COUNTY GOVERNMENT OF TRANS-NZOIA

TREASURY

COUNTY FISCAL

STRATEGY PAPER

JANUARY 2015

Forward

The 2015 CFSP is the third to be developed for the County Government after the creation of the County Government under the new Constitution that was promulgated in August 2010.

This is also in line with the PFM Act 2012. The new PFM Law provides a framework for the budget process.

The 2015 CFSP continues to advance the County Government's economic growth strategy as elaborated in the national economic Recovery Strategy (ERS) while providing detailed plans to enhance and promote a dynamic and competitive private sector in 2015 and beyond. The three main pillars of ERS are:

(i) Accelerating economic growth underpinned by macroeconomic stability.

(ii) Enhancing equity and poverty reduction and

(iii) Improving governance.

The expenditure policy framework in the medium -term aims at ensuring efficiency & effectiveness in the implementation of our development policies. As part of efforts to link policy With budgeting, reforms in the expenditure and financial management have to be deepened and growth of non priority expenditures contained in order to create fiscal space for financing priority policy areas such as social sectors, agriculture and physical infrastructure which are key to sustainable economic growth & development.

While significant progress is being realized in implementing the Medium Term Expenditure Framework (MTEF) in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas, the process continues to face some challenges. The County Government will continue to address these challenges, which include:

(i) initiating an early comprehensive effort on costing all existing policies, programs, and projects;

(ii) building links between recurrent and development budget; and

(iii) developing a more programmatic approach to the budget, with a view to improving the linkage between expenditure and results.

In line with the need to achieve the County's objectives, the CFSP (2015) draws priorities from the ERS and Millennium Development Goals (MDGs) related interventions. To this end, this CFSP focuses on:

(i) Pro-poor expenditures in support of ERS priorities and MDG goals
(ii) Shifting resources toward capital expenditures, and
(iii) Deepening structural reforms in areas such as public expenditure management, Public Private partnership, and governance to provide a conducive framework that encourages and supports the private sector.

The fiscal framework included in this 2015 CFSP outlines an affordable and sustainable path of public spending aimed at achieving County's medium-term development priorities.

Other objectives that will guide the preparation of the 2015/2016 budget include the following:

(i) producing a budget that is affordable and sustainable;
(ii) not factoring in any external budgetary support from other sources as a continuation of the commitment to ensure budget predictability; and
(iii) reducing all debts including borrowing to sustainable level in the medium term in order to provide room for private sector access to credit.

Finally, I would like to express my gratitude to all those who participated in this year budget process including MCAS , the private sector, civil society, NGOs and development partners who at various stages provided valuable comments. As you are all aware, public participation is a requirement in law.

HON. KENNEDY SIMIYU
COUNTY EXECUTIVE MEMBER FOR FINANCE

Acknowledgement

The 2015 CFSP is a continuation of County Government's effort to ensure effective linkage between policies, planning and budgeting. It provides an updated resource envelop and presents a fiscal framework for the next budget and the medium-term. It also sets firm sectoral and departmental ceilings in line with indicative ceilings outlined in the CBROP and Governments key strategic objectives as set out in the Economic Recovery Strategy for Wealth and Employment Creation.

For the third year running, the 2015/2016 budget provides specific expenditure ceilings for departments and detailed guidelines that aim at restructuring the pattern of the County Government expenditures towards the priority areas in the social and economic sectors. The sectoral/departmental priorities have been derived from the sector reports, which have incorporated recommendations of the various departments.

The preparation of the 2015 CFSP was a cooperative effort. Much of the information in this report was obtained from the line departments and various other County government departments and agencies. We are grateful for their input. We are also grateful for the collaboration and comments we received from the County Executive Members, Heads of Departments and other technical staff.

This CFSP is in line with the Sec. 117 of the PFM Act which states as below:

117(1) The County Treasury shall prepare and submit to County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year.

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

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

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

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

(a) the Commission on Revenue Allocation

(b) the public

(c) many 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 recommendations.

(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.

All the above have been taken into consideration in the preparation of this paper.

PROF. BEN WANJALA
<u>CHIEF OFFICER FINANCE</u>

1.1. BACKGROUND

Trans Nzoia County covers an area of 2,495.6 square kilometres and is comprised of five sub counties of Endebess, Cherangany, Saboti, Kwanza and Kiminini and 25 County assembly wards. According to the 2009 Kenya Population and Housing Census, the County had a total population of 818,757 and with an inter-censal growth rate of 3.7 percent between 1999 and 2009; the population was projected at 949,359 in 2013.

Agriculture is the mainstay of the population in the county with over 80% people engaged in the sector and majority of who are dependent on maize farming. Other crops grown in the county include; Tea, coffee, horticulture and fruits. Livestock and fisheries are practiced in small scale but have high growth potentials.

The County executive is formed of ten sectors namely; Office of the Governor, Public Service and Administration; Finance; Economic planning, Commerce and Industry; Water, Environment and Natural Resources, Gender, Youth, Sports, Culture and Tourism; Transport and Infrastructure; Lands, Housing and Urban development. Others include Health; Agriculture, Livestock, and Fisheries development; and Education and ICT.

The major development challenges in the county include Land fragmentation, Poor Road Network, Inadequate Clean and Safe Water, Food Insecurity, Inadequate Health Personnel and Facilities, high dependency ratio, overdependence on maize growing and weak Industrial Development.

1.2. Overview

This is the second County Fiscal Strategy Paper (CFSP 2014) prepared by the County Government of Trans-Nzoia as part of the efforts to ensure effective linkage between policies, planning and budgeting. It provides an updated resource envelop and presents a fiscal framework for 2014/2015 budget and in the medium term. It also sets firm departmental ceilings in line with indicative ceilings outlined in the 2013 CBROP.

This policy has been prepared against a backdrop of the Kenyan economy's continued slow but steady growth recovery from a low of 1.6 in 2008 to 4.7 % in 2013. The above achievements can be attributed to prudent macroeconomic policies and strong fiscal discipline. Despite the growth key challenges faced include; rising cost of living, food insecurity, declining agricultural productivity, inadequate and high cost of energy, poor transport network, and high and unsustainable public sector wage and challenges a rising from implementation of devolution.

The 2014 county fiscal strategy is mirrored on the five pillars of the National government Fiscal strategy namely:

- Pillar i: Creating a conducive business environment;
- Pillar ii: Investing in agricultural transformation
- Pillar iii: Investing in first class transport network
- Pillar iv: Investing in quality and accessible health care services
- Pillar v: Investing in quality and accessible health care services for better service delivery.

This strategy is aligned to the country's growth objectives of 50% poverty reduction, 50% job creation, and increase productivity by 50%. In consistent with PFM Act 2012, resource allocation has been aligned to the County's medium-term; - The County integrated Development Plan (CIDP) which in turn has been aligned to the National governments' medium term plan 2014/15 (MTPII).

1.3. Organization of Report

This strategy has been organized into four sections; section one provides the background of the county and the objectives of the fiscal strategy, section two provide a details of this fiscal strategy while section three provides the proposed budget sector allocations and section four gives the risks to the proposed fiscal framework

2. FISCAL STRATEGY FRAMEWORK

2.1. Strategic objectives of the 2014/15 fiscal framework

The main objective of the fiscal policy is to allocate resources to the sectors that promote growth and create employment for the huge population of the county. This fiscal strategy is being prepared amid continued efforts of the county government to meet the above stated objectives of poverty reduction, job creation and increased land productivity. It is in that respect the county government will create structure that will deliver effective and efficient public services that can deliver on the above stated objectives as well as address the key challenges that are threatening the newly gained self administration of the new government. In particular;

- Keeping in line with the requirements of the PFM Act 2012, over 30% of the resources will be devoted to development budget
- Improve on the road network especially the rural access roads that are a key component of the county's growth process.
- Transform the agriculture sector so as to ensure food security, increased earnings, create jobs and provide row materials for the envisaged industrialization of the county.
- Undertake modern market infrastructures development in the major urban and market centres that will not only provide a ready market for her farm produce but also sufficient revenue generation
- Improve water supply and sanitation system to ensure availability and accessibility of clean and portable water supply to each household.
- Digitize and expand the local revenue base and seal leakages in our revenue collection systems within the county to reduce the overreliance on the transfers from the national government.
- Undertake reorganization, integration and harmonization of the county workforce to improve service delivery and reduce the wage bill
- Adopt and promote modern ICT networking and information sharing in public service delivery.
- Promote youth empowerment and nurture talent development.
- Maintain high level of fiscal discipline in adherence to the Public Financial Management Act 2012.

- Enhance governance and accountability by developing structures that are transparent and accountable.
- Create a conducive environment that will promote investments through PPP initiatives as well encourage individual private enterprises
- Institute strong debt management system that can enable the county government to clear debts inherited from former local authorities.

2.2 Financial reforms

The following are the proposed reforms for the county;

2.2.1 Investment and savings

The county will focus on attracting private investments in key sectors such as agriculture, industry, health, tourism, transport and ICT. The county government will establish a holding company which will act as the vehicle through which it will improve its investments in the same sectors to compliment the private sector. This will be achieved through sustaining an appropriate environment for private sector investment and savings, prudent tax reforms, deepening structural reforms to enhance efficiency in resource allocations and strengthen governance infrastructure.

In addition, the county government will develop strategies to raise resources for capital investments including foreign investors, issuance of bonds and embracing PPP especially for flagship projects.

The county will also develop a strategy for management of her assets, including vehicles, land, housing properties and other machineries and equipments. This will ensure proper use, maintenance and management of the county government assets.

2.2.2 Enhanced revenue collection

The county will modernize revenue collection through enhancing the tax base, increase supervision of the revenue clerks, and digitize tax collections and other government services among other measures. Furthermore, automation of revenue collection will reduce leakages and non-compliance. In addition, the county government will undertake a re- evaluation of the valuation role under its lands department that will enhance revenue collection.

Other revenue management strategies include regular rotation of the debt collectors, establishing cash ceiling for debt collection to avoid huge collections by cash, developing a supervision framework for debt collectors, automation of all the services.

2.2.3 Debt management

The county government will develop clear debt management strategies to ensure that they are in line with the PFM Act. In addition to maintaining a balanced budget, attracting private investments and prudent financial management, other key debt management strategies include; immediate invoicing of services and goods procured, regular reconciliation of all the debtors, maintaining adequate records for all debtors which are updated regularly, production of monthly statements indicating the ageing of debtors, capacity building on debt management, establishment of a debt management unit, instituting legal measures for the delinquent debtors and providing incentives to motivate revenue collectors.

2.2.4 Formulation of revenue and expenditure policies.

The county aims at improving efficiency in processing levies to avoid over-burdening its citizens. This also aims at reducing recurrent expenditure through reduced operation costs, human resource audits, early retirement schemes and increasing expenditure on pro-poor projects and programmes. Cost containment measures will also be adopted to reduce disparity in access and wastage of resources.

2.2.5 Appropriation In Aid (A I A)

The county government will ensure enhanced collection and management of AIA normally in the form of user charges and fees. The departments which collect this revenue should be given incentives for efficiency and effectiveness. Furthermore, automation of these departments will enhance revenue collections.

2.2.6 Automation of procurement, budget and payroll management

This automation and integration of these systems will ensure efficient and effective procurement and budget implementation, improve transparency and accountability as well as enhance reporting and records management.

2.3 Revenue Projections

The PFM Act 2012 has categorized the different revenue sources available to the county governments into two main sources:

- Transfers from the National government
- Revenue generated from the county's local sources.

Other additional sources include external and internal loans and grants.

2.3.1 Transfers from the National government

The county governments projects to receive Ksh. 4,400,000,000 from the national government in the financial year 2014/15.

2.3.2 Local revenues

The county government will strive to expand the local revenue collections from property rates, permits, cess and royalties. Other source includes user charges, fees and income from investments. The revenue from local sources is projected to be Ksh. 670,000,000 in the financial year 2014/15.

2.3.3 Borrowing

The county is not planning to borrow in the budget period.

2.3.4 Donor Funding

In the financial year 2014/15, the government of Denmark is supporting the health sector with Ksh. 8,900,000. In addition, the county government has identified development partners who will be approached to support specific programmes in the county. They include UNICEF and ADB, WHO, among others. A framework will be developed on how to engage with development partners.

2.3.5 Private Public Partnership Initiatives.

In line with the national long term plan, the Kenya Vision 2030, the county government will explore these as a possible source of capital investments in infrastructure, agriculture, tourism, social services, education and health sector. Strategies have been developed in the county CIDP in each of the sectors to guide development process.

3 Proposed Budget Framework

The proposed medium term macro-economic framework largely reflects the County Government's plan to sustain and accelerate economic recovery in Trans-Nzoia County. The strategy essentially involves on various structural reforms covering areas of public service structure, governance and anti-corruption, financial sector reforms including tax administration, essential services and expenditure management, including reorienting expenditures from recurrent towards capital expenditure on priority sectors of agriculture, infrastructure, health, education, gender, youth and sports that will support economic growth of the county.

3.1 Recurrent Expenditure

The county proposes to spend Ksh. 2,833,242,261 on recurrent expenditure of which the wage bill will be Ksh 1,572,445,935 while Ksh. 1,260,796,326 is reserved for operation and maintenance in the financial year 2014/15.

3.2 Development

The county proposes to spend Ksh. 2,245,657,739 on development projects for the financial year 2014/15.

3.3 Sector Resource Sharing

The resource sharing will be based on the county priorities which include revamping the agriculture sector, improving infrastructure and energy, improving child and maternal health, support to basic education, revival of the tourisms, promoting youth and empowerment, land survey, physical planning and issuance of title deeds, strengthen social protection mechanisms, promoting commercial and industrial development. A number of key flagship projects on which the above priority areas expenditure will be anchored on have been identified in each sector.

Infrastructure and Public Works has been allocated Kshs. 340,260,218 for its development budget for the financial year 2014/15. Some of the key projects to be implemented during the period include;

- Survey and installation of road reserves
- Purchase and maintenance of equipment for road works

- Capacity building for road contractors
- Construction of drainage structures and road crossing
- Gravelling of roads (Km)
- Street lighting programme in towns of Kitale and Kiminini

Agriculture, livestock and fisheries development sector has been allocated Kshs. 270,171,536 the key projects for implementation in the financial year 2014/15 include:

- Livestock breeding and genetic improvements
- Value addition and market access-Establishment a milk plant
- Promotion of rabbit production
- Establishment of Livestock Auction Yards
- Livestock feed improvement
- Construction of modern abattoir
- Equipping of Tissue Culture banana lab
- Establishment of model farms
- construction of Grains stores in each sub county
- Purchase soil testing machines/labs
- Purchase of grain driers for 3 constituencies
- Fertilizer cost reduction investments
- Production of fingerlings
- Establishment of cold storage

Education sector whose devolved function is mainly ECD and Vocational training has been allocated Ksh. 259,054,702 for the financial year 2014/15. The major projects for implementation include:

- Establishment of 25 county polytechnics
- Equipping existing vocational colleges
- Capacity building for TVET instructors and ECDE teachers
- Establishment of Elimu Bursary fund
- Establishment of Elimu Development Fund
- Best classroom program
- Catalyzing academic performance through exams

Economic Planning Commerce and Industry Education Sector has been allocated Ksh. 220,706,833 for the financial year 2014/15. The major projects for implementation include:

- Development of modern retail /wholesale market and renovations
- Promotion of Nawiri Fund
- Management and development of Industrial park
- Trans Nzoia County Government investment programme
- Promotion of enterprise and entrepreneurship development
- County Research, Statistical and documentation unit and Business information resource centre
- Development and review of county plans
- Monitoring and Evaluation Services

Gender, Youth, Sports, Culture and Tourism Sector has been allocated Ksh. 163,057,374 for the financial year 2014/15. The major projects for implementation include:

- Tourism Promotion and Marketing
- Governances/Public service Management
- Loans to youth and women
- Welfare services for disabled and the elderly
- Establishment and management of children rescue center
- Establishment of a sports academy
- Renovation of Kenyatta Stadium

Environment, Water and Natural Resources Sector has been allocated Ksh. 333,299,432 for the financial year 2014/15. The major projects for implementation include:

- T-Connections/extension of pipelines
- Gravity schemes
- Shallow wells and boreholes
- Spring protection: (protection of 40 springs per year)
- Rehabilitation of dams
- Rehabilitation of sewerage system/works
- Tree planting programmes
- Weather monitoring stations
- Protection of River Bank

Health Sector has been allocated Ksh. 393,470,843 for the financial year Ksh. 2014/15. The Key projects for implementation include:

- Procurement of Medical Supplies and Services
- Establishment of a county Kenya Medical Training College
- Management of waste sites: inclusive of acquisition of dumping site and equipment
- Automation of services at, Kapsara, Saboti, Endebess
- Construction and Renovations to Health Facilities
- Construction and Renovations to Health Facilities

Lands, Housing and Urban Development was allocated Ksh. 147,182,098 in the development budget for the financial year 2014/15. The key projects for implementation include:

- Purchase of Land for Market Expansion
- Spatial Plans
- Survey of Market Centres
- Planning of centres
- Processing of titles
- Equipping of the survey amendment centre
- Establishment of GIS Laboratory
- Densification of control points

Governance and Public Service Management sector has been allocated Ksh**.** 88,740,924 for the financial year 2014/15. The projects for implementation include;

- Support to council of elders

- Consultancy services
- Valuation roll
- Valuation of assets
- Civic education
- Training and development
- Training needs assessment
- Institutional capacity needs assessment

- Purchase of modern firefighting equipment
- Establishment of SMS Platform

4. Risks to the Fiscal Framework

This Budget framework for the period F/Y 2014/2015 has been prepared with key assumptions including;

a) An operational and effective procurement structure including the tender committees and annual procurement plans.

b) Adequate public service structures with skills and capacity to perform.

c) An operational and well maintained financial management system (IFMIS)

d) Rapid harmonization and gelling of work culture and ethics of the diversity structures of the former local authorities, private sector and the devolved functions staff.

e) Regular and predictable transfer of resources allocated to the county by the CRA.

f) That any likely emergency will be fully funded from the emergency fund without destabilizing budget implementation.

g) The target for the local revenue collection will be fully met.

h) Successful implementation of the budget will rely on the implementation of the proposed financial management reforms highlighted.