

COUNTY GOVERNMENT OF KWALE



COUNTY TREASURY

**COUNTY BUDGET REVIEW AND OUTLOOK PAPER
FY 2017/2018**

SEPTEMBER 2018

County Budget Review and Outlook Paper 2018

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Kwale County Treasury

P.O. Box 4- 80403,

KWALE

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ABBREVIATIONS AND ACRONYMS

CADP	County Annual Development Plan
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DANIDA	Danish International Development Agency
EAC	East African Community
EPZ	Export Processing Zone
GDP	Gross Domestic Product
FY	Financial Year
HR	Human Resources
IMF	International Monetary Fund
KBRR	Kenya Banks Reference Rate
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PWDs	Persons with Disabilities
SGR	Standard Gauge Railway

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FOREWORD

The county budget FY 2017/2018 was implemented under the context of a moderate global economic recovery. The global economy had an estimated growth of 3.7 percent in 2017 up from 3.2 percent in 2016. This was due to the recovery in investment, trade and industrial production. The Kenyan economy grew at an average of 4.9 percent in 2017 which is a decline from the growth of 5.9 percent in 2016. The main reason for the decline include the uncertainty surrounding the prolonged electioneering period and adverse weather conditions.

The county had a budget of Kshs.9.32 billion in FY 2017/2018. This was to be funded by Ksh 7.25 billion from the equitable share of income, Kshs.275million from the county own source revenue and Ksh 655.9 million from conditional grants. The county received Ksh7.25 billion from the equitable share of income up from Ksh 5.53 billion received in the FY 2016/2017. There was a slight improvement in the revenue collected from county own sources. The county government collected Kshs.226 million from local revenue sources in 2017/2018 which is an increment of about 2.3 percent from the Kshs.221million collected in FY 2016/2017.

On the expenditure side, performance in terms of funds absorption went down by a slight margin from 74.8 percent in FY 2016/2017 to 72.0 percent in FY 2017/2018. The County spent Kshs. 6.71 billion against a budget of Kshs.9.32 billion compared to previous financial year 2016/17 where the expenditure was Ksh 5.95 billion against a budget of Kshs 7.95 billion.

The economy is projected to recover to 5.9 percent in 2018/2019 and around 7.0 percent over the medium term 2022/2023. The main driving forces will be (i) the increased investments in strategic areas under the “Big Four” Agenda (ii) the implementation of MTP III projects of the vision 2030 (iii) the relatively high rainfall experienced across the country which is expected to spur growth in agriculture and other related sectors (iv) the preservation of the macroeconomic stability and improving security. The county anticipates growth in total income of about 5 percent in FY 2019/2020 from Kshs 9.1 billion in 2018/2019. The projected income for FY 2019/2010 will be Ksh 9.5 billion. Out of this Kshs 4.5 billion will be allocated to development programs which translate to 48 percent while Kshs 4.9 billion which is about 52 percent will fund recurrent expenditures.

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We will strengthen local revenue collection through effective operation of the automated revenue management system and enactment of the Finance Bill 2018. On the expenditure side we will intensify our efforts to ensure prudent management of public funds by strict adherence to the Public Finance Management Act 2012. We all monitor risks to our fiscal plan and devise appropriate mitigation measures.

Bakari Hassan Sebe
CECM Finance & Economic Planning

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ACKNOWLEDGEMENT

The County Budget Review and Outlook Paper (CBROP) preparation is based on the requirements of section 118 of the Public Finance Management Act 2012. This paper serves three purposes; (i) it reviews the county fiscal performance for the FY 2017/2018; (ii) it gives an update of the recent economic developments and the outlook and (iii) it outlines the broad fiscal parameters for the FY 2019/2020 budget and the medium term.

The preparation of this 2018 County Budget Review and Outlook Paper exhibited strong collaboration and synergy building among the county departments and agencies. We are grateful to the departments for their cooperation and support in availing information that was used to prepare this paper. Special thanks go to the County Treasury divisions of Accounting services and Revenue mobilization for the useful reports on county fiscal performance which formed a greater part of this paper.

I would like to commend the County Director in charge of Economic Planning and Budgeting and his team. The team worked tirelessly and with great dedication to ensure timely preparation and finalization of this paper. I would like to express my sincere appreciation for the great effort made in content development, collecting and collating information, analysis, final drafting, editing and final preparation of this paper. It is out of their efforts that we are presenting a high quality paper within the statutory deadline.

Alex Thomas Onduko

Chief Officer Finance and Economic Planning

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

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

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

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

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

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

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

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EXECUTIVE SUMMARY

The Economic Survey 2018 indicates that the performance of the Kenyan economy declined from a growth of 5.9 percent in 2016 to an average of 4.9 percent in 2017. The Kenyan economy remained resilient though there were shocks courtesy of the prolonged elections of 2017 and the adverse weather conditions experienced from 2016 to early 2017. The FY 2017/2018 was implemented against such a background.

The total revenue collected was Ksh 9.04 Billion out of which Ksh 7.25 billion was equitable share of revenue, Ksh 226 Million was from county own source revenue and Ksh 655.9 Million was conditional grants from development partners. Disbursements from the National Government were Ksh 6.71 billion which is an increment of about 13.34 percent compared to previous FY 2016/2017. There was a slight improvement in the county own source revenue performance. In FY 2017/2018 county own source revenue was Ksh 226 Million compared to Ksh 221 Million collected in FY 2016/2017. The total expenditure amounted to Ksh 6.71 billion against the budget of Ksh 9.32 billion. In terms of funds absorption, aggregate rate went down. In FY 2016/2017 total absorption rate was 74.8 percent compared to 72.0 percent in FY 2017/2018.

The FY 2017/2018 budget complied with the fiscal responsibility principles set out in the PFMA, 2012. Total recurrent expenditure was Ksh 4.5 billion which did not exceed the total income of Ksh 9.7 billion. Development expenditure compared to the total expenditure was 33 percent. This is above the minimum 30 percent of total budget to be allocated to development expenditure. In FY 2017/2018 total personnel emoluments was Ksh 2.47 billion which translates to 27.1 percent of the total budget. This is below the threshold of 35 percent.

The Kenyan economic outlook remains to be resilient and improving following increased investments in strategic areas under the Big Four Plan. This coupled with improved security and macroeconomic stability will result in an improved performance of the economy. The economy is projected to recover to 5.9 percent in 2019 and around 7.0 percent in the medium term. The county expects to raise revenues totaling Ksh 9.5 billion in FY 2019/2020 which will be a growth of about 6 percent compared to FY 2018/2019. The total revenue will fund development programmes totaling Ksh 4.5 billion and recurrent expenditures of Ksh 4.9 billion.

CHAPTER 1: INTRODUCTION

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

1. The purpose of preparing this paper is to provide the fiscal performance of the county for the financial year 2017/2018. In addition it will provide the forecasts of revenues and expenditures for the next financial year 2019/2020 and an update of the recent economic developments and outlook. The updated macroeconomic environment for the current financial year coupled with the fiscal performance of the previous financial year will give a basis for revision of the FY 2018/2019 budget and provision expenditure ceilings for FY 2019/2020 budget.
2. The strategic priorities and development objectives contained in our latest FY 2019/2020 County Annual Development Plan have been re-emphasized in this 2018 CBROP for implementation in the FY 2019/2020 budget and the medium term. Our core agenda of transforming Kwale in key sectors of education, health care, water services, roads, agricultural transformation and social welfare development has informed the provisional ceilings given in this document.
3. The rest of the paper is organized as follows:-Chapter II will give provide the County Fiscal performance for the financial year 2017/2018.The details will include performance of the actual county revenues and expenditures; Chapter III will give an update of the macroeconomic environment, the economic outlook and the fiscal risks. The resource allocation framework, forecasts of revenues and expenditures and the indicative expenditure ceilings will be presented in Chapter IV and Chapter V concludes and gives next steps.

CHAPTER TWO: REVIEW OF COUNTY FISCAL PERFORMANCE FY 2017-2018

2.1 Overview

4. This chapter provides information on the County's fiscal performance for the period ending 30th June 2018. It also highlights the key milestones achieved and the key lessons learnt in the budget implementation for FY 2017/2018.

5. The fiscal performance for the FY 2017/2018 was generally satisfactory, despite the challenges with short fall in revenue collection and delays in disbursement of funds from the national exchequer. The repeat of presidential elections in FY 2017/2018 affected the revenue performance and exerted expenditure pressures. Despite the challenges of the repeat polls, the actual county revenue improved from **Ksh.221, 011,186** in the FY 2016/2017 to **Ksh.226, 210,459** in the FY 2017/2018 due to the county efforts to automate its revenue collection process.

6. On the expenditure side, the County Government ensured strict adherence to the fiscal responsibility principles as set out in Section 107 of the Public Finance Management (PFM) Act, 2012 to ensure prudence and transparency in the management of public resources. As a result, the County Government achieved commendable absorption rates in both recurrent expenditure at **86.54** percent and **53.59** percent for development budget in the period under review.

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Table 1 : Summary of County Allocation for FY 2017/2018

S. No	Source	Amount Allocated as Provided in CARA 2017 (Kshs)
1	Equitable Share of Revenue from National Government	7,248,000,000.00
	County own revenue	275,000,000.00
2	Compensation for user fees forgone	15,209,593.00
3	Leasing of Medical Equipment	95,744,681.00
4	Road Maintenance Fuel Levy Fund	218,390,206.00
5	World Bank Loan to supplement financing of county health facilities	37,075,000.00
6	DANIDA Grant for Universal Healthcare in Devolved System Program	14,798,976.00
7	World Bank loan for Transforming Health Systems for Universal Health Care Project	67,495,496.00
8	Conditional Allocation for Development of Youth Polytechnics	43,762,833.00
9	World Bank Grant on Kenya Devolution Support Program	47,394,016.00
10	World Bank loan for National Agricultural and Rural Inclusive Growth Project	50,000,000.00
11	EU Grant for Instrument for Devolution Advice and Support	66,000,000.00
12	Income brought forward	1,056,929,384.00
13	Balance brought forward - World Bank Grant (RBF)	52,555,457.00
14	Balance brought forward - DANIDA Grant	14,949,437.00
15	Kwale County Plan Int'l Devolution Project	1,455,531.00
16	Income on Refund of Motor vehicle Insurance-Social Services	3,580,000.00
17	Income on Refund of Motor vehicle Insurance-Health	7,153,000.00
	TOTAL	9,315,493,610.00

Source: *Kwale County Treasury*

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2.2 County Revenue Performance FY 2017/2018

2.2.1 Overview

7. During the period under review, the County Government had an approved budget of **Kshs.9.32 billion**, up from an approved budget of Kshs.7.95 billion in the previous period FY2016/17. During the FY2017/2018 period, recurrent budget stood at **Kshs. 5.20 billion** (55.79 percent) and development budget at **Kshs. 4.11 billion** (44.21 percent). The approved County Budget for FY2017/18 was to be financed through **Kshs. 7.25 billion** (77.79 percent) as equitable share of revenue, **Kshs. 655.87 million** (7.08 percent) as total conditional grants and loans, **Kshs. 275 million** (2.95 percent) as county own source revenue and **Kshs. 1.14 billion** (12.23 percent) being income cash balances from the previous financial year 2016/17.

8. The conditional grants and loans comprised of User fees forgone Kshs. 15.21 million (2.32 percent), Leasing of medical equipment Kshs. 95.74 million (14.60 percent) and Road maintenance levy fund Kshs. 218.39 million (33.30 percent). Others include World Bank loan to supplement financing of county health facilities Kshs. 37.08 million (5.65 percent), World Bank Universal Health Care project Kshs. 67.50 million (10.29 percent) and DANIDA grant to supplement financing of county health facilities Kshs. 14.80 million (2.26 percent). In addition, during this period, the County Government was allocated Kshs. 43.76 million as conditional grant towards development of youth polytechnics, Kshs. 66 million being EU grant for Instrument of Devolution Advice and Support and Kshs. 50 million for World Bank loan for National Agricultural and Rural Inclusive Growth project (NARIGP).

2.2.2 Revenue Analysis

9. During the review period, the total actual county revenue improved significantly to **Kshs. 9.04 billion** (including balances brought forward from previous financial year) from Kshs. 6.12 billion in the previous year, representing 97.04 percent of the expected revenue projections. The table below provides an overview of the revenue summary.

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Table 2: Analysis of Actual Funds received for FY 2017/2018

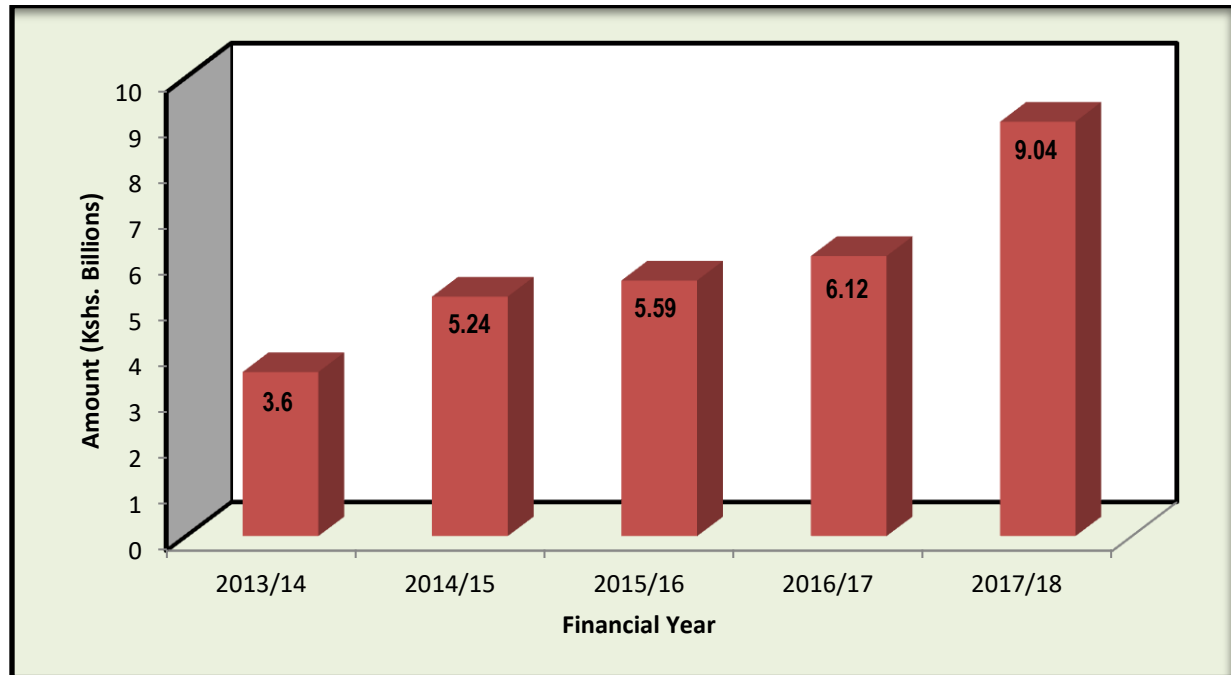
No	Source	Budget 2017/2018	Actual Receipt (Kshs)	Percentage of Annual receipt (%)
1	Equitable Share of Revenue from National Government	7,248,000,000.00	7,248,000,000.00	100.00
2	County Own Source Revenue	275,000,000.00	226,210,459.00	82.26
3	Compensation for user fees forgone	15,209,593.00	15,397,611.00	101.24
4	Leasing of Medical Equipment	95,744,681.00	-	-
5	Road Maintenance Fuel Levy Fund	218,390,206.00	218,390,207.00	100.00
6	World Bank Loan to supplement financing of county health facilities	37,075,000.00	-	0.00
7	DANIDA Grant for Universal Healthcare in Devolved System Program	14,798,976.00	22,938,413.00	155.00
8	World Bank loan for Transforming Health Systems for Universal Health Care Project	67,495,496.00	30,679,771.00	45.45
9	Conditional Allocation for Development of Youth Polytechnics	43,762,833.00	43,762,833.00	100.00
10	World Bank Grant on Kenya Devolution Support Program	47,394,016.00	47,394,016.00	100.00
11	World Bank loan for National Agricultural and Rural Inclusive Growth Project	50,000,000.00	50,609,855.00	101.22
12	EU Grant for Instrument for Devolution Advice and Support	66,000,000.00	-	0.00
13	Income brought forward	1,056,929,384.00	1,056,929,384.00	100.00
14	Balance brought forward - World Bank Grant (RBF)	52,555,457.00	52,555,457.00	100.00
15	Balance brought forward - DANIDA Grant	14,949,437.00	14,949,437.00	100.00
16	Kwale County Plan Int'l Devolution Project	1,455,531.00	1,455,531.00	100.00
17	Income on Refund of Motor vehicle Insurance-Social Services and Health	10,733,000.00	10,733,000.00	100.00
	TOTAL	9,315,493,610.00	9,040,005,974.00	97.04

Source: Kwale County Treasury

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

Figure 1 : Analysis of Actual County Revenue for the MTEF Period 2013/2014 – 2017/2018

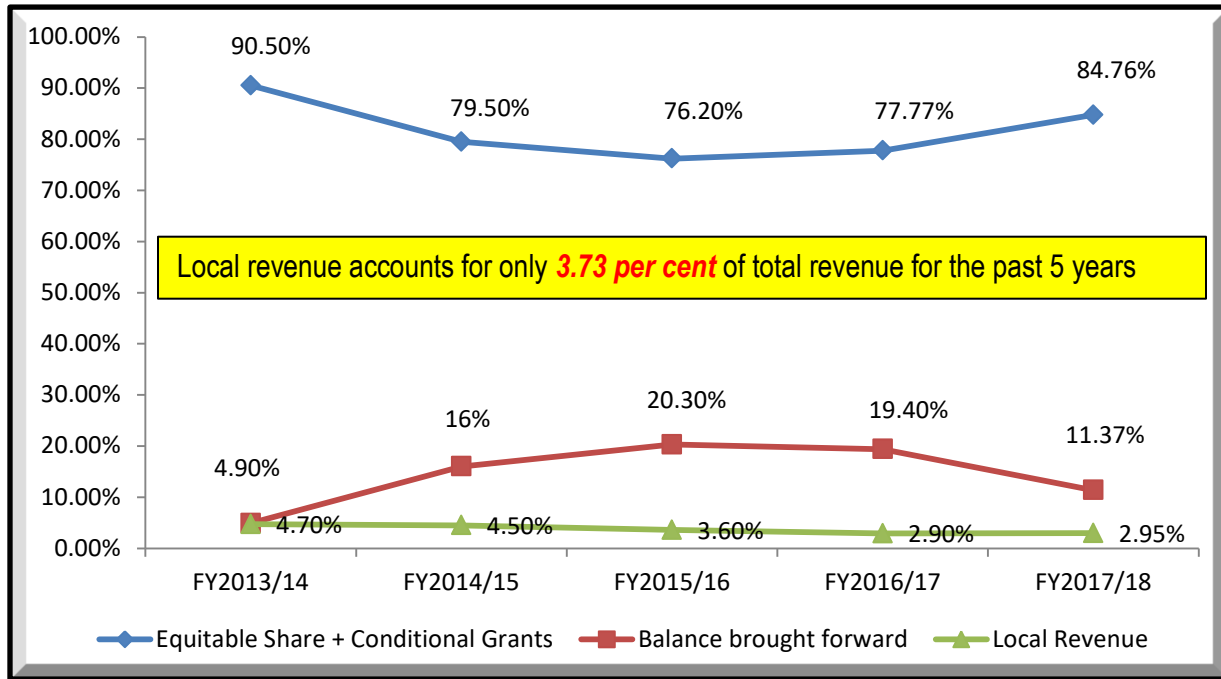


Source: *Kwale County Treasury*

10. An analysis of the historical trends of revenue collection for the entire MTEF period from FY 2013/2014 - FY 2017/2018 shows a steady increase in the total revenue as shown in the figure below.

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



Source: Kwale County Treasury

2.2.3 Transfers from the National Government

11. The County Government reported a significant growth in actual transfers from the National Government by 31.10 percent to **Kshs. 7.25 billion** against Kshs. 5.53 billion received in the previous financial year. However, delays in the releasing of funds to the County Revenue Fund (CRF) account was witnessed hence affecting project implementation and service delivery as a whole. The table below provides an overview of how the equitable share was disbursed to the CRF within the review period.

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Table 3: Schedule of equitable share funds released to the CRF for FY 2017/2018

BUDGETED ALLOCATION	DATE DISBURSED	FT. NUMBER	AMOUNT DISBURSED	RUNNING BALANCE
7,248,000,000.00				7,248,000,000.00
	19/10/2017	FT1729256404	507,360,000.00	6,740,640,000.00
	15/11/2017	FT17319GKWCQ	507,360,000.00	6,233,280,000.00
	14/12/2017	FT17348KWJMP	652,320,000.00	5,580,960,000.00
	18/01/2018	FT1801819Z7Y	688,560,000.00	4,892,400,000.00
	14/03/2018	FT18073FM3LS	724,800,000.00	4,167,600,000.00
	26/03/2018	FT180853DRDN	579,840,000.00	3,587,760,000.00
	10/05/2018	FT18130S6RM8	579,840,000.00	3,007,920,000.00
	08/06/2018	FT18159SM8GF	652,320,000.00	2,355,600,000.00
	27/06/2018	FT181781Q9CB	579,840,000.00	1,775,760,000.00
	29/06/2018	FT18180RW2DV	616,080,000.00	1,159,680,000.00
	04/07/2018	FT18185892G6	579,840,000.00	579,840,000.00
	05/07/2018	FT18186TYVSN	579,840,000.00	-
TOTAL			7,248,000,000.00	

Source: Kwale County Treasury

12. Analysis of the funds released to the CRF indicates that no disbursement of the equitable share was done in the first quarter of the review period. In addition, a total of Kshs. 1.16 billion of the equitable allocated for the period FY2017/2018 was disbursed in the first quarter of the succeeding financial year. This, based on the aforementioned affect programme and project implementation and the absorption capacity of the development budget.

2.2.4 Conditional Grants

13. These are additional resources allocated to the County Government from revenue raised by the National Government or in form of loans and grants from development partners in support of major public services that are devolved such as health care services. They include compensation for user fees forgone, leasing of medical equipment, World Bank loan to supplement financing of county health facilities, World Bank Universal Health Care Project and DANIDA Grant to

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supplement financing of county health facilities in the health sector. Others include the Road maintenance fuel levy fund in the infrastructure sector. The table below shows an analysis of the performance of conditional grants within the period under review.

Table 4: Analysis of conditional grants for FY 2017/2018

No	Conditional Grant/ Loans	Amount Allocated as Provided in CARA 2017 (Kshs)	Actual Receipt (Kshs)	Actual Receipt as a percentage of Annual Allocation (%)
2	Compensation for user fees forgone	15,209,593.00	15,397,611.00	101.24
3	Leasing of Medical Equipment	95,744,681.00	-	-
4	Road Maintenance Fuel Levy Fund	218,390,206.00	218,390,207.00	100.00
5	World Bank Loan to supplement financing of county health facilities	37,075,000.00	-	0.00
6	DANIDA Grant for Universal Healthcare in Devolved System Program	14,798,976.00	22,938,413.00	155.00
7	World Bank loan for Transforming Health Systems for Universal Health Care Project	67,495,496.00	30,679,771.00	45.45
8	Conditional Allocation for Development of Youth Polytechnics	43,762,833.00	43,762,833.00	100.00
9	World Bank Grant on Kenya Devolution Support Program	47,394,016.00	47,394,016.00	100.00
10	World Bank loan for National Agricultural and Rural Inclusive Growth Project	50,000,000.00	50,609,855.00	101.22
11	EU Grant for Instrument for Devolution Advice and Support	66,000,000.00	-	0.00
	TOTAL	655,870,801.00	429,172,706.00	65.44

Source: *Kwale County Treasury*

14. Additional conditional allocations reported during the reporting period is World Bank loan for National Agricultural and Rural Inclusive Growth Project (NARIGP), World Bank grant on

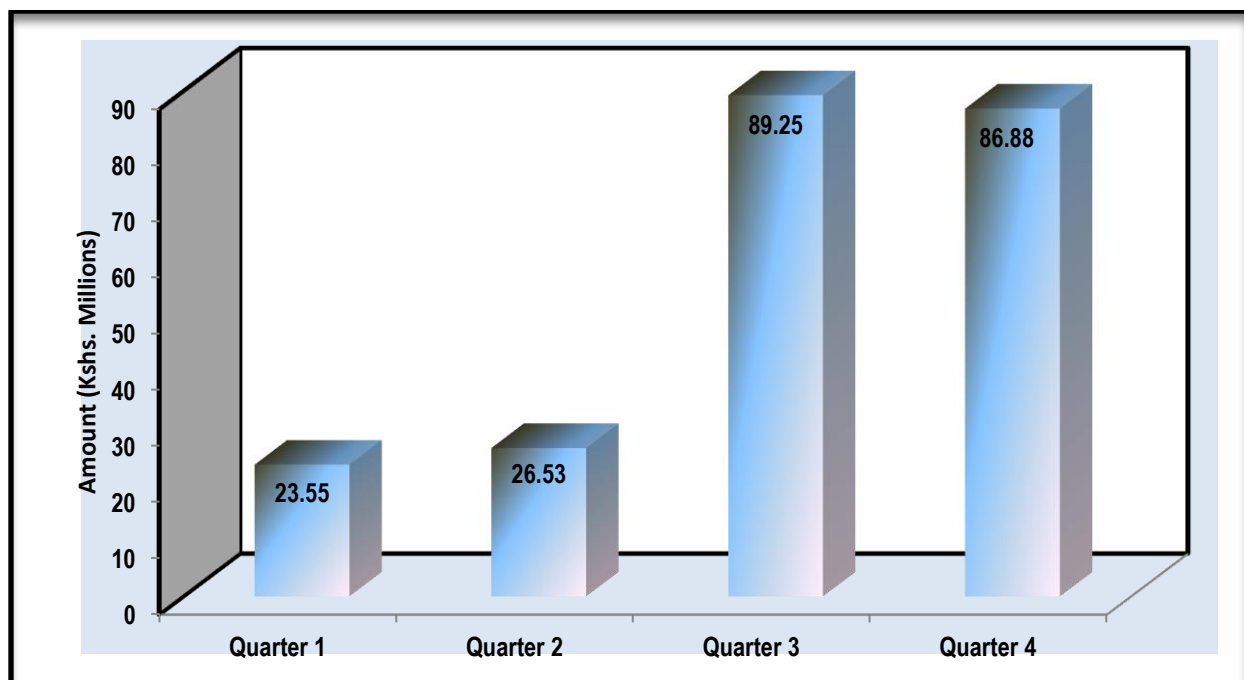
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Kenya Devolution Support Program (KDSP) and EU grant for Instrument for Devolution Advice and Support.

2.2.5 County Own Source Revenue

15. The County Government recorded an own revenue collection of **Kshs 226,210,459.00**, a slight increase compared to Kshs. 221,011,186.00 collected in the previous period. The actual own revenue collection represents 82.26 percent of the annual target of Kshs. 275,000,000.00. The underperformance can be attributed to the prolonged electioneering period experienced in the first and second quarters of the period under review. As a result, the county collected Kshs. 23.55 million and 26.53 million in the first and second quarters respectively compared to Kshs. 45.06 million and Kshs. 33.73 million collected during the same period in the previous year respectively.

Figure 3 : Analysis of Quarterly Own Revenue Collection by quarter for 2017/2018



Source: *Kwale County Treasury*

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16. Analysis of the own revenue sources reveal that although the county performed above average in most of the revenue streams, the annual targets for some of the sources were underestimated. For instance, revenue streams including miscellaneous, revenue from trade and cooperatives and public health and sanitation recorded 425.93 percent, 231.39 percent and 223.11 percent above their annual targets.

Table 5 : Analysis of county own source revenue collection by stream for FY 2017/2018

NO	REVENUE STREAM	ANNUAL REVENUE TARGET (KSHS.)	ACTUAL REVENUE (KSHS.)	ACTUAL REVENUE AS A PERCENTAGE OF ANNUAL TARGET
1	Land Rates	59,719,189.67	40,176,080.00	67.27
2	Single Business Permit	52,528,870.99	60,671,524.00	115.50
3	House and Stall Rent	2,689,100.00	2,310,883.00	85.94
4	Market Fees	5,270,834.00	4,549,146.00	86.31
5	Royalties and Cess	29,613,311.85	26,546,406.00	89.64
6	Transit Goods	4,746,444.00	3,798,234.00	80.02
7	Auction Fees	6,775,352.93	7,081,635.00	104.52
8	Advertisement	10,077,295.05	10,666,109.00	105.84
9	Parking Fees	11,388,570.50	10,383,549.00	91.18
10	Revenue From Hospital	77,080,429.00	35,672,090.00	46.28
11	Building Plan Approval	2,217,669.00	4,234,767.00	190.96
12	Land Revenue	3,264,664.06	3,091,256.00	94.69
13	Garbage Fees	2,783,000.00	2,109,200.00	75.79
14	Slaughter	944,732.45	852,294.00	90.22
15	Miscellaneous	1,105,093.74	4,706,886.00	425.93
16	Revenue from Trade and Cooperative	466,800	1,080,110.00	231.39
17	Revenue from Agriculture and Fisheries	1,056,546.16	980,000.00	92.76
18	Public Health and Sanitation	3,272,096.60	7,300,290.00	223.11
TOTAL		275,000,000.00	226,210,459.00	82.26

Source: Kwale County Treasury

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17. Comparative analysis of the actual local revenue during the first MTEF period 2013 – 2017 indicates the actual revenue improved from Kshs. 203.46 Million in FY2013/14 to close at Kshs. 226.21 Million in FY2017/18.

Table 6: Analysis of own revenue collection by stream in the MTEF Period 2013/14 – 2017/18 by stream

S/ NO	REVENUE SOURCE	ACTUAL REVENUE COLLECTION				
		FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY2017/18
1	Land Rates	63,710,003.00	52,515,086.00	53,092,173.00	53,682,884.00	40,176,080.00
2	Single Business Permit	42,385,040.00	57,059,498.00	60,552,431.00	55,018,719.00	60,671,524.00
3	House and Stalls Rent	975,875.00	1,829,625.00	7,478,097.00	3,346,450.00	2,310,883.00
4	Market Fees	7,439,239.00	4,699,800.00	5,030,425.00	5,140,628.00	4,549,146.00
5	Royalties	14,892,668.00	19,233,154.00	31,845,730.00	26,911,184.00	26,546,406.00
6	Cess	11,113,354.00	10,736,995.00			
7	Transit Goods	11,563,692.00	11,192,029.00	6,113,755.00	4,832,314.00	3,798,234.00
8	Auction Fees	6,062,098.00	6,193,744.00	6,032,637.00	6,659,248.00	7,081,635.00
9	Advertisement	7,801,436.00	14,849,163.00	12,720,628.00	12,905,110.00	10,666,109.00
10	Parking Fees	2,591,930.00	6,502,142.00	11,028,074.00	11,054,159.00	10,383,549.00
11	Revenue from Hospital	18,899,693.00	51,757,860.00	32,621,588.00	23,964,870.00	35,672,090.00
12	Building Plan Approval	1,169,236.00	4,632,580.00	2,771,746.00	2,076,372.00	4,234,767.00
13	Land Revenue	35,000.00	-	1,645,900.00	1,576,200.00	3,091,256.00
14	Garbage Fees	1,628,305.00	3,017,700.00	3,699,350.00	2,224,400.00	2,109,200.00
15	Administration	574,558.00	163,850.00	-	-	-
16	Miscellaneous	11,665,958.00	8,995,593.00	5,138,630.00	581,309.00	4,706,886.00
17	Nursery fees	949,860.00	-	-	-	-
19	Tourist Charges	-	-	-	2,686,875.00	-
20	Slaughter fees	-	-	867,590.00	1,581,452.00	852,294.00
21	Revenue from Trade and Cooperative	-	-	430,760.00	341,160.00	1,080,110.00
22	Revenue from Agriculture Livestock and Fisheries	-	-	3,680,377.00	4,194,652.00	980,000.00
23	Public Health and Sanitation	-	-	3,867,695.00	2,233,200.00	7,300,290.00
TOTAL		203,457,945.00	253,378,819.00	248,617,586.00	221,011,186.00	226,210,459.00

Source: Kwale County Treasury

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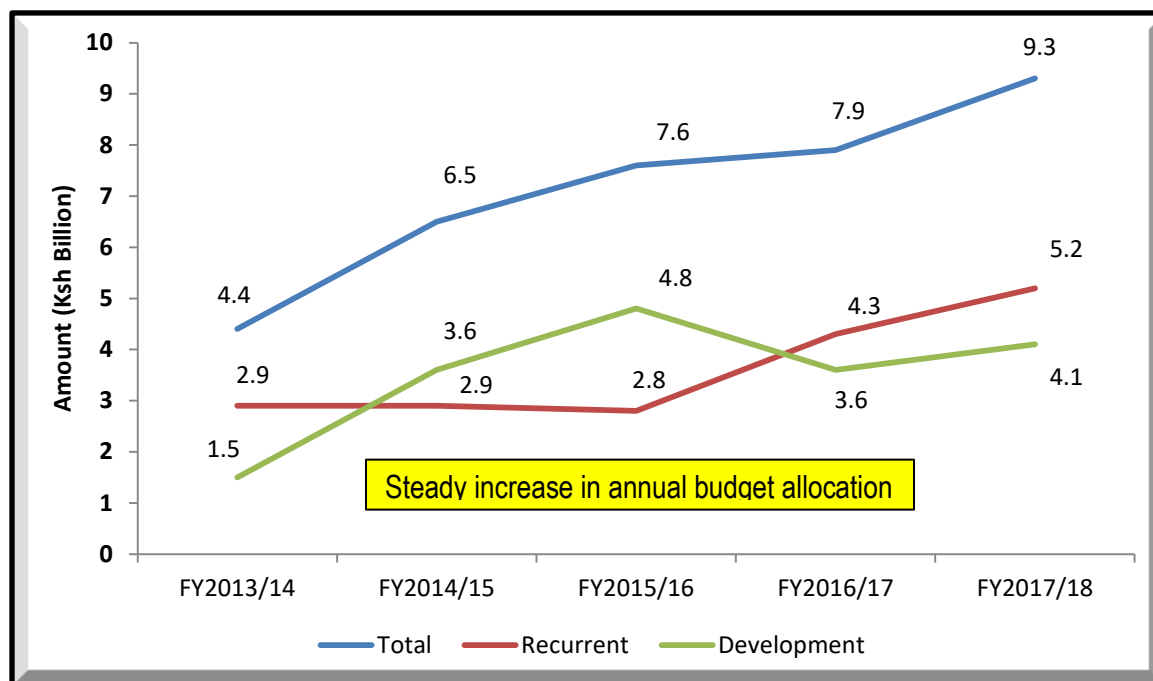
2.3 County Expenditure Performance

2.3.1 Overview

18. During the review period, the County Government of Kwale had a budget of **Ksh 9.32 Billion**, comprised of Ksh 5.20 billion and Ksh 4.11 billion for recurrent and development expenditures respectively.

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

Figure 4 : Historical Budget Trends from FY 2013/2014 - FY 2017/2018



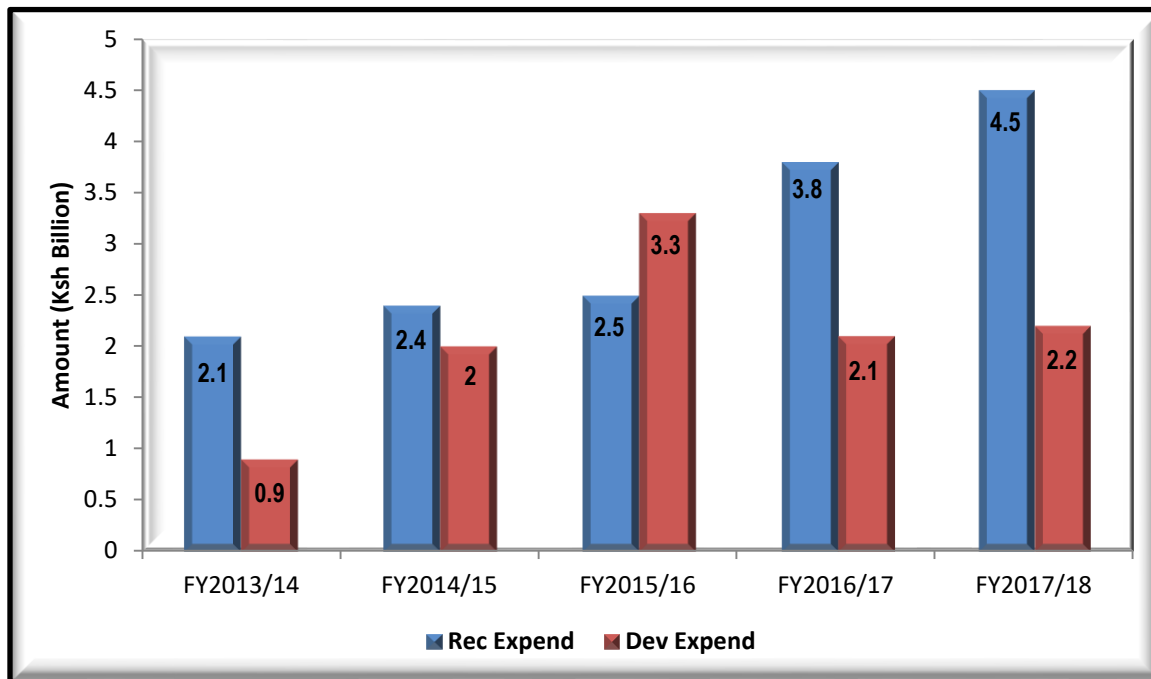
Source: Kwale County Treasury

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20. During the period under review, a total of **Ksh 6.71 billion** was spent representing an absorption capacity of 71.99 percent of the total approved budget for FY2017/18. This is a decline in terms of funds absorption. Kshs 5.92 billion was spent in the previous financial year FY2016/17 against a budget of Ksh 7.95 billion which translated to 74.8 percent.

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

Figure 5: Historical expenditure trends from FY 2013/2014 -FY 2017/2018



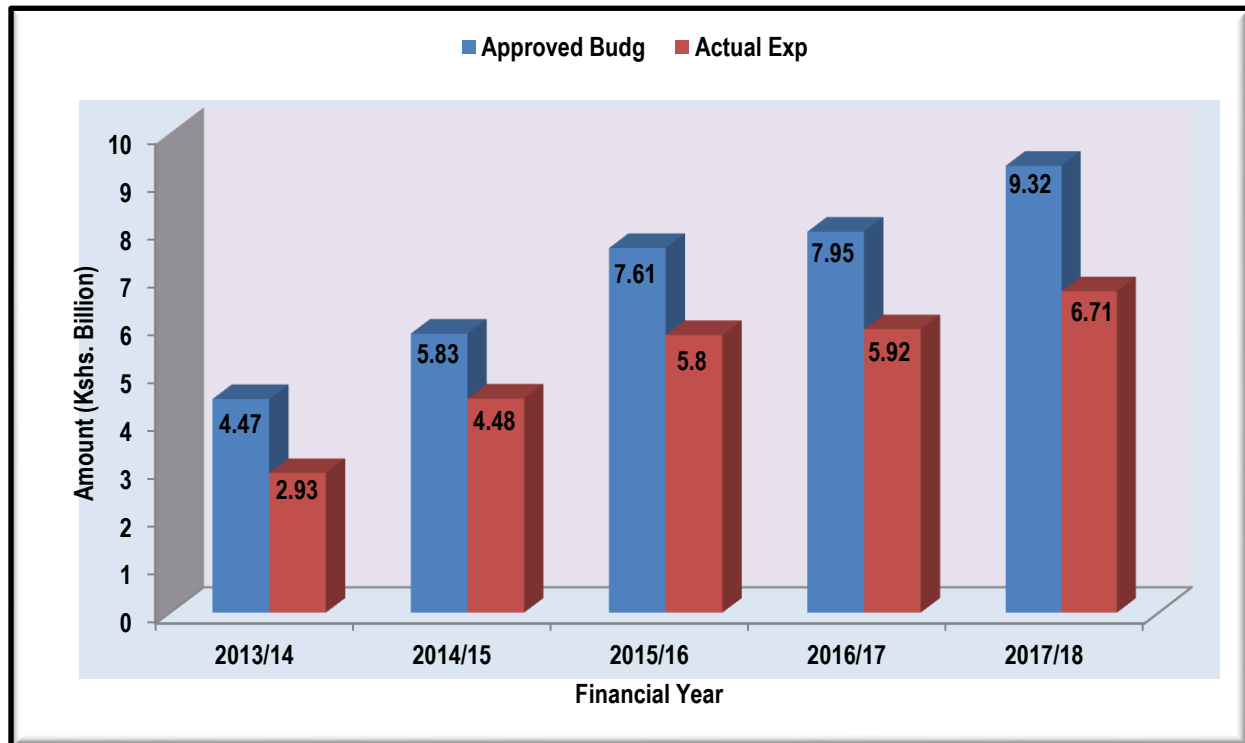
Source: Kwale County Treasury

21. The approved county recurrent budget for FY 2017/18 improved to Ksh 5.20 billion from Ksh 4.33 billion in the previous financial year. During this period, the County Government spent a total of **Ksh 4.50 billion** on recurrent activities, translating to an absorption rate of 86.54 percent of the approved annual recurrent budget.

22. On the other hand, the county had an approved development budget of Ksh 4.11 billion compared to an approved development budget of Ksh 3.62 billion in the FY2016/17. Actual development expenditure for the review period amounted to **Ksh 2.20 billion**, representing an absorption capacity of 53.59 percent of the total approved annual development budget.

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Figure 6: Analysis of expenditure 2013/14 – 2017/18

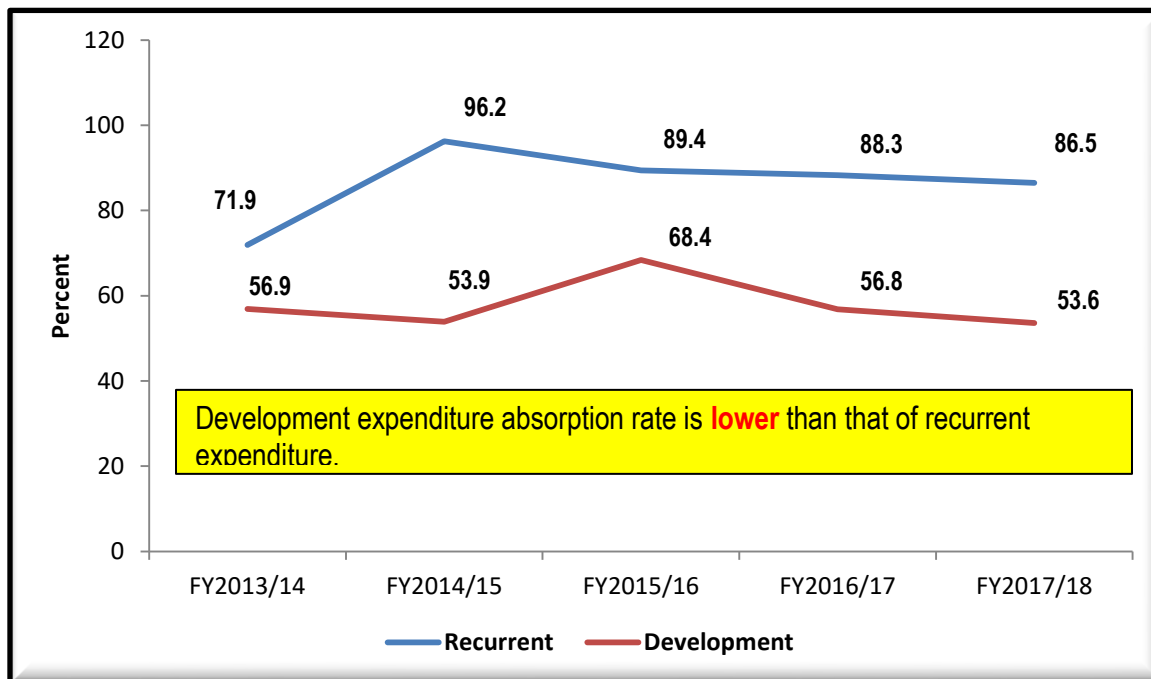


Source: Kwale County Treasury

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

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Figure 7: Historical trends of annual absorption rates FY 2013/2014-2017/2018



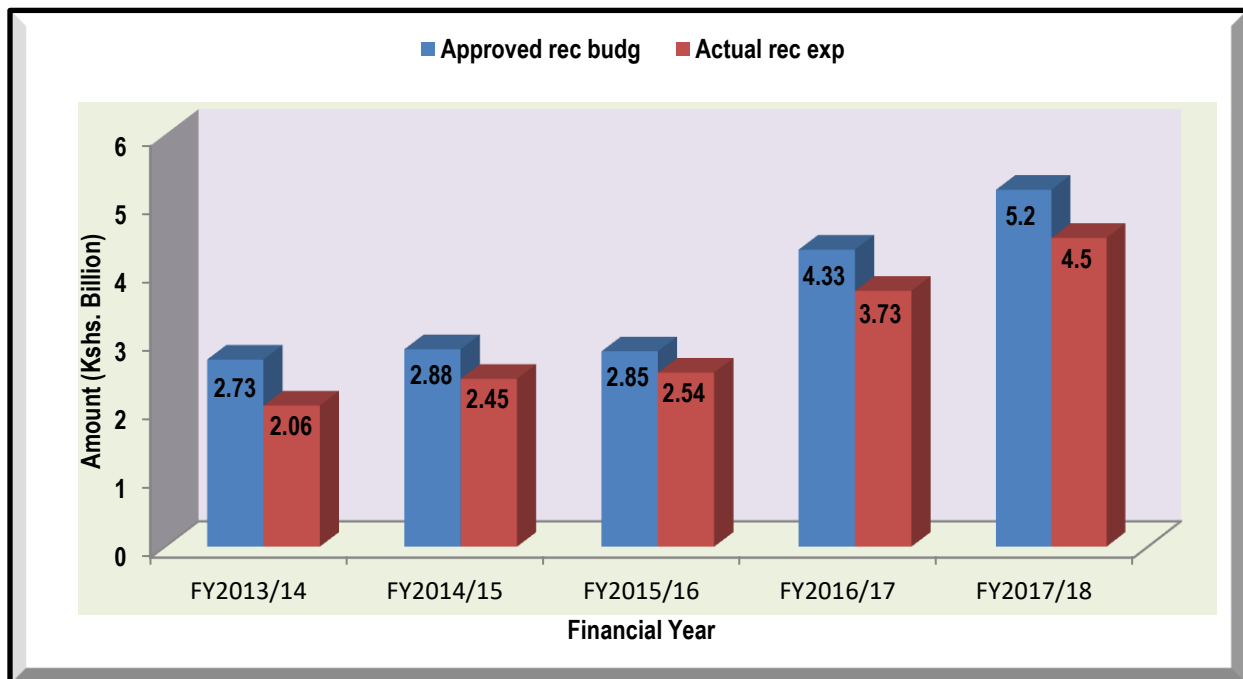
Source: County Treasury

2.3.2 Recurrent Expenditure

24. The County Government spent a total of **Ksh 4.50 billion** on recurrent activities, an absorption rate of 86.54 percent of the approved annual recurrent budget. This indicates an improvement in the absorption capacity on recurrent budget compared to 86.14 percent absorption rate recorded in the previous financial year 2016/17. The figure below provides an overview of absorption capacities for recurrent budgets for 2013/14 – 2017/18.

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Figure 8: Analysis of County's annual recurrent expenditure 2013/2014 – 2017/18



Source: County Treasury

25. The County Department of Public Service and Administration reported the highest absorption capacity on recurrent budget at 104.74 percent, followed by the County Assembly at 93.99 percent and the department of Agriculture, Livestock and Fisheries at 91.09 percent.

26. The department that recorded lowest absorption capacity on the recurrent budget is the County department of Community Development at 58.09 percent. Others were the County Department of Water Services at 63.18 percent and the department of Trade and Cooperative Development at 71.93 percent. Table 8 provides information on recurrent expenditure by county department.

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Table 7: Analysis of recurrent expenditure by county department for FY 2017/2018

DEPARTMENT	RECURRENT BUDGET 2017/18		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	172,557,047.00	125,792,295.00	72.90
PUBLIC SERVICE AND ADMINISTRATION	294,475,066.00	308,442,122.00	104.74
FINANCE AND ECONOMIC PLANNING	701,154,690.00	546,572,615.00	77.95
AGRICULTURE, LIVESTOCK AND FISHERIES	190,598,977.00	173,626,086.00	91.09
EDUCATION, RESEARCH AND HR DEVELOPMENT	776,744,220.00	671,914,847.00	86.50
MEDICAL AND PUBLIC HEALTH SERVICES	1,897,423,695.00	1,720,175,016.00	90.66
TRADE AND COOPERATIVE DEVELOPMENT	61,626,179.00	44,330,379.00	71.93
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	177,000,356.00	102,819,394.00	58.09
INFRASTRUCTURE AND PUBLIC WORKS	195,307,478.00	161,785,530.00	82.84
TOURISM, INVESTMENT AND ICT	60,039,165.00	53,508,164.00	89.12
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	59,551,635.00	47,383,588.00	79.57
WATER SERVICES	80,202,077.00	50,668,581.00	63.18
COUNTY PUBLIC SERVICE BOARD	43,655,396.00	32,652,372.00	74.80
COUNTY ASSEMBLY	491,804,086.00	462,240,424.00	93.99
TOTAL	5,202,140,067.00	4,501,911,413.00	86.54

Source: Kwale County Treasury

2.3.2.1 Personnel Emoluments

27. The County Government had an approved annual budget for personnel emoluments of **Ksh 2.63 billion**, representing **28.22 percent** of the approved annual County Budget. The county spent a total of Ksh 2.47 billion on salaries and wages during the review period, translating to an absorption capacity of 93.92 percent of the approved annual budget on personnel emolument.

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28. The County Department of Public Service and Administration recorded the highest absorption rate on personnel emoluments budget at **101.05 percent**. Others were the department of Infrastructure and Public Works at **99.96 percent** and the Department of Tourism, Investment and ICT at **99.55 percent**.

29. Departments that reported the lowest absorption rates on personnel emoluments were Water Services at **68.52 percent**, County Public Service Board at **80.49 percent** and the department of Trade and Cooperative Development at **81.32 percent**.

Table 8: Overview of personnel emoluments by county department for 2017/2018

DEPARTMENT	PERSONNEL EMOLUMENTS BUDGET 2017/18		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	67,337,555.00	63,844,281.00	94.81
PUBLIC SERVICE AND ADMINISTRATION	136,870,534.00	138,303,957.00	101.05
FINANCE AND ECONOMIC PLANNING	329,142,506.00	269,403,249.00	81.85
AGRICULTURE, LIVESTOCK AND FISHERIES	132,926,167.00	129,269,018.00	97.25
EDUCATION, RESEARCH AND HR DEVELOPMENT	254,044,369.00	212,572,912.00	83.68
MEDICAL AND PUBLIC HEALTH SERVICES	1,289,916,890.00	1,282,647,487.00	99.44
TRADE AND COOPERATIVE DEVELOPMENT	25,745,046.00	20,935,331.00	81.32
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	33,257,610.00	28,259,001.00	84.97
INFRASTRUCTURE AND PUBLIC WORKS	59,292,370.00	59,268,856.00	99.96
TOURISM, INVESTMENT AND ICT	19,842,128.00	19,752,128.00	99.55
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	23,658,033.00	19,739,696.00	83.44
WATER SERVICES	27,452,987.00	18,810,212.00	68.52
COUNTY PUBLIC SERVICE BOARD	23,459,888.00	18,882,444.00	80.49
COUNTY ASSEMBLY	210,612,236.00	191,840,375.00	91.09
TOTAL	2,633,558,319.00	2,473,528,947.00	93.92

Source: Kwale County Treasury

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30. An analysis of the personnel emoluments over the years indicates an increasing wage bill. During the first MTEF period 2013/14 – 2017/18, the wage bill rose from Ksh 824.9 Million in FY 2013/2014 to Ksh 2 Billion in FY 2017/2018. This translates to an increase in wage bill against total expenditures. Given the threshold of 35 per cent, this poses a big challenge which needs to be addressed by establishing optimal staffing structure to sustain the wage bill.

2.3.2.2 Operations and Maintenance

31. The County Government's approved annual budget for Operations and Maintenance (O&M) stood at **Ksh 2.56 billion**, accounting for **27.47 percent** of the total approved annual budget for FY2017/18. This represents a slight decline in allocation compared to a proportion of 27.72 percent in the previous period FY2016/17.

32. On the other hand, the county spent a total of **2.03 billion** on operation and maintenance activities against Kshs. 1.76 billion spent during the same period in FY2016/17. This represents an absorption capacity of 79.09 percent on the approved annual O&M budget.

33. From the table given below, the County Department of Public Service and Administration recorded the highest absorption rate of the O&M budget at **107.95 percent**. Others that posted higher absorption rates were the County Assembly at **96.16 percent** and the Department of Education, Research and HR Development at **87.88 percent**.

34. The departments that recorded lowest absorption rates were the Department of Community Development, Culture and Talent Management at **51.87 percent**, Department of County Executive Services at **58.88 percent** and the Department of Trade and Cooperative Development at **65.20 percent**.

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Table 9: Analysis of expenditure on operations and maintenance by County Department in 2017/18

DEPARTMENT	OPERATIONS AND MAINTENANCE BUDGET		
	FY2017/18		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	105,219,492.00	61,948,014.00	58.88
PUBLIC SERVICE AND ADMINISTRATION	157,604,532.00	170,138,165.00	107.95
FINANCE AND ECONOMIC PLANNING	372,012,183.00	277,169,366.00	74.51
AGRICULTURE, LIVESTOCK AND FISHERIES	57,672,810.00	44,357,068.00	76.91
EDUCATION, RESEARCH AND HR DEVELOPMENT	522,699,851.00	459,341,935.00	87.88
MEDICAL AND PUBLIC HEALTH SERVICES	607,506,805.00	437,527,529.00	72.02
TRADE AND COOPERATIVE DEVELOPMENT	35,881,133.00	23,395,048.00	65.20
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	143,742,746.00	74,560,393.00	51.87
INFRASTRUCTURE AND PUBLIC WORKS	136,015,108.00	102,516,674.00	75.37
TOURISM, INVESTMENT AND ICT	40,197,037.00	33,756,036.00	83.98
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	35,893,602.00	27,643,892.00	77.02
WATER SERVICES	48,774,090.00	31,858,369.00	65.32
COUNTY PUBLIC SERVICE BOARD	20,195,508.00	13,769,928.00	68.18
COUNTY ASSEMBLY	281,191,850.00	270,400,049.00	96.16
TOTAL	2,564,606,747.00	2,028,382,466.00	79.09

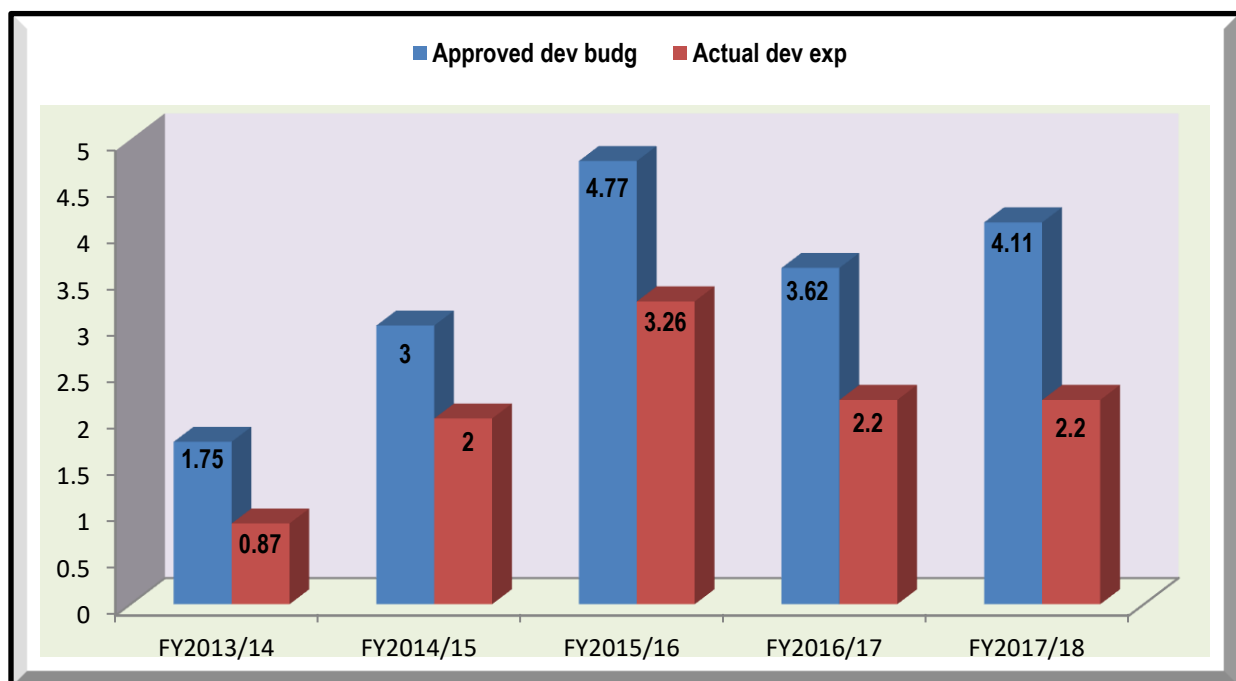
Source: Kwale County Treasury

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2.3.3 Development Expenditure

35. During the review period, the county had an approved annual development budget of **Ksh 4.11 billion** accounting for 44.10 percent of the approved county annual budget. During this period, a total of **Ksh 2.20 billion** was spent on various development programmes and projects, representing an absorption capacity of 53.59 percent on the approved annual development budget for FY2017/18

Figure 9: Analysis of County's annual development absorption rates 2013/14 – 2017/18



Source: Kwale County Treasury

36. Comparative analysis of the absorption rates on departmental development budgets reveals that the Department of Public Service and Administration recorded the highest absorption rate of 88.74 percent. Other departments were the Department of Tourism, Investment and ICT at 73.79 percent and the Department of Finance and Economic Planning at 66.56 percent.

37. Departments that recorded lower absorption rates were the County Assembly at 26.38 percent, Department of Trade and Cooperative Development at 28.06 percent and the

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Department of Community Development, Culture and Talent Management at 31.52 percent. The table below provides an analysis of actual development expenditure for 2017/18.

Table 10: Analysis of development expenditure 2017/18

DEPARTMENT	DEVELOPMENT BUDGET 2017/18		
	Approved Estimates (Net)	Actual Expenditure	Absorption Capacity
COUNTY EXECUTIVE SERVICES	87,376,631.00	36,071,320.00	41.28
PUBLIC SERVICE AND ADMINISTRATION	50,869,167.00	45,142,032.00	88.74
FINANCE AND ECONOMIC PLANNING	105,658,223.00	70,321,356.00	66.56
AGRICULTURE, LIVESTOCK AND FISHERIES	211,558,758.00	109,613,259.00	51.81
EDUCATION, RESEARCH AND HR DEVELOPMENT	843,391,227.00	472,231,307.00	55.99
MEDICAL AND PUBLIC HEALTH SERVICES	731,782,061.00	458,281,764.00	62.63
TRADE AND COOPERATIVE DEVELOPMENT	122,052,047.00	34,252,174.00	28.06
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	226,463,312.00	71,385,316.00	31.52
INFRASTRUCTURE AND PUBLIC WORKS	543,144,181.00	300,134,272.00	55.26
TOURISM, INVESTMENT AND ICT	96,834,406.00	71,455,624.00	73.79
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	84,611,491.00	30,691,162.00	36.27
WATER SERVICES	784,459,722.00	445,180,440.00	56.75
COUNTY PUBLIC SERVICE BOARD	0.00		0.00
COUNTY ASSEMBLY	225,152,316.00	59,396,884.00	26.38
TOTAL	4,113,353,542.00	2,204,156,910.00	53.59

Source: Kwale County Treasury

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2.3.4 Overall Balance and Financing

38. Based on the analysis of actual performance on revenue and expenditure, the overall fiscal balance amounted to Ksh 2,333,937,651.00 over the period under review. This was mainly due to an under spending of Ksh 424.7 million and Ksh 1.91 billion in recurrent and development budgets respectively due to the delays in the disbursement of funds from the exchequer. The amount will be carried forward in the form of supplementary budget in the FY2018/19 budget.

2.4 Implications of 2017/18 fiscal performance on fiscal responsibility principles

39. The fiscal performance of the FY 2017/2018 has a bearing on the financial objectives adopted in the February CFSP 2018 and its subsequent budget for FY 2019/2020. The following observations have been made:-

- i) Based on the performance of revenue and expenditure projections for the last financial years, the baseline figures for own revenue forecasts have been pegged to the actual performance of the previous financial year ;
- ii) County departments have recorded different absorption capacities during the period under review. This will in turn, distort the approved budget ceilings as set out in the 2018 CFSP as amount rolled over to the current financial year by the department has increased their total budgets, which are different from those adopted in the CFSP. However, these changes will be incorporated in the upcoming Supplementary Budget estimates towards the end of second quarter of FY 2018/2019 and also in the February 2019 CFSP.
- iii) Management of pending bills has been an issue of concern over the years. Proper scrutiny of balances carried forward as commitments in the budget shall be undertaken to ensure their accuracy.

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

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- i) The county government's recurrent expenditure shall not exceed the county government's total revenue. Total recurrent expenditure for FY 2017/18 amounted to Kshs 4.50 billion which was below the total county government revenue of Kshs 9.32 billion.
- ii) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to development expenditure. The 2017/18 development expenditure was allocated Kshs 4.11 billion which was 44.10 percent of the budget.
- iii) The county government's expenditure on benefits and wages for its public officers shall not exceed a percentage of the county government's total as proposed by the County Executive Member for Finance and approved by the County Assembly. The share of the personnel emoluments to our total revenue reduced significantly to 28.22 percent from 33.9 percent in the previous financial year 2016/17. The county's medium term strategy is to maintain it at 20 percent.
- iv) Over the medium term, the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. The county government has always been committed to ensuring a balanced annual budget.
- v) Fiscal risks shall be managed prudently. The county government shall study the macroeconomic forecasts issued by the National Government and utilize them for projections in the 2019/2020 MTEF budget. To cater for urgent and unforeseen expenditure, a 2 percent of our revenue allocation will be put aside to cater for any fiscal risks such as emergencies.
- vi) 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. Total local revenues were Kshs. 226.20 million against an annual target of Kshs. 275.00 million, representing 82.26 percent performance. This achievement demonstrates an improved forecasting rationale in comparison with the similar period in 2016/17.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3.1 Global Economic Overview

41. According to the International Monetary Fund (IMF) World Economic Outlook (WEO) report, the global economy strengthened to 3.8 percent with a notable rebound in global trade which rose tremendously from 2.2 percent in 2016 to 6.4 percent 2017 .The growth was driven by an investment recovery in advanced economies, continued strong growth in emerging Asian economies, a notable upswing in emerging European economies and signs of recovery in several commodity exporters. The IMF's Primary Commodity Price Index rose to 16.9 percent between August 2017 and February 2018 due to rising oil and natural gas prices.

42. The Kenya National Bureau of Statistics (KNBS) Economic Survey 2018 reveals that economic performance of the United States accelerated to 2.2 per cent in 2017 from 1.5 per cent in 2016. This was largely due to improved household incomes that boosted private consumption and business investment as well as a weakening of the dollar. The increased production in the energy sector, supported by stable oil prices, also boosted the economic growth. Labour force participation in the United States increased notably during the period under review. Consequently, unemployment rate dropped from 4.9 per cent in 2016 to 4.4 per cent in 2017. During the review period, inflation rate rose to 1.8 per cent from 1.3 per cent in 2016. The process of managing inflation towards the 2.0 per cent target rate was supported by a further strengthening of the labour market and a growth in household incomes despite the removal of accommodative monetary policy by the Federal Reserve.

43. In China, real GDP grew to 6.8 per cent in 2017 compared to a growth of 6.7 per cent in 2016. The growth was attributed to fiscal support and recovery of exports. Inflation rate in China eased to 1.8 per cent in 2017 from 2.0 per cent in 2016 on account of weak food prices. The Indian economy recorded a decelerated real GDP growth of 6.7 per cent during the year under review compared to a growth of 7.1 per cent in 2016. The deceleration in growth was partly attributed to roll out of goods and services tax aimed at shifting firms from informal to formal sector, and disruption from currency exchange initiative. Inflation rate eased to 3.8 per cent in 2017 on account of lower food prices. In South Africa, good rainfall received during the review

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period led to improved performance of the agriculture sector resulting in improvement in real GDP growth of 0.9 per cent in 2017 from 0.3 per cent in 2016

44. Real GDP growth in Sub-Saharan Africa grew to 2.6 per cent in 2017 compared to 1.4 per cent in 2016. The growth was driven by increased oil and agricultural production in Nigeria and diminishing effect of drought in Eastern and Southern Africa, coupled with favourable external environment. Inflationary pressures dropped to 11.0 per cent in 2017 from 11.3 per cent in 2016 on account of low food prices. The current account deficit as a percentage of GDP for the region narrowed to 3.4 per cent during the review period from 4.2 per cent in 2016. The improvement in the current account balances in Sub-Saharan Africa was partly attributed to increased oil production in Angola and Nigeria.

45. During the year under review, real GDP in the five member East Africa Community (EAC-5) remained unchanged at 5.4 per cent. The real GDP of Rwanda and Tanzania are estimated to have recorded the fastest growth of 6.2 and 6.5 per cent, respectively, in 2017. The community's current account deficit as a percentage of GDP widened to 6.2 per cent in 2017 from 5.8 in 2016, while inflation rate surged to 6.7 per cent in 2017 from 5.7 per cent in 2016, on account of rising food and oil prices.

3.2 Overview of the Kenya Economy

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

47. Indeed, Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall year on year inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining

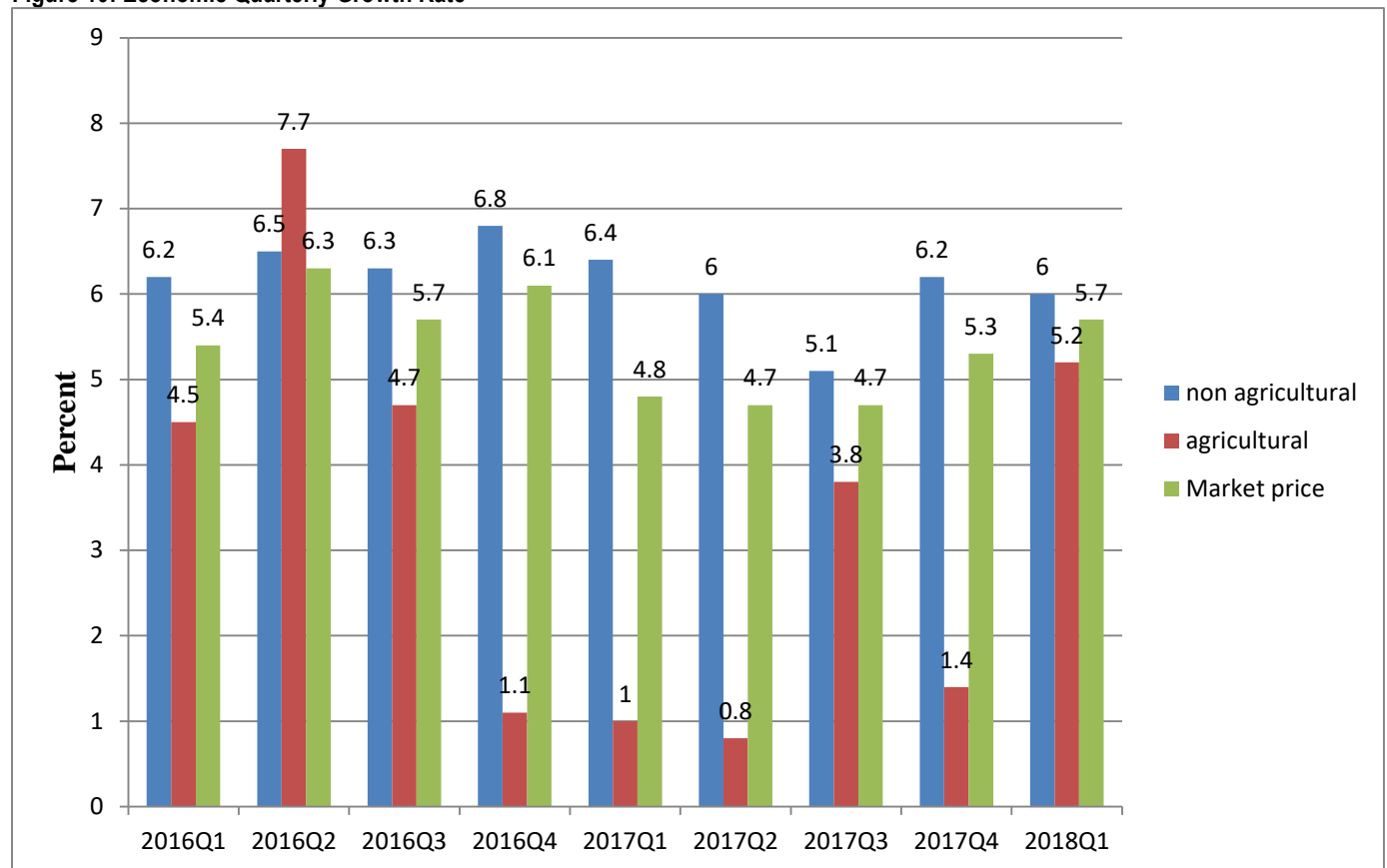
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within the 5.0 percent medium term target set by Government. This decline reflected a decrease in food prices which outweighed the rise in international oil prices.

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

49. The contribution of Agricultural sector to overall GDP growth was at 1.3 percentage points in the first quarter of 2018, an improvement from the 0.3 percentage points in the same quarter in 2017. The Non-agricultural sector (service and industry) remained vibrant and grew by 6.0 percent in the first quarter of 2018 compared to a growth of 6.4 percent in a similar quarter in 2017. It has the largest percentage points to real GDP growth at 3.8 percentage points mainly supported by the service sector.

Figure 10: Economic Quarterly Growth Rate



Source: KNBS 2018

3.3 Macroeconomic Stability

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

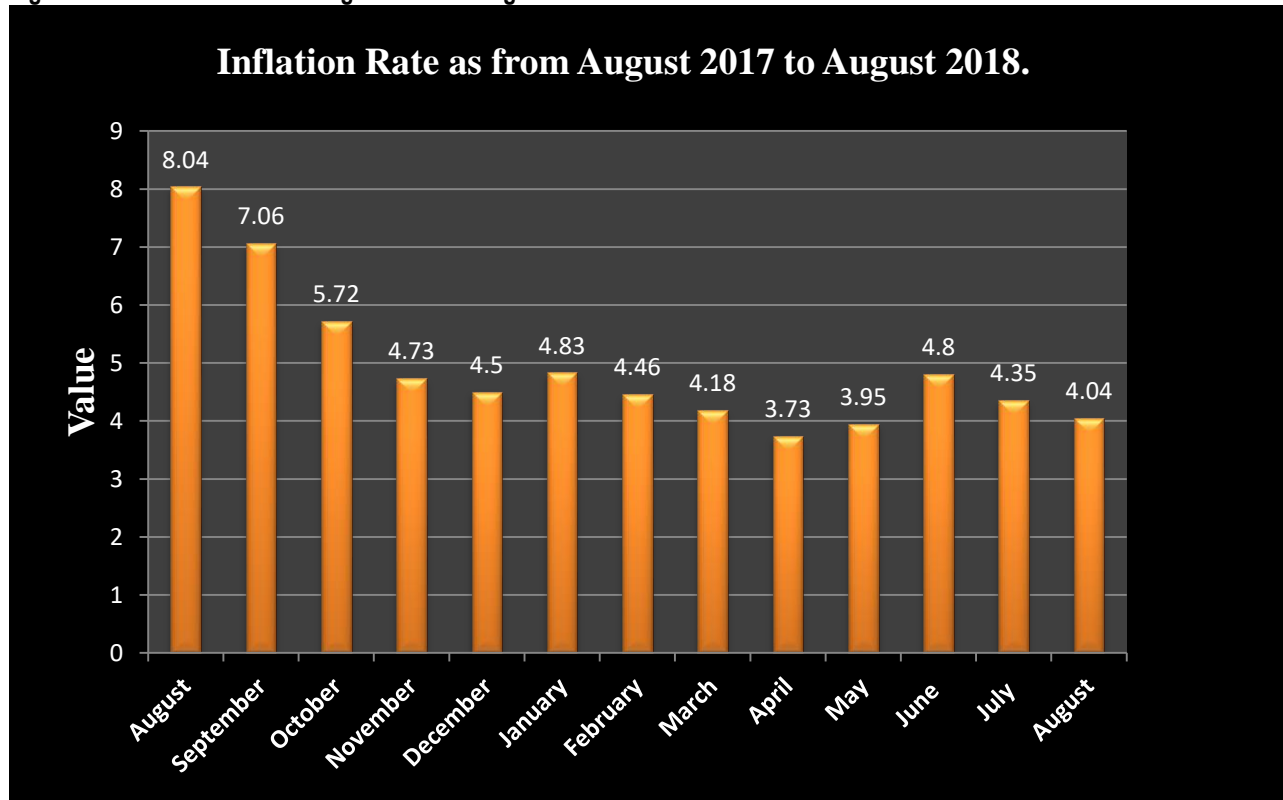
3.3.1 Inflation Rate

51. Month-on-month overall inflation fell to 4.0 percent in August 2018 from 8.0 percent in August 2017, thereby remaining within the 5.0 percent medium term target set by Government. This decline reflected lower prices of key food items such as carrots, loose maize grain, loose maize flour, tomatoes, cabbages, and beans. However, energy prices continued to exert upward pressure on overall inflation due to higher fuel and electricity prices. In the twelve month to

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August 2018, the average annual inflation rate was at 4.7 percent compared to 8.3 percent in the same period in 2017.

Figure 11: Inflation rate from August 2017 to August 2018



Data Source: KNBS

3.3.2 Kenya Shilling Exchange Rate

52. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate strengthened to Ksh 100.6 in August 2018 from Ksh 103.6 in August 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.2 and Ksh 129.7 in August 2018 from Ksh 122.2 and Ksh 134.2 in August 2017, respectively. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most Sub-Saharan African currencies. This stability reflected strong inflows from tea and horticulture exports, strong diaspora remittances and tourism receipts.

3.3.3 Interest Rates

53. Short term interest rates have remained fairly low and stable. The Central Bank Rate was reduced to 9.0 percent on 30th July 2018 from 9.5 percent in March 2018 in order to support economic activity. The interbank rate remained low at 6.8 percent in August 2018 from 8.1 percent in August 2017 due to ample liquidity in the money market. The 91-day Treasury bill rate declined to 7.6 percent in August 2018 compared to 8.2 percent in August 2017 while over the same period, the 182 day and the 364 day Treasury bills averaged 9.0 percent and 10.0 percent from 10.3 percent and 10.9 percent, respectively.

3.3.4 Lending and Deposit Rates

54. The lending rates declined to 13.3 percent in May 2018 from 13.7 percent in May 2017 while the average commercial banks' deposit rate increased to 8.1 percent in May 2018 from 7.4 percent in May 2017. As a result the interest rate spread narrowed to 5.2 percent from 6.3 percent over the same period.

3.4 County Economic Activities

3.4.1 Agriculture

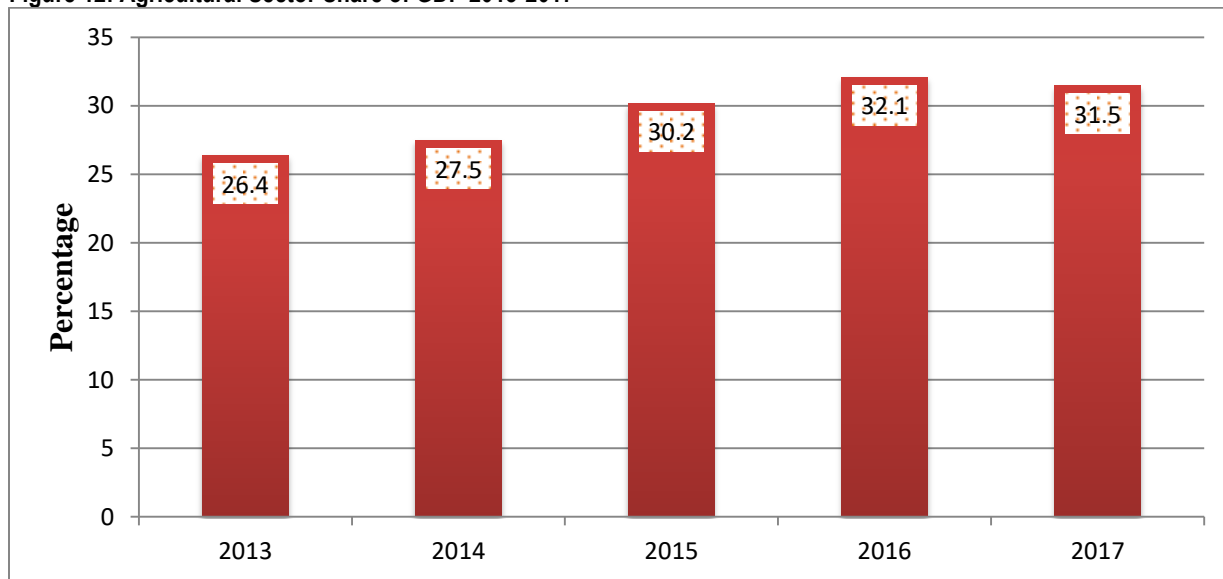
55. According to the KNBS Economic Survey 2018, the national Agriculture, Forestry and Fishing sector posted a decelerated growth of 1.6 per cent in 2017 compared to a revised growth of 4.7 per cent in 2016. The period under review was characterized by depressed long rains and early cessation of short rains. Consequently, the unfavorable weather conditions considerably suppressed production of key crops and adversely affected production in the livestock sub-sector. However, despite the general underperformance of the sector, production of food crops such as potatoes, beans and some cereals posted relatively improved performance and somehow mitigated the impact of the decline in the production of the other crops, thereby anchoring the growth in 2017. Similarly, growth in the sector was supported by notable increases in production of cut flowers, fruits and vegetables whose exports grew by 19.7, 16.8 and 10.7, per cent, respectively, in 2017. This translated to a significant increase in the value of export of horticultural produce from Ksh 101.5 billion in 2016 to Ksh 115.3 billion in 2017.

56. Agriculture is one of the main economic activities carried out in Kwale County with 85 percent of farmers practicing subsistence farming. The agricultural sector plays a crucial role in guaranteeing food security, poverty reduction and employment creation in the County. Among

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the interventions which the County Government undertook in conjunction with the private sector- the Kenya Red Cross and the Safaricom Foundation is the establishment of Nyalani dam which would provide water for irrigation. The other planned projects include the establishment of dams as flagship projects under the Water Services department.

Figure 12: Agricultural Sector Share of GDP 2013-2017



Data Source: KNBS Economic Survey 2018

3.4.2 Tourism

57. Tourism is a key sector and its transformation is critical for creation of employment, revenue generation, and creation of demand for goods and services and inclusive growth. Tourism development in the County is hinged on our Beaches, Marine Parks and Reserves, Wildlife and Culture of the community. The County has invested a lot in developing Kwale as a tourist destination notably in infrastructure (opening up beach access roads, pedestal walkways, street lights), Marketing and Promotion (Participation in Expos and exhibitions- National and International) and capacity building (Beach operators). In conjunction with the National Government projects which will attract tourists have been initiated. These include expansion of the Ukunda Airstrip, the tarmacking of Samburu – Kinango-Kwale road and the Dongo Kundu bypass.

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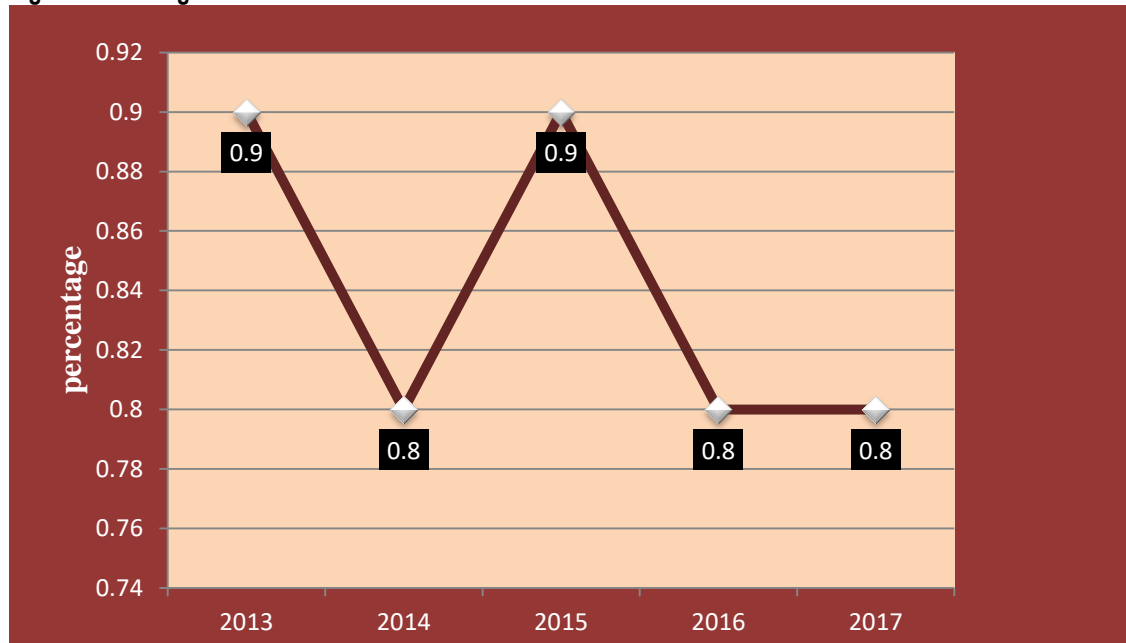
58. The County Government of Kwale is in the process of rehabilitating more beach access roads, constructing public amenities (Washrooms) along the Beach access road, improving waste management systems, improving safety on the beaches, partnering with key stakeholders to develop and diversify tourism products with a key focus on eco-tourism, sports adventure and home stays and “*marketing Kwale as a tourist destination*” initiative. Other key tourists’ attraction sites include Shimba Hills National Reserve, Mwaluganje Sanctuary, Kisite/Mpunguti Marine Park, Shimoni Caves and Kongo Mosque.

59. Kwale County has a number of highly rated world class hotels. According to the Tourism Regulatory Authority, there are two 5-star hotels, four (4) 4-star hotels and two 3-star hotels, and three 2- star hotels with a combined bed capacity of 3053 beds. The dominant wildlife species are elephants, baboons, monkeys, buffalos, giraffes and sable antelope (only found in Shimba Hills in Africa).

3.4.3 Mining

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

Figure 13: Mining Sector Share to GDP 2013-2017



Source: KNBS

3.4.4 Industry and Trade

61. Kwale County has 5 main manufacturing factories; these include Coast Calcium Limited, Base Titanium, Kwale Coconut Company (formerly Serendi Kenya), Bixa Limited and Kwale International Sugar Company. These factories are engaged in mining and agro-processing activities. Other factories include 2 bakeries, two water distilling companies and the Asante Capital EPZ in Ukunda which manufactures veneer and charcoal bricate for export. There is an upsurge of new factories in steel processing in Samburu on the back of the establishment of Colfax (Miritini) and Samburu EPZA industrial parks. The County Government intends to set up industrial parks in Lungalunga.

62. The County Government will in the period between 2018-2022 establish a fruit processing plant in Shimbahills Kubo South as an initiative to attain the Big Four agenda of manufacturing and value addition. This will offer employment opportunities, increase farmers' incomes, create wealth and reduce poverty.

3.5 MACROECONOMIC OUTLOOK

3.5.1 Global Growth Outlook

63. Global economic activity continues to firm up with output strengthening by 3.7 percent in 2017 from 3.2 percent in 2016, supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. This growth momentum is expected to reach 3.9 percent in 2018 and 2019, reflecting improving domestic demand in advanced economies and China, accommodative financial conditions and improved performance in other emerging market economies. In addition, the partial recovery in commodity prices should allow conditions in commodity exporting countries to gradually improve.

64. In advanced economies, growth is expected to remain at 2.4 percent in 2017 and 2018 reflecting stronger prospects for the euro area and Japan and especially the projected domestic and spillover effects of expansionary fiscal policy in the United States. Growth in emerging market and developing economies is expected to increase further from 4.7 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019 reflecting improved prospects for commodity exporters after three years of very weak economic activity.

65. Similarly, growth in Sub-Saharan Africa is projected to pick up to 3.4 percent in 2018 from 2.8 percent in 2017, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption.

3.5.2 Domestic Growth Outlook

66. On the domestic scene, the economy is on a recovery path as reflected by the leading economic indicators for the second quarter of 2018 and the strong growth of 5.7 percent in quarter one of 2018 compared to a growth of 4.8 percent in the same quarter in 2017. The economic outlook is supported by continued strengthening of the global economy, a pickup in

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agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments and regain in business and consumer confidence following political stability in the country.

67. Given the above developments the growth outlook for 2018 has been revised upward to 6.0 percent from the 5.8 percent as earlier projected in the 2018 Budget Policy Statement (BPS). Going forward in terms of fiscal years, the economic growth is projected at 6.2 percent in the FY 2019/20 and 6.9 percent over the medium term due to investments in strategic areas under the “Big Four” plan, namely: increasing the share of manufacturing sector to GDP to 15 percent by 2022; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units by 2022. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

3.5.3 Monetary Policy Outlook

68. Overall month on month inflation has been below the 5.0 percent target for the first eight months of 2018. However, higher domestic fuel prices due to the recent increase in international oil prices, and the impact of the excise tax indexation on prices of some of the CPI items are expected to exert moderate upward pressure on inflation in the near term. Nevertheless, overall inflation is expected to remain within the target range mainly due to expectations of lower food prices reflecting favorable weather conditions and the continued prudent monetary policy measures that will moderate demand-driven inflationary pressures. Further, the stability of the Kenya exchange rate will reinforce the price stability objective and keep inflation within the Government target range in the remainder period of the fiscal year and in the medium term.

69. The main risks to inflation remain adverse weather that affects agricultural production and their prices, and potential volatility in international oil prices. The close coordination of fiscal and monetary policies will continue to delivering on price stability and reduction in cost of doing business in the country.

3.5.4 External Sector Outlook

70. The Shilling is expected to be stable in 2018 on account of a narrower current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow from 6.4 percent of GDP in 2017 to 5.4 percent of GDP in 2018 largely due to lower imports of food and inputs for phase II of the SGR project, steady growth in tea and horticulture exports, strong diaspora remittances, and continued growth in tourism receipts.

71. The main risks to the foreign exchange market in 2018 relate to continued uncertainties in the global financial markets with regard to the pace of normalization of monetary policy in advanced economies especially in the U.S. and the Brexit resolution. Nevertheless, the foreign exchange reserves will continue to provide an adequate buffer against short term shocks in the foreign exchange market.

3.5.5 Risks to the Macroeconomic Outlook

72. This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

73. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under “The Big Four” Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

74. The County will monitor the above risks and take appropriate measures to safeguard macroeconomic stability and prepare the FY 2019/2020 budget based on this background.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustment to the 2018/19 budget

75. The budget implementation for the financial year 2018/19 will be influenced by risks of current macro-economic outlook. These eminent risks include the recent Kenya Finance Act, 2018 which introduces 8 percent V.A.T tax on all petroleum products, adverse weather conditions, public expenditure pressures, uncertainties in the global financial markets particularly with regard to the U.S economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome.

76. The County Government will put in place adequate measures to address these risks. The execution of the development budget by the spending units will be closely monitored and appropriate measures taken in the context of the next supplementary budget.

77. The County Government of Kwale will continue with the rationalization of recurrent expenditures in the financial year 2018/19 to save resources. Resources that are saved will be re-directed to fund the county strategic priority areas as stipulated in the CIDP, the county flagship projects and the subsequent Annual Development Plans (ADPs).

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

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

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80. Performance of the county own source revenues is still below the expected level. The County Government will devise strategies to improve on local revenue collection. Among the strategies include the automation of the revenue system to curb leakages, establishment of the new valuation roll to enhance property rates collection, fast tracking the enactment of the Finance Bill and the other affiliated bills and intensifying our compliance and enforcement efforts.

81. The revision of the FY 2018/2019 Budget in the context of Supplementary Estimates will take into consideration the updated macroeconomic outlook and the actual fiscal performance. In particular the set target for the county own source revenues and the capital expenditure performance to avoid setting of large commitments by departments and carrying forward of pending bills to next financial year FY 2019/2020.

4.2 Medium Term Expenditure Framework

82. In view of the macroeconomic outlook and the actual fiscal performance for FY 2017/2018, the FY 2019/2020 MTEF budget will have remarkable changes. More resources will be re-directed to finance our key priority areas .The County Annual Development Plan will be the key source document in determining resource allocation in the FY 2019/2020 budget. The CIDP (2018-2023) will guide resource allocation in the expenditure framework in the medium term.. In addition, the 2019/2020 ADP and the expenditure ceilings to be firmed up in the upcoming County Fiscal Strategy Paper of February 2019 will form the basis for FY 2019/2020 budget.

83. The County Government has identified as the main strategic priorities the Health and Education sectors. Major infrastructural development will be done in the health sector followed by the education sector. Health care programmes shall be geared towards achievement of the universal health coverage ensuring efficient and high quality services for every person in the County.

84. Other priority areas earmarked to benefit from the FY 2019/2020 county budget are water services, roads and energy. The County strategic priority of roads development as the main driver of the County economy will be reflected in our resource allocation for the FY 2019/2020 budget.

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85. Among the infrastructural projects earmarked for implementation in the FY2019/2020 budget will include County Flagship projects whose objective is to catalyze the County's transformation agenda. They include the establishment of a fruit processing plant, construction of a Teachers Training College (TTC) and road tarmacking. Others are construction of an Oncology Centre and the construction of medium sized dams.

86. Based on the actual performance and in consideration of the strategic priorities given in the Annual Development Plan FY 2019/2020 the below gives the provisional ceilings and their ranking for the FY 2018/2019 budget.

Table 11: Provisional Expenditure Ceilings for the FY 2019/20 and their ranking

SECTOR	CEILING FY2019/2020	PERCENTAGE	RANK
COUNTY EXECUTIVE SERVICES	208,695,381.00	2.54	11
PUBLIC SERVICE AND ADMINISTRATION	444,142,458.00	5.40	9
FINANCE AND ECONOMIC PLANNING	624,394,280.00	7.59	4
AGRICULTURE, LIVESTOCK AND FISHERIES	457,964,009.00	5.56	8
EDUCATION, RESEARCH AND HR DEVELOPMENT	1,216,716,688.00	14.78	2
MEDICAL AND PUBLIC HEALTH SERVICES	2,224,935,446.00	27.03	1
TOURISM AND ENTREPRISE DEVELOPMENT	467,518,725.00	5.68	7
SOCIAL SERVICES AND TALENT MANAGEMENT	394,553,112.00	4.79	10
ROADS AND PUBLIC WORKS	921,020,745.00	11.19	3
ENVIRONMENT AND NATURAL RESOURCES	163,795,510.00	1.99	12
WATER SERVICES	494,247,715.00	6.00	6
COUNTY PUBLIC SERVICE BOARD	34,314,444.00	0.42	13
COUNTY ASSEMBLY	578,769,408.00	7.03	5
SUB TOTAL	8,231,067,921.00	100.00	
GRANTS ESTIMATES	1,322,351,325.00		
GRAND TOTAL	9,553,419,246.00		

Source: Kwale County Treasury

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87. Based on the above expenditure framework for FY2019/2020, the table below provides the tentative projected baseline ceilings for the 2019/2020 – 2020/21 MTEF, classified by sector.

Table 12: Medium Term Expenditure Framework for the period FY 2018/2019 – FY 2021/2022

SECTOR		Estimates 2018/19	Ceiling 2019/20	PROJECTIONS	
				2020/21	2021/22
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	720,954,503.15	621,759,519.00	683,935,470.90	752,329,017.99
Agriculture, Livestock and Fisheries	Sub Total	504,555,525.00	457,964,009.00	503,760,409.90	554,136,450.89
Environment and Natural Resources Management	Sub Total	216,398,978.15	163,795,510.00	180,175,061.00	198,192,567.10
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	824,292,367.66	921,020,745.00	1,013,122,819.50	1,114,435,101.45
Roads and Public Works	Sub Total	824,292,367.66	921,020,745.00	1,013,122,819.50	1,114,435,101.45
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	342,220,098.00	467,518,725.00	514,270,597.50	565,697,657.25
Tourism and Enterprise Development	Sub Total	342,220,098.00	467,518,725.00	514,270,597.50	565,697,657.25
HEALTH SERVICES	TOTAL	2,555,686,800.20	2,224,935,446.00	2,447,428,990.60	2,692,171,889.66
EDUCATION	TOTAL	1,371,096,687.00	1,216,716,688.00	1,338,388,356.80	1,472,227,192.48
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	1,729,446,580.01	1,890,315,971.00	2,079,347,568.10	2,287,282,324.91
County Assembly	Sub Total	652,534,853.08	578,769,408.00	636,646,348.80	700,310,983.68
County Executive Services	Sub Total	236,253,242.68	208,695,381.00	229,564,919.10	252,521,411.01
Public Service and Administration	Sub Total	324,249,791.95	444,142,458.00	488,556,703.80	537,412,374.18
Finance and Economic planning	Sub Total	470,800,335.00	624,394,280.00	686,833,708.00	755,517,078.80
County Public Service Board	Sub Total	45,608,357.30	34,314,444.00	37,745,888.40	41,520,477.24
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	331,019,958.00	394,553,112.00	434,008,423.20	477,409,265.52
WATER SERVICES	TOTAL	1,228,739,430.94	494,247,715.00	543,672,486.50	598,039,735.15
SUB TOTAL	TOTAL	9,103,456,424.96	8,231,067,921.00	9,054,174,713.10	9,959,592,184.41
Conditional Grants and Loans		-	1,322,351,325.00	-	-
GRAND TOTAL		9,103,456,424.96	9,553,419,246.00	9,054,174,713.10	9,959,592,184.41

Source: Kwale County Treasury

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4.3 FY 2019/2020 Budget Framework

88. The FY 2019/2020 budget framework is set against the background of the updated medium-term macro-fiscal framework set above. Real GDP is projected to grow by 6.2 percent in FY 2019/2020. This will be sustained through investments in strategic areas under the “Big Four” plan, namely: increasing the share of manufacturing sector to GDP to 15 percent by 2022; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units by 2022. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

4.3.1 Revenue Projections

89. Based on fiscal performance in the FY 2017/2018 it is imperative to project revenues using the actual figures for FY 2017/2018. The FY 2018/2019 budget targets a projected county own source revenue collection at about 10 percent of the actual revenues collected in FY 2017/2018 disbursement. As noted above, this performance will be guaranteed by the ongoing revenue collection system automation which aims at improving efficiency in own revenue collection.

90. The Equitable share of revenue will be pegged at **Kshs.7,912,800,000.00** for the FY 2019/2020. This is an increment of about 5 percent from the FY 2018/19 allocation. The county own source revenues are projected to be **Kshs. 318,267,920.00** and the conditional grants and National Government grants and loans to the county government is expected to be **Kshs.1,322,351,325.00**. This will give anticipated total revenue of about **Ksh 9,553,419,246.00**.

91. The Conditional grants and National Government grants and loans amounting to **Ksh1,322,351,325.00** will consist of: allocation for development of youth polytechnics, compensation for user fees forgone, leasing of medical equipment, road maintenance levy, World Bank loan to supplement financing of county health facilities, World Bank Grant on Kenya devolution support programme, World Bank grant for Universal health care project, EU

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Grant for instruments for devolution advice and support, World Bank loan for National Agricultural and Rural Inclusive Growth project and Conditional grant on Water and Sanitation Development Project.

Table 13 : Summary of County Revenue Envelope

NO	REVENUE STREAM	ACTUAL FY2017/18	ESTIMATES FY2018/19	PROJECTIONS
				FY2019/20
1	Land Rates	40,176,080.00	56,525,934.00	56,525,934.00
2	Single Business Permit	60,671,524.00	85,362,100.00	85,362,100.00
3	House and Stall Rent	2,310,883.00	3,251,308.00	3,251,308.00
4	Market Fees	4,549,146.00	6,400,443.00	6,400,443.00
5	Royalties and Cess	26,546,406.00	37,349,597.00	37,349,597.00
6	Transit Goods	3,798,234.00	5,343,944.00	5,343,944.00
7	Auction Fees	7,081,635.00	9,963,541.00	9,963,541.00
8	Advertisement	10,666,109.00	15,006,735.00	15,006,735.00
9	Parking Fees	10,383,549.00	14,609,185.00	14,609,185.00
10	Revenue From Hospital	35,672,090.00	50,189,023.00	50,189,023.00
11	Building Plan Approval	4,234,767.00	5,958,126.00	5,958,126.00
12	Land Revenue	3,091,256.00	4,349,258.00	4,349,258.00
13	Garbage Fees	2,109,200.00	2,967,549.00	2,967,549.00
14	Slaughter	852,294.00	1,199,139.00	1,199,139.00
15	Miscellaneous	4,706,886.00	6,622,376.00	6,622,376.00
16	Revenue from Trade and Cooperative	1,080,110.00	1,519,666.00	1,519,666.00
17	Revenue from Agriculture and Fisheries	980,000.00	1,378,816.00	1,378,816.00
18	Public Health and Sanitation	7,300,290.00	10,271,180.00	10,271,180.00
	County Own Revenue	226,210,459.00	318,267,920.00	318,267,920.00
	Equitable Share of Revenue	7,248,000,000.00	7,536,000,000.00	7,912,800,000.00
	Conditional Grants	655,870,801.00	1,248,988,507.00	1,322,351,325.00
	TOTAL REVENUE	8,130,081,260.00	9,103,256,427.00	9,553,419,246.00

Source: Kwale County Treasury

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Table 14: Summary of County Revenue Envelope Showing the Grants types

SOURCE	FY 2018/19 ESTIMATES	FY 2019/20 PROJECTIONS	FY 2020/21 PROJECTIONS
EQUITABLE SHARE	7,536,000,000.00	7,912,800,000.00	8,704,080,000.00
COUNTY OWN SOURCE REVENUE	303,112,305.00	318,267,920.00	350,094,712.00
SUB TOTAL	7,839,112,305.00	8,231,067,920.00	9,054,174,712.00
CONDITIONAL GRANTS			
Allocation for Development of Youth Polytechnics	41,860,000.00	43,953,000.00	46,150,650.00
Compensation for user fee forgone	15,209,593.00	15,970,072.65	16,768,576.28
Leasing of medical equipment	200,000,000.00	210,000,000.00	220,500,000.00
Road maintenance levy	198,416,317.00	208,337,132.85	218,753,989.49
SUB TOTAL	455,485,910.00	478,260,205.50	502,173,215.78
LOANS AND GRANTS FROM DEVELOPMENT PARTNERS			
World Bank Grant on Kenya Devolution Support Programme	50,747,782.00	53,285,170.00	58,613,687.00
World Bank Grant for Universal Health Care Project	98,175,267.00	103,084,030.35	113,392,433.39
DANIDA Grant to Supplement Financing of County Health facilities	24,300,000.00	20,514,998.00	22,566,497.80
World bank loan for national agricultural and rural inclusive growth project	140,435,163.00	147,456,921.15	162,202,613.27
World Bank Grant for Kenya Urban Support Project	50,000,000.00	52,500,000.00	-
Water and Sanitation Development Project (WSDP)	400,000,000.00	420,000,000.00	-
EU grant for instruments for devolution advice and support	45,000,000.00	47,250,000.00	51,975,000.00
SUB TOTAL	808,658,212.00	844,091,119.50	408,750,231.45
TOTAL COUNTY REVENUE	9,103,256,427.00	9,553,419,245.00	9,965,098,159.23

Source: Kwale County Treasury

4.3.2 Expenditure Forecasts

92. In the financial year **2019/2020** overall expenditures are projected at **Ksh 9,553,419,246.00** up from the estimated total expenditure of **Ksh 9,103,256,427.00** in the **FY 2018/2019** budget. Recurrent expenditures are expected to increase to **Ksh 4.97 billion** from **Ksh 4.76 billion** in the current **FY 2018/19**.

93. Expenditure ceilings on goods and services for the sectors/departments are based on funding allocation in the FY 2018/19 budget. The ceilings will further be reduced taking into account one off expenditures in the FY 2018/19 budget and then an adjustment factor of not more than **10 per cent** is applied to account for the general increase in prices.

94. The ceilings for the development expenditures including donor funded projects will be pegged at **Ksh 4.58 billion** in FY 2019/2020 from **Ksh 4.34 billion** in the current FY2018/19. Most of the resources will be allocated to fund essential infrastructural development activities in the priority sectors of health, education, water and roads.

CHAPTER FIVE: CONCLUSION AND NEXT STEPS

94. The 2018 CBROP has provided lessons which could be utilized to ensure improvement in county absorption of funds and strengthen revenue performance. The implementation of the current financial year budget will be closed monitored through analyzing expenditures against approved budget on a quarterly basis and provide timely financial advice to County Government departments. Further the County Government will focus on containing non-core expenditures and prudently manage fiscal risks.

95. Going forward, the CIDP 2018-2022 shall be the main reference in setting of expenditure ceilings. The provisional ceilings and the strategic priorities shall be firmed up in the upcoming February 2018 County Fiscal Strategy Paper. Resource allocation framework in this paper which provides the provisional ceilings will guide Sector Working Groups in crafting of their budget proposals and plans. Sector Working Groups are advised to strictly adhere to the ceilings provided.

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Appendices

Appendix 1: Medium Term Recurrent Expenditure Framework for the period FY 2018/2019 – FY 2021/2022

SECTOR		Estimates 2018/19	Ceiling 2019/20	PROJECTIONS	
				2020/21	2021/22
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	229,869,340.15	232,259,519.00	255,485,470.90	281,034,017.99
Agriculture, Livestock and Fisheries	Sub Total	178,220,362.00	182,464,009.00	200,710,409.90	220,781,450.89
Environment and Natural Resources Management	Sub Total	51,648,978.15	49,795,510.00	54,775,061.00	60,252,567.10
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	97,614,717.05	170,020,745.00	187,022,819.50	205,725,101.45
Roads and Public Works	Sub Total	97,614,717.05	170,020,745.00	187,022,819.50	205,725,101.45
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	133,220,098.00	102,818,725.00	113,100,597.50	124,410,657.25
Tourism and Enterprise Development	Sub Total	133,220,098.00	102,818,725.00	113,100,597.50	124,410,657.25
HEALTH SERVICES	TOTAL	1,845,531,244.00	1,807,735,446.00	1,988,508,990.60	2,187,359,889.66
EDUCATION	TOTAL	760,689,521.00	706,116,688.00	776,728,356.80	854,401,192.48
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	1,508,911,287.01	1,550,815,971.00	1,705,897,568.10	1,876,487,324.91
County Assembly	Sub Total	559,534,853.08	485,769,408.00	534,346,348.80	587,780,983.68
County Executive Services	Sub Total	165,321,310.68	132,195,381.00	145,414,919.10	159,956,411.01
Public Service and Administration	Sub Total	275,646,430.95	324,142,458.00	356,556,703.80	392,212,374.18
Finance and Economic planning	Sub Total	462,800,335.00	574,394,280.00	631,833,708.00	695,017,078.80
County Public Service Board	Sub Total	45,608,357.30	34,314,444.00	37,745,888.40	41,520,477.24
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	117,971,069.00	108,053,112.00	118,858,423.20	130,744,265.52
WATER SERVICES	TOTAL	65,426,612.75	53,247,715.00	58,572,486.50	64,429,735.15
SUB TOTAL	TOTAL	4,759,233,888.96	4,731,067,921.00	5,204,174,713.10	5,724,592,184.41
Conditional Grants and Loans			240,104,271.00	-	-
GRAND TOTAL		4,759,233,888.96	4,971,172,192.00	5,204,174,713.10	5,724,592,184.41

County Budget Review and Outlook Paper 2018

Appendix 2: Medium Term Development Expenditure Framework for the period FY 2018/2019 – FY 2021/2022

SECTOR		Estimates 2018/19	Ceiling 2019/20	PROJECTIONS	
				2020/21	2021/22
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	491,085,163.00	389,500,000.00	428,450,000.00	471,295,000.00
Agriculture, Livestock and Fisheries	Sub Total	326,335,163.00	275,500,000.00	303,050,000.00	333,355,000.00
Environment and Natural Resources Management	Sub Total	164,750,000.00	114,000,000.00	125,400,000.00	137,940,000.00
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	726,677,650.61	751,000,000.00	826,100,000.00	908,710,000.00
Roads and Public Works	Sub Total	726,677,650.61	751,000,000.00	826,100,000.00	908,710,000.00
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	209,000,000.00	364,700,000.00	401,170,000.00	441,287,000.00
Tourism and Enterprise Development	Sub Total	209,000,000.00	364,700,000.00	401,170,000.00	441,287,000.00
HEALTH SERVICES	TOTAL	710,155,556.20	417,200,000.00	458,920,000.00	504,812,000.00
EDUCATION	TOTAL	610,407,166.00	510,600,000.00	561,660,000.00	617,826,000.00
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	220,535,293.00	339,500,000.00	373,450,000.00	410,795,000.00
County Assembly	Sub Total	93,000,000.00	93,000,000.00	102,300,000.00	112,530,000.00
County Executive Services	Sub Total	70,931,932.00	76,500,000.00	84,150,000.00	92,565,000.00
Public Service and Administration	Sub Total	48,603,361.00	120,000,000.00	132,000,000.00	145,200,000.00
Finance and Economic planning	Sub Total	8,000,000.00	50,000,000.00	55,000,000.00	60,500,000.00
County Public Service Board	Sub Total	0.00		0.00	0.00
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	213,048,889.00	286,500,000.00	315,150,000.00	346,665,000.00
WATER SERVICES	TOTAL	1,163,312,818.19	441,000,000.00	485,100,000.00	533,610,000.00
SUB TOTAL	TOTAL	4,344,222,536.00	3,500,000,000.00	3,850,000,000.00	4,235,000,000.00
Conditional Grants and Loans			1,082,247,054.00	-	-
GRAND TOTAL		4,344,222,536.00	4,582,247,054.00	3,850,000,000.00	4,235,000,000.00