

COUNTY GOVERNMENT OF TANA RIVER



THE COUNTY TREASURY



COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

April 2018

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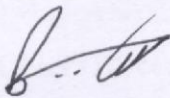
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FOREWORD

The 2017 County Budget Review and Outlook Paper (CBROP) was prepared by the County Treasury, it provides a review of the fiscal performance implemented by the County government of Tana River during the financial year 2016/2017. We have carried out comparisons of the budget appropriations in the same year and provide insight on recent economic developments and the updated economic and financial forecast along with information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP) of 2016.

The County Treasury continues to enforce the fiscal responsibility principles in accordance with the Constitution, and the Public Finance Management (PFM) Act, 2012, (Section 107).

The county government's recurrent and development expenditures remained within the legal thresholds as per the PFMA, 2012. However, recurrent related expenses like the rising wage bill without commensurate service delivery poses a major challenge to the County's development agenda. In addition, the county's growth and development agenda will largely depend on how well the programme based budget is implemented as well as how fast people and business get to full capacity and produce and sell at optimum levels.



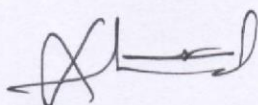
HON. MATHEW BABWOYA
Committee Executive Member,
Finance and Economic Planning.

ACKNOWLEDGEMENT

The 2017 edition of County Budget Review Outlook Paper (CBROP) was prepared in accordance with section 118 of the Public Finance Management Act, 2012 and is the fifth version since the inception of the County Government of Tana River.

I would like to acknowledge all the various departments for their tremendous contribution without which this document would not be a success. All the county departments were invited to submit their performance on expenditures for the period under review. This information was analyzed by the team lead by our Hon. CEC Finance and planning Mathew Babwoya, Chief Officer Finance and planning Ahmed Barako, Director Finance Francis Ngigi, Director Planning and budgeting Lennox Mbwana the Deputy Director HRM John Kimani, the Assistant Director internal auditor Charles Njuguna, Assistant Director vocational training Patrick Kiongo, the principal revenue officer Harrison Mabonye and data analyst Lulutya M.Sokorote. These officers spent significant amount of time putting together this CBROP.

Finally I am indebted to express my sincere gratitude to the entire staff of the County Treasury for their dedication and commitment during the entire exercise.



AHMED BARAKO

County Chief Officer – Finance and Economic Planning

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ABBREVIATIONS AND ACRONYMS

CBEF	County Budget and Economic Forum
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CBR	Central Bank Rates
CBROP	County Budget Review Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
COSR	County Own Source Revenue
CPSB	County Public Service Board
ERC	Energy Regulatory Commission
EYE	Early Years Education
FY	Financial Year
GDP	Gross Domestic Product
MTEF	Medium Term Expenditure Framework
MTP	Medium Tern Plan
OM	Operations and Maintenance
PE	Personnel Emolument
PFMA	Public Finance Management Act
SRC	Salaries and Remuneration Commission
VTCs	Vocational Training Centers

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Section I: Introduction

1. The Public Finance Management (PFM) Act, 2012 section 118 requires that among other responsibilities, the “County Treasury to prepare a County Budget Review Outlook Paper”. As such, this paper is prepared in accordance with this section of the PFM Act 2012. The Act requires that every county prepare a CBROP and submit it to the County Executive Committee (CEC) by 30th September of that financial year.
2. The CEC shall in turn:
 - i. Within fourteen days after submission, consider the CBROP with a view to approving it, with or without amendments.
 - ii. Within seven days after the CEC approval of the paper, the county treasury shall arrange for the paper to be laid before the County Assembly and after doing so, publish and publicize the paper.

Objectives of the CBROP

3. The objectives of the County Budget Review and Outlook Paper is to provide;
 - i. A review of the fiscal performance of the county in the financial year 2016/2017 in comparison to the appropriation (budgeted amount) of the year under review and its effects on the economic performance in county government of Tana River;
 - ii. An updated economic and financial forecast with sufficient information showing changes from the forecasts in the most recent County Fiscal Strategy Paper;
 - iii. Information on any changes in the forecasts compared with the CFSP;
 - iv. Reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and an estimation of the time needed to do so.
 - v. CBROP 2017 is organized in the following sections: section II covers a review of the county fiscal performance, section III indicates the recent economic development and outlook, and section IV covers the resource allocation framework. Meanwhile section V covers the conclusions.

Section II. Review of Fiscal Performance in Financial Year 2016/2017

A. Overview

4. This section provides an overview of the performance and implementation of the budget for the financial year 2016/2017 and how it affected compliance with the fiscal responsibility during implementation of the CFSP. This makes it useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as mapping out a way forward for Tana River County.
5. The FY 2016/2017 Approved budget for Tana River County was Kshs. 4,585,211,854, comprising of 48% recurrent expenditure amounting to Kshs. 2.227 billion and 52% development expenditure totaling to Kshs. 2.357 billion in addition to Ksh 407,623,310 related to the financial year 2015/16 that was not appropriated which was received in the FY 2016/17.
6. In order to finance the budget, the county received Kshs. 4,299,401,838 (93.76%) as equitable share, Kshs. 232,664,130 (5.07%) as conditional allocations, and targeted to raise Kshs. 60,000,000 as local sources.

B. Fiscal Responsibility

7. In observing the fiscal responsibility the PFMA section 15 states that;
 - i. Over medium term a minimum of thirty percent of the county government budget shall be allocated to development expenditure
 - ii. The county expenditure own wages and benefits for its public officers shall not exceed a percentage of the county revenue as prescribed by regulations
 - iii. Over medium term the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
 - iv. Public debts and obligations shall be maintained at a sustainable level as approved by the county assembly
 - v. Fiscal risks shall be managed prudently

- vi. A reasonable degree of creditability with respect to the level of taxes and tax bases shall be maintained, taking into account any tax reform that may be made in future

C. Fiscal Performance

- 8. The fiscal performance of the FY 2016/17 was below expectation mainly due to a number of challenges which included;
 - i. Delays in disbursement of funds from the national treasury
 - ii. Extreme underperformance in revenue collection
 - iii. Persistent drought and other calamities that led to deviation of resources

D. Revenue Sources

- 9. During the financial year under review the county had three sources of funding namely: conditional allocations; revenue raised nationally and county own revenue.

a. Conditional allocations

Table 1: Aggregate fiscal Performance 2015/16- 2016/17

Revenue Summary	Approved estimates		Actual performance
	2015/16	2016/17	2016/17
Equitable share	3,984,569,971	4,299,401,838	4,299,401,839
Local revenue	120,000,000	60,000,000	28,333,899
Conditional Grants	189,085,630	225,810,016	225,810,015
Transfer from Ministry of health	-	-	35,154,000
Balance B/F	-	407,623,309	407,623,309
Total Revenue	4,293,655,601	4,992,835,163	4,996,323,062
Personnel Emoluments	1,330,212,199	1,452,269,675	1,289,660,971
Operational and Maintenance	437,284,394	795,286,019	1,386,179,398
Development	2,526,159,008	2,745,279,469	2,131,470,765
Balance B/F	-	-	26,429,814
Total Expenditure	4,293,655,601	4,992,835,163	4,833,740,948
VARIANCE	-	-	(162,582,114)

Source: County Treasury

An expenditure report of the conditional grants is yet to be availed by the department concerned.

b. Equitable Share of Revenue Raised Nationally

10. During the FY 2016/2017 the exchequer released 100% of the equitable share revenue to the county government of Tana River amounting to **4,585,211,854**. Additional Kshs.407,623.310 was not appropriated in the FY 2015/16 but latter appropriate in the supplementary budget of the FY 2016/17.

c. County Own Source Revenue (COSR)

11. The revenue collection for the financial year 2016/17 amounted to Kshs 28,333,899 (balance as per the cashbook) which constituted 47.22% of the budget target amounting to Kshs. 60,000,000. However, Kshs 25,852,357 was banked in the financial year 2016/17 while a balance of Kshs 2,481,547 was spent at source contrary to the provisions of the PFM Act. The table below shows the actual revenue collection by the County Department of Revenue during the FY 2016/2017

Table 2: Revenue Analysis

COLLECTION STREAM	Revenue Type	Actual Performance 2014/15	Estimates 2015/16	Actual Performance 2015/16	% Performance 2015/16	Deviation 2015/16 Estimates	2014/15 & 2015/16 Growth	2014/15 & 2015/16 Growth
CESS REVENUE								%
	Hides & skins	6,900	500,000	9,230	134	490,770	2,330	-3
	Charcoal	3,505,915	1,230,000	6,272,170	179	-5,042,170	2,766,256	-8
	Fish	53,650	200,000	137,256	256	62,744	83,606	-1
	fruits/Mango	1,634,399	2,800,000	2,104,198	129	695,802	469,799	-18
	Rice & paddy	0	600,000	0		600,000	0	
	Ghee & milk	500	200,000	0	0	200,000	-500	-1
	Crocodile eggs	220,000	1,800,000	47,400	22	1,752,600	-172,600	-11
	Maize	99,255	2,500,000	1,707,753	1,721	792,247	1,608,498	-16
	Export	2,273,480	3,800,000	890,840	39	2,909,160	-1,382,640	-24
	Miraa	991,000	800,000	151,508	15	648,492	-839,492	-5
	Sand	1,073,000		1,074,300	100	-1,074,300	1,300	0
	Gypsum	4,926,000	6,200,000	1,465,000	30	4,735,000	-3,461,000	-40
	Others	268,840	1,000,000	1,201,830	447	-201,830	932,990	-6
	SUB TOTAL	15,052,939	21,630,000	15,061,485	100	6,568,515	8,547	-138
LAND REVENUE								
	Plot rent	480,592	1,500,000	470,580	98	1,029,420	-10,012	-10
	plot registration fees	89,000	300,000	645,460	725	-345,460	556,460	-2
	plot transfer fees	46,000	500,000	245,700	534	254,300	199,700	-3
	land application fees	48,000	700,000	244,200	509	455,800	196,200	-4
	land lease fees	0	3,200,000	0		3,200,000	0	
	Area rates	254,620		334,836	132	-334,836	80,216	0
	SUB TOTAL	918,212	6,200,000	1,940,776	211	4,259,224	1,022,564	-40
SINGLE						0	0	

BUSINESS PERMITS								
	Application fees	11,900	500,000	7,489	63	492,511	-4,411	-3
	permit fees	3,308,000	6,000,000	5,488,905	166	511,095	2,180,905	-38
	Liquor Licences	89,000		179,000	201	-179,000	90,000	0
	Motor Bike	407,600		2,138,100	525	-2,138,100	1,730,500	0
	SUB TOTAL	3,816,500	6,500,000	8,462,494	222	-1,962,494	4,645,994	-41
	A.I.A (Health facilities)	109,455	10,000,000	255,310	233	9,744,690	145,855	-64
OTHER FEES AND CHARGES						0	0	
	Bus park fees	700	700,000	332,025	47,432	367,975	331,325	-4
	Toll fees	109,650		438,124	400	-438,124	328,474	0
	Grazing fees	223,623	450,000	131,370	59	318,630	-92,253	-3
	Market Fees	26,500	1,500,000	9,350	35	1,490,650	-17,150	-10
	Slaughter Fees	22,000	1,200,000	24,700	112	1,175,300	2,700	-8
	Auction fees	1,911,625	2,500,000	1,101,615	58	1,398,385	-810,010	-16
	water charges/House Rent	86,800	0	41,590	48	-41,590	-45,210	0
	Daily Advertising Fees	0	20,000	24,000		-4,000	24,000	
	Conservancy fees	19,600	80,000	10,500	54	69,500	-9,100	-1
	Dev appl fee	0	800,000	91,850		708,150	91,850	
	Plan appv. Fees	7,500	300,000	17,550	234	282,450	10,050	-2
	Promotions	18,000		47,500	264	-47,500	29,500	0
	Penalty on Building Plans	0	400,000	5,000		395,000	5,000	
	Physical planning			0		0	0	
	Renewal/ Extension of Lease	0	180,000	3,000		177,000	3,000	
	Survey Fees	0	50,000	2,000		48,000	2,000	
	Plot Sub-letting/Plot Sub-division	0	1,500,000	0		1,500,000	0	

	PPI Forms	0	400,000	1,000		399,000	1,000	
	Interest from bank(savings)	0	500,000	3,500		496,500	3,500	
	Inspection Fee	14,100	2,200,000	312,160	2,214	1,887,840	298,060	-14
	Consent to mining	251,000	2,890,000	0	0	2,890,000	-251,000	-18
	Tender			17,000		-17,000	17,000	
	SUB TOTAL	2,691,098	15,670,000	2,613,834	97	13,056,166	-77,264	-100
	TOTAL	22,588,203	60,000,000	28,333,899	125	31,666,101	5,745,696	-383

Common Causes For Revenue Under Performance

12. Poor performance of local revenue during the financial year 2016/17 was attributed to a number of constraints as described below;

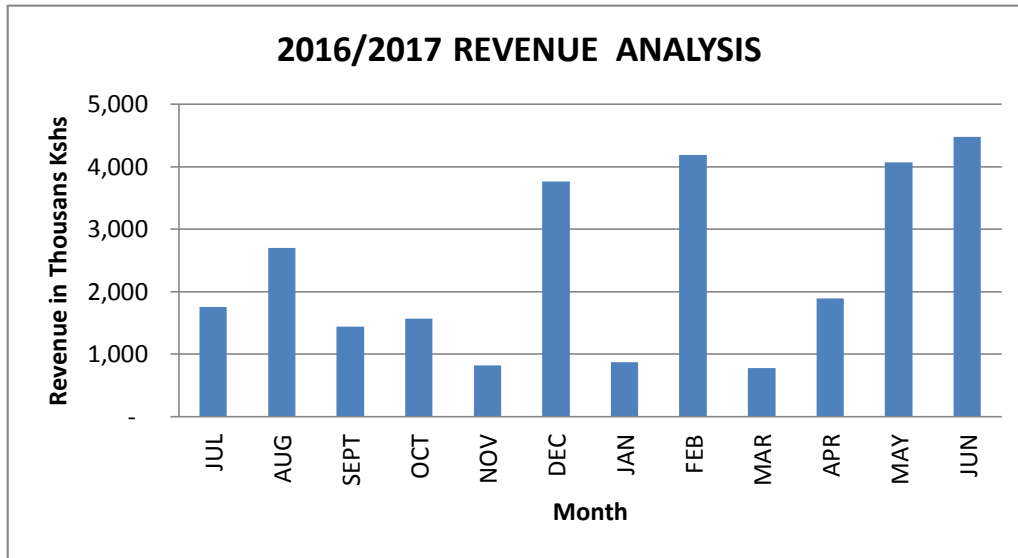
- i. Delay in automation of revenue collection: The administration of revenue collection in the county is done manually. These manual revenue collection mechanisms have created loopholes leading to loss of revenue and adverse inefficiency.
- ii. Lack of political good will on revenue collections: local political leaders had consistently interfered with revenue collection processes as well as revenue administrative regulations making it difficult for revenue staff to effectively execute their work.
- iii. Inadequate vehicle for supervision: due to vastness of the county the need for adequate and reliable mobility is paramount in revenue administration.
- iv. Inadequate and ineffective enforcement on revenue collections: there had been a chronic laxity amongst the officers concerned in ensuring seamless adherent to revenue administration procedures.
- v. Revenue cartels: there exist illegal groupings in management of resource endowed areas who denies the county access collect to revenue e.g. Meti and Kurawa Marram harvesting quarries, sand mining at Hola and Madogo among others.
- vi. Inadequate staff capacity: majority of revenue collectors in the county are commission agents whom are paid 15% of daily collection while there are no regular training for staff empowerment.

13. In light of these bottlenecks, the Directorate of Revenue, which is charged with revenue administration, collection and management, has put in place measures to address these issues. The department has planned for recruitment in key posts; it is in the process of automating the revenue collection system that will also include resource mapping that will arrest loopholes in collection streams that are not being captured in the current system; the department will also embark on a citizen sensitization exercise (especially the business community) to enable them understand the importance of paying revenue; and lastly the department will, with the help of the legal department and the county assembly, seek to have legislation passed to govern the collection of revenue and the obligations involved therein.

The targeted local revenue collection for the FY 2017/2018 is Kshs. 60,000,000. With the aforementioned recommendations put in place, the target should be achievable by end of the financial year.

14. The graph below shows an analysis of revenue collection for the period under review:

Fig 1: 2016/2017 revenue analysis



Source: County Directorate of Revenue

15. As indicated in the above diagram, in the FY 2016/2017, the highest monthly revenue collection occurred in two seasons; the 1st season occurred in December to February probably due to high mango harvest, high transportation of charcoal outside the county and issuing of single business permit that prompted high revenue collection. The 2nd season occurred during months of May and June which is attributed to same factors just like in the first season. The department is working on an analytical survey to determine the factors that affect revenue collection trend within the county throughout the year.

County Expenditure Performance

16. The total approved expenditure for the financial year was Kshs. 4,585,211,854, comprising of Kshs. 2.227 billion (48%) recurrent expenditure and Kshs. 2.357 billion development expenditure. As per the data provided by the County Treasury on the final accounts, the total expenditure was Kshs. 4,819,430,804. This represents a 0.051% deficit, met by balance carried forward from FY 2015/2016.

Table 3: Approved Estimates and Expenditures Analysis for FY 2016/2017

Department		CFSP 2016/2017 Ceilings (a)	Final Approved Estimates (b)	Actual Expenditure 2016/2017 (c)	Deviation from CFSP (b-a)	Deviation from approved estimates (c-b)	Absorption rate (c/b*100)
County Assembly	Sub-Total	540,529,674	689,258,883	486,953,974	148,729,209	(202,304,909)	71
	Rec	442,442,874	462,442,874	421,048,146	20,000,000	(41,394,728)	91
	Dev	98,086,800	226,816,009	65,905,828	128,729,209	(160,910,181)	29
Office of the Governor	Sub-Total	465,489,630	376,777,552	571,908,798	(88,712,078)	195,131,246	152
	Rec	369,283,988	369,283,988	476,855,936	-	107,571,948	129
	Dev	96,205,642	7,493,564	95,052,862	(88,712,078)	87,559,298	1,268
Finance and Economic Planning	Sub-Total	177,553,496	334,075,673	347,630,449	156,522,177	13,554,776	104
	Rec	118,000,822	324,245,173	337,799,949	206,244,351	13,554,776	104
	Dev	59,552,674	9,830,500	9,830,500	(49,722,174)	-	100
Education vocational training & Sports	Sub-Total	422,405,651	421,064,425	656,971,041	(1,341,226)	235,906,616	156
	Rec	183,951,642	135,993,754	124,561,700	(47,957,888)	(11,432,054)	92
	Dev	238,454,009	285,070,671	532,409,341	46,616,662	247,338,670	187
Health and Sanitation	Sub-Total	920,479,030	1,111,388,346	948,592,794	190,909,316	(162,795,552)	85
	Rec	536,738,893	532,773,086	528,979,400	(3,965,807)	(3,793,686)	99
	Dev	383,740,137	578,615,260	419,613,394	194,875,123	(159,001,866)	73
Water	Sub-Total	263,141,642	393,594,232	375,386,749	130,452,590	(18,207,483)	95
	Rec	49,343,252	40,002,167	37,550,710	(9,341,085)	(2,451,457)	94
	Dev	213,798,390	353,592,065	337,836,039	139,793,675	(15,756,026)	96
Lands	Sub-Total	62,328,752	36,001,444	9,637,615	(26,327,308)	(26,363,829)	27
	Rec	27,895,539	15,672,842	9,637,615	(12,222,697)	(6,035,227)	61
	Dev	34,433,213	20,328,602	0	(14,104,611)	(20,328,602)	0
Agriculture	Sub-Total	256,098,964	122,856,589	110,501,117	(133,242,375)	(12,355,472)	90
	Rec	78,019,432	57,687,579	58,264,023	(20,331,853)	576,444	101
	Dev	178,079,532	65,169,010	52,237,094	(112,910,522)	(12,931,916)	80
Livestock production	Sub-Total	60,436,301	25,826,119	19,894,665	(34,610,182)	(5,931,454)	77

	Rec	29,692,769	23,461,643	19,172,091	(6,231,126)	(4,289,552)	82
	Dev	30,743,532	2,364,476	722,574	(28,379,056)	(1,641,902)	31
Veterinary	Sub-Total	130,752,212	41,069,492	18,594,160	(89,682,720)	(22,475,332)	45
	Rec	49,408,619	30,563,028	18,594,160	(18,845,591)	(11,968,868)	61
	Dev	81,343,593	10,506,464	0	(70,837,129)	(10,506,464)	0
Fisheries	Sub-Total	30,322,572	10,462,906	6,896,843	(19,859,666)	(3,566,063)	66
	Rec	13,363,122	9,381,740	6,896,843	(3,981,382)	(2,484,897)	74
	Dev	16,959,450	1,081,166	0	(15,878,284)	(1,081,166)	0
Environment & Natural Resources	Sub-Total	58,480,077	59,748,308	42,147,984	1,268,231	(17,600,324)	71
	Rec	31,130,075	22,413,068	14,113,136	(8,717,007)	(8,299,932)	63
	Dev	27,350,002	37,335,240	28,034,848	9,985,238	(9,300,392)	75
Cohesion & Special Programme	Sub-Total	151,563,025	440,024,998	550,212,356	288,461,973	110,187,358	125
	Rec	49,343,252	48,378,069	38,470,266	(965,183)	(9,907,803)	80
	Dev	102,219,773	391,646,929	511,742,090	289,427,156	120,095,161	131
Gender, Culture and Social Services	Sub-Total	162,426,256	34,797,992	32,992,573	(127,628,264)	(1,805,419)	95
	Rec	45,544,139	29,012,724	31,262,665	(16,531,415)	2,249,941	108
	Dev	116,882,117	5,785,268	1,729,908	(111,096,849)	(4,055,360)	30
Trade, Tourism, and industry	Sub-Total	301,297,133	167,745,207	123,705,198	(133,551,926)	(44,040,009)	74
	Rec	71,299,025	36,423,723	31,066,845	(34,875,302)	(5,356,878)	85
	Dev	229,998,108	131,321,484	92,638,353	(98,676,624)	(38,683,131)	71
Roads & Public Works	Sub-Total	452,189,935	653,548,627	451,817,155	201,358,692	(201,731,472)	69
	Rec	48,992,733	43,010,441	33,730,597	(5,982,292)	(9,279,844)	78
	Dev	403,197,202	610,538,186	418,086,558	207,340,984	(192,451,628)	68
Urban development	Sub-Total	68,623,223	21,837,580	17,937,696	(46,785,643)	(3,899,884)	82
	Rec	22,011,237	14,053,003	10,357,209	(7,958,234)	(3,695,794)	74
	Dev	46,611,986	7,784,577	7,580,487	(38,827,409)	(204,090)	97
County Public Service Board	Sub-Total	61,094,281	52,756,792	41,529,968	(8,337,489)	(11,226,824)	79
	Rec	61,094,281	52,756,792	41,529,968	(8,337,489)	(11,226,824)	79
	Dev	-	-	-	-	-	0

	Total Rec	2,227,555,694	2,247,555,694	2,239,891,259	20,000,000	(7,664,435)	100
	Total Dev	2,357,656,160	2,745,279,471	2,573,419,876	387,623,311	(171,859,595)	94
	GRAND TOTAL	4,585,211,854	4,992,835,165	4,813,311,135	407,623,311	(179,524,030)	96

Source: Tana River County Treasury

17. From the above tabulation, it is observed that the highest allocation of development funds during the financial year under review were the departments of Roads & Public Works and the Health & Sanitation department amounting to Kshs. 610,538,186 and Kshs. 578,615,260 respectively while the office of the governor, departments of education and special programs had exceeded the approved ceiling on the development estimates with a higher absorption rate of 1,268%, 187% and 131% respectively having spent Ksh 95,052,862, Ksh 532,409,341 and Ksh 511,742,090 in that order.

Implication of 2016/2017 Implementation

Fiscal Performance on the Fiscal Responsibilities and Financial Objectives Contained in the CFSP of 2016

18. The performance of the county is dependent on the country's economic performance as well as formulation and implementation of prudent policies by the county government.

Recent Development

19. In the FY 2015/2016 the allocation for major development amounted to Ksh 2,745,279,470.

The allocation was distributed amongst various departments to implement major program aimed at sprouting economic activities within the county.

20. The largest amount of the development budget in the FY 2016/2017 was spent on improvement of health services. The department of Health, Water and sanitation committed significant funds into revamping the available health facilities such as Hola Referral Hospital, as well as constructing new health facilities in other areas of the county such as Garsen and Wayu. The department also undertook construction and rehabilitation of staff quarters to cater for the new health officers recruited during the period under review. The department also embarked on a comprehensive strategy to improve the health care system through immunization, child health, screening for communicable conditions, antenatal care among others. Other key achievement include provision of medicine in public hospitals, installation of standby generator and purchase of assorted furniture for health services

21. One of the main development challenges in the county is accessibility to clean water and to address this, the department embarked on a mission to construct water pans, drill boreholes as well as maintaining the existing supply and reservation systems. In addition a strategy to

improve water storage was implemented through supplying of water storage tanks to affected areas.

22. The department of roads and public works also played a key role in provision of necessary infrastructure and related services for economic advancement. This included opening up of new roads and 12 bridges; rehabilitation of 45KMs of road; completion of construction of 15KMs new tarmac roads within Hola Township; construction of flood mast; unblocking and constructing storm water drains. Constructions of access roads have greatly improved accessibility to health centers, markets places as well as movement of human capital to all parts of the county.
23. Agriculture being the highest contributor to the county economy, significant efforts was made to boost the sector through purchase and distribution of high valued satisfied seeds, pesticides, fertilizers and tractors. In addition the department also engaged in construction of livestock market. This has led to improved production in the agriculture sector. However strategies to ensure value addition of both agriculture and livestock products need to be put in place. As such strategies can result to agriculture sector creating new sources of revenue and job creation.
24. Security is a key pillar to development, to this regard the county significantly invested in ensuring there is security for all through installation of CCTV cameras and flood lights in major town centers.
25. To improve the retention rate in EYE the department of Education and Vocational Training established a school feeding and bursary programs. In addition the department put in place measures to address the rate of unemployment among the youths through provision of best employable skill training and equipping of vocational training centers with modern tools and equipment.
26. The department of trade, tourism and industry has identified new tourist sites aiming at increased numbers of local tourist which has multiplier effect on the economy. In addition construction/rehabilitation of fresh produce market and several bodaboda shades were executed to promote small business enterprise development.
27. During the FY 2015/16 there were several non-core expenditures which were necessary to ensure effective and efficient execution of administrative services. They included

construction and refurbishment of offices, purchase of furniture, computers and other office equipment's, and purchase of vehicles.

28. Poor performance on collection of county own revenue for the financial year 2016/17 had implications on the resource envelope indicating some of the budgeted expenditure were not implemented and the bases for revenue projected for FY 2017/2018 might be adversely affected. The current revenue trend has been taken into consideration and necessitated the mapping of own revenue sources.
29. The over-spending in both recurrent and development expenditures estimates for the FY 2016/2017 was over Kshs.2billion has implication on the project expenditures in the FY 2017/2018 and the medium term. Corrective revisions will have to be made on the 2017/2018 budget to accommodate the pending bills and the projected expenditure in the CFSP be modified to reflect the revisions.

Recent Economic Developments and its Outlook

Overview

30. The Kenyan economy remains resilient and registered a growth of 5.8% in 2016, marking an improvement from the previous year when GDP growth stood at 5.7%. This was above average compared with other economies in the Sub Saharan Africa. The maintained growth was as a result of increased output in most sectors due to the on-going public infrastructure spending, favorable weather condition, stable and low inflation during the year due to reduced costs of petroleum products and tight monetary policies; remarkable recovery in tourism industries from improved security and strong consumer demand.
31. The rate of inflation in the financial year under review was relatively high. A higher of at 8% inflation was reported in the month of December 2015 while the least was recorded at 5% in May 2016. The increase was attributed to rise in cost of food and alcoholic drinks and transport cost due to depressed supply.
32. The Kenya shilling exchange rate remained stable against major international currencies. In September 2015 the Kenya shillings compared with the US dollar had really depreciated to an exchange rate of ksh 108 against the dollar. As compared to the regional currencies the Kenya shillings exchange rate remained stable due to resilient receipts from tea and

horticultural exports. Additionally, receipts from tourism, coffee export and diaspora remittances remained strong.

Interest Rates

33. The central bank rate (CBR) was retained at 10% to anchor inflationary expectations. The interbank rates dropped from 20% on September 2015 to a low of 4% in May 2016 while the 91-day Treasury bill rate dropped from 21% to 7% in June 2016.
34. The rate of inflation took a downward trend from 6.9% in 2014 to 6.6% in 2015 mainly due to lower energy and transport prices as effected by the Energy Regulatory Commission (ERC). The Kenya shilling depreciated against its major trading currencies during the period under review but appreciated against the Euro, South Africa Rand and the Japanese Yen.
35. The County generally operated under a stable macroeconomic environment

Economic Risks

36. Despite slow economic growth in Tana River County, the economy of Tana River is prone to both macro-economic and micro-economic risks.

a. Macro-economic risks include;

- i. Sluggish growth in advanced economies that weigh on Kenya's export activities and the tourism sector. Such an impact will have a ripple effect on the County's economy seeing as 99% of the County's revenue comes from the National Government.
- ii. Continued depreciation of the Kenya shilling against its major exchange partners, especially the US dollar had a negative effect on the Consumer price index inflation leading to increased inflation and increased interest rates.
- iii. The effects of the 2017 General elections contributed to the sluggish growth of the economy and had a negative trend on revenue collections to fund government expenditures.

b. Micro-economic risks include;

37. Agriculture and livestock production in the county has been affected by extreme and unreliable weather. These factors have worsened the food insecurity situation in the county. Our county suffered major loses since pastoralist is a major economic activity and was adversely affected by the prolonged draught.

38. Accessibility to key areas of the county has been a challenge due dilapidated road network. The main roads of Garsen – Hola, Hola - Garissa which fall under the jurisdiction of the national government are being reconstructed. The poor roads cause delays in deliveries and increase in transport costs that are in turn transferred to the consumer, with prices varying upward to 20% on some products as compared to recommended retail prices in other areas.
39. The new county government will undertake appropriate measures to put the county economy on the growth path.

Section IV: Resource Allocation Framework

40. This section sets out how the county government of Tana River intends to live within its means. It establishes the resource envelop or total revenue it expects, it also allocates this budget resources across government departments and agencies by setting expenditure limits of ceilings for each county department/agency.
41. In order to ensure effective utilization of public finances, resource allocation will be guided by the following;
- i. PFMA, 2012
 - ii. Ongoing projects
 - iii. Emerging priorities
 - iv. County Integrated Development Plan (CIDP II)
 - v. Medium term plan III (2018 - 2022)

Adjustment to the 2017/2018 FY budget

42. Adjustments to the 2017/2018 budget will be based on the actual performance of the expenditure thus far and the absorption capacity in the remainder of the financial year. Due to the resource constraint, the county will rationalize expenditures by cutting those that are non-core. Resources earmarked for development purposes will however remain as such, and will be utilized only for development projects.
43. The Tana river county treasury will make adjustments to the 2017/2018 FY Budget taking into consideration the changes made as a result of the change of administration which will include reorganizing the budget to comply with the structure announced by his excellency the Governor. The County treasury will also realign the Budget to cater for the priorities of the new administration.

44. Given the performance of the FY 2016/2017 which was characterized by underperformance in collection of own source revenue (OSR) where 47.22% was collected against a target of 60 Million. The county shall roll out reforms in the revenue collections and administration that may aim at expanding its revenue base and complemented with improvement in revenue collections through automation. Meanwhile OSR target may be revised downwards considering that the prolonged 2017 electioneering period has subsequently affected revenue collection due to the uncertainties that came with it.
45. The county treasury may appropriate monies to offset the pending bills capture in the assumption of the office committee amounting to approximately Ksh 1.7 Billion. This may be accompanied with a special audit to ensure that only vendors/contractors who have genuinely rendered their services will be paid. The current wage bill will be reviewed with the aim of checking the authenticity of both contractual and permanent staff, their statutory deductions with a view of filling the gaps in the staff establishment in the subsequent financial years. However, all county departments will be required to optimally use their existing human resources to discharge their respective mandate. The county treasury will endeavor to incorporate the development priorities of the new administration in the remaining part of the implementation of the current financial year's budget.

The Medium Term Expenditure Framework

46. This subsection explains adjustment that will be made to the budget over the immediate and the following two years. The county will continue to implement the medium term expenditure framework (MTEF) through policies, projects, and programs set out in the annual development plans, county fiscal strategy papers anchored in the respective county integrated development plans.
47. The county will continue to invest in infrastructure, quality and affordable universal health care, education, urban planning and development, good governance among others so as to consolidate the gains made for the last four years. The table below provides projected baseline ceilings and the 2017/2018 to 2020/2021 MTEF by sector.

Table 4: Medium Term Expenditure Ceilings 2018/19 to 2020/21						% Share of Total Expenditure			
DEPARTMENT / SECTOR		Final Approved Estimates	Ceilings	Projections		Final Approved Estimates	Ceilings	Projections	
				2017/18	2018/19			2019/20	2020/21
Office Of The Governor and The Deputy Governor	Sub-Total	563,220,935	527,705,436	580,475,980	638,523,578	10.54	9.48	9.22	9.69
	Rec	489,687,521	507,705,436	558,475,980	614,323,578	9.16	9.12	8.91	9.38
	PE. Gross	258,404,900	236,759,328	260,435,261	286,478,787	4.83	4.25	4.68	5.15
	OM. Gross	231,282,621	270,946,108	298,040,719	327,844,791	4.33	4.87	4.23	4.23
	Dev. Gross	73,533,414	20,000,000	22,000,000	24,200,000	1.38	0.36	0.31	0.31
Special Programs	Sub-Total	325,903,320	92,319,766	101,551,743	111,706,917	6.10	1.66	1.44	1.44
	Rec	285,532,963	82,319,766	90,551,743	99,606,917	5.34	1.48	1.29	1.29
	PE. Gross	9,681,720	9,875,354	10,862,889	11,949,178	0.18	0.18	0.15	0.15
	OM. Gross	275,851,243	72,444,412	79,688,853	87,657,739	5.16	1.30	1.13	1.13
	Dev. Gross	40,370,357	10,000,000	11,000,000	12,100,000	0.76	0.18	0.16	0.16
County Public Service Board	Sub-Total	65,195,069	64,861,601	71,347,761	78,482,537	1.22	1.17	1.01	1.01
	Rec							1.01	

		65,195,069	64,861,601	71,347,761	78,482,537	1.22	1.17		1.01
	PE. Gross	35,712,936	36,557,856	40,213,642	44,235,006	0.67	0.66	0.57	0.57
	OM. Gross	29,482,133	28,303,745	31,134,120	34,247,531	0.55	0.51	0.44	0.44
	Dev. Gross	-	-	-	-	-	-	-	-
Education and Vocational Training	Sub-Total	610,645,507	676,293,500	743,922,850	818,315,135	11.42	12.15	10.56	10.56
	Rec	363,394,594	332,993,500	366,292,850	402,922,135	6.80	5.98	5.20	5.20
	PE. Gross	76,744,192	132,544,000	145,798,400	160,378,240	1.44	2.38	2.07	2.07
	OM. Gross	286,650,402	200,449,500	220,494,450	242,543,895	5.36	3.60	3.13	3.13
	Dev. Gross	247,250,913	343,300,000	377,630,000	415,393,000	4.63	6.17	5.36	5.36
Youth, Sports, Gender, Culture and Social Services	SUB-TOTAL	58,360,230	291,649,500	320,814,450	352,895,895	1.09	5.24	4.55	4.55
	Rec	24,767,755	70,649,500	77,714,450	85,485,895	0.46	1.27	1.10	1.10
	PE. Gross	5,305,640	21,000,000	23,100,000	25,410,000	0.10	0.38	0.33	0.33
	OM. Gross	19,462,115	49,649,500	54,614,450	60,075,895	0.36	0.89	0.78	0.78

	Dev. Gross	33,592,475	221,000,000	243,100,000	267,410,000	0.63	3.97	3.45	3.45
Medical Services, Public Health and Sanitation	Sub-Total	1,030,523,359	1,276,382,684	1,404,020,952	1,544,423,048	23.01	22.94	19.92	19.92
	Rec	905,100,563	1,176,382,684	1,294,020,952	1,423,423,048	16.93	21.14	18.36	18.36
	PE. Gross	746,730,304	752,349,864	827,584,850	910,343,335	13.97	13.52	11.74	11.74
	OM. Gross	158,370,259	424,032,820	466,436,102	513,079,712	2.96	7.62	6.62	6.62
	Dev. Gross	324,954,612	100,000,000	110,000,000	121,000,000	6.08	1.80	1.56	1.56
Agriculture, Livestock, Fisheries, Veterinary	Sub-Total	636,760,375	465,111,776	511,622,954	562,785,249	11.91	8.36	7.26	7.26
	Rec	294,262,276	316,611,776	348,272,954	383,100,249	5.50	5.69	4.94	4.94
	PE. Gross	85,033,880	85,033,880	93,537,268	102,890,995	1.59	1.53	1.33	1.33
	OM. Gross	209,228,396	231,577,896	254,735,686	280,209,254	3.91	4.16	3.62	3.62
	Dev. Gross	342,498,099	148,500,000	163,350,000	179,685,000	6.41	2.67	2.32	2.32
Water, Irrigation Environment and Natural Resources	Sub-Total	640,264,849	472,103,746	519,314,121	571,245,533	11.98	8.48	7.37	7.37
	Rec	178,588,130	172,103,746	189,314,121	208,245,533	3.34	3.09	2.69	2.69

	PE. Gross	25,641,120	43,475,880	47,823,468	52,605,815	0.48	0.78	0.68	0.68
	OM. Gross	152,947,010	128,627,866	141,490,653	155,639,718	2.86	2.31	2.01	2.01
	Dev.Gross	461,676,719	300,000,000	330,000,000	363,000,000	8.64	5.39	4.68	4.68
Roads, Transport, Public Works, Housing And Urban Development	Sub-Total	758,641,629	416,609,568	458,270,525	504,097,577	14.19	7.49	6.50	6.50
	Rec	115,741,986	81,763,825	89,940,208	98,934,228	2.17	1.47	1.28	1.28
	PE. Gross	18,966,360	19,345,687	21,280,256	23,408,281	0.35	0.35	0.30	0.30
	OM. Gross	96,775,626	62,418,138	68,659,952	75,525,947	1.81	1.12	0.97	0.97
	Dev.Gross	642,899,643	334,845,743	368,330,317	405,163,349	12.03	6.02	5.23	5.23
Public Service, Administration and Citizen Participation	Sub-Total		181,116,988	199,228,687	219,151,555	-	3.25	2.83	2.83
	Rec	-	106,116,988	116,728,687	128,401,555	-	1.91	1.66	1.66
	PE. Gross	-	62,167,488	68,384,237	75,222,660	-	1.12	0.97	0.97
	OM. Gross	-	43,949,500	48,344,450	53,178,895	-	0.79	0.69	0.69
	Dev.Gross	-	75,000,000	82,500,000	90,750,000	-	1.35	1.17	1.17

Finance and Economic Planning	Sub-Total	286,239,460	395,649,449	435,214,394	478,735,833	5.35	7.11	6.18	6.18
	Rec	266,239,460	365,649,449	402,214,394	442,435,833	4.98	6.57	5.71	5.71
	PE. Gross	69,710,931	85,442,211	93,986,432	103,385,075	1.30	1.54	1.33	1.33
	OM. Gross	196,528,529	280,207,238	308,227,962	339,050,758	3.68	5.04	4.37	4.37
	Dev.Gross	20,000,000	30,000,000	33,000,000	36,300,000	0.37	0.54	0.47	0.47
Trade, Tourism & Wildlife And Cooperative Development	Sub-Total	207,523,640	214,066,345	235,472,980	259,020,277	3.88	3.85	3.34	3.34
	Rec	51,523,640	139,466,345	153,412,980	168,754,277	0.96	2.51	2.18	2.18
	PE. Gross	13,902,560	21,102,560	23,212,816	25,534,098	0.26	0.38	0.33	0.33
	OM. Gross	37,621,080	118,363,785	130,200,164	143,220,180	0.70	2.13	1.85	1.85
	Dev.Gross	156,000,000	74,600,000	82,060,000	90,266,000	2.92	1.34	1.16	1.16
Lands and Physical Planning	Sub-Total	59,260,839	34,790,709	38,269,780	42,096,758	1.11	0.63	0.54	0.54
	Rec	41,712,839	15,487,115	17,035,827	18,739,409	0.78	0.28	0.24	0.24
	PE. Gross	1,222,020	5,749,860	6,324,846	6,957,331	0.02	0.10	0.09	0.09

	OM. Gross	40,490,819	9,737,255	10,710,981	11,782,079	0.76	0.17	0.15	0.15
	Dev. Gross	17,548,000	19,303,594	21,233,953	23,357,349	0.33	0.35	0.30	0.30
County Assembly	Sub-Total	552,495,177	506,000,000	556,600,000	612,260,000	1.83	9.09	7.90	7.90
	Rec	-	456,000,000	501,600,000	551,760,000	-	8.19	7.12	7.12
	PE. Gross		-	-	-	-	-	-	-
	OM. Gross		456,000,000	501,600,000	551,760,000	-	8.19	7.12	7.12
	Dev. Gross	98,000,000	50,000,000	55,000,000	60,500,000	1.83	0.90	0.78	0.78
	Bal Bfd.	-		-					
	Bal Bfr.			-					
Conditional Grant	Sub-Total	389,634,389	918,365,832						
County Assembly	Sub-Total		556,000,000						
TOTAL	OM. Gross	1,734,690,233	2,376,707,763	3,163,398,033	3,479,737,836	32.45	42.71	44.89	44.89
	Dev. Gross	2,360,324,232	1,676,549,337	2,231,487,168	2,454,635,884	44.16	30.13	31.67	31.67

	PE. Gross	1,347,056,563	1,511,403,968	1,651,681,475	1,816,849,623	25.20	27.16	23.44	23.44
GRAND TOTAL		5,345,400,000	5,564,661,068	7,046,566,676	7,751,223,343	57.65	69.87	76.56	76.56
		5,795,034,389	6,483,026,900						

Proposed 2018/2019 Budget Framework

48. The 2018/2019 budget framework is guided by the updated medium term macro-fiscal framework outlined in the table above.

Revenue Outlook

49. The resource envelop will comprise of a total of Ksh6.4 Billion which comprises of Equitable share of revenue raised nationally of Ksh5.5 Billion, conditional grants amounting to Ksh868 Million. Meanwhile the county treasury is projecting to collect Ksh60 Million as OSR. However, these estimates shall be firmed up by the Budget Policy Statement (BPS), County Allocation of Revenue Act 2018 and approved policies by the County Executive Committee.

Expenditure Outlook

50. The total expenditure is estimated at Ksh6.4 Billion comprising of recurrent expenditure which is estimated at 70percent and development estimated at 30 percent. The county wage bill shall be managed prudently so as to remain below 35 percent as stipulated in the fiscal responsibility principles of the Public Finance Management Act, 2012.

51. Over the medium term the county intends to live within its means and therefore shall endeavor to operate a balanced budget.

Section V: Conclusion and Way Forward

52. The County is yet to make progress in addressing some of the challenges previously identified as affecting budget implementation; so far, the county government of Tana River is yet to fully implement the procurement plan and spending within the budget appropriation. The county has not also appointed members of the Audit committee as provided in the PFM Act.

53. Despite the dismal progress made, the following challenges continue to hamper effective budget implementation;

- i. Delay in submission of budget implementation/performance and expenditure reports by departments to the County Treasury.
- ii. In most cases, submitted reports are not in the desired prescribed formats.

- iii. Low collection of Own Source Revenue for the last 3 years has led to budget deficits.
- iv. The County is yet to operationalize the County Budget and Economic Forum as required under Section 137 of the PFM Act, 2012.
- v. Off-budget, off-plan expenditures.
- vi. Non Appointment of the receiver of revenue as per the provisions of the PFM Act Sec. 157 by the CEC finance and planning.

54. The County should implement the following recommendations in order to improve budget execution;

- i. The county Government (departments) should adhere to Section 166 of the PFMA, 2012 in submission of quarterly reports in the desired format.
- ii. The County Government should devise strategies to enhance local revenue collection.
- iii. The county should spend within its means and avoid any leakages.
- iv. The County Government should operationalize the CBEF as required by Section 137 of the PFMA, 2012.

Annex I: Projected.

CATEGORY	FY 2016/2017	FY 2017/2018	FY 17/18
Hides & skins	2,400,000	2,640,000	500,000
Charcoal	1,060,000	1,166,000	1,230,000
Fish	798,523	878,375	200,000
Fruits	2,850,000	3,135,000	2,800,000
Rice & paddy	2,600,000	2,860,000	600,000
Ghee & milk	500,000	550,000	200,000
Crocodile eggs	2,550,000	2,805,000	1,800,000
Maize	2,400,000	2,640,000	2,500,000
Export	2,824,930	3,107,423	3,800,000
Miraa	2,220,000	2,442,000	800,000
Gypsum	5,810,000	6,391,000	6,200,000
Others	800,000	880,000	1,000,000
Plot rent	2,970,000	3,267,000	1,500,000
plot registration fees	2,400,000	2,640,000	300,000
plot transfer fees	2,536,500	2,790,150	500,000
land application fees	2,321,220	2,553,342	700,000
land lease fees	2,800,000	3,080,000	3,200,000
Area rates	20,376,430	22,414,073	-
Application fees	2,820,000	3,102,000	500,000
permit fees	5,455,000	6,000,500	6,000,000
A.I.A (Health facilities)	20,000,000	22,000,000	10,000,000
Bus park fees	2,815,000	3,096,500	700,000
Grazing fees	3,355,016	3,690,518	450,000
Market Fees	300,000	330,000	1,500,000
Slaughter Fees	2,600,000	2,860,000	1,200,000
Auction fees	2,550,000	2,805,000	2,500,000
water charges	1,400,000	1,540,000	-
Daily Advertising Fees	300,000	330,000	20,000
Conservancy fees	920,000	1,012,000	80,000
Dev application fee	1,100,000	1,210,000	800,000
Plan application. Fees	1,200,000	1,320,000	300,000
Penalty on Building Plans	1,500,000	1,650,000	400,000
Renewal / Extension of Lease	200,000	220,000	180,000
Survey Fees	2,367,381	2,604,119	50,000
Plot Sub-letting/Plot Sub-division	2,600,000	2,860,000	1,500,000
PPI Forms	600,000	660,000	400,000

Interest from bank(savings)	500,000	550,000	500,000
Inspection Fee	3,200,000	3,520,000	2,200,000
Consent to mining	4,000,000	4,400,000	2,890,000
TOTAL	120,000,000	132,000,000	60,000,000