COUNTY GOVERNMENT OF MARSABIT

THE COUNTY TREASURY

MEDIUM TERM

2018 COUNTY FISCAL STRATEGY PAPER

'An All-Inclusive Socio-Economic Transformation for Shared Prosperity'

FEBRUARY, 2018

Foreword

This County Fiscal Strategy Paper (CFSP) is the first under Marsabit County's new administration led by H.E Gov. Mohamud Mohamed Ali. It sets out the policy goals and strategic priorities that will form the basis for formulation of County's Financial Year 2018/19 budget and the Medium Term. The Paper is prepared in accordance with the Public Finance Management Act, 2012. The County priorities and goals outlined herein are based on the Governor's Manifesto and the transformative agenda pursued by the county leadership as well as sectoral plans and the National Government's 'The Big Four Plan' as contained in the 2018 BPS; all anchored on the Vision 2030, Kenya's development blue print.

The county government recognizes the importance of planning and the close linkages between policy, planning and budgeting. In this regard, the county Treasury has already embarked on the preparation of the 2nd generation County Integrated Development Plan (CIDP) covering the period 2018-2022. The CIDP will capture our shared vision and aspirations for the next five years and beyond as the county administration strives to steer the county towards economic prosperity.

The fiscal framework presented in the paper for the medium term will guide the County government in ensuring that there will be efficiency and effectiveness in the implementation of our development policies. As outlined in the previous CFSP 2017, this paper is part of efforts by the County Treasury to continue with expenditure and financial management reforms as well as containing growth of non-priority expenditures in order to create fiscal space for financing priority policy areas. The county government will enhance the budgetary allocations to the productive sectors and closely monitor implementation of projects and programmes that will have the desired impact on the lives of our people. These sectors will no doubt help in unlocking the economic potential of Marsabit County.

The 2018 CFSP lays the foundation for our transformative agenda for the medium term and will guide the preparation of the FY 2018/19 budget. We remain alive to the fact that achievement of our shared objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

Mr. Adan Guyo Kanano
County Executive Committee Member
Finance & Economic Planning

Acknowledgement

The 2018 CFSP has been carefully prepared to lay a firm foundation for the FY 2018/19 budget and the medium term. The overriding policy thrust of the paper is to unlock the economic potential of the County by ensuring adequate funding to the critical sectors that will contribute immensely to the realization of our shared vision as a County. The County priorities and goals outlined in the 2018 CFSP are based on the Governor's Manifesto, the National Government's 'The Big Four Plan' as contained in the 2018 BPS, MTP III, Sectoral Plans and Vision 2030.

The paper outlines the broad strategic macroeconomic issues affecting the County and fiscal framework to guide spending plans, as a basis of 2018/19 budget and the medium- term. It is expected that this document will create and improve the understanding of public finances. We also expect it to inform and guide public discourse on the county development matters and ensure meaningful participation of the people in the budget process in accordance with the Constitution.

This paper is a culmination of hard work put in by many people. We are grateful to H.E The Governor and H.E The Deputy Governor for their wise counsel and guidance. We appreciate the hard work and invaluable skill of Treasury officials in ensuring timely delivery of this policy paper. Equally, we received support and contributions from the county departments and other County Government officials. We also consulted a wide range of stakeholders and the general public in line with the requirements of the Public Finance Management (PFM) Act and the Constitution. We greatly value their support and we would like to extend my appreciation to all.

Mr. Abdulahi Barako Kuli
Chief Officer - Finance & Economic Planning

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Acronyms

BPS	Budget Policy Statement
BOP	Balance of Payment
CFSP	County Fiscal Strategy Paper
CRA	Commission on Revenue Allocation
CIDP	County Integrated Development Plan
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan

Legal Basis for the Publication of the County Fiscal Strategy Paper

Legal Basis for the Publication of the County Fiscal Strategy Paper

The county fiscal strategy paper is prepared in accordance with Section 117 of the PFM Act. The law states that:

The County Treasury shall prepare and submit to the County Executive Committee the CFSP for approval and the County Treasury shall submit the approved CFSP to the County Assembly, by the 28th February of each year.

(2) The County Treasury shall align its CFSP with the national objectives in the BPS.

(3) In preparing the CFSP, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.

(4) The County Treasury shall include in its CFSP the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

(5) In preparing the CFSP, the County Treasury shall seek and take into account the views of —

(a) the CRA;

(b) the public;

(c) any interested persons or groups; and

(d) any other forum that is established by legislation.

(6) Not later than fourteen days after submitting the CFSP to the county assembly, the county assembly shall consider and may adopt it with or without amendments.

(7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year 2017/18.

(8) The County Treasury shall publish and publicize the CFSP within seven days after it has been submitted to the county assembly.

Fiscal Responsibility Principles in the PFM Law

In line with the Constitution, the PFM, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 107) states that:

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
(b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
(c) The county government's expenditure on wages and benefits for its public officers 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;
(d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
(e) The county debt shall be maintained at a sustainable level as approved by county assembly;
(f) The fiscal risks shall be managed prudently; and
(g) 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.

CHAPTER ONE: INTRODUCTION

The 2018 County Fiscal Strategy Paper is the first under Marsabit County's new administration led by H.E Gov. Mohamud Mohamed Ali. The paper lays the foundation for our transformative agenda for the medium term and will guide the preparation of the FY 2018/19 budget. The County leadership is committed to improving the living standards of the people of Marsabit by directing resources to critical sectors of our local economy. These sectors include Health, Infrastructure, Agriculture, Education and Youth and Women Empowerment. The County Treasury is in the process of formulating the 2nd Marsabit County Integrated Development Plan that will guide planning and budgeting for the next five years.

This CFSP is informed by a number of county and national policy documents. These include the Governor's manifesto, MTP III, Vision 2030, feedback from members of the public, and National Government policies as outlined in the 2018 BPS. The paper sets out the County Government's key strategic priorities and policy goals and a summary of the spending plans as a basis for the FY 2018/19 budget.

The Theme of the 2018 CFSP is *'An All-Inclusive Socio-Economic Transformation for Shared Prosperity'.* Section 117 (2) of the PFM Act requires the County Treasury to align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement. The theme is in line with the transformative pillars of the 2018 BPS which is *Creating jobs, transforming lives - "the big four" plan.* This strategy paper serves as a guide to the budgeting process and provides projections of the County's revenue, recurrent and development expenditures. It also examines the anticipated risks in the medium term, structural measures and strategic interventions required.

In addition to the foregoing, the CFSP provides the sector ceilings for the MTEF period ensuring continuity in resource allocation from the last financial year consistent with the MTEF budgeting. This will help in resource allocation and prioritization of the key sectors necessary for the county's take off. The productive sectors of the local economy are expected to receive enhanced budgetary allocations to help in unlocking the economic potential of the county. The completion of the Great North Road between is expected to greatly improve trade and investment in the region and indeed put Marsabit on the national and international maps.

The paper is divided into different sections as follows: Chapter 2 highlights the recent global, regional, national and county level economic development and outlook.

Chapter 3 outlines the fiscal policies and budget framework for 2018/19 MTEF budget. Chapter 3 outlines the fiscal framework that is supportive of growth over the medium-term, while continuing to provide adequate resources to facilitate the policy priorities of the county Government.

Chapter 4 presents the resource envelope and spending priorities for the proposed 2018/19 MTEF Budget and the Medium Term.
Section V Concludes the CFSP.

CHAPTER 2: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Global and Regional Economic Developments

The global economic activity has continued to improve since 2016 with remarkable growth registered in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. The IMF has indicated that Global output is projected to increase to 3.8 per cent in 2018 up from 3.6 per cent in 2017 and 3.2 per cent in 2016 with notable upward surprises in Europe and Asia. IMF data also show that some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth in year-on-year terms in 2017, the broadest synchronized global growth upsurge since 2010. Among advanced economies, growth in the third quarter of 2017 was higher than projected in the fall, notably in Germany, Japan, Korea, and the United States. Key emerging market and developing economies like Brazil, China, and South Africa also posted third-quarter growth stronger than forecasts. World trade has grown strongly in recent months, supported by a pickup in investment, particularly among advanced economies, and increased manufacturing output in Asia.

In Africa and Sub-Saharan Africa (SSA) in particular, the broad-based slowdown is easing and growth is expected to improve from 1.4 percent in 2016 to 2.6 percent in 2017 and further to 3.4 percent in 2018, partly supported by a recovery in growth of larger commodity exporters such as Nigeria and South Africa. In Eastern and Southern Africa, the easing of drought conditions have contributed to the positive outlook. However, downside risks have increased following policy uncertainties and delays in the implementation of policy adjustments in Nigeria and South Africa. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

East Africa remains the fastest-growing sub region in Africa, with estimated growth of 5.6 per cent in 2017, up from 4.9 per cent in 2016. Growth is expected to remain buoyant, reaching 5.9 per cent in 2018 and firming further to 6.1 per cent in 2019 bolstered by resurgence in agriculture, infrastructure and manufacturing. The risks to the outlook for the EAC regions include insecurity and political tensions in Burundi, Somalia and South Sudan which continued to constrain economic activities in these countries.

National Economic Updates

Kenya's economy remains resilient due to its diversity. This is expected to continue as the country remains the leading regional hub for information and communication technology, financial, and transportation services. Recent investment in rail and road are potential growth drivers. According to the National Treasury economic updates, the economy, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012. Services accounted for 82 per cent of the growth registered during the period and industry accounted for 17 per cent while agriculture's poor performance continued. The economy is projected to rebound to GDP growth of 5.6 per cent in 2018 and 6.2 per cent in 2019.

The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. The industry sector grew from 3.5 percent in 2012 to 7.0 percent in 2015 supported by the construction sector as a result of public infrastructural development. Meanwhile, growth of the agricultural sector rose from 2.8 percent in 2012 to 5.5 percent in 2015 but contracted to (-1.3) percent in first quarter of 2017 due to the prolonged drought that started in the fourth quarter of 2016. Growth in the sector recovered to 3.1 percent as weather conditions improved.

Key Macroeconomic Indicators

Inflation

Inflation averaged 6.7 percent in the period (2013-2017) compared with 7.4 percent in the period (2002-2007), 10.6 percent in the period (2008-2012). Inflation during the period 2008 to 2012 was highly volatile following a steep depreciation of the Kenya shilling exchange rate and policy responses.

Exchange Rate

The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies, has continued to display relatively less volatility. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at January 2017, the shilling exchange rate against the Dollar was at Kshs.100.8 up from Ksh 102.1 in December 2016.

Interest rates

The interest rate registered in January 2018 was 10.0 percent. According to the CBK, the interbank rate has remained low at 7.7 percent in December 2017 from 5.9 percent in December 2016 due to ample liquidity in the money market. Interest rates remained stable and low in the period 2013-2017 except

June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations.

Balance of Payments

The BOP The balance of payments is the record of all international financial transactions made by a country's residents. A country's balance of payments tells you whether it saves enough to pay for its imports. It also reveals whether the country produces enough economic output to pay for its growth. Reports from the National Treasury shows that the overall balance of payments position improved to a surplus of US$ 879.7 million (1.2 percent of GDP) in the year to November 2017 from a deficit of US$ 821.4 million (1.3 percent of GDP) in the year to November 2016 due to the improvement in the financial account that more than offset the widening current account deficit.

County Economic Update

This Strategy paper recognizes that Marsabit County is not isolated from the developments in the global and national economic environments. Developments in the Macro-environment will always have either positive or negative effects on the economic development of the County. Treasury’s review of past economic developments and outlook as captured in the CBROP, 2017 shows that the County’s outlook remains bright and stable. This is despite adverse weather conditions currently experienced in most parts of the County which led to massive crop failure around Marsabit Mountain; the food basket of the County, the effects of the long electioneering period which has affected trade and investment and public expenditure pressures. Aside from these headwinds, the local economy is expected to be bolstered by the completion of the last stretch of Isiolo-Marsabit-Moyale Road. The road will help in improving trade between Kenya and Ethiopia.

Fiscal Performance in FY 2017/18 and Emerging Challenges

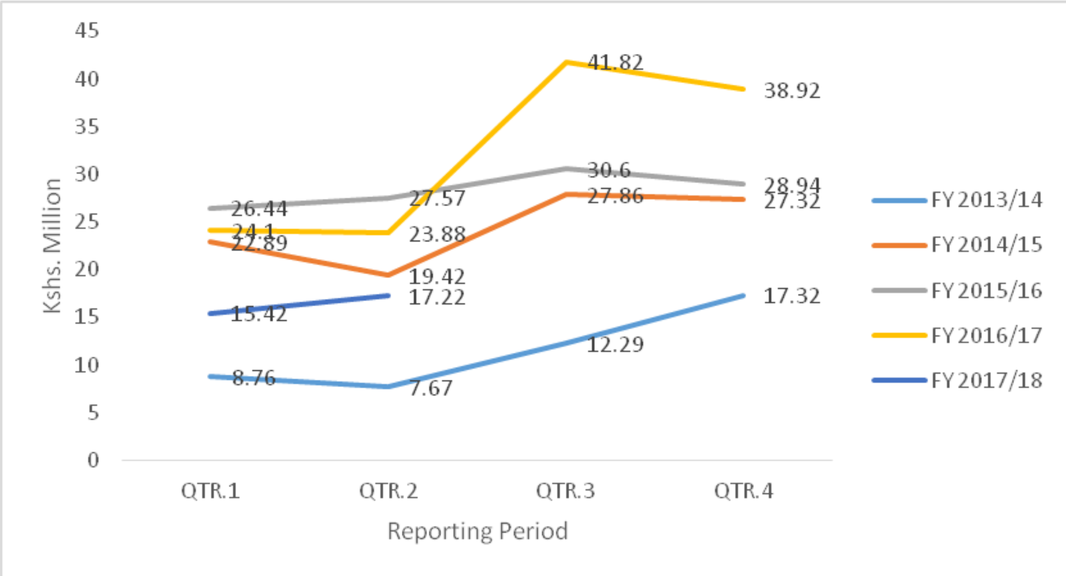
The delay in the approval of FY 2017/18 budget posed a major challenge to budget implementation in the first quarter. The Implementation of the budget has since progressed despite other hiccups like the delay in the disbursement of national shareable revenue. The County treasury through proper financial planning and forecasting will ensure that implementation of major projects is not adversely affected.

County revenue

During the first half of FY 2017/18, the County received Kshs.1.57 billion as equitable share of revenue raised nationally, Kshs.199.02 million as total conditional allocations, raised Kshs.32.64 million from local revenue sources, and had a cash balance of Kshs.551.9 million from FY 2016/17.

The total available funds amounted to Kshs.2.35 billion Fig. 1 shows the quarterly trend in local revenue collection from the first quarter of FY 2013/14 to the first half of FY 2017/18.

Figure 1: Marsabit County, Trend in Local Revenue Collection by Quarter from the First Quarter of FY 2013/14 to the First Half of FY 2017/18



Source: *Marsabit County Treasury*

The total local revenue collected in the first half of FY 2017/18 amounted to Kshs.32.64 million, representing a decrease of 36.0 per cent compared to Kshs.47.98 million generated in a similar period of FY 2016/17 and represented 25.1 per cent of the annual local revenue target.

Exchequer Issues

During the period, the Controller of Budget authorized withdrawal of Kshs.1.99 billion from the CRF account, which was 26.1 per cent of the Approved Budget. This amount represented a decrease of 28.1 per cent from Kshs.2.77 billion authorized in a similar period FY 2016/17 and consisted of Kshs.1.76 billion (88.4 per cent) for recurrent expenditure and Kshs.233 million (11.6 per cent) for development activities.

Table 1: ***Recurrent Exchequer Issues***

	Approved Est.	**Cumulative Exchequer Releases**	**Budget Balance**	**% Approved Est.**
County Assembly	600,960,640	196,191,875	404,768,765	32.6
County Executive	509,341,105	243,281,562	266,059,542	47.8
Finance & Economic Planning	603,145,516	159,044,341	444,101,175	26.4
Agriculture, Livestock & Fisheries	173,282,224	80,658,289	92,623,935	46.5
County Public Service Board	87,868,540	42,208,891	45,659,650	48.0
Education, Skill Development, Youth & Sports	230,065,709	133,630,958	96,434,751	58.1
County Health Services	1,047,929,943	520,681,306	527,248,637	49.7
Administration, Coordination & ICT	360,494,230	164,126,656	196,367,574	45.5
Energy, Lands & Urban Development	133,091,798	64,339,466	68,752,331	48.3
Roads & Public Services	70,566,233	33,031,228	37,535,005	46.8
Water, Environment & Natural Resources	120,513,928	55,795,359	64,718,569	46.3
Trade, Tourism, Industry & Enterprise Development	78,472,050	36,361,856	42,110,194	46.3
Culture & Social Services	63,659,705	30,127,381	33,532,325	47.3
TOTAL	**4,079,391,621**	**1,759,479,168**	**2,319,912,453**	**43.1**

Table 2: ***Development Exchequer Issues***

VOTE	Approved Est.	Cumulative Exchequer Releases	Budget Balance	% Cumulative Release
County Assembly	50,000,000	-	50,000,000	0.0
Office of the Governor and Deputy Governor and the County Executive Headquarters	324,742,341	118,000,000	206,742,341	36.3
Finance and Economic Planning	445,000,000	63,000,000	382,000,000	14.2
Agriculture, Livestock, Veterinary and Fisheries	144,800,000	21,000,000	123,800,000	14.5
Water, Environment and Natural Resources	587,450,000	-	587,450,000	0.0
Education, Youth Affairs and Social Development	261,104,081	15,000,000	246,104,081	5.7
County Health Services	652,253,163	-	652,253,163	0.0
Physical Planning and Development	231,450,000	-	231,450,000	0.0
County Transport, Public Works and Roads	609,142,008	-	609,142,008	0.0
Trade Development, Tourism & Enterprise Development	132,500,000	16,000,000	116,500,000	12.1
Culture, Social Services and Gender	92,500,000	-	92,500,000	0.0
County Public Service Board	9,000,000	-	9,000,000	0.0
Administration, Coordination & ICT	10,000,000	-	10,000,000	0.0
TOTAL	**3,549,941,593**	**233,000,000**	**3,316,941,593**	**6.6**

County Expenditure

The County incurred Kshs.1.71 billion, which was 85.9 per cent of the total funds released for operations. This was a decrease of 3.9 per cent from Kshs.1.78 billion incurred in the first half of FY 2016/17. The total expenditure of Kshs.1.52 billion was incurred on recurrent activities and represented 86.4 per cent of the funds released for recurrent activities. The recurrent expenditure represented 37.2 per cent of the annual recurrent budget, a slight increase from 36.1 per cent spent in a similar period FY 2016/17. Development expenditure recorded an absorption rate of 5.3 per cent, which was a decrease from 16.4 per cent attained in the first half of FY 2016/17.

Table 3:Q2 FY 2017/18 Budget Performance by Department

Department	Budget Allocation (Kshs. Million)		Exchequer Issues in First Half of FY 2017/18 (Kshs. Million)		Expenditure in First Half of FY 2017/18 (Kshs. Million)		First Half of FY 2017/18 Expenditure to Exchequer Issues (%)		First Half of FY 2017/18 Absorption rate (%)	
	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
County assembly	600.96	50	196.19		158.00	-	57.7	0	18.8	0
County Executive	509.34	324.74	243.28	118	222.61	75.8	91.5	64.2	43.7	23.3
Finance & Economic planning	603.15	445	159.04	63	146.86	50.49	92.3	80.1	24.3	11.3
Agriculture, Livestock, Veterinary & Fisheries	173.28	144.8	80.66	21	75.27	1.53	93.3	7.3	43.4	1.1
Water, Environment & Natural Resources	120.51	587.45	55.8		43.61	-	78.2		36.2	0
Education, Youth Affairs & Sports	230.07	261.1	133.63	15	70.55	-	52.8	0	30.7	0
County Health Services	1,047.93	652.25	520.68		573.26	10.7	110.1		54.7	1.6
Lands, Physical Planning and Urban Development	133.09	231.45	64.34		50.96	16.44	79.2		38.3	7.1
County Transport, Public Works and Roads	70.57	609.14	33.03		24.13	-	73		34.2	0
Trade, Tourism, Cooperatives and Enterprise Development	78.47	132.5	36.36	16	33.9	31	93.2	193.8	43.2	23.4
Culture, Social Services and Gender	63.66	92.5	30.13		19.2	3.06	63.7		30.2	3.3
County Public Service Board	87.87	9	42.21		30.15	-	71.4		34.3	0
Administration, Coordination & ICT	360.49	10	164.13		73.33	-	44.7		20.3	0
TOTAL	**4,079.39**	**3,549.93**	**1,759.48**	**233.00**	**1,521.83**	**189.02**	**86.5**	**81.1**	**37.3**	**5.3**

Source: Marsabit County Treasury

2017/18 Revised estimates

The FY 2017/18 budget was formulated based on improved revenue collection and continued support by the national government through timely release of exchequer issues. Many incomplete projects from financial year 2016/17 were rolled over to FY 2017/18 and more focus was on ensuring the completion of these projects. This delayed the implementation of new projects and absorption of development expenditure as various departments concentrated on existing projects and clearing the pending bills. The County Treasury however, does not expect significant shift in revenue base. The county will rationalize its expenditure and institute measures to curb non-priority expenditures and to free resources for more productive purposes as well as expenditure cuts on slow and delayed projects.

CHAPTER THREE: FISCAL POLICIES AND BUDGET FRAMEWORK

Overview

The fiscal policy stance over the medium term aims at unlocking the economic potential of Marsabit County by supporting rapid and inclusive economic growth and ensuring effective delivery of services. To this end, the new administration intends to improve allocations to the productive sectors of the economy and fast track implementation of development projects and programmes that will have desired impact on the lives of our people. Over the last couple of years, there has been an increased expenditure pressure and it is important to match this increase with a corresponding increase in revenue yields through efficient collection and widening of revenue bases. The expenditure on personnel emoluments will be closely monitored to ensure that it complies with the PFMA regulations stipulating that personnel cost should not be more than 35% of the total expenditure.

Continuing With Prudent Fiscal Policy

The fiscal policy underpinning the FY 2018/19 budget and MTEF will sustain the revenue projections to be able to inject the necessary predictability into the budget process. The County government will institute measures to improve local revenue collections as well as weeding out unproductive expenditures. To improve linkages between policy, planning and budgeting, Treasury has embarked on the preparation of the 2nd Marsabit County Integrated Development Plan. Through thorough consultations with all the stakeholders, the plan will chart the development agenda of the County going forward.

Treasury will continue to pursue a policy that will support economic activity within the context of sustainable public financing. The County Government of Marsabit will continue to reorient expenditure towards priority programmes in education, health, agriculture & livestock and infrastructure under the medium-term expenditure framework (MTEF)

Observing Fiscal Responsibility Principles

The County Treasury recognizes that the fiscal stance it takes today will, in the future have far reaching implications on the general financial wellbeing of the County. In line with the Public Finance Management (PFM) Act, 2012, and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the PFM Act. The County Treasury will continue ensuring that spending units comply with the PFM Act and other laws in discharging their mandate.

County Treasury's obligation to observe Fiscal Responsibility Principles

The county government has and will continue adhering to fiscal responsibility principles as set out in the PFM Act, 2012 as follows:

a) *Balanced Budget:* The County Government's expenditure will not exceed its total revenue.

b) *Over the medium term, a minimum of 30% of the County Budget shall be allocated to* development *expenditure.* The County Government's development budget allocation over the medium term is above 30 percent, the minimum set out in law. In FY 2017/18 the County Government allocated Kshs.3.55 billion to development expenditure representing 46.5 per cent of the total budget.

c) *Limit county wage bill to thirty five percent of the government's total revenue*: The County expenditure on wages and benefits for its public officers in 2017/18 is Kshs.1.88 billion representing 24.6 per cent of the total budget which is less than 35% of the County Government's total as prescribed in the regulations. In the medium term Treasury will ensure that expenditure on personnel emoluments remain sustainable.

d) *Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.* Although the County Government envisages maintaining a balanced budget, it will seek to adhere to borrowing guidelines as set out in the PFM regulations, if there is need.

e) *Public debt and obligations shall be maintained at a sustainable level as approved by National Assembly (NA) and County Assembly (CA).* The sustainability of debt is guided by PFM Act section 107 (2) (e) and section 107 (4). As per section 107 (2) (e) the county debt shall be maintained at sustainable level as approved by county assembly. Section 107 (4) further states that every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by resolution of the county assembly. Over the medium term the

Marsabit County Government will continue to maintain a balanced budget where total revenue equal total expenditure. Nevertheless, if need arises, the County will adhere to laid down laws by the County Assembly, using guidelines passed by the Parliament.

f) *Fiscal risks shall be managed prudently.* The County Government also takes into account the fiscal risks arising from contingent liabilities, liquidity risk arising from failure to actualize local revenue targets. The County government continues to put measures in place to enhance revenue collection, majorly through widening of revenue base.

g) *Predictable taxes*: A reasonable degree of predictability to the level of tax rates and tax bases is maintained and there are no major changes in our finance acts over the years. The same stability is expected in the future.

For the County to achieve and adhere to the above fiscal responsibilities the following controls will be exercised;

Executive Control: This will be exercised through the County Treasury in conjunction with other departments. The county treasury will manage, supervise, control and direct all matters related to financial affairs. The accounting officers in each department will ensure accuracy, propriety and accountability in expenditures.

Legislative control: The Authority of raising revenue and their appropriation is provided by the County Assembly. The County Executive will work closely with the county assembly to ensure legitimacy of collection of taxes and appropriation of revenue so received or collected.

The Controller of budget: the office of the controller of budget will oversee the implementation of county budgets.

The Auditor General : The office of the Auditor general will be involved in auditing of all accounts, the propriety of the expenditure and the appropriateness of all county public finance matters.

Fiscal reforms

The County has great potential to improve its revenue collection and administration. The County Treasury will work towards improving efficiency in collection, enforcement of revenue collection guidelines and employing new methods to enhance revenues as well as expanding revenue base. The improvement in County revenue collection and administration will be informed by the need to reduce the cost of revenue collection through offering more innovative and efficient procedures.

The focus of the county government will be to sustain the ongoing reforms in revenue collection and administration. To achieve this, the county will leverage on the following:

i. Legislation

The County government will enact the required legislation to anchor its revenue administration process. These will include legislation on property rates, County revenue administration and trade licenses among others. There will be adequate public participation in the public finance management to increase the compliance of rate payers while at the same time reducing the incidences of litigation against the County.

ii. Computerization and Automation

The County plans to computerize and automate all the activities related to revenue administration in the near future.

iii. Leverage and maximize on the role of auditing (internal and external).

This will ensure compliance as well as evaluate effectiveness of internal controls in revenue administration. It will involve regular audits with dedicated follow up on auditor's recommendations.

iv. Capacity building

Treasury will build the capacity of revenue clerks to make them more efficient. Besides, through awareness creation about the finance acts, it is our hope that revenue collections will improve in the medium term.

Budget Framework

The 2018/19 budget framework is informed by H.E Gov. Mohamud Ali's Manifesto, the MTP III, Vision 2030, feedback from members of the public, and National Government policies as outlined in the 2018 BPS.

Revenue projections

The allocations from the National Government to the County Government are projected to increase. The County Treasury projects to collect Kshs.140 million in FY 2018/2019. In FY 2016/17, the County realized Kshs.128 million, which was well above the target of Kshs125 million. The revenue target of Kshs.140 million is realistic and achievable and we do realize that the county has the potential to collect more but this requires proper revenue raising and administration measures which treasury is currently working on.

The total proposed allocation for FY 2018/19 in the draft BPS is shown in Table 4.

Table 4: Expected sources of Revenues

Revenue Stream	Annual Targeted Revenue (Kshs.)
Equitable share	7,002,200,000
Own Revenue	140,000,000
Conditional Grant -Road Maintenance Fuel Levy Fund	184,361,828
Conditional Grant -Compensation for User Fee Foregone	6,643,714
Conditional Grant - Rehabilitation of Village Polytechnics	26,275,000
TOTAL	**7,359,480,542**

Expenditure Forecasts

Based on the county's fiscal policy and in compliance with the fiscal responsibility principles outlined above, the county's expenditure for the budget in 2018/2019 is projected as follows:

Recurrent Expenditure

Recurrent expenditure is expected to stabilize in the medium term with no significant increases in personnel expenditure and operations and maintenance. Treasury will exercise caution and closely monitor the recurrent budget within a tight fiscal environment. The 2018/19 CFSP projected recurrent budget will be Kshs. **4,019.48 Million**, a slight decrease from Kshs. **4, 079.39 Million** for FY 2017/18 which included pending bills brought forward from FY 2016/17 amounting to **Ksh. 110.2 million.**

Development Expenditure

The CFSP development budget for FY 2018/19 is anticipated to be **Kshs. 3,340.0 Million** compared to **Kshs. 3,549.94 million** in 2017/18 which included pending bills brought forward from FY 2016/17 amounting to Ksh**. 400 million.**

The projection is based on the assumption that there will be high absorption capacities for the spending departments for development funds and that there will be continued implementation of the county government's development projects.

CHAPTER FOUR: MEDIUM TERM EXPENDITURE FRAMEWORK

Resource Envelope

While the county sets its own revenue target taking into consideration previous revenue performance and measures put in place to enhance revenue collection, national shareable revenue and conditional allocations are set and received from the national government. The sectoral allocation for the 2018/19 financial year and the medium term are influenced by the necessity to finance projects that directly support economic growth and reduce poverty as contained in the Governor's manifesto. Attention will be given to projects that improve the quality of life of the residents in the county. The county resource envelop is the resource basket available for supporting county budget execution. The main sources are:

a) Allocation from National Government
b) County own Revenue
c) Donor Funds e.g. Danida and World Bank grants
d) Conditional Allocations e.g. Road Maintenance Levy Fund, Free maternal and compensation for user fees foregone.

Revenue Projections

The national government allocation for the FY 2018/19 is expected to be Kshs.7.0 billion up from Kshs.6.58 billion expected in FY 2018/19. Table 5 shows the County's total resource envelope

Table 5: County's resource envelope

Revenue Stream	Annual Targeted Revenue (Kshs.)
Equitable share	7,002,200,000
Own Revenue	140,000,000
Conditional Grant -Road Maintenance Fuel Levy Fund	184,361,828
Conditional Grant -Compensation for User Fee Foregone	6,643,714
Conditional Grant - Rehabilitation of Village Polytechnics	26,275,000
TOTAL	**7,359,480,542**

Strategic spending Priorities

In order to unlock the economic potential of the county, the new county administration has made some pronouncements regarding the critical and productive sectors that need adequate financing. These sectors are expected to contribute immensely to job creation, poverty reduction, enhanced trade and investment and the overall growth of the local economy. In the past, the County spending units have been preparing PBB but there is little adherence to the tenets of the PBB budget and sometimes tracking performance indicators has not been done properly. As the County deepens the adoption of PBB the focus will be on revision of the Departmental programmes to align them with core County mandate. This is expected to eliminate non-core expenditures and eliminate overlap and/or duplication across sectors. Expenditure ceilings for sectors are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures and then an adjustment factor is applied to take into account the general increase in prices. The following resource distribution ratio has been adopted by the county treasury after taking into consideration the development needs of the county, current wage bill and pending promotions.

Table 6: Resource distribution between Recurrent and Development Expenditure

HEAD	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Recurrent	2,053,502,584	2,547,630,507	3,027,761,748.00	3,553,385,087	4,079,391,621
Development	1,745,925,721	1,938,985,876	2,807,050,185.00	3,056,522,172	3,549,941,592
TOTAL	**3,799,428,305**	**4,486,616,384**	**5,834,811,933.00**	**6,609,907,259**	**7,629,333,214**
Rec %	**54%**	**56.70%**	**52%**	**53.7%**	**53%**
Dev %	**46%**	**43.30%**	**48%**	**46.3%**	**47%**

Departmental Ceilings and criteria for resource allocation

The county will continue with expenditure rationalization with a view to funding only core services and reducing costs through elimination of duplication, inefficiencies, and wasteful expenditure. These decisions will have implications in the departmental ceilings.

The following criteria will therefore serve as a guide for allocating resources to programmes:

i. Linkage of the programme with the objectives of the CIDP;
ii. Degree to which the programme addresses core poverty interventions;
iii. Degree to which the programme is addressing the core mandate of the department;
iv. Expected outputs and outcomes from a programme and cost effectiveness and sustainability of the programme.

Finalization of spending plans

The finalization of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. Since detailed budgets are scrutinized and the resource envelope firmed up, in the event that additional resources become available, the County Government will utilize them to accommodate key national strategic priorities. Specifically, the following will receive priority:

i. Strategic interventions in the areas of Health, Infrastructure and food security and other measures to enhance socio-economic development of the County, and
ii. Specific consideration to enhance job creation for the youth and improving youth polytechnics.

Details of Sector Priorities

The medium term expenditure framework for 2017/18 – 2019/20 ensures continuity in resource allocation based on prioritized programmes aligned to the MTP II of Vision 2030 and the revised CIDP (2013-2017) and strategic policy initiatives of the county Administration which aims to accelerate growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the dockets that County Treasury collects on non-routine basis.

County Assembly

The County Assembly plays a critical role in the County's development by ensuring good governance, accountability and transparency in management of county affairs. The Assembly also plays an oversight role over the County Executive in the management of County affairs. The County assembly ceiling is provided by the CRA.

County Executive

The office provides a stable and predictable environment which facilitates the flourishing of the other sectors in the county. It plays a critical role in the County's development by promoting good governance, accountability and transparency in management of County affairs. The executive office provides a coordination function between the departments. The ceiling for the county executive is also provided by the CRA.

Finance and Economic Planning

The department is responsible for developing and implementing financial and economic policies in the county. One of the key objectives is to ensure that services are provided in an efficient and effective manner to all the departments and residents of the county and that, resources are well allocated and utilized. The department, as shown in the MTEF Sector Ceilings table will receive Kshs 450 million for FY 2018/19.

Agriculture, Livestock, Veterinary & Fisheries

The sector is the main source of livelihood for majority of people in Marsabit County. The sector contributes 88 per cent of household income. Through the sector, the county envisages to increase sector productivity by adopting value chain development approach for all agricultural produce. During the FY 2018/19-2020/21 MTEF period, the sector will continue to implement policies aimed ensuring food security.

In order to implement the prioritized programmes, the Sector has been allocated Kshs.380 Million. Recurrent expenditure allocation is Kshs.190 million while development expenditure ceiling is Kshs. 190 million.

Department of Water, Environment and Natural Resources

Water is critical to the general development of any region. Water scarcity hinders both subsistence and commercial agriculture, industrialization and provision of health services. Marsabit has not reached either the national or international water standards. The county has been hit by water shortages for a long time and it is common sight to find private water bowsers in the towns supplying water to those who can afford to buy. The livestock herders are worst hit especially during dry spells. The County government is committed to addressing this problem and adequate funding will be provided in FY 2018/19 budget.

In order to implement water programmes as well as addressing environmental concerns, the department has been given ceilings of Kshs. 133 Million and Kshs. 600 Million for recurrent and development expenditures respectively.

Department of Education, Skills Development Youth and Sports

The department is composed of two sections namely; Education (dealing with early childhood education) and Skills' Development, Youth and Sports. Education is critical for the development of all other sectors. The county requires skilled and knowledgeable labour force for any meaningful economic growth and sustainable development for poverty reduction. To achieve this, the county will improve the quality of education by employing more teachers, improving school infrastructure and increasing the number of educational and training institutions to ensure easy access.

The county government has already made youth polytechnics free for every willing school leaver to join and acquire technical skills. This very crucial sector has been allocated Kshs. 500 million. Recurrent expenditure allocation is Kshs.250 million while development expenditure ceiling is Kshs. 250 million.

Department of Health Services

The health sector plays a very crucial role in economic and social development of the county. The sector ensures that there are healthy people to participate in the development activities of the county. The sector focuses on developing and strengthening primary health care services (preventive and curative) in order to provide low cost and accessible healthcare. H.E the Governor has put the health sector top of his transformative agenda. The sector will therefore receive adequate funding to implement projects and programmes that will improve service delivery in the health sector. During the FY 2018/19-2020/21 MTEF period, the sector will receive Kshs. 1.15 Billion and Kshs. 700 Million for recurrent development expenditure respectively.

Department of Energy, Lands and Urban Development

This is a critical sector of that will continue to receive adequate funding. It serves to provide a spatial framework to guide integrated land use planning and development of urban and rural areas as well as improving urban Centers through provision of functional public utilities. The department will implement several programmes including promotion of the use of affordable, environmentally friendly and sustainable sources of energy. The department has been given ceilings of Kshs. 145 Million and Kshs. 240 Million for recurrent and development expenditures respectively.

Department of Public Works, Roads & Housing

This is a very important sector that affects virtually all the other sectors. The transport sub-sector provides basic access to the pastoralist communities to enable them transport their livestock to market areas. Poor road network affects other key sectors such as health, agriculture, tourism and trade and leads to low investments. The state of doing business is to a large extent influenced by the state of infrastructure. In the medium term, the sub-sectors will focus on measures aimed at improving delivery of various physical infrastructure services through the implementation of pro-poor development programmes. To this end, the sector has been given a ceiling of Kshs. 500 Million for development and Kshs. 85 Million for recurrent expenditure for the MTEF Period 2018/19-2020/21

Department of Trade, Industry & Enterprise Development and Cooperatives

The sector comprises of Trade, Industry & Enterprise Development and Cooperative Services. In the medium term the sector will among other things map out investment opportunities in the county with a view to promoting growth and diversification in business ventures as well as supporting the growth of small and medium enterprise for economic growth and promoting access to markets. The sector has been given a ceiling of Kshs. 140 Million for development and Kshs. 90 Million for recurrent expenditure for the MTEF Period 2018/19-2020/21

Department of Tourism, Culture and Social Services

The department is mandated with preservation of the rich cultural heritage to build prosperity and cohesion among the diverse groups through activities such as cultural festivals, works of art, talent promotion, traditional games and preservation of cultural sites. The ceilings for recurrent and development expenditures for the medium term are Kshs. 75 Million and Kshs. 100 Million respectively.

Administration, coordination & ICT

The Department of Administration, Coordination and ICT comprises of 3 sections namely Human Resource, Administration and ICT. The main role of this department is the administration and coordination of the devolved functions. The devolved functions are located at the headquarters and cascades down to the sub counties, wards and village levels. This department is crucial in ensuring the success of the devolution process is felt at all the units of developments. The MTEF ceilings for recurrent and development expenditures for the medium term are Kshs. 300 Million and Kshs. 20 Million respectively.

CHAPTER FIVE – CONCLUSION

The County Treasury as the custodian of the county finances is committed to upholding the best practices in public financial management. Guided by the relevant laws including the Constitution, Treasury will exercise prudence in financial management and ensure resources are directed to the productive sectors of the economy so as to bolster growth of the local economy. The budget ceilings have been set taking into account county priorities, but with binding constraints on the resource envelope the departments are forced to make tough decisions in allocating available resources across their programmes. The County Treasury will work with the departments to ensure resources are availed when required.

The preparation of Marsabit County's 2nd CIDP is on course. The CIDP captures our collective goals and aspirations for the next five years and beyond. The successful implementation of the CIDP will no doubt unlock the economic potential of the County in line with the transformative agenda of the new County administration. Treasury will ensure smooth flow of funds to the spending units for implementation of projects and programmes that will positively impact the lives of the residents of Marsabit County.

Annex 1: Comparison of Budget Estimates and Actual Expenditure as of 31st December 2017

Department	Budget Allocation (Kshs. Million)		Expenditure in First Half of FY 2017/18 (Kshs. Million)		First Half of FY 2017/18 Absorption rate (%)	
	Rec	Dev	Rec	Dev	Rec	Dev
County assembly	600.96	50	158	-	18.8	0
County Executive	509.34	324.74	222.61	75.8	43.7	23.3
Finance & Economic planning	603.15	445	146.86	50.49	24.3	11.3
Agriculture, Livestock, Veterinary & Fisheries	173.28	144.8	75.27	1.53	43.4	1.1
Water, Environment & Natural Resources	120.51	587.45	43.61	-	36.2	0
Education, Youth Affairs & Sports	230.07	261.1	70.55	-	30.7	0
County Health Services	1,047.93	652.25	573.26	10.7	54.7	1.6
Lands, Physical Planning and Urban Development	133.09	231.45	50.96	16.44	38.3	7.1
County Transport, Public Works and Roads	70.57	609.14	24.13	-	34.2	0
Trade, Tourism, Cooperatives and Enterprise Development	78.47	132.5	33.9	31	43.2	23.4
Culture, Social Services and Gender	63.66	92.5	19.2	3.06	30.2	3.3
County Public Service Board	87.87	9	30.15	-	34.3	0
Administration, Coordination & ICT	360.49	10	73.33	-	20.3	0
TOTAL	**4,079.39**	**3,549.93**	**1,521.83**	**189.02**	**37.3**	**5.3**

Annex 2: MTEF Sector Ceilings 2018/2019 – 2020/2021 with Indicative Projections

		Total Expenditure Kshs. Million			Projections		%SHARE OF TOTAL EXPENDITURE				
Vote		Approved 2017/18	CBROP Ceilings 2018/19	CFSP Ceilings 2018/19	2019/2020	2020/2021	Approved 2017/18	CBROP Ceilings 2018/19	CFSP Ceilings 2018/19	2019/20	2020/21
County Assembly	**SUB-TOTAL**	**650,960,640**	**709,547,098**	**719,999,313**	**790,249,251**	**861,371,684**	**9%**	**9%**	**10%**	**10%**	**10%**
	Rec. Gross	600,960,640	655,047,098	574,999,313	626,749,251	683,156,684	8%	8%	**8%**	**8%**	**8%**
	Dev. Gross	50,000,000	54,500,000	145,000,000	163,500,000	178,215,000	1%	1%	**2%**	**2%**	**2%**
County Executive	**SUB-TOTAL**	**834,083,446**	**909,150,956**	**911,437,254**	**1,020,716,607**	**1,112,581,101**	11%	**11%**	**13%**	**13%**	**13%**
	Rec. Gross	509,341,105	555,181,804	531,437,254	584,716,607	637,341,101	7%	**7%**	**7%**	**7%**	**7%**
	Dev. Gross	324,742,341	353,969,152	380,000,000	436,000,000	475,240,000	8%	**4%**	**5%**	**5%**	**5%**
County Treasury	**SUB-TOTAL**	**1,048,145,516**	**1,142,478,612**	**435,000,000**	**490,500,000**	**534,645,000**	14%	**14%**	**6%**	**6%**	**6%**
	Rec. Gross	603,145,516	657,428,612	395,000,000	436,000,000	475,240,000	8%	**8%**	**5%**	**5%**	**5%**
	Dev. Gross	445,000,000	485,050,000	40,000,000	54,500,000	59,405,000	11%	**6%**	**1%**	**1%**	**1%**
Agriculture, Livestock & Fisheries	**SUB-TOTAL**	**318,082,224**	**346,709,624**	**380,000,000**	**414,200,000**	**451,478,000**	4%	**4%**	**5%**	**5%**	**5%**
	Rec. Gross	173,282,224	188,877,624	190,000,000	207,100,000	225,739,000	2%	**2%**	**3%**	**3%**	**3%**
	Dev. Gross	144,800,000	157,832,000	190,000,000	207,100,000	225,739,000	4%	**2%**	**3%**	**3%**	**3%**
Water, Environment & Natural	**SUB-TOTAL**	**707,963,928**	**771,680,682**	**748,043,975**	**799,017,933**	**870,929,547**	9%	**9%**	**10%**	**10%**	**10%**
	Rec.	120,513,928	131,360,182	133,043,975	145,017,933	158,069,547	2%	**2%**	**2%**	**2%**	**2%**

Resources	Gross										
	Dev. Gross	587,450,000	640,320,500	615,000,000	654,000,000	712,860,000	14%	**8%**	**8%**	**8%**	**8%**
Education, Skills Development, Youth & Sports	**SUB-TOTAL**	**491,169,790**	**535,375,071**	**510,000,000**	**545,000,000**	**594,050,000**	6%	**6%**	**7%**	**7%**	**7%**
	Rec. Gross	230,065,709	250,771,623	260,000,000	272,500,000	297,025,000	3%	**3%**	**3%**	**3%**	**3%**
	Dev. Gross	261,104,081	284,603,448	250,000,000	272,500,000	297,025,000	6%	**3%**	**3%**	**3%**	**3%**
Health Services	**SUB-TOTAL**	**1,700,183,105**	**1,853,199,584**	**1,865,000,000**	**2,016,500,000**	**2,197,985,000**	22%	**22%**	**25%**	**25%**	**25%**
	Rec. Gross	1,047,929,943	1,142,243,638	1,165,000,000	1,253,500,000	1,366,315,000	14%	**14%**	**16%**	**16%**	**16%**
	Dev. Gross	652,253,162	710,955,947	700,000,000	763,000,000	831,670,000	9%	**9%**	**10%**	**10%**	**10%**
Energy, Lands, & Urban Development	**SUB-TOTAL**	**364,541,798**	**397,350,560**	**385,000,000**	**419,650,000**	**457,418,500**	5%	**5%**	**5%**	**5%**	**5%**
	Rec. Gross	133,091,798	145,070,060	145,000,000	158,050,000	172,274,500	2%	**2%**	**2%**	**2%**	**2%**
	Dev. Gross	231,450,000	252,280,500	240,000,000	261,600,000	285,144,000	6%	**3%**	**3%**	**3%**	**3%**
Public Service Board	**SUB-TOTAL**	**96,868,540**	**105,586,709**	**90,000,000**	**98,100,000**	**106,929,000**	1%	**1%**	**1%**	**1%**	**1%**
	Rec. Gross	87,868,540	95,776,709	90,000,000	98,100,000	106,929,000	1%	**1%**	**1%**	**1%**	**1%**
	Dev. Gross	9,000,000	9,810,000	0	-	0	0%	**0%**	**0%**	**0%**	**0%**
Administration & ICT	**SUB-TOTAL**	**370,494,230**	**403,838,711**	**330,000,000**	**348,800,000**	**380,192,000**	5%	**5%**	**4%**	**4%**	**4%**
	Rec. Gross	360,494,230	392,938,711	310,000,000	327,000,000	356,430,000	5%	**5%**	**4%**	**4%**	**4%**
	Dev. Gross	10,000,000	10,900,000	20,000,000	21,800,000	23,762,000	0%	**0%**	**0%**	**0%**	**0%**
Roads, Public Works & Housing	**SUB-TOTAL**	**679,708,241**	**740,881,983**	**570,000,000**	**637,650,000**	**695,038,500**	9%	**9%**	**8%**	**8%**	**8%**
	Rec.	70,566,233	76,917,194	80,000,000	92,650,000	100,988,500	1%	**1%**	**1%**	**1%**	**1%**

	Gross										
	Dev. Gross	609,142,008	663,964,789	490,000,000	545,000,000	594,050,000	8%	**8%**	**7%**	**7%**	**7%**
Trade, Industry, Enterprise Development &,Cooperatives	**SUB-TOTAL**	**210,972,050**	**229,959,535**	**230,000,000**	**250,700,000**	**273,263,000**	3%	**3%**	**3%**	**3%**	**3%**
	Rec. Gross	78,472,050	85,534,535	90,000,000	98,100,000	106,929,000	1%	**1%**	**1%**	**1%**	**1%**
	Dev. Gross	132,500,000	144,425,000	140,000,000	152,600,000	166,334,000	2%	**2%**	**2%**	**2%**	**2%**
Tourism, Culture ,Gender & Social Services	**SUB-TOTAL**	**156,159,705**	**170,214,078**	**185,000,000**	**190,750,000**	**207,917,500**	2%	**2%**	**2%**	**2%**	**2%**
	Rec. Gross	63,659,705	69,389,078	75,000,000	81,750,000	89,107,500	1%	**1%**	**1%**	**1%**	**1%**
	Dev. Gross	92,500,000	100,825,000	110,000,000	109,000,000	118,810,000	1%	**1%**	**1%**	**1%**	**1%**
TOTAL		**7,629,333,213**	**8,315,973,202**	**7,359,480,542**	**8,021,833,791**	**8,743,798,832**	**100%**	**100%**	**100%**	**100%**	**100%**
TOTAL REC. GROSS		**4,079,391,621**	**4,446,536,867**	**4,039,480,542**	**4,381,233,791**	**4,775,544,832**	**53%**	**53%**	**55%**	**55%**	**55%**
TOTAL DEV. GROSS		**3,549,941,592**	**3,869,436,335**	**3,320,000,000**	**3,640,600,000**	**3,968,254,000**	**47%**	**47%**	**45%**	**45%**	**45%**