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MERU

REPUBLIC OF KENYA

County Government of Meru

**BUDGET REVIEW
AND OUTLOOK PAPER**

September 2014

ABBREVIATIONS

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CG	County Government
FY	Fiscal Year
PFMA	Public Financial Management Act
ECDE	Early Childhood Development Education
BPS	Budget Policy Statement
CIDP	County Integrated Development Plan

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Foreword

The Public Financial Management Law Act, 2012 has ushered in a Paradigm shift in budget making process both at the national level and the county level. Section 117 and 118 of the act provided for the preparation of the county fiscal strategy paper and the County Budget Review and Outlook Paper (CBROP) respectively, by the county department of finance / treasury. Apart from introducing reforms in our public financial management system, the new law entrenches the Medium Term Expenditure Framework budgeting.

The law requires the CBROP to present the fiscal outcome for the previous financial year and to state how the outcome affects the financial objectives contained in that year's CFSP. This year is however the first under the devolved governance structure and this year's BROP cannot therefore contain information to show changes in the forecast in the CFSP.

Fiscal discipline will seek to ensure that the county is able to transit into devolution smoothly. Moreover, the county will work towards reducing poverty levels by bringing the relevant and essentials services to the people.

We are committed to maintain the trend of economic growth and development in line with the expectation and commitment we have made to the people of Meru County. It is our duty as a government to ensure that there is accountability and transparency by relaying our performance indicators to the public as well as publicizing other publication as required by the Kenyan Constitution and Public Finance Management Act.

Legal Background

The county Budget Review and Outlook Paper (CBROP) were prepared by the County Treasury in accordance with section 118 of the Public Finance Management (PFM) Act. The Act states that a County Treasury;

- Shall prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
- Submit the paper to the County Executive Committee by 30th September of that year. The main objectives of a CBROP are to specify;
- The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- The updated economic and fiscal forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- Any changes in the forecasts compared with the (CFSP);
- How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

In summary ,this BRPOP is expected to present a review of the fiscal performance for the previous year, in our case, FY ended July 2014,the period that the County Government(CGs) were in operation in last fiscal year.

The CBROP is expected to provide a summary of the national macroeconomic outlook and how this will affect the County's economic performance. The key macro-economic indicators are however, not currently available at the county level thereby making it difficult to provide macro-economic statistics for Meru as a county for analytic purposes.

The above statistics would partly provide the basis for the revision of the Financial year 2013/2014 budget in the context of the Revised Budget, as well as setting out the broad fiscal parameters for the next budget and medium term .The fiscal framework presented in this document provides a strong basis for building our common future under the current constitutional dispensation. The paper also presents an overview of budget financing sources that includes revenue and grants. In the last section, the paper offers some conclusions and the way forward.

Fiscal Responsibility Principles in the Public Finance Management Law

In line with the Constitution, the Public Finance Management (PFM) Act, 2012,, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources.. The PFM law (Section 107) 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 expenditure;
- (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) 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

II REVIEW OF FISCAL PERFORMANCE IN 2013/14

A. Overview

The fiscal performance in 2013/14 in general was fair, despite under collection of local revenue, and under utilization of the available funds by some line departments. The absorption rate was at 76 percent of the total budget Due to the challenges experienced in the financial year 2013/14; revenue collection fell short of the set target by 179 million.

On the part of expenditure, the county government incurred higher expenditure on compensation of employees especially in the health, agriculture and education departments .this was as a result of reparation of devolved staff and the newly recruited ECDE teachers. Development wise most funds were spent on building of the ECDE classrooms, road rehabilitation and construction and farm inputs subsidy.

2013/14 fiscal performance

The table below presents the fiscal performance of the financial year 2013/14 and the deviations from the original and revised budget estimates

2013/14 Fiscal outturn

2013/14 Fiscal outturn							
	in Ksh					% of Total Revenue	
	2013/14					2013/14	
	Actual	Target		Deviation		Actual	Revised
		Original Budget	Revised	Original Budget	Revised		
A.TOTAL REVENUE & GRANTS							
Local Revenue	343,805,960	623,000,000	523,000,000	279,194,040	179,194,040	6.3	9.21
Equitable Share	4,749,467,903	4,749,467,903	4,749,467,903	-	-	86.3	83.59
Roll over from previous year	226,116,639	226,116,639	226,116,639	-	-	4.1	3.98
Conditional grants	183,151,299	183,151,299	183,151,299	-	-	3.3	3.22
TOTAL	5,502,541,801	5,781,735,841	5,681,735,841	279,194,040	179,194,040	100	100
B.EXPENDITURE							
RECURRENT							
Compensation to employees	2,412,562,392	1,255,189,743	2,907,053,049	(1,157,372,649)	494,490,657	42.5	51.2
Goods and services	796,725,207	1,081,283,313	1,064,214,001	284,558,106	267,488,794	14.0	18.7
Transfer to other gov't Units	243,194,383					4.3	
Other grant and transfers	139,625,204	75,225,000	64,975,000	(64,400,204)	(74,650,204)	2.5	1.1

social security benefits	1,042,792	5,000,000	4,472,900	3,957,208	3,430,108	0.0	0.1
Acquisition of assets	86,179,439	168,875,000	151,579,219	82,695,561	65,399,780	1.5	2.7
Other Expenses	4,804,461	3,000,000	1,500,000	(1,804,461)	(3,304,461)	0.1	0.0
SUBTOTAL	3,684,133,878	2,588,573,056	4,193,794,169	(852,366,439)	752,854,674	64.8	73.8
DEVELOPMENTS							
use of goods and services	143,740,214	283,100,000	134,819,076	139,359,786	(8,921,138)	2.5	
other grants and transfers	25,398,252	568,600,000	171,281,055	543,201,748	145,882,803	0.4	
Acquisition of assets	480,938,780	2,241,407,326	1,181,786,080	1,760,468,546	700,847,300	8.5	
SUBTOTAL	650,077,246	3,093,107,326	1,487,886,211	2,443,030,080	837,808,965	11.4	26.2
TOTAL EXPENDITURE	4,334,211,124	5,681,680,382	5,681,680,380	1,590,663,641	1,590,663,639	76.3	100.0

Revenue

Total cumulative revenue include own revenue, equitable share, conditional grants and roll over from the previous financial year all totaling to 5.6 billion.

Own revenue collected amounted to 343 million against a target of 523 million translating to an under collection of 179 million. Equitable share was 4.7 billion; roll over from previous year was 226 million and conditional grant at 183 million.

As shown in the table below

MERU COUNTY GOVERNMENT	
Revenue	TOTALS
EXCHEQUER RELEASE	4,351,216,612
Fines, Penalties and Forfeitures	2,070,011
Other property Income	64,699,757
Other Receipts	187,496,795
Receipts from Administrative fees and charges	29,408,610
Rents	13,330,140
Sales of Markets Establishments	46,800,647
SUB TOTAL OF OWN REVENUE	343,805,960
Transfer from Ministry of Agriculture	398,227,814
Transfer from Ministry of Health	183,151,299
A-I-A Health 4th Qtr (Hospital revenue)	35,233,230
TOTAL RECEIPTS	5,311,634,915

The underperformance of local revenue collection was mainly on account of inadequate capacity in regard to revenue collection and inspection, organization, setting up of the directorate of revenue and leakages. Delay in passing and adoption of financial bill also acted as contributors.

Expenditure

Total expenditure for the year 2013/14 was 4.34 Billion representing an under spending of Ksh 1.34 Billion or a deviation of 24 percent from the revised budget. This was attributed to lower absorption in both recurrent and development expenditure by some line departments.

EXPENDITURE				
	Actual	Revised Budget	Deviation	
			Deviation	%age Utilization
RECURRENT				
Compensation to employees	2,412,562,392	2,907,053,049	494,490,657	83.0
Goods and services	796,725,207	1,064,214,001	267,488,794	74.9
Transfer to other gov't Units	243,194,383		(243,194,383)	
Other grant and transfers	139,625,204	64,975,000	(74,650,204)	214.9
social security benefits	1,042,792	4,472,900	3,430,108	23.3
Acquisition of assets	86,179,439	151,579,219	65,399,780	56.9
Other Expenses	4,804,461	1,500,000	(3,304,461)	320.3
SUB TOTAL	3,684,133,878	4,193,794,169	509,660,291	87.8
DEVELOPMENTS				
Use of goods and services	143,740,214	134,819,076	(8,921,138)	106.6
Other grants and transfers	25,398,252	171,281,055	145,882,803	14.8
Acquisition of assets	480,938,780	1,181,786,080	700,847,300	40.7
SUB TOTAL	650,077,246	1,487,886,211	837,808,965	43.7
TOTAL EXPENDITURE	4,334,211,124	5,681,680,380	1,347,469,256	76.3

Recurrent expenditure amounted to Ksh 3.68 billion against a target of Ksh 4.19 billion that translates to under spending of 590.6 million or (a 12.2 percent deviation from the approved expenditure).

Social security benefit underperformed i.e. 1.04 million against approved estimates of 4.4 million.

Development expenditure was 650 million against a target of Ksh 1.48 billion. This represented a 43.6 percent utilization of the approved development expenditure. This reflects lower absorption by the line department and delays in procurement.

Overall balance and financing;

In reference to above performance in revenue and expenditure, overall fiscal balance on a commitment basis was 1.34 billion (24 percent of total revenue)

Implication of 2013/2014 Fiscal Performance on Financial Objectives Contained In the 2014 CFSP

The performance in the FY 2013/2014 has affected the financial objectives set-out in the latest CFSP and the budget of 2014/2015 in the following ways;

(i) The economic assumptions underpinning the 2014/2015 budget and medium term will need to be modified in light of slower than-envisaged real total revenue growth.

(ii) The base of revenue and expenditure projections has changed implying the need to adjust the fiscal aggregates for the current budgets and the medium-term,

(iii) Arising from (i) and (ii) as well as consideration of slower pace of execution of the budget by departments, there is need to adjust the baseline ceilings and then do firm-up in the next budget policy statements in the first quarter

Taking into account the under spending in both recurrent and development budget for the FY 2013/2014, the County Treasury will work closely with the implementing departments to fast track utilization of funds to avert slow uptake of resources to ensure that it does not remain a challenge anymore.

The table below provides updated medium term fiscal forecasts

UPDATED FISCAL PROJECTION 2013/14-2016/17				
A.TOTAL REVENUE & GRANTS	2013/14	2014/15	2015/16	2016/17
Local Revenue	523,000,000	559,610,000	598,782,700	640,697,489
Equitable Share	4,749,467,903	5,081,930,656	5,437,665,802	5,818,302,408
Roll over from previous year	226,116,639	241,944,804	258,880,940	277,002,606
Conditional grants	183,151,299	195,971,890	209,689,922	224,368,217
TOTAL	5,681,735,841	6,079,457,350	6,505,019,364	6,960,370,720
B.EXPENDITURE				
RECURRENT				
Compensation to employees	2,412,562,392	2,581,441,759	2,762,142,683	2,955,492,670
Goods and services	796,725,207	852,495,971	912,170,689	976,022,638
Transfer to other gov't Units	243,194,383	260,217,990	278,433,249	297,923,577
Other grant and transfers	139,625,204	149,398,968	159,856,896	171,046,879
social security benefits	1,042,792	1,115,787	1,193,893	1,277,465
Acquisition of assets	86,179,439	92,212,000	98,666,840	105,573,518
Other Expenses	4,804,461	5,140,773	5,500,627	5,885,671
SUBTOTAL	3,684,133,878	3,942,023,249	4,217,964,877	4,513,222,418
DEVELOPMENTS				
use of goods and services	143,740,214	153,802,029	164,568,171	176,087,943
other grants and transfers	25,398,252	27,176,130	29,078,459	31,113,951
Acquisition of assets	480,938,780	514,604,495	550,626,809	589,170,686
SUBTOTAL	650,077,246	695,582,653	744,273,439	796,372,580
TOTAL EXPENDITURE	4,334,211,124	4,637,605,903	4,962,238,316	5,309,594,998

III. RECENT ECONOMIC DEVELOPMENT AND OUTLOOK

A challenge in the movement of new IFMIS platform delayed implication of the FY2013/2014 budget. This has now been addressed on the county government operations are continuing in earnest.

Pressure was felt with salary demands from health, Agriculture and Education sector (ECDE)

Revenue collection was below target by 179 million hence there is need to enhance administrative measures to reverse the situation never the less with improved weather conditions and automatic of revenue collection in progress the current growth projections remain within reach although downside risk remain. While its expected for the economy to remain resilient. We expect the total revenue to grow by 7.0 % in 2014/15.

Whereas there are expected challenges in achieving the projected growth, the county government recognizes the need to mobilize a large amount of resources, raised factors of productivity and moving a higher value added and more efficient production structure (i.e.) installation of milk coolers and establishment of a coffee mill. Automation of revenue collection processes and administration, setting up of SACCOS to offer affordable credit and promotion of tourism are key to achieving this.

(a) Medium term framework

With respect to revenue collection, the government will maintain a strong revenue base effort. Measures to improve this will include automation of revenue collection and removing fees and charges exemptions.

Expenditure management will be strengthened with implementation of integrated financial management information system (IFMIS) across the department and subsequently at the sub county level following decentralization.

The county government is committed to accessing international funding with caution this is in line with IFM law where borrowed resources would be used for development expenditure only.

(b) Risk to the outlook

The high wage bill will be a major challenge to the implementation of budget. Also, ban of miraa in European Union market, deadline in tea bonus payout and persistent boarder conflicts between Meru, Isiolo and Tharaka Nithi counties could slow down economic growth in county, should this risks materialize the government until undertake appropriate measures to safeguard macro-economic stability.

ADJUSTMENT TO 2014/2015 BUDGET

Taking into consideration the performance in 2013/2014 and the updated economic outlook, the risk to the FY 2014/2015 budget include bloated wage bill, weaker revenue performance, delayed pace in implementation of the budget by the spending units, and undesirable weather patterns affecting the agricultural sector. These risks are within the close monitoring of the county government so that appropriate measures can be taken in the context of the next supplementary budget.

Adjustment to the 2014/2015 budget will take into account actual departmental performance of expenditure in regard to their absorption capacity because of resource constraints. This may call for rationalization of expenditures by outlining those that are non-priority.

The ongoing CARP (capacity assessment and rationalization program) being carried out by the national government is expected to review positively on the challenge of wage bill.

In term of revenue the county treasury through the directorate of revenue is expected to put in place corrective measures to improve revenue in flows. These measures may include effective automated revenue collection systems, sealing of revenue leakages and mapping of all revenue sources.

a) Medium –Term Expenditure Framework

MTEF budgeting will entail adjusting non-priority sectors, in the meantime the resource allocation will be based on the CIDP

- The priority social sectors, Education and health will continue to be facilitated adequately, already these sector is receiving significant share of resources in the budget.
- The economic sectors including agriculture and water will receive increased share to boost productivity to avert looming drought in the county.
- Over the Medium term, other priority sector is physical infrastructure. This sector will receive increased resource allocation to help improve trade tourism agriculture and security within the county consequently leading to overall improvement of the county economy.

The table below shows the tentative projected baseline ceilings for the 2014/2015 classified by departments.

MERU COUNTY GOVERNMENT 2014-2015 FY EXPENDITURE ESTIMATES DEPARTMENTAL SUMMARIES				
DEPARTMENT	PERSONNEL EXPENDITURE	USE OF GOODS & SERVICES	DEVELOPMENT	2014/15 BUDEGT
COUNTY ASSEMBLY	337,102,243.00	195,979,602.00	112,000,000.00	645,081,845.00
GOVERNOR	36,240,276.00	206,091,792.70	-	242,332,068.70
TREASURY	258,711,820.00	278,080,841.75	148,309,208.00	685,101,869.75
AGRICULTURE	242,397,878.40	69,597,407.36	189,414,953.00	501,410,238.76
WATER	65,771,508.00	33,942,212.00	588,439,015.16	688,152,735.16
EDUCATION	175,320,000.00	122,661,915.00	225,590,982.00	523,572,897.00
HEALTH	1,205,611,716.40	266,526,924.00	359,499,640.00	1,831,638,280.40
PLANNING	48,932,448.00	36,857,231.00	188,139,719.69	273,929,398.69
PUBLIC SERVICE	307,683,078.88	277,695,285.20	101,717,830.00	687,096,194.08
TRANSPORT	54,650,080.80	85,550,788.71	829,081,374.00	969,282,243.51
CO-OPERATIVES	57,308,565.00	40,943,208.40	327,314,238.00	425,566,011.40
CULTURE	37,204,870.55	66,497,694.00	186,623,609.00	290,326,173.55
PUBLIC SERVICE BOARD	-	22,069,000.00	-	22,069,000.00
TOWN ADMINISTRATION	2,100,000.00	38,100,785.00	10,000,000.00	50,200,785.00
TOTALS (pending bill inclusive)	2,829,034,485.03	1,740,594,687.12	3,266,130,568.85	7,835,759,741.00
	36%	22%	42%	100%
MERU COUNTY GOVERNMENT PROJECTED REVENUE ESTIMATES FOR 2014 - 2015 FINANCIAL YEAR				
				2014 - 2015
EQUITABLE SHARE				5,665,865,236.00
CONDITIONAL FUNDING FOR LEVEL 5 HOSP.				64,312,673.00
DANIDA FACILITY IMPROVEMENT FUND				18,410,000.00
COUNTY OWN REVENUE				922,046,934.00
2013/14 FY ROLL OVER				1,165,124,898.00
TOTAL				7,835,759,741.00

b) 2014/2015 Budget Framework

The 2014/15 budget framework is set in reference to the updated medium-term expenditure framework as per the table below.

MERU COUNTY GOVERNMENT MEDIUM -TERM EXPENDITURE FRAMEWORK ESTIMATES			
DEPARTMENT	2014/15 BUDGET	2015/16	2016/17
COUNTY ASSEMBLY	645,081,845.00	690,237,574.15	738,554,204.34
GOVERNOR	242,332,068.70	259,295,313.51	277,445,985.45
TREASURY	685,101,869.75	733,059,000.63	784,373,130.68
AGRICULTURE	501,410,238.76	536,508,955.47	574,064,582.36
WATER	688,152,735.16	736,323,426.62	787,866,066.48
EDUCATION	523,572,897.00	560,222,999.79	599,438,609.78
HEALTH	1,831,638,280.40	1,959,852,960.03	2,097,042,667.23
PLANNING	273,929,398.69	293,104,456.60	313,621,768.56
PUBLIC SERVICE	687,096,194.08	735,192,927.67	786,656,432.60
TRANSPORT	969,282,243.51	1,037,132,000.56	1,109,731,240.59
CO-OPERATIVES	425,566,011.40	455,355,632.20	487,230,526.45
CULTURE	290,326,173.55	310,649,005.70	332,394,436.10
PUBLIC SERVICE BOARD	22,069,000.00	23,613,830.00	25,266,798.10
TOWN ADMINISTRATION	50,200,785.00	53,714,839.95	57,474,878.75
TOTALS (pending bill inclusive)	7,835,759,741.00	8,384,262,922.87	8,971,161,327.47

Revenue projections

The 2014/15 budget targets revenue collection of Ksh 922 million (11.8 percent of the total revenue) as indicated in the table below.

2014/15 REVENUE PROJECTIONS				
MERU COUNTY GOVERNMENT	2013/14 ESTIMATES	PROJECTED ESTIMATES		
		2014/15	2015/16	2016/17
OWN REVENUES SOURCES				
Fines, penalties and Forfeitures	2,070,011.00	7,389,939.27	7,907,235.02	8,460,741.47
Other property Incomes	64,699,757.00	173,395,348.76	185,533,023.17	198,520,334.80
Other receipts	187,496,795.00	438,742,500.30	469,454,475.32	502,316,288.59
Administration fees and Charges	29,408,610.00	98,518,843.50	105,415,162.55	112,794,223.92
Rents	13,330,140.00	47,721,901.20	51,062,434.28	54,636,804.68
Market Establishment sales	46,800,647.00	156,278,400.61	167,217,888.65	178,923,140.85
TOTAL	343,805,960.00	922,046,933.64	986,590,218.99	1,055,651,534.32

This performance is to be achieved through the on-going improvement on revenue collection and administration.

Conclusion and way forward

The fiscal; outlook presented herein seeks to achieve the objectives outlined in the [PFM act and lay ground for the next financial year in terms of preparing the county BROP and CFSP.

In ensuring proper management of funds and delivery of the expected output fiscal discipline needs to be exercised. This will guarantee effectiveness on fund utilization especially on capacity building on different sectors crucial for the county government in delivering on its functions.