



KISII COUNTY GOVERNMENT

FINANCE AND ECONOMIC PLANNING

COUNTY FISCAL STRATEGY PAPER

(CFSP)

JANUARY, 2018

FOREWORD

This is the fifth County Fiscal Strategy Paper (CFSP) to be prepared in line with Section 117 of the Public Finance Management Act, 2012. The Paper takes into account the priorities earmarked for implementation in the Annual Development Plan (ADP), 2017. It articulates economic policies and structural reforms as well as sector based expenditure programs that the County intends to implement in realization of the Second Kisii County Integrated Development Plan (CIDP), 2018-2022.

The Paper covers the following broad areas: review of the fiscal performance for the first half of the FY 2017/2018; recent economic developments and outlook; strategic priority areas for FY 2018/2019 as spelt out in the ADP, 2017; and the medium term fiscal framework.

This 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 of employment creation and poverty reduction. 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.

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COUNTY EXECUTIVE COMMITTEE MEMBER, FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENTS

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While it is not possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the County Government of Kisii for their dedication, sacrifice and commitment to public service that enabled the timely production of the CFSP, 2018.

Wilfred Auma

CHIEF OFFICER

FINANCE AND ECONOMIC PLANNING

ABBREVIATIONS

ADP	Annual Development Plan
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
EYE	Early Years Education
FY	Financial Year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
KShs.	Kenya Shillings
KTRH	Kisii Teaching and Referral Hospital
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Financial Management
PPP	Public Private Partnership
SACCO	Savings and Credit Cooperative
SDGs	Sustainable Development Goals
SGR	Standard Gauge Railway
SMEs	Small and Medium Enterprises
USD	United States Dollars
VAT	Value Added Tax

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CHAPTER ONE

BACKGROUND INFORMATION

1.1 OVERVIEW

1. Kisii County Fiscal Strategy Paper (CFSP), 2018 is the first to be prepared under the Medium Term Period of 2018-2022. It sets out County goals and strategic priorities that will form the basis for formulation of the County's budget for Financial Year (FY) 2018/19. This Paper is prepared in accordance with Section 117, of the Public Finance Management (PFM) Act, 2012. It covers the following broad areas: Review of the fiscal performance of the first half of FY 2017/2018; Highlights of the recent economic developments and economic outlook; County fiscal and budget framework; Broad strategic priorities and policies for FY 2018/2019 and the medium term expenditure framework.

2. The strategic priority areas outlined in this Paper are in line with the County Annual Development Plan (ADP), 2017; County Integrated Development Plan (CIDP), 2018-2022; Medium Term Plan III (MTP III) that implements the Vision 2030; and Sustainable Development Goals (SDGs). The priorities are geared towards the attainment of the County's goal of "*Prosperity for all*". For this goal to be made a reality, there is need to make substantial investments in key priority areas that will strengthen the foundation upon which to pursue the journey of building a prosperous County. This will be achieved through the adoption of a development strategy based on programmes that spur economic development.

3. In the ADP, 2017 the following nine strategic priority areas had been identified: Water Reticulation and Environment; Healthcare; Road Development; Food Security (Agriculture); Land Management and Sustainable Urban Development; Early Years Education (EYE) and Vocational Training; Culture, Youth and Sports; Social Protection and Trade and Market Development. However, in terms of funding, in the FY 2018/2019 and over the medium term, the following will be prioritized:

- i. Water Reticulation
- ii. Health Care
- iii. Roads Development
- iv. Trade and Market Development
- v. Agriculture / Food Security

1.2. LEGAL FRAMEWORK FOR THE PREPARATION OF COUNTY FISCAL STRATEGY PAPERS (CFSP)

4. The preparation of the CFSP is provided for in Section 117 of the Public Finance Management (PFM) Act, 2012 which states that;

- i. The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year.
- ii. The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- iii. In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for the coming financial year and over the medium term.
- iv. 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.
- v. In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of: The Commission on Revenue Allocation, The Public and any other forum that is established by legislation.
- vi. Not later than fourteen days after submitting the County Fiscal Strategy Paper, the County Assembly shall consider and may adopt it with or without amendments.
- vii. The County Treasury shall consider any recommendations made by the County Assembly when finalizing the budget proposal for the financial year concerned.
- viii. The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after its submission to the County Assembly.

1.3 OBJECTIVES OF THE CFSP

5. The objectives of the County Fiscal Strategy Paper are to:

- i. Set the base for the preparation of the County budget for the FY 2018/2019.
- ii. Specify the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for the coming financial year

- iii. Outline the financial outlook with respect to County revenues, expenditures and borrowing for the coming financial year and over the medium term.

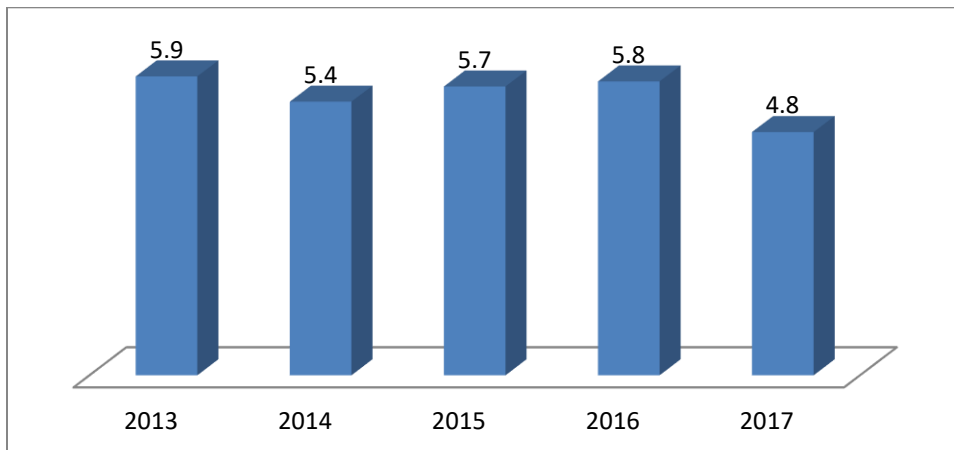
CHAPTER TWO

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 RECENT ECONOMIC DEVELOPMENTS

6. The Kenyan economy registered a growth of 4.8 percent in 2017, compared to 5.8 percent in 2016 according to the Kenya National Bureau of Statistics (KNBS), 2017 report. This decline is attributed to the 2017 prolonged electioneering period, adverse weather conditions in early months of 2017 and subdued credit to the private sector. The growth in 2017 was supported by the on-going public infrastructure development, improved weather towards end of 2017, recovery in the tourism sector and a stable macro-economic environment (Budget Policy Statement, 2018). The economic performance in the last five years is illustrated in Figure 2.1.

Figure2.1: GDP Trends (2013-2017)



Source: KNBS Website

7. However, growth is projected to grow to 5.8 percent in 2018 due to investments in the strategic areas under “the Big Four Plan”, namely: increasing the share of the manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition; expanding universal health care coverage and constructing affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth and development.

8. According to the Budget Policy Statement (BPS), 2018, Inflation averaged 6.7 percent during the period 2013-2017 compared with 7.4 percent during 2002-2007 and 10.6 percent during 2008-2012 .Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses. However, inflation increased to above target of 5 ± 2.5 percent in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.8 percent in January 2018 from 7.0 percent in January 2017, and was within the Government's target range.

9. The BPS further indicates that the Kenya Shilling exchange rate remained broadly stable against major international currencies. As at January 2018, the shilling exchange rate against the Dollar was at KShs.102.9 compared with KShs.103.7 in January 2017. Against the Euro and the Sterling pound, the Shilling weakened to KShs.125.4 and KShs.141.9 in January 2018 from KShs.110.2 and KShs.128.0 in January 2017.

10. Regionally, the Kenya Shilling exchange rate has continued to display relatively less volatility. This stability reflected resilient export receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

11. The capping of the interest rate at 4 percent above the Central Bank Rates (CBR) in September, 2016 was expected to boost credit uptake by the private sector. However, growth of credit to the private sector plummeted from 24.5 percent in 2015 to 9.1 percent in 2017. This is because banks are opting to lend to safer borrowers such as the Government and large corporations rather than small riskier borrowers. This has seen banks scaling down their operations by laying off staff and closing of branches as it happened with Standard Chartered Bank, Kisii branch.

12. Remittances have become the country's largest source of foreign exchange insulating the domestic economy from external shocks by ensuring the steady supply of foreign exchange in the system. According to World Bank development indicator, remittances have recorded a steady

growth from \$ 1.3 Billion in 2013 to \$1.4 Billion, \$1.5 Billion, \$1.7 Billion and 1.9 Billion in 2014, 2015, 2016 and 2017 respectively, constituting 2.4 percent of the GDP.

2.2 COUNTY GROWTH PROSPECTS

13. The growth prospects for the County will largely depend on the performance in the key County priority areas, namely:

2.2.1 Investment on Water Reticulation

14. To ensure the residents have improved sources of water, the County invested in protection of springs; drilling of boreholes; and, construction and rehabilitation of water schemes. A total of 675 water springs across the county were protected; 30 boreholes were drilled and fitted with hand pumps; 135 water tanks were distributed to public institutions; and, 7 water schemes rehabilitated.

15. Over the medium term, the County Government will continue to invest in water infrastructure to ensure access to safe and portable drinking water and improve water quality by reducing pollution and elimination of dumping; protecting and restoring water-related ecosystems; and increasing afforestation and re-afforestation in the County. This is aimed at reducing water-borne diseases and the distance to the nearest water point from the current 1.5 km to less than 1 km.

2.2.2 Investment in Health Care

16. To provide quality healthcare to the residents, the County recruited 550 health workers including specialists and medical officers. It also upgraded Kisii Level Five hospital into Kisii Teaching and Referral Hospital (KTRH) and equipped it including Sub County hospitals with modern equipment such as digital x-rays, kidney dialysis machine, theatre and intensive care unit. Further, the County constructed a digitalized pharmaceutical store; 100 body capacity mortuary; 50 unit hostel block; 250 capacity male ward; and, renovated the laundry block in KTRH. Infrastructural development has also occurred in Levels 2 and 3 hospitals through infrastructural upgrade and renovation of basic facilities and installation of medical equipment.

17. To enhance emergency response, the County Government also purchased 10 state of the art ambulances. This has aided in transfer of over 9,484 critical cases including expectant mothers for specialized care.

18. Over the medium term, the County Government will continue to invest in quality healthcare services in the development of a healthy population for sustained economic growth and development. To achieve this, emphasis will be on preventive health care so as to reduce disease burden, this will be done through implementation of community health strategies and vector control. In addition, the County will partner with other stakeholders to invest in upgrading healthcare infrastructure and modernizing medical equipment.

2.2.3 Investment in Roads

19. In roads development, the County opened and graded over 1,000 kilometers and gravelled over 850 kilometers. It also purchased road construction equipment including tippers, graders, excavators, drum rollers, shovels and low-wheel loaders.

20. Over the medium term, the County Government will continue to invest in quality roads to improve access to markets and mobility of goods and services. The focus will be on opening and maintenance of County roads, construction of bus parks and bridges to ease movement of goods and people across the County.

2.2.4 Investments in Trade and Market Development

21. To provide an environment conducive for attracting investment, the County constructed and rehabilitated market shades and toilets in various centres across the County. It also fenced various markets and purchased land for market development.

22. The County developed and enacted the Kisii Trade Credit Scheme which provides a legal framework for it to provide credit for entrepreneurs at low interest rates. Through this scheme, the County linked the SACCO with money lender platinum credit and Honda East Africa enabling 200 youth acquire motor cycles. The County also constructed 200 *boda boda* shed to improve working conditions of the riders and installed 790 solar powered street lights and 42 high mast lights across the County.

23. Over the medium term, the focus will be on completion of ongoing retail markets such as Itibo and Suneka markets, expansion of Daraja Mbili market, installation of street lights, tourism promotion and provision of affordable credit to small scale traders.

2.2.5 Investment in Agriculture/ Food Security

24. To improve the dairy herd, and increase production and productivity, the County introduced subsidized artificial insemination (AI) services reducing the costs from KSHs 3000 to KSHs. 500. It further distributed 179 dairy goats to farmer groups across the wards and purchased and distributed 11,018 local poultry as breeding stock to over 6000 farmers. To control animal diseases, the county successfully conducted vaccination campaigns against foot and mouth disease (14,896 animals), lumpy skin disease (7,509 cattle) and rabies (214 dogs).

25. In promoting fish farming, the county constructed 131 fish ponds and distributed fingerlings to farmers across the wards. Further, it purchased and distributed 37 greenhouse kits, 5500 tissue culture banana suckers to farmers across the wards.

26. To increase food production and boost incomes to farmers, the County distributed farm inputs where 10,000 farmers received certified seeds and fertilizer.

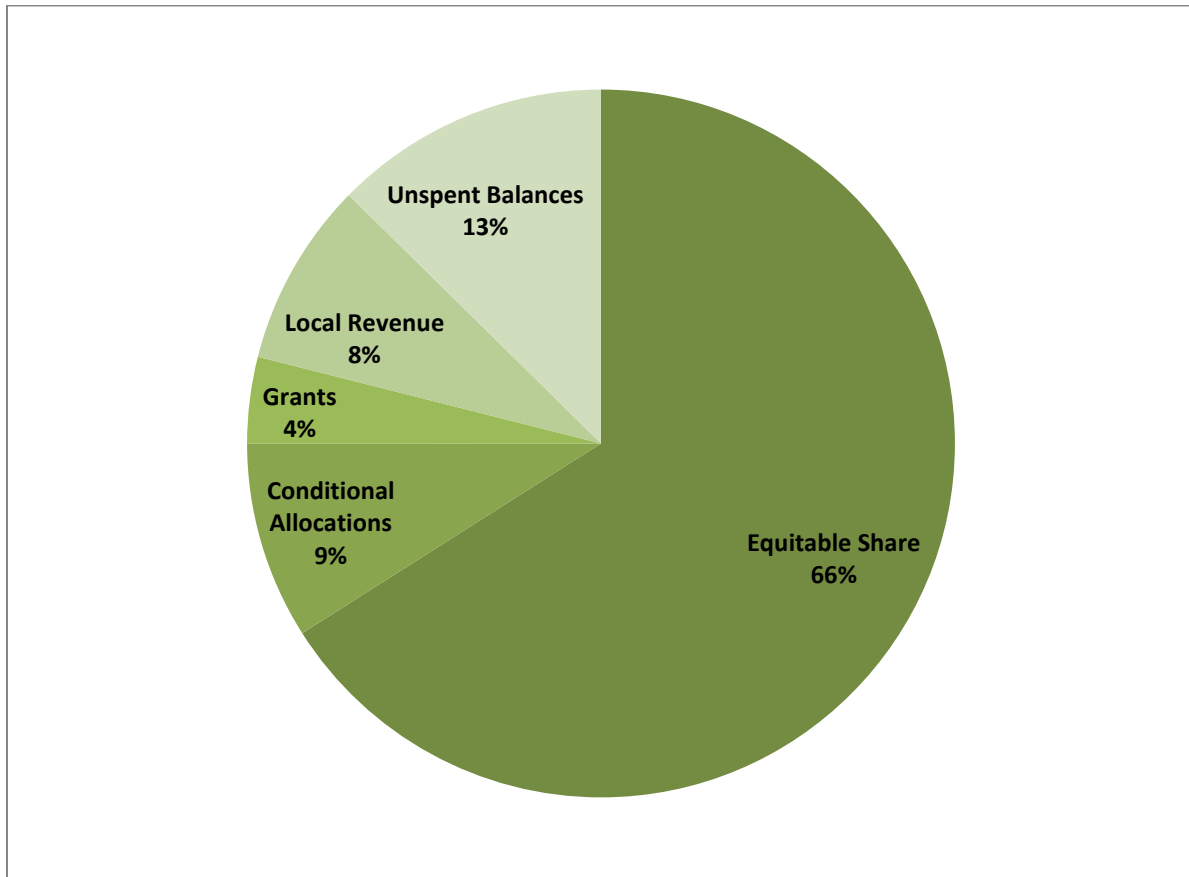
27. Over the medium term, to this sector will invest in improving agricultural productivity through programmes such as intensified crop and animal production; aquaculture; enhanced extension services; agro-processing and value addition; and, revival of the coffee sector. This is expected to enhance food security, employment creation, income generation and industrialization.

2.3 FISCAL PERFORMANCE AND EMERGING CHALLENGES

2.3.1 Fiscal Performance

28. The County's approved budget for FY 2017/2018 amounts to **KShs 11, 257,604,967** comprising of recurrent expenditure of KShs **7, 511, 239,395** and development expenditures of KShs **3, 746,365,572**. It is financed by the Equitable Share, Conditional Allocations and Grants from the National Government and Development Partners and Local Revenue as illustrated in Figure 2.2

Figure 2.2: Revenue in FY 2017/2018



2.3.1.1 Revenue Outturns

29. As at 31st January 2018, the County Treasury had received **KShs.3,983,912,443** against a figure of **KShs.6,457,045,599**, which is **58.3 percent** of the total budget as shown in Table 2.1

Table 2.1: Revenue Outturns as at 31st January, 2018

Item	Target	Actual Receipts	Outstanding Balance
Equitable Share	3,623,154,153	2,132,157,983	1,490,996,170
Conditional Share for Kisii Level Five	243,583,815	135,711,283	107,872,532
Road Maintenance Fuel Levy Fund	176,305,294	140,956,469	35,348,825
Leasing of Medical Equipment	55,851,065	0	55,851,065
Conditional Allocation for Free Maternal Health Care	82,258,147	0	82,258,147
Conditional Allocation for Compensation for User Fee Foregone	15,247,749	0	15,247,749
Kenya Devolution Support Program 'Starter Pack'	29,384,536	0	29,384,536
Allocation for Development of Youth Polytechnics	17,393,653	0	17,393,653
National Agricultural and Rural Growth Inclusive Project	29,166,667	0	29,166,667
ASDSP - SIDA	4,932,659	0	4,932,659
Conditional Allocation-Health systems for universal care	29,741,055	23,174,848	6,566,207
Loans and Grants- DANIDA	20,480,807	20,480,807	0
EU Instruments for Devolution Advice and Support	38,500,000	0	38,500,000
Urban Development Grant	95,698,050	0	95,698,050
Other Loans and Grants	20,089,587	0	20,089,587
Unreleased Balances for FY 2016/2017	1,421,091,695	1,421,091,695	0
Local Revenues	554,166,667	110,339,358	443,827,309
TOTAL REVENUE	6,457,045,599	3,983,912,443	2,473,133,156

Source: Kisii County Treasury, 2018

30. The information in Table 2.1 indicates that **61.7 percent** of the expected revenue of **KShs.6.4 Billion** was received in the first seven months of FY 2017/2018. The shortfall is comprised of delayed disbursements from the National Treasury and unrealised local revenue targets. This adversely affected the implementation of the planned programmes and projects.

31. The County Government projected to raise **KShs.554 Million** from local sources in the first seven months of FY 2017/2018. However, only **KShs.110 Million** was realised in the same

period representing **20 percent** as shown in Table 2.2. The unrealised local revenue target is attributed to leakages, weak enforcement and prolonged electioneering period.

Table 2.2: Domestic Revenue Outturn

CODE	ITEM	AMOUNT
1-2101	Property rates	1,998,488
	Property rates arrears	1,088,082
1-2104	Other Property Charges	168,714
1-2201	Business Permits Current Year	12,303,840
1-2202	Business Permits Penalties	186,866
1-2311	Fruits & Vegetables / Produce Cess	2,970,180
1-2501	Ground Rent - Current Year	171,182
1-3105	Miscellaneous Income	105,300
1-3106	Isolation Fee (Surcharge on Business Permit)	46,500
1-3203	Impounding Charges	632,660
1-3302	Quarry Extraction Fees	162,353
1-5101	Market Entrance / Gate Fee	27,568,278
1-5102	Market Plots Rent	243,650
1-5104	Market Kiosks Rent	1,500
1-5105	Market Stalls Rent	3,002,500
1-5201	Enclosed Bus Park Fee	15,114,590
1-5211	Other Vehicles Enclosed Park Fees (Cars, Lorries, etc.)	4,852,650
	Motorcycle parking stickers	6,216,020
1-5221	Street Parking Fee	12,988,690
1-5225	Clamping Fine	45,000
1-5226	Towing Fine	3,800
1-5227	Storage Fee	3,800
1-8401	Slaughtering Fee	380,150
1-9112	Buildings Plan Approval Fee	5,670,855
1-9113	Buildings Inspection Fee	4,200
1-9132	Sign Boards & Advertisement Fee	12,342,800
1-9201	Fire-Compliance Fee	1,331,190
	Devolved function revenues	735,520
TOTAL		110,339,358

Source: Kisii County Treasury, 2018

2.3.2 Recurrent and Development Expenditures

2.3.2.1 Recurrent Expenditures

32. The County Government spent **KShs.3,353,275,493** as recurrent expenditure as at 31st January 2018 out of Exchequer releases of **KShs.3,453,043,967** representing **99 percent**. However, **Kshs 4,381,556,319** should have been received by the end of the same period as shown in Table 2.3.

Table 2.3: Recurrent Expenditure as at 31st January, 2018

Department	Approved Budget (KShs)	Exchequer Issues as at 31/01/2018 (KShs)	Expenditure as at 31/01/2018 (KShs)	Balance as at 31/01/2018 (KShs)	Absorption Rate (%)
	(a)	(b)	(c)	(b-c)	(c/b)
County Assembly	513,246,839	394,722,297	337,613,834	57,108,463	86
Office of the Governor & Deputy Governor	269,307,068	228,727,225	230,210,901	-1,483,676	101
County Public Service Board	25,794,067	25,432,307	12,351,770	13,080,537	49
Administration and Stakeholder Management	346,654,992	302,752,375	293,122,838	9,629,537	97
Finance and Economic Planning	770,345,797	352,628,011	356,230,596	-3,602,585	101
Agriculture, Livestock, Fisheries and Cooperative Development	231,267,839	175,793,438	158,473,278	17,320,160	90
Health Services	1,549,188,689	1,425,150,567	1,391,979,797	33,170,770	98
Energy, Water and Environment	88,146,715	75,485,599	82,317,344	-6,831,745	109
Trade, Industry and Tourism	39,650,662	30,641,555	34,806,091	-4,164,536	114
Lands and Physical Planning	46,692,749	37,340,866	46,726,491	-9,385,625	125
Culture, Sports, Youth and Social Services	41,170,995	37,128,828	35,303,481	1,825,347	95
Education and Youth Affairs	316,781,592	272,678,035	265,020,006	7,658,029	97
Roads, Public Works, and Housing	83,935,823	59,866,222	56,213,684	3,652,538	94
Kisii Town	59,372,492	34,696,642	52,905,382	-18,208,740	152
Total	4,381,556,319	3,453,043,967	3,353,275,493	99,768,474	97

Source: Kisii County Treasury, 2018

2.3.2.2 Development Expenditures

33. The County Government spent **KShs.550 Million** as development expenditure as at 31st January 2018 out of Exchequer releases of **KShs.553 Million** representing **99 percent**. However, **Kshs 2.2 Billion** should have been received by the end of the same period as shown in Table 2.4.

Table 2.4: Development Expenditure as at 31st January 2018

Department	Approved Budget (KShs)	Exchequer Issues as at 31/01/2018 (KShs)	Expenditure as at 31/01/2018 (KShs)	Balance as at 31/01/2018 (KShs)	Absorption Rate (%)
	(a)	(b)	(c)	(b-c)	(c/b)
County Assembly	72,136,540	13,275,124	12,144,600	1,130,524	91
Office of the Governor and Deputy Governor	2,916,667	0	0	0	0
Administration and Stakeholder Management	63,601,978	16,245,148	17,855,791	-1,610,643	110
Finance and Economic	104,240,208	17,233,187	21,453,314	-4,220,127	124
Agriculture, Livestock, Fisheries and Cooperative development	150,872,260	69,555,143	67,343,690	2,211,453	97
Health Services	445,589,466	109,890,388	104,479,830	5,410,558	95
Energy, Water and Environment	174,592,345	38,078,279	37,986,967	91,312	99
Trade, Industry and Tourism	67,622,157	4,252,478	3,307,859	944,619	78
Land and Physical Planning	141,841,848	55,784,377	62,440,618	-6,656,241	112
Culture, Sports, Youth and Social Services	91,404,439	17,909,580	16,782,468	1,127,112	94
Education and Youth affairs	108,276,986	1,883,120	2,377,232	-494,112	126
Roads, Public Works and Housing	610,347,082	209,689,666	204,559,636	5,130,030	98
Kisii Town	151,937,946	0	0	0	0
Total	2,185,379,922	553,796,490	550,732,005	3,064,485	99

Source: Kisii County Treasury, 2018

2.3.3 Emerging Issues

34. The challenges experienced during the implementation of the first seven months of FY 2017/2018 budget include:

- i. Delayed disbursements by the National Treasury.
- ii. Underperformance in revenue collection.
- iii. Accumulation of pending bills.
- iv. High wage bill.

CHAPTER THREE

COUNTY FISCAL POLICY AND BUDGET FRAMEWORK

3.1 OVERVIEW

35. The County Government will pursue a prudent fiscal policy framework to ensure macro-economic stability. In addition, the fiscal policy objectives will provide an avenue to support economic activities while allowing for implementation of devolution mandates within a sustainable public financial management system. With respect to revenue, the County will maintain a strong revenue effort over the medium term. Measures to achieve this include expanding the revenue base, automation and partnering with Kenya Revenue Authority (KRA) on revenue collection.

36. On the expenditure side, the County will continue with rationalization of expenditures to improve efficiency and avoid overlaps and wastages. Expenditure management will be strengthened through the Integrated Financial Management Information System (IFMIS) and other appropriate financial management systems across all departments. In addition, the PFM regulations are expected to accelerate reforms in expenditure management system at the County.

3.2 COUNTY FISCAL POLICY

37. The fiscal policy stance over the medium term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same time supporting County departments for effective delivery of services. To maintain fiscal predictability revenue has been set at **KSHs.750 Million** in FY 2018/2019.

38. The County Government remains committed to a sustainable fiscal policy path that will aim to grow revenues progressively and gradually reduce non priority expenditures. Through this process, the focus will be to maintain the development budget of at least **30 percent** of the total budget.

39. The expenditure priorities have been reoriented towards programmes and projects in Water Reticulation: Health Care: Roads Development: Trade and Market Development and Agriculture/Food security. To supplement its efforts in development, the County Government will establish the relevant legislative framework for Private Public Partnership (PPP) to allow implementation of critical projects that will accelerate socio-economic development.

3.2.1 Fiscal Responsibility Principles

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

- i. The County Government's recurrent expenditure shall not exceed the County Government's total revenue;
- ii. Over the medium term a minimum of thirty percent of the County Government's budget shall be allocated to the development expenditure;
- iii. The PFM (County Governments) Regulations, 2015, requires County Governments to maintain employee compensation levels at no more than 35 percent of their total revenue;
- iv. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- v. The County debt shall be maintained at a sustainable level as approved by County Assembly;
- vi. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

3.2.2 Fiscal Structural Reforms

41. The County Government will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms aimed at enhancing transparency and accountability in order to provide fiscal space for financing priority projects. The structural reforms include the following:

- i. Establishment of an internal audit committee and enhancing its capacity through trainings on the internal control framework, its roles, PFM legislation and modern internal audit approaches.
- ii. Formulation of Regulations to operationalize Public Funds. Some of the Funds which need Regulations include Car and Mortgage Fund, Disability Fund, Youth and Women

Fund, Affirmative Fund, National Hospital Insurance Fund (NHIF), and Bursary Fund among others. There is need also to insure these Funds against contingent liabilities in the event of defaults and/or expiry of beneficiaries' employment contracts.

- iii. Development of an updated asset register.
- iv. Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all projects and consumables.
- v. Reduction in recurrent expenditure and devote more resources to capital expenditure.
- vi. Strict adherence to IFMIS platform in the management of public funds.
- vii. Adoption of a unified Public Procurement Portal on the e-Procurement System covering all procurement of goods, works and services
- viii. Build the capacity of all stakeholders including bidders, procurement personnel and other procuring entities staff involved in procurement activities.
- ix. Automation of revenue collection and administration.
- x. Establishment of a Monitoring and Evaluation Unit.
- xi. Strengthen the financial, budget implementation, and monitoring and evaluation reporting.

3.2.3 Financing Strategy

42. The County Government budget for FY 2018/2019 and over the medium term will be financed by the Equitable Share, Conditional Allocations, Own Source Revenues and Loans and Grants. However, to manage cash flow problems, the County may borrow from domestic sources as stipulated in the Constitution of Kenya, 2010 and the PFM Act, 2012.

3.3 KISII COUNTY 2018/2019 BUDGET FRAMEWORK

43. The Kisii County 2018/2019 budget framework is set against the background of the County Government's strategic objectives and priorities contained in the ADP, 2017. The County is expected to realize key developments by ensuring adequate budgetary allocations in the project activities and programmes of the priority areas.

3.3.1 Revenue Projections

44. The total revenue for the FY 2018/2019 is projected at **KShs.11.32 Billion** compared to **KShs. 11.26 Billion** in the FY 2017/2018 as illustrated in Table 3.1.

Table 3.1: County Government Fiscal Projection,2017/2018-2020/2021

Item	2017/2018	2018/2019	2019/2020	2020/2021
Total Revenue	11,257,604,967	11,327,954,584	11,781,072,768	12,252,315,678
Equitable Share	7,429,200,000	7,693,000,000	8,000,720,000	8,320,748,800
Conditional Allocation – Kisii Level 5	417,572,254	417,572,254	434,275,144	451,646,150
Conditional Allocation – Free Maternal Health Care	141,013,965	0	0	0
Agricultural Sector Development Support Programme (ASDSP)	8,455,986	0	0	0
E.U. Instruments for Devolution Advice and Support	66,000,000	0	0	0
Leasing of Medical Equipment	95,744,681	200,000,000	208,000,000	216,320,000
DANIDA – Health Care Support Services	20,480,807	0	0	0
Conditional Allocation for Compensation for User Fee Forgone	26,138,997	26,138,997	27,184,557	28,271,939
Urban Development Grant	164,053,800	0	0	0
Road Maintenance Fuel Levy Fund	302,237,646	203,376,725	211,511,794	219,972,266
Conditional Allocation – Health Systems for Transforming Universal Health Care	50,984,665	0	0	0
Kenya Devolution Support Programme	50,373,489	0	0	0
Loans and Grants	34,439,292	527,494,070	548,593,833	570,537,586
Conditional Allocation for Development of Youth Polytechnics	29,817,690	70,090,000	72,893,600	75,809,344
National Agricultural and Rural Growth Inclusive Project	50,000,000	0	0	0
Unreleased balances for FY 2016/2017	1,421,091,695	1,440,282,538	1,497,893,840	1,557,809,593
Local revenue	950,000,000	750,000,000	780,000,000	811,200,000
Total Expenditure	11,257,604,967	11,327,954,584	11,781,072,768	12,252,315,678
Recurrent	7,511,239,395	7,547,568,209	7,849,470,937	8,163,449,775
Development	3,746,365,572	3,780,386,375	3,931,601,831	4,088,865,903

Source: Kisii County Treasury, 2018

45. In the FY 2018/2019, County revenue is projected at **KShs.11.32 Billion** compared to **KShs.11.25 Billion** in FY 2017/2018, representing an increase of **0.62 percent**.

3.3.2 Expenditure Forecasts

46. The County Government's expenditures over the medium term are projected at **KShs.11.32 Billion, KShs.11.78 Billion and KShs.12.25 Billion** in FY 2018/2019, FY 2019/2020 and FY 2020/2021 respectively as presented in Table 3.1.

3.3.2.1 Recurrent Expenditure

47. Recurrent expenditures in the FY 2018/2019 is projected at **KShs.7.54 Billion** compared to **KShs.7.51 Billion** in FY 2017/2018 representing an increase of **0.4 percent**.

48. However, controls such as recruitment on need basis and rationalization of the County Payroll will also be put in place to deal with the high wage bill.

3.3.2.2 Development Expenditure

49. The development expenditure is projected at **KShs.3.78 Billion** in the FY 2018/2019 from **KShs.3.74 Billion** in the FY 2017/2018.

50. The County Government will continue to invest in infrastructure to unlock growth potential, create an enabling environment for investment and job creation, food security and broad based sustainable economic growth, quality and accessible social services such as health, education and social safety nets. Completion of stalled and on- going projects and clearing of pending bills will also be given a priority.

3.3.3 Prudent Management of Risks

51. The legal framework for Public Financial Management requires County Governments to disclose specific risks with potential significant impact on the County economic environment, and prudently manage them. Some of the risks likely to be experienced include;

- i. **Unmet revenue targets:** This will adversely affect the implementation of planned programmes and projects. To address the shortfall, the government will widen revenue base, automate revenue collection, capacity the revenue staff, and use realistic projections over the medium term.

- ii. **Pending statutory deductions:** Based on audit reports, the County has accumulated expenditure arrears related mainly to unremitted statutory deductions (PAYE, NHIF and employees' pension contributions), salary arrears, pending bills due to contractors and suppliers of goods and services as well as utility payment backlogs.
- iii. **Climate change:** This poses potential economic consequences which include low productivity in agriculture and other climate sensitive sectors, fragile eco-systems and water supply systems. To mitigate the effects of climate change, farmers will be encouraged to adopt climate smart technologies such as irrigation, greenhouse technologies, and re-afforestation.
- iv. **Natural disasters:** These often lead to lower than projected economic growth and have huge budgetary implications for example the severe drought that started in Mid-2016 heavily impacted on agricultural activities resulting in the contraction of the agricultural sector. To mitigate this, the County Government will enhance the Emergence Fund allocation, and improve on its disaster preparedness.

CHAPTER FOUR

MEDIUM TERM EXPENDITURE FRAMEWORK

4.1 SOURCES OF FUNDS

52. Kisii County Government has three main sources of funding namely: - revenue from local sources; transfers from the National Government as provided under Article 201 of the Constitution; and, Loans and Grants. The resource envelope available for allocation among the spending units is based on the recommendations from the Commission on Revenue Allocation, The Senate, National Assembly, National Treasury, among others.

4.2 SPENDING PRIORITIES

53. The resource allocation is based on the County priorities as outlined in Chapter one which are as follows:

4.2.1 Water Reticulation

54. The overall goal of this strategic priority is to provide access to safe and clean portable water, protecting and restoring water-related ecosystem and increasing forest cover by forestation and re-forestation. To realize this, resources will be allocated towards construction and rehabilitation of water schemes, spring protection, drilling and equipping of boreholes, promotion of green energy, cleaning of rivers, solid and liquid waste management, establishment of tree nurseries and tree planting.

4.2.2 Health Care

55. The County Government will endeavour to provide quality, affordable and accessible healthcare services to all citizens. This will be achieved through: - stocking of health facilities with pharmaceutical and non-pharmaceutical supplies; recruitment of health human resource; provision of ambulance services; construction, completion and equipping of health facilities; establishment of a Cancer Care Centre; and, digitization of pharmaceutical stores. Resources will also be directed towards preventive and primary healthcare services such as:- maternal and child healthcare services; operationalization of community health units; increasing community based health surveillance and capacity building; immunization outreaches; focalized spraying; HIV/AIDS interventions; insecticides treated nets distribution; campaigns against open defecation; and, disease surveillance among others.

4.2.3 Road Development

56. To facilitate access to markets and enhance mobility of factors of production, the County will construct and maintain County roads, walkways, bus parks, foot bridges, motorcycle sheds and, install culverts.

4.2.4 Trade and Market Development

57. To create jobs and wealth for citizens, the County Government will establish and expand markets; construct sanitation facilities in market centres and Jua Kali shades; support traders through provision of affordable credit; offer trainings to Small and Medium Enterprises (SMEs) owners and explore and link them to national and international markets for their products.

4.2.5 Agriculture/ Food Security

58. To enhance food security and earnings of our farmers, the County Government will improve agricultural extension services, animal and crop husbandry; provide subsidised farm inputs; promote greenhouse technology and aquaculture. Further, resources will also be directed towards revival of the coffee sector; completion of the avocado factory; construction of cereal depot; and, completion of hostels at Kisii Agricultural Training Centre.

4.3 OTHER SECTORS

Whereas the focus is in the five priority areas as discussed in 4.2, resources will also be channeled towards other sectors of the economy.

4.3.1 Land Management and Sustainable Urban Development

59. To enable sustainable land use and urban development, the County Government will develop a County spatial plan and beacon public land. To provide a business environment conducive for attracting investment, resources will be channelled towards integrated solid waste management system; street lighting; and, storm water and drainage system management. To enhance response to disasters, the County will purchase a fire engine; construct and equip a fire station; and, build capacity of personnel on firefighting among other disaster management skills.

4.3.2 EYE and Vocational Training

60. To improve access to pre-primary education and impart skills to the youth, the County will continue constructing and equipping EYE centers, workshops and youth polytechnics. Further, caregivers and youth polytechnic instructors will be employed. In addition, to boost transition and retention rates and support the needy students, the County will enhance the Bursary Fund and improve its management.

4.3.3 Culture, Youth and Sports

61. To promote and preserve the local culture, the County Government will continue to support the council of elders, construct and equip cultural centers, museums, libraries and social halls. To nurture and promote local talent, resources will also be directed to the construction of stadia and Talent Academy and purchase of sporting equipment.

4.3.4 Social Protection

62. To ensure that the elderly and other vulnerable groups access affordable health services and empower people living with disability, women and youth the County will, allocate resources to NHIF, disability, affirmative, and Youth Development Funds respectively.

4.3.5 Finance and Administrative Services

63. To ensure proper coordination of County activities, there will be need to allocate adequate resources to the County planning; revenue collection and enforcement services.

4.4 MEDIUM TERM EXPENDITURE ESTIMATES

64. The expenditure is categorized into recurrent and development. In the recurrent expenditure category, non-discretionary items such as personnel emoluments will take first charge of the budget. Development expenditures will be pegged on the priorities as discussed in Chapter One. In addition, the County will verify the debt levels and come up with payment strategies. Priority will be given to completion of stalled and ongoing projects. The departmental budget ceilings are as presented in Table 4.1

Table 4.1: Budget Ceilings over the Medium Term

Department	Approved Budget 2017/2018 (KShs. Millions)	Proposed Budget Ceilings 2018/2019 (KShs. Millions)	Projected Estimates	
			2019/2020 (KShs. Millions)	2020/2021 (KShs. Millions)
County Assembly	1,003	850	884	919
County Executive	467	480	499	519
Public Service Board	44	50	52	54
Administration and Stakeholder Management	703	700	728	757
Finance and Economic Planning	1,500	1,632	1697	1765
Agriculture, Livestock, Fisheries and Cooperative Development	655	755	785	817
Energy, Water, Environment and Natural Resources	450	550	572	595
Education, Labor and Manpower Development	729	750	780	811
Health Services	3,420	3,400	3536	3677
Lands, Physical Planning and Urban Development	323	300	312	324
Roads, Public Works and Transport	1,191	1,050	1,092	1,136
Trade, Industry and Tourism	189	260	270	281
Culture, Sports, Youth and Social Services	227	250	260	270
Kisii Town	362	300	312	324
Total	11,257	11,327	11,779	12,249

Source: Kisii County Treasury, 2018

65. The proposed budget of **KShs.11.32 Billion** in the FY 2018/2019 is projected to increase to **KShs.11.78 Billion** and **KShs.12.25 Billion** in the FYs 2019/2020 and 2020/2021 respectively.

4.4.1 County Assembly

66. This department plays a key role in the implementation of development programmes in the County through oversight and legislation. It also plays the role of strengthening the

democratic space and governance in the County. In the FY 2018/2019 a total of **KShs.850 Million** has been allocated to this department compared to **KShs.1 Billion** allocated in the previous FY.

4.4.2 County Executive

67. The department is charged with provision of leadership, coordination, and policy direction in governance of the County. In the FY 2018/2019, the department has been allocated **KShs.480 Million** compared to **KShs.467 Million** in the FY 2017/2018.

4.4.3 Public Service Board

68. The department is responsible for the formulation and implementation of the County public service policy. In the FY 2018/2019, the department has been allocated **KShs.50 Million** compared to **KShs.44 Million** in the FY 2017/2018.

4.4.4 Administration and Stakeholder Management

69. The department plays a key role in linking all other departments with key stakeholders, coordinating, and supervising the day-to-day County Government affairs, and managing human resource for efficient and effective service delivery. To enable it discharge the above, the department has been allocated **KShs.700 Million** in the 2018/2019 FY compared to **KShs.703 Million** in 2017/2018.

4.4.5 Finance and Economic Planning

70. The department provides overall leadership in public financial management through effective planning and implementation of programmes and projects. In the FY 2018/19, **KShs.1.6 Billion** has been allocated for the department compared to **KShs.1.5 Billion** in the FY 2017/18.

4.4.6 Agriculture, Livestock, Fisheries and Cooperative Development

71. This department is critical in enhancing food security, employment creation and poverty reduction. It contributes about 75 percent of the County's economy and has multiple linkages with other key sectors such as, wholesale and retail trade, transport and service sector. The department has been allocated **KShs.755 Million** in the FY 2018/2019 compared to **KShs.655 Million** in the FY 2017/2018.

4.4.7 Energy, Water, Environment and Natural Resources

72. The department promotes access to safe and clean, portable water, protecting and restoring water-related ecosystem and increasing forest cover by forestation and re-forestation. To implement programmes in this department, **KShs.550 Million** has been set aside in the FY2018/2019.

4.4.8 Education, Manpower and Labor Development

73. The department's goal is to enhance access to quality pre-primary education, and impart technical skills to the youth. In the FY 2018/2019, **KShs750 Million** has been allocated to the department compared to **KShs.729 Million** in the FY 2017/2018.

4.4.9 Health Services

74. The department promotes access to quality, equitable and affordable health care to the County residents. In the FY 2018/2019, the department has been allocated **KShs3.4 Billion**.

4.4.10 Lands, Physical Planning and Urban Development

75. This department endeavours to improve the livelihood of County residents through efficient administration, sustainable management of land use. In the FY 2018/2019, **KShs.300 Million** has been allocated to the department.

4.4.11 Roads, Public Works and Housing

76. This department is a key enabler for sustainable development of the County economy through provision of the necessary infrastructure. The department will construct and maintain roads and bridges and purchase plant and machinery. The total proposed allocation for the department is **KShs1.05 Billion** in FY 2018/2019.

4.4.12 Trade Development, Regulation and Industry

77. This department endeavours to create jobs and wealth for County residents through promotion of domestic trade, creation of an enabling business and investment environment, market development, tourism promotion and industrial development. To this end, **KShs.260 Million** has been allocated in the FY 2018/19.

4.4.13 Culture, Sports, Youth and Social Services

78. The department is responsible for local culture preservation, development of sporting facilities, nurturing of talent and supporting vulnerable groups. In the FY 2018/2019, **KShs.250 Million** has been allocated to the department.

4.4.14 Kisii Town

79. This department is responsible for managing Kisii Town through solid and liquid waste management, provision of firefighting services, beautification of the town, construction of access roads, bus park and sanitation facilities. In the FY 2018/2019, the department has been allocated **KShs.300 Million**.