KISII COUNTY GOVERNMENT

COUNTY TREASURY

MEDIUM TERM

FISCAL STRATEGY PAPER

FEBRUARY 2015

FOREWORD

The Kisii County 2015/2016 Fiscal Strategy Paper sets out the framework for the preparation of the 2015/2016 budget as required under Section 117 of the Public Finance Management Act, 2012. It articulates economic policies and structural reforms as well as sector based expenditure programs that the County intends to implement in line with the Annual Development Plan 2015/2016 in realization of the Kisii County Integrated Development Plan 2013-2017.

In compliance with the mandate bestowed on the County governments by the Constitution, Kisii County Government is dedicated to prudently utilizing the available resources and enhancing fiscal discipline so as improve the living standards of her citizens. The County Government will work on the improved macro-economic environment to overcome the devolution transition and the various interrelationship challenges within the national and county governance structures. The County Government will promote value addition, investment on infrastructure and support especially the small and medium enterprises so as to expand employment opportunities

The Medium Term Expenditure Framework aims at ensuring efficiency and effectiveness in the implementation of the development activities outlined in the Annual Development Plan. This is important to create fiscal space for financing priority projects by the departments in the County.

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ACKNOWLEDGEMENTS

The Kisii County Fiscal Strategy Paper 2015-2016 is a result of contribution and concerted efforts of many people. The paper is informed by the Public Finance Management Act 2012 Section 117 (1) which stipulates that the County Treasury should prepare the Fiscal Strategy Paper for the County. This Strategy Paper sets out broad strategic priorities and policy goals that will guide the Kisii County Government in preparing its budget for coming Financial Year 2015/2016 and over the medium term.

The content of this Fiscal Strategy Paper has benefited from an array of expertise of professionals and key stakeholders in the County. Their tireless efforts have informed the four chapters of this Strategic paper. We wish to express our gratitude to all those persons that participated in the drafting and printing of this paper.

We are particularly grateful to His Excellency the Governor for his lead role, direction and guidance in developing this document; His Excellency the Deputy Governor, County Executive Member for finance and economic planning and other County Executive Committee Members for their input in providing much needed information to the team working on the second Fiscal Strategy Paper for Kisii County Government.

We are equally grateful to technical team comprising Mr. Onchari Kenani, (Economic Advisor); Mr. John Nyamiobo, (Political and Budget Advisor); County Economists, Mr. Edward Mayogi, Mr. Julius Kitunda, Mr. Penuel Ondieng'a, Mr. Peterson Nyakeri, Mr. Steve Siso; Joshua Simba and Mr. Alfred Keter, County Treasury representatives comprising of Mr. Job Obare, Mr. Chrispinus Ibalai, Mr. Lukio Obwoge and Chief Finance Officer Mr. Daniel Njuguna for working tirelessly in the development of this document.

We also wish to thank the County Treasury staff for working with the drafting team in the provision of the much needed information for this document

We cannot forget the role of members of the public, Civil Society Organizations, Private sectors and well-wishers for their contributions during the public forums held in the nine sub counties.

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Wilfred Auma
CHIEF OFFICER
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ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
ARV	Antiretroviral
CA	County Assembly
CIDP	County Integrated Development Plan
ECD	Early Childhood Education
FSP	Fiscal Strategy Paper
FY	Financial Year
GDP	Gross Domestic Product
HIV	Human Immune Virus
IFMIS	Integrated Financial Management System
KCG	Kisii County Government
KCIDP	Kisii County Integrated Development Plan
MTEF	Medium Term Framework
MTP	Medium Term Plan
NEMA	National Environment Management Authority
PLWDs	People Living With Disability
SACCO	Savings and Credit Cooperative Society
SMEs	Small and Medium Enterprises
CDF	Constituency Development Fund
CPI	Consumer Price Index
ICT	Information Communication Technology

CHAPTER ONE

1.1 Overview

1. The 2015/2016 Fiscal Strategy Paper identifies the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for Financial Year (FY) 2015/2016 and the Medium Term.

2. The paper discusses the performance of the FY 2014/2015 budget up to 31st December, 2014 which forms the basis for projecting the financial outlook with respect to the County Government revenues and expenditures for FY 2015/2016 and over the Medium Term.

3. The County priorities outlined in this paper shall form the basis for formulation of FY 2015/2016 budget and the Medium Term. The framework ensures adherence to principles of public finance and fiscal responsibility principles as set out in the Constitution and the Public Finance Management Act 2012. Specifically, the paper will ensure that the development to recurrent expenditures has been maintained within the required ratios of 40:60. It will detail on how the expenditures will be funded fully from the allocations from the equitable share, Local revenue sources and revenue from the development partners.

4. The paper covers the following broad areas: review of the fiscal performance of first half of the FY 2014/2015; highlights of the recent economic developments and economic outlook; broad strategic priorities and policies for FY 2015/2016 as spelled out in the Annual Development Plan and the Medium Term Fiscal Framework as outlined in the County Integrated Development Plan (CIDP) 2013-2017.

5. The priorities outlined in the paper are in line with the priorities set out in the Annual Development Plan (Sept. 2014), namely:

a) Roads Development

b) Health Care

c) Market Development

d) Water reticulation

e) Social protection

6. The focus of this paper and Medium Term Plan is to expand and maintain infrastructure development specifically roads network in the county, increase employment opportunities,

improve health facilities, reduce poverty levels, enhance social protection and encourage use of alternative energy sources and increase water reticulation in the county.

7. This fiscal strategy paper articulates economic policies and structural reforms as well as sector based expenditure programmes that the county intends to implement in order to achieve the broad goal of its development agenda. In particular, it emphasizes continued shift of resources in favour of programmes that enhance growth and job creation, and to support stronger private sector investment in pursuit of new opportunities in a changing economic environment. The proposed fiscal framework ensures continued fiscal discipline and provides support for sustained growth, broad based development and employment growth that benefits all citizens.

8. With limited resources, the County government will be required to be more efficient to make meaningful gains in poverty reduction. The fiscal framework outlined in this Fiscal Strategy Paper (FSP) requires greater fiscal discipline and alignment of resources and priorities. In particular, better control of expenditure and a clear focus on core mandates by county departments will be required. Thus, in preparing the 2015/2016 budget, departments will be expected to identify savings that will contribute to financing the county government's targeted outcomes in line with the CIDP.

9. In the meantime, the County Government will continue promoting value addition so as to expand the levels of employment and consequently reduction in poverty. These incentives include accessing new and emerging markets, continued investment in infrastructure and targeted support for small and medium enterprises.

1.2 Objective

10. The objective of the 2015/2016 Fiscal Strategy Paper is to set the frame work for the preparation of the County budget. It is a requirement under section 117 of the Public Finance Management Act, 2012 that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year. This Fiscal Strategy Paper contains the following:

- The principles that will guide the 2015/2016 budgetary process;
- The broad fiscal parameters for the 2015/2016 budget and the key strategies and policies for management of revenues and expenditures;
- The broad strategic priorities and policy goals that will guide the preparation of the budget over the medium term;
- A discussion of risks to the budget parameters and Budget Strategies;
- The medium–term outlook for county government revenues and expenditures;

- A discussion of how the Budget Strategies relates to the County priorities as drawn from the County Integrated Development Plan (CIDP); and
- A framework for the preparation of departmental forward budget estimates and the development of detailed budget policies.

1.3 Outline of the 2015/16 Fiscal Strategy Paper

11. The Fiscal Strategy Paper is presented in four Chapters. After the Introduction presented in Chapter One, which presents an overview and objective of the Paper, Chapter Two outlines the economic context within which the 2015/2016 budget will be prepared. It also presents an overview of the recent economic developments and the macroeconomic outlook covering the global, national and domestic scene.

12. In Chapter Three, the Paper presents the Fiscal Policy and Budget Framework that will support planned growth over the medium to long term, while continuing to provide sufficient resources to support social programmes in health and education as well as in infrastructure spending.

13. The last Chapter Four presents the resource envelope and spending priorities for the proposed FY 2015/2016 budget and medium term. Sector achievements and priorities are also reviewed. Overall, the County Government spending on development will be at least 40 percent of the budget period.

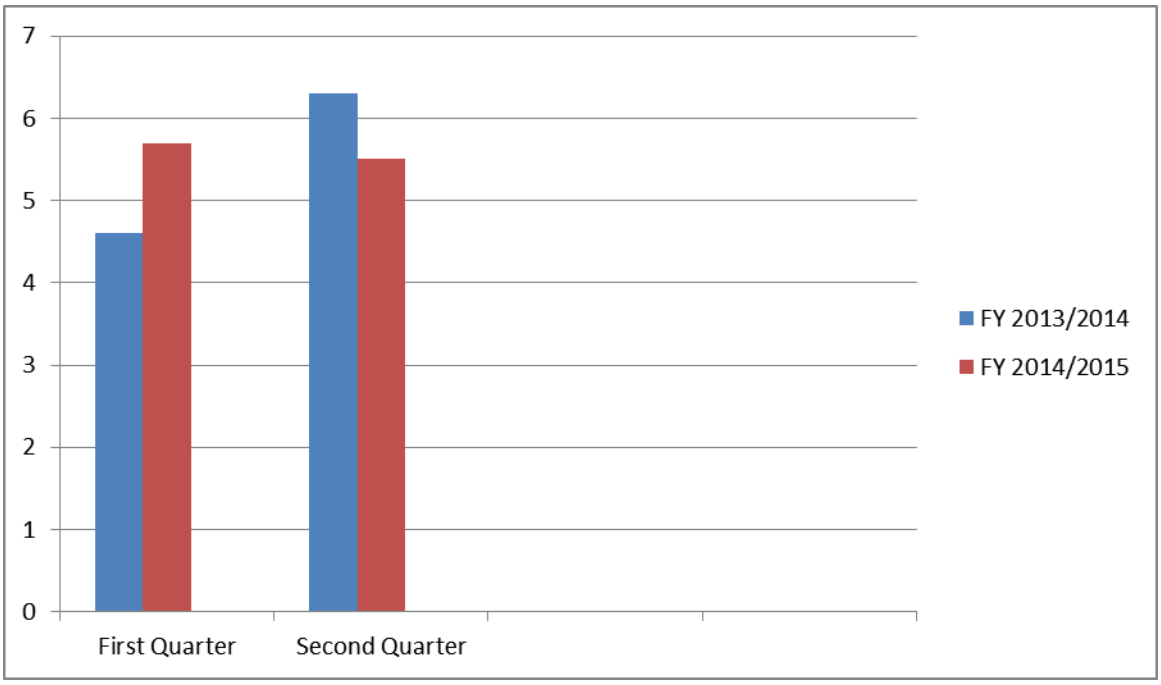
Chapter Two

2 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Overview of Economic Performance

Nationally macroeconomic conditions remained stable, with single digit inflation and a stabilized exchange rate. The GDP growth for the last 6 months averaged at 5.6 percent. The first quarter of FY 2014/2015 registered growth rate of 5.7 percent as compared to 4.6 percent registered during the same period in FY 2013/2014. However, the GDP dropped to 5.5 percent in the second quarter as compared to 6.3 percent registered in the previous year according to Trading Economics (January 2015) as shown in figure 1 below. Growth was mainly driven by finance and insurance activities, wholesale and retail trade and agriculture and forestry while the tourism sector shrank for the seventh consecutive quarter. The recent developments in infrastructure have created numerous jobs opportunities across the county and have sparked further economic growth in the county. The real estates have largely profited from this as well and will continue to grow in the future.

Figure 1: Kenya's GDP growth

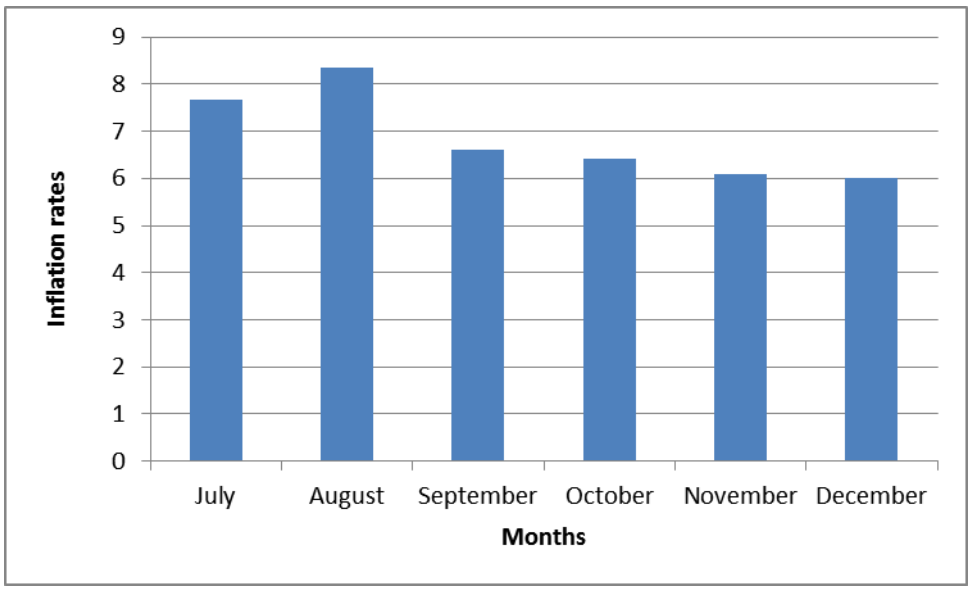


Source: www. Tradingeconomics.com

14. Short term interest rates have also eased in line with the drop in inflation. The Central Bank of Kenya has left the interest rate at 8.5 percent as the current monetary policy stance is

considered to deliver the desired objective of price stability. Overall inflation declined in both September and October 2014 to within the prescribed range of the medium term target of 5 percent after some sporadic effects in the months of July and August. According to Central Bank monthly reports, inflation rate increased from 7.67 in July 2014 to 8.36 in August, but then indicated a downward trend all through to December 2014 with the rate being at 6.02 as shown in figure 2 below. This was mainly due to better food supply resulting from favourable weather conditions. These trends portend improvement in the performance of the economy for the country and to the county as well.

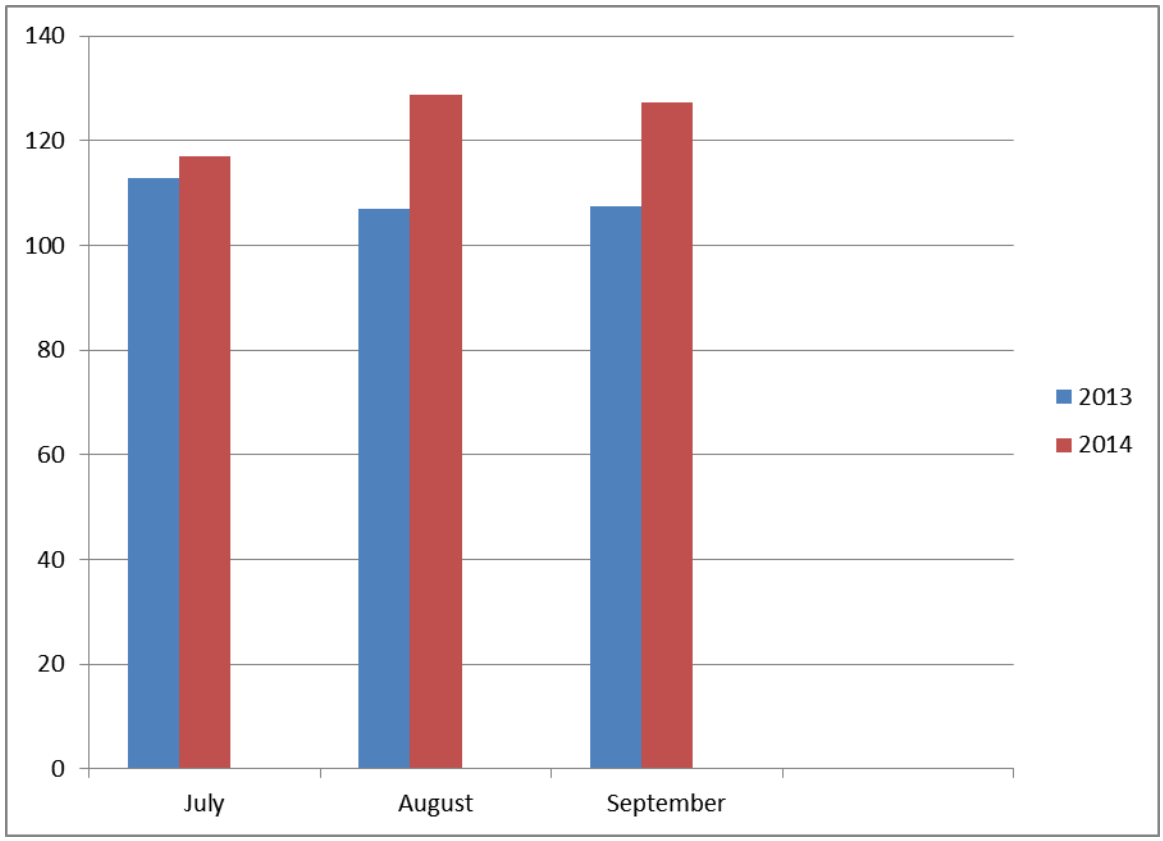
Figure 2: Inflation rates 2014.



Source: Central Bank of Kenya website.

15. Resilient foreign remittances from the diaspora contributed greatly to the economic growth; there was an increase in remittances in the first quarter of FY 2014/2015 as compared to the same period in the previous year as shown in figure 3 below. As a source of external funding at the National level, remittances impact the economy of a nation from an individual level by augmenting the recipient's income which will in turn lead to reduced poverty levels, the remittances also increase the credit worthiness of a country to the international markets for financing and this can alleviate credit constraints and also act as a substitute for financial development. The large percentage of this remittances trickle down to Kisii County due to many Sons and daughters in the diaspora who have continued to maintain strong ties and bonds with family members. This is evident in increase in financial institutions in the county and rapid development especially in the real estate sector.

Figure 3: Diaspora remittances in USD in Millions

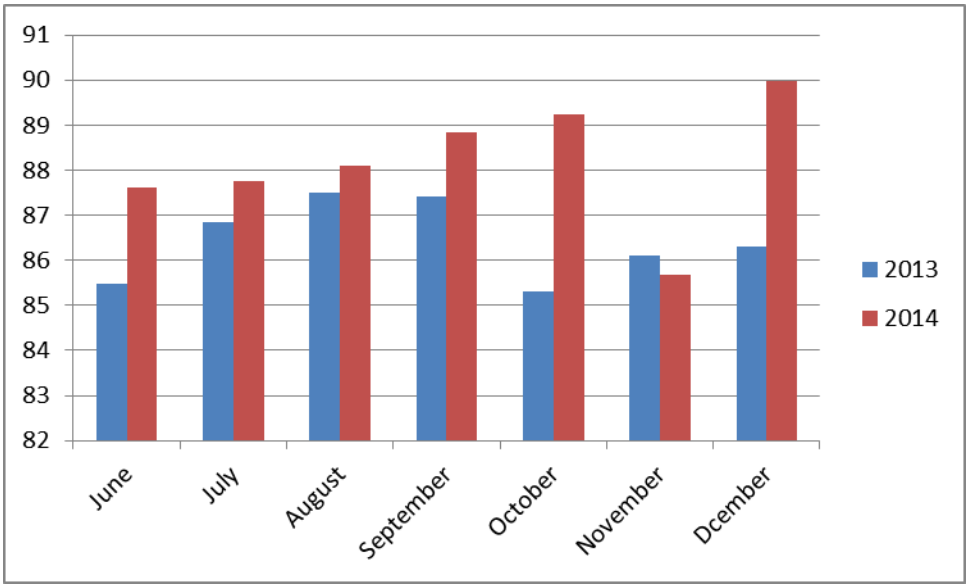


Source: Central Bank of Kenya, Website

16. However, the Kenyan Shilling continued to lose value against the dollar between July and December 2014 as compared to the same period in 2013 as shown in the Figure 4 below. This

affected the market prices of Kenyan exports in the foreign markets. Tea which is the major export from the county fetched low prices as compared to 2013.

Figure 4: Exchange Rate in US Dollar



Source: Central Bank of Kenya Website

2.2 Fiscal Performance and Emerging Challenges

17. The Kisii County Assembly approved the 2014/2015 budget with expenditures amounting to Kshs.7.8 billion, comprising of recurrent expenditure of KShs.4.6 billion, and development expenditures of Kshs.3.2 billion. This budget will be financed by Kshs. 6.2 billion from national equitable share, Kshs. 800 million from local revenue sources, 20.5 million from DANIDA to support the health sector services, Kshs. 83 million conditional share for Kisii Level Five Hospital and 540 million being balance brought forward from FY 2013/2014.

18. Implementation of FY 2014/2015 budget begun at a slow pace in the early months of the FY following a court case filed by the County Assemblies in the country challenging an advisory from Commission on Revenue Allocation and office of the Controller of budget on the budget ceilings for recurrent expenditure for the County executive and the County Assembly. This delayed the approval of the budget and therefore the County Government was forced to operate on a vote on account basis until November 2014. Funds released during this period were meant only for essential services of the County and as such the implementation of planned programmes and projects was delayed.

19. Fiscal outcome for the first six months of the financial year was fairly satisfactory, but revenue shortfalls continue to persist amid rising expenditure pressures. Expenditure pressures relate to the rising wage bill, domestic and foreign travel expenditure. These pose risks to the

stability of the budget for 2014/2015 in the face of resource requirement for County development.

2.2.1Development and Recurrent Expenditures

20. The National Government has disbursed a total of Kshs.2, 991,699,736 as at 31st December 2014, comprising of Kshs.2, 029,386,389 for recurrent expenditure and Kshs.962, 313,347 for development expenditure. Out of these disbursements, the County has spent KShs.2, 020,899,111 on recurrent expenditure and Kshs. 956,385,769 on development expenditure.

Tables 1a and 1b below show departmental expenditures for both recurrent and development budget as at a 31st December 2014.

Table 1a: Recurrent Budget Out-turn for the First Six Months of FY 2014/2015

Department	Budget Estimates (Kshs.)	Exchequer Issues as at 31/12/2014	Expenditure as at 31/12/2014 (Kshs.)	Balance as at 31/12/2014 (Kshs.)	Absorption Rate (%)
County Assembly	538,063,000	264,727,489	294,407,610	-29,680,121	111
Office of the Governor & Deputy Governor	235,799,019	128,729,898	117,859,873	10,870,025	92
County Public Service Board	58,250,000	16,296,000	13,037,102	3,258,898	80
Administration, Corporate Services and Stakeholder Management	496,345,059	255,371,023	208,367,227	47,003,796	82
Finance and Economic	832,351,363	432,879,319	286,379,381	146,499,938	66
Agriculture, Livestock, Fisheries	280,834,027	132,041,763	131,211,409	830,354	99
Health services	1,517,410,347	517,734,092	719,521,391	-201,787,299	139
Energy, Water, Environment	108,802,375	51,923,092	34,743,655	17,179,437	67
Trade Dev't and Regulations	38,556,490	18,835,264	16,162,030	2,673,234	86
Land, Physical Planning	81,584,091	31,353,100	25,293,982	6,059,118	81
Culture, Sports, Youth	47,099,876	16,626,677	13,673,233	2,953,444	82
Education and Youth affairs	223,828,187	90,269,639	94,776,860	-4,507,221	105
Public Works, Roads and Transport	113,765,784	47,437,753	44,672,764	2,764,989	94
Kisii Town	52,513,382	24,828,280	20,792,594	4,035,686	84
Total	**4,625,203,000**	**2,029,053,389**	**2,020,899,111**	**8,154,278**	**99**

Source: Kisii County Treasury

Table 1b: Development Budget Out-turn for the First Six Months of FY 2014/2015

Department	Budget Estimates FY 2014/2015 (Kshs.)	Exchequer Issues as at 31/12/2014 (Kshs.)	Expenditure as at 31/12/2014 (Kshs.)	Balance as at 31/12/2014 (Kshs.)	Absorption Rate (%)
County Assembly	-	0	-	0	0
Office of the Governor and Depn uty Governor	87,000,000	22,500,000	22,500,000	0	100
Administration, Corporate Services and Stakeholder Management	60,000,000	25,000,000	24,812,224	187,776	99
Finance and Economic	530,348,044	226,250,695	226,164,280	86,415	99

County Public Service Board	-	-	-	0	0
Agriculture, Livestock, Fisheries	187,742,342	39,500,000	39,500,000	0	100
Health services	503,117,499	153,062,652	140,625,300	12,437,352	92
Energy, Water, Environment	176,900,000	10,500,000	10,500,000	0	100
Trade Dev and Regulations	161,250,000	23,500,000	29,467,400	-5,967,400	-125
Land, Physical planning	235,000,000	62,750,000	62,178,314	571,686	99
Culture, Sports, Youth	197,500,000	50,500,000	52,556,647	-2,056,647	-104
Education and Youth affairs	289,500,000	57,750,000	60,594,604	-2,844,604	-105
Public Works, Roads and Transport	695,000,000	283,500,000	279,960,000	3,540,000	99
Kisii Town	45,000,000	7,500,000	7,500,000	0	100
Total	**3,168,357,885**	**962,313,347**	**956,358,769**	**5,954,578**	**99**

Source: Kisii County Treasury

Tables 1a and 1b, indicate that the County Government has absorbed 99 percent of funds released by the National Government for both development and recurrent expenditure, however delays in exchequer releases by the National Government still remains a source of concern as it affects the implementation of planned programmes and projects.

21. To enhance execution of development expenditure in the County, various measures have been put in place including preparation of procurement plans, annual work plans, deployment of procurement officers to departments, regular monitoring and evaluation of projects and programmes and the rolling out of e-procurement platform. All these are aimed at ensuring efficient procurement processes in the County.

22. To adhere to the financial regulations, the County Treasury shall ensure that one department spends more than the exchequer releases. As we move towards the closure of the FY. Departmental expenditures should be within the ceilings.

23. There is need to operationalize financial independence of County departments in accordance with section 148 of the PFM Act 2012 that gives power to County Executive Committee for finance to designate accounting officers to manage finances of each department. The county government adopted a centralized financial management system and this arrangement has affected the budget implementation and management of finances.

24. Additionally, there is need to establish a budget monitoring and evaluation and reporting framework as per section 104 of the PFM Act 2012 which requires County Treasury to monitor, evaluate and oversee the management of public finances and economic affairs of the County Government. This will lead to efficient reporting of the ongoing development projects to ensure that they are implemented as per the budget and timeframe.

25. The County Government should institute adequate plans to ensure that instances of budget revisions are minimized. Where necessary such revisions should be informed by

appropriate reconciliation of withdrawals and expenditures and should be undertaken in good time to allow time for budget execution.

2.2.2 Revenue Projections

26. The County Government projected to raise Kshs 399.000.000 from local sources in the first six months of FY 2014/2015. However, only Kshs 141,613,980 was realised in the same period. This translates to a shortfall of Kshs 257,386,020.

Table 2 below shows the revenue out-turn over the first six months of the FY 2014/2015.

Table 2: Revenue Out-turn for the First Six Months of FY 2014/2015

REVENUE SOURCES	December, 2014		
	Target (Kshs.)	Actual (Kshs.)	Deviation (Kshs)
Market Dues	60,000,000	33,906,040	(26,093,960)
Cess	20,000,000	3,080,892	(16,919,108)
Toll/Bus park	40,000,000	23,501,910	(16,498,090)
Motorcycle	20,000,000	12,915,010	(7,084,990)
Charcoal	100,000	27,400	(72,600)
Registration Forms	15,000	7,700	(7,300)
Single Business Permit	90,000,000	10,000,710	(79,999,290)
Registration of Schools	10,000	6,000	(4,000)
Parking	25,000,000	7,138,600	(17,861,400)
Plot Rent	15,000,000	2,963,690	(12,036,310)
Impounding charges	200,000	104,400	(95,600)
Application fees	1,500,000	444,330	(1,055,670)
House Rent/Stall	3,000,000	1,880,680	(1,119,320)
Advertisement	10,000,000	6,245,276	(3,754,724)
Bill board	2,000,000	0	(2,000,000)
Space Rent	1,000,000	0	(1,000,000)
Plan Approvals	20,000,000	3,943,561	(16,056,439)
Isolated Plot Rent	500,000	178,500	(321,500)
Renewal Charges	10,000	300	(9,700)
Empting septic tank charges	200,000	0	(200,000)
Slaughter fees	200,000	28,450	(171,550)
Cattle fees	1,000,000	840,700	(159,300)
Fire Compliance Certificate	1,500,000	804,705	(695,295)
Land Rates	30,000,000	3,987,771	(26,012,229)
Miscellaneous	3,000,000	1,659,427	(1,340,573)
Cattle Movement	500,000	176,450	(323,550)
Fines	500,000	192,310	(307,690)
Water	100,000	8,800	(91,200)
Shop Rent	135,000	1,100	(133,900)
Soap Stone	10,000	0	(10,000)
Hire Charges	200,000	8,500	(191,500)
Office Rent	150,000	0	(150,000)

Penalty	50,000	39,650	(10,350)
Transfer fees	50,000	11,035	(38,965)
Livestock	500,000	338,650	(161,350)
Devolved Units			
• Agriculture	2,000,000	811,860	(1,188,140)
• Health Services	40,000,000	19,798,618	(20,201,382)
• Trade and Industry	200,000	150,520	(49,480)
• Physical Planning	100,000	55,985	(44,015)
• Environment	200,000	118,700	(81,300)
• Public works and roads	5,000,000	2,702,400	(2,297,600)
• Finance	5,000,000	3,533,350	(1,466,650)
• Education	10,000	0	(10,000)
• Culture and social	10,000	0	(10,000)
• Administration	50,000	0	(50,000)
TOTAL	**399,000,000**	**141,613,980**	(257,386,020)

Source: County Treasury January, 2015

27. Table 2 above shows that there is a revenue shortfall in all sources in the first six months of FY 2014/2015. This revenue shortfall can be attributed to delay in operationalization of the Finance Act 2014, lack of revenue Act, failure to deposit hospital improvement fund and other local revenues from devolved units into County Revenue Fund as required by article 207 of the Constitution 2010.

28. To address the challenges of revenue shortfalls and expenditure pressures, the County Government will step up efforts on revenue administration and mobilization to eliminate leakages and increase revenue collection as targeted in the FY 2014/2015 as well as rationalize expenditure so as to minimize budget deficit. The County Government is in the process of automating revenue collection, broadening revenue base, enhancing enforcement services, structuring staff, setting targets, setting up a court to handle revenue related cases, facilitating revenue officers with motor bikes to facilitate movements development of valuation role; renovating and upgrading County Government houses for monthly rent; updating of register for all the traders in the market sheds and kiosks; registering all the vehicles using the enclosed bus park; fencing all open air markets in the county and enhancing collection of coffee, tea, sugarcane, log and other cess and particularly enforcing the collection of land rates in the county.

2.3 Macroeconomic Policies and Outlook

2.3.1Growth Prospects

29. Growth will be bolstered by production in agriculture assuming the favourable weather conditions that prevailed in the previous year will persist and that the ongoing key infrastructural projects such as roads and energy are completed in time. Domestic demand is expected to be

robust following a drop in inflation at the national level increasing foreign remittances, and fostering of investor confidence.

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

a) Investment in Infrastructure

31. The current restriction to the movement of people, goods and services due to the poor road network has negatively affected the economic development of the county as our agricultural products cannot be transported to the markets in time and services cannot reach the public. Investment in key infrastructural projects will be continued as they are vital for achieving the county development objectives, employment creation and poverty reduction. Private-sector participation will be encouraged in these sectors.

32. The County Government will place priority in this sector by ensuring that at least 30% of the development budget is allocated to this critical sector.

b) Agro-processing

33. The County has enormous raw materials to support value addition in the agricultural sector. The County Government will place major emphasis on agricultural inputs; marketing; value addition; agricultural extension services; and staffing. It will also develop appropriate policies and strategies to eliminate middlemen in all areas of agricultural marketing, and establish community and village markets to improve food security and increase household income.

34. The crops targeted for value addition include; tea, coffee, sugarcane, avocado, bananas, pyrethrum, fruits among others. On the other hand, the County Government will solicit for funding for the construction of refrigeration facilities to preserve much of the produce currently going to waste. In sugar producing areas, like South Mogirango, the County Government will explore the feasibility of inviting a strategic investor to set up a sugar processing plant in the area.

c) Supporting Small and Medium Enterprises(SMEs)

35. The County Government will support the Joint Loan Board credit scheme so that the youth, women groups and disadvantaged individuals who cannot access commercial loan can benefit from the scheme. Furthermore the County government will set aside land for micro and small enterprises activities and promote access to markets, and collaborate with other partners to improve trade and the trading environment. The current road network to manufacturing zones in the county has not been well maintained over time leading to dilapidated sections. These sections will be the focus of maintenance programme and will receive priority funding.

d) Supporting Manufacturing

36. Although there are a number of commercial activities in Kisii County, an industrial base is glaringly non-existent. The potential of the County cannot be unleashed without a solid commercial and industrial base anchored on the readily available local raw materials, abundant labour force and the entrepreneurial spirit of the Kisii community. Trade and industry are key components in accelerating economic development, reducing poverty and enabling equitable distribution of income. Kisii County is strategically positioned to be a hub of trade and industry in the region to serve other counties including Narok, Migori, Homa Bay, and across the border to Tanzania.

37. Resources for this sector will be focused on research studies in order to provide informed options on investment and trade. Further, small and medium enterprises and especially cottage industries will take priority as a means of creating a firm industrial base.

38. To accelerate growth, investment and employment, initiatives will focus on cottage industries that are labour intensive with the potential to export, joining regional and global supply chains and becoming competitive logistics hubs.

39. The County has positioned itself to be an industrial hub in the region. To realise this vision, the County is committed to address challenges facing manufacturing sector. The County Government in collaboration with the National Government will provide adequate security in the manufacturing zones through street lighting and security operations. Power outages are also a major challenge as investors have to incur extra costs to install alternative sources of energy. The County Government will continue holding consultative discussions with the Kenya Power and Lighting to resolve this issue.

e) Maximizing the use of County's Natural Resources

40. The mining of soapstone at Tabaka in South Mogirango is an important economic activity that provides over 7,000 people with incomes. This mineral is mainly used in the making of carvings that are sold in the local and international markets. However, full exploitation of the mineral would include the production of chalk, talc powder, ceramics, tiles and paint. Another natural resource to be exploited is granite which is found in Bonchari. Granite is an important component for processing of tiles and therefore can be exported to factories in the Country that manufacture tiles. The small market for this mineral and its unorganized marketing channels are inhibiting its full exploitation.

41. Water is another resource to be exploited in the County since there are permanent rivers like Gucha, Iyabe, and Mogusii among others which can be exploited in the generation of power. Also several springs in the County can also be exploited for bottled water to be sold within and to other counties in Kenya. Forests like Nyangweta, Ritumbe, Emborogo, and Ibencho among

others can be exploited for the production of timber, construction poles, electricity poles, honey and medicinal products.

f) Deepening Inter-County Integration

42. There is much potential for expanded inter trade and with Nyamira, Migori, Homa Bay, and Narok Counties, among others. The County Government will continue with collaborative infrastructure investment to enhance improved transport services within the region, and removing barriers in trade.

2.3.2 Sustaining Inclusive Growth

43. Besides mobilizing significant resources and providing an appropriate environment for businesses to thrive, sustaining inclusive growth requires us to continue building transparent, responsive, accountable, efficient and effective government.

44. In addition, the County Government will ensure that gains from growth are widely distributed through sustainable employment in order to guarantee durable reduction in poverty. These will be complimented by measures to address socio-economic inequities and improving the county's human capital. To this end, the County Government will continue implementing the socio-economic priority programmes articulated in the County's first Current Annual Development Plan as well as increased devolved resources to local levels in line with the Constitution.

2.3.3 Risks to the Outlook

45. The risk to the outlook for Kisii County 2015/2016 budget and medium-term include further weakening in global economic growth, reversal in the current easing of international oil prices which could fuel inflation and weaken growth. On the international scene and going by recent developments, it is not possible to predict the movement of world oil prices.

46. The economic outlook assumes normal weather conditions for 2015 and in the medium term. In the past, it has been considerably difficult to forecast accurately the weather pattern beyond one year.

47. The current economic conditions call for caution in the fiscal dispensation. The economy remains resilient and the macroeconomic environment has improved significantly. Overall, the national macroeconomic environment has improved as compared to 2013 setting the stage for renewed growth of the Kenyan economy, as long as interest and inflation rates do not go beyond their current levels.

48. Looking ahead, the world economy is going through a period of slower growth and increased uncertainty. Due to revenue shortfalls and a high wage bill, the threat of a budget deficit increase is ever present. However, with improved revenue performance following revenue collection reforms and moderation in spending, the fiscal position is expected to improve over the next three years.

Chapter Three

3. FISCAL POLICY AND BUDGET FRAMEWORK

3.1 Overview

49. The Kisii County 2015 Medium-Term Fiscal Framework aims at striking an appropriate balance between support for County development and continued fiscal consolidation, while providing room for the constitutional requirements and implementation of County Integrated Development Plan 2013-2017. Specifically, the 2015/2016 Fiscal Strategy Paper aims at ensuring the following:

- That the level of expenditure is adequate to sustain County development through continued investment in the five County priorities i.e. Roads, Healthcare, Market Development, Social protection and water reticulation, sustaining of the County wage bill, and a balanced budget in 2015/2016 Financial Year and the subsequent years.
- Ensure transparency and accountability by availing adequate resources for operations and maintenance, and the implementation of the Kisii CIDP.
- Retaining the ratio of recurrent expenditure on County budget at 60 percent, through a moderation and efficiency in spending as well as improved revenue collection following reforms as spelt out in the Kisii County Finance Bill 2014.

3.2 Fiscal Policy Framework

50. Fiscal policy will continue to support County development activities while providing room for the implementation of the CIDP within a context of sustainable public financing. Over the past year, the County Government has reoriented expenditure towards priority programmes and projects in health, social protection, education, agriculture, water and infrastructure. This process will be strengthened in the FY 2015/16 with relevant legislative frameworks in place like the Public Private Partnership (PPP) to enable the County Government implement critical programmes that will accelerate socio-economic development while endeavouring to run a balanced budget.

51. Based on the budget out turn over the past six months of the FY 2014/15 and in view of the interventions the County Government has made especially in revenue collection and expenditure management, it is expected that both revenue and expenditure current trends will be adequately addressed over the 2015/16 FY. Revenue projections for the County Government have been projected to grow at 4 percent.

52. Based on the trends on revenue collection over the last six months, local revenues have been revised downwards to KShs.500, 000,000 per annum, with transfers from the National Government projected to be KShs.7.1 billion. This totals to 7.6 billion compared to 7.8 billion for the last FY implying an overall reduction of the total resource budget of about 3 percent. Departmental ceilings for FY 2015/16 have been revised accordingly. Table 4 presents the County Government fiscal projections over the medium term.

Table 4: County Government Fiscal Projections, 2014/2015-2017/2018

Item	2014/2015	2015/2016	2016/2017	2017/2018
Revenue/Grants	**7,793,560,885**	**7,706,424,034**	**8014,680,995**	**8335,268,235**
National Gov't – equitable share	6,189,525,352	6,922,509,037	7199,409,398	7,487,385,774
Conditional allocation – Kisii Level 5	83,358,274	92,027,539	95,708,641	99,536,986
Conditional allocation – Free maternal health care	-	137,819,863	143,322,658	149,065,964
Leasing of medical equipment	-	54,067,595	56,230,299	58,479,511
DANIDA – Health care support services	20,570,000	-	-	-
Unreleased balances for FY 2013/2014	526,107,259	-	-	-
Local revenue	974,000,000	500,000,000	520,000,000	540,000,000
Expenditure	**7,793,560,885**	**7,706,424,034**	**8,014,680,995**	**8,335,268,235**
Recurrent	4,630,203,000	4,623,854,420	4,808,808,579	5,001,160,941
Development	3,163,357,885	3,082,569,614	3,205,872,399	3,334,107,295

Source: County Planning Department

3.3 Fiscal Responsibility Principles

53. The County Government acknowledges the fact that the fiscal stance it takes today will have implications into the future. The County Government will ensure strict adherence to Section 107 of the Public Finance Management (PFM) Act of 2012 which outlines the fiscal responsibility principles .

54. In order to comply with the fiscal responsibility principles, the County Government will match the increased expenditure demands with a corresponding increase in revenue yield through efficient collection, widening of revenue base and reasonable revenue rates. It is therefore imperative for the County Government to reform and modernize the revenue regimes to ensure

stability of revenue effort, while at the same time continuing to restructure expenditure systems to ensure efficiency and create fiscal space required to fund these basic needs expenditures on sustainable basis.

3.4 Fiscal Structural Reforms

55. For effective and efficient management of financial resources, the County through the revenue directorate will continue to eliminate leakages and enhance revenue collection as well as rationalize expenditure. Some of the measures include automation of revenue collection, simplify the revenue code in line CFMIS, in order to help improve revenue compliance, minimize delays, and raise revenue base.

56. The County will also come up with appropriate measures to enhance revenue collection such as collection through cess in coffee, soapstone, tea, sugarcane, log, land rates and other cess.

57. On the other hand, the County Government will continue with prudent financial management with the aim of improving efficiency and reduction in wastages in line with section 107 of the PFM Act of 2012 on fiscal responsibility principles. Implementation of IFMIS and e-procurement across departments and subsequently at the Sub-County level will continue strengthening expenditure management. At the same time, the County treasury will disburse departmental allocations to specific departments who will be managing individual vote books for efficient and effective service delivery.

3.5 Financing Policy

58. The County Government will have a balanced budget in the FY 2015/2016 and over the medium term.

3.6 Kisii County 2015/2016 Budget Framework

59. The Kisii County 2015/2016 budget framework is set against the background of the County Government's strategic objectives and priorities as outlined in the CIDP (2013-2017) and the Annual Development Plan (ADP) 2014.The County is expected to realize key developments by ensuring adequate budgetary allocations in the project activities and programmes of the priority areas.

3.6.1 Revenue Projections

60. The Kisii County 2015/2016 financial year budget targets local revenue collection of Kshs. 500 million and equitable share of KShs.7.1 billion from the National Government. This

performance will be underpinned by the on-going reforms in revenue administration. The revenue department will institute measures to expand the revenue base and curb revenue leakages.

3.6.2 Expenditure Forecasts

61. The County Government's funding allocation decisions for the FY 2015/2016 are guided by the Annual Development Plan (2014) which outlines the priority areas to be addressed in the FY 2015/2016 in the realization of the CIDP. Overall expenditures are projected at Kshs.7.6 billion comprising of Kshs.3 billion for development and Kshs.4.6 billion for recurrent.

62. The County will also ensure prudence in expenditure management through identification of slow spending programmes that may not meet targets due to procurement problems, lack of human resources, poor planning, legal and other challenges and identify saving from such programmes by modifying or cutting down non-priority activities.

63. Efficiency saving initiative will be adopted by the County to ensure that funds are directed to service delivery rather than non-essential spending.

3.6.3 Recurrent Expenditure

64. The County Government will retain the recurrent expenditures at 60 percent of the County budget. This is in line with the fiscal responsibility requirement for County Governments that requires the recurrent expenditure to be at a maximum of 60 percent of the total budget.

65. The County will exercise essential controls and ensure prudent management of the wage bill by ensuring that department's budget for all their human resource requirements based on human resource plans showing clearly the requirements for in-post and others and only recruit staff to cater for natural attrition and retirement.

3.6.4 Development

66. The County Government will endeavour to allocate adequate resources towards development outlays and spire to complete critical infrastructure priority projects and programmes in support of private sector investment as well as facilitating interventions in the removal of the binding constraints to the County development. During the FY 2015/2016, the ceiling for development expenditures excluding donor funded projects is KShs.3 billion.

Chapter Four

4. MEDIUM TERM EXPENDITURE FRAMEWORK

4.1 Resource Environment

67. The Constitution of Kenya 2010 stipulates that County Governments should have reliable, stable and predictable sources and allocation of revenue. Kisii County has two main sources of funding. Revenue from local sources and the equitable share from the National Government as provided under Article 201 of the Constitution .The resource envelope available for allocation among the spending units is based on the medium term fiscal framework outlined in Chapter Three.

4.2 Spending Priorities

68. Prioritization of resource allocation will be based on the ADP (September 2014) which spells out programmes to achieve County priorities identified during the County-wide budget consultative meetings.

69. The County Government will promote budget transparency, accountability and effective financial management of resources based on clearly set priorities to ensure that budgets are directly linked to plans.

70. Spending proposals will undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure with a view to making savings to be redirected to deserving priority expenditures as indicated in the table x below.

Targeted Expenditures for Scrutiny
Recurrent
Telephone, Telex, Facsimile and Mobile phone services
Courier and postal services
Domestic Travel and Subsistence, and other transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing, Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General equipment
Refurbishment of Building

Purchase of Motor vehicles

71. The County Government will reorient its expenditure programmes to focus on the following sectorial priorities:

4.2.1 Roads Development

72. The priority includes areas in Roads, bridges and foot bridges. The overall goal of the priority is to have a well-developed and maintained physical road network for rapid and sustainable economic growth and poverty reduction.

73. Funds will be apportioned to create and maintain a network of roads, bridges that will provide adequate and efficient transport of farm produce to the markets; provide technical support in road construction and maintenance. The county will rehabilitate bus parks; construct motor cycles shades; and improve security in order to bring sanity and order in the transport.

4.2.2 Health care

74. In health funds will be allocated to provide for an efficient and high quality health care system that is accessible, equitable and affordable for every person in the County. This will be achieved through provision of funds for purchase of drugs and non-pharmaceuticals; purchase of ambulances; purchase of diagnostic equipment; recruitment and retraining of health personnel; anti-malarial campaign; family planning campaigns; HIV/AIDS campaigns; training of health care providers on customer care; commemoration of health days; construction and establishment of a cancer centre; purchase of truck for the distribution of pharmaceuticals and non-pharmaceutical and strengthening of the community units. Funds also will be utilized in completion and equipping health facilities at the ward levels.

4.2.3 Market Development

75. Funds in this priority area will also be directed towards market fencing, construction of markets and toilets, formation of cooperatives to assist in marketing, provision of soft loans for value addition.

4.2.4 Water Reticulation

76. Funds in this priority area will be allocated towards water reticulation schemes, protection of springs, drilling of boreholes, environmental management, tree planting and beautification.

4.2.5 Social Protection

77. **F**unds in this priority area will be County Social protection Fund (NHIF) cover for the poor, old and venerable, Affirmative action fund for disabled, girls and women groups, facilitation of sports and cultural activities.

4.3 Kisii County 2014/2015 Revised Estimate

78. Expenditure in the first six months of 2014/2015 amounted to KShs.2, 977,284,880; this is 38 percent of the county budget. In view of the financing constraints from revenue and in order to realign priority areas, adjustment to the budget, in the context of supplementary budget, will be tabled in the County assembly shortly.

4.3.1 Medium –Term Expenditure Estimates

79. The 2015/2014FY estimates reflects social programmes (health and Education) and Infrastructure development receiving large shares of the budget. In the recurrent expenditure category, non-discretionary expenditures take first charge and include payment of statutory obligations such as salaries, pension that are financed by the County Government.

Table 5: Projected Baseline Ceiling for 2015/2016 by Sector

Medium –Term Sector Ceilings, 2015/2016-2017/2018				
Sector.	**2014/2015 Budget (in K.shs)**	**(K.shs Millions)**		
		2015/2016 Estimate	**2016/2017 Estimate**	**2017/2018 Estimate**
County Assembly	538,063,000	600	624	649
County Executive	322,799,091	350	364	379
Public Service	58,250,000	60	62	65
Administration ,stakeholder management and corporate services	556,345,059	600	624	649
Finance and Economic Planning	1,362,699,407	680	707	735
Agriculture,	468,576,369	476	495	515

Livestock , Fisheries and Cooperate Development				
Energy, Water, Environment and Natural Resources	285,702,375	400	416	433
Education, Labor and Manpower Development	513,328,187	520	541	562
Health Services	2,020,527,846	2,220	2,309	2,401
Lands, Housing, Physical Planning and Urban Development	316,584,091	320	333	346
Roads, Public Works and Transport	808,765,784	870	905	941
Trade and Industry	199,806,490	220	229	238
Culture and social services	244,599,876	270	281	292
Kisii Town	97,513,382	120	125	130
Total	**7,793,560,885**	**7,706**	**8,014**	**8,335**

Source: Kisii County Treasury

80. Overall, recurrent expenditure on non-discretionary, operations and maintenance account for about 60% of projected budget and the local revenue will finance 10 percent of the budget and the rest will be financed by the Revenue share from the National government, Grants and loans from development partners.

81. Development expenditures are shared out on the basis of the County priorities, economic development enablers as well as other strategic interventions to deal with unemployment and remove constraints to accelerated growth. The following guidelines are used:

- On-going projects: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
- Strategic policy interventions: priority is also given to policy interventions covering the entire county, social equity and environmental conservation.

4.3.2 Finalization of Spending Plans

82. The finalization of the preparation of the detailed budgets will entail through scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As detailed budgets are scrutinized and the resource envelope firmed up, it is likely

that additional resources may become available. The County Government will utilize these resources to accommodate key county strategic priorities with sound business plans as detailed in Table 5 below.

Table 5: Priority Areas of Consideration for Additional Resources

No.	Priority areas
1	Strategic intervention in the area of health, infrastructure (especially county roads), agriculture (especially in value addition to enhance food security and increase revenue), water and cultural social services.
2	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation

4.4 Details of Sector Priorities

83. The medium term spending estimates for Kisii County 2015/2016-2018/2019 will ensure continuity in resource allocation from the last FY based on prioritized programmes aligned to the CIDP, Vision 2030 and policy initiatives to accelerate growth, employment creation and poverty reduction.

4.4.1 County Assembly

84. This is a key sector in the implementation of development programmes in the county as it has the oversight role. It also plays the role of strengthening the democratic space and governance in the county. Due to the crucial role of the sector, it has been allocated Kshs570. million in FY 2015/2016. This is increase of 6% from the previous year's budget. The County Assembly budget consists of 8% of the total county budget.

4.4.2 County Executive

85. This is the sector that is in charge of enhancing public service delivery, organization and coordination of County Government business through planning, mobilization of financial and human resources in the public sector. The sector also plays the role of linking the rest of the world in matters of development.

86. This sector requires considerable funding to oversee the implementation of the Kenyan Constitution, Vision 2030, CIDP, provision of leadership and policies in governing of the county. It has the task of supervising the County Government departments.

87. Due to the vital role the sector plays, in the FY 2015/2016 budget, the sector has been allocated KShs.350 million. This is an increase of 8% from the previous FY.

4.4.3 Administration and Corporate and Stakeholders management

88. The sector plays a key role in enhancing public service delivery, organization and coordination of County Government business. In addition, the sector links all other sectors with the rest of the world on matters of working agreement. The sector is expected to provide leadership and policy direction in the governance of the county; coordinate and supervise County Government affairs; articulate and implement the county's policies, promote efficient and effective human resource management and development for improved public service delivery, and public service integrity. The sector intends to construct administration offices in all the sub-counties, wards and villages to enhance service delivery. The priority of the sector is to establish county structures and ensure that they work in harmony to achieve county goals.

89. To achieve the above objectives, the sector has been allocated KShs.600million in the FY 2015/2016 from Kshs 556 in the FY 2014/2015. This is an increase of 8%.

4.4.4 Agriculture, Livestock and Fisheries

90. The county is mandated to carry out the following functions as spelled out schedule four of the Kenya constitution: crop and animal husbandly, livestock sale yards, abattoirs, plant and animal diseases control, fisheries and cooperative societies.

91. This sector is critical to the county's economic growth, employment creation and poverty reduction. The sector contributes about 30 percent of the national GDP and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service related sectors. The challenges facing the sector include land subdivisions, uncertified seeds, low production and productivity, poor marketing and marketing infrastructure, low value addition and competitiveness, inadequate physical infrastructure and low access to financial services as well as affordable credit.

92. The sector aims to address the above challenges in the 2015/2016 budget by raising agricultural productivity through improvement in the provision of extension services; improved livestock breeds through artificial insemination; increased adoption of appropriate livestock production technologies; introduction of traditional food crops; provision of farm inputs package to needy farmers, increased agricultural commercialization through value addition and forming of farming SACCOs to assist in marketing; improving governance of agricultural intuitions and departments, land development, and promotion of sustainable management of fisheries and forestry.

93. To achieve the above targets, KShs.480 million has been set aside for the sector in the 2015/2016 budget from Kshs. 469 million in the previous FY. This is an increase of 2%.

4.4.5 Education, Manpower and Labour

94. The County is assigned pre-primary education, village polytechnics, and home craft centres and children facilities. The sector's goal is to increase enrolment, reduce inequality, and exploit knowledge and skills in science, technology and innovation to achieve global competitiveness of county labour force.

95. The sector faces many challenges including inadequate infrastructure, inadequate learning materials and staffing. In addressing these challenges, the County Government in the last six months has taken stock of schools without classroom, lacking teachers and learning materials which has enabled us start the process of recruiting ECD teachers, advertise tenders for construction of classrooms and purchase of learning materials in selected schools in every ward.

96. In the FY 2014/2015, the sector intends to construct classrooms, purchase learning materials, recruit teachers, start a feeding programme, establish ECD teachers training centre in the county. For village polytechnics, the sector intends to construct workshops and classrooms, purchase tools, recruit instructors, formulate and promote relevant bills/regulations for efficient management of the institutions.

97. The sector has been allocated Kshs. 520 million in FY 2015/2016 compared to KShs.513 million in FY 2014/2015.This is an increase of 1%.

4.4.6 Energy, water, Environment and Natural Resources

98. This is a critical sector in the county economy with the role of ensuring that every citizen has access to portable water in a clean and secure environment. Under the sector, the assigned functions to the county include soil and water conservation, forestry, storm water management, and water sanitation services, air pollution, noise pollution, other public nuisance and outdoor advertising.

99. In the current FY, we have managed to protect two water springs per ward, rehabilitate or expand one water project per sub-county, and connect several schools, hospitals and markets with power. The sector aims to achieve expansion of water coverage and sewerage facilities; scaling up water storage to improve water security; mitigation and adaptation measures on climatic change, enforcement of sector laws and regulations.

100. Some of the challenges facing the sector include over-reliance on hydro-power, low investment in power generation by private sector, and inadequate funding. To deal with the above challenges in the next FY, the sector intends to connect schools, hospitals and market centres to electricity as well as encouraging the use of green or renewable sources of energy, supplying clean and safe drinking water through expansion of the existing water schemes,

starting new water schemes, drilling boreholes, encouraging and supporting roof harvesting in public institutions, and protect water springs.

101. The sector also intends to plant trees along the roads, market centres and in public institutions as a way of dealing with the challenge of global warming. In the area of sanitation, the sector plans to expand the sewer system in Kisii Town and its environs; identify and secure dumping sites in all the towns in the county and purchase garbage transport trucks.

102. The total budget estimate for the sector is Kshs. 340 million in FY 2015/2016 compared to an allocation of KShs.285 million allocated in FY 2014/2015. This is an increase of 19%.

4.4.7 Finance and Economic Planning

103. This is one sector that links all the departments in the county and the county with the rest of the world. The key role of the sector is to provide leadership and policy direction in the governance of the County, coordination and supervision of County affairs, promote sound public financial and economic management for socio-economic development promote macroeconomic stability, planning and budgetary process, implementation, monitoring and evaluation. In the last six months has put mechanisms in place for smooth functioning of the treasury, IFMIS and CFMIS have been operationalized in the county, the County Integrated Development plan has been prepared, among others.

104. The sector targets to establish all county assets, track all development projects and programmes; prepare quarterly briefs or reports on development; enhance revenue collection; source for development partners and ensure that funds in the county are prudently utilized to achieve the county objectives and the realization of the vision 2030. The sector will also ensure that all County offices are connected to ICT services.

105. In meeting the above targets, the sector has been allocated Kshs.500 million in the FY 2015/2016 budget. The sector was allocated Kshs1.3 billion in the previous year since it was paying pending bills from the FY 2013/2014 and paying Kshs.180 million mortgage fund for the MCAs.

4.4.8 Health Services

106. The Constitution has assigned the counties functions of health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public, and refuse removal, refuse dumps and solid waste disposal.

107. This is a key sector in the development in any economy and therefore it is one of the County priorities. The goal of the sector is to provide equitable and affordable health care to the

citizens. The aim of the sector is to improve immunization coverage, reduce deaths due to malaria and other diseases, increase the proportion of patients covered by ARV, and increase the proportion of mothers delivering in health facilities. However, the sector is facing numerous challenges ranging from inadequate infrastructure for service delivery to shortage of personnel; untimely supply of drugs, and more recently, the unwillingness of the health care workers to be supervised from the county. The County Government will try to address these challenges through continued investment in training of health workers; upgrading and equipping at least one health facility in each sub-county to Level 4 status; purchasing ambulances for all health facilities in the long-run and allocating more resources to the procurement of drugs.

108. The sector has been allocated Kshs.2.2 billion in FY 2015/2016 compared to KShs.2.0 billion in FY 2014/2015 budget with an increase of 11%. This is 29% of the total county budget.

4.4.9 Land, Housing, Physical Planning and Urban development

109. This sector is in charge of lands, survey and physical planning of the county. The sector faces many challenges ranging from lack of town plans in the county to lack of proper supervision on infrastructure in the county; slow issuance of land title deeds and other documents; lack of proper register of public land; illegal acquisition of public land by unscrupulous developers; lack of firefighting equipment; and shortage of dwelling units.

110. To address the above shortcomings, the sector intends to: prepare town plans for all major towns in the county; complete the preparation of the Integrated Strategic Urban Development for Ogembo, implement the integrated Strategic Kisii town plan, improve/rehabilitate urban roads in major towns, install street lights in major towns and market centres in the county, beacon public lands, complete Nyamache Town Hall, Complete public washrooms at the sub County Headquarters, fast track the issuance of land documents: establish the Development Control Unit which will ensure that buildings/ development meet the required standards.

111. The County also intends to refurbish the existing County housing units and encourage estate developers towards the construction of low cost houses. The County will also allocate funds for the acquisition of firefighting equipment.

112. To achieve the above targets, in the FY 2015/2016, the sector has been allocated KShs.320 million compared to KShs.317 million in the previous FY 2014/2015. This is an increase of 1% of the previous budget.

4.4.10 Public works, Roads and Transport

113. The sector continues to be an enabler for sustained development of our economy. Schedule Four of the Constitution allocates the county with functions related to traffic and parking and public roads transport. Roads development is one of the key priorities in the county as it is an enabler to economic development.

114. Key achievements in the current FY are opening up of new roads, installation of new culverts, and periodic road maintenance in every ward. In the current FY, the County Government is murraming at least 3km of roads in all the 45 wards in the county. However, the sector faces a number of challenges that limit its optimal operations, including: inadequate funds, heavy rains which destroy roads and sweeps culverts, lack of adequate local construction capacity and few private partners willing to invest in the sector.

115. The sector's priorities include improved road network in the county, organized transport system, general improved infrastructure and proper management of towns. The total budget estimate for the sector is Kshs.850 million in FY 2015/2016 against an allocation of Kshs.808 million in the FY 2014/2015 with an increase of 5%. This is 11 of the total county budget.

4.4.11 Social Protection, Culture and Recreation

116. The Constitution has mandated the sector to address social and economic issues affecting the vulnerable groups in the county, promote cultural heritage, empower youth, women and people living with disabilities. Currently, the sector is involved in vocational rehabilitation and training; social infrastructure development and gender mainstreaming; children's institution and community support services, transfer to the old persons; People Living with server Disabilities, Orphans and Vulnerable Children; prevention and promotion of county culture and heritage; provision of public library services; training of youth in entrepreneurial skills and refurbishment of sports facilities. Though, some of the programmes are executed by the national government, this is done in consultation with the County Government to ensure that all corners of the county are covered.

117. The priorities of the sector are to establish a cultural centre in the county; establish sports centres and talent centres; and establish a rehabilitation centre in the county to rehabilitate drug addicts and street children. The sector also intends to establish a museum in the county.

118. To achieve the above targets, the sector has been allocated KShs.300 million in FY 2015/2016 as compared to Kshs.245 in the previous year registering an increase of 22%. This represents 4% of the total county budget.

4.4.12 Trade Development, Regulation and Industry

119. The constitution has entrusted the county with management of markets, fair trading licenses' and promotion of local tourism. This sector is critical to the realization of the Vision 2030 through the enhancement of economic growth. The SMEs has greatly contributed to the impressive performance over the recent past by creating many employment opportunities through self-employment in the *Jua Kali* sector. The sector has contributed in transforming Kisii Town into a commercial hub in the region. The presence of many commercial banks and improvement in the catering industry and many business outlets can attest to this.

120. However, the sector is facing many challenges ranging from high cost of production, stiff competition from accessing international markets, counterfeits and contraband goods, and congestion in Kisii Town. The sector targets to promote industrial development; value addition in soapstone and other *Jua Kali* products; trade development and tourism.

121. To achieve these goals, the County Government has allocated KShs.300 million in FY 2015/2016 up from KShs.200 million in FY 2014/2015. This is an increase of 50%.

4.4.13 Kisii Town

122. This is a department in charge of the management of Kisii Town. The department is experiencing many challenges ranging from poor infrastructure to population pressure due to rapid growth of the town and its environs.

123. The Management of the town intends to partner with other departments to rehabilitate the sewer lines in the town, expand the water lines, ease congestion in the town, create parks town, beautify the town by planting the trees along town roads, ensure general cleanliness of the town by identifying the dumping site and putting measures in place to ensure that the waste management is properly managed.

124. To achieve the above targets, in the FY 2015/2016 budget, the county has allocated the department Kshs. 150 million compared to KShs.97 million in FY 2014/2015. This is an increase of 53%.

4.4.14 County Service Board

This is a key department in the management of public servants in the County. The department has been allocated Kshs. 100 million from Kshs.58 million in the FY 2014/2015. This is an increase of 72%.

Annex I: Legal Basis for Preparation of the Fiscal Strategy Paper

The Kisii County Fiscal Strategy Paper is prepared in accordance with Section 117 of the Public Finance Management Act, 2012. The law states that:—

1) The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year;

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

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

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

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

(a) The Commission on Revenue Allocation;

(b) The public;

(c) Any interested persons or groups; and

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

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

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

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

Annex II Fiscal Responsibility Principles

In line with the Constitution, the Public Finance Management Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act (Section 107) (2) which states that:

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) Over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development;

(c) the County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly;

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

(e) The county debt shall be maintained at a sustainable level as approved by County Assembly.

(f) and the Fiscal risks shall be managed prudently; and

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

(3) Which states that for the purpose of sub section (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue?

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

(5) The regulations may add to the list of fiscal responsibility principles set out in sub-section (2)