THE REPUBLIC OF KENYA

COUNTY GOVERNMENT OF MARSABIT

COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2018

County Budget Review and Outlook Paper (CBROP) 2018

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Foreword

The County Budget Review and Outlook Paper (CBROP) 2018 has been prepared in line with section 118 of the Public Finance Management (PFM) Act 2012. This section 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 of every year and subsequently table this at the County Assembly and then publish and publicize the paper.

The paper reviews fiscal performance of the County for the 2017/18 financial year with the approved Program Based Budget 2017/18 and the projected fiscal performance indicated in the CBROP 2017. The paper also provides information on changes in the projections made in the County Fiscal Strategy Paper (CFSP) 2018. These changes are also analyzed against the actual financial performance for the FY 2017/18 to determine the trend and understand factors that may have hindered compliance with fiscal responsibility requirements and the expected financial management outputs on revenue enhancement, expenditure management and budgetary control. These deviations are explained and used as a basis to refine the projected fiscal performance for the MTEF for FY 2019/20.

The updated economic and financial outlook presented in this paper will set out the general fiscal guidance for the preparation of the budgets for the next financial year and for the medium term. The provisional ceilings are intended to guide the Sector Working Groups (SWGs) in the preparation of the budgets.

The County Treasury and the relevant departments are and continue to be available to support all Sectors in adopting this paper which guides the budget development process, enhances fiscal discipline and assigns fiscal responsibilities which enables the County comply with section 107 of the PFM Act 2012.

Adan Guyo Kanawo
County Executive Committee Member
Marsabit County Treasury

Acknowledgement

The preparation of the CBROP 2018 was a concerted and consultative effort among various departments and stakeholders which provided useful information required in preparing this document. We are particularly appreciative to the team from the Budgeting and Economic Planning directorates for their tireless efforts towards ensuring that this document was completed in good time. We also thank the various departments for sending key staff to attend the CBROP preparation and consultative workshop held between the 17th and 19th of September 2018 at Jirime Resort. The insights and engagements has resulted in a policy document that will guide our Sector Working Groups and the entire budget preparation process.

We also owe special thanks to our respective County Executive Committee Members (CECMs) and the Chief Officers (CO) for their leadership and guidance.

Further, we appreciate the partnership with USAID and UKaid- AHADI Project for the financial and technical support they have given the county in the preparation of CBROP 2018. We hope that this relationship will be strengthened further as we move on. We particularly acknowledge the invaluable in-county technical assistance that enabled us to develop this plan comprising of Waceke Wachira (Chief of Party), Angela Kabiru (Head of Governance), Gilbert Momanyi (Programme Officer), Zachary Kaimenyi (Regional Coordinator), Nicodemus Kirima (Consultant) and Paul Kamaku (Consultant).

Abdulahi Barako Kuli
Chief Officer
Marsabit County Treasury

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CO	Chief Officer
CRA	Commission of Revenue Allocation
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
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
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PE	Personnel Emoluments
PFM	Public Finance Management
PWD	People with Disabilities
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group

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Preamble

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

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

1) A county Treasury shall;

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

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

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

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

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

c. Information on:

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

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

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

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

a. Arrange for the paper to be laid before the County Assembly; and

b. As soon as practicable after having done so, publish and publicize the paper.

Fiscal Responsibility Principles in the Public Financial Management Law

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

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

1. INTRODUCTION

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

1.1. Objective of CBROP

The objective of CBROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles to be set out in the CFSP. This together with macroeconomic outlook provides a basis for revision of the current budget in the context of the broad fiscal parameters guiding the next budget and MTEF. The Details of the fiscal framework and the medium term policy priorities will be firmed in the CFSP.

Specifically the CBROP provides:

i. Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent 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 MTEF as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector ceilings for the FY 2019/2020 budget and in the medium term to guide Sector Workings groups (SWGs) before being confirmed in the CFSP 2019.

1.3. Structure

This paper has four other sections. Section one is the introduction that entails the objective and significance of CBROP. Section two reviews the county's fiscal performance for 2017/18. 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 that include recent economic developments, economic outlook & policies, medium term fiscal framework and risks to the outlook. Section four sets out how the county government intends to operate within its means. It establishes the resources envelop (total revenues) it expects 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. Lastly, section five gives a conclusion of the entire paper.

2. REVIEW OF COUNTY FISCAL PERFORMANCE IN 2017/18 FY

This section details the county's fiscal performance for the financial year 2017/18 in relation to the approved programme based estimates and details the implications arising from the fiscal performance for the same period.

2.1. Overview

During the period under review, the county government set out in the CFSP 2017 to attain positive growth prospects through increased activities in the County sub-sectors. The County sought to strengthen revenue management to increase the efficiency and efficacy in revenue collection. The County also focused on the following areas which still are areas that the county expects to focus on in the FY 2019/20 MTEF period.

- Rangelands management policy was to be developed to enhance productivity and ensure that the main economic activity for the pastoralists is made more profitable and productive;
- The integrated development plan for Marsabit town was also developed to enhance organized development of the town to ensure that investors are attracted to an orderly and well planned town. This is currently in the County Assembly for deliberations and adoption.
- There is need to consider other positive growth prospects from all the sectors that contribute to overall county growth.

The County has also moved to the utilization of e- procurement to enhance budget absorption and the County expenditure was guided by sector objectives and priorities as indicated in the CIDP 2018-2022.

2.2. Fiscal Performance

Overall revenues increased by 16% between FY 2016/17 and FY 2017/18 as per table 1 below on summary of County Fiscal Performance.

Table 2.1: Summary of County Fiscal Performance

	2016/17 FY	2017/18 FY			
	Actual	**Approved**	**Actual**	**% Deviation**	**Growth %**
TOTAL REVENUE & GRANTS	5,894,232,553	7,178,973,617	6,844,150,462	-5%	16%
Unspent Bal from Previous FY	934,822,019	551,909,485	551,909,485	0%	-41%
Revenue (Total)	**6,829,054,572**	**7,730,883,102**	**7,396,059,947**	**-5%**	**8%**
Equitable Share	5,599,495,638	6,583,600,000	6,583,600,000	-	18%
County Own Revenue	128,628,566	130,000,000	94,442,462	-38%	-27%
Grants (Total)	166,108,349	465,373,617	166,108,000	-180%	-

	2016/17 FY	2017/18 FY			
	Actual	Approved	Actual	% Deviation	Growth %
TOTAL REVENUE & GRANTS	**5,894,232,553**	**7,178,973,617**	**6,844,150,462**	**-5%**	**16%**
Total Expenditure	**6,277,145,087**	**7,178,973,617**	**6,261,907,795**	**-15%**	**-**
Recurrent	3,440,000,000	4,295,633,497	3,478,162,383	-24%	1%
Development	2,837,145,087	2,883,340,120	2,783,745,412	-4%	-2%
Unspent Bal Current FY	551,909,485	551,909,485	582,242,667	5%	5%

From the table above there was a negative variation of 5% between the budgeted and the actual revenue which was against the budget. This was attributed mainly to the decline in county own revenue by 38% and the lower receipt of grants than projected. As noted, in 2017/18 FY, the county received an equitable share of county revenue of Kshs. 6,583,600,000. More so, grants of Kshs. 166,108,000 was received against a target of Kshs 465,373,617. The county own revenue amounted to Kshs 94,442,462 against a target of Kshs 130,000,000. The decline in county own revenue was attributed to the challenges in the local market as a result of the long drawn out electioneering period that affected the ability of the County to meet the set targets.

On the other hand, the planned equitable share allocation was received and this accounted for 93% of the total revenue to the County in the FY 2017/18. The unspent balance for current FY is explained later in the expenditure performance.

2.2.1. Revenue Performance

Table 2.2 shows the quarterly trend in revenue collection per quarter for FY 2017/18 per revenue stream.

Table 2.2 Revenue Performance per stream

ANNUAL REPORT REVENUE 2017-2018					
REVENUE STREAMS	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**TOTAL**
	Kshs	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Market Charges	377,550	824,550	695,890	614,100	**2,512,090**
Livestock Charges	2,864,765	4,175,490	5,596,995	4,055,711	**16,692,961**
Land Transaction Charges	756,167	566,150	2,097,840	2,009,525	**5,429,682**
Royalties	241,380	175,000	284,500	6,590,610	**7,291,490**
Plan Approval	50,000	7,000	-	8,000	**65,000**
Slaughter	73,330	93,450	89,700	92,850	**349,330**
Scrap Metal	8,900	29,500	33,800	18,000	**90,200**
Single business permit	1,889,370	529,983	7,002,200	6,260,330	**15,681,883**
Produce cess	5,654,455	5,496,880	7,376,870	10,116,900	**28,645,105**

ANNUAL REPORT REVENUE 2017-2018					
REVENUE STREAMS	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**TOTAL**
	Kshs	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Miscellaneous charges/Reversed Entry	587,400	4,675,557	2,659,745	378,350	**8,301,052**
Lease Rentals	1,007,465	132,300	2,321,300	166,314	**3,627,379**
Hiring of Hall	6,000	-	4,000	8,000	**18,000**
Liquor License	26,000	-	41,000	2,015,000	**2,082,000**
Public health	915,550	9,000	346,700	256,800	**1,528,050**
Hospital	85,130	-	-	-	**85,130**
AMS	86,000	91,140	3,000	38,850	**218,990**
Veterinary- Meat Inspection	114,260	69,050	117,950	114,575	**415,835**
Water Bill	49,700	76,500	120,325	-	**246,525**
Sale of Tender Documents	629,200	243,000	194,000	-	**1,066,200**
Weight and measures	-	20,200	27,000	48,360	**95,560**
Total	**15,422,622**	**17,214,750**	**29,012,815**	**32,792,275**	**94,442,462**

As indicated in table 2.2, the County own revenue is mainly attributable to produce cess (30%), livestock charges (18%) and single business permits (17%). Further, the sharp increase in own revenue in the last half of the year is attributable to renewal of single business permits, receipt of royalties and increased market performance resulting in higher collection of produce cess in the last quarter.

2.2.2. Expenditure Performance

Total expenditure in the FY 2017/18, amounted to Kshs 6,261,907,795 against a target of Kshs 7,178,973,617 representing an under spending of Kshs 917,065,822 and 15 per cent deviation from the approved programme based budget estimates. In FY 2017/18, the recurrent expenditure amounted to Kshs 3,478,162,383 representing 56% of the total expenditure, while Kshs 2,783,745,412 was spent on development accounting for 44% of the total expenditure. The expenditure excludes unspent balances amounting to Kshs 582,242,667 which would be carried forward to the next financial year. The County achieved the thresholds on the proportions to be allocated to recurrent and development contained in the minimum requirements as prescribed in section 107 of the PFM Act 2012.

Budget expenditure recorded an absorption rate of 89 percent, a decrease from 92 per cent attained in a similar period of FY 2016/17. The under spending in the FY 2017/18 is attributed to low absorption rates in both recurrent and development expenditures by the line County departments as a result of the long electioneering period, under collection in revenue and delay in disbursements from national government.

2.2.2.1. Budget absorption and comparison between CFSP 2017 Ceilings and FY 2017/18 budget

Table 2.3 below indicates the respective department's absorption rates and indicate as follows:

Table 2.3 Showing Absorption rates by sectors and Comparison with CFSP 2017

DEPARTMENTS	C-FSP 2017			BUDGET ALLOCATION 2017/18			Cumulative Expenditure 2017/18			Absorption	Deviation (%)
	REC	DEV	TOTAL	REC	DEV	TOTAL	REC	DEV	TOTAL	(%)	CFSP - BUDGET
County Executive	438,910,405	120,572,663	**559,483,068**	512,141,106	674,742,341	1,186,883,447	503,741,031	559,842,134	1,063,583,165	**90%**	**(1.12)**
County Public Service Board	77,789,827	5,450,000	**83,239,827**	92,868,540	9,000,000	101,868,540	91,227,726	6,856,871	98,084,597	**96%**	**(0.22)**
Trade, Tourism, Industry & Enterprise development	91,167,103	181,485,000	**272,652,103**	78,872,050	132,500,000	211,372,050	74,219,609	56,476,130	130,695,739	**62%**	**0.22**
Culture & Social Services	51,383,137	100,000,000	**151,383,137**	73,259,705	62,500,000	135,759,705	67,301,072	38,624,687	105,925,759	**78%**	**0.10**
Finance Economic Planning	647,661,698	90,000,000	**737,661,698**	671,045,516	445,000,000	1,116,045,516	592,605,550	450,748,349	1,043,353,899	**93%**	**(0.51)**
County Assembly	520,450,000	32,700,000	**553,150,000**	600,960,640	50,000,000	650,960,640	548,575,863	40,912,879	589,488,742	**91%**	**(0.18)**
Education, Skills Development, Youths & Sports	150,192,098	200,000,000	**350,192,098**	230,065,709	231,104,081	461,169,790	223,364,122	173,890,123	397,254,245	**86%**	**(0.32)**
Energy, Lands & Urban Development	127,054,238	272,554,500	**399,608,738**	137,091,798	217,050,000	354,141,798	132,373,002	163,050,244	295,423,246	**83%**	**0.11**
Administration Coordination &ICT	457,748,109	41,093,000	**498,841,109**	311,094,230	10,000,000	321,094,230	294,283,778	9,915,554	303,199,332	**94%**	**0.36**
Roads, Transport and Infrastructure	209,121,829	300,090,015	**509,211,844**	70,566,233	342,942,008	413,508,241	68,443,638	360,346,128	428,789,766	**104%**	**0.19**
Water, Environment and Natural Resources	183,116,545	450,000,000	**633,116,545**	125,513,928	608,850,000	734,363,928	103,767,081	453,928,062	557,695,143	**76%**	**(0.16)**
Agriculture, livestock and fisheries development	178,805,529	116,404,172	**295,209,701**	173,282,224	159,300,000	332,582,224	166,073,712	143,420,625	309,494,337	**93%**	**(0.13)**
Health Services	987,753,531	350,000,000	**1,337,753,531**	1,218,871,818	492,253,162	1,711,124,980	1,160,762,062	366,646,505	1,527,408,567	**89%**	**(0.28)**
TOTAL	**4,121,154,049**	**2,260,349,350**	**6,381,503,399**	**4,295,633,497**	**3,435,241,592**	**7,730,875,089**	**4,026,738,246**	**2,824,658,291**	**6,850,396,537**	**89%**	**(0.21)**

From table 2.3 above:

- Over-expenditure was noted in the roads department by 4% as a result of the passing of the supplementary budget that reduced the available budget Kshs 95,703,603 while the activities had already committed for Kshs 428,789,766.
- High absorption by the County Public Service Board (96%), Administration and ICT (94%), Agriculture, fisheries and livestock and Finance and Economic Planning (93%) and 91% for the County Assembly.
- Low absorption was noted in Trade, Tourism, Industry and Enterprise development (62%), Water, Environment and Natural resources (76%) and Culture and social services (78%). The low utilization was attributed to the long electioneering period that affected the performance of specific activities due to the tension that existed prior to, during and immediately after the elections. Some of the areas with planned activities were considered volatile and therefore specific activities particularly the department of Trade, Tourism, Industry and Enterprise development were delayed to allow the situation to normalize which has since happened.

Comparison between CFSP 2017 ceilings and 2017/18 FY budget allocation showed a general growth in budget allocations occasioned by increase in equitable share of county revenue. Sector ceilings were revised upwards by 12 per cent in the County Executive which is attributed to the reorganization of county departments and staff to enhance service delivery. The County Public Service board ceiling was also reviewed upwards by 22 per cent from Kshs 83,239,827 ceiling to Kshs 98,084,597. The Finance and Economic planning department had its budget increased by 51%, while the County Assembly, Education Skills development, Youth and Sports, water environment and natural resources, Agriculture livestock and fisheries and health services had their budgets increased by 18%, 32%, 16%, 13% and 28% respectively. The impact was an increase in the budget projected by CFSP 2017 by 22% which was overall a favorable deviation.

2.2.2.2. Recurrent and development expenditure

Figure 1 below shows an analysis of the recurrent versus development expenditure.

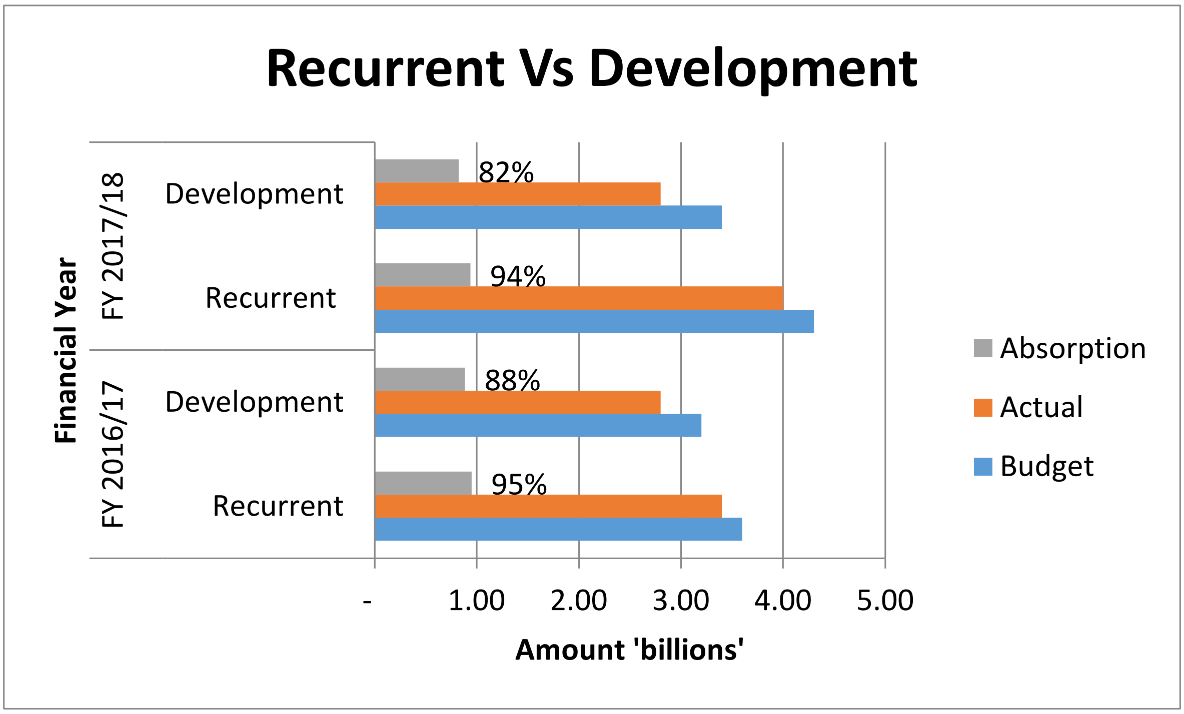

Figure 1: Recurrent and Development Expenditure

As shown in figure 1 above, absorption rates for recurrent and development votes for the FY 2017/18 was 94% and 82% respectively. In FY 2016/17 the absorption rates were 95% and 88% respectively. The slight decrease of 1% on the recurrent expenditure and 6% in development between the two financial years was attributed to the instability caused by the long electioneering period. The decrease in development expenditure by 6% between FY 2016/17 and FY 2017/18 contributed significantly to the unspent balances of Kshs 582,242,667.

2.2.2.3. Expenditure per economic classification

The figure 2 below shows actual expenditure by economic classification.

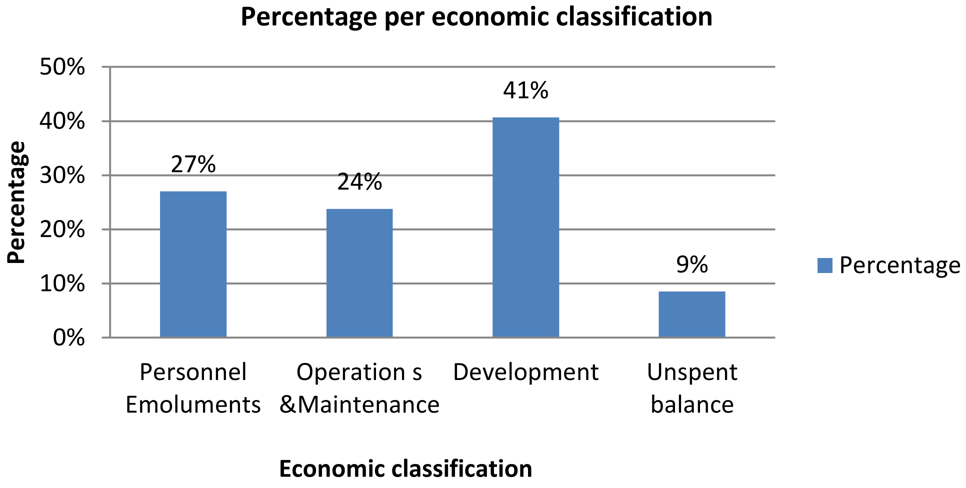

Figure 2 – Expenditure per economic classification

As indicated in the figure above, development expenditure was the highest accounting for 41% of the total revenue, followed by personnel emoluments with 27% of the total expenditure while operations accounted for 24% of the total revenue. Unspent or unutilized balance was 9% of the total revenue.

2.2.3. Implications for the FY 2017/18 performance

The fiscal performance in the FY 2017/18 has affected financial objectives set out in the 2018 County Fiscal Strategy Paper and the Budget 2019/20 in the following ways;

- Revenue collection in FY 2017/18 fell short of the targeted revenue by Kshs 35,557,538 or 27%. This under collection in revenue has warranted adjustment to projected revenues for the budget and in the medium term.
- The under spending in the 2017/18 FY budget has implications on the total county government revenue used to base expenditures for the FY 2019/20 FY. Appropriate revisions will be undertaken taking into account the fiscal performance of FY 2017/18. Expenditures on wages and benefits in FY 2017/18 FY accounted for 27 per cent (8 per cent below the prescribed limit). The County shall plan to ensure that these are kept within the current ranges in the medium term. These implications will also inform County Fiscal Strategy Paper 2019 FY projections. Over the medium term, the county government will adhere to the fiscal responsibility principles and objectives as set out in section 107 of the Public Finance Management Act of 2012.

Medium term projections have taken into account performance of 2017/18 FY and macroeconomic factors expected at the national level.
Table 2.4 below shows the county government fiscal projections in the medium term.

Table 2.4 County Government Fiscal Projections in the Medium Term

	2016/17 FY	2017/18 FY		2018/19 FY		2019/20 FY		2020/21 FY		2021/22 FY	
	Actual	**Budget**	**Actual**	**Budget**	**CBROP 2017**	**CBROP 2018**	**CFSP 2018**	**CBROP 2018**	**CFSP 2018**	**CBROP 2018**	**CFSP 2018**
TOTAL REVENUE & GRANTS	5,894,232,553	7,178,973,617	6,844,150,462	7,820,538,914	7,752,617,027	8,272,208,973	8,021,833,791	9,182,151,960	8,743,798,832	10,192,188,675	9,530,740,727
Unspent Bal b/f \Previous FY	934,822,019	551,909,485	551,909,485	-	563,356,175	-	-	-	-	-	-
Revenue (Total)	**6,829,054,572**	**7,730,883,102**	**7,396,059,947**	**7,820,538,914**	**8,315,973,202**	**8,272,208,973**	**8,021,833,791**	**9,182,151,960**	**8,743,798,832**	**10,192,188,675**	**9,530,740,727**
Equitable Share Allocation	5,599,495,638	6,583,600,000	6,583,600,000	7,002,200,000	7,241,960,000	7,422,332,000	6,978,995,398	7,867,671,920	7,607,104,984	8,339,732,235	8,291,744,432
County Own Revenue	128,628,566	130,000,000	94,442,462	140,000,000	143,000,000	154,440,000	154,440,000	166,795,200	166,795,200	180,138,816	180,138,816
Grant income	166,108,349	465,373,617	166,108,000	678,338,914	367,657,027	657,118,022	888,398,393	550,150,804	969,898,648	1,009,054,845	1,058,857,478
Grant (Total)	**5,894,232,553**	**7,178,973,617**	**6,844,150,462**	**7,820,538,914**	**7,752,617,027**	**8,233,890,022**	**8,021,833,791**	**8,584,617,924**	**8,743,798,832**	**9,528,925,896**	**9,530,740,727**
Total Expenditure	6,277,145,087	7,178,973,617	6,261,907,795	7,820,538,914	8,315,973,202	8,315,973,202	8,021,833,791	9,182,151,960	8,743,798,832	10,192,188,675	9,530,740,727
Recurrent	3,440,000,000	4,295,633,497	3,478,162,383	4,110,538,914	4,446,536,867	4,324,306,065	4,171,353,571	4,774,719,019	4,546,775,393	5,299,938,111	4,955,985,178
Recurrent as % of CG Total Revenue	*55%*	*56%*	*56%*	*53%*	*53%*	*52%*	*52%*	*52%*	*52%*	*52%*	*52%*
Personnel Emolument	1,293,146,869	1,946,266,749	1,848,936,688	2,478,682,908	1,867,545,484	1,819,885,974	1,751,968,500	2,020,073,431	1,923,635,743	2,242,281,509	2,096,762,960
Operations & Maintenance	1,216,331,172	2,349,366,748	1,629,225,695	1,631,856,006	2,578,991,383	2,504,420,091	2,419,385,071	2,754,645,588	2,623,139,650	3,057,656,603	2,859,222,218
Personnel Emoluments as % of CG Revenue	*19%*	*25%*	*25%*	*32%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
Development	2,837,145,087	2,883,340,120	2,783,745,412	3,710,000,000	3,869,436,335	3,991,667,137	3,850,480,220	4,407,432,941	4,197,023,439	4,892,250,564	4,574,755,549
Development as % of CG Total Revenue	*42%*	*37%*	*38%*	*47%*	*47%*	*48%*	*48%*	*48%*	*48%*	*48%*	*48%*
Unspent Bal Current FY	551,909,485		582,242,667								

From the table 2.4, revenue collection will be maintained at Kshs. 154 million taking into account strategies employed towards raising revenue in the medium term. This include; passing of revenue legislations on revenue administration and collection, full automation of revenue collection and integration, strengthening and enforcing surveillance and sensitization of the public. In addition, recurrent and development expenditure will be maintained at 52 percent and 48 per cent respectively surpassing the minimum 30 per cent requirement for development expenditure.

3. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

This section presents Recent Economic Developments; Medium Term Fiscal Framework; and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future. In this section, the county government discusses its assessment of the prospects for growth after analyzing the recent economic events and circumstances.

3.1 Recent Economic Developments

The Kenyan economy is on a recovery path and is projected to recover to 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent. This strong growth momentum is reflected in the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The outlook is supported by a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country.

Indeed, Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. In February, 2018, Fitch Ratings revised the Outlook on Kenya's Long-Term Foreign- and Local-Currency Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDRs at 'B+'. In addition, Kenya successfully issued a US$ 2.0 billion Euro bond split into 10yr and 30yr Tenors in February 22, 2018.

The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall year on year inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by the National Government. This decline reflected a decrease in food prices which outweighed the rise in international oil prices.

The foreign exchange market remains stable supported by a narrower current account deficit. The current account deficit narrowed to 5.8 percent of GDP in the 12 months to June 2018 from 6.4 percent over the same period in 2017 reflecting strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts. The strong capital inflows has also led to the stabilization of the shilling in the foreign exchange market and also allowed accumulation of international reserves. The usable official reserves stood at US$ 8,652 billion or 5.8 months of imports by end August 2018.

The growing national economy with inflation that is within target, low interest regime and stable and strengthening Kenya shilling exchange rate reflects good prospects for both the national and county economies. The county is expected to experience increased demand for services to citizens and high consumption leading to increased economic activities. More investments as a result of favorable macroeconomic conditions are expected to yield more job opportunities that will benefit especially the youth, women and people with disabilities. The county government will also continue to provide the necessary environment to attract investments by investing in infrastructure expansion and enhancing ease of doing business.

3.2 County Economic Outlook and Policies

The growing national economy is expected to lead to enhanced revenue performance. This will mean increased allocations to the county by Commission of Revenue Allocation thus having implication on the implementation of strategic interventions.

In FY 2017/18, the county own revenue performance missed the target by 27 percent by posting Kshs. 94 million against target of Kshs 130 million. In FY 2016/17 the county collected revenue of Kshs 128 million and the Kshs 94 million achieved in FY 2017/18 represented a decrease of 27 percent from the levels achieved in FY 2016/17. The decrease can be attributed to the long electioneering period that adversely affected economic activity and heightened tensions in specific locations of the County which are considered volatile and prone to violence.

Delay in release of funds by the National Government and under-collection of revenue affected implementation of 2017/18 budget. Absorption rate was about 89 percent during the period. Total expenditure in the period was Kshs 6,261,907,795 against target of Kshs 6,844,150,462 leading to a deviation of about 15 percent amounting to Kshs 582,242,667.

The resource envelop of the County Government has also faced challenges of inadequacy given the size and historical underdevelopment characteristics of the County. The situation has been compounded by the consistent underperformance in the generation of the Own Source revenue which results in the County Government relying on the national government for most of its revenue. The County Government has developed several strategies place to improve revenue collection and also raise additional funds by strengthening collaboration, networking and partnerships. The government will continue to work with the National Government, development partners and other counties in the region and beyond in addressing development challenges facing residents of the county, especially in water, agriculture, infrastructure and health.

3.3 Medium Term Expenditure Framework

The county government will operate within a framework of balanced budget in the medium term with occasional short term borrowing as may be necessary for cash flow management purposes. The government’s fiscal policy objective in the medium term will be to focus resources to priority and growth potential areas including water, infrastructure, agriculture and livestock production, and health.

Revenue mobilization initiatives will be strengthened to enhance revenue performance. The County's own revenue performance has been fluctuating over the years culminating to a shrink of 27 percent in 2017/18 compared to 2016/17. To realign own revenue performance to positive growth trajectory, the government will ensure adequate legislations to guide revenue collection and management, improve enforcement for compliance, enhance residents' ICT literacy levels for more compliance and broaden tax base. The government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions.

In the medium term the county government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The government will continue to monitor expenditure closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will be expected to include personnel emoluments (P.E), development and operations. The government will fast track implementation of programmes targeting the vulnerable including the youth, women, minority clans and people with disabilities (PWDs) to enhance their participation in the socio-economic development of the county.

The fiscal responsibility principles will remain theguiding framework for its public finance management discourse.

3.4 Risks to the Outlook

The county operates within the framework of global economy and the world scenario will affect the economy of the county through exports and tourism among others. In the event of a downturn in the Global economy of the economy of Kenya against the World Economy, then the revenues from the equitable share may not grow as projected. Further, the Counties are already facing revenue cuts due to the ongoing austerity measures. The effect of such measures can only be fully analyzed in the CFSP 2019. However, the potential for adverse impact on the projections and resultant budget ceilings is considered moderate to high.

The outlook is based on assumed normal rainfall. However, rainfall pattern proved erratic in some seasons in the past. Erratic rainfall pattern, if experienced, is likely to affect livestock production.

On the county own revenue performance, it has been fluctuating and underperforming. But with the expected improved revenue performance at the national level due to the growth momentum of the Kenya, the total revenue of the county is expected to increase over the medium term. However, the are expenditure pressures due to increasing wage bill thus leaving inadequate resources for development.

Delays in the receipt of the equitable share in the county affects the absorption rate and ability of the County to make timely interventions. For the FY 2019/20 and beyond the County will seek to make accurate work plans that will inform the procurement plans. This will ensure the county has realistic cash-flow projections, to be shared with the Controller of Budget and National Treasury which will ensure better planning for resources.

The final risk is the conflicting priorities between the County Assembly and the County Executive thus affecting budget making process and budget execution. There is need to foster closer collaboration and consultations during county planning and budgeting.

4. RESOURCE ALLOCATION FRAMEWORK

This section establishes the resource envelope the county expects and how it will be allocated across all the sectors for 2019/20 FY and MTEF

4.1 Adjustment to the FY 2018/19 Budget

The 2018/19 Budget sought to set the agenda for the new government and consolidate the gains made by the previous government even as the County continues to pursue the transformative agenda it started for inclusive economic growth. However, even as the implementation of the budget continues, there will be need to make adjustments to the budget. Specifically;

- The new austerity measures have seen the allocation to the County Government cut by Kshs 9 billion. Consequently, this will impact on the equitable share allocation to the County Government of Marsabit and will require further alignments to the budget to refocus spending priorities.
- The department of Agriculture expects to recruit livestock production officers (4), animal health assistant officers (20), veterinary officers (6), fisheries officers (4), and fisheries enforcement officers (6), agriculture officers (10), agribusiness and market development officers (4) and assistant agriculture officers (6). This is significant and there will be a need to reallocate funding to meet the personnel costs for these staff.
- The department of lands also plans to recruit physical planners (2), surveyors (2), energy officer (4), cartographers (2), town administrators (2), and enforcement officers (40), fire marshalls (40) and urban officers (4). Re-allocations will need to be done to adjust the budget to factor in the proposed recruitments.
- Under the health department there is an expected adjustment of personnel emoluments in health department to include the recruitment of health workers to fill the existing staff gaps. The expected budget allocation is Kshs 100,000,000. Further, some items in the budget were under provided for and will need to be increased. Notable are electricity expense which requires Kshs 3,000,0000, water and sewerage requiring Kshs 2,000,000 and training and supervision expenses which need to be increased by Kshs 5,000,000.

4.2 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in CIDP 2018-2022 and other county plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

Table 2.5 below therefore provides indicative sector ceilings for the 2019/2020 – 2021/22 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

Table 2.5 Summary of Indicative Sector Ceilings for FY 2019/20 MTEF

MDAs	Total Expenditure Kshs.					% Share of Total Expenditure				
	Revised Estimates	Estimates	Projections			Estimates	Ceilings	Projections		
	2017/18	2018/19	2019/20	2020/21	2021/22	2017/18	2018/19	2019/20	2020/21	2021/2022
Governor's Office	1,186,883,447	911,437,254	827,220,897	734,572,157	815,375,094	15%	12%	10%	8%	8%
Finance Economic Planning	1,116,045,516	478,985,872	413,610,449	459,107,598	509,609,434	14%	6%	5%	5%	5%
Education, Skills & Sport	461,169,790	547,000,000	661,776,718	826,393,676	917,296,981	6%	7%	8%	9%	9%
County Public Service Board	101,868,540	90,000,000	82,722,090	91,821,520	101,921,887	1%	1%	1%	1%	1%
County Assembly	650,960,640	719,999,313	744,498,808	918,215,196	1,019,218,868	8%	9%	9%	10%	10%
Agriculture, Livestock & Fisheries development	332,582,224	616,000,000	661,776,718	734,572,157	815,375,094	4%	8%	8%	8%	8%
Trade, Enterprise n Cop development	211,372,050	248,500,000	248,166,269	275,464,559	305,765,660	3%	3%	3%	3%	3%
Road transport and public works	413,508,241	567,000,000	827,220,897	918,215,196	1,019,218,868	5%	7%	10%	10%	10%
Lands, Energy & Urban Dev.	354,141,798	405,800,000	413,610,449	459,107,598	509,609,434	5%	5%	5%	5%	5%
Tourism culture	135,759,705	182,000,000	165,444,179	183,643,039	203,843,774	2%	2%	2%	2%	2%
Water, Environ & Natural	734,363,928	720,043,975	744,498,808	826,393,676	917,296,981	9%	9%	9%	9%	9%
Admin, Coordination n ICT	321,094,230	362,450,000	330,888,359	367,286,078	407,687,547	4%	5%	4%	4%	4%
Health Services	1,711,124,980	1,971,322,500	2,150,774,333	2,387,359,510	2,649,969,056	22%	25%	26%	26%	26%
Total	**7,730,875,089**	**7,820,538,914**	**8,272,208,973**	**9,182,151,960**	**10,192,188,675**	**100%**	**100%**	**100%**	**100%**	**100%**

4.3 The Proposed 2019/20 Budget Framework

4.3.1 Revenue Projections

The FY 2019/20 budget targets revenue (equitable share and local) collection of Kshs 8,272,208,973 Million up from Kshs. 7,820,5348,914 Million in the FY 2017/18. This revenue performance will be dependent on improved control over revenue collection and revenue administration.

4.3.2 Expenditure Forecasts

In the proposed 2019/20 budget, overall expenditures are projected to increase by 6 percent to Kshs. 8,233,890,022 up from the budget of Kshs 7,820,538,914 in the FY 2018/2019. Recurrent expenditure is projected to increase by 4 percent to Kshs 4,281,622,611 in FY 2019/20 up from a budget of Kshs 4,110,538,914 in FY 2018/19 accounting for 52% of the total budget. Similarly, development expenditure is projected to increase by 7 percent to Kshs 3,952,276,211 in FY 2019/20 up from Kshs 3,710,000,000 budgeted for in FY 2019/20 accounting for 48 percent of the total budget and within the recommended level of 30 percent.
In addition, personnel emolument is projected to increase by 25% of the actual amounts paid in FY 2017/18 to Kshs 2,305,969,758 from Kshs 1,848,936,688 due to the recruitments being undertaken by the County. However, the budget will decrease by 7% from that amounts budgeted in the current financial year as many of the recruitment plans changed and the budget will therefore be re-aligned. Overall, the County expects to maintain the personnel costs at below 30% of the total revenue (below the limit set of 35%). In this regard, the county government will over the medium ensure comply with the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The county government is expected to enhance expenditure productivity in the proposed year and manage the rising wage bill to be within the required limit. Table 2.6 below indicates the projections for expenditure in the medium term period.

Table 2.6 Summary of Expenditure Projections 2019/20 FY and MTEF

Revenue Type	Actual	Approved Budget Estimates	Projected Estimates		
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Personnel Emoluments	1,848,936,688	2,478,682,908	2,305,969,758	2,421,268,246	2,096,762,960
Operation s &Maintenance	1,629,225,695	1,631,856,006	1,975,653,054	1,775,596,714	2,859,222,218
Development	2,783,745,412	3,710,000,000	3,952,267,211	3,874,029,193	4,574,755,549
Un spent Bal FY	582,242,667	-	-	-	-
Total	**6,844,150,462**	**7,820,538,914**	**8,233,890,022**	**8,070,894,153**	**9,530,740,727**

4.4 Projected Fiscal Balance

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

5. CONCLUSION

The FY 2019/20 budget is being prepared within the context of a moderate global economic recovery. As the National Government scales up the implementation of "The Big Four" Plan, the County Government has also aligned the County Integrated Development Plan and the Annual Development Plans to ensure that the County Specific targeted interventions are funded and implemented. The aim of the MTEF is therefore to strike an appropriate balance between support for growth and continued fiscal discipline while providing room for the implementation of the CIDP 2018-2022.

To create fiscal space and guarantee appropriate phasing of expenditure programmes, sectors and the Sector Working Groups will be required to conduct a thorough scrutiny of all proposed activities and Budgets for FY 2019/20 to ensure that they are not only directed towards improving productivity but also aligned to the achievement of the CIDP aspirations. As such, the fiscal strategy in this CBROP will focus on enhancing overall revenue collection and reallocating resources to the priorities across the sectors as envisaged in the CIDP.

The Government will continue to ensure that the budget is strictly followed and service delivery is given focal attention to achieve the set objectives. The resource ceilings projected in this document should guide the Sector Working Groups to prioritize the key programmes and projects contained in the Annual Development Plan 2019/20 to ensure consistency in the development interventions of the County. Taking this into account, the overall expenditure is expected to increase by 5% between the budget for FY 2018/19 and the projected ceiling of Kshs 8,233,890,022 for FY 2019/20 as provisionally projected in the CBROP. The SWGs are required to prepare medium-term budgets that are consistent with the Medium-Term Fiscal Framework. The resource envelope for each Sector has been provided under table 2.5. These ceilings will form inputs into the CFSP 2019 which will be finalized by the 28 February 2019.

ANNEXES

Annex 1: Budget Calendar for the 2019/20 Budget