SAMBURU COUNTY GOVERNMENT

GOD,
OUR PEOPLE, OUR LAND

DEPARTMENT OF FINANCE, ECONOMIC PLANNING &ICT

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2018

Foreword

The preparation of the County Budget Review and Outlook Paper (CBROP) by the County Treasury is provided in Section 118 of the Public Finance Management Act, 2012 (PFMA). The paper analyses the overall fiscal performance of the county government for the financial year 2017/2018.

CBROP ensures effective linkage between policies, planning and budgeting. It sets out the broad objectives, policy goals and strategic priorities that will guide the County Government in preparing the budget both for the 2019/2020 financial year and over the medium term.

As a review document, the CBROP highlights the financial status of the county to the spending agencies, and other stakeholders. It also provides tentative indicators of the total limits within which the County can expend for the 2019/20 financial year. This is founded on the expected flows from the National Government as well as the revenues mobilized locally.

This CBROP seeks to promote fiscal discipline as well as to lay the criteria for resource allocation. The criteria has taken into cognizant county goals in reducing poverty levels and stimulating employment by re-orienting expenditure to the high impact areas and reducing on non-priority spending.

Our commitment is to ensure that we realize the County's goal of reducing poverty and creating employment by focusing our expenditure on high impact projects and programmes. In this regard, the need for continued fiscal discipline through strategic planning, efficient resource management and prudent utilization of public resources is emphasized.

We will ensure that a stable macroeconomic environment is maintained and that implementation of the set strategies and priorities is done with high level of transparency and accountability in management of public funds in the County.

Dorcas Lekesanyal

CECM- Finance, Economic Planning & ICT

Acknowledgement

The 2018 Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012. The document provides actual fiscal performance of the FY 2017/2018 in comparison to the budget appropriations for the same year as well as a review of the recent economic developments in all the sectors of the county. It further provides an overview of how the actual performance of the FY 2017/2018 affected our compliance with the fiscal responsibility principles and the financial objectives spelt in the PFM Act

The preparation of the Paper was a joint effort but a core team in the County Treasury spent a significant amount of time to put together the report. Towards this end, special appreciation is hereby extended to our CECM, Dorcas Lekisanyal for her policy guide in the preparation of the paper. The Chief Officers and county directors who provided vital inputs to the paper are also sincerely acknowledged.

Finally, since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the County Treasury for their dedication, sacrifice, commitment and assistance during this process.

Daniel N. Lenolkirna
Chief Officer- Finance

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Abbreviations and Acronyms

CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
ECD	Early Childhood Development
FY	Financial Year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
ICT	Information Communication Technology
KSH	Kenya Shillings
MTEF	Medium Term Expenditure Framework
PFM	Public Financial Management

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

The CBROP is prepared in accordance with Section 118 of the PFM Act, 2012. The law 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 CBROP which shall include:

   a) Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;

   b) Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent CFSP.

   c) Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest CFSP; and

   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) The County Executive Committee shall consider the CBROP 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 CBROP has been approved by County Executive Committee, the County Treasury shall:

   a) Arrange for the Paper to be laid before the County Assembly; and

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

The Fiscal Responsibility Principles laid out in section 107 of the PFM Act 2012 includes;

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

(2) 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 revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
- **(d)** (d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- **(e)** (e) The county debt shall be maintained at a sustainable level as approved by county assembly;
- **(f)** (f) The fiscal risks shall be managed prudently; and
- **(g)** A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

(3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

(4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

(5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

Section One: INTRODUCTION

1. Section 118 of the Public Finance Management Act (PFMA), 2012 provides for the preparation of the CBROP by the County Treasury. The Act states that a County Treasury: shall prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and submit the paper to the County Executive Committee by the 30th September of that year.

2. The main objectives of CBROP are to:

- Set the broad strategic priorities and policy goals that will guide the County government in preparing its budget for the coming financial year and over the medium term;
- Highlight the financial outlook with respect to County government revenues, expenditures and borrowing for the coming financial year and over the medium term;
- Assess the current financial year and the projected state of the economy for the succeeding three years;
- Set targets for overall revenues, total aggregate expenditure and domestic and external borrowing for the succeeding financial year and the medium term; and
- Set the total resources to be allocated to individual programmes within a sector indicating the outputs expected from each such programme during that period

3. The 2018 CBROP provides sector ceilings for the 2019/20 budget and the medium term guided by the PFM Act 2012 and 2015 regulations. The Ceilings set in motion the budget preparation for the Fiscal Year 2019/20.

4. The paper is structured into four sections which are;

i) Review of County fiscal performance for the previous year i.e. FY 2017/2018 details of the actual vs. budget for the year.

ii) Recent economic development and outlook.

iii) Resource allocation framework.

iv) Conclusions and next step.

Section Two: REVIEW OF FISCAL PERFORMANCE FOR THE FY 2017/18

Overview

5. The Samburu County Government had in the financial year under review, an approved budget of Ksh 4.832 billion. Out of the approved budget, Ksh 3.382 billion (70%) was recurrent expenditure while Ksh 1.45 billion (30%) was on development. The budget therefore conformed to section 107(2) (b) of which requires that at least 30% of the total expenditure be set aside for development.

Total local revenue collection by end of June 2018 was at Ksh **224,686,264.45** against a target of ksh **251,234,866.** Some revenue categories recorded lower revenues than the target during the period. On the expenditures side, the amount spent by end June 2018 was Ksh **3,914,243,161** against target of Ksh **4,832,646,332**

FY 2017/18 Fiscal Performance

6. Revenue flow from national government has not been consistent. The irregular flow of revenue had a negative fiscal and financial implication to the county. It impacted on the capacity of the county government to implement projects and programmes and to meet its non-discretionary expenses on time. However, overall revenue performance was below the projected targets

Performance of Local Revenues

By the end of June 2018, total local revenue amounted to Ksh **224,686,264.45** against a target of Ksh **251,234,866(Table 1).** The local revenue collected in financial year 2016/17 was ksh **183,798,995**. The year under review recorded slight higher improvement compared to previous year but did not attain the target due to;

a) Staff training on revenue collection;
b) Realistic projections;
c) Sealing of Revenue leakages;

Table 1: Approved Revenues vs. Actuals 2017/18

Revenue Stream	Annual Budgeted Revenue (Ksh.)	Annual Actual Revenue (Ksh.)	Difference (Ksh)
Land Rates	27,846,000	10,898,901	16,947,099
Single Business Permits	20,169,240	12,599,300	7,569,940
Total Cess Receipts	35,255,220	10,407,845	24,847,375
Game Parks/Nature Reserves Fees	126,520,000	153,972,425	(27,452,425)
Markets and Slaughter House Fees	5,716,620	6,113,495	(396,875)
Vehicle Parking Receipts/Transport	3,344,796		3,344,796
Wheat Cess	792,792	219,845	572,947
Prospecting Licenses	198,198	50,000	148,198
Tender Application Fees		392,000	(392,000)
Liquor License	8,719,400	3,657,000	5,062,400
Various Health Departments Fees	9,128,000	15,819,729	(6,691,729)
Agricultural Machinery Services	10,974,600	393,900	10,580,700
Approval of plans and supervision	2,570,000	738,000	1,832,000
Miscellaneous		9,423,824	(9,423,824)
SUB-TOTAL LOCAL SOURCES	**251,234,866**	**224,686,264**	**26,548,602**
SUMMARY			
Revenue from Local Sources	**251,234,866**	**224,686,264**	26,548,602
Revenue transfer from national government	3,805,200,000	3,805,200,000	-
Road Maintenance Fuel Levy	151,365,222	70,593,149	80,772,073
User fees forgone in hospitals	5,235,578	5,321,855	(86,277)
World bank loan for National agricultural and rural inclusive growth project	50,000,000	50,609,855	(609,855)
EU Grant for instrument for devolution advice and support (Abattoir Construction)	66,000,000	-	66,000,000
Conditional Allocation for Development of Youth Polytechnics	25,356,891	25,850,000	(493,109)
World Bank Loan to Supplement financing of County Health facilities	53,125,000	6,339,223	46,785,777
World Bank Loan for transforming health systems for universal care project	97,143,609	30,357,377	66,786,232
Kenya Devolution Support Program (KDSP)	36,731,596	36,731,596	-
DANIDA (Health support funds)	15,897,096	15,897,096	-
Conditional Grant-Leasing of Medical Equipment	95,744,681	95,744,681	-
Balance b / f	179,611,793	179,611,793	-
GRAND TOTAL	**4,832,646,332**	**4,546,942,889**	**285,703,443**

Source: County Treasury

County Expenditure Performance

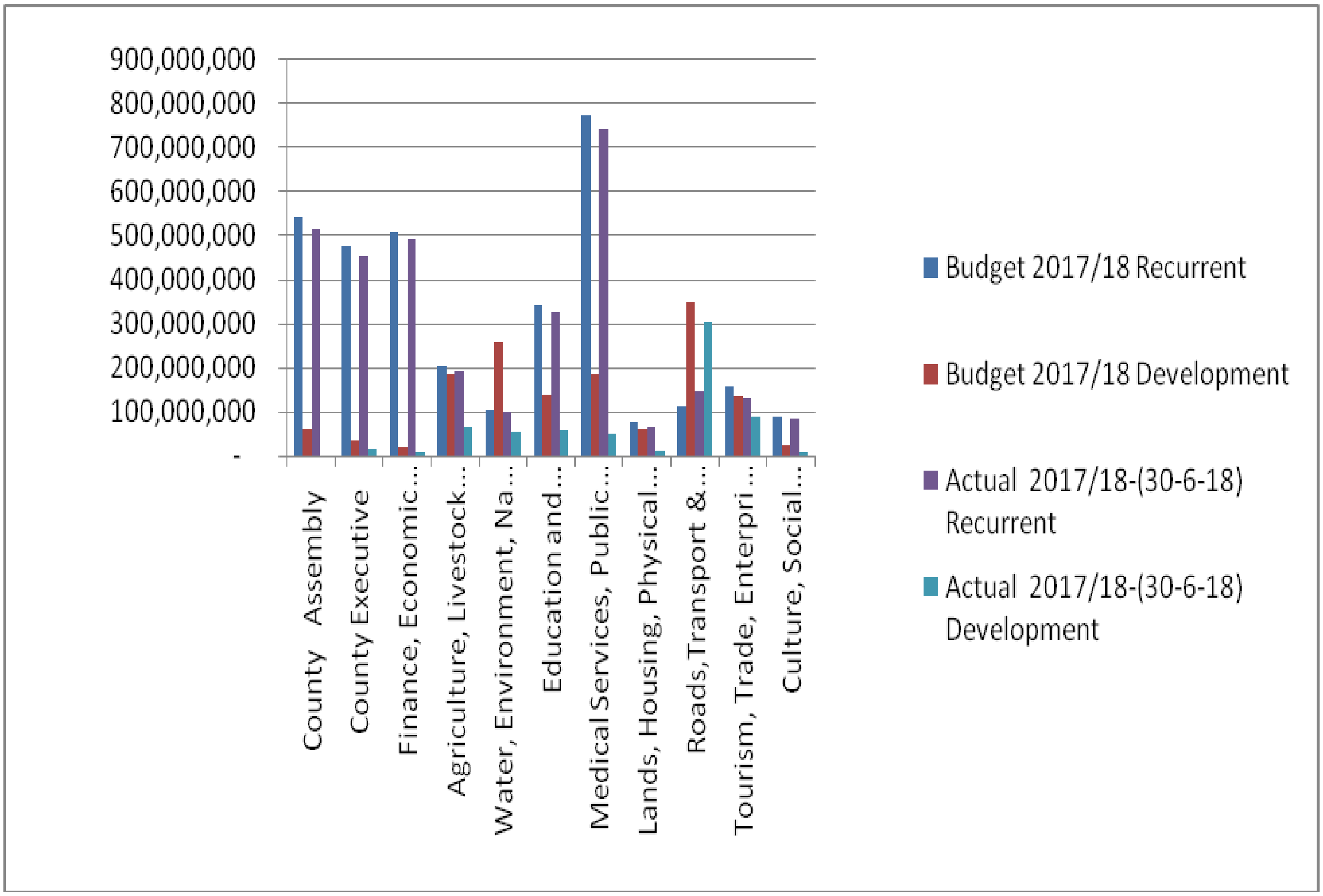
Total expenditure in FY 2017/18, amounted to Ksh **3,788,860,701** against a target of Ksh **4,832,646,331**, representing an under spending of Ksh **1,043,785,631**(Table 2).The County Government's recurrent expenditure amounted to Ksh **3,192,402,461** inclusive of County Assembly) against a target of Ksh **3,382,297,851** representing an under-spending of Ksh**189,895,390.**The development expenditure amounted to Ksh **596,458,240 (**inclusive of County Assembly) against a target of Ksh **1,450,348,481,** representing an under-spending of Ksh **853,890,241.**

Table 2: Approved Expenditure vs. Actuals 2017-18

S.N.	Department	Budget 2017/18 -Ksh		Actual 2017/18-(30-6-18) -Ksh	
		Recurrent	**Development**	**Recurrent**	**Development**
1	County Assembly	544,035,585	60,000,000	525,716,300	48,491,292
2	County Executive	477,585,311	35,998,775	462,188,076	15,436,510
3	Finance, Economic Planning & ICT	506,889,066	20,027,452	479,678,690	10,885,900
4	Agriculture, Livestock Development, Veterinary Services & Fisheries	203,068,712	184,841,903	192,755,589	53,245,274
5	Water, Environment, Natural Resources & Energy	105,140,508	259,412,722	96,357,258	11,253,630
6	Education and Vocational Training	341,577,668	137,948,296	324,796,023	53,224,995
7	Medical Services, Public Health & Sanitation	771,248,412	183,935,391	713,012,916	39,375,088
8	Lands, Housing, Physical Planning & Urban Development	77,241,707	62,360,547	69,720,309	26,877,090
9	Roads, Transport & Public Works	110,766,659	348,210,440	136,504,704	254,109,576
10	Tourism, Trade, Enterprise Development & Cooperatives	157,272,731	136,297,915	139,208,643	76,051,739
11	Culture, Social Services, Gender, Sports & Youth Affairs	87,471,492	21,315,040	52,463,953	7,507,146
	TOTALS	**3,382,297,851**	**1,450,348,481**	**3,192,402,461**	**596,458,240**
	Percentages	**69.99**	**30.011**	**84.26**	**15.74**

Source: County Treasury

Development expenditures were NOT satisfactory in the period under review.



Source: County Treasury

Figure 1: Approved Budget vs. Actual expenditure in FY 2017/18

Fiscal balance (or net position):

Observing the above performance for both revenue and expenditures the overall fiscal balances (on a commitment basis) was Ksh **918,403,171**. The pending bills at the end of financial year amounting to ksh **680,187,513** will be catered for in the Supplementary budget estimates in the course of financial year.

Implication of 2017/18 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2017 CFSP

7. During the period under review, the county had planned to collect revenue amounting to Ksh. 4,832,646,332. At the close of the financial year, the county had received revenues amounting to Ksh. **4,236,335,959**.

This implies that the baseline ceilings for subsequent budgets ought to be adjusted considering the under-performance in revenue collection in FY 2017/18. Consequently, this may affect the financial performance objectives stipulated in CFSP 2018.

8. The review of budget for FY 2017/18 reveals that revenue underperformance was in both local revenue collection and external revenue. Therefore, the overall revenue performance in 2017/18 points to the need for enhancement of local revenue collection measures and the national government transfers as determined by the Commission for Revenue Allocation (CRA) is consistent in future.

9. Additional implications borders on the capacity of the county government to implement its budget in FY 2018/19 and in the subsequent years. In view of the foregoing, appropriate measures have been applied in the context of this CBROP, taking into account the budget outturn for 2018/19. The County Treasury will work closely with revenue agencies to improve local revenue collection.

10. The outcome of the 2017 Economic Survey has revealed a stable Macroeconomic environment for the Country and general positive performance in all sectors of the economy. Further global oil prices have remained largely subdued along with stability in cost of other energy source. The intended VAT levy on fuel will affect the cost of service provision and the cost of project implementation across board.

Continuing in Fiscal Discipline and Responsibility Principles

11. Over the medium term a minimum of 30 percent of the county government's budget shall be allocated to the development expenditure. The allocation for development budget was well within the set minimum requirement of 30 percent with **Ksh 1.450 billion** allocated to development against a total budget of **Ksh 4.832 billion**.

12. The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly. The County expenditure on wages and salaries is about 34.2 per cent which is below 35% set in the 2015 County Government regulations.

13. The county debt shall be maintained at a sustainable level as approved by county assembly and the county government's recurrent expenditure shall not exceed the county government's total revenue. The County Government has continued in its commitment of reducing its debt though observing fiscal discipline and expenditure management. Although The PFM (County Government) regulations 2015 has set the limit for County Government borrowings to a maximum of 20 percent of the total revenue the County Government does not forecast any borrowing within this MTEF period.

14. 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 has continued to adopt a more rational approach in revenues and expenditure forecasts based on acute environment and potential of the County to expand its revenue base. The County Finance Act 2017 has not significantly altered the rates of taxation and in future the anticipation is that it could be predicted.

SECTION THREE – Recent Economic Developments and Outlook

A. Recent Economic Developments

15. Agriculture Sector Review- The agriculture sector recorded mixed performance in 2017 which led to a decelerated growth of 1.6 per cent compared to 5.1 per cent growth in 2016. Drought coupled with pests such as the fall army worms and diseases led to the overall decline in agricultural production in 2017. Despite reduced production of major crops during the period under review, better prices were realized for the marketed agricultural output. Consequently, the value of marketed production increased by 8.2 per cent from KSh 413.2 billion in 2016 to KSh 446.9 billion in 2017. Maize production declined from 37.8 million bags in 2016 to 35.4 million bags in 2017. Similarly, sugarcane production declined from 7.2 million tonnes in 2016 to 4.8 million tonnes in 2017. The recorded declines in production of maize and sugarcane resulted in huge imports of maize and sugar to bridge the deficit. Wheat production declined by 23.1 per cent from 214.7 thousand tonnes in 2016 to 165.2 thousand tonnes in 2017. Tea production declined by 7.0 per cent to 439.8 thousand tonnes in 2017 while marketed coffee dropped by 15.1 per cent to 33.7 thousand tonnes in the year under review. The volume of fresh horticultural exports increased from 261.2 thousand tonnes in 2016 to 304.1 thousand tonnes in 2017. The quantity of marketed milk declined by 17.4 per cent from 648.2 million litres in 2016 to 535.7 million litres in 2017.

16. Environment and Natural Resources -In 2017, the Environment and Natural Resources sector registered mixed performance in indicators. The total expenditure by national government on water and related services is expected to decline by 19.1 per cent from KSh 43.9 billion in the year 2016/17 to KSh 35.5 billion in 2017/18. The value of fish landed, which has been on the decline for the last three consecutive years, dropped further by 6.1 per cent to KSh 23.0 billion in 2017.

Total area covered by forests increased marginally from 4,190.0 thousand hectares in 2016 to 4,229.4 thousand hectares in 2017. Sale of timber from Government forests declined from 1,037.3 thousand true cubic meters in 2016 to 881.6 thousand true cubic meters in 2017. The total value of mineral output increased by 2.0 per cent to KSh 23.8 billion in 2017. Most parts of the country experienced reduced rainfall and rising temperatures during the review period.

17. Energy Sector -The energy sector witnessed increased international crude oil prices in 2017 following supply cuts by top producers under Organization of Petroleum Exporting Countries (OPEC). The average Murban crude oil prices rose to an average of US Dollars 54.91 per barrel in 2017 up from an average of US Dollars 44.18 per barrel in 2016. Total volume of petroleum products imported into the country increased from 5,990.0 thousand tonnes in 2016 to 6,347.7 thousand tonnes in 2017. However, domestic exports of petroleum products declined by 2.3 per cent to 32.4 thousand tonnes over the same period. During the review period, the total import bill of petroleum products increased by 34.2 per cent to KSh 265.3 billion while the total value of petroleum products exported, including re-exports, declined by 19.1 per cent to KSh 36.1 billion in 2017. Total installed and effective electricity capacity was 2,339.9 MW and 2,264.4 MW, respectively, in 2017. Total electricity generation expanded by 3.0 per cent to 10,359.9 GWh in 2017. However, the hydro generated power registered a significant drop of 29.9 per cent to 2,776.8 GWh while thermal and geothermal generated power expanded by 72.3 and 6.1 per cent, respectively, in 2017. The number of customers connected under the rural electrification program expanded by 30.6 per cent from 972,018 in 2016/17 to 1,269,510 in 2015/16.

18. Manufacturing Sector- The manufacturing sector real value added rose by 0.2 per cent in 2017 compared to a growth of 2.7 per cent in 2016. Output volume of the sector however, declined by 1.1 per cent mainly on account of reduced production of food products, beverages and tobacco, leather and related products, rubber and plastics and non-metallic minerals sub sectors. The sector's formal employment rose to 303.3 thousand persons in 2017 and accounted for 11.4 per cent of the total formal employment. The number of local employees engaged by EPZ enterprises increased to 54,622 persons in 2017 from 52,947 persons in 2016. Loans advanced to the sector rose to KSh 311.8 billion in 2017 from KSh 275.8 billion in 2016. The Producer Price Index (PPI), which measures inflation of products as they leave the factories, increased by 4.6 per cent in 2017 mainly due to increase in prices of manufactured food products, electricity and manufactured basic metals.

19. Building and Construction -The Building and construction sector grew by 8.6 per cent in 2017 compared to 9.8 per cent registered in 2016. The total expenditure by National Government on roads is expected to increase from KSh 173.7 billion in 2016/17 to KSh 198.4 billion in 2017/18. Development expenditure on roads is expected to increase by 19.2 per cent from KSh 113.2 billion in 2016/17 to KSh 134.9 billion in 2017/18. Funds for repair and maintenance of roads are expected to increase from KSh 60.5 billion in 2016/17 to KSh 63.5 billion in 2017/18. Loans and advances from commercial banks to building and construction sector increased to KSh 109.9 billion in 2017 from KSh 104.8 billion in 2016, a 4.9 per cent increase. Following the completion of Phase I of the Standard Gauge Railway project in May 2017, the construction work for Phase 2 which runs from Nairobi to Naivasha started in September 2017.

20. The Tourism Sector- The Tourism sector recorded improvements despite a prolonged electioneering period and negative travel advisories issued by some countries in 2017. Tourism earnings increased by 20.3 per cent from KSh 99.7 billion in 2016 to KSh 119.9 billion in 2017. The number of international visitor arrivals increased by 8.1 per cent to 1,448.8 thousand in 2017. The number of hotel bed-nights occupancy increased by 11.3 per cent from 6,448.5 thousand in 2016 to 7,174.2 thousand in 2017.

The number of international conferences contracted by 15.9 per cent from 227 in 2016 to 191 in 2017 while local conferences increased by 2.4 per cent from 3,755 to 3,844 over the same period. Visitors to national parks and game reserves rose by 2.6 per cent to 2,345.2 thousand in 2017. However, visitors to museums, snake parks and historical sites decreased by 15.3 per cent to 782.0 thousand in 2017 from 923.1 thousand in 2016.

21. Transport and Storage -The value of transport and storage sector output expanded by 8.8 per cent from KSh 1,025.8 billion in 2016 to KSh 1,115.7 billion in 2017. During the same period, the value of output from road transport increased by 5.7 per cent to KSh 702.1 billion, accounting for 62.9 per cent of the total output in the sector. Output from air transport sub-sector increased by 14.9 per cent to KSh 183.1 billion while that of services incidental to transport increased by 28.3 per cent to KSh 107.8 billion in the review period. On the other hand, output from the railway transport sub-sector declined by 8.8 per cent from KSh 5.7 billion in 2016 to KSh 5.2 billion in 2017. Total cargo throughput handled at the Mombasa Port increased by 10.6 per cent to 30.3 million tonnes in 2017. The total number of vessels that docked at the Port increased by 10.0 per cent from 1,607 in 2016 to 1,767 in 2017. At the same time, total import traffic handled grew by 10.8 per cent to 25.6 million tonnes, while export traffic handled expanded by 2.7 per cent to 3.8 million tonnes in 2017. The volume of white petroleum products transported through pipeline rose by 10.8 per cent from 5,557.9 thousand cubic meters in 2016 to 6,155.7 thousand cubic meters in 2017. The number of passengers travelling by air increased by 3.5 per cent to 10.1 million in 2017. During the review period, the number of domestic and international passengers were 3,991.2 thousand and 6,121.3 thousand respectively. The number of reported road traffic accidents declined by 15.9 per cent to 4,452 in 2017. Similarly, the number of reported casualties from the accidents decreased by 14.8 per cent to 11,215 in 2017.

22. Information and Communication Technology- The value of Information and Communication Technology (ICT) output increased by 10.9 per cent from KSh 311.1 billion in 2016 to KSh 345.1 billion in 2017. The number of domestic Short Messaging Services (SMSs) increased by 41.8 per cent to 65.7 billion in 2017. Total domestic telephone calls traffic increased from 42.2 billion minutes in 2016 to 44.1 billion minutes in 2017. The international telephone calls traffic declined from 1,196.5 million minutes in 2016 to 1,056.7 million minutes in 2017. Mobile subscriptions penetration rate per 100 inhabitants increased from 85.9 in 2016 to 91.9 in 2017. Prepaid subscriptions per 100 inhabitants increased to 88.9 in 2017 from 82.8 in 2016. Mobile commerce transactions grew by 85.5 per cent from KSh 1.8 trillion in 2016 to KSh 3.2 trillion in 2017. Total mobile money transfers increased by 8.4 per cent from KSh 3,356 billion in 2016 to KSh 3,638 billion in 2017.

23. Education and Training -The National Government total allocation to the Ministry of Education, which includes that to the Teachers Service Commission (TSC) is expected to grow by 31.6 per cent from KSh 315.6 billion in 2016/17 to KSh 415.3 billion in 2017/18. During the review period, total recurrent expenditure is expected to increase by 30.7 per cent to KSh 385.2 billion in 2017/18, while development expenditure is expected to grow by 43.9 per cent to KSh 30.0 billion in 2017/18. The total number of educational institutions increased by 5.1 per cent to 90,587 in 2017 with the number of registered Technical Vocational and Education Training (TVET) institutions increasing substantially by 50.9 per cent to 1,962 in the same period. Total enrolment in pre-primary schools rose by 2.9 per cent to 3,293.8 thousand, while that of primary schools increased from 10.3 million in 2016 to 10.4 million in 2017. Enrolment in secondary schools grew by 4.1 per cent to 2,830.8 thousand in 2017. The number of teacher trainees' enrolment went up marginally from 41,707 in 2016 to 42,131 in 2017, while total enrolment in TVET institutions increased by 35.8 per cent to 275,139 in 2017. University student enrolment is expected to decline by 7.7 per cent to 520,893 in 2017/18.

The number of KCPE candidates increased by 4.3 per cent to 993,718 in 2017, while the number of KCSE candidates grew by 6.9 per cent to 610,501 in 2017. The number of candidates who scored a minimum university entry score of C+ (plus) and above decreased by 21.2 per cent to 70,073 in 2017 from 88,929 in 2016. The total number of students in public and private universities and TVET institutions loan applicants increased by 23.5 per cent to 252,928 in 2016/17. During the same period, the total number of loan beneficiaries increased by 24.2 per cent to 244,626. The amount of loans awarded increased by 25.0 per cent from KSh 7.6 billion in 2015/16 to KSh 9.5 billion in 2016/17.

24. Health and Vital Statistics Total expenditure on the health services by National Government is expected to increase by 15.9 per cent to KSh 65.6 billion in 2017/18. Total recurrent expenditure is expected to remain at KSh 29.8 billion while development expenditure is expected to grow by 33.6 per cent to KSh 35.8 billion. Pneumonia, Malaria and Cancer continued to be the leading causes of registered death. Diseases of the respiratory system followed by Malaria continued to be the leading cause of morbidity. The national Full Immunization Coverage for children below one year decreased to 63.0 per cent in 2017 from 69.0 per cent in 2016. During the review period, the number of registered medical personnel increased by 9.0 per cent to 160,749. The National Hospital Insurance Fund (NHIF) membership grew by 11.1 per cent to 6.8 million in 2016/17. Contributions to NHIF increased from KSh 31,995.7 million to 34,978.2 million during the review period.

25. Governance, Peace and Security the total number crimes reported to the Police increased by 1.3 per cent to 77,992 in 2017. Stealing, breakings and offences relating to dangerous drugs were more prevalent in 2017 and accounted for 14.9, 7.9 and 7.1 per cent respectively of all crimes reported to the Police. The total number of persons reported to have committed criminal offenses decreased by 2.7 per cent to 73,013 in 2017 with 18.6 per cent being reported to have committed assault while 15.1 and 8.1 per cent were reported to have committed stealing and creating disturbance, respectively.

Corruption reports investigated by Ethics and Anti-Corruption Commission and forwarded to the Office of the Director of Public Prosecution (ODPP) decreased 14.4 per cent to 143 in 2017, of which the ODPP approved 89 reports for prosecution. Cases filed in Law Courts declined by 23.6 per cent to 344,180 in 2017, while those disposed of increased by 63.0 per cent to 313,075 in the same period. Daily average prison population grew marginally by 0.2 per cent to 51,021 prisoners in 2017. The number of persons registered as voters increased by 23.3 per cent from 15.9 million in 2016 to 19.6 million in 2017. Social protection fund allocation to the elderly is expected to increase by 8.6 per cent to KSh 7.9 billion in 2017/18 while the allocation for orphans and vulnerable children (OVCs) is expected to increase by 5.4 per cent to KSh 8.5 billion in 2017/18. Direct cash disbursements to the elderly are expected to increase by 9.5 per cent to KSh 7.3 billion while that of OVCs is expected to increase by 11.5 per cent to KSh 7.9 billion over the same period.

B. Macroeconomic Outlook and Policies

Economy

26. Provisional estimates of Gross Domestic Product (GDP) showed that Kenya's economy expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with effects of adverse weather conditions. A widespread drought experienced during the fourth quarter of 2016 and somewhat suppressed long rains in 2017, negatively impacted on crop production and rearing of animals as well as generation of hydro-electric power. A slowdown in credit uptake to the private sector also contributed to the deceleration in growth during the period under review.

27. Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, Forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

28. Generally, key macroeconomic indicators largely remained stable and therefore supportive of growth in 2017. Weighted interest rates on commercial banks loans and advances declined to 13.64 per cent in December 2017 from 13.69 per cent in December 2016. The Central Bank Rate (CBR) was maintained at 10.00 per cent throughout the year. In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. There was a moderate buildup in inflationary pressures mainly due to significant increase in oil and food prices during the year under review. Consequently, inflation rose from 6.3 per cent in 2016 to 8.0 per cent in 2017 thereby overshooting the Central Bank's upper limit of 7.5 per cent.

29. The current account deficit widened from KSh 375.3 billion in 2016 to a deficit of KSh 518.9 billion in 2017 on account of significant growth of imports against a slow growth of exports. The Nairobi Securities Exchange (NSE) 20-Share index rose to 3,712 points in December 2017 from 3,186 points in December 2016.

30. Domestic prices of petroleum products rose significantly in 2017 in response to a 24.6 per cent rise in the international oil prices. In particular, wholesale prices of motor gasoline premium and light diesel increased by 9.7 per cent and 8.7 per cent, respectively, in 2017. The increase in oil prices was mainly on account of reduced global supply against a strong demand growth during the year under review.

Development Challenges

31. Kenya's economic performance is expected to strengthen once the global economy picks up, the tourism sector rebounds, and some of the underlying causes of slow credit growth are resolved, as well as the completion of major infrastructure projects.

County Specific Outlook 2018/2019

32. The outlook for Samburu County for the financial year 2018/19 is envisaged to provide a development oriented environment, which will ensure an improved environment for business while at the same time seeking to uplift the standard of living for the masses. Improvement of health services, investment in physical infrastructure, refinement of ECD learning and provision of social amenities are strategies that will be used to uplift the standards of living in the County.

Transport, Roads & Public Works

33. Infrastructure will remain a top priority in the county during the 2018/19 fiscal year. Programs with emphasis on opening, improving and maintaining road network will be given prominence. Further there are activities involving public lighting, facilitating construction and maintenance of County government buildings and other public works. The above will ensure there is sustainable social economic development.

Medical Services, Public Health & Sanitation

34. Elimination of communicable conditions by promoting primary health care services at all levels. Halting and reversing the rising burden of Non-communicable conditions through promotion of health education & behavior change programs, capacity building for staff and establishment of specialized clinics. Provision of essential health care through prioritizing procurement of health products and technologies, recruitment of critical health workforce, strengthening health information systems and health leadership and governance.

Tourism, Trade, Enterprise Development & Cooperatives

35. Niche tourism, Tourism quality and management strategies, Tourism marketing strategies, Trade promotion and marketing strategies through enhanced co-operatives for pooling of resources and economies of scale. Strategies to develop tourism infrastructure that can attract both local and international visitors are put into consideration which entails marketing the existing tourist attractions. The county has continued to improve market infrastructure by coming up with new market stalls, eco lodges, campsites and new conservation sites.

Agriculture, Livestock Development, Veterinary Services & Fisheries

36. The County focused on promoting agricultural technologies, value addition to agricultural produce and provision of extension services to enhance food security and create employment.

Education and Vocational Training

37. Pursuing rapid infrastructure expansion programmes targeting establishment of new primary schools with ECDE centers to increase enrolment. In Youth Training, the county focused on increasing enrolments in the polytechnics through improvement of infrastructure in the polytechnic in order to equip the youth with skills and competencies for the labor market.

Finance, Economic Planning & ICT

38. The County focused in implementation of the Integrated Financial Management Systems (IFMIS) for efficient financial management. The automation of revenue will be done in the current financial year. Investment in installation of ICT infrastructure to automate services and processes and enable collaboration between departments for enhanced service delivery is a top priority.

Water, Environment, Natural Resources & Energy

39. Improvement of water supply infrastructure, water management systems and waste disposal systems. Others are environmental conservation strategies and other natural resources management and harnessing systems

Lands, Housing, Physical Planning & Urban Development

40. Programs aimed at facilitate and improve of livelihood of Kenyans living in Samburu County through efficient administration and sustainable management of the land resource will continue. Enhancing land management for sustainable development and provision of titles.

County spatial planning, urban areas land use Plans, land demarcation, adjudication and registration.

Culture, Social Services, Gender, Sports & Youth Affairs

41. The county focused on promotion of sports through establishment of youth sports center, Sports Stadia development, sports activities enhancements, talents development and mentorship programs, women, special needs groups and youth empowerment, and culture promotion and development.

County Executive

42. The County focused on improvement of working spaces for the staff and infrastructural development for enhanced service delivery, disaster management and improved security. The County was dedicated to improvement of service delivery by development of performance management system, undertaking training workshops and capacity building. Improvement of physical working environment of staff would to enhance productivity.

County Assembly

43. Programs and activities geared towards promotion of County assembly legislative, representation and oversight role will continue for proper functioning of the county assembly to the best interest of the people of the county.

C. Medium Term Fiscal Framework

44. The county has finalized the preparation of the County Integrated Development Plan (CIDP) 2018-2022 that will guide planning and budgeting for the next five years. The County Government has received grants from World Bank under the Kenya Devolution Support Programme (KDSP) which will be supporting capacity building in four Key result Areas (KRA) namely; Public Finance Management, Planning and Monitoring and Evaluation , Human Resources and Performance Management, Civic Education and Public Participation and Investment implementation and Social and Environmental Performance.

The county government is expected to revamp the youth polytechnics since it has received conditional grants from National Government that will be used in revitalization of the youth polytechnics across the county this is expected to increase the intake of youth in the polytechnics

The National Treasury is in the process of preparation of a policy on 'Enhancement of County Governments' Own-Source Revenue' which is already in draft form. Further the County Government is required to establish Municipal Board. The financing of the Board will be taken into account when finalizing the budget.

D. Risks to Fiscal Outlook

45. Although the growth of Samburu County economy is promising, it is still prone to risks both macro and micro economic environment. The macroeconomic management and performance of the sectors under the National Government has an effect on how the sectors of the county perform. The risks that affect the country's economy that will have an impact on the performance of the County's economy include;

i. Revenue shortfalls continue to hinder effective budget implementation through a constrained budget supply side; there is over-reliance on the equitable share from national government;

ii. Pending bills continue to constitute an unpredictable cost element. This will greatly affect the performance of the county in economic front.

iii. Insecurity remains a threat to this framework hence investor's confidence has gone down and the effect is expected to spill to the county level.

iv. Land tenure system – The current land ownership system of community is not conducive for attracting investors.

Should these risks materialize the county government will undertake appropriate measures to safeguard macroeconomic stability.

SECTION FOUR - Resource Allocation Framework

A. Amendment to the 2018/2019 MTEF Budget

46. Adjustments to the 2018/19 budget will take into account the new county structure by the County Government. Account will be taken on the actual performance of expenditure so far and absorption capacity in the remainder of the financial year. The focus will be on accelerating the absorption of available resources in the implementation of programmes and projects. Measures will also be put in place to improve the collection of local revenue to benefit from the fiscal responsibility effort by CRA. Resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.

47. In order to ensure effective utilization of public finances, resource allocation and utilization in the coming financial years in the medium term will be guided by the following;

i. Ongoing projects;

ii. Emerging priorities;

iii. County Flagship projects;

iv. County Integrated Development Plan (CIDP 2018-2022);

v. PFMA, 2012;

vi. Medium Term Plan III (2018-2022).

48. County Government has prioritized key strategic interventions across all departments to accelerate economic growth for social economic transformation and prosperity. The main areas include; improved access to quality health care and clean water, empowering youth, promoting education, increasing agriculture productivity, and facilitating infrastructural development.

49. The final determination of the County Equitable share and the Conditional grants for the FY 2018/2019 was made close to the end of the FY 2017/2018. The County Treasury has stressed on the need to closely monitor the implementation of the current budget through analyzing expenditure against approved budget on a quarterly basis and providing timely financial counsel to all County Government entities. Further through the adoption of the Procure-to-Pay system the County envisages to reduce the slow process of the supply management system and improve transparency. In addition, the County Government will focus on containing non-core expenditure and prudently managing fiscal risk as envisaged in the PFM Act 2012.

50. Given the potential existing in local revenue and the late in disbursement in the National Exchequer releases, the County Government will focus on improving the efficiency in revenue administration by automating local revenue collection function and focusing on other potential streams which underperformed in the previous year. These include the Plot rates, single business permits and public work related revenues.

B. Medium Term Expenditure Framework

51. On the expenditure side, the County Government will over the medium term continue to pursue prudent fiscal policy of rationalizing expenditures. Non-priority expenditures will continue to be avoided while funding to areas with high impact will be intensified. This will ensure improved efficiency in resource utilization and reduction of wastage. The ongoing implementation of e-procurement for goods and services will further improve the absorption capacity especially for capital projects. In addition, the platform ensures that value for money is guaranteed.

To address the wage bill, the county will implement the recommendations contained in the Capacity Assessment and Rationalization Programme (CARPS) report to ensure optimal level of staff and at the same time increasing efficiency. On the revenue side, the County Government intends to realize more revenue and some of the deliberate effort will include:

i. Automation of revenue collection
ii. Carrying out a baseline survey to determine the County's potentiality of revenue
iii. training of permanent revenue collectors and enforcement officers
iv. Ensuring that revenue generating departments meet their set targets
v. Involvement of stakeholders and political leaders in decision making
vi. Educating the public on the need to pay their fees and charges,
vii. Strengthening of revenue department through provision of staff and transport

52. Going forward MTEF budgeting will focus on cutting down less productive expenditures and redirecting thereafter the resultant savings to capital projects. The County government will continue creating an enabling environment for strong private sector investment activities.

C. The Proposed Budget Framework.

Expenditure Justifications

53. Resource allocation and utilization in the next Financial Year and in the medium term will be guided by the emerging priorities, county plans and the principles of PFM Act to ensure effective utilization of public finances. The sector allocations are also informed by the county goals and people's aspirations as captured in the County Integrated Development Plan (CIDP), which is aligned to the goals and the objectives of the country and the Pillars anchored in Vision 2030 blueprint.

Whereas expenditure cuts are targeted on the one-off expenditures that do not require additional expenditure for the next financial year, expenditure increments are informed by core needs identified through analysis by fiscal experts in the County as well as from insightful and welcome submissions from the county public and submissions by individuals and organizations on the 2018/19 budgetary estimates.

Revenue Projections

54. In F/Y 19/20 The County Government has projected to raise revenue from various local sources of **Ksh 267,032,788.** To achieve this target, the county intends build staff capacity and move towards sealing revenue leakages. Further **ksh 5,017,041,000** from the National Government and **ksh 618,375,392** in form of conditional grants from development partners and donors. Thus the county government expects total revenue of **Ksh. 5,902,449,180** Here below is the summary of the of proposed departmental budget Revenue collection for the financial year 2018/2019.

Table 3 Medium Term Revenue Ceiling FY 2018 /19 - 20 20/21

	ITEMS	Approved Estimate 2018/19 -ksh	Projection 2019/20 -ksh	Projection 2020/21-Ksh	Projection 2021/22 -ksh
	COUNTY GENERATED REVENUE				
1130104	Land Rates	29,000,000	15,750,000	16,537,500	16,805,313
1420328	Single Business Permits	20,000,000	20,000,000	21,050,000	21,390,890
1110104	Total Cess Receipts	20,000,000	21,000,000	22,050,000	22,407,085
1420327	Game Parks/Nature Reserves Fees	150,000,000	168,000,000	171,375,000	172,972,165
1420405	Markets and Slaughter House Fees	8,000,000	8,400,000	8,820,000	8,962,834
1420404	Vehicle Parking Receipts/Transport	1,436,628	3,508,458	3,583,882	1,609,531
1110104	Wheat Cess	700,000	735,000	771,750	784,247
1140509	Prospecting Licenses	275,000	288,750	303,188	308,097
1420601	Tender Application Fees	552,145	579,752	608,740	618,597
1140501	Liquor License	4,000,000	6,200,000	6,410,000	6,481,417

	Various Health Departments Fees	6,386,920	12,706,265	12,041,579	12,155,612
	Agricultural Machinery Services	1,580,536	1,659,563	1,742,541	1,770,760
	Approval of plans and supervision	1,000,000	1,050,000	1,102,500	1,120,354
	Insurance Recoveries	1,100,000	1,155,000	1,212,750	1,232,389
	Proceeds from sale of Motor Vehicles	11,000,000			
	Miscellaneous Revenue		6,000,000	6,000,000	6,000,000
	SUB-TOTAL LOCAL SOURCES	**255,031,228**	**267,032,788**	**267,609,429**	**268,619,291**
	SUMMARY				
	Revenue from Local Sources	**255,031,228**	**267,032,788**	**267,609,429**	**268,619,291**
	Revenue transfer from national government	4,427,400,000	5,017,041,000	5,158,919,973	5,240,005,317
	Road Maintenance Fuel Levy	116,569,586	116,569,586	116,569,586	116,569,586
	Conditional Grant-Compensation for User Fee Foregone	5,235,578	5,235,578	5,235,578	5,235,578
	Conditional Grant-Leasing of Medical Equipment	200,000,000	200,000,000	200,000,000	200,000,000
	Conditional Allocation for Development of Youth Polytechnics	20,905,000	20,905,000	20,905,000	20,905,000
	Kenya Urban Support Programme (UDG and UIG)	50,000,000			
	Kenya Devolution Support Program (KDSP)	39,330,852	24,638,639	24,638,639	24,638,639
	DANIDA (Health support funds)	12,757,500	10,256,191	10,256,191	10,256,191
	World bank loan for National agricultural and rural inclusive growth project	140,435,163	140,435,163	140,435,163	140,435,163
	EU Grant for instrument for devolution advice and support (Abattoir Construction)	70,000,000			
	Agriculture Sector Development Support Programme (ASDSP)	18,839,203	23,549,004	23,549,004	23,549,004
	Urban Institutional Grant (KUSP)	40,000,000	10,000,000		
	World Bank Loan for transforming health systems for universal care project	97,143,610	66,786,231	66,786,231	66,786,231
	GRAND TOTAL	**5,493,647,720**	**5,902,449,180**	**6,034,904,794**	**6,117,000,000**

Source: County Treasury

55. Expenditure forecasts

a) Recurrent expenditures: The absolute recurrent expenditure is expected to remain significantly stable. The total recurrent expenditure ratio to total county budget is however expected to further decline from 66 % in FY 2018/19 to 65.5 % in the FY 2019/20. The ratio is expected to continue improving over the medium term. This will be achieved through continuous rationalization of expenditures.

b) Development Expenditures: The ceiling for development expenditures including donor funded projects is expected to increase to 34.5% of total County's revenue base over the medium term from 34% in the FY 2018/19. Most of the savings are expected to support critical infrastructural development that will attract private sector investment.

Here below is the summary of the of proposed departmental budget allocation for the financial year 2019/2020.

Table 4: ***Medium Term Expenditure Ceiling FY 2019 /20 - 2021/22***

	Total Expenditure, Ksh			
	Approved 2018/19	**CBROP Ceilings 2019/20**	**Projections 2020/21**	**Projections 2021/22**
County Assembly	534,006,348	575,816,523	579,216,780	592,946,415
County Executive	446,939,704	490,259,062	493,941,881	496,269,934
Finance, Economic Planning & ICT	532,453,684	562,148,108	576,973,069	591,222,378
Agriculture, Livestock Development, Veterinary Services & Fisheries	578,099,402	613,946,714	625,960,301	641,906,166
Water, Environment, Natural Resources & Energy	420,493,790	451,841,604	459,306,507	466,905,096
Education and Vocational Training	531,659,343	571,294,550	579,675,466	590,340,363
Medical Services, Public Health & Sanitation	1,231,158,752	1,322,941,642	1,333,086,495	1,367,045,862
Lands, Housing, Physical Planning & Urban Development	263,481,267	286,123,796	289,294,904	292,562,576
Roads, Transport & Public Works	439,944,594	472,742,466	479,367,646	488,502,752
Tourism, Trade, Enterprise Development & Cooperatives	331,478,024	357,689,710	368,921,119	368,064,363
Culture, Social Services, Gender, Sports & Youth Affairs	183,932,813	197,645,005	229,160,626	204,234,095
TOTAL	**5,493,647,721**	**5,902,449,180**	**6,014,904,794**	**6,100,000,000**
Revenue	**5,493,647,720**	**5,902,449,180**	**6,034,904,794**	**6,117,000,000**

Source: County Treasury

56. Projected fiscal balance (deficit) and likely financing

The overall budget for FY 2019/20 is balanced and hence fully financed, though it should be highlighted that this can fluctuate due to performance of local revenue collection as well as the grants pledged by development partners.

SECTION FIVE - Conclusion and Next Steps

57. The fiscal outlook presented herein will seek to achieve the objectives outlined in the PFM Act and lay ground for the next financial year in terms of preparing the CFSP. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds especially on capacity building on different sectors of the county will be crucial in ensuring that the county gets to deliver on its functions.