REPUBLIC OF KENYA

LAMU COUNTY

2017 COUNTY FISCAL STRATEGY PAPER

VISION

"A PROSPEROUS COUNTY OFFERING HIGH QUALITY OF LIFE FOR ITS PEOPLE"

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LEGAL BASIS FOR THE PUBLICATION OF COUNTY FISCAL STRATEGY PAPER

The County Fiscal Strategy Paper is published in accordance with section 117 of the Public Finance and Management Act, 2012. The law states that

(1)The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly, by the 28th February of each year.

(2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.

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

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

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

(a) The Commission on Revenue Allocation;

(b) The public;

(c) Any interested persons or groups; and

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

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

(7) The County Treasury shall consider any recommendations made by the county assembly when finalising the budget proposal for the financial year concerned.

(8) The County Treasury shall publish and publicise the County Fiscal Strategy Paper within seven days after it has been submitted to the county assembly.

FISCAL RESPONSIBILITY PRINCIPLES FOR THE NATIONAL AND COUNTY GOVERNMENTS

In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 107) states that:

(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) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by county assembly;

(f) The fiscal risks shall be managed prudently; and

(g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

(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.

Foreword:

In the 2017County Fiscal Strategy Paper (CFPS), we set our policy priorities for implementation over a three year period. The policy mix comprised of a transformative five pillar strategy aimed at transforming our county as follows:

i. Creating conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities
ii. Investing in agriculture and food security in order to expand food supply and reduce food prices.
iii. Investment in key infrastructure areas, including roads, energy and water to reduce cost of doing business and improve competitiveness
iv. Investing in quality and accessible healthcare services and education as well as social safety net to reduce the burden on the households and complement and sustain our long term growth and development through enhanced productivity.

We have made progress in most sectors so far but our economy is being held back by emerging challenges particularly insecurity and its impact on our budget implementation. We shall continue to cooperate with the national government to deal with the security threat.

Beside insecurity, there are other challenges that continue to hold our economy back from achieving its full potential. We shall build on the achievements made so far in most sectors of our economy and through the policies set out in this CFSP; we will scale up our efforts in order to address the existing as well as emerging challenges.

In this 2017CFSP, therefore, we review the progress we have made in the five pillar thematic economic transformative strategies spelt out in the 2016CFSP. In addition, we re-emphasize the economic transformative policy adopted in 2014 as a basis to decisively deal with the concerns on: the high cost of living, joblessness, protecting the poor and vulnerable and minimizing unnecessary public expenditures across the County Government. Through this policy paper we shall lay a firm foundation for accelerated growth and shared prosperity in which we will enjoy peace and access to gainful social and economic opportunities. As a result, we shall sustain and accelerate a strong broad-based economic growth in order to catapult our economy development.

ATWAA SALIM

EXECUTIVE MEMBER FOR FINANCE, STRATEGY AND ECONOMIC PLANNING

Acknowledgment

This is the Second County Fiscal Strategy Paper (CFSP) to be prepared for tabling in the County Assembly under the Public Finance Management Act (PFMA) 2012. It outlines the broad strategic issues and fiscal framework together with summary of government revenues and spending, as a basis for 2017/18budget and in the medium term. It is expected that this document will create and improve the understanding of the public finances. It is also expected it will inform and guide the public debate on the county development matters.

The preparation of the 2015 CFSP has been collaborative. The information and data used to produce the report was obtained from the ministries and other government entities. We are very grateful for the support received by the Treasury in producing this Paper. We are particularly grateful for the views received from stakeholders during the public participation forum held on all wards in the county during the month of January 2015. We would like to register sincere gratitude to the Governor and the Deputy Governor for the direction and guidance they gave us in the process of putting together this strategy. Special thanks go to the Executive Committee Members, Chief Officers, Directors, sub county administrators, ward administrators and other members of staff who participated.

A core team chaired by Treasury spent a significant amount of time putting this strategy together. We wish to express special thanks to the following members of the task force who worked tirelessly to prepare this document under my chairmanship and guidance: 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 Treasury for their dedication, sacrifice and commitment to public service

ATHMAN AHMED ATHMAN

CHIEF OFFICER

FINANCE, STRATEGY AND ECONOMIC PLANNING

CHAPTER ONE: THE OVERVIEW

1.0. Introduction

1.1 Overview

1. This County Fiscal Strategy Paper (CFSP), the fourth since devolution, continues to implement programmes set out in our County Integrated Development Plan. It has outlined the broad strategic developmental issues and the fiscal framework, as well as a summary of county government spending plans that forms the basis of 2017/18 FY budget and over the medium-term. This policy paper is informed by the Lamu County Integrated Development Plan (CIDP), the annual development plan, the Kenya Vision 2030, the governor's manifesto, feedback from members of the public and National Government policies as outlined in the November 2016 Budget Policy Statement (BPS).
2. It captures some of the challenges and milestones that the County has gone through so far as we spell out the policies/programmes to be implemented in the FY 2017/18 and the medium term. These include;
    - Internal revenue collection has continued to improve with the automation of the revenue collection system and other austerity measures.
    - The implementation of programs under this CFSP will promote sound public financial and economic management for socio-economic development, industrial and entrepreneurship development in order to attract more investors and create employment opportunities for the residents of Lamu County. This CFSP, therefore, highlights the government's priority programs and structural reform measures to be implemented in the Medium Term 2017/18-2018/19 with an aim of moving the County to the next level of development.
3. The County has continued to face both internal and external challenges as it implements its set policies and programmes. As a way forward the County government has come up with some measures to address these challenges,

strengthen resistance to shocks and nurture growth that opens economic opportunities and provides a better future for all the residents of Lamu. The County government, therefore, is focusing on programs to improve public finance management and governance; entrepreneurship development, promoting/facilitating trade, tourism and employment creation; improving agricultural performance; County infrastructure development; and improving social services especially, health, water and education.

1.2 Improving Public Finance Management and Governance

4. For socio-economic development to be realized institutional renewal and strengthening is critical since it promotes efficiency and productivity gains. Additional measures are required to avoid eroding these gains and to further entrench good governance and good public finance management at all levels within County.
5. In this regard, there are programmes outlined in this CFSP for FY 2017/18 and the medium term to advance this Agenda.
6. Capacity building initiatives have continued to receive much attention in the County in order to support departments in efficient and effective implementation of projects. This will be done through the Finance and Economic Planning Department in collaboration with the National Government through the Kenya Devolution Support Programme (KDSP). The training will include areas of programme based budgeting, MTEF, monitoring and evaluation among others.
7. Timely financial reporting and publication of relevant documents as required by PFM laws will be prepared by the department to enhance transparency and accountability.

Revenue Reforms

8. The County has continued to enhance revenue collection capacity with an aim of tapping and generate more revenues. The County intends to continue with reforms that will ensure that all loopholes that may leak revenues are sealed and that all fees/charges/tax payers are brought on board as required by the County Finance Act, 2016.

9. Mobilization of additional revenue by strengthening enforcement and completion of administrative reforms including the automation of systems and expansion of the revenue base to net in property rates and consolidation of revenues for ease of administration and collection has continued to be key focus in the fourth CFSP. In line with existing best practices, the County will focus on land rates, single business permits, cess fees and tender fees and other potential revenue streams to finance its activities and provide services. It is envisaged that the local resource base will be very wide with relatively low rates creating a large potential for revenue across functional sectors and sub-counties. A Revenue Enhancement plan will also be developed among other programs in the FY 2017/18.

Expenditure Management

10. Prudent management of scarce resources for maximum benefit promotes socio-economic development. It entails effective management of expenditure so that programs funded are well implemented and have bigger impact on the intended beneficiaries. This calls for efficiency and effectiveness in public resource utilization and budget execution. In the 2017/18 FY, the county will entrench program based budget and enforce execution of the development budget as planned; ensure expenditures are as planned ; ensure Participatory monitoring and evaluation; preparation of Annual procurement plans and adherence to the plans; carry out risk based audit; and rolling out of Institutional risk management framework.

1.3 Entrepreneurship Development, Trade Facilitation and Employment Creation

11. The young people define what our world look like in today. The County embarks on implementing programs that will in particular benefit the youth, women, and persons with disability as well as promoting growth of Small and Medium Enterprises (SMEs) which are all priority areas of focus for the government.

12. The rapid growth of the Kenyan population has resulted in fewer opportunities for formal employment in the traditional areas such as the civil service and the formal private sector. The Counties are also required to create employment opportunities for their residents/people. Therefore, emphatic efforts have now been placed on achieving broad-based growth embedded in enhanced agricultural production, encouraging small-scale businesses, relevant and high quality early childhood education, vocational skills development, a flourishing private sector, conducive investment environment and dealing with gender imbalances.
13. The county government initiated and continues to implement measures to achieve entrepreneurship development and employment creation in the FY 2017/18 and over the medium term. The policy initiatives include; continuing and strengthening the Youth, Women and Persons with disability Fund to gainfully engage the youth; Mapping of empowerment strategies; developing, upgrading and managing of sports facilities; identifying and nurturing talent.
14. As a way of promoting entrepreneurship and trade in the County, the government will be implementing programs to facilitate and improve the operating environment for traders and entrepreneurs to thrive. Some of the specific programmes to be undertaken in the FY 2017/18 include: Construction and renovation of markets to improve business environment; Construction of more boda boda sheds; offer Advisory services to entrepreneurs or MSMEs; develop Tourist/Heritage and Cultural centres; Marketing of Tourist/Heritage/Cultural centres in the County; and Improve operations of the Jua Kali operators among others.

1.4 Improving Agricultural Performance

15. Agriculture plays an important role in the County. However, it is faced with challenges including; inadequate water harvesting and storage; poor infrastructure; high costs and low quality agricultural inputs; inadequate organized marketing structures for agricultural produce; low value addition resulting in low producer prices; erratic and inadequate rainfall; limited use of modern technology; over

reliance on rain fed agriculture; vulnerability to crop and livestock disease outbreak due to proximity to transportation routes; among others. The County government has outlined policies to be implemented in the sector in the FY 2017/18 and the medium term in order to overcome these challenges.

16. County Infrastructure Development/Improvement. Development of Infrastructural facilities is key to development of the other sectors as it eases movement of goods, services and people thus facilitating agriculture, trade and commerce among others. A number of the strategies and measures to be put in place during the Medium term include maintenance and rehabilitation of feeder/access roads, Installation of flood lights, and completion of bus parks and construction of bridges. The specific programmes to be undertaken in the FY 2017/18 include: grading and gravelling an additional 400 kilometres of roads; rehabilitating/constructing bridges;

    Improving Social Services

17. Human capital plays a critical role in ensuring sustainable economic growth and enhanced development. The County is therefore required to impart appropriate skills to its residents to enable them participate fully in development of the County and the Country at large

Education Sector

18. Education is one of the key priorities of the County. Under this sector, the county has managed to construct/ refurbish and equipped ECDE centres; County Bursary fund increased in the same period and were dispersed to needy secondary school and college students. 4 youth polytechnics will be equipped with training tools and equipment.

Health Sector

19. In FY 2015/16, health sector embarked on construction/rehabilitation/ renovation and equipping of new health centres, existing health centres among many other achievements.The strategies and measures to be pursued in the medium term include: renovation and equipping of King Fahad level 4 hospitals new health centres, upgrading, equipping and staffing of some existing health centres; purchase

of medical and dental equipment; purchase of laboratory equipment; and purchase of generators. The county is also setting a medical training centre in Mokowe to help train more health professionals.

ICT & Energy

20. The County intends to put strategies and measures in the Medium term in order to achieve the sector targets. These include: increase the usage of ICT by county departments, integration of ICT in all county operations.

KEY PRIORITY AREAS FOR 2017/18 CFSP

21. The county will continue reorienting expenditure towards those priority programmes outlined in County's Integrated Development Plan and as identified in public consultative forums. The critical programmes to be implemented are expected to accelerate economic activities and socio-economic development. The key County priority areas are;

    a) Investing in quality and accessible Health Care
    b) Improved Land Services
    c) Investment in Water & Transport Infrastructure
    d) Provision of Quality Education
    e) Improvement in agriculture and tourism sector for economic growth
    f) Youth, Sports & Gender empowerment

22. The focus of the County Fiscal Strategy paper and Medium Term Plan is to; invest in transport infrastructure for economic efficiency and scaling investments in other key infrastructures, Provide quality portable water and improve sanitation and sewerage services, Create a conducive business environment and better livelihoods through improved land services, Invest in quality and accessible healthcare services and Provision of quality basic education. The implementation of projects and programs under the five strategic objectives are all geared towards an enhanced economic development.

1.5CFSP Process Overview

23. In accordance with Section 117 of the Public Finance Management Act, 2012 various stakeholders were consulted in the preparation of the Lamu County Fiscal Strategy Paper 2016. In December 2016 public hearings were held in all the ten county wards and their respective submissions on their key priority areas captured. Prior to the Public participation forums there was an invite by announcement in the local radio stations and mobile public address system to sensitize the pubic on the oncoming Fiscal Strategy Paper consultative forums from 21st – 24th December 2016 The residents gave their contributions on the key priority areas as captured in the 2016 Lamu County fiscal strategy paper.

1.6 Objective

24. The objective of the 2017/2018 County Fiscal Strategy Paper is to lay down the frame work for the preparation of the County budget. It is a requirement under section 117 of the Public Finance Management Act, 2012 that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year However this FY fiscal strategy paper is prepared under the reconstructed budget calendar due to the impending general election to be held in August 2017 hence the reason for earlier preparation. This Fiscal Strategy Paper contains the following:

- The principles that will guide the 2017/2018 budgetary process;
- The broad fiscal parameters for the 2017/2018 budget and the key strategies and policies for management of revenues and expenditures;
- The broad strategic priorities and policy goals that will guide the preparation of the budget over the medium term;
- A discussion of risks to the budget parameters and Budget Strategies;

- The medium–term outlook for county government revenues and expenditures;
- A discussion of how the Budget Strategies relates to the County priorities as drawn from the County Integrated Development Plan (CIDP); and
- A framework for the preparation of departmental forward budget estimates and the development of detailed budget policies

1.7 Outline of the 2017/18 Fiscal Strategy Paper

25. The Fiscal Strategy Paper is presented in five Chapters. After the Introduction presented in Chapter One, which presents an overview and objective of the Paper, Chapter Two outlines the economic context within which the 2017/2018 budget will be prepared. It also presents an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic scene.

1. In Chapter Three, the Paper describes the fiscal framework that will support sustained growth over the medium-term to long term, while continuing to provide adequate resources to facilitate the policy priorities of the County Government while at the same time ensure that the public debt is sustainable.
2. Chapter Four presents the resource envelope and spending priorities for the proposed FY 2016/2017 budget and medium term.
3. Chapter five presents assumptions and risks underlying budgetary and fiscal policy

CHAPTER TWO: ECONOMIC ENVIRONMENT AND OUTLOOK

CHAPTER ONE: ECONOMIC FRAMEWORK AND OUTLOOK

Overview

The flourishing of the County economy is highly dependent on the state of the national, regional and global economy. Modern economies are volatile and susceptible to changes in macro-economic variables.

Broadly, the national economy portrays a positive outlook for the medium term based on various critical macro-economic variables. These variables are globally acceptable when analyzing the "health" of an economy.

National Macro-Economic Outlook Inflation

Overall month-on-month inflation rose slightly to 6.47% in the month of October 2016 from 6.34% in September 2016 due to increase in food prices. The annual average inflation rate at 6.5% in the year to October 2016 was within the target range of 2.5% on either side of the 5% target.

GDP GROWTH

In the year 2015, the national economy grew by 5.6 percent. This represented an increase of 0.3 percent compared to 2014 where the growth stood at 5.3 percent. The economy further improved and grew at 6.2 % in quarter two of 2016 up from 5.9 % growth registered in quarter one of 2016.

This growth has mainly been supported by a stable macroeconomic environment, improved outputs in agriculture, forestry and fishing, mining and quarrying, transport and storage, electricity and water supply, wholesale and retail trade, accommodation and restaurant and information and communication. Growth in other sectors particularly Construction. Finance & insurance, manufacturing and real estate though slightly lower compared to quarter two of 2015 remained robust.

The favourable weather conditions experienced during the second quarter enhanced agricultural production, as such the sector expanded by 5.5 % compared to 4.0 % growth in quarter two of 2015. Similarly electricity and water sector remained strong recording a growth of 10.8 % compared to 9.2% in the same quarter in 2015 owing to continued substitution of thermal electricity generation with relatively cheaper sources.

On average, GDP per capita for Kenya at US $1,105.8 is the highest in the east African sub region. The high and resilient GDP per capita is due to the diversified nature of the Kenyan economy

Kenya's economic growth prospects for the FY 2017/18 and the medium term takes into account the global slower growth in demand, particularly investment, which is especially pertinent to generate international trade flows in the form of capital goods and intermediate inputs. Further, it takes cognizance of the domestic environment including the general election to be held in August 2017. The growth profile accommodates the strategic objectives of the Government as outlined in the second Medium Term Plan (MTP) of Vision 2030, considering progress made in implementation of key projects. The outlook, therefore points to a continued robust growth, lower fiscal deficits, contained inflation within the target range and a gradual improvement in the external current account balance. Real GDP is projected to expand by 6.0 percent in FY 2016/2017, 6.2 percent in FY 2017/2018, 6.5 percent in FY 2018/2019 and. 6.6 percent by FY 2019/20.

Interest Rates and Investments

In Kenya short term interest rates remain low due to improvement of liquidity condition in the money market. The interbank rate declined to 4.1% in October 2016 from 4.9% in September 2016 and 21.3% in September 2015 while the 91 day treasury bills rate declined to 7.8% from 8.1% and 14.0% over the same period. The implementation of the banking (Amendment) Act 2015 effective September 14th 2016 that cap interest rates on banks loans at 4% above the base rate and sets the minimum interest paid for a saving product at 70% of the same base rate has led to the narrowing of the interest rate spread from 11.3% in august 2016 to 7.0% by September 14th 2016. As a result of the new Act, Kenya has the least lending rate among the east African countries.

Recent investment conferences and conventions that have been hosted by our country portray a promising outlook. The country has acted as a host to numerous high profile world leaders in the recent times as well as hosting globally renowned conferences & conventions such as the GES, TICAD & UNCTAD. The outcome of these conventions is expected to be increased inflow of investors into the country due to improved image and confidence by the international community.

Foreign Exchange rate and remittances

The level of economic development highly depends on the strength of a nation's currency compared to other currencies. The banking systems total foreign exchange holdings increased by 11.8% to US$10,355 million in august 2016 from US$9,265 million in august 2015. This was due to the increase in official reserves held by the central bank to US$8,144 million in august 2016 from US$ 6,963 million in august 2015. However, reserves held by commercial banks increased to US$2,211 million in 2016 from US$2,303 million in 2015.

The capital market recorded mixed performance in both equities and bond market segments in the year to October 2016. Activities at the stock market slowed down with the Nairobi security exchange 20 share index recording 3,202 points in October 2016 compared to 3,869 points in October 2015. Market capitalization was at 1,982 billion in October 2016 compared to 2,046 billion in September 2015. The drop in market capitalization is a result in increase in share supply which depressed the overall share prices. There has been a gradual recovery of the NSE reflecting restoration of market stability and improved confidence in the economy.

The overall balance of payments position recorded a deficit of US$ 1,225 million in the year to August 2016 from a surplus of US$ 716 million in the year to August 2015. As a share to GDP, the current account deficit improved to 5.9 percent in August 2016 from 7.9 percent in August 2015. This is attributed to a 22.5 percent improvement in the value of the merchandise account reflecting a decline in payments for merchandise imports

Energy and Fuel prices

The energy sector has witnessed a steady rise in global inventories of crude oil and other fuels in the recent past. This is attributable to sustained excess supply of crude oil, slowed demand partly due to micro slump in Chinese economy, increased production of shale oil in the US and over-supply by the Organization of the Petroleum Exporting Countries (OPEC). This has consequently made the cost of fuel more predictable.

In 2015, the crude prices decreased to an average of USD 52.53 per barrel compared to an average of USD 99.45 per barrel in 2014. Currently a barrel costs about 45.75 US Dollar

2.2.0County economic performance and prospects

2.2.1 Overview of county economy

The economy of the county is dominated by fisheries agriculture, livestock and tourism and most households earn their livelihood from these sectors. The services sector such as trade small.

Review of the global and national economic performance indicates good prospects for growth which bodes well for the county as demand for its products is likely to rise. However, the county can only benefit from these prospects if its products are competitive.

Other challenges that should be addressed are insecurity which has led to decline in county economy because of the imposed curfew. The most serious challenge facing development planning in the county is lack macroeconomic data for analyzing the performance of the county. This means specific indicators such as economic performance of the county and key prices are not available. Unless these are developed effective budgeting will not be possible. There is need for the county to work closely with the national government and other institutions to develop a macroeconomic framework for the county which will help to generate all the required data for planning purposes. This will be accompanied by building capacity for planning and economic analysis in the Planning Department.

2.2.2Fiscal Performance and Emerging Challenges

4. The Lamu County Assembly approved 2016/2017Supplementary budget in November with expenditures amounting to Kshs. 3,214,262,879, comprising of recurrent expenditure of Kshs. 1,970,457,658 and development expenditures of Kshs. 1,243,805,221. This budget is financed by Kshs. 100 M from local revenue sources andKshs.2,214,008,743 from national equitable share,Kshs. 10,517,500 from DANIDA to support the health sector services, Free Maternal Health Care Grant Kshs. 19,797,520,User Fees Forgone Kshs. -2,481,810 and Road maintenance levy Grant Kshs. 46,341,432,World bank loan to supplement health facilities Kshs 23,484,716,special purpose grant –emergency medical services Kshs 100 Million , Kshs 20,567,352 World bank Grant for capacity building and Kshs 677,063,806 as balance b/f from 2015/16.
5. Fiscal outcome for the first six months of the financial year was fairly satisfactory, but revenue shortfalls continue to persist amid rising expenditure pressures. Expenditure pressures relate to the rising wage bill resulting implementation of third and last phase of hardship and housing allowance taking up a substantial amount of the county revenue. There is therefore, need to develop a wage policy for the county. Wage pressures are likely to also impact on pensions that would increase the County Government's contingent liability. Going forward, the regulations set by SRC especially on allowances that employees are entitled to compared to what they are currently earning needs to be adhered to so as to eliminate wage pressures after the budget has been prepared. Continued recruitment is unsustainable and posesriskto thestability of the budget for 2017/2018 in the face of resource requirement for County development.
6. Budget implementation has further experienced slow transactions owing to unstable financial system due to poor connectivity and frequent downing of Integrated Financial Management Information (IFMIS) to the main server at the National Treasury. There is therefore an urgent need to address the challenge of connectivity and the corresponding bandwidth to increase the transaction speed. The inadequate human capacity and infrastructure to operationalize the system more efficiently also needs redress.

2.2.3 Budget Out-turn, July – December 2015

7. As at 31st of December 2016, the revenue received was in respect of Kshs741,692,928 from national equitable share, Kshs.22,855,483 from local revenue sources, Kshs 3,820,000 from DANIDA to support the health sector services, Free Maternal Health Care Grant Kshs 4,737,500million, User Fees Forgone Kshs. 1,240,905million and Kshs 8,504,557 Road maintenance fuel levy.
8. Table 1: HALF YEAR LOCAL REVENUE PERFORMANCE 2016/17

Revenue Line	July	August	September	October	November	December	Total Half Year
Hosp -King Fahad	109,601	529,821	445230	44,1490	510,600	381,030	2,417,772
Hosp -Faza	0	0	23610	54,110	43,795	59,065	180,580
Hospitals	0	0	12430	11,300	4,350	17,685	45,765
Hosp -Mpeketoni	84,774	332,636	321338	316,216	308,240	226,160	1,589,364
Open Air Market	71,205	103,083	132680	96,800	90,724	80,395	574,887
Agriculture Produce	68,410	199,510	80429	12,1344	47,980	26,361	544,034
Slaughter House	45,300	74,900	56800	42,400	45,000	48,000	312,400
Fisheries daily revenue	30,360	46,810	40900	66,350	39,060	61,150	284,630
Parking and transport	27,900	65,180	71850	64,140	69,680	69,130	367,880
Agriculture (Lake Kenyatta ATC)	21,200	149,840	188940	151,900	252,640	246,080	1,010,600
Meat inspection	11,250	71,055	63735	51915	55,550	40,875	294,380
Agri-Equipment and Service	8,000	50,500	166950	197000	134,500	49,140	606,090
Hides and Skins	1,000	500	1000	500	500	1,500	5,000
Livestock auction fee	350	3,700	16200	7250	5,000	13,100	45,600
Animal movements	100	3,800	10500	27930	9,400	15,530	67,260
Stalls revenue	0	38,200	86700	154100	128,000	72,300	479,300
Sales of vaccines	0	4,790	15885	4080	480	1,670	26,905
Artificial insemination	0	4,400	0	3300	2,700	1,650	12,050
Single business permit	0	0	2400	36000	55,200	71,000	164,600
Health certification	0	0	800	0	-	-	800
Grazing fees	0	0	1500	0	-	-	1,500
Advertisement	0	0	0	4000	24,000	20,000	48,000
Market cess	146289	179035	242729.5	453468.5	227,319	271,046	1,519,887
Land revenues	0	0	61500	176200	127,945	25,600	391,245
Land rates	0	0	329771.44	1918461.12	1,173,527	3,638,453	7,060,212
Total	625,739	1,857,760	2,373,878	4,400,255	3,356,190	5,436,920	19,135,859

However, the amount in the county revenue fund as at 31st December 2016 was Kshs 22,855,483.30 which is an increase of Kshs 6,195,619.50 from the same period in 2015 which was Kshs 16,659,863.75

The discrepancy of the amount in the CRF and the amount indicated in the above table is due to the fact that some of our revenue clients still deposit money directly to the bank and do not bring the deposit slips to the revenue department for recording. The other reason for discrepancy is that the amount in the CRF includes revenue for 2015/16 which were swooped in July after the close of FY.

2.2.4 Strategic Priorities and Interventions

9. The County Government will continue with strategic interventions to accelerate growth and improve competitiveness. Specifically, the following strategies will be implemented:

- **Investing in quality and accessible healthcare services**

10. The county government is committed to improve access to and quality of health services in the county through promotion and provision of integrated and high quality curative, preventive and rehabilitative services that are equitable, responsive, accessible and accountable to everyone. The most common causes of morbidity in the county are other disease of respiratory system, disease of the skin, clinical Malaria, diarrhea and confirmed Malaria. The health sector faces numerous challenges, which include inadequate infrastructure for service delivery, shortage of qualified health personnel. In the medium term, the sector will seek to address these challenges through continued investment in service delivery, health workforce, health infrastructure, health products and technologies, health information, health financing and leadership governance. Some of the key interventions will include increasing immunization coverage, health education and screening services, procuring essential medical supplies, procuring and/ leasing equipment and furniture, construction and equipping health facilities through the proposed Accelerated health service programme, refurbishment of existing health facilities, strengthening the Health management information system (HMIS The resources required under the Health Department are captured under budget estimates and guided by the core mandates of the sectors. The resources allocated will be used to implement projects aimed at achieving accessibility, affordability of health services, and reduction of health inequalities and optimal utilization of health services. These resources will, therefore, target to improve access, quality and equity in the provision of health services.

- **Investment in Water & Transport Infrastructure**

11. To enhanceeconomic growth the county government will continue to invest in key infrastructural projects. These programs are vital in attaining the county development objectives, employment creation and poverty reduction. Private-sector participation will

be encouraged in these sectors.The County Government will place priority in this sector by ensuring that at a substantial amount of the development budget is allocated to this critical sector. There will be a continued focus on road infrastructure improvement through maintaining the already existing road networks while also opening up new access roads so as to restore confidence of residents and making the cost of doing business and farming favourable.

12. Transport infrastructure development will also help revamp the tourism sector in the County. Expanding the existing road network makes transport affordable and faster for economic efficiency.In the County the department of water has the role of ensuring that every citizen has access to portable water in a clean and secure environment. Currently the water demand is quite high compared to the supply. Thecounty will continue rolling out solid waste management; preparation of requisite legislation and policies; Lamu water company turn around and; water and sanitation services improvement project.The county will continue to replace the dilapidated water pipes and expansion and lay of water pipes, coupled with creation of more reservoirs and an option of drilling more boreholes.

- **Improved Land Services**

13. The sector which comprises of the department Land, Planning and Housing in the County continues to be the highest source of revenue;there are intentions toimproved land & housing services through enhancing the budget allocation. The department is in charge of management of land use and ownership; Physical Planning, provision of adequate, clean, affordable and quality housing.The County will continue working closely with the National Government in issuing of title deeds allocation so as to ensure that investors and the residents are able to benefit from land as a factor of production.In the financial year 2017/2018 and over the medium term, the objectives of the department are to ensure proper management of land use and ownership, promote the provision of adequate and affordable housing and promote management. This will be attained through promotion of sustainable land use, planning, provision of secure land tenure and management. The county is in the process of finalizing the Preparation of Lamu County Spatial plan which will guidefuture the planning and developments.

- **Education,Youth, Gender and Sports Empowerment**

14. Lamu County Government is committed to providing quality education services. The sector was created in line with Schedule 4 of the Kenya Constitution 2010 whereby the County Government was given responsibility for Libraries, Village Polytechnics (City

Polytechnics), Home Craft (Master Craft) Centres, Child Care Centres and Pre-Primary Education. The goal of this department is to have a family focused and a child centred county. This shall be attained through preparing every child for school, career and life. In the financial year 2017/2018 and over the medium term the department intends; To improve transition rate from home to ECE, from ECE to Basic Education, from Basic Education to Tertiary and from Tertiary into the global economy; This will be done through employment of more ECDEs Care Givers, construction of more ECD classes, Bursary fund, common stand seven and eight exams, Common form three and four exams, construction and equipping of polytechnics and public libraries.

15. Lamu county government is committed to addressing social and economic issues affecting the vulnerable groups in the county through empowerment programs targeting the youth, women and people living with disabilities. Currently the sectoris involved in training of youth in entrepreneurial skills and livelihood skills, refurbishment of sports facilities, gender mainstreaming, Provision of Sports equipment's for various clubs in the county and Promotion of talents (Art and music). In the FY 17/18 Lamu county government will continue to; nurture & Promote local talents; improve a number social halls in the county, improve sports facilities, empower youth, women and people living with disabilities through development programs, conduct Sports training/ capacity building initiatives and facilitation of sports equipment to all sports disciplines.
16. In the FY 17 the department will countinue rolling out Governor's football tournanment while exploring other sports displines which can be harneshed to the benefits Of youths in the county.The county will also partner with the Kenya Red Cross to construct a drug rehabilitation centre which will also have a vocation training centre so that the rehabilitared youth can be trained on critical skills which will help them after rehabilitation.
17. **Agriculture, livestock and fisheries:** productivity of this sector will be enhanced by provision of increased and relevant extension services, enhanced surveillance and control of pests and crop and animal diseases, and availability of sufficient quality and affordable inputs. Modern fishing methods will be adopted to increase productivity.

2.2.5Deepening Inter-County Integration

18. There is much potential for expanded inter trade and with Kilifi, Kwale, Taita-Taveta,Lamuand Tana River Counties, among others. The County Government will continue with collaborative infrastructure investment to enhance improved transport services within the region, and removing barriers in trade.

2.2.6 Sustaining Inclusive Growth

19. Besides mobilizing significant resources and providing an appropriate environment for businesses to thrive, sustaining inclusive growth requires us to continue building transparent, responsive, accountable, efficient and effective government.
20. In addition, the County Government will ensure that gains from growth are widely distributed through sustainable employment in order to guarantee durable reduction in poverty. These will be complimented by measures to address socio-economic inequities and improving the county's human capital. To this end, the County Government will continue implementing the socio-economic priority programmes articulated in the County's first Current Annual Development Plan as well as increased devolved resources to local levels in line with the Constitution.

2.2.7 Risks to the Outlook

21. The risk to the outlook for Lamu County 2017/2018 budget and medium-term include further weakening in global economic growth, reversal in the current easing of international oil prices which could fuel inflation and weaken growth. On the international scene and going by recent developments, it is not possible to predict the movement of world oil prices.
22. The economic outlook assumes stability in the security2016 and in the medium term. In the past, insecurity incidences have hampered smooth running of social economic activities in the county. The current economic conditions call for caution in the fiscal dispensation. The economy remains resilient and the macroeconomic environment has improved significantly. Overall, the national macroeconomic environment has improved as compared to 2015 setting the stage for renewed growth of the Kenyan economy, as long as interest and inflation rates do not go beyond their current levels.
23. Looking ahead, due to revenue shortfalls and a high wage bill, the threat of a budget deficit increase is ever present. However, with improved revenue performance following revenue collection reforms and moderation in recurrent expenditure, the fiscal position is expected to improve over the next three years.

2.2.8Response to Overview of the County's Performance for FY 2016/2017

24. The following strategies will continue to be employed to raise the revenue for the County to ensure that the planned budget is attained.
25. **Valuation Roll finalization:** In the past years the defunct local authority operated without an up to date valuation roll. In the 2015/2016 the County Government allocated funds towards the finalisation of a new valuation roll that will improve revenue and enhance service delivery.

26. **Enforcement of the Finance Acts and Regulations**: The County Government will ensure that fees and charges are collected according to the Finance Act 2016.
27. **New Sources of Revenue:** The County Government continues to pursue strong revenue collection and new sources of revenues from the devolved functions. The department of finance is undertaking the process of resource mapping in the county with the aim of knowing the exact worth of various revenue streams and also to explore new revenue streams which can be harnessed.
28. **Automation of revenue collection:** The County will continue to explore more automation of county services with the aim of enhancing revenue collection.ie e-construction amongst others.
29. Plugging the revenue leakages by training the collectors and rotation of revenue collectors frequently to new stations to avoid familiarity.
30. Regular monitoring of revenue collection points to enhance accountability and seal corruption loopholes.

CHAPTER THREE: RESOURCE ALLOCATION FRAMEWORK

3.1 Resources Available

3.1.1 Equitable Shares

Article 202 of the Constitution requires that revenue raised nationally be shared equitably among the national and county governments. According to Article 203(2) of the Constitution, in dividing the shareable revenue between the two levels of government each financial year, county governments must be allocated an equitable share of revenue that is not less than 15% of most recent audited revenue received as approved by the National Assembly.

In this regard, the equitable share of revenue allocated to county governments in 2017/18is not expected to be less than Kshs 253.5 billion, based on the latest audited revenues of the national government. In addition, the Government has set aside Sh20.6 billion as conditional allocation bringing total allocation to counties to Sh274.1 billion during 2017/2018Financial year. The equitable share of revenue is an unconditional allocation to the county governments and therefore county governments are expected to plan, budget, spend and account on the funds allocated independently.

3.1.2 2017/18 Expected County Revenue as Per the Budget Policy Statement

S/NO	REVENUE
EQUITABLE SHARE	2,452,916,512
COMPENSATION OF USER FEES FOREGONE	2,451,034
FREE MATERNAL HEALTH CARE[1]	8,815,513
ROAD MAINTAINANCE LEVY FUND	64,575,000
SUPPLEMENTARY FOR CONSTRUCTION OF COUNTY HEADQUARTERS[2]	121,000,000
LOANS AND GRANTS	33,892,447
LOCAL REVENUE	80,000,000
TOTAL	2,763,650,506

3.3.3 Additional Resources

In addition to the equitable share of revenue, county government of Lamu is expected to get additional resources from own revenuesthroughimposition of property taxes, entertainment taxes, as well as any other tax they are authorised to impose by an Act of County Assembly

[1] There is possibility that this grant will be transferred to the NHIF

[2] The BPS is not very clear how this grant will be implemented by the County or the National Government

as well as user fees.

3.3.4 Revenue projections

The FY 2017/2018budget will target increased revenue collection in the county from Kshs 62Million in the FY2015/2016budget to Kshs 80 Million.

The total revenue available for allocation amongst the prioritized programme for the 2017/2018financial year will therefore be equal to ksh 2,763,650,506

3.3.5 Recurrent expenditures

The recurrent expenditure in FY 2017/2018is projected to be 69.9% of the total budget and a moderate increase from 63.47% in 2016/2017 budget. This is majorly attributed to the fact the departments have captured the increase in third and last House and hardship allowance as recommended by SRC and also the department of health is to cater for the negotiated increase in salaries for county health workers.

3.3.6 Development expenditures

The ceiling for development expenditures excluding donor funded projects will be Kshs. **829,598,575**an increase from **Kshs 714,750,874in** the FY 2016/2017.

CHAPTER FOUR: INDICATIVE MEDIUM TERM RESOURCE ALLOCATION

4.0 Overview

The 2017/18 MTEF budget provides both the sector and indicative departmental ceilings that ensure continuity in resource allocation from the last financial year consistent with medium term budgeting approach.

With the overall projected resource envelope derived from the fiscal framework described above, the key features of departmental resource allocation for 2017/18 and the medium term involve:

- Identification of departmental strategic priorities and interventions required to achieve the objectives of the CIDP;
- ranking of the priorities by the individual department in terms of their contribution to achieving the objectives of the CIDP
- Adjusting non priority expenditures to cater for the above prioritization.

4.1 Criteria for resource allocation

The criteria taken into account in determining the allocations among the departments was:

a. The ability of the department to perform the functions assigned to it;

b. The developmental needs of the county;

c. The need for economic optimization in each department and to provide incentives for each department to optimize its capacity to meet the objectives of the CIDP;

d. The desirability of stable and predictable allocations to promote multi-year planning and overall budget certainty;

e. The need for flexibility in responding to emergencies and other temporary needs; and

f. The revenue raising capacity of the department additionally, historical spending levels by the departments was applied to determine the departmental needs. This was informed by the fact that to know how much allocation is enough for a department, one must estimate the difference between the revenues available to the county government as a whole and the expenditure needs of each department. However, expenditure needs are almost limitless hence the historical spending levels with little adjustments for one off expenditures was considered as the best approach to determine the allocation due to each department to at least deliver the minimum service level.

As such, there was merit in maintaining the service delivery levels through adequate provision of resources for maintenance of services such as health, roads, water, agriculture and education. This is expected to ensure that in overall the county government addresses improvement of service delivery

In pursuit of this and in arriving at the sector ceilings, significant efforts have been taken to critically examine the respective allocations for each sector and single out expenditures that can be re-designated to key areas hand the result is expenditure reductions for non-core items without crippling the targeted spending units.

In the absence of external budgetary support in the 2017/18 budget, maintaining strong efforts in local revenue generation will be critical in order to fund the expected priority expenditures in all the sectors.

4.2 DEPARTMENTAL EXPENDITURE CEILINGS FOR 2017/18FY AND THE MEDIUM TERM

Arising from the criteria set above and the sector consultation forums, the allocation to the departments is as follows:

Table 2: Proposed Departmental Ceilings

	Printed estimate 2016/2017			Proposed ceilings 2017/2018			Gross Estimates 2016/2017	Projected 2018/2019	Projected 2019/2020
VOTE TITLE	Compensation to Employees	Operations and Maintenance	Development	Compensation to Employees	Operations and Maintenance	Development			
County Assembly	180,668,897	166,331,103	70,000,000	180,668,897	170,000,000	50,000,000	400,668,897	420,702,342	441,737,459
County Executive	169,652,377	185,128,121	75,000,000	172,000,000	189,000,000	196,000,000[3]	557,000,000	584,850,000	614,092,500
Finance, Strategy & Economic Planning	49,415,135	43,709,343	18,000,000	54,478,249	50,000,000	28,598,575	133,076,824	139,730,665	146,717,198
Agriculture & Irrigation	47,470,494	22,007,738	38,000,000	50,793,429	23,000,000	65,000,000	138,793,428	145,733,100	153,019,755
Land, Physical Planning, Infrastructure, water	36,081,304	22,064,000	202,800,000	39,689,434	35,000,000	150,000,000	224,689,434	235,923,906	247,720,101
Education, Gender, Sports, Youth & Social services	51,288,880	75,080,000	68,700,000	53,853,324	78,131,355[4]	80,000,000	211,984,679	222,583,913	233,713,109
Health & Sanitation	414,585,580	160,472,334	205,500,000	455,314,859	180,513,565	130,000,000	765,828,424	804,119,845	844,325,837
Trade, Culture, Tourism & Investment Development	10,967,720	20,231,898	41,425,000	11,516,106	21,243,493	47,000,000	79,759,599	83,747,579	87,934,958
Information, Communication & Public Participation	9,380,387	27,605,550	15,000,000	9,849,406	25,485,828	18,000,000	53,335,234	56,001,996	58,802,095
Fisheries, Livestock, Veterinary & Cooperative Development	49,976,720	23,889,994	60,400,000	52,475,556	25,038,431	65,000,000	142,513,987	149,639,686	157,121,670
Public Service Board	31,515,174	12,499,600	0	37,000,000	19,000,000	0	56,000,000	58,800,000	61,740,000
TOTAL	1,051,002,668	759,019,681	794,825,000	1,117,639,260	816,412,671	829,598,575	2,763,650,506	2,901,833,031	3,046,924,683
	39.60%	28.10%	32.40%	40.44%	29.54%	30.02%	100%	100%	100%
	67.60%		32.40%	69.98%			100%		

4.3 Adherence to Fiscal Responsibility Principles Section 107 of the PFM Act, 2012 and

[3]This amount includes Kshs 121 Million conditional grant for construction of county headquarter

[4]This amount includes Kshs 60 Million for county bursary fund

regulation 25 of the PFM (County governments) Regulations, 2015 sets out the fiscal responsibility principles which the county governments have to observe and enforced by the County Treasury. These include the following:

I. County government's expenditure on wages and benefits for its public officers shall not exceed thirty five (35) percent of the county government's total revenue;

II. The county public debt shall never exceed twenty percent of the County Governments' total revenue at any one time;

III. The approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;

IV. The county government actual expenditure on development shall be at least thirty percent

V. over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

VI. Fiscal risks shall be managed prudently; and

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. In the 2017/18 FY and the medium term, the County Treasury will ensure that the budgets are prepared in a way that ensures strict adherence to these principles. Table 1 gives a summary of the indicators on the fiscal responsibility

INDICATORS		Amount in Kshs	% SHARE OF BUDGET	Remarks
County expenditure	Recurrent	1,934,051,931	69.98%	
	Development	829,598,575	30.02%	Within the required limit
	Total	2,763,650,506	100	
Expenditure on wages & benefits		1,117,639,260	40.4%	Exceeded County treasury to develop regulations on the percentage of the county expenditure on wages and benefits for its public officers on the county revenue
Expenditure by County Assembly	Recurrent	350,668,897	12.7%	
	Development	50,000,000	1.8%	
	Total	400,668,897	14.5%	Exceeded. The County Allocation of Revenue Act passed by the national

				assembly and senate after advise of the CRA sets the ceilings for assembly which are usually above the PFM regulations
County Debt financing		0		

From the analysis presented in table 1, the extent of adherence to the fiscal responsibility principles is as follows:

I. County government's expenditure on wages and benefits for its public officers shall not exceed thirty five (35) percent of the county government's total revenue In 2017/18 FY, The County's expenditure on wages and benefits will account for. 40.4% of the total expenditure. The county government has recently rolled out the pension scheme for its employees previously not covered under any other scheme. Under this scheme, the county government will contribute 15% of the employee's basic pay. In addition the county is implementing the third and last phase of hardship and housing allowances for its staff as per SRC circular. As a result, the provision of this implementation has increased the county's expenditure on wages and benefits. The county is therefore above the set limit of 35 % of the county revenues as per the PFM regulation 2015.

II. The county public debt shall never exceed twenty percent of the county government's total revenue at any one time in the 2017/18FY and the medium term, the County will not consider debt financing either through internal or external borrowing to finance budget. The budgets will therefore be financed by county own revenue from the equitable share, conditional grants and locally generated revenues. The county government will at the same time ensure that their entire obligations to the suppliers are met on a timely basis to avoid accumulation of pending bills.

III. The County Government actual expenditure on development shall be at least thirty percent It is projected that the County Government will spend 30.02% of its budget on development in 2017/18 FY. This will be mostly on expenditure towards the completion of ongoing projects, flagship projects and other service delivery initiatives. This allocation will also be continued over the medium term

IV. The approved expenditures of a County Assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower. The expenditure of the County Assembly will account for

14.5% of the total expenditure in 2017/18. Out of this, Kshs. 50 million has been allocated for the completion of the Assembly Chambers.

V. 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 Treasury in consultation with the County Assembly will hasten the enactment of specific legislation on raising revenue other than the County Finance Acts. These legislation on property rates, entertainment tax and produce cess will subsequently be amended through the Finance Acts depending on the fiscal strategy in a given year. The legislations will also contain clear justification for the fees and charges to be charged and the modalities for charging the same. The County Finance Acts will make reference to the substantive legislation, while proposing amendments to the charges, fees and taxes hence maintain a degree of predictability.

VI. Fiscal risks shall be managed prudently The County Government will through implementation of the E-procurement module of the IFMIS apply prudent expenditure management on items and their pricing that should as much as possible reflect actual market prices.

Further, a provision of Kshs.6 million has been factored to cater for urgent and unforeseen expenditure. This will ensure that emergencies can be handled without disorienting the plans and budgets.

CHAPTER FIVE: ASSUMPTIONS AND RISKS UNDERLYING BUDGETARY AND FISCAL POLICY

5.1 Assumptions

All projections in the fiscal framework rest on assumptions regarding particular variables. In constructing projections, the overriding assumption is that existing revenue and spending will be continued as far ahead into the future as projections extend, without any substantive change. Of course, these projections are based on critical assumptions about GDP growth, wage and productivity trends, interest rates and much more.

Macroeconomic policies are typically assumed to be "unchanged" over the projection period and on the basis of current fiscal and monetary policies. The forecasts represent the likely outcomes for growth, inflation, employment and other key economic variables for given unchanged policy settings

5.2 Risks

Similarly, there are potential risks associated with implementation of county fiscal policies. These include:

a) low national economic performance due to uncertainties associated with global and national influences such as price of crude oil that affect cost of production and exchange rate fluctuations which impact on the performance of the county's economy.

b) Unpredictability of revenue flows. This may be due to changes in policy by governments leading to unrealized projected revenue

c) Adverse weather conditions. The potential consequences of weather changes include productivity changes in agriculture, stress of health systems and changes in trade pattern. Revenue from agricultural produce cess continues to be among the top local revenue sources. As such reduction in agriculture production will greatly affect this revenue stream hence the fiscal framework. Natural disasters will have a significant impact on social welfare. For example flood or drought impact on agriculture and infrastructure affect households both directly and indirectly. As a result the government may feel obligated to cushion social welfare by incurring costs of returning normalcy after the occurrence. The County Government privy to some past occurrences has been providing for emergency fund. However, the impact of the unforeseen events could be of greater magnitude than the provision and hence pose fiscal risk to the county government.

d) Increased wage increase agitations by various civil servants

e) Potential uncertainties associated with the 2017 elections could lead to a wait-and-see attitude by investors, thereby dampening short-term growth prospects.

A lot of goodwill will be required to implement the budget to meet the objectives outlined herein.

SUMMARY

The budget ceilings have been set taking into account county priorities, but with binding constraints on the resource envelope the departments will be forced to make tough decisions in allocating available resources across their programmes. On-going projects will be given first priority when allocating resources. The Treasury will work with the departments to ensure resources are availed to them when required. As all programs and projects developed through the CIDP/ADP cannot be fully funded, departments will develop viable public investments for additional funding under Public Private Partnerships or with the support of the national government or development partners. These projects can only be incorporated in the budget once agreements have been formalized.