



THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF THARAKA NITHI

BUDGET IMPLEMENTATION REVIEW REPORT

FIRST HALF

FINANCIAL YEAR 2017/18

Courtesy of Controller of Budget

December 2017

## 1.1 Overview of the FY 2017/18 Budget

The County's FY 2017/18 Approved Budget is Kshs.4.51 billion, comprising of Kshs.3.02 billion (67 per cent) and Kshs.1.48 billion (33 per cent) allocation for recurrent and development expenditure respectively.

To finance the budget, the County expects to receive Kshs.3.68 billion (81.8 per cent) as equitable share of revenue raised nationally, Kshs.347.06 million (7.7 per cent) as total conditional grants, and generate Kshs.179.92 million (4 per cent) from local revenue sources, and Kshs.240 million (5.3 per cent) cash balance from FY 2016/17.

The conditional grants contained in the CARA, 2017 of Kshs.497.57 million comprise of Kshs.133.68 million (38.5 per cent) from the Road Maintenance Fuel Levy Fund, Kshs.8.22 million (2.4 per cent) as Compensation for User Fee Foregone, Kshs.9.06 million (2.6 per cent) from DANIDA, Kshs.121 million (34.9 per cent) for Construction of County Headquarters, Kshs.18.77 million (5.4 per cent) as World Bank loan to supplement financing of County Health facilities, Kshs.35.99 million (10.4 per cent) for the World Bank Kenya Devolution Support Program, Kshs.38.12 million (11 per cent) for Development of Youth Polytechnics, Kshs.22 million (6.3 per cent) as World Bank Loan for Transforming Health System for Universal Care System, Kshs.14.98 million (4.3 per cent) as conditional allocation loan grants and Kshs.14.98 million (4.3 per cent) from Other Loans and Grants.

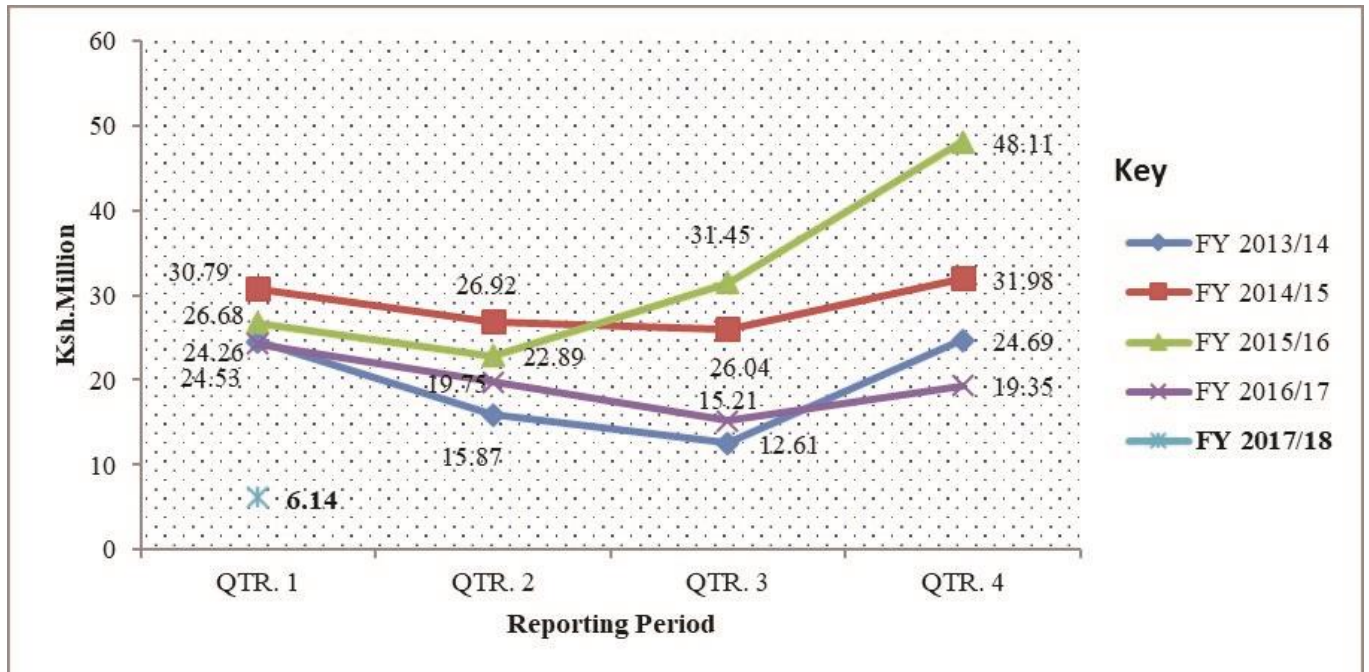
The County budgeted to receive Agricultural Sector Development Support Programme grant (Kshs.12.84 million) and World Bank Health Fund (Kshs.33.20 million) as additional conditional grants which were not contained in the CARA, 2017.

## 1.2 Revenue Analysis

During the first quarter of FY 2017/18, the County received Kshs.257.91 million as equitable share of the revenue raised nationally, Kshs.107 million as total conditional allocations, raised Kshs.6.14 million from local revenue sources, and had a cash balance of Kshs.287.54 million from FY 2016/17. The available funds amounted to Kshs.765.59 million.

Figure 1.1 shows the quarterly trend in local revenue collection from the first quarter of FY 2013/14 to the first quarter FY 2017/18.

**Figure 1.1: Tharaka Nithi County, Trend in Local Revenue Collection by Quarter from the First Quarter of FY 2013/14 to the First Quarter of FY 2017/18**



Source: Tharaka Nithi County Treasury

The total local revenue collected in the first quarter of FY 2017/18 amounted to Kshs.6.14 million, representing a decrease of 74.7 per cent compared to Kshs.24.26 million generated in a similar period of FY 2016/17, and represented 3.4 per cent of the annual local revenue target.

### 1.3 Conditional Grants

Table 1.1 shows an analysis of conditional grants released in the first quarter of FY 2017/18.

**Table 1.1: Tharaka Nithi County, Analysis of Conditional Grants Released in the First Quarter of FY 2017/18**

| S/No     | Grants                                                              | Annual CARA, 2017 Allocation (in Kshs) | Annual Budget Allocation (in Kshs) | Actual receipts in First Quarter of FY 2017/18 (in Kshs) | Actual Receipts as Percentage of Annual Allocation (%) |
|----------|---------------------------------------------------------------------|----------------------------------------|------------------------------------|----------------------------------------------------------|--------------------------------------------------------|
| <b>A</b> | <b>Grants Contained CARA, 2017</b>                                  |                                        |                                    |                                                          |                                                        |
| 1        | Road Maintenance Fuel Levy Fund                                     | 133, 683, 063                          | 133, 682, 063                      | 62, 346, 143                                             | 46.6                                                   |
| 2        | Leasing of Medical Equipment                                        | 95, 744, 681                           | -                                  | -                                                        | -                                                      |
| 3        | World Bank loan to supplement financing of County Health facilities | 18, 767, 500                           | -                                  | 44, 654, 343                                             | 237.9                                                  |
| 4        | Kenya Devolution Support Program (KDSP)                             | 35, 989, 349                           | -                                  | -                                                        | -                                                      |
| 5        | Compensation for User Fee Foregone                                  | 8, 218, 119                            | 8, 218, 119                        | -                                                        | -                                                      |
| 6        | DANIDA Grant                                                        | 9, 058, 820                            | -                                  | -                                                        | -                                                      |
| 7        | Supplement for Construction of County Headquarters                  | 121, 000, 000                          | 121, 000, 000                      | -                                                        | -                                                      |

|                  |                                                                  |               |               |               |           |
|------------------|------------------------------------------------------------------|---------------|---------------|---------------|-----------|
| 8                | Development of Youth Polytechnics                                | 38, 121, 678  | 38, 121, 678  | -             | -         |
| <b>Sub Total</b> |                                                                  | 497, 565, 561 | 301, 021, 860 | 107, 000, 486 | 22        |
| <b>B</b>         | <b>Other Grants</b>                                              |               |               |               |           |
| 9                | Agricultural Sector Development Support Programme (ASDSP) Grants | -             | 12, 837, 611  | -             | -         |
| 10               | World Bank Health Fund                                           | -             | 33, 203, 560  | -             | -         |
| <b>Sub Total</b> |                                                                  | -             | 46, 041, 171  | -             | -         |
| <b>Total</b>     |                                                                  | 497, 565, 561 | 347, 063, 031 | 107, 000, 486 | <b>22</b> |

*Source: Tharaka Nithi County Treasury*

Analysis of the conditional grants released during the period under review indicates that, the World Bank Loan to supplement financing of County Health Facilities and the Road Maintenance Fuel Levy Fund recorded the highest receipt at 237.9 per cent and 47 per cent of annual allocation respectively.

#### **1.4 Exchequer Issues**

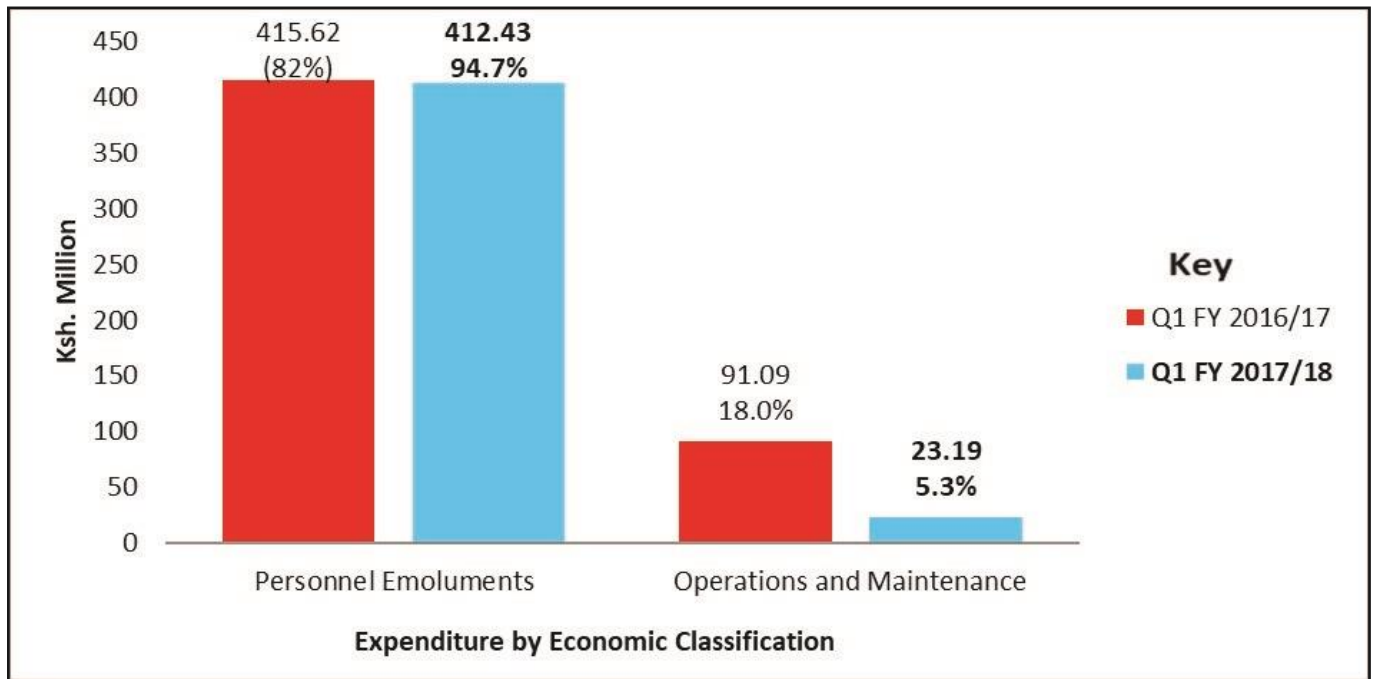
During the reporting period, the Controller of Budget authorized withdrawal of Kshs.459 million from the CRF account, which was 10.2 per cent of the Approved Budget. This amount was a decrease of 42.4 per cent from Kshs.797.27 million authorized in a similar period of FY 2016/17. The entire amount was for recurrent expenditure.

#### **1.5 Overall Expenditure Review**

The County incurred Kshs.435.62 million, which was 94.9 per cent of the total funds released for operations. This was a decrease of 14.1 per cent from Kshs.507 million incurred in the first quarter of FY 2016/17. The expenditure excluded outstanding commitments as at September 30th, 2017 that amounted to Kshs.2.32 million for recurrent expenditure.

The recurrent expenditure represented 14.6 per cent of the annual recurrent budget, a decrease from 16.2 per cent incurred in a similar period of FY 2016/17. Figure 3.118 presents a comparison between the total expenditure in the first quarter of FY 2016/17 and the first quarter of FY 2017/18.

**Figure 1.2: Tharaka Nithi County, Expenditure by Economic Classification FY 2016/17 and First Quarter of FY 2017/18**



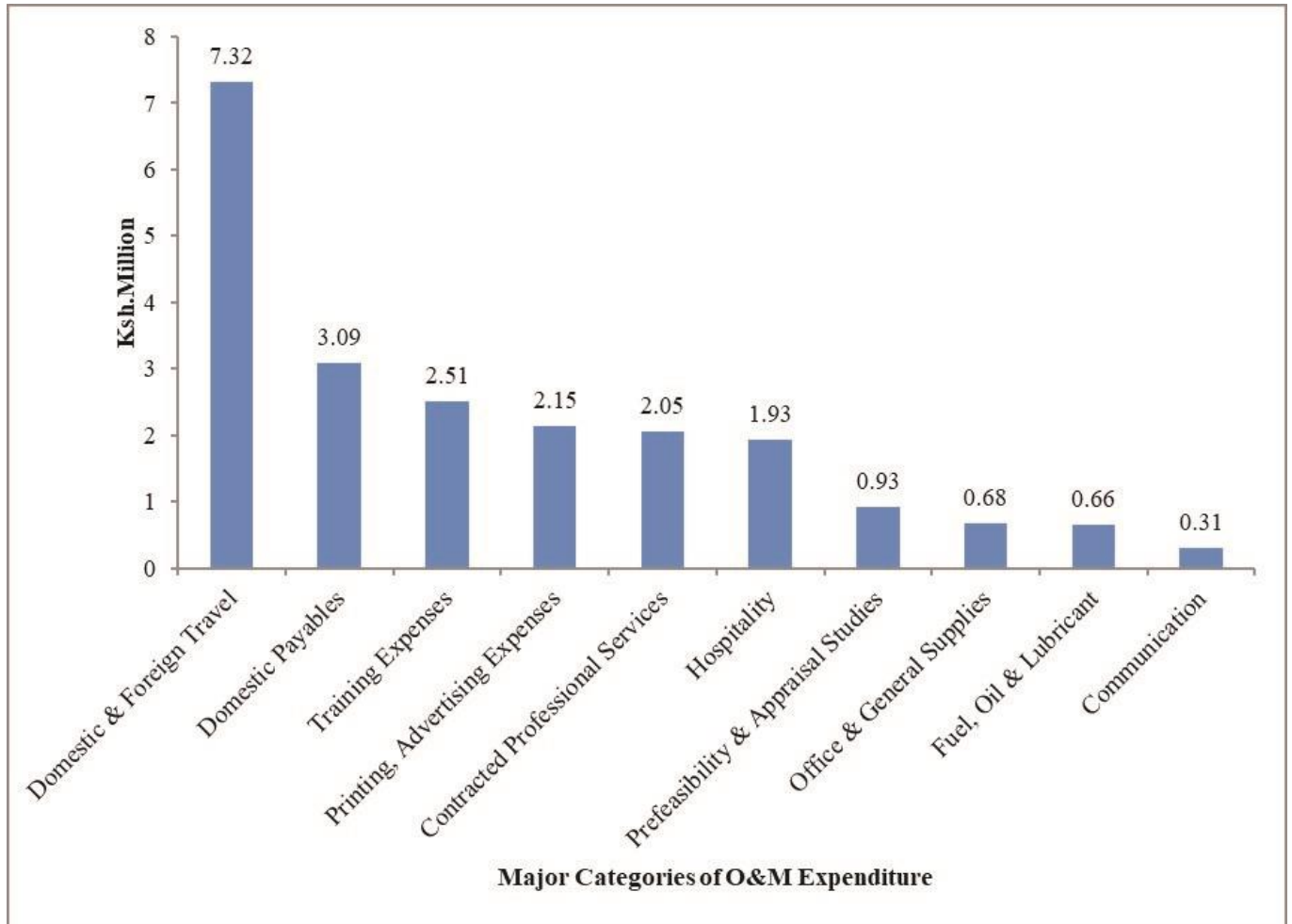
Source: Tharaka Nithi County Treasury

### 1.6 Analysis of Recurrent Expenditure

The total recurrent expenditure of Kshs.435.62 million consisted of Kshs.412.43 million (94.7 per cent) incurred on personnel emoluments and Kshs.23.19 million (5.3 per cent) on operations and maintenance as shown in Figure 1.2.

Expenditure on personnel emoluments represented a decrease of 8 per cent compared to Kshs.415.62 million incurred in the first quarter of FY 2016/17, and was 82 per cent of total expenditure in the first quarter of FY 2017/18. Figure 1.3 shows a summary of operations and maintenance expenditure by major categories.

**Figure 1.3: Tharaka Nithi County, Operations and Maintenance Expenditure by Major Categories in the First Quarter of FY 2017/18**



*Source: Tharaka Nithi County Treasury*

The County incurred Kshs.220,000 on committee sitting allowances to the 21 MCAs against the annual budget allocation of Kshs.36 million. This was a decrease of 94.8 per cent compared to Kshs.4.26 million incurred in the first quarter of FY 2016/17. The average monthly sitting allowance was Kshs.3,492 per MCA compared to SRC’s recommended monthly ceiling of Kshs.80,000.

Expenditure on domestic and foreign travel amounted to Kshs.7.32 million and consisted of Kshs.4.04 million incurred by the County Assembly and Kshs.3.28 million by the County Executive. It represented 1.7 per cent of total recurrent expenditure and was a decrease of 48.6 per cent compared to Kshs.14.25 million incurred in the first quarter of FY 2016/17.

### **1.7 Development Expenditure Analysis**

The County did not report any expenditure on development activities during the reporting period.

### **1.8 Budget and Budget Performance Analysis by Department**

Table 1.2 shows a summary of budget estimates and budget performance by department in the first quarter of FY 2017/18

**Table 1.2: Tharaka Nithi County, Budget Performance by Department in the First Quarter of FY**

**2017/18**

| Department                                                | Budget Allocation<br>(Kshs.Million) |                | Exchequer<br>Issues<br>in<br>the<br>first<br>quarter<br>of FY 2017/18<br>(Kshs.<br>Million) |          | Expenditure in<br>the<br>first<br>quarter<br>of FY<br>2017/18<br>(Kshs.Million) |          | Expenditure to<br>Exchequer Issues<br>(%) First Quarter<br>FY 2017/18 |          | Absorption rate<br>(%) First<br>Quarter FY<br>2017/18 |          |
|-----------------------------------------------------------|-------------------------------------|----------------|---------------------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------------|----------|-----------------------------------------------------------------------|----------|-------------------------------------------------------|----------|
|                                                           | Rec                                 | Dev            | Rec                                                                                         | Dev      | Rec                                                                             | Dev      | Rec                                                                   | Dev      | Rec                                                   | Dev      |
| County Assembly                                           | 466.39                              | 100            | 30                                                                                          | -        | 29.57                                                                           | -        | 98.6                                                                  | -        | 6.3                                                   | -        |
| County Executive                                          | 156.60                              | -              | 24.99                                                                                       | -        | 9.08                                                                            | -        | 36.4                                                                  | -        | 5.8                                                   | -        |
| Finance and Economic Planning                             | 420.18                              | 195.6          | 57.5                                                                                        | -        | 23.59                                                                           | -        | 41                                                                    | -        | 5.6                                                   | -        |
| Agriculture, Livestock and<br>Fisheries Development       | 269.17                              | 117.28         | 49.39                                                                                       | -        | 46.89                                                                           | -        | 94.9                                                                  | -        | 17.4                                                  | -        |
| Tourism, Environment and Natural<br>Resources             | 55.39                               | 28.5           | 13.5                                                                                        | -        | 7.86                                                                            | -        | 58.2                                                                  | -        | 14.2                                                  | -        |
| Education, Youth, Gender,<br>Cultural and Social Services | 200.9                               | 90             | 30.6                                                                                        | -        | 35.6                                                                            | -        | 116.3                                                                 | -        | 17.7                                                  | -        |
| Health Services                                           | 1,045.98                            | 116.75         | 180.72                                                                                      | -        | 261.15                                                                          | -        | 144.5                                                                 | -        | 25                                                    | -        |
| Physical Planning, Land, Energy<br>and ICT                | 50.84                               | 29             | 10.1                                                                                        | -        | 2.15                                                                            | -        | 21.3                                                                  | -        | 4.2                                                   | -        |
| Road, Transport, Housing and<br>Public Works              | 76.10                               | 428.4          | 15.5                                                                                        | -        | 2.87                                                                            | -        | 18.5                                                                  | -        | 3.8                                                   | -        |
| Public Services and Urban<br>Development                  | 168.38                              | 119.45         | 28.61                                                                                       | -        | 13.11                                                                           | -        | 45.8                                                                  | -        | 7.8                                                   | -        |
| Trade, Industry and Cooperative<br>Development            | 49.96                               | 53             | 7.6                                                                                         | -        | 2.23                                                                            | -        | 29.4                                                                  | -        | 4.5                                                   | -        |
| Water Services and Irrigation                             | 29.32                               | 203.5          | 2.5                                                                                         | -        | 0                                                                               | -        | -                                                                     | -        | -                                                     | -        |
| County Public Service<br>Management                       | 35.44                               | -              | 8                                                                                           | -        | 1.51                                                                            | -        | 18.9                                                                  | -        | 4.3                                                   | -        |
| <b>TOTAL</b>                                              | <b>3,024.7</b>                      | <b>1,481.5</b> | <b>459</b>                                                                                  | <b>-</b> | <b>435.62</b>                                                                   | <b>-</b> | <b>94.9</b>                                                           | <b>-</b> | <b>14.6</b>                                           | <b>-</b> |

*Source: Tharaka Nithi County Treasury*

Analysis of budget performance by department shows that the Department of Health Services had the highest percentage of recurrent expenditure to recurrent budget at 25 per cent while the Department of Water Services and Irrigation did not incur any recurrent expenditure.

### **1.9 Observations and Recommendations**

The County has made progress in addressing some of the challenges previously identified as affecting budget implementation. Some of the progress made included:

- i. Timely submission of quarterly financial reports to the Controller of Budget by the County Government entities in line with Section 166 of the PFM Act, 2012.
- ii. Establishment of the County Budget and Economic Forum (CBEF) in line with Section 137 of the PFM Act, 2012.

Despite the progress made, the following challenges continued to hamper effective budget implementation;

1. Failure to establish an Internal Audit Committee to oversee financial operations in the County contrary to Section 155 of the PFM Act, 2012
2. Delay by Fund Administrators to submit expenditure reports of the County Public Finance Management Bursary, Educational Development and Infrastructure Fund, Car Loan and Mortgage Fund, County Assembly Members Car Loan and Mortgage Fund and the Biashara Mashinani Funds contrary to Section 168 of the PFM Act, 2012.
3. Under-performance of local revenue collection which declined by 74.7 per cent from Kshs.24.26 million in the first quarter of FY 2016/17 to Kshs.6.14 million in the reporting period.
4. Operational delays and IFMIS connectivity challenges, which slowed down approval of procurement requests and payment to suppliers.
5. Failure to budget for all conditional grants as per CARA, 2017.

The County should implement the following recommendations in order to improve budget execution;

- 1. The County should establish an Internal Audit Committee and also strengthen the internal audit function in line with Section 155 of the PFM Act, 2012.*
- 2. All Fund Administrators should ensure timely submission of expenditure reports in line with Section 168 of the PFM Act, 2012.*
- 3. The County Treasury should formulate and implement strategies to enhance local revenue collection.*
- 4. The County should liaise with the IFMIS Directorate to address the IFMIS connectivity issues.*
- 5. The County should develop a Supplementary Budget to align conditional grants to the CARA, 2017.*