 million collected in FY 2018/19 despite the numerous challenges experienced which included late approval of Finance Bill 2018. The KES 280.0 million CORe includes Appropriations – In – Aid (AIA) of KES 82.7 million targeted in the medium term from three (3) level four hospitals (Magutuni, Marimanti, Kibung'a) and our County Referral Hospital at Chuka, KES 35.0 million from CESS collections, KES 30.0 million from property and search fees, KES market charges and KES 10.0 million from liquor licensing among others.

On the other hand, the revenue resources from grants and equitable share of domestic resources are projected from the allocation by the National Government and included in the County Allocation Revenue Act 2019 adjusted for inflation where applicable. The increase in equitable share will be derived largely by increased audited revenue collected domestically by the national government, review of policies on sharing formula, and increasing pressures to have the National Government devolve more funds to county governments by the Senate and the Council of Governors. The increase in both conditional and non-conditional grants will be based on increasing and strengthening capacity of Council of Governors to mobilize resources from development partners and own county initiatives such as mobilization efforts targeting Sustainable Urban Economic Development Programme (SUED) and Climate Change Fund among others.

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 that optimize personnel costs, operation costs and sealing revenue wastages. Therefore, continued enhancement and operationalization of electronic revenue collection system in FY 2020/21 will ensure that the County Government realizes the revenue target of KES 280.0 million against the actual revenue collection of KES 242.95 million in FY 2018/19 up from KES 147.0 million collected in FY 2017/18. The Own Source Revenue collection over the last three years shows an upward trend resulting from structural reforms in the department of revenue as well as improvement enforcement.

Figure 4 shows the revenue performance and the projections over the medium term.

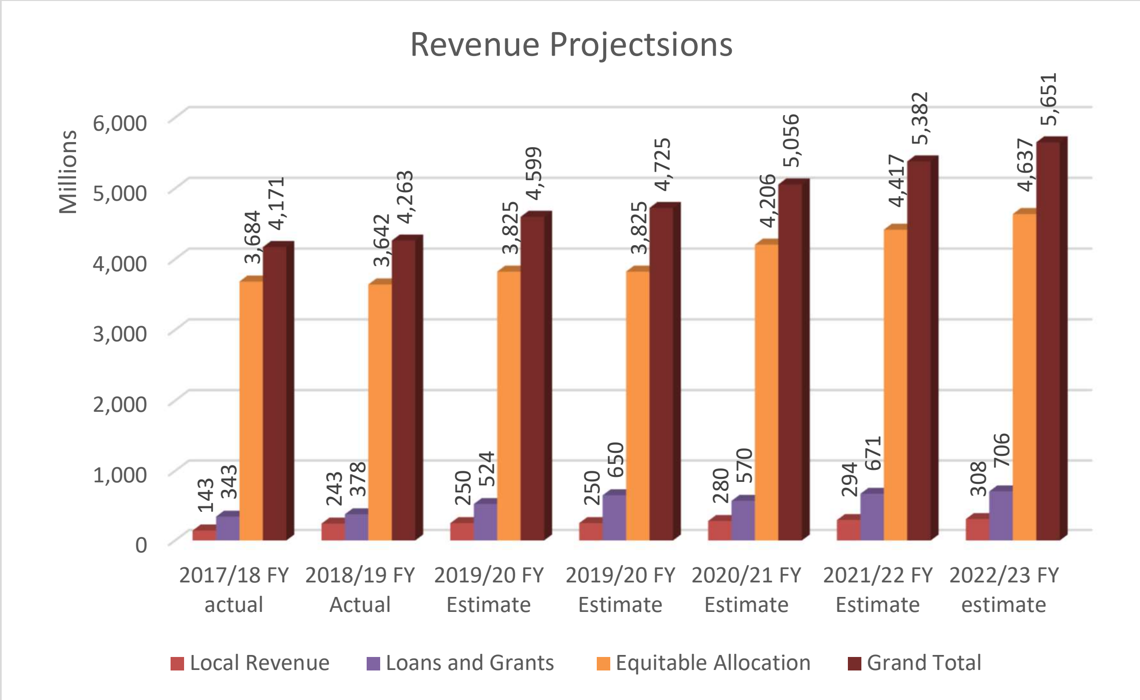

Figure 4: Revenue Projections

Figure 4 shows that there is significant increase in revenue collection from KES 147.1 million in realized in FY 2017/18 to KES 242.95 million collected in FY 2018/19. This trend is expected to be maintained in the medium term.

The revenue and expenditure projections in the medium term are as shown in the Table 5.

Table 5 : Revenue and Expenditure Projections

Description	2017/18 FY	2018/19 FY		2019/20 FY		2020/21 FY		2021/22 FY		2022/23 FY
	Actual	Budget	Actual	Budget	CBROP 2018	CFSP 2019	CBROP 2019	CFSP 2019	CBROP 2019	CBROP 2019
TOTAL REVENUE & GRANTS	4,170,805,218	4,971,069,464	4,262,852,311	4,598,547,997	4,724,520,000	5,114,429,383	5,125,897,353	5,558,737,353	5,382,192,221	5,651,301,832
Unspent Bal b/f \Previous FY	287,553,292	749,931,239	611,080,016	167,607,425	-	-	-	-	-	-
Revenue (Total)	**4,458,358,510**	**5,721,000,703**	**4,873,932,327**	**4,766,155,422**	**4,724,520,000**	**5,114,429,383**	**5,125,897,353**	**5,558,737,353**	**5,382,192,221**	**5,651,301,832**
Equitable Share Allocation	3,684,400,000	3,642,400,000	3,642,400,000	3,824,520,000	3,824,520,000	4,206,972,000	4,206,390,000	4,651,240,000	4,416,709,500	4,637,115,000
Local Revenue	143,314,734	300,000,000	242,951,703	250,000,000	250,000,000	230,000,000	280,000,000	230,000,000	294,000,000	308,000,000
Grant income	343,090,484	1,028,669,464	377,500,608	524,027,997	650,000,000	677,457,383	639,507,353	677,497,353	671,482,721	706,186,832
Grand (Total)	**4,170,805,218**	**4,971,069,464**	**4,262,852,311**	**4,598,547,997**	**4,724,520,000**	**5,114,429,383**	**5,125,897,353**	**5,558,737,353**	**5,382,192,221**	**5,651,301,832**
Total Expenditure	**4,458,358,510**	**5,721,000,703**	**4,873,932,327**	**4,766,155,422**	**4,724,520,000**	**5,114,429,383**	**5,125,897,353**	**5,558,737,353**	**5,382,192,221**	**5,651,301,832**
Recurrent	2,685,772,941	3,430,285,895	3,430,640,693	3,297,807,098	3,231,371,800	3,588,156,025	3,657,662,253	3,946,971,628	3,840,545,366	4,032,572,634
Recurrent as % of CG Total Revenue	*60%*	*60%*	*70%*	*69%*	*68%*	*70%*	*71%*	*71%*	*71%*	*71%*
Personnel Emolument	1,924,430,317	1,862,497,398	2,289,300,500	2,034,666,273	2,550,450,000	2,238,132,900	2,203,943,953	2,461,946,190	2,314,141,151	2,429,848,209
Operations & Maintenance	761,342,624	1,567,788,497	1,141,340,193	1,045,075,632	680,921,800	1,149,583,195	1,453,718,300	1,264,541,515	1,526,404,215	1,602,724,425
Personnel Emoluments as % of CG Revenue	*43%*	*33%*	*47%*	*43%*	*54%*	*44%*	*43%*	*44%*	*43%*	*43%*
Development	1,772,585,569	2,290,714,808	1,348,167,636	1,468,348,324	1,493,148,200	1,526,273,358	1,468,235,100	1,611,765,726	1,541,646,855	1,618,729,198
Development as % of CG Total Revenue	*40%*	*40%*	*28%*	*31%*	*32%*	*30%*	*29%*	*29%*	*29%*	*29%*

Unspent Bal Current FY	749,931,239		95,123,998							

4.1.4 Expenditure Forecasts

The 2020/21 FY budget has a total forecasted expenditure of KES 5.12 billion and projected total expenditure of KES 5.38 billion and KES 5.61 in FY 2021/22 and FY 2022/23 respectively. The recurrent expenditure is estimated at KES 3.66 billion compared to 3.30 billion projected in budget FY 2019/20 and KES 3.43 billion being actual expenditure incurred in FY 2018/19. The projected recurrent expenditure of KES 3.23 billion in FY 2020/21 represents 71.4 percent of total expenditure is being driven by wage bill at KES 2.20 billion, allocation to County Assembly at KES 424.0 million and KES 1.03 billion for operations costs. The need to recruit qualified staff such civil engineers, architects, quantity surveyors, environment officers, and demands for promotion of staff among others in order to spearhead technical departments has been a major driver of higher wage-bill. However, the County Treasury is advising implementation of recommendations reached by the ad-hoc committee reviewing measures on wage bill mitigation. The report proposes a staff rationalization framework that will contribute significantly to adherence to section 25(1) (b) of the Public Finance Management (County Governments) Regulations, 2015 that requires County Government expenditure on wages and salaries not to exceed 35 percent of total county revenue.

The capital expenditure for FY 2020/21 is KES 1.47 billion compared to KES 1.46 billion projected during FY 2019/20 and KES 1.35 billion incurred in FY 2018/19. The major focus of development will be universal health, infrastructure, food security and housing. The County Government investment in the medium term will prioritize completion of on-going and stalled projects such construction of out-patient block at Chuka Level IV Hospital, water reticulation programmes, development of school infrastructure such construction and equipping of ECDE classes, operationalization of completed projects such Agricultural Training Institute (ATI), Mukothima Grain Store and Marimanti Vetlab among others. The County Government will continue to strengthen public-private partnerships (PPP) in the medium term with increased financing of projects and programmes that promote private investment such upgrading of roads, enhancing access to electricity, development of water and drainage infrastructure.

Table 6 indicates the projections of expenditure in the medium term period.

Table 6: Summary of Expenditure Projections 2020/21 FY and MTEF

Expenditure Classification	Actual	Approved Budget Estimates	Projected Estimates (MTEF)		
	2018/19	2019/20	2020/21	2021/22	2022/23
Recurrent	**2,855,820,038**	**2,897,157,098**	**3,233,662,253**	**3,395,345,366**	**3,565,112,634**
Personnel Emoluments	2,289,300,500	1,916,473,003	2,203,943,953	2,314,141,151	2,429,848,209
Operations & Maintenance	938,009,172	980,684,095	1,029,718,300	1,081,204,215	1,135,264,425
Development	**1,395,664,063**	**1,468,348,324**	**1,468,235,100**	**1,541,646,855**	**1,618,729,198**
County Assembly	**351,999,598**	**400,650,000**	**424,000,000**	**445,200,000**	**467,460,000**
Un spent Bal current FY	**91,127,367**	**167,607,425**	**0**	**0**	**0**
Total	**4,873,932,327**	**4,933,762,847**	**5,125,897,353**	**5,382,192,221**	**5,651,301,832**

Table 7 illustrates the proposed budget ceilings for the MTEF period. These allocations therefore represent the preliminary and projected baseline ceilings for the proposed budget year's MTEF.

Table 7: Summary of Indicative Sector Ceilings for the MTEF Period 2020/21- 2022/23

		TOTAL EXPENDITURE KSHS						% SHARE OF TOTAL EXPENDITURE					
SECTOR	MINISTERIAL DEPARTMENTS	Revised Estimates	Actual	Estimates	Projections			Revised Estimat es	Actual	Estimat es	Projections		
		2018/19	2018/19	2019/20	2020/21	2021/22	2022/23	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23
PUBLIC ADMIN.	Governor's Office	161,204,486	150,375,517	140,986,311	153,035,627	158,046,023	165,948,324	2.82%	3.26%	2.96%	2.99%	2.94%	2.94%
	Finance and Economic Planning	545,348,612	401,505,100	262,896,200	286,041,000	300,343,050	315,360,203	9.53%	8.71%	5.52%	5.58%	5.58%	5.58%
	County Public Service Board	12,276,528	2,591,200	15,895,433	26,690,205	28,024,715	29,425,951	0.21%	0.06%	0.33%	0.52%	0.52%	0.52%
	Administration and Public Service	298,814,148	266,159,987	149,730,789	162,217,328	170,328,194	178,844,604	5.22%	5.77%	3.14%	3.16%	3.16%	3.16%
	County Assembly	369,000,000	358,738,451	410,650,000	474,000,000	506,200,000	547,460,000	6.45%	7.78%	8.62%	9.25%	9.41%	9.69%
	SUB-TOTALS	**1,386,643,774**	**1,179,370,255**	**980,158,733**	**1,101,984,160**	**1,162,941,982**	**1,237,039,082**	24.23%	25.58%	20.57%	21.50%	21.61%	21.89%
ENERGY AND ICT	Energy and ICT	56,307,576	55,666,526	52,373,455	57,238,127	59,321,734	64,789,821	0.98%	1.21%	1.10%	1.12%	1.10%	1.15%
	SUB-TOTALS	**56,307,576**	**55,666,526**	**52,373,455**	**57,238,127**	**59,321,734**	**64,789,821**	0.98%	1.21%	1.10%	1.12%	1.10%	1.15%
INFRASTRUCTURE	Roads, Transport and Infrastructure	833,135,248	570,542,955	497,608,612	512,691,780	526,394,772	535,032,129	14.56%	12.38%	10.44%	10.00%	9.78%	9.47%
	SUB-TOTALS	**833,135,248**	**570,542,955**	**497,608,612**	**512,691,780**	**526,394,772**	**535,032,129**	14.56%	12.38%	10.44%	10.00%	9.78%	9.47%
HEALTH	Medical Services	1,844,579,881	1,734,143,456	1,807,633,792	2,010,261,226	2,099,244,607	2,206,274,187	32.24%	37.62%	37.62%	39.22%	39.00%	39.04%
	Public Health and Sanitation	54,235,119	24,620,210	26,410,000	37,730,500	39,617,025	41,597,876	0.95%	0.53%	0.53%	0.74%	0.74%	0.74%
	SUB-TOTALS	**1,898,815,000**	**1,758,763,666**	**1,834,043,792**	**2,047,991,726**	**2,138,861,632**	**2,247,872,063**	33.19%	38.15%	38.15%	39.95%	39.74%	39.78%
EDUCATION	Youth, Sports, Culture and Tourism	93,316,788	51,727,163	94,847,875	106,990,269	114,979,782	121,632,771	1.63%	1.12%	1.12%	2.09%	2.14%	2.15%
	Education and Vocation Training	337,508,891	204,070,529	279,999,863	303,112,623	317,792,297	333,908,359	5.90%	4.43%	4.43%	5.91%	5.90%	5.91%
	SUB-TOTALS	**430,825,679**	**255,797,692**	**374,847,738**	**410,102,892**	**432,772,079**	**455,541,130**	7.53%	5.55%	5.55%	8.00%	8.04%	8.06%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Trade, Industry and Cooperatives	94,204,962	92,045,064	106,197,394	111,507,264	117,082,627	122,936,758	1.65%	2.00%	2.00%	2.18%	2.18%	2.18%
	SUB-TOTALS	**94,204,962**	**92,045,064**	**106,197,394**	**111,507,264**	**117,082,627**	**122,936,758**	1.65%	2.00%	2.00%	2.18%	2.18%	2.18%
AGRICULTURE	Agriculture	323,926,250	198,654,836	361,943,280	311,059,121	328,482,592	340,059,352	5.66%	4.31%	7.59%	6.07%	6.10%	6.02%
	Livestock and Fisheries Development	122,452,994	103,324,904	120,308,485	133,073,909	134,402,605	145,340,235	2.14%	2.24%	2.52%	2.60%	2.50%	2.57%
	Lands, Physical Planning and Urban Development	329,797,690	220,184,059	198,979,600	166,429,529	194,880,702	200,573,737	5.76%	4.78%	4.17%	3.25%	3.62%	3.55%
	SUB-TOTALS	**776,176,934**	**522,163,799**	**681,231,365**	**610,562,559**	**657,765,899**	**685,973,324**	13.56%	11.33%	14.28%	11.91%	12.22%	12.14%
ENVIRONMENT, WATER AND NATURAL RESOURCES	Environment and Natural Resources	35,990,000	35,715,300	70,678,633	81,262,916	87,231,062	93,500,694	0.63%	0.77%	1.48%	1.59%	1.62%	1.65%
	Water Services and Irrigation	208,896,530	140,157,295	169,015,700	192,555,929	199,820,434	208,616,831	3.65%	3.04%	3.55%	3.76%	3.71%	3.69%

	SUB-TOTALS	**244,886,530**	**175,872,595**	**239,694,333**	**273,818,845**	**287,051,496**	**302,117,525**	**4.28%**	**3.81%**	**5.03%**	**5.34%**	**5.33%**	**5.35%**
	TOTAL	**5,720,995,703**	**4,610,222,552**	**4,766,155,422**	**5,125,897,353**	**5,382,192,221**	**5,651,301,832**						

4.1.5 Projected Fiscal Balance (Deficit) and likely financing

The proposed 2020/21 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 2020/21 budget targets a recurrent expenditure of KES 3.66 billion including KES 424.0 million allocated to the County Assembly against KES 3,.31 billion estimated in FY 2019/20 and KES 3.43 billion spent in FY 2018/19. This recurrent expenditure represents 71.0 percent of total budgeted expenditure compared to 66 percent targeted FY 2019/20. However, the proportion of the recurrent expenditure to total targeted expenditure is expected to drop over the medium term as the fiscal measures capping on recurrent expenditure take effect.

The development expenditure targeted for FY 2019/20 was estimated at KES.1.46 billion which represented 34 percent of total expenditure. This figure is expected to remain relatively the same in FY 2020/21 at KES 1.47 billion but projected to increase to KES 1.62 billion in FY 2022/23 projections.

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, in the FY 2018/19 the county posted pending bills amounting to KES 565.78 million compared to KES 785.20 million for FY 2017/18. These obligations are being addressed with KES 167.01 million paid in FY 2018/19 and an elaborate mechanism established to ensure pending bills are given a first charge on the budget in subsequent years 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 KES 2.13 billion as compensation to employees representing 43.9% of total county government revenue and KES 941 million on operations in FY 2018/19. 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.

In the proposed budget for FY 2019/20, this figure remains almost the same. This is line with the CG focus on stabilizing the wage bill.

4.5 Expenditure Ceilings

The expenditure ceilings for the county departments shall be outlined in the County Fiscal Strategy Paper 2020 which will have to be strictly followed. However, the departments are advised to consider guidance provided in 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.

SECTION V: CONCLUSION

The review of implementation of FY 2018/19 budget shows that the fiscal outcome coupled with updated macroeconomic forecast advises the need for review of the financial objectives for FY 2020/21. Therefore, the reviewed expenditures reflect the real circumstances that surrounded the implementation of FY 2018/19 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 FY 2020/21

Activity	Responsibility	Deadline
1. Prepare and issue budget circular with guidelines	CEC Member for Finance	August 30th 2019
1.1 One day sensitization workshop		August 2019
2. Sector Woking Groups	County Treasury	
2.1 Launch and first meeting for SWGs and sensitization on SDGs		October 2019
2.2 Second meeting for SWGs		
Submission of projects and programmes to be implemented for FY 2019/20		14th December 2019
2.3 Third meeting for SWGs		March 2020
3. County Annual Progress Report	County Treasury (Economic Planning Department)	
3.1 Draft CAPR		15th September 2019
3.2 Validation of the CAPR		15th – 20th Sept 2019
3.3 Submission to CEC for Approval		30th September 2019
3.4 Submission to CA for Approval		21st October 2019
4. Monitoring and Evaluation	County Treasury (Economic Planning Department)	
4.1 M&E field work		September 2019 and January 2020
4.2 Annual M&E week		2nd week November 2019
5. Statistical abstract 2018	County Treasury (Economic Planning Department	
5.1 Draft		October 19
5.2 Launch		December 19
6. Development of ADPs for FY 2020/21 and 2021/22	County Treasury (Economic Planning Department)	
6.1. Draft ADP FY 2020/21		August 2019
6.2 Submission of ADP FY 2020/21 to CEC		27th August 2019
6.3. Submission of ADP FY 2020/21 to County Assembly		30th August 2019
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		*(Within 21 days upon submission)*
6.7. Meeting with TWGs for ADP FY 2021/22		30th May 2020
6.8. First draft ADP FY 2021/22		15th August 2020
6.9. Validation ADP FY 2021/22		15th – 20th August 2020
6.10. CEC Approval ADP FY 2021/22		25th August 2020
6.11. Submission ADP FY 2021/22 to County Assembly		30th August 2020

Activity	Responsibility	Deadline
7. Development of County Budget Review and Outlook Paper (CBROP) 2019	County Treasury (Budget Unit)	
7.1. Estimation of Resource Envelope		10th Sep 2019
7.2. Determination of policy priorities		"
7.3. Preliminary resource allocation to Sectors		"
7.4. Draft County Budget Review and Outlook Paper		15th Sep 2019
7.5. Validation		15th 20th September 2019
7.6. Submission and approval of CBROP by CEC		30th September 2019
7.7. Submission of approved CBROP to County Assembly		21st October 2019
8. Preparation of Budget proposals for the MTEF	Departments	
8.1. First retreat to draft Sector Reports (Programmes and projects submitted)	SWGs	20th October 2019
8.2. Public Sector Hearings	County Treasury	August 2019 and February 2020
8.3. Review and Incorporation of stakeholder inputs in Sector proposals	SWGs	30th December 2019
8.4 Submission of Sector Reports to Treasury	Sector Chairpersons	5th March 2020
8.5. Consultative meeting with CECs/COs on budget proposals	County Treasury	15th April 2020
9. Draft County Fiscal Strategy Paper (CFSP) 2020		
9.1. Draft CFSP	County Treasury	30th Jan 2020
9.2. Draft Debt Management Strategy (DMS)	Budget Unit	"
9.3. Validation	Budget Unit	15th - 20th February 2020
9.4. Submission of CFSP and DMS to CEC for approval	County Treasury	20th February 2020
9.5. Submission of CFSP & DMS to County Assembly for approval	County Assembly	28th February 2020
10. Preparation and approval of Final Departmental Budgets		
10.1. Develop and issue final guidelines on preparation of 2020/21 MTEF Budget	County Treasury	January, 2020
10.2. Submission of Draft Revenue Raising Measures (Finance Bill) to County Treasury	Line departments	30th March, 2020
10.3. Submission of Budget proposals to County Treasury (First draft)	Revenue Department	30th March, 2020
10.4. Consolidation of the Draft Budget Estimates (final draft)	County Treasury	10th April, 2020
10.5. Submission of Draft Budget Estimates to CEC	County Treasury	25th April, 2020

Activity	Responsibility	Deadline
10.6. Submission of Draft Budget Estimates to County Assembly	County Treasury	30th April, 2020
10.7. Submission of Final Revenue Raising Measures (Finance Bill) to County Treasury	Revenue Department	30th April, 2020
10.8. Review of Draft Budget Estimates by County Assembly	County Assembly	15th June, 2020
10.9. Report on Draft Budget Estimates from County Assembly	County Assembly	15th June, 2020
10.10. Consolidation of the Final Budget Estimates	County Treasury	15th June, 2020
10.11. Approval of Appropriation Bill by County Assembly	County Assembly	30th June, 2030
10.12. Approval of Vote on Account by County Assembly	County Assembly	30th June, 2020
11. Public participation	County Treasury (Economic Planning Department)	August 2019 - February 2020
12. Development committees (ward level)		
12.1. 1st meeting	County Treasury	30th October 2019
12.2. 2nd meeting		1st week February 2020
13. Budget Statement	CEC Finance	18th June, 2020
14. Appropriation Bill passed	County Assembly	30th June, 2020

Annex II: Revenue Performance per Stream

A. COUNTY OWN SOURCE REVENUE

Revenue Stream	Qtr1	Qtr2	Qtr3	Qtr4	Grand Total
CURATIVE FEES/APPRI TO HOSP	17,312,143	10,974,032	20,694,090	33,794,318	82,774,583
MISCELLANEOUS	436,016	1,954,939	1,599,994	33,708,813	37,699,762
CESS FEE	6,578,690	7,391,930	7,541,432	9,735,260	31,247,312
SINGLE BUSINESS PERMIT	4,118,857	1,192,680	931,035	18,328,476	24,571,048
MARKET AND SLAUGHTER	5,394,905	3,564,635	4,515,005	4,448,157	17,922,702
LIQOUR INSPECTION	65,400	3,843,200	5,490,600	6,304,910	15,704,110
VEHICLE PARKING	3,139,470	2,331,620	2,159,735	2,446,990	10,077,815
LIVESTOCK SALES	420,860	641,220	918,500	1,963,600	3,944,180
HOUSE AND STALLS	364,247	1,160,230	1,424,280	317,612	3,266,369
PLOT RENTS	853,614	637,451	541,069	1,105,893	3,138,027
MEDICAL EXAMINATION	398,300	323,800	1,116,526	375,400	2,214,026
PLAN APPROVAL FEES	580,500	213,000	360,000	790,195	1,943,695
TRANSFER APPLICATION & ADJUDICAT	353,200	181,908	294,074	1,052,200	1,881,382
ADVERTSIMENT	269,300	120,600	1,114,000	205,500	1,709,400
MT. KENYA LODGE/LOCAL TOURISM	235,300	242,400	364,100	182,400	1,024,200
PENALTIES	54,552	131,484	431,776	309,113	926,925
PULIC HEALTH/PLAN APPROVAL	15,000	684,000	47,500	-	746,500
PHYSICAL PLANNING	-	129,590	99,880	511,200	740,670
LAND AND RATE	351,823	72,880	18,635	108,869	552,207
WEIGHTS AND MEASURES	123,800	178,500	16,400	-	318,700
VETINARY	205,440	78,675	13,985	-	298,100
SEARCH FEES MINUTES EXT	81,540	52,000	52,860	13,540	199,940
COOPERATIVES	20,725	10,845	18,480	-	50,050
Grand Total	**41,373,682**	**36,111,619**	**49,763,956**	**115,702,446**	**242,951,703**

B. REVENUE FROM NATIONAL GOVERNMENT

Description	Q 1	Q 2	Q3	Q4	Total
Equitable Share	437,088,000	692,056,000	1,001,660,000	1,511,596,000	3,642,400,000
Village Youth Polytechnic Development	-	-	-	-	-
Reimbursement of User Fees	-	-	-	8,218,119	8,218,119
Road Maintenance Fuel Levy Fund			47,950,610	47,950,610	95,901,220
Universal Healthcare in Devolved System Program (UHDSP) DANIDA		6,176,250	6,176,250	-	12,352,500
Transforming Health System for Universal Care Project (THSUCP) World Bank		6,636,793	6,972,554	3,841,892	17,451,239
Kenya Devolution Support Program (KDSP) World Bank		-	-	-	-
B. A3+A457:A49REVENUE FROM NATIONAL GOVERNMENT		39,557,498	-	-	39,557,498
Agriculture Sector Development Project (ASDSP) Sweden Government			6,509,045		6,509,045
Urban Development Grant (UDG)		50,000,000	-	-	50,000,000
Urban Instutition Grant (UIG)				41,200,000	41,200,000
Total	**437,088,000**	**749,426,541**	**1,069,268,459**	**1,623,285,306**	**3,913,589,621**