REPUBLIC OF KENYA

COUNTY GOVERNMENT OF KWALE
COUNTY TREASURY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER FY 2016/2017

SEPTEMBER 2017

County Budget Review and Outlook Paper (CBROP) 2017

To obtain copies of the document, please contact:

The Budget and Economic Planning Office

Kwale County Treasury

P.O. Box 4- 80403,

KWALE

The document is also available on the county website at : www.kwalecounty.org.ke

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
DANIDA	Danish International Development Agency
EAC	East African Community
EPZ	Export Processing Zone
EEZ	Exclusive Economic Zone
ECDE	Early Childhood Development Education
GDP	Gross Domestic Product
FY	Financial Year
HR	Human Resources
ICT	Information Communication Technology
KBRR	Kenya Banks Reference Rate
KCo TREF	Kwale County Trade Revolving Fund
KNBS	Kenya National Bureau of Statistics
MDGs	Millennium Development Goals
MPC	Monetary Policy Committee

MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NFNF	Non- Food Non- Fuel
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PWDs	Persons with Disabilities
SBP	Single Business Permit
SGR	Standard Gauge Railway
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SSA	Sub -Saharan Africa
SWGs	Sector Working Groups
US	United States
WEO	World Economic Outlook
YPs	Youth Polytechnics

FOREWORD

The Kenyan economy registered an estimated growth rate of 5.8 percent in 2016 compared to a revised growth of 5.7 percent in 2015. Although there was marked improvement in growth of most sectors there was deceleration in growth in the key sectors of agriculture, energy, mining and quarrying, financial and insurance services. Agriculture which is the main stay of our economy was affected by the prolonged drought in the fourth quarter of 2016. Macroeconomic indicators had mixed performance though remained fairly stable.

Performance of the county economy which is highly influenced by the macroeconomic factors in the Kenyan economy was subdued. Agricultural production in particular was affected by the prolonged drought and other climate change effects resulting in famine and call for emergency services by the County Government. The General Elections compounded the challenge as businesses performed poorly in the months prior to the elections. The County Fiscal performance was thus affected on the local front. Local revenue though remaining robust performed below the revised target of **Kshs 261 Million**. On the expenditure side, recurrent budget had higher absorption rates while development expenditure performance rate was lower compared to FY 2015/2016.The aftermath of the General Elections will be felt on the County fiscal performance in the FY 2017/2018 budget. Though we anticipate the situation to improve and have positive effect on budget implementation, risks still remain.

In the current financial year, deliberate efforts shall be undertaken to improve on local revenue collection. Among such efforts will include: intensifying compliance and enforcement efforts, fast tracking the implementation of revenue system automation, enactment of the Finance Bill 2015 and its other affiliated bills and establishment of the new valuation roll. To improve on development budget absorption, prompt preparation of procurement plans shall be enforced using e-procurement system to achieve efficiency and technical capacity in relation to projects implementation in key areas shall be enhanced.

The Kenyan macroeconomic outlook is expected to show positive growth. This coupled with improvement in security and implementation of the reforms in the areas of governance and justice will ensure prosperity in the country. We anticipate positive growth in the local economy as tourism earnings improve owing to improved security. Favorable weather patterns and efforts to enhance non-rain fed agriculture will also encourage growth in our economy. The effects of positive growth in the Kenya economy will stimulate growth in the various sectors of our local economy thereby increasing savings, investments and incomes of the people. This will provide an enabling environment to enhance our local revenue collection and thus enhance public service delivery.

The 2017 CBROP takes into consideration the priorities set out in the FY 2018/2019 Annual Development Plan to be implemented in the FY 2018/19 budget and the medium term. This 2017 CBROP has therefore set out provisional expenditure ceilings to re-emphasize the attainment of our transformation agenda in the key sectors. Our resolve to contain recurrent expenditures and shift resources to the core development expenditures has also been considered. It is imperative that Sector Working Groups and departments adhere to these ceilings when preparing their budget proposals in the forthcoming FY 2018/2019.

HON. BAKARI HASSAN SEBE
EXECUTIVE MEMBER, FINANCE & ECONOMIC PLANNING

ACKNOWLEDGEMENT

This is the fourth and last County Budget Review and Outlook paper (CBROP) to be prepared in the Medium Term Expenditure Framework (MTEF) period 2013-2017. It is prepared in accordance with the requirements of section 118 of the Public Finance Management Act, (PFMA) 2012. This 2017 CBROP will provide a review of the actual fiscal performance for financial year (FY) 2016/2017 and how this performance has deviated from the financial objectives given in the last County Fiscal Strategy Paper CFSP 2017 and how it impacts on compliance with the fiscal responsibility principles spelt out in section 107 of the PFMA, 2012.

Various participants contributed to the successful preparation of this document. We are grateful for their inputs. I wish to recognize and appreciate the support from departments through their principal accountants who provided relevant information and statistics which informed the contents of this Paper. My gratitude also goes to the County Executive Committee Member for Finance and Economic Planning for providing leadership in the preparation of this document.

Lastly, I wish to appreciate the County Budget and Economic Planning team for their hard work and commitment in the quality content development and prompt delivery of this document.

ALEX THOMAS ONDUKO
CHIEF OFFICER, FINANCE & ECONOMIC PLANNING

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

Section 118 of the Public Finance Management Act, 2012 states that:-

1.The County Treasury shall prepare and submit to the County Executive Committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shall include :-

a) Actual fiscal performance in the previous financial year compared to budget appropriation for that year;
b) Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper
c) Information on how actual financial performance for the previous financial year may have affected compliance with fiscal financial responsibility principles or the financial objectives in the latest County Fiscal Strategy Paper;
d) The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2. County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the County Budget Review and Outlook Paper has been approved by the Executive Committee, the County Treasury shall:-

a) arrange for the Paper to be laid before the County Assembly
b) as soon as practicable after having done so, publish and publicise the Paper

Fiscal Responsibility Principles for the National and County Governments

Section 107 of the Public Finance Management Act, 2012 sets the principles of fiscal responsibility.

Subsection (2) states that:

In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:-

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 revenues as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
d) Over the medium term, the county government's borrowing 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 suitable level as approved by County Assembly
f) the financial risks shall be managed prudently, and
g) a reasonable degree of predictability with respect to the level of tax bases shall be maintained, taking into account any tax reforms that may be made in the future
h) Short term borrowing as mentioned in (d) above shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

EXECUTIVE SUMMARY

The preparation of this 2017 County Budget Review and Outlook Paper compiled with the requirements of section 118 of the Public Finance Management Act 2012. This 2017 CBROP presents a review of the actual county fiscal performance for the financial year 2016/2017 and how this impact on the financial objectives contained in the latest County Fiscal Strategy Paper 2017 and the fiscal responsibility principles given under section 107 of the PFM Act 2012. This together with the updated macroeconomic outlook and the fiscal projections provided in this paper will provide a basis for revision of the FY 2017/18 budget in the context of Supplementary Estimates and focus for the next FY 2018/2019 fiscal plan and the medium term.

Total income from all sources for the FY 2016/2017 amounted to KShs.7,698,414,226.00. This was 96.85 percent compared to the total revenue target of Kshs7,948,508,122.00. The Equitable share of revenue amounted to Ksh 5,530,693,069.00 which is about 71.4 percent of the total funds released to the county. County own source revenue was Kshs 221 Million against a set target of Kshs 261 Million. There was a marginal decrease in performance of county own source revenue compared to previous financial year FY 2015/2016.

Conditional grants received amounted to Kshs 416.6 Million against a budgeted figure of Ksh. 543.8 Million. Total disbursements as at the close of the financial year were totaling to Kshs **7.7 Billion.** This is an improvement from previous financial FY 2015/2016 where the county received Kshs 5.59 Billion.

On the expenditure side, budget execution resulted in Kshs 5,923,557,600.00 being spent from all County departments and agencies. Out of this, Kshs 3.74 Billion was from recurrent expenditures while development expenditures totaled Kshs 2.18 Billion. In terms of funds absorption, recurrent expenditures had an absorption rate of 87.0 per cent while 60.5 per cent of development funds were utilized in the fiscal year under review. The under performance in the development budget was a result of carrying forward huge pending bills from previous financial year and the late release of development funds.

Compliance to the fiscal responsibility principles given under section 107 of the PFM Act 2012 was met. 45.6 per cent of the total budget for FY 2016/2017 was allocated to development programmes and projects and the threshold on personnel emoluments and operations and maintenance were met. Fiscal risks were contained and the county did not borrow to sustain its operations and /or carry out its development agenda. Financial objectives contained in our latest County Fiscal Strategy Paper 2017 were met and any deviations have been addressed.

The Kenyan macro-economic outlook is anticipated to be more resilient and favorable to most sectors of the economy. It is envisaged that the economy will remain robust with a stabilized foreign exchange, low and manageable inflation rates, favorable interest rates for borrowing and investments and more importantly favorable weather patterns. The local county economy is expected to gain from the maintenance of a conducive macro-economic environment as this stimulates growth in most sectors. With the anticipated security improvement, tourism earnings will be enhanced, trade and business in general will grow. This will impact positively on local revenue collection as the other revenue raising measures are entrenched.

This 2017 CBROP estimates total revenue of Kshs 8.62 billion from all sources for the FY 2018/2019 budget. This is an increment of about 5 per cent of the current financial year 2017/2018 budget which had estimated revenue of 8.2 billion from all sources without the brought forward balances from previous financial year. The target for county own source revenue is projected at Kshs.243 Million which is an increment of 10 per cent of the actual revenue received in FY 2016/2017.This implies that the county own source revenues for FY 2017/2018 will have to be revised downwards owing to the trend in actual revenue collection and the macroeconomic outlook and political situation. Total expenditures are projected at Kshs 8,617,671,314.50 out of which Kshs 4.56 billion and Kshs 4.057 billion will be for recurrent and development expenditures respectively. This paper anticipates a balanced budget for FY 2018/2019.

CHAPTER ONE: INTRODUCTION

1.0 Objective of the County Budget Review and Outlook Paper (CBROP) 2017.

1. The purpose of preparing this 2017 CBROP is to highlight the actual fiscal performance of the previous financial year 2016/17 and how this impact on the financial objectives contained in the latest County Fiscal Strategy Paper 2017. It will further provide an insight into how the 2016/17 budget implementation affected the fiscal responsibility principles laid down in section 107 of the Public Finance Management Act, 2012.

2. The review of the actual fiscal performance of the previous financial year 2016/2017 coupled with the updated macroeconomic outlook and fiscal projections contained in this 2017 CBROP will give the basis for preparation of the supplementary estimates for FY 2017/2018 and the focus for FY 2018/2019 budget.

3. The strategic priorities and development objectives contained in our latest FY 2018/2019 Annual Development Plan have been re-emphasized in this 2017 CBROP for implementation in the FY 2018/2019 budget and the medium term. Our core agenda of transforming Kwale in key sectors of education, health care, water services, roads, agricultural transformation and social welfare development has informed the provisional ceilings given in this document.

4. This 2017 CBROP is organized as follows: Chapter I introduces the paper. Chapter II provides a review of the fiscal performance and its implications on the financial objectives given in the 2017 CFSP and the PFM fiscal responsibility principles. Recent economic developments and macroeconomic policies and outlook are given in chapter III. This is followed by proposed resource allocation framework, fiscal projections and sector ceilings in chapter IV and chapter V concludes the paper.

CHAPTER TWO: REVIEW OF COUNTY FISCAL PERFORMANCE FY 2016-2017

2.0 Overview

5. This chapter provides information on the County's fiscal performance for the period ending 30th June 2017. It also highlights the key milestones achieved and the key lessons learnt in the budget implementation for FY 2016/2017.

6. The fiscal performance for the year 2016/2017 was generally satisfactory compared to previous year's performance. The County government continued the implementation of the development priorities as envisaged in the CIDP 2013 – 2017. However, the key challenge that has affected implementation of development priorities by the County Government has been the delay in the release of funds from the National Exchequer.

7. Revenue collection improved over the period under review following an increase in revenue collection at the National level and the increased allocation of the Equitable Share following the proposal made by the Commission on Revenue Allocation (CRA) and passing by the Parliament. This was indicated in the County Allocation of Revenue Act, (CARA) 2016.

8. On the expenditure side, the County Government ensured strict adherence to the fiscal responsibility principles as set out in Section 107 of the Public Finance Management (PFM) Act, 2012 to ensure prudence and transparency in the management of public resources. As a result, the County Government achieved commendable absorption rates in both recurrent expenditure at 86.14 percent and 60.65 percent for development budget in the period under review.

Table 1 : Summary of County Allocation for FY 2016/2017

No	Source	Amount Allocated as Provided in CARA 2016 (Kshs)
1	Equitable Share of Revenue from National Government	5,530,693,069.00
2	County Own Revenue	261,048,468.00
3	Free Maternal Health Care	119,385,662.00
4	Compensation for user fees forgone	15,397,611.00
5	Leasing of Medical Equipment	95,744,681.00
6	Road Maintenance Fuel Levy Fund	84,979,062.00
7	World Bank Loan to supplement financing of county health facilities	82,166,289.00
8	World Bank Universal Health Care Project	30,679,771.00
9	World Bank Grant on Result Based Financing (RBF)	108,657,268.00
10	DANIDA Grant to supplement financing of county health facilities	6,810,000.00
11	Doctors and Nurses Allowances as per return to work agreement	135,000,000.00
12	Refund from Britam Insurance for written off Ambulance	7,000,000.00
13	Income B/F from previous FY 2015/16	1,470,946,241.00
	TOTAL	**7,948,508,122.00**

Source: *Kwale County Treasury*

2.1 County Revenue Performance FY 2016/2017

2.1.1 Overview

9. The County had an approved budget of **Kshs.7.95 billion** for the FY2016/17 comprised of **Kshs. 4.33 billion** (54.47 percent) and **Kshs. 3.62 billion** (45.53 percent) for recurrent and development expenditures respectively. The county development budget reduced significantly from 62.8 percent of the total budget in FY 2015/16 to 45.53 percent in the period under review. This can be attributed to the advisory letter from the Office of the Controller of Budget (OCOB) to shift some items that were recurrent in nature to the recurrent budget. Some of these affected items include scholarship and bursary scheme (Kshs. 400M), Medical drugs (Kshs. 99.375M) and Dressings and other Non – Pharmaceuticals (Kshs. 73M) among others.

10. The approved County Budget for FY2016/17 was to be financed through **Kshs. 5.53 billion** (69.58 percent) as equitable share of revenue, **Kshs. 543.82 million** (6.84 percent) as total conditional grants, **Kshs. 261.05 million** (3.28 percent) as county own revenue and **Kshs. 1.47 billion** (18.51 percent) being income cash balances from the previous financial year 2015/16.

11. The conditional grants comprised of Free Maternal Health Care of Kshs. 119.39 million (21.95 percent), User fees forgone Kshs. 15.40 million (2.83 percent), Leasing of medical equipment Kshs. 95.74 million and Road maintenance levy fund Kshs. 84.98 million (15.63 percent). Others include World Bank loan to supplement financing of county health facilities Kshs. 82.17 million (15.11 percent), World Bank Universal Health Care project Kshs. 30.68 million (5.64 percent) and DANIDA grant to supplement financing of county health facilities Kshs. 6.81 million (1.25 percent).

2.1.2 Revenue Analysis

12. The total actual county revenue for FY 2016/17 improved significantly to **Kshs. 6.12 billion** from Kshs. 5.59 billion in the previous year. However, the actual funds received represented 76.98 percent of the approved expected revenue projections. The deficit can be attributed to failure in meeting the own source revenue target and other sources as shown in the table below.

Table 2: Analysis of Actual Funds received for FY 2016/2017

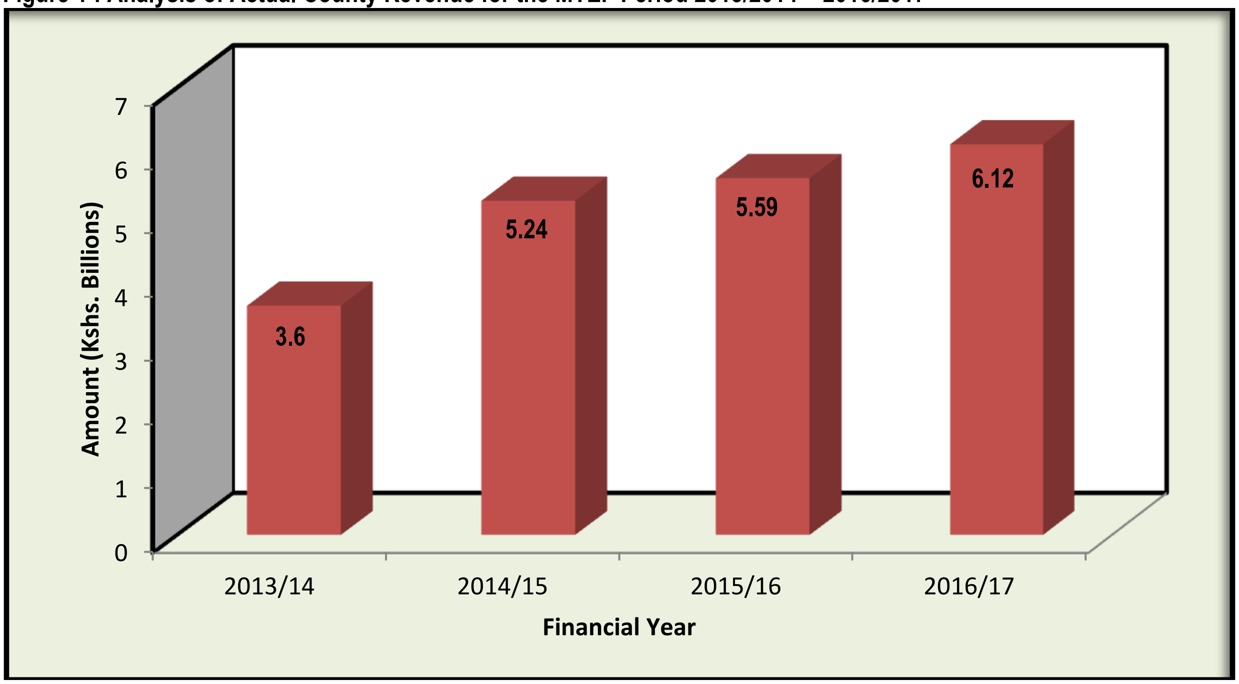
No	Source	Amount Allocated as Provided in CARA 2016 (Kshs)	Actual Receipt (Kshs)	Actual Receipt as a percentage of Annual Allocation (%)
1	Equitable Share of Revenue from National Government	5,530,693,069.00	5,530,693,069.00	100.00
2	County Own Revenue	261,048,468.00	221,011,186.00	84.66
3	Free Maternal Health Care	119,385,662.00	87,812,500.00	73.55
4	Compensation for user fees forgone	15,397,611.00	15,397,612.00	100.00
5	Leasing of Medical Equipment	95,744,681.00	-	-
6	Road Maintenance Fuel Levy Fund	84,979,062.00	84,979,061.00	100.00
7	World Bank Loan to supplement financing of county health facilities	82,166,289.00	82,166,289.00	100.00
8	World Bank Universal Health Care Project	30,679,771.00	30,777,000.00	100.32
9	World Bank Grant on Result Based Financing (RBF)	108,657,268.00	-	-
10	DANIDA Grant to supplement financing of county health facilities	6,810,000.00	6,810,000.00	100.00
11	Doctors and Nurses Allowances as per return to work agreement	135,000,000.00	52,164,000.00	38.64
12	Refund from Britam Insurance for	7,000,000.00	7,000,000.00	100.00

	written off Ambulance			
13	Income B/F from previous FY 2015/16	1,470,946,241.00	-	-
	TOTAL	**7,948,508,122.00**	**6,118,810,717.00**	**76.98**

Source: *Kwale County Treasury*

13. Further analysis of the actual funds received is shown in the figure below.

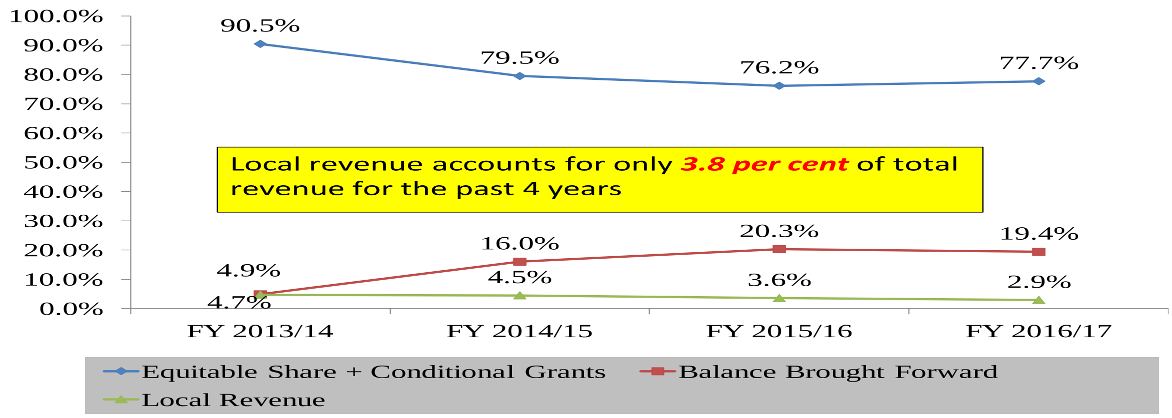
Figure 1 : Analysis of Actual County Revenue for the MTEF Period 2013/2014 – 2016/2017



Source: *Kwale County Treasury*

14. An analysis of the historical trends of revenue collection for the entire MTEF period from FY 2013/2014 - FY 2016/2017 shows a steady increase in the total revenue and therefore total budget for the county. Figure 2 below shows the historical trends in the budget

Figure 2 : Historical trends in revenue collection from all sources FY 2013/2014-FY 2016/2017



Source: *County Treasury*

2.1.3 Transfers from the National Government

15. The County recorded a growth in total actual transfers from the National Government to **Kshs. 5.53 billion** within the period under review. This indicates a 7.90 percent expansion in actual transfers from the national government compared to Ksh 5.125 billion received in the previous financial year. However, delays in releasing the funds to the County Revenue Fund (CRF) account has been hindering project implementation and service delivery as a whole. Table 3 below indicates that a total of Kshs. 884.91 million was released to the CRF within the month of June (28th and 30th) 2017.

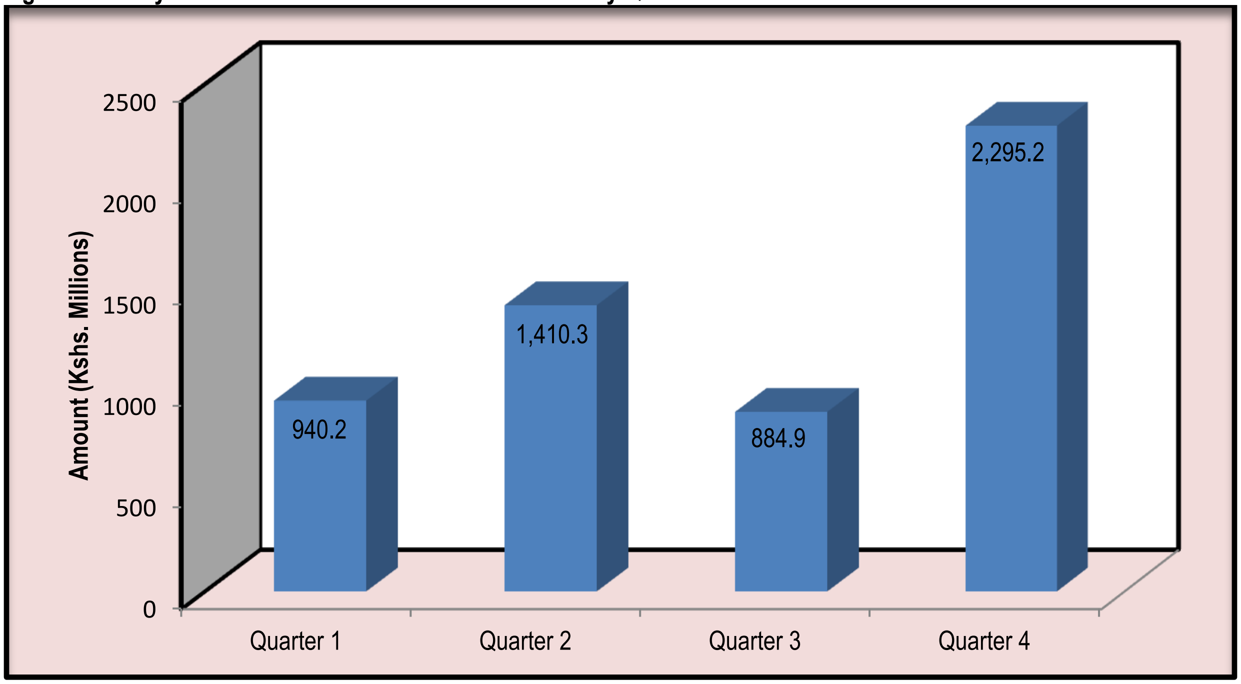
Table 3: Schedule of equitable share funds release to the CRF for FY 2016/2017

BUDGETED ALLOCATION	DATE DISBURSED	FT. NUMBER	AMOUNT DISBURSED	RUNNING BALANCE
5,530,693,069.00				5,530,693,069.00
	08-08-16	FT16221220WZ	442,455,446.00	5,088,237,623.00
	16-09-16	FT16260P0YDG	497,762,376.00	4,590,475,247.00
	14-10-16	FT16288F1479	442,455,446.00	4,148,019,801.00
	15-11-16	FT16320R8H8Q	470,108,911.00	3,677,910,890.00
	22-12-16	FT16357FX60S	497,762,376.00	3,180,148,514.00
	27-01-17	FT17027S8VN7	442,455,446.00	2,737,693,068.00
	23-02-17	FT17054PNQXQ	442,455,447.00	2,295,237,621.00
	06-04-17	FT17096YY7WY	497,762,376.00	1,797,475,245.00
	11-05-17	FT17131JWSLD	442,455,446.00	1,355,019,799.00
	31-05-17	FT171516JX54	470,108,911.00	884,910,888.00
	28-06-17	FT171798Q2Q2	442,455,446.00	442,455,442.00
	30-06-17	FT1718165SYX	442,455,442.00	-
TOTAL			**5,530,693,069.00**	

Source: *Kwale County Treasury*

16 . The highest amount of funds released to the CRF of **Kshs. 2.295 billion** (translating to a 41.49 percent of the equitable share allocation) was done in the fourth quarter of the period under review. This in turn put expenditure pressures on the departments in rushing to implement their development projects and programmes before closure of the financial year. This scenario also explains the high amount of commitments that are carried over to the next financial year's budget. The figure below provides an overview of the actual amount of funds received by quarter from the National exchequer.

Figure 3 : Analysis of National Government Remittances by Quarter for FY 2016/2017



Source: *Kwale County Treasury*

2.1.4 Conditional Grants

17. These are additional resources allocated to the County Government from revenue raised by the National Government or in form of loans and grants from development partners in support of major public services that are devolved such as health care services. They include free maternal health care, compensation for user fees forgone, leasing of medical equipment, World Bank loan to supplement financing of county health facilities, World Bank Universal Health Care Project, World Bank Grant on Result Based Financing (RBF) and DANIDA Grant to supplement financing of county health facilities in the health sector. Others include the Road maintenance fuel levy fund in the infrastructure sector. Table-4 below shows an analysis of the performance of conditional grants within the period under review.

Table 4: Analysis of conditional grants for FY 2016/2017

S/No	Conditional Grant	Allocation Based on CARA, 2016 (Kshs.)	Actual Receipt (Kshs.)	Actual Receipt as a Percentage of Annual Allocation (%)
1	Free Maternal Health Care	119,385,662.00	87,812,500.00	73.55
2	Compensation for user fees forgone	15,397,611.00	15,397,612.00	100.00
3	Leasing of Medical Equipment	95,744,681.00	-	-
4	Road Maintenance Fuel Levy Fund	84,979,062.00	84,979,061.00	100.00
5	World Bank Loan to supplement financing of county health facilities	82,166,289.00	82,166,289.00	100.00
6	World Bank Universal Health Care Project	30,679,771.00	30,777,000.00	100.32
7	DANIDA Grant to supplement financing of county health facilities	6,810,000.00	6,810,000.00	100.00
	TOTAL	**435,163,076.00**	**307,942,462.00**	**70.76**

Source: *Kwale County Treasury*

18. During the period under review, the health sector was allocated **Kshs. 350.18 million** from various conditional grants and loans in support of essential health care services. However, a total of **Kshs. 222.96 million** was received translating to 63.67 percent of the annual allocation. In addition, through the grant on leasing of medical equipment, the county received various medical equipment during the review period. The table below provides a summary of the equipment received.

Table 5: Summary of medical equipment received under leasing of medical equipment for 2016/2017

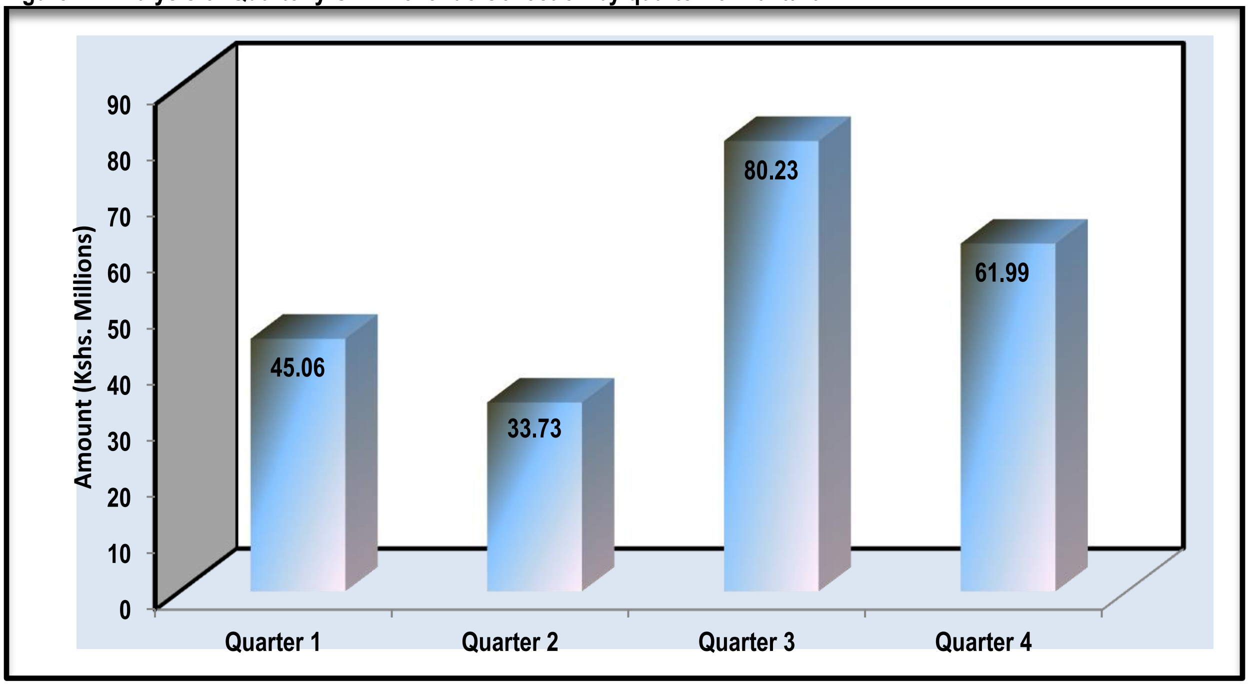
S/NO	NAME OF EQUIPMENT	QUANTITY	DESTINATION FACILITY
1	Dialysis Machine	2	Msambweni Referral Hospital
2	Dialysis Chairs	3	Msambweni Referral Hospital
3	Dialysis Beds	2	Msambweni Referral Hospital
4	Suction Machine	1	Msambweni Referral Hospital
5	Oxygen Concentrator	2	Msambweni Referral Hospital
6	Anaesthesia Machine	2	Msambweni Referral Hospital
7	Theatre equipment	Various	Msambweni Referral Hospital and Kinango Hospital
8	X -Ray equipment	Various	Kinango Hospital

Source: *County Department of Health*

2.1.5 County Own Source Revenue

19. The County Government recorded an own revenue collection of **Kshs 221,011,186.00,** a decline from Kshs. 248,617,586.00 collected in the previous FY 2015/16. The actual own revenue collection represents 84.66 percent of the annual target of Kshs. 261,048,468.00. The underperformance can be explained by lack of regulations and update of the existing tax laws, revenue leakages as well as court cases on land rates which have dragged on for many years.

Figure 4 : Analysis of Quarterly Own Revenue Collection by quarter for 2016/2017



Source: *Kwale County Treasury*

20 . The third quarter had the highest collection of Kshs. 80.23 million. This can be attributed to land owners' payment of land rates before the 31st March deadline to avoid possible penalties. Similarly, Single Business Permits (SBP) is higher in fourth quarter because of the inspection exercise done during the quarter to enforce compliance.

Table 6 : Analysis of county own source revenue collection by stream for FY 2016/2017

S/NO	REVENUE SOURCE	ANNUAL TARGET TED REVENUE (KSHS.)	ACTUAL REVENUE (KSHS.)	ACTUAL REVENUE AS A PERCENTAGE OF ANNUAL TARGET
1	Land Rates	59,275,403.50	53,682,884.00	90.57
2	Single Business Permit	63,580,053.00	55,018,719.00	86.53
3	House and Stall Rent	3,338,400.00	3,346,450.00	100.24
4	Market Fees	5,091,161.50	5,140,628.00	100.97
5	Royalties and Cess	33,438,017.00	26,911,184.00	80.48
6	Transit Goods	6,419,443.00	4,832,314.00	75.28
7	Auction Fees	6,635,901.30	6,659,248.00	100.35
8	Advertisement	13,356,659.00	12,905,110.00	96.62
9	Parking Fees	11,579,478.00	11,054,159.00	95.46
10	Revenue From Hospital	34,252,667.00	23,964,870.00	69.96
11	Building Plan Approval	3,048,921.60	2,076,372.00	68.10
12	Land Revenue	1,810,490.00	1,576,200.00	87.06
13	Garbage Fees	3,699,352.00	2,224,400.00	60.13
14	Slaughter	1,684,439.10	1,581,452.00	93.89
15	Miscellaneous	1,000,000.00	581,309.00	58.13
16	Revenue from Trade and Cooperative	452,298.00	341,160.00	75.43
17	Revenue from Agriculture and Fisheries	3,864,396.00	4,194,652.00	108.55
18	Public Health and Sanitation	4,061,080.00	2,233,200.00	54.99
19	Tourist Charges	4,460,308.00	2,686,875.00	60.24
	TOTAL	**261,048,468.00**	**221,011,186.00**	**84.66**

Source: *Kwale County Treasury*

21 . Analysis of the local revenue by stream indicates more potential still exists for the county government. The actual own revenue collected has been on a declining trend since 2014/15 as is shown in the table below.

Table 7: Analysis of own revenue collection by stream in the MTEF Period 2013/14 – 2016/17 by stream

S/N0	REVENUE SOURCE	ACTUAL REVENUE COLLECTION				
		FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
1	Land Rates	78,537,606.00	63,710,003.00	52,515,086.00	53,092,173.00	53,682,884.00
2	Single Business Permit	21,617,727.00	42,385,040.00	57,059,498.00	60,552,431.00	55,018,719.00
3	House and Stalls Rent	987,230.00	975,875.00	1,829,625.00	7,478,097.00	3,346,450.00
4	Market Fees	3,547,437.00	7,439,239.00	4,699,800.00	5,030,425.00	5,140,628.00
5	Royalties	4,157,981.00	14,892,668.00	19,233,154.00	31,845,730.00	26,911,184.00
6	Cess	5,335,151.00	11,113,354.00	10,736,995.00		
7	Transit Goods	8,190,110.00	11,563,692.00	11,192,029.00	6,113,755.00	4,832,314.00
8	Auction Fees	2,622,415.00	6,062,098.00	6,193,744.00	6,032,637.00	6,659,248.00
9	Advertisement	2,443,242.00	7,801,436.00	14,849,163.00	12,720,628.00	12,905,110.00
10	Parking Fees	1,046,560.00	2,591,930.00	6,502,142.00	11,028,074.00	11,054,159.00
11	Revenue from Hospital	-	18,899,693.00	51,757,860.00	32,621,588.00	23,964,870.00
12	Building Plan Approval	-	1,169,236.00	4,632,580.00	2,771,746.00	2,076,372.00
13	Land Revenue	45,185.00	35,000.00	-	1,645,900.00	1,576,200.00
14	Garbage Fees	772,660.00	1,628,305.00	3,017,700.00	3,699,350.00	2,224,400.00
15	Administration	311,066.00	574,558.00	163,850.00	-	
16	Miscellaneous	10,798,214.00	11,665,958.00	8,995,593.00	5,138,630.00	581,309.00
17	Nursery fees	839,080.00	949,860.00	-	-	-
18	Town Council Collection	13,904,324.00	-	-	-	-
19	Tourist Charges	-	-	-	-	2,686,875.00
20	Slaughter	-	-	-	867,590.00	1,581,452.00
21	Revenue from Trade and Cooperative	-	-	-	430,760.00	341,160.00
22	Revenue from Agriculture Livestock and Fisheries	-	-	-	3,680,377.00	4,194,652.00
23	Public Health and Sanitation	-	-	-	3,867,695.00	2,233,200.00
TOTAL		**155,155,988.00**	**203,457,945.00**	**253,378,819.00**	**248,617,586.00**	**221,011,186.00**

Source: *Kwale County Treasury*

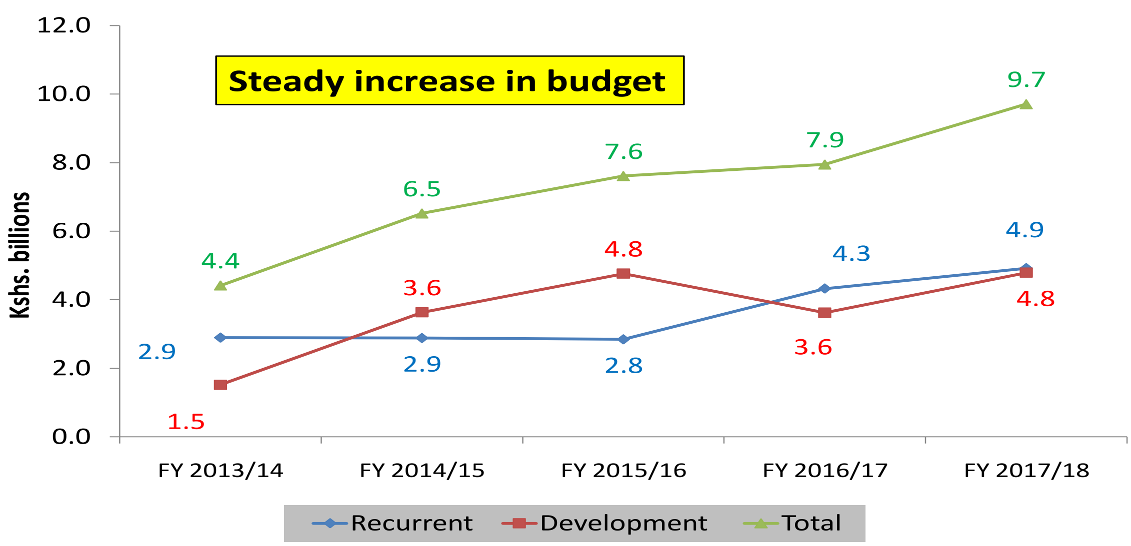
2.2 County Expenditure Analysis

2.2.1 Overview

22. In the financial year 2016/2017, the County Government of Kwale had a budget of **Ksh. 7.9 Billion** out of which **Ksh 4.3 Billion** was to be spent on recurrent items and **Ksh 3.6 Billion** was to fund development programmes and projects.

23. An analysis of the historical trends of budget for the entire MTEF period from FY 2013/2014 - FY 2017/2018 shows a steady increase in the total revenue and therefore total budget for the county. Figure 2 below shows the historical trends in the budget

Figure 5 : Historical Budget Trends from FY 2013/2014 - FY 2017/2018

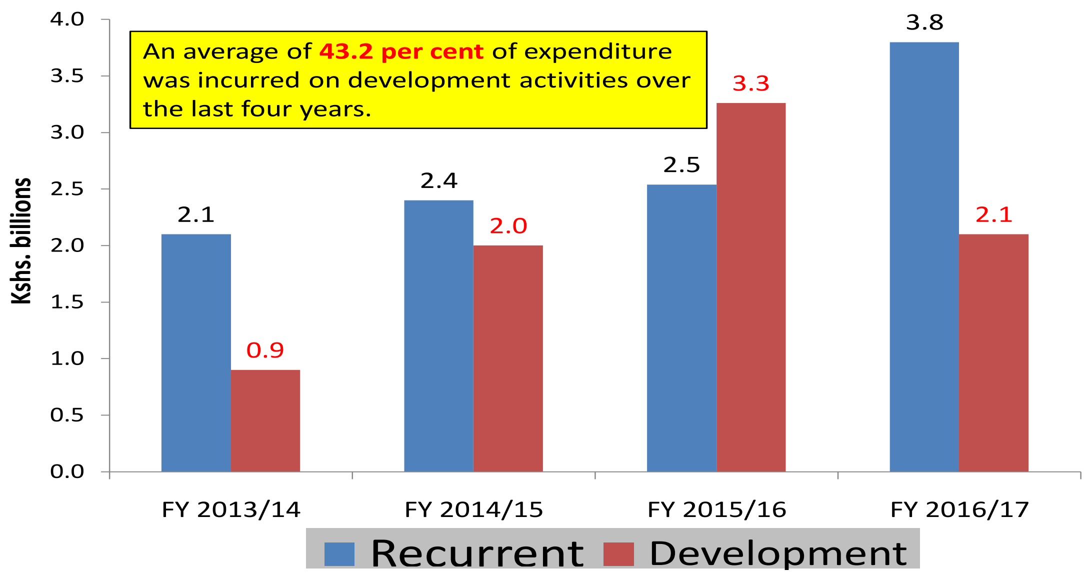


Source: *Kwale County Treasury*

24. During the period under review, the County Government spent a total of **Kshs 5.92 billion,** representing an absorption rate of **74.47 percent** of the total approved County budget for FY 2016/17. This is a decline compared to the previous FY 2015/16 absorption capacity of 76.22 percent of the approved budget.

25. An analysis of the expenditures over the years shows the below historical trends

Figure 6: Historical expenditure trends from FY 2013/2014 -FY 2016/2017

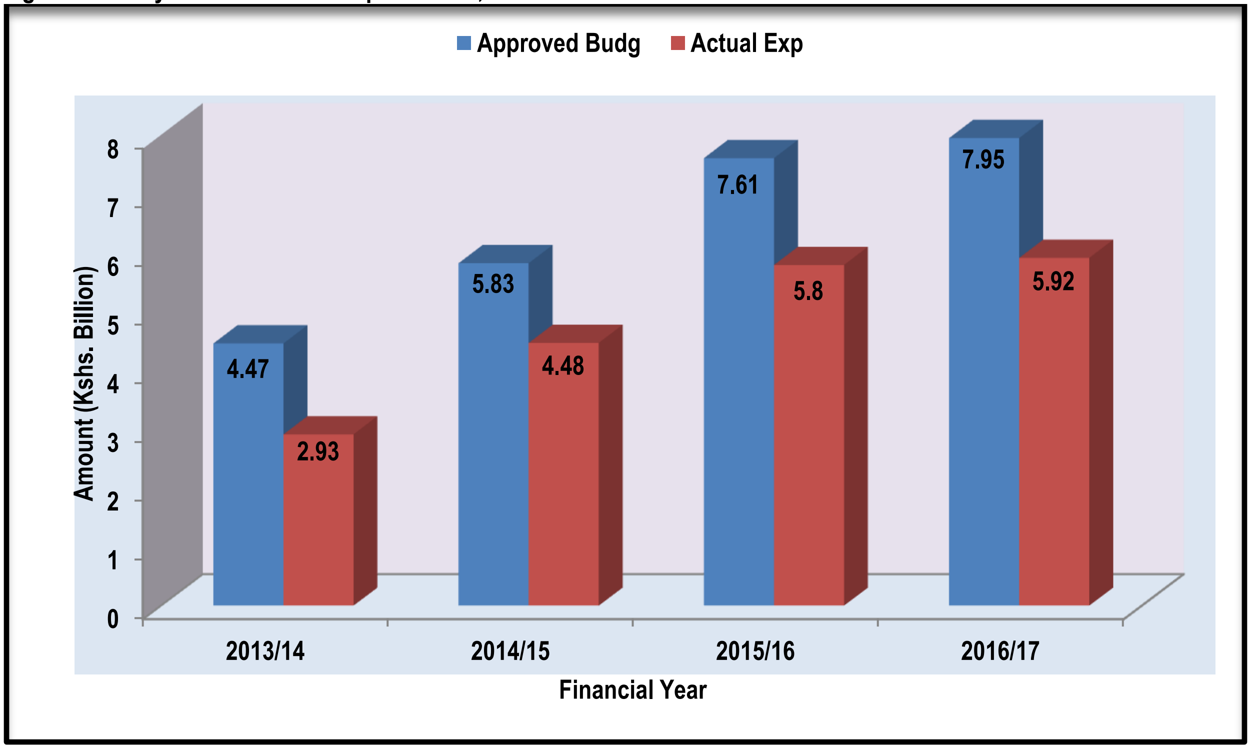


Source: *Kwale County Treasury*

26. The approved county recurrent budget for FY 2016/17 grew significantly to **Kshs. 4.33 billion** compared to Kshs. 2.85 billion in the FY 2015/16. This is because some of the items in the development budget were shifted to the recurrent budget as explained earlier in this report. The County spent **Kshs. 3.73 billion** on recurrent activities, translating into an absorption rate of **86.14 percent** of the total approved recurrent budget.

27. The Development approved budget for the period under review stood at **Kshs. 3.62 billion**, a decline from an approved development budget of Kshs. 4.77 billion in the previous financial year 2015/16. Actual development expenditure for the review period amounted to **Kshs. 2.2 billion**, representing an absorption capacity of **60.65 percent**.

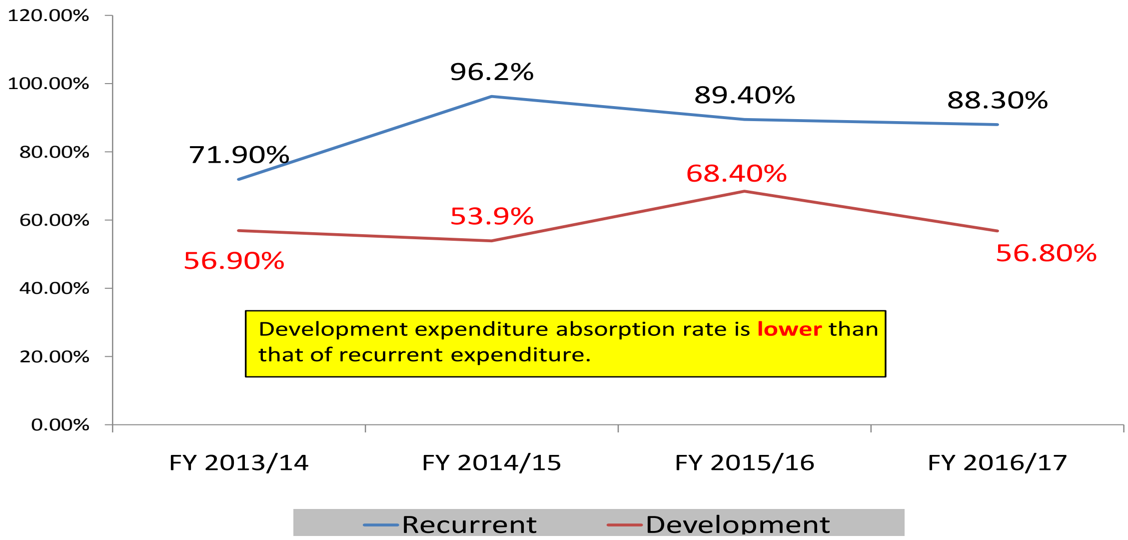
Figure 7: Analysis of annual absorption rates, 2013/14 – 2016/17



Source: Kwale *County Treasury*

28. Analysis of the absorption rates over the period from FY 2013/2014- FY 2016/2017 shows the historical trends given in Figure 8 below. The table depicts higher absorption rates on recurrent expenditures compared to development expenditures. Development expenditures absorption rates over the years averages about 59 per cent. The biggest challenge the county faces in terms of budget execution for the development programmes is the late release of funds from the National Exchequer. Funds were released two months to closure of financial year making it impossible to be absorbed leading to carrying over of funds to the next financial year as commitments. This on the other hand led to another challenge of managing pending bills.

Figure 8: Historical trends of annual absorption rates FY 2013/2014-2016/2017

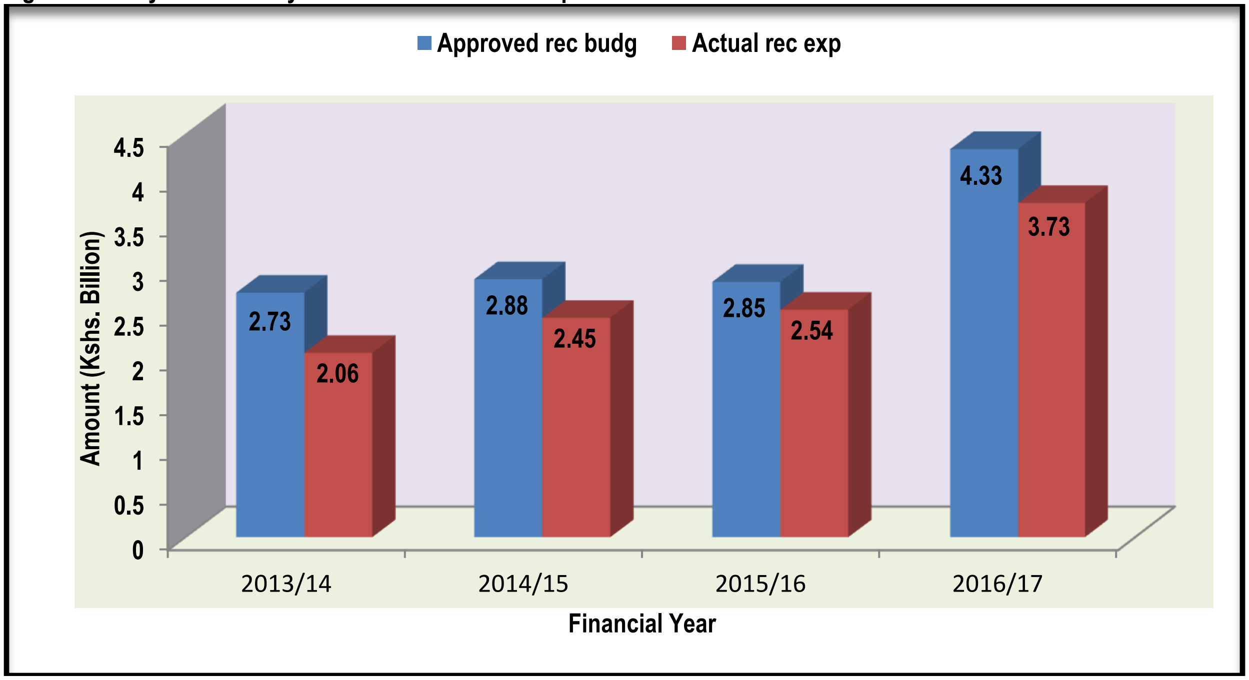


Source: *County Treasury*

2.2.2. Recurrent Expenditure

29. The County Government spent a total of **Kshs. 3.73 billion** on recurrent activities which translates to an absorption rate of **86.14 percent** of the annual approved budget. This represents a slight decline compared to an absorption rate of 89.38 percent recorded in FY 2015/16. The figure below provides an overview of absorption capacities for recurrent budgets for 2013/14 – 2016/17.

Figure 9: Analysis of County's annual recurrent absorption rates 2013/2014 – 2016/17



Source: *County Treasury*

30. The County Department of Education, Research and HR Development reported the highest absorption capacity on recurrent budget at 95.38 percent, followed by the County Assembly at 94.66 percent and the department of Agriculture, Livestock and Fisheries at 92.55 percent.

31. The department that recorded lowest absorption capacity on the recurrent budget is the County department of Trade and Cooperative Development at 72.75 percent. Others were the County department of Water Services at 74.69 percent and the department of Medical and Public Health Services at 77.13 percent. Table 8 provides information on recurrent expenditure by county department.

Table 8: Analysis of recurrent expenditure by county department for FY 2016/2017

DEPARTMENT	RECURRENT BUDGET 2016/17		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	181,944,557.00	155,615,870.00	85.53
PUBLIC SERVICE AND ADMINISTRATION	231,353,329.00	206,189,184.00	89.12
FINANCE AND ECONOMIC PLANNING	393,604,926.00	356,832,379.00	90.66
AGRICULTURE, LIVESTOCK AND FISHERIES	189,461,314.00	175,340,142.00	92.55
EDUCATION, RESEARCH AND HR DEVELOPMENT	690,600,000.00	658,698,051.00	95.38
MEDICAL AND PUBLIC HEALTH SERVICES	1,525,500,155.00	1,176,586,802.00	77.13
TRADE AND COOPERATIVE DEVELOPMENT	54,953,227.00	39,977,047.00	72.75
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	143,689,867.00	120,290,223.00	83.72
INFRASTRUCTURE AND PUBLIC WORKS	120,095,089.00	108,422,405.00	90.28
TOURISM, INVESTMENT AND ICT	47,098,950.00	36,877,520.00	78.30
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	47,757,918.00	41,760,600.00	87.44
WATER SERVICES	54,313,236.00	40,564,866.00	74.69
COUNTY PUBLIC SERVICE BOARD	35,870,800.00	32,177,768.00	89.70
COUNTY ASSEMBLY	609,913,641.00	577,326,319.00	94.66
TOTAL	**4,326,157,009.00**	**3,726,659,176.00**	**86.14**

Source: *Kwale County Treasury*

2.2.2.1 Personnel Emoluments

32. The County Government had an approved annual budget for personnel emoluments of **Kshs. 2.1 billion** translating to **49.19** and **26.79 percent** of the approved county recurrent budget and approved county budget respectively. The share of expenditure to our total revenue is expected to decline to about 20 percent by the end of the MTEF period, 2017/18 – 2019/2020.

33. On the other side, the county spent a total of **Kshs 1.96 billion** on personnel emoluments during the period under review. This represents an absorption rate of **92.02 percent** of the total annual personnel emolument budget.

34. The County Assembly reported the highest absorption rate on personnel emoluments budget at **99.38 percent**. Others were the department of Education, Research and HR Development at **95.46 percent** and the Department of Executive Services at **94.62 percent**.

35. The Department of Community Development, Culture and Talent Management recorded the lowest absorption rate of **75.54 percent**, Department of Trade and Cooperative Development at **76.05 percent** and the Department of Water Services at **78.82 percent**. Table 9 below provides an overview of actual expenditure on personnel emoluments per department.

Table 9: Overview of personnel emoluments by county department for 2016/2017

DEPARTMENT	PERSONNEL EMOLUMENTS BUDGET 2016/17			
	Approved Estimates (Net)	Amended Budget	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	64,687,554.88	62,407,554.00	59,049,839.00	94.62
PUBLIC SERVICE AND ADMINISTRATION	116,470,534.26	116,470,534.00	95,165,478.00	81.71
FINANCE AND ECONOMIC PLANNING	199,681,257.00	199,681,257.00	180,793,509.00	90.54
AGRICULTURE, LIVESTOCK AND FISHERIES	123,739,206.75	123,739,207.00	115,562,488.00	93.39
EDUCATION, RESEARCH AND HR DEVELOPMENT	181,000,000.00	181,000,000.00	172,773,994.00	95.46
MEDICAL AND PUBLIC HEALTH SERVICES	1,006,657,643.00	1,026,438,771.00	953,669,570.00	92.91
TRADE AND COOPERATIVE DEVELOPMENT	24,519,091.16	24,519,091.00	18,646,043.00	76.05
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	32,614,610.45	32,614,610.00	24,635,594.00	75.54
INFRASTRUCTURE AND PUBLIC WORKS	54,216,016.96	48,416,017.00	45,504,813.00	93.99
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	19,531,460.00	19,531,460.00	16,993,750.00	87.01
TOURISM, INVESTMENT AND ICT	17,264,491.16	18,036,491.00	16,963,240.00	94.05
WATER SERVICES	21,532,094.00	21,532,094.00	16,971,257.00	78.82
COUNTY PUBLIC SERVICE BOARD	22,605,131.41	22,605,131.00	21,296,704.00	94.21
COUNTY ASSEMBLY	215,782,543.15	225,704,669.00	224,316,564.00	99.38
TOTAL	**2,100,301,634.18**	**2,122,696,886.00**	**1,962,342,843.00**	**92.45**

Source: *Kwale County Treasury*

36. An analysis of the personnel emoluments over the years indicates an increasing wage bill. The wage bill rose from Ksh 824.9 Million in FY 2013/2014 to Ksh 2 Billion in FY 2016/2017. This translate to an increase in wage bill against total expenditures from 27.5 per cent in FY 2013/2014 to 33.9 per cent in FY 2016/2017.Given the threshold of 35 per cent this poses a big challenge which needs to be addressed by establishing an optimal staffing structure to sustain the wage bill.

2.2.2.2 Operations and Maintenance

37. The Operations and Maintenance (O&M) budget accounted for **27.72 percent** of the total approved annual budget for FY 2016/17 an increase from a proportion of 17.13 percent in the previous financial year. Some of the expenditures which had been classified as development items were shifted to recurrent expenditure under this category. Key among the items includes the scholarship and bursary scheme at 440Million and Medical drugs at Kshs. 99Million.

38. On aggregate, the county spent a total of **Kshs. 1.76 billion** on operations and maintenance activities indicating an absorption rate of **80.07 percent** of the annual O&M budget.

39. From table 10 given below, the County Department of Public Service and Administration recorded the highest absorption rate of the O&M budget at **96.64 percent**. Others that posted higher rates are the Department of Education, Research and HR Development at **95.35 percent** and the County Assembly at **91.88 percent**.

40. The departments that recorded lowest absorption rates are the Department of Medical and Public Health Services at **44.67 percent**, Department of Trade and Cooperative Development at **70.09 percent** and the County Department of Water Services at **71.97 percent**. Table 10 below provides an analysis of expenditure on operations and maintenance in 2016/17.

Table 10: Analysis of expenditure on operations and maintenance by County Department in 2016/17

DEPARTMENT	OPERATIONS AND MAINTENANCE ABUDGET 2016/17			
	Approved Estimates (Net)	Amended Budget	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	117,257,002.44	119,537,003.00	96,566,031.00	80.78
PUBLIC SERVICE AND ADMINISTRATION	114,882,794.63	114,882,795.00	111,023,706.00	96.64
FINANCE AND ECONOMIC PLANNING	193,923,668.90	193,923,669.00	176,038,870.00	90.78
AGRICULTURE, LIVESTOCK AND FISHERIES	65,722,107.25	65,722,107.00	59,777,654.00	90.96
EDUCATION, RESEARCH AND HR DEVELOPMENT	509,600,000.00	509,600,000.00	485,924,057.00	95.35
MEDICAL AND PUBLIC HEALTH SERVICES	518,842,511.75	499,061,384.00	222,917,232.00	44.67
TRADE AND COOPERATIVE DEVELOPMENT	30,434,136.00	30,434,136.00	21,331,004.00	70.09
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	111,075,257.00	111,075,257.00	95,654,629.00	86.12
INFRASTRUCTURE AND PUBLIC WORKS	65,879,072.22	71,679,072.00	62,917,592.00	87.78
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	28,226,458.17	27,567,490.00	19,883,770.00	72.13
TOURISM, INVESTMENT AND ICT	29,834,458.84	29,721,427.00	24,797,360.00	83.43
WATER SERVICES	32,781,142.27	32,781,142.00	23,593,609.00	71.97
COUNTY PUBLIC SERVICE BOARD	13,265,669.00	13,265,669.00	10,881,064.00	82.02
COUNTY ASSEMBLY	394,131,098.22	384,208,972.00	353,009,755.00	91.88
TOTAL	**2,225,855,376.69**	**2,203,460,123.00**	**1,764,316,333.00**	**80.07**

Source: *Kwale County Treasury*

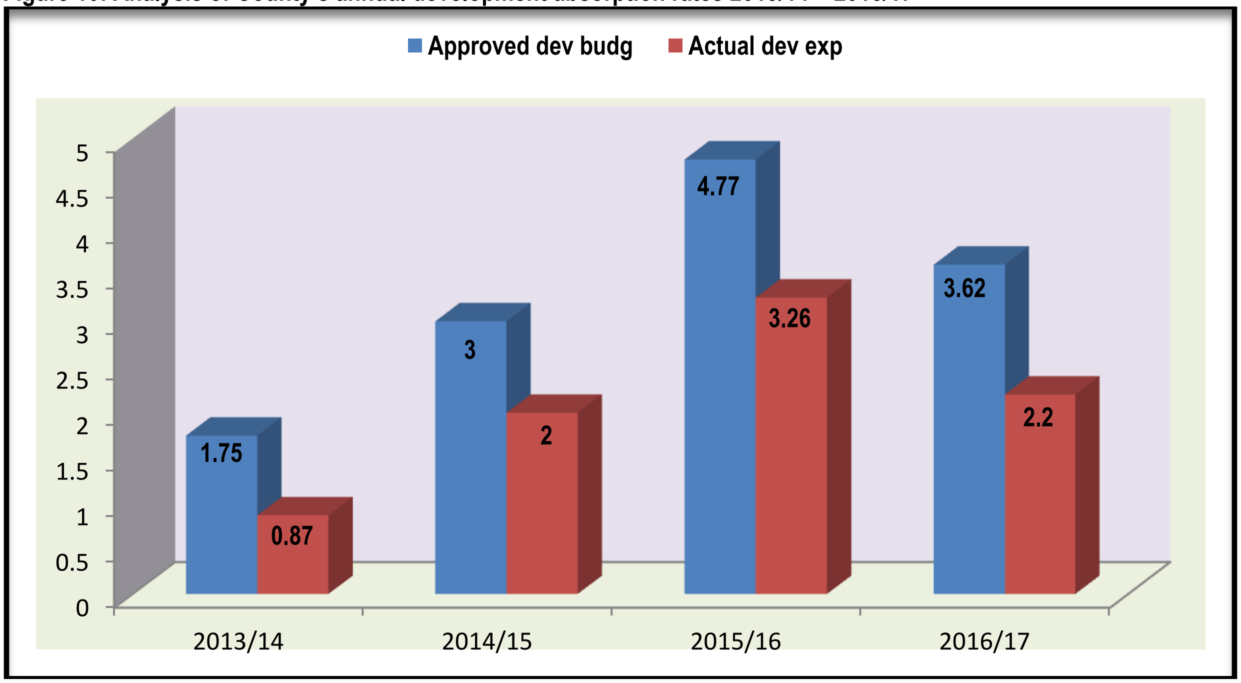
2.2.2 Development Expenditure

41. The county had an approved annual development budget of Kshs. 3.62 Billion, accounting for 45.57 percent of the total approved county budget for the FY 2016/17. During the period under review, the county spent **Kshs. 2.2 Billion** on various development activities representing an absorption rate of **60.65 percent**. The County's absorption capacity on the development budget declined from 68.37 percent in the previous period 2015/16.This is due to the late release of development funds by the National Exchequer.

42 . Some of the key development projects implemented during the review period include construction and equipping of Intensive Care Unit (ICU) and Renal Unit at Msambweni Referral Hospital and construction and equipping of operating theatre at Lunga Lunga Health Centre in the Health sector. The County Department of Education carried major infrastructural projects by constructing 68 ECDE centres while the County Executive Services continued the construction of the County Headquarters, which is now at finishing stages. Other capital projects carried out within the period include the construction of the Assembly complex which is ongoing .

The figure-10 below provides an analysis of absorption capacity on development budgets for the period 2013/14 – 2016/17.

Figure 10: Analysis of County's annual development absorption rates 2013/14 – 2016/17



Source: *Kwale County Treasury*

43. Further analysis of absorption rates reveals that the Department of County Executive Services had posted an absorption rate of 101.96 percent. Other departments that had higher absorption rates were the Department of Education, Research and HR Development at 73.52 percent and the Department of Agriculture, Livestock and Fisheries at 68.36.

44. Departments that recorded lower absorption rates were the Department of Public Service and Administration at 36.45 percent, Department of Finance and Economic Planning at 37.07 percent and the Department of Community Development, Culture and Talent Management at 45.18 percent. The below provides an analysis of actual development expenditure for 2016/17.

Table 11: Analysis of development expenditure 2016/17

DEPARTMENT	DEVELOPMENT BUDGET 2016/17		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	135,000,000.00	137,640,059.00	101.96
PUBLIC SERVICE AND ADMINISTRATION	64,444,390.00	23,489,971.00	36.45
FINANCE AND ECONOMIC PLANNING	60,967,090.00	22,603,517.00	37.07
AGRICULTURE, LIVESTOCK AND FISHERIES	132,674,496.00	90,695,486.00	68.36
EDUCATION, RESEARCH AND HR DEVELOPMENT	788,701,257.00	392,363,037.00	49.75
MEDICAL AND PUBLIC HEALTH SERVICES	619,430,017.00	455,392,553.00	73.52
TRADE AND COOPERATIVE DEVELOPMENT	154,319,517.00	93,226,913.00	60.41
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	215,773,342.00	97,492,833.00	45.18
INFRASTRUCTURE AND PUBLIC WORKS	388,166,337.00	231,335,072.00	59.60
TOURISM, INVESTMENT AND ICT	135,324,959.00	82,778,961.00	61.17
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	49,912,167.00	33,586,953.00	67.29
WATER SERVICES	659,388,499.00	418,688,237.00	63.50
COUNTY PUBLIC SERVICE BOARD	-	-	
COUNTY ASSEMBLY	218,249,039.00	117,765,651.00	53.96
TOTAL	**3,622,351,110.00**	**2,197,059,243.00**	**60.65**

Source: *Kwale County Treasury*

2.3 Overall Balance and Financing

45. Based on the analysis of actual performance on revenue and expenditure, the overall fiscal balance amounted to a fiscal deficit of Kshs. 1,829,697,402.00 over the period under review. This underperformance in revenue can be attributed to shortfalls recorded in the County own revenue sources of Kshs. 40.04 million (15.34 percent deficit), Free Maternal Health Care of Kshs. 31.57 million (26.45 percent deficit) and Doctors and Nurses allowances as per return to work agreement of Kshs. 82.84 million (61.36 percent deficit). It can also be attributed to Kshs. 1.47 Billion indicated as balance brought forward to 2016/17 and Kshs. 108.66 million introduced in the supplementary allocation as Results Based Financing (RBF).

2.4 Implications of 2016/17 fiscal performance on fiscal responsibility principles

45. The fiscal performance of the FY 2016/2017 has a bearing on the financial objectives adopted in the February CFSP 2017 and its subsequent budget for FY 2017/2018. The following observations have been made:-

i) Based on the performance of revenue and expenditure projections for the last financial years, the baseline figures for own revenue forecasts have been pegged to the actual performance of the previous financial year;

ii) County departments have recorded different absorption capacities during the period under review. This will in turn, distort the approved budget ceilings as set out in the 2017 CFSP as amount rolled over to the current financial year by the department has increased their total budgets, which are different from those adopted in the CFSP. However, these changes will be incorporated in the upcoming Supplementary Budget estimates towards the end of second quarter of FY 2017/2018 and also in the February 2018 CFSP.

iii) Management of pending bills has been an issue of concern over the years. Proper scrutiny of balances carried forward as commitments in the budget shall be undertaken to ensure their accuracy.

46. The expenditure performance still meets the spirit of the PFM Act, 2012 Section 107 on fiscal responsibility principles. That is:

i) The county government's recurrent expenditure shall not exceed the county government's total revenue. Total recurrent expenditure for FY 2016/17 amounted to Kshs 4.33 billion which was below the total county government revenue of Kshs 7.95 billion.

ii) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to development expenditure. The 2016/17 development expenditure was allocated Kshs 3.62 billion which was 45.57 percent of the budget.

iii) The county government's expenditure on benefits and wages for its public officers shall not exceed a percentage of the county government's total as proposed by the County Executive Member for Finance and approved by the County Assembly. The county expenditure on wages and salaries remained largely unchanged despite increase in county receipts. The share of the personnel emoluments to our total revenue stood at 33.9 percent. Though an increase from 26.83 percent in 2015/16 but is within the threshold of 35 percent. The county's medium term strategy is to maintain it at 20 percent.

iv) Over the medium term, the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. The county government has always been committed to ensuring a balanced annual budget.

v) Public debt and obligations shall be maintained at a substantial level as approved by the County Assembly. In our medium term debt strategy, the county government shall at all times ensure sustainability in public debt. At the same time ensure moderate domestic borrowing so as not to crowd out private sector borrowers given our strategy to spur private investment to accelerate economic growth.

vi) Fiscal risks shall be managed prudently. The county government shall study the macroeconomic forecasts issued by the National Government and utilize them for projections in the 2018/2019 MTEF budget. To cater for urgent and unforeseen expenditure, a 2 percent of our revenue allocation will be put aside to cater for any fiscal risks such as emergencies.

vii) 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. The County Government will continue to adopt a more rational approach in revenues and expenditure forecasts based on the potential of the County to expand its revenue base. Total local revenues were Kshs. 211.01 million against an annual target of Kshs. 261.05 million, representing 84.66 percent performance. This achievement demonstrates an improved forecasting rationale in comparison with the similar period in 2015/16.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3.1 Overview

3.1.1 International Scene

47. The global economy is estimated to have grown by 2.9 percent in 2016 compared to a revised growth of 3.1 percent in 2015. The slowed growth was occasioned by constrained global trade, subdued investments and heightened policy uncertainty associated with the UK decision to leave E.U and elections in USA.

48. Growth in advanced economies expanded by 2.1 percent in 2016 compared to 1.9 percent in 2015. The USA recorded a growth of 1.5 per cent in 2016 compared to 2.6 percent in 2015, mainly due to weak exports, subdued investments in the manufacturing sector and uncertainty surrounding the 2016 elections.

49. Growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption, fiscal and credit stimulus that focused on infrastructure investment and household credit. However, growth was supported by implementation of structural reforms, reduction in supply side constraints and favorable monsoon rainfall which boosted agriculture.

50. In the sub Saharan Africa, lower commodity prices for metal exporting countries, weak external demand from a generally less supportive global economic environment, drought and insecurity slowed the economic performance. Currency depreciation coupled with rising food prices due to drought led to increased inflation from 7.0 percent to 11.3 percent in 2016. The current account deficit as a percentage of GDP narrowed to 4.5percent during the review period compared to 5.9percent in 2015.

3.1.2 East African Community

51. During the year under review, real GDP in East African Community (EAC) is estimated to have grown by 6.1percent compared to 5.8 percent in 2015. The growth was fueled by public infrastructure investment, buoyant private consumption and low oil prices. Tanzania recorded the highest real GDP growth in the region expanding by 7.2 percent in 2016 compared to 7.0percent in 2015. In Burundi, real GDP contracted by 0.5percent in 2016 from 4.0 percent in 2015.

52. The bloc's inflation eased to 5.6percent in 2016 from 5.8percent in 2015. Currency stability helped keep inflation within central bank target in Kenya, Uganda and Tanzania. The current account deficit as a percentage of GDP narrowed to 8.1percent in 2016.

3.1.3 The Kenya Economy

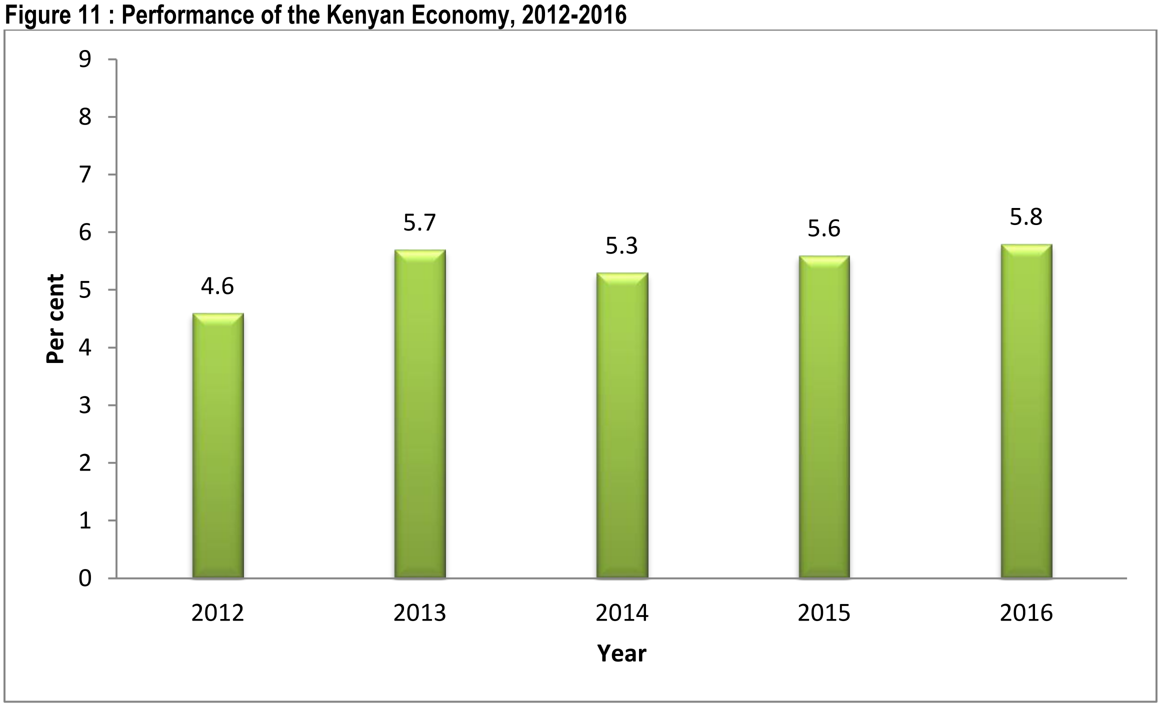
53. According to Kenya National Bureau of Statistics(KNBS) Economic Survey 2017, the Country's real gross domestic product (GDP) is estimated to have maintained a momentum for the third consecutive year to expand at 5.8 percent in 2016 compared to a revised growth of 5.7 percent in 2015. Accommodation and food service registered the most improved growth of 13.3 percent in 2016 from a contraction of 1.3 percent in 2015.

54. The Business Monitor International (BMI) reported that Kenya's economy remained resilient through a turbulent 2015 characterized by currency instability and monetary tightening to post an economic growth of 5.6 percent in 2015 from 5.3percent in 2013. BMI forecasted Kenya's Economy to grow to 6percent in 2016, supported by strong public investment in infrastructure, a dynamic service sector and favorable demographics. Kenyan Government spending was estimated to rise by 7.7percent in 2016 from 5.8percent in 2015 as it remained committed to heavy expenditures on infrastructure. According to BMI, consumers spending was also a key driver of Kenya's economic growth between 2016 and 2020. Private spending was estimated to grow due to rising incomes, favorable demographics and growing financial inclusions as mobile financial services continue to spread country wide.

55. According to the World Bank, Kenyan economy was solid in 2016 coming in at an estimate 5.9 percent owing to its stable macroeconomic environment, low prices, earlier favorable harvest, rebound in tourism, strong remittance inflows and an ambitious public investment drive. However 2017 economic growth projection is dampening. The problem associated with the underperformance includes drought and market slowdown in credit growth to the private sector.

56. On the demand side, growth is likely to be driven by both public and private consumption. Public final consumption is projected to expand as reflected in the 2017/18 national budget. Similarly, private consumption is likely to remain robust in 2017 and hence boost economic growth. On the external front, world trade is expected to improve while the expansion of global economy is expected to be strong in 2017.Therefore majority of Kenya's main European trading partners are likely to sustain strong growth and as a result support the country's domestic economy.

Figure 11 : Performance of the Kenyan Economy, 2012-2016



Source: *KNBS*

3.1.4 Kwale County

57. The growth in the National Economy is expected to influence the county economy. Benefits of growth in the National Economy will have positive impact on most of the sectors of the county economy including tourism, agriculture, building and construction, manufacturing, mining and general wholesale and small scale trade. Projects initiated by the National Government like the Standard Gauge Railway will impact on the county economy positively. Projects started in neighbouring county Mombasa like the acquiring of new ferries for Likoni ferry to ease the movement of people and goods. This will boost tourism as tourists will now take less time to travel to Kwale from Mombasa. Further the reforms and modernization undertaken at the Mombasa Port which include the expansion of container terminals will boost trade and investment in the county as goods pass through the county on their way to neighbouring countries and counties. Other projects include the tarmacking of Samburu-Kinango-Kwale the Lungalunga to Vanga roads to bitumen standard and the establishment of Shimoni port will stimulate growth of the county economy.

3.2 Macroeconomic Stability

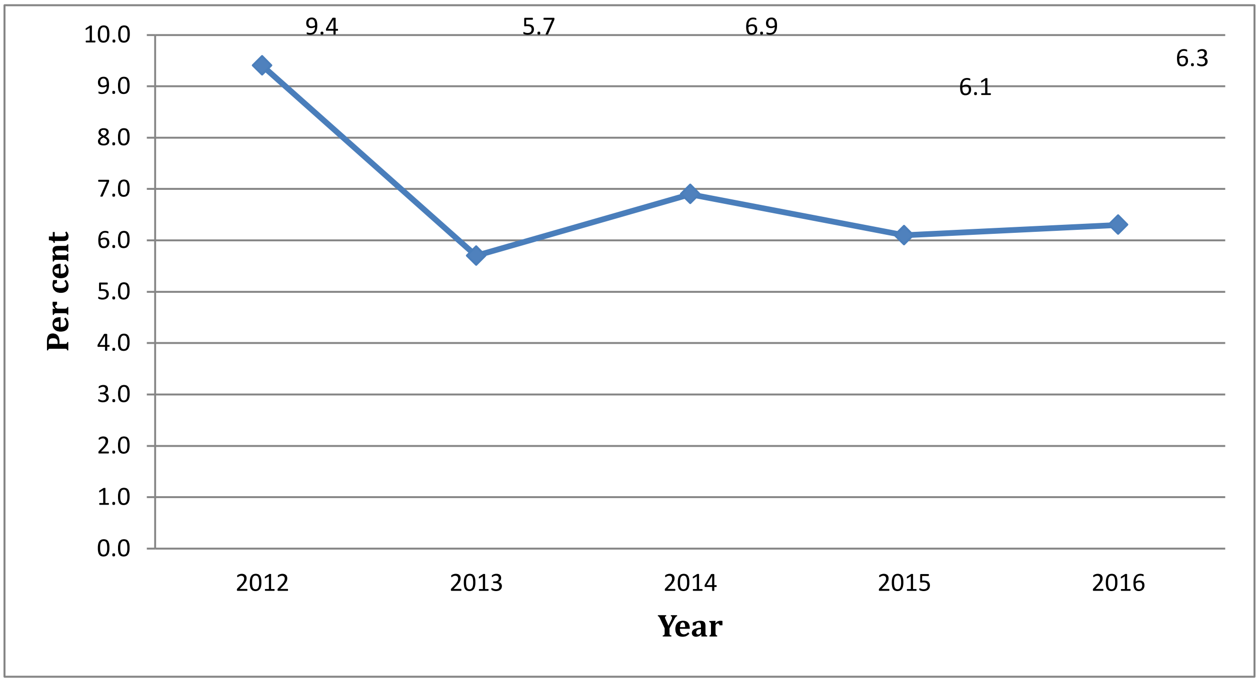
58. The growth of the National economy is anchored on a stable and favorable macroeconomic environment. Macroeconomic stability describes a national economy that has minimized vulnerability to external shocks, which in turn increases its prospects for sustained growth. Macroeconomic variables affecting the national economy have a bearing on the county economy.

3.2.1 Inflation

59. Inflation was contained within the Central Bank’s target. In the third quarter of 2016 the inflation rate was at 6.3 percent compared to an average rate of 6.1 in 2015. The inflation was brought about by the increase in food prices and beverages in 2016. Moreover, an overall increase in inflation was reported from 7.0 percent in January 2017 to 9.0 percent in February 2017 on account of rising food and electricity prices. Forecasts give an average inflation of

5.1percent between 2017 and 2020 due to prudent monetary policy and efficiency gains arising from regulatory reforms and investment in infrastructure. However, drought remains a potential risk to maintenance of manageable levels of inflation.

Figure 12: Average Annual Inflation Rates 2012- 2016



Source: *KNBS*

3.2.2 Interest Rates

3.2.2.1 Short-Term Rates

60. This rate remained low due to the improvements of liquidity conditions in the money market. Interbank rate declined to 4.9 percent in September, 2016 from 5.0 percent in August, 2016. The 91 day Treasury bill rate declined to 8.1 percent from 8.5 percent over the same period. The 182 day Treasury bill also declined to 10.6 percent in September 2016 from 11.0 percent in August, 2016, while the 364 day Treasury bill rate declined to 10.3 percent from 11.7 percent over the same period. In the 3rd quarter, interbank rate declined to 4.5 percent in March 2017 from 6.4 percent in February, 2017. While the 91 day Treasury bill rate stabilized at around

8.7 percent from 8.6 percent over the same period, the 182 day and 364 day Treasury bill averaged 10.5 percent and 10.9 percent respectively in March and February, 2017.

3.2.2.2 Lending Rates

61. The average lending rate increased to 17.7percent in August, 2016 from 15.7percent in August 2015 but declined to 14.0 percent with effect from September 14, 2016 following the assent to the Banking (Amendment) Bill, 2015 on capping of interest rates that are applicable to bank loans.

3.2.2.3 Deposit Rates

62. Deposit rates decreased to 6.4percent in August, 2016 from 6.9percent in 2015. As per the Banking (Amendment) Act 2016, the rate averaged 7.9percent in February 2017. The development in the lending and deposits rates have resulted to the narrowing of the interest rate spread to 5.9percent in February, 2017, making Kenya the lowest lending rate among E.A.C. According to the Banking Act 2016, minimum interest granted on a deposit held in interest earning in Kenya is at least 70 percent the base rate set by CBK.

Figure 13: Interest Rates for financial year 2016-2017

Source: *Central Bank of Kenya*

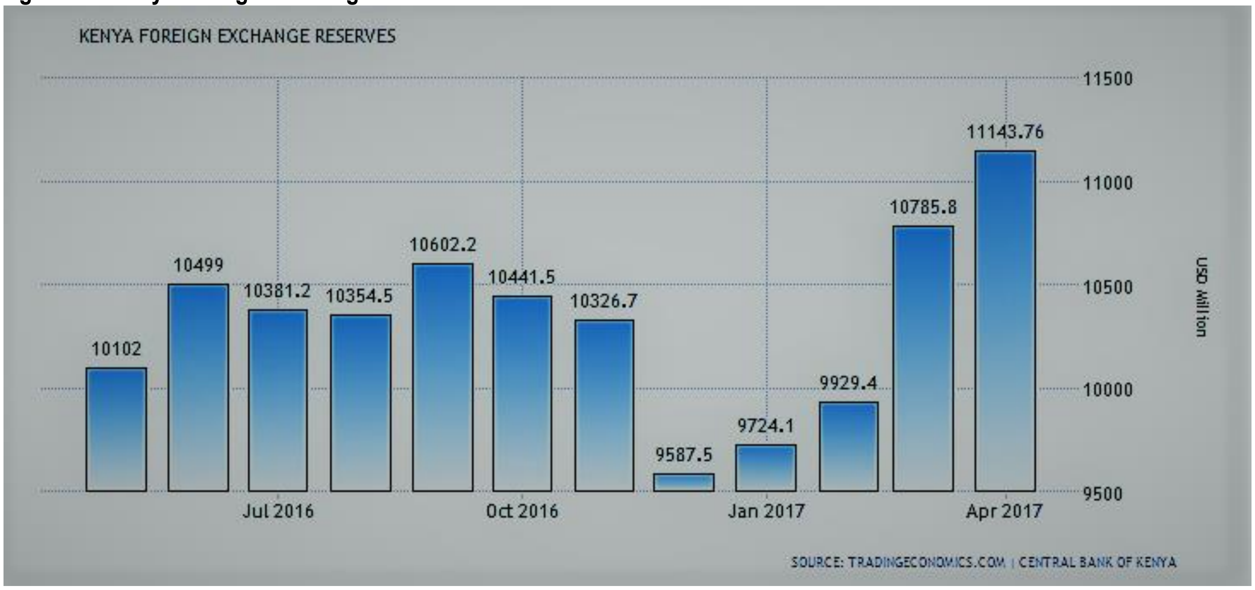
3.2.3 Impact of Capping Interest Rates on the County Economy

63. The essence of the law putting a cap on the lending rates at a maximum of 4 percent above the CBR has had mixed reactions from all over the divide. Generally, interest rate capping appears not to have had the desired effects since lending to the private sector has declined. Consequently, the government is looking for ways of addressing this unintended outcome of the law. In addition, capping interest rates led to other challenges such as (i) locking out of SMEs and other "high risk" borrowers from accessing credit as banks prefer to loan to the government (ii) straining small banks forcing them to mobilize funds in the interbank market at higher rates than their lending rates which have to be within the stipulated margins, (iii) it is based on an unreasonable premise that the highest extra risk premium in the Kenya market is 4%, (iv) may lead to banks colluding so as to push up the yields on the treasury instruments, and(v) the emergence of shadow banking systems which may results into inefficiencies in terms of transmitting the effects of policy decision into the economy.

3.2.4 Exchange Rates

64. According to the economic outlook report 2017 given by the Kenya National Bureau of Statistics, the Kenya shilling strengthened by 0.1%, 16.7% and 3.1% against the USD, GBP and Euro respectively between December 2015- December 2016. The International Monetary Fund (IMF) attributed this to an increase in foreign currency dominated capital inflows, increase in conference tourism receipts and the vote by Great Britain to exit from the European Union(EU) which destabilized the western economies. The Kenya Shilling remained stable within the EAC gaining against Rwandese Franc, Tanzanian Shilling and Ugandan Shilling by 6.3%, 3.9% and 2.2% respectively in 2016 (Economic Survey 2017).It is estimated that the Kenyan shilling will remain vulnerable owing to the global developments such as further rises in the USD rates and uncertainties surrounding the state of the Chinese economy. However the exchange rate will remain stable due to significant level of reserves, the continued growth in emigrant remittances and sustainability of the current account deficit.

Figure 14: Kenya Foreign Exchange Reserves 2016-2017



Source: *Central Bank of Kenya*

3.3 County Economic Activities

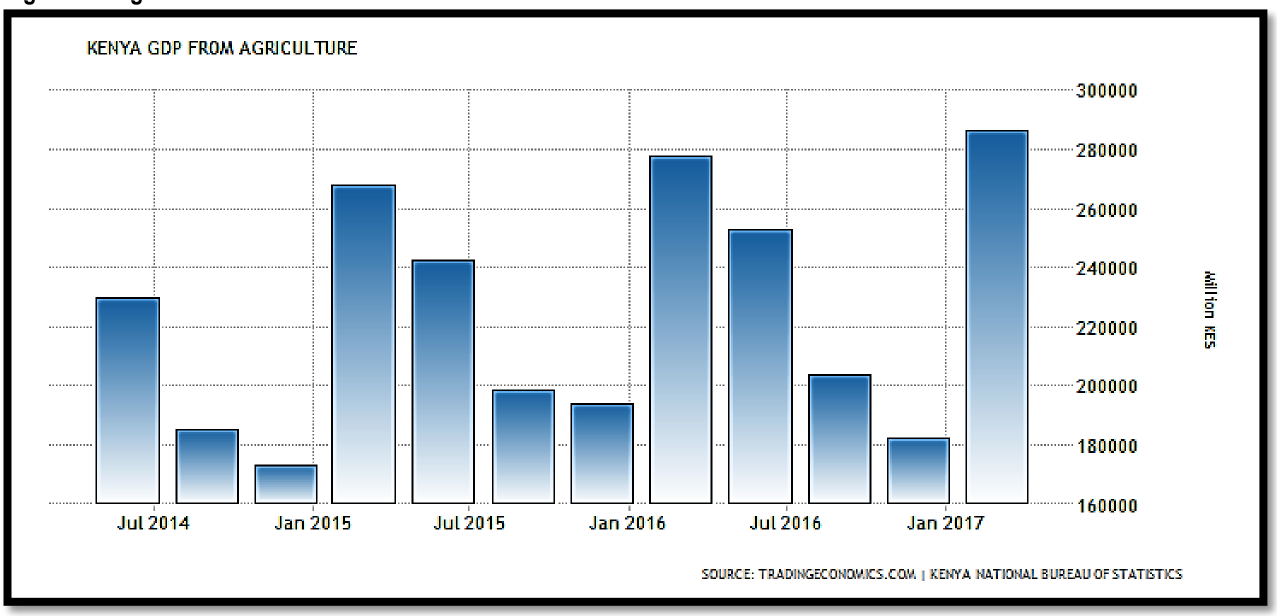
3.3.1 Agriculture

65. According to the KNBS Economic Survey 2017, the agricultural sector accounted for over 26 percent of total GDP, 90 percent of employment, 75percent of labour force and 50 percent of revenues from exports in 2016.However the growth in agriculture decelerated from a revised rate of 7.2 percent in 2015 to 4.4 percent in 2016 occasioned by the prolonged drought in 2016.

66. At the county level about 80 percent of the residents rely on agriculture, livestock and fisheries for their livelihoods. According to the drought early warning bulletin for November 2016, the county received some rain whose temporal distribution was fair but the spatial distribution of rains was uneven. Therefore the amount of rainfall received was below normal and there was prolonged drought. This affected performance of the agriculture sector which relies on adequate rainfall. Poor performance in the agriculture resulted in food insecurity. Food shortage led to increased inflationary pressures as food prices went high and income levels were affected. This culminated in increased cost of living and downward trend on investment and savings thus dampening growth of the county economy.

67. Among the interventions which the County Government undertook in conjunction with the private sector- the Kenya Red Cross and the Safaricom Foundation is the establishment of Nyalani dam which would provide water for irrigation. The other planned projects include the establishment of dams as flagship projects under the Water Services department. The other intervention which the County Government is working together with the National Government Kshs 35 billion Mwache Dam Water project funded by the World Bank through the Kenya Water Security Programmes. This is expected to provide 138m cubic centimeters of water for domestic, irrigation and livestock use in Kwale County. The project has a major irrigation component that is expected to produce enough food to deal with the famine problem in this area.

Figure 15: Agricultural Sector Share of GDP 2014-2017



Source: *KNBS*

3.3.2 Mining

68. During the period under review, the National Government enacted the Mining Act 2016 to regulate the country's mining industry and attract investment. Total mineral output increased by 7.6 percent from 1596.3 thousand tons in 2015 to 1718.4 thousand tons in 2016. Production of soda ash declined by 5.6 percent, while production of titanium ore minerals recorded a growth of 7.0percent, fluorspar output declined from 70.1 thousand tons in 2015 to 42.7 thousand tons in

2016. The decline could be attributed to the temporary closure of the local firms and constraints faced in production following low demand and slump in prices since 2013.

69. In the County there are several ongoing mining activities e.g. exploitation of limestone of Waa and Titanium at Nguluku and Mrima by Coast Calcium Ltd and Base Titanium Ltd respectively. Miller Glass Ltd Kenya, Kenya Breweries Glass Ltd and Eastern Chemicals have been exploiting silica sand in the county. Other small scale mining of gemstones have also been going on in the county. Apart from creation of employment opportunities for the residents ,Base Titanium has initiated socio- economic development projects in their social corporate responsibility programmes which have benefitted the county residents. However, implementation of the Mining Act 2016 will boost the county own source revenue once the county receives its share of the royalties paid to the National Government annually.

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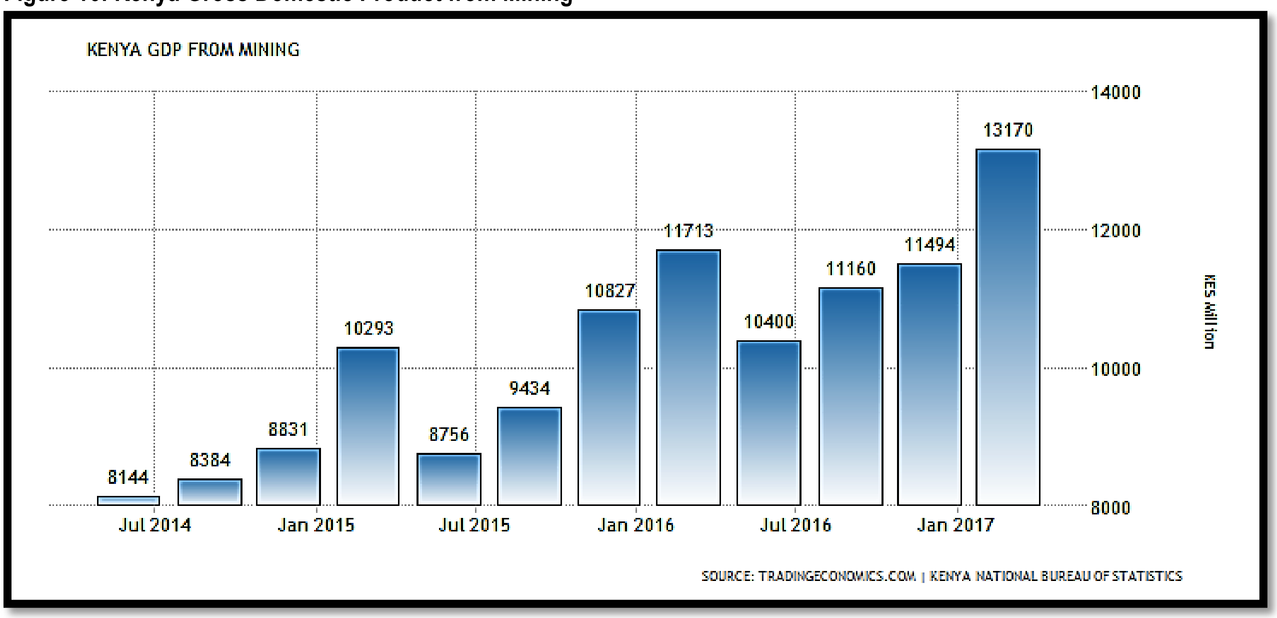
Figure 16: Kenya Gross Domestic Product from Mining



Source: *KNBS*

3.3.3 Tourism

70. Tourism is a major source of foreign exchange, employment and wealth creation in the country. Earnings from the tourism sector improved by 17.8 percent from 84.6B in 2015 to 99.7Bin 2016. The number of international visitor arrivals rose by 13.5 percent in 2016. The sector's rebound were partly due to improvement in security and successful high profile conferences. In addition, this sector benefited from aggressive marketing in domestic and international markets. Museums, Snake Parks and Historical sites reported a 15.7 percent increase in the number of visitors, recording 923.1 thousand in 2016 compared to 797.5 thousand in 2015. Visitors in National Parks and Game Reserves rose by 17.0 percent to 2284.7 thousand in 2016.

71. The main tourist attraction sites in Kwale county are Shimba Hills National Reserves, Mwaluganje sanctuary, marine reserves and forests, coral and sandy beaches, bird habitat areas, hotels and turtle breeding grounds. Dominant wildlife species include elephants, baboons, monkeys, buffaloes, giraffes and sable antelopes (only found in Africa).The County has high potential for investment in the hotel sector having 22 class hotels with a bed capacity of 5098.
As highlighted in the Annual Development Plan FY 2018/2019 plan, focus will be on expansion and promotion of new tourist attraction sites and promotion of domestic tourism . Innovative ways of marketing the county are underway, for instance, an allocation of Kshs.67.9 Million has been proposed to facilitate the establishment of a state of the art conference center in Ukunda to boost conference tourism.

Figure 17: Kenya Tourist Arrivals July 2016 to April 2017

Source: *KNBS*

3.3.4 Manufacturing and Industry

72. The Economic Survey 2017 reveals that at the National Level, real output of the manufacturing sector grew by 3.5 percent in 2016 compared to 3.6percent in 2015. The growth was as a result of reduced cost of production and increased volume of output. Volume of output grew by 4.9 percent in 2016 on account of increased production of tea, wearing apparel, pharmaceutical products and basic metals. Formal employment in the sector went up marginally by 1.8percent to 300.8 thousand persons in 2016 accounting for 11.8percent of total formal employment .

73. Kwale County has four manufacturing industries, Coast Calcium Ltd, Base Titanium Ltd, Bixa Ltd and Kwale International Sugar Company(KISCOL). These industries engage in mining and agro processing activities. There are also two bakeries and two companies for distilling water. The County is rich in coconuts, cashew nuts, sisal, mangoes, bird eye chilies and commercial crafts. Processed sisal and bird eye chilies are currently being exported while raw cashew nuts and mature coconuts are bought by processors for value addition before export. Mangoes are being processed into pulp and also sold locally while some are prepared for export.

Through the department of trade, the county has proposed for the establishment of a fruit processing plant and the development of a whole sale market with funding from the European Union. This will provide an enabling environment for more production and more diverse and dynamic market.

3.3.5 Building and Construction sector

74. The National Government has continued in its efforts to develop efficient and effective infrastructure which is a key enabler for other sectors as envisaged in Kenya Vision 2013.An improved road network enhances connectivity, mobility and promotes trade and investment by reducing cost of doing business. Significant progress has been made in the construction of the Standard Gauge Railway and its operations already commissioned. The construction industry grew by 9.2 percent in 2016 from an expansion of 13.9percent in 2015.Increased activities in construction of roads and development of housing also translated to an increase in employment in the sector from 148.6 thousand jobs in 2015 to 163.0 thousand jobs in 2016.

75. Programmes prioritized in the Kwale County's MTEF period 2016/17-2018/19 intended to facilitate quality and accessible transport infrastructure that support socio-economic transformation in the county. Disbursement of funds from the Roads Maintenance Levy Fund (RMLF) by Kenya Roads Board to various road agencies and county governments was anticipated to increase significantly to Ksh 40.9billion in 2016/2017 from 25.4 billion in 2015/2016.

3.4 MACROECONOMIC OUTLOOK

76. Macroeconomic environment beyond 2017 is likely to have mixed performance in the world economies. The global real GDP is projected to grow by 3.3 per cent in 2017 based on the sustained growth in emerging and advanced economies. However, it is still uncertain as to whether this growth rate will be sustained. Some of the reasons for the uncertainty include the

UK decision to leave the EU,the banking sector concerns in the Euro Area, weak external demand for China products, uncertainty surrounding global trade and slower private investment.

In the Sub-Saharan Africa, steady growth in the economy is expected owing to robust economic activity boosted by the expected stabilization of commodity prices and a projected large fiscal adjustment. Real GDP growth is forecasted at 2.8 per cent in 2017.

77. The Kenyan economy is likely to be influenced more by domestic factors than external ones in 2017 and beyond. Unpredictable weather conditions, delayed and depressed long rains will have negative impact on crops and livestock production, electricity generation and water supply. Due to the share of agricultural contribution to the GDP, there will be a lower rural demand for goods and services. The impact could further be escalated in sectors that have strong inter-linkages with these sectors.

78. Credit from commercial banks to the private sector has declined following the capping of interest rates in 2016. If this continues in 2017 and beyond, growth of credit will be constrained and economic activities that are reliant on borrowing from commercial banks will be adversely affected. Furthermore, sectors such as industry, manufacturing, building and construction could be affected partly due to the constrained credit and also due to the intensified competition in the traditional markets and reduced income levels.

79. The transport sector is likely to be impacted positively by the commencement of operations of the Standard Gauge Railway (SGR). Railway transport is expected to be more efficient while other modes of transport are expected to continue in their current growth trajectory. However, road transport is unlikely to be suppressed due to rise in cost of intermediate inputs. International oil prices are projected to rise in 2017 and beyond.

80. The Kenyan shilling exchange rate is expected to remain stable owing to significant levels of reserves, the continued growth of emigrant remittances and sustainability of the current account deficit. Inflation rates are expected to be sustained at manageable levels though risk remain due to increased international oil prices and the food and non- food prices.

81. Public final consumption is projected to expand as reflected in the FY 2017/2018 national and county budgets. Private sector consumption is likely to remain robust in the years beyond 2017. As such, there will be growth on the demand side which will boost economic growth.

82. On the external front, world trade is projected to improve while the expansion of the global economy is expected to be strong in 2017. Similarly, majority of Kenya's main European trading partners are likely to sustain strong growths and therefore support the domestic economy.

83. The county economy is likely to be influenced by the extent of each of the foregoing effects. However, though there is a perceived positive growth, risks still remain. Some of these risks are external including the rise in international oil prices and weakening of the world advanced and emerging economies. The rise in international oil prices may impact on the transport sector and multiplier effect to other sectors of the economy especially food prices and increase of inputs. Weakening of the advanced economies will reduce global consumption and exports.

84. Other risks include uncertainty in the political arena. Political uncertainty surrounding the repeat presidential poll may reduce economic activities and stagnate growth in most sectors of the economy. Unpredictable and adverse weather conditions and unfavourable rains and drought may have a direct negative impact on growing of crops, production of livestock and its products. Prolonged drought will also impact negatively on electricity generation and water supply. This will further be experienced in sectors that rely on electricity generation such as manufacturing and industry, building and construction, mining and others. Insecurity also remains to be a challenge. Insecurity will have the effect of scaring away tourists visiting the county. This will dampen the already recovering tourism sector and slowdown the growth in tourism earnings. Political uncertainty and general insecurity will impact on investor confidence and general trade and enterprise development. Further at the National level international tourists visits and volume of trade will be affected resulting in low foreign exchange earnings and low domestic revenues as businesses collapse. This will have effect on revenues raised nationally and thereby money sent to counties.

85. The FY 2018/2019 budget will be prepared against such a background. The county will monitor the macroeconomic environment and mitigate the risks as they arise.

CHAPTER FOUR: RESOURCES ALLOCATION FRAMEWORK

4.1 Adjustment to the 2017/18 budget

86. The implementation of budget for the financial year 2017/18 will be influenced by risks of current macro-economic outlook. These eminent risks include fluctuations in international oil markets, expenditure pressures, weakening of advanced economies, ,adverse weather conditions and the threat of climate change and insecurity among others.

87. Measures put in place by the County Government in addressing these risks will imply a cut to the funds available for development activities. Further the execution of the development budget for most spending units will continue to be a concern. The County Government will monitor these risks closely and take appropriate measures in the context of the next supplementary budget.

88. The County Government of Kwale will continue with the rationalization of recurrent expenditures in the financial year 2017/18 to save resources . Resources that are saved will be re-directed to fund the county strategic priority areas as stipulated in the CIDP and the subsequent Annual Development Plans (ADPs).

89. To enhance human capital productivity in Kwale County, the County Public Service Board (CPSB) intends to rationalize on recruitment of staff and recommend staff for training and deployment so as to match competence with skills. As the expenditure on personnel tends to increase it will pose a challenge. It is therefore imperative for the Public Service Board to establish an optimal staffing structure to sustain the wage bill.

90. Financial management has been strengthened through the Integrated Financial Management Information System (IFMIS) platform at the County Headquarters. This intends to be rolled out to departments as well as to the Sub Counties. This is expected to accelerate reforms in the County expenditure management system in line with the fiscal responsibility principles.

91. Performance of the county own source revenues is still below the expected level though recommendable. This is a major concern since over the years the revenue targets have been revised downwards regularly but the collections have not been meeting the targets. The County Government will devise strategies to improve on local revenue collection. Among the strategies include the automation of the revenue system to curb leakages, establishment of the new valuation roll to enhance property rates collection, fast tracking the enactment of the Finance Bill and the other affiliated bills and intensifying our compliance and enforcement efforts.

92. The revision of the FY 2017/2018 Budget in the context of Supplementary Estimates will take into consideration the updated macroeconomic outlook and the actual fiscal performance. In particular the set target for the county own source revenues and the capital expenditure performance to avoid setting of large commitments by departments and carrying forward of pending bills to next financial year FY 2018/2019.

4.2 Medium Term Expenditure Framework

93. In view of the macroeconomic outlook and the actual fiscal performance for FY 2016/2017, the FY 2018/2019 MTEF budget will have remarkable changes. More resources will be re-directed to finance our key priority areas .The Annual Development Plan will be the key source document in determining resource allocation in the FY 2018/2019 budget. The CIDP (2018-2023) which is in its formulation stage will guide resource allocation in the expenditure framework in the medium term.. In addition, the 2018/2019 ADP and the expenditure ceilings to be firmed up in the upcoming County Fiscal Strategy Paper of February 2018 will form the basis for FY 2018/2019 budget.

94. The County Government has identified as priority areas **educatio**n and **health** sectors. Major infrastructural development will be done in the health sector followed by the education sector. Health care is another strategic priority whose overall goal is to provide efficient and high quality health care system that is accessible, equitable and affordable for every person in the County.

95. Other priority areas earmarked to benefit from the FY 2018/2019 county budget are water services, energy and infrastructure. The County strategic priority of Infrastructure development as the main driver of the County economy will be reflected in our resource allocation for the FY 2018/2019 budget. Among the infrastructural projects which the County Government intends to undertake in the FY 2018/2019 budget will include roads construction, water pipeline systems construction ,markets development and Information and Communications Technology (ICT) platforms.

96. Based on the actual performance and in consideration of the strategic priorities given in the Annual Development Plan FY 2018/2019 the below gives the provisional ceilings and their ranking for the FY 2018/2019 budget.

Table 12: Provisional Expenditure Ceilings for the FY 2018/2019 and their ranking

SECTOR	CEILING FY 2018/19	PERCENTAGE	RANK
Agriculture, Livestock and Fisheries	458,074,762.13	5.32	6
Environment and Natural Resources Management	188,370,436.33	2.19	12
Roads and Public Works	1,180,467,659.05	13.70	3
Tourism and Enterprise Development	401,365,763.57	4.66	9
Health Services	2,095,194,889.49	24.31	1
Education	1,208,307,860.59	14.02	2
County Assembly	732,873,320.71	8.50	5
County Executive Services	264,619,678.88	3.07	11
Public Service and Administration	324,633,438.95	3.77	10
Finance and Economic planning	438,103,983.50	5.08	7
County Public Service Board	35,182,748.30	0.41	13
Social Services and Talent Management.	407,595,045.23	4.73	8
Water Services	882,881,727.77	10.25	4
SUB TOTAL	**8,617,671,314.50**	**100.00**	

Source: *Kwale County Treasury*

97. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2018/19 – 2020/21 MTEF, classified by sector.

Table 13: Medium Term Expenditure Framework for the period FY 2017/2018-FY 2020/2021

SECTOR		Estimates 2017/18	Ceiling 2018/19	PROJECTIONS	
				2019/20	2020/21
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**TOTAL**	**502,782,799.03**	**646,445,198.46**	**711,089,718.31**	**782,198,690.14**
Agriculture, Livestock and Fisheries	Sub Total	352,345,654.70	458,074,762.13	503,882,238.34	554,270,462.18
Environment and Natural Resources Management	Sub Total	150,437,144.33	188,370,436.33	207,207,479.96	227,928,227.96
ENERGY, INFRASTRUCTURE AND ICT	**TOTAL**	**840,142,101.69**	**1,180,467,659.05**	**1,298,514,424.96**	**1,428,365,867.45**
Roads and Public Works	Sub Total	840,142,101.69	1,180,467,659.05	1,298,514,424.96	1,428,365,867.45
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**470,368,144.00**	**401,365,763.57**	**441,502,339.93**	**485,652,573.92**
Tourism and Enterprise Development	Sub Total	470,368,144.00	401,365,763.57	441,502,339.93	485,652,573.92
HEALTH SERVICES	**TOTAL**	**2,727,599,165.33**	**2,095,194,889.49**	**2,304,714,378.44**	**2,535,185,816.28**
EDUCATION	**TOTAL**	**1,748,114,560.36**	1,208,307,860.59	1,329,138,646.65	1,462,052,511.31
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**1,960,013,258.90**	**1,795,413,170.34**	**1,974,954,487.37**	**2,172,449,936.11**
County Assembly	Sub Total	760,640,914.31	732,873,320.71	806,160,652.78	886,776,718.06
County Executive Services	Sub Total	220,671,872.46	264,619,678.88	291,081,646.77	320,189,811.44
Public Service and Administration	Sub Total	417,299,972.07	324,633,438.95	357,096,782.85	392,806,461.13
Finance and Economic planning	Sub Total	517,210,904.16	438,103,983.50	481,914,381.85	530,105,820.04
County Public Service Board	Sub Total	44,189,595.90	35,182,748.30	38,701,023.13	42,571,125.44
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	**391,106,247.61**	407,595,045.23	448,354,549.75	493,190,004.73
WATER SERVICES	**TOTAL**	**1,070,577,503.45**	882,881,727.77	971,169,900.55	1,068,286,890.60
TOTAL	**TOTAL**	**9,710,703,780.00**	**8,617,671,314.50**	**9,479,438,445.95**	**10,427,382,290.55**

***Source**: Kwale County Treasury*

4.3 FY 2018/2019 Budget Framework

98 . The FY 2018/2019 budget framework is set against the background of the updated medium-term macro-fiscal framework set above. Real GDP is projected to grow by 6 percent in FY 2018/2019 underpinned by continued good performance of all the sectors of the Kenyan economy. Continued implementation of prudent fiscal and monetary policies is envisaged and so inflation is expected to remain low and stable.

99. This will be sustained as food and oil prices are stabilized as well as exchange rate of the Kenyan shilling against the world major economies. The signing into law of the bill proposing a cap on the interest rates at 4.0 percent above the CBR is expected to boost investment and encourage growth accompanied by multiplier effect to the county's economy.
The growth is expected to be sustained within our economy upon receiving adequate normal rains. Threats of the climate change will be subdued, security will be improved and investor confidence restored.

4.1.1 Revenue Projections

100. Based on fiscal performance in the FY 2016/2017 it is imperative to project revenues using the actual figures for FY 2016/2017**.** The FY 2017/2018 budget targets a projected county own source revenue collection at about **10** percent of the actual revenues collected in FY 2016/2017disbursement. As noted above, this performance will be guaranteed by the ongoing revenue collection system automation which aims at improving efficiency in own revenue collection.

101. The Equitable share of revenue will be pegged at **Kshs.7,610,400,000.00** for the FY 2018/2019.This is an increment of about 5 percent from the FY 2017/18 allocation. The county own source revenues are projected to be **Kshs. 243,112,304.60** and the conditional grants and National Government grants and loans taken in respect of county governments are expected to be **Kshs.764,159,009.90.** This will give an anticipated total revenue of about **Kshs. 8,617,671,314.50.**

102. The Conditional grants and National Government grants and loans amounting to **Ksh 764,159,009.90** will consist of : allocation for development of youth polytechnics, compensation for user fees forgone, leasing of medical equipment, road maintenance levy, World Bank loan to supplement financing of county health facilities, World Bank Grant on Kenya devolution support programme, World Bank grant for Universal health care project,EU Grant for instruments for devolution advice and support and World Bank loan for National Agricultural and Rural Inclusive Growth project.

Table 14 : Summary of County Revenue Envelope

REVENUE SOURCE	ACTUAL 2016/17	PROJECTIONS	
		FY 2018/19	FY 2019/20
	Kshs	Kshs	Kshs
Land Rates	53,682,884.00	59,051,172.40	62,003,731.02
Single Business Permit	55,018,719.00	60,520,590.90	63,546,620.45
House and Stalls Rent	3,346,450.00	3,681,095.00	3,865,149.75
Market Fees	5,140,628.00	5,654,690.80	5,937,425.34
Royalties	0.00	0.00	0.00
Cess	26,911,184.00	29,602,302.40	31,082,417.52
Transit Goods	4,832,314.00	5,315,545.40	5,581,322.67
Auction Fees	6,659,248.00	7,325,172.80	7,691,431.44
Advertisement	12,905,110.00	14,195,621.00	14,905,402.05
Parking Fees	11,054,159.00	12,159,574.90	12,767,553.65
Revenue from Hospital	23,964,870.00	26,361,357.00	27,679,424.85
Building Plan Approval	2,076,372.00	2,284,009.20	2,398,209.66
Land Revenue	1,576,200.00	1,733,820.00	1,820,511.00
Garbage Fees	2,224,400.00	2,446,840.00	2,569,182.00
Slaughter Fees	1,581,452.00	1,739,597.20	1,826,577.06
Miscellaneous	581,309.00	639,439.90	671,411.90
Revenue from Trade and Cooperative	341,160.00	375,276.00	394,039.80
Revenue from Agriculture Livestock and Fisheries	4,194,652.00	4,614,117.20	4,844,823.06
Public Health and Sanitation	2,233,200.00	2,456,520.00	2,579,346.00
Tourist Charges	2,686,875.00	2,955,562.50	3,103,340.63
County Own Revenue	**221,011,186.00**	**243,112,304.60**	**255,267,919.83**
Equitable Share of Revenue	**7,248,000,000.00**	**7,610,400,000.00**	**7,990,920,000.00**
Conditional Grants	**694,690,009.00**	**764,159,009.90**	**802,366,960.40**
TOTAL REVENUE	**8,163,701,195.00**	**8,617,671,314.50**	**9,048,554,880.23**

Source: *Kwale County Treasury*

Table 15: Summary of County Revenue Envelope Showing the Grants types

SOURCE	FY 2017/18 ESTIMATES	FY 2018/19 PROJECTIONS	FY 2019/20 PROJECTIONS
EQUITABLE SHARE	7,248,000,000.00	7,610,400,000.00	7,990,920,000.00
COUNTY OWN SOURCE REVENUE	275,000,000.00	243,112,304.60	255,267,919.83
SUB TOTAL	**7,523,000,000.00**	**7,853,512,304.60**	**8,246,187,919.83**
CONDITIONAL GRANTS			
Allocation for Development of Youth Polytechnics	43,762,833.00	48,139,116.30	52,953,027.93
Compensation for user fee forgone	15,209,593.00	16,730,552.30	18,403,607.53
Leasing of medical equipment	95,744,681.00	105,319,149.10	115,851,064.01
Road maintenance levy	218,390,206.00	240,229,226.60	264,252,149.26
SUB TOTAL	**373,107,313.00**	**410,418,044.30**	**451,459,848.73**
LOANS AND GRANTS FROM DEVELOPMENT PARTNERS			
World Bank Loan to Supplement Financing of County Health facilities	37,075,000.00	40,782,500.00	44,860,750.00
World Bank Grant on Kenya Devolution Support Programme	47,394,016.00	52,133,417.60	57,346,759.36
Conditional allocations-other loans and grants	38,819,208.00	42,701,128.80	46,971,241.68
World Bank Grant for Universal Health Care Project	67,495,496.00	74,245,045.60	81,669,550.16
DANIDA Grant to Supplement Financing of County Health facilities	14,798,976.00	16,278,873.60	17,906,760.96
World bank loan for national agricultural and rural inclusive growth project	50,000,000.00	55,000,000.00	60,500,000.00
EU grant for instruments for devolution advice and support	66,000,000.00	72,600,000.00	79,860,000.00
SUB TOTAL	**321,582,696.00**	**353,740,965.60**	**389,115,062.16**
TOTAL COUNTY REVENUE	**8,217,690,009.00**	**8,617,671,314.50**	**9,086,762,830.72**

Source: *Kwale County Treasury*

4.1.2 Expenditure Forecasts

103. In the financial year **2018/2019** overall expenditures are projected at KShs **KShs.8,617,671,314.50.** down from the estimated total expenditure of KShs**9,710,703,780.56** in the **FY 2017/2018** budget. Recurrent expenditures are expected to reduce to KShs **4.56 Billion** from KShs**4.92** billion in the current **FY 2017/18**.

104. Expenditure ceilings on goods and services for the sectors/departments are based on funding allocation in the FY 2017/18 budget. The ceilings will further be reduced taking into account one off expenditures in the FY 2017/18 budget and then an adjustment factor of not more than **10 per cent** is applied to account for the general increase in prices.

105. The ceilings for the development expenditures including donor funded projects will decrease in nominal terms to KShs in FY 2018/19. Most of the resources will be allocated to fund essential infrastructural development activities in the priority sectors of health, education, water and roads.

CHAPTER FIVE: CONCLUSION AND NEXT STEPS

106. The preparation of this 2017 CBROP has given an insight on how budget implementation in the FY 2016/17 has impacted on the financial objectives contained in the 2017 County Fiscal Strategy Paper. More specifically, lessons learnt are geared towards improvement in revenue performance and curbing the bottlenecks which continue to impede development budget implementation.

107. The County Treasury has stressed on the need to closely monitor the implementation of the current financial year budget through analysing expenditures against approved budget on a quarterly basis and provide timely financial advise to County Government departments. Further the County Government will focus on containing non-core expenditures and prudently manage fiscal risks as pointed out in the latest 2017 County Fiscal Strategy Paper and the Public Finance Management Act 2012

108. Based on the fiscal performance and the adjusted macroeconomic outlook, financial decisions have been made on setting of the sector/departments expenditure ceilings. These ceilings have also taken into account the priorities set out in the Annual Development Plan FY 2018/2019. The provisional ceilings and the strategic priorities shall be firmed up in the upcoming February 2018 County Fiscal Strategy Paper.

109. The 2nd Generation County Integrated Development Plan is in its formulation stage. Going forward, the 2nd CIDP shall be the main reference in setting of annual priorities for resource allocation.

110. Resource allocation framework in this paper which provides the provisional ceilings will guide Sector Working Groups in crafting of their budget proposals and plans. Sector Working Groups are advised to strictly adhere to the ceilings provided.

APPENDICES

Table 16: FY 2017/18- 2020/21 Medium Term Expenditure Framework Recurrent Sector Ceilings

SECTOR		Estimates 2017/2018	Ceiling 2018/2019	PROJECTIONS	
				2019/2020	2020/2021
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**TOTAL**	**232,392,106.93**	**242,362,938.46**	**266,599,232.31**	**293,259,155.54**
Agriculture, Livestock and Fisheries	Sub Total	177,598,977.30	195,696,313.13	215,265,944.44	236,792,538.89
Environment and Natural Resources Management	Sub Total	54,793,129.63	46,666,625.33	51,333,287.86	56,466,616.65
ENERGY, INFRASTRUCTURE AND ICT	**TOTAL**	**187,307,478.33**	**356,659,906.05**	**392,325,896.66**	**431,558,486.32**
Roads and Public Works	Sub Total	187,307,478.33	356,659,906.05	392,325,896.66	431,558,486.32
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**127,199,562.70**	**88,987,314.57**	**97,886,046.03**	**107,674,650.63**
Tourism and Enterprise Development	Sub Total	127,199,562.70	88,987,314.57	97,886,046.03	107,674,650.63
HEALTH SERVICES	**TOTAL**	**1,811,355,704.00**	1,508,059,542.49	1,658,865,496.74	1,824,752,046.41
EDUCATION	**TOTAL**	**755,104,220.00**	720,223,367.59	792,245,704.35	871,470,274.78
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**1,546,563,023.62**	**1,463,699,123.34**	**1,610,069,035.67**	**1,771,075,939.24**
County Assembly	Sub Total	598,201,030.31	632,873,320.71	696,160,652.78	765,776,718.06
County Executive Services	Sub Total	139,295,241.46	173,687,746.88	191,056,521.57	210,162,173.72
Public Service and Administration	Sub Total	344,029,823.21	230,941,073.95	254,035,181.35	279,438,699.48
Finance and Economic planning	Sub Total	420,847,332.74	391,014,233.50	430,115,656.85	473,127,222.54
County Public Service Board	Sub Total	44,189,595.90	35,182,748.30	38,701,023.13	42,571,125.44
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	**186,510,356.35**	135,811,209.23	149,392,330.15	164,331,563.17
WATER SERVICES	**TOTAL**	**74,902,076.93**	44,459,914.77	48,905,906.25	53,796,496.87
TOTAL		**4,921,334,528.86**	**4,560,263,316.50**	**5,016,289,648.15**	**5,517,918,612.97**

Source: *County Treasury*

Table 17: FY2017/18- 2020/21 Medium Term Expenditure Framework Development Sector Ceilings

SECTOR		Estimates 2017/2018	Ceiling 2018/2019	PROJECTIONS	
				2019/2020	2020/2021
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**TOTAL**	**270,390,692.10**	**404,082,260.00**	**444,490,486.00**	**488,939,534.60**
Agriculture, Livestock and Fisheries	Sub Total	174,746,677.40	262,378,449.00	288,616,293.90	317,477,923.29
Environment and Natural Resources Management	Sub Total	95,644,014.70	141,703,811.00	155,874,192.10	171,461,611.31
ENERGYAND INFRASTRUCTURE	**TOTAL**	**652,834,623.36**	**823,807,753.00**	**906,188,528.30**	**996,807,381.13**
Roads and Public Works	Sub Total	652,834,623.36	823,807,753.00	906,188,528.30	996,807,381.13
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**343,168,581.31**	**312,378,449.00**	**343,616,293.90**	**377,977,923.29**
Tourism and Enterprise Development	Sub Total	343,168,581.31	312,378,449.00	343,616,293.90	377,977,923.29
HEALTH SERVICES	**TOTAL**	**916,243,461.51**	**587,135,347.00**	645,848,881.70	710,433,769.87
EDUCATION	**TOTAL**	**993,010,340.36**	**488,084,493.00**	536,892,942.30	590,582,236.53
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**413,450,235.28**	**331,714,047.00**	**364,885,451.70**	**401,373,996.87**
County Assembly	Sub Total	162,439,884.00	100,000,000.00	110000000	121000000
County Executive Services	Sub Total	81,376,631.00	90,931,932.00	100025125.2	110027637.7
Public Service and Administration	Sub Total	73,270,148.86	93,692,365.00	103061601.5	113367761.7
Finance and Economic planning	Sub Total	96,363,571.42	47,089,750.00	51798725	56978597.5
County Public Service Board	Sub Total	-	0	0	0
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	**204,595,891.26**	**271,783,836.00**	298962219.6	328858441.6
WATER SERVICES	**TOTAL**	**995,675,426.52**	**838,421,813.00**	922263994.3	1014490394
TOTAL	**TOTAL**	**4,789,369,251.70**	**4,057,407,998.00**	**4,463,148,797.80**	**4,909,463,677.58**

Source: *County Treasury*