



**COUNTY GOVERNMENT OF MERU**

**DEPARTMENT OF FINANCE, ECONOMIC PLANNING & ICT**

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**COUNTY FISCAL STRATEGY PAPER**

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**FEBRUARY 2019**

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To obtain copies of the document, please contact:

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**MERU**

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## **Foreword**

The County Fiscal Strategy Paper, sets out county policy goals, the economic policies and strategic priorities that will be the basis for formulation of County's Financial Year 2019/20 budget and the Medium Term. The Paper is prepared in accordance with the Public Finance Management Act 2012, section 117.

This CFSP has reviewed the preceding year's performances FY's 2017/18 and 2018/19 and implications towards the county's growth and development. This review has largely informed the planned spending priorities in line with the County Integrated Development Plan 2018-2022. By their very universal attribute SDGs, the Vision 2030, the Big 4 and the CIDP and ADP (Annual Development Plan, 2019), have been regarded in this process.

The County priorities and goals outlined herein are based on the County Integrated Development Plan, the Annual Development Plan and the Governor's Manifesto, with emphasis on investment in: Agriculture and food security, Infrastructure, accessibility of water, Tourism promotion and marketing, market infrastructure improvement, accessible health care, ECDE and Polytechnic support. These priorities shall form the basis for formulation of FY 2019/20 budget and the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

I would like to thank H.E. the Governor for the guidance and counsel in the development of this document. My sincere gratitude goes to my Cabinet colleagues, the County Budget and Economic Forum, MESAC, Treasury staff as well as other Government officials, for their contributions. Equally we received useful inputs from various stakeholders and the public when we undertook consultations in line with the requirements of the Public Finance Management (PFM) Act, 2012 and the Constitution. We value these inputs and extend our appreciation to all.

**TITUS NTUCHIU**

DEPUTY GOVERNOR/COUNTY EXECUTIVE MEMBER FINANCE, ECONOMIC PLANNING & ICT

## **Acknowledgement**

The 2019 Fiscal Strategy Paper is prepared in compliance with the provisions of the Public Finance Management Act, 2012. It outlines the current state of the economy and outlook over the medium term, gives the medium term fiscal framework, and specifies the set strategic priorities and policy goals together with a summary of Government spending plans, as a basis of the FY 2019/20 budget.

The Government has been keen to ensure prudent management of public resources in order to support inclusive growth and development. We have carefully scrutinized budget programs to ensure their optimal alignment with the CIDP (County Integrated Development Plan), ADP (Annual Development Plan), the Governor's manifesto and with the national development agenda (Big Four Agenda). The key programs implemented are aimed at effecting structural changes towards boosting economic activity in all sectors of the economy.

The completion of this strategy paper was as a result of collective effort by various Departments and Agencies (MDAs) who provided valuable information. We are grateful for their contribution. We are also grateful for the excellent inputs of the Macro Working Group and Sector Working Groups which contributed to the preparation of this CFSP. A dedicated team in the County Treasury led by Directors Budget and Economic Planning spent substantial amount of time putting together this FSP. We are particularly grateful to them for their tireless efforts and dedication.

**JOSEPH KABII CHABARI**

CHIEF OFFICER FINANCE, ECONOMIC PLANNING & ICT

## ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CO	Chief Officer
CRA	Commission of Revenue Allocation
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
FSP	Fiscal Strategy Paper
CIDP	County Integrated Development Plan
ADP	Annual Development Plan
FY	Financial Year
GDP	Gross Domestic Product
IBEC	Inter-Governmental Budget and Economic Council
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
PE	Personnel Emoluments
PFM	Public Finance Management
PWD	People with Disabilities
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group

## **Legal Basis for the preparation of the County Fiscal Strategy Paper**

### **Legal Basis for the Publication of the Meru County Fiscal Strategy Paper**

The Meru County FSP is prepared in accordance to Section 117 (1) of the PFMA, 2012 which states that:

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

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

(3) In preparing the 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 over the medium term.

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

- a) The Commission on Revenue Allocation;
- b) The public;
- c) Any interested persons or groups; and
- d) Any other forum that is established by legislation.

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

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

(8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper.

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### **Fiscal Responsibility Principles in the Public Financial Management Law**

In line with the Constitution, the PFMA (2012) sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources.

Section 107 states that:

(1) A County Treasury shall manage its public finances in accordance to the principles of fiscal responsibility set out in Sub-section (2), and shall not exceed the limits stated in the regulations.

(2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:

- a) The county government's recurrent expenditure shall not exceed its 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 its total revenue as prescribed by the CECM for finance in regulations and approved by the CA;
- 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's debt shall be maintained at a sustainable level as approved by the CA;
- 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.

(3) For the purposes of Subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.



## **1.0 Outline of the County Fiscal Strategy Paper**

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This Fiscal Strategy Paper consists five sections as outlined below:

### **Chapter 1: County Strategic Blueprint**

The chapter introduces the key development objectives the county is seeking to achieve within its tenure and respective programmes set to support such ambitions. It also gives details on specific initiatives to be undertaken under each programme.

### **Chapter 2: Recent Economic Developments and Policy Outlook**

This chapter outlines the economic context in which the FY 2019/20 MTEF budget is prepared. It provides an overview of the recent economic and macroeconomic developments.

### **Chapter 3: Fiscal Policy Budget Framework**

The chapter seeks to detail County Government’s fiscal policy goal(s) for the county economy mainly in terms of prudent financial management, efficiency, debt sustainability, public sector productivity enhancement in order to achieve the objective of the County Government’s strategic blueprint.

### **Chapter 4: Medium Term Expenditure Framework**

This section analyzes the county government’s resource envelope comparing two, most recent financial periods to establish the resource trend to enable project future expenditure. It helps identify priority areas giving baseline ceilings.

### **Chapter 5: Conclusion and next steps**

The chapter summarizes the primary changes and decisions to be effected in an endeavor to reach the county government’s fiscal goals.

## **2.0 COUNTY STRATEGIC BLUE PRINT**

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### **Overview**

Meru County government has a theme to make the County great with a vision of building a United Prosperous Green Model County”. The County has planned to achieve this vision through the promotion of sustainable development, technological innovations and industrialization that will empower citizens and public officers and promote partnerships and networks. The transformational plan informed the County Integrated Development Plan (CIDP) for 2018-2022 and the Annual Development Plan for FY 2019/2020.

## **General context**

1. The overall economy has shown signs of improvement after the heightened 2017 electioneering period whose adverse impact spilled over to 2018. After the political calm obtained from the famous handshake of 2018, economic activity fortunes have changed for the better. The economic growth rate has been projected to go well above 6% in 2019. In anticipation of the positive projection, Meru County has positioned itself in driving growth in the key sectors influencing direction of the national economy. The county government has continued to channel a significant portion of its total development budget in enhancing water availability for domestic and agricultural use through investment in boreholes and support to various community water supply projects. Investment has also gone to strengthening the agricultural sector through value addition and product marketing initiatives, tree crop promotion, crop diversification and fisheries promotion. The service industry has equally received a boost through initiatives geared towards encouraging a robust tourism sector. To support and sustain economic activities, Investment has also been directed to the social sector mainly represented by Education, Gender, Youth and Health subsectors. The County Government intends to empower its citizens to effectively participate in creating and thereafter sustaining a great County.
2. As the National Government strives to achieve a stable foreign exchange market, the county government has positioned itself to get forex particularly through the Agriculture, Trade & tourism frontiers. Meru County has been marketed as a source of high quality horticultural products; coffee, tea, Avocados and Macadamia among others. It is these products that will be used to boost international and regional trade. Meru is also positioning itself as a vibrant tour and investment destination. The fact that Meru enjoys a near monopoly in Miraa production puts the county on the map as a lead in high value exports.

## **County specific context**

3. The County Government of Meru has gained momentum in harnessing strategic areas under the President's Big Four agenda which seeks to maximize benefits and to accelerate development through improved agriculture, food security and nutrition, increased investment in the manufacturing sector, universal health coverage and provide affordable housing to residents. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

4. It is still not possible to compare economic growth across counties in Kenya due to lack of data on the same. However, according to various Kenya National Human Development Reports, Meru County Human development index has improved overtime and sits above the national average. For instance, the mean score index for the year 2012 was 0.551. This therefore implies that Meru is doing better on life expectancy, education and per capita income indicators compared to others. To ensure that a county is able to assess its Human Development, this indicator needs to be computed at national level for comparison across counties. A lot still needs to be done to improve on this index.
5. The County Government is determined to create a great county through pursuance of its vision of building a united, prosperous and green model county. The major transformations that the County Government intends to realize are captured in the Governor's Manifesto and emphasized in the County Integrated Development Plan 2018-2022 as follows:
  - a) **Investment in water provision across the county.** This transformation aims at increasing access to both domestic and irrigation water through: Drilling of boreholes with elaborate distribution systems mainly targeting the Arid and Semi-arid wards of the County and Supporting community water projects.
  - b) **Improved accessibility in the wards.** The county Government in liaison with its partners will seek to maintain accessibility for ease of movement of goods and services in the County roads through: Regular construction and maintenance of roads and Lobbying for construction of roads beyond the county government capacity.
  - c) **Poverty and food security (Improved Agriculture).** The County Government will seek to drive value addition and trade in our agricultural products to increase earnings and to cut on losses. These initiatives will be driven by multiplicity of stakeholders under the coordination and leadership of the County constituted agricultural board. The County Government will seek to maintain visibility of agricultural sector support in its allocations
  - d) **Universal healthcare.** The County Government will continue with its initiative of increasing participation of the Meru residents under the NHIF medical cover. This is in addition to curative and preventive programs as well as adoption of universal health care programme.

- e) **Sustainable urban areas.** The County Government is maintaining its focus on urban areas as the next source of its growth. This is through the establishment and operations of the Meru Municipal board, Town management boards and Management committees for the rest of the budding urban centres. This transformation is to be driven through collaboration of a multiplicity of stakeholders including the County Government, National Government, Private sector, bilateral partners/donors and NBOs
  
- f) **Marketing Meru County as a World class tourism destination.** This is through marketing the existing operational tourism destinations such as; Meru national park, hiking in Mt.Kenya, Ngarendare Forest Trust, Lewa Conservancy, Meru national museum, Njuri Ncheke shrine, Agro-tourism such as horticulture, floriculture, wheat field, miraa and tea farms and Tourism product development such as Wildlife, Cultural and Ecotourism Adventure development of tourism products, Mapping, protection and marketing of tourism sites. These actions will be derived by engagement of county government with national government agencies, private sector and all departments to tap our tourism products such as culture and sports
  
- g) **Education for all our children.** The county government through education department will continue with interventions geared towards improving education across the county through; Improvement of nutritional value to learners, Promotion of Basic Education and vocational training , Implementation of curriculum and enhancing education fund, Improving access to basic education and increasing enrolment in the ECDE and vocational training institutions.
  
- h) **Empowering youth, PWDs and Women.** This will be through, Implementation of 2/3 gender rule, Supporting and facilitating business owned by special groups to benefit from the AGPO, mapping of PWDs, financial support to PWDs Sacco's, purchase of assistive devices, TWAVEZA programme and youth empowerment programmes.

## **Programmes for achieving the County Strategic Blueprint's Objective**

6. This County Fiscal Strategy Paper articulates priority economic policies and structural reforms as well as sector-specific expenditure programs to be implemented under the Medium Term Expenditure Framework for FY 2019/20, 2020/21 and 2021/22 in order to achieve the County Government's development goal. Key priority economic policies, structural reforms and sector-specific expenditure programs to be pursued under the priority areas include:

### **a. Water Resources Management**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) To improve domestic water supply through drilling of boreholes, construction of distribution pipelines, and construction and rehabilitation of storage tanks;
- b) Equipping existing boreholes
- c) Ensure sufficient water for irrigated farming.
- d) Enhancing water accessibility by supporting water projects

### **b. Roads Infrastructure improvement**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Construction of Roads
- b) Maintaining sub county interconnecting major roads
- c) Routine maintenance of feeder roads
- d) Construction of bridges and box culverts

### **c. Poverty Eradication and food security through investment in agriculture, livestock & Fisheries**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Investing agriculture development through promotion of grafted macadamia and avocado farming;
- b) Investing in value addition of farm produce and fish.

- c) Completion and operationalization of Kaguru dairy goat processing plant
- d) Livestock development through pasture and fodder development; and
- e) Promoting fish farming.

**d. Curative and promotive health care services**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Initiating and broadening household medical cover;
- b) Invest in Public Health Education;
- c) Improve working-environment for health care workers;
- d) Ensure adequate drugs and other health commodities supply in all health facilities;
- e) Establish ICU unit in MTRH; and
- f) Construction of ward block at Meru level 5 hospital.

**e. Urban development**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Establish town councils and town management Boards to plan and utilize all revenue collected in towns for town-development;
- b) Establishing urban Support Program projects for Meru Town
- c) Urban development control e.g Expand roads, water, electricity, fibre-connectivity and ensure improved security in all towns and urban centres;
- d) Urban improvement projects e.g SymbioCity.
- e) Automation of development approval process
- f) Encourage PPPs for improved skylines in our towns.

**f. Lands, Spatial Planning and Housing**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Land banking
- b) Land adjudication
- c) Establishment of spatial plans
- d) GIS database system updating

- e) Establishment of valuation roll for the major towns
- f) Surveying of public land
- g) Repair and maintenance of buildings

**g. ECDE development and Technical/Vocation Education and Training**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Employment polytechnic instructors
- b) Capacity building for ECDE teachers, officers and polytechnic instructors
- c) Lobbying for Scholarships for top students in the County
- d) Procurement of learning materials.
- e) Construction of ECDE classrooms and workshops/ hostels for polytechnics
- f) Provide free milk and meals for all ECDE Children in the County;

**h. Empowering youth, PWDs and Women**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) MYS recruitment and training
- b) Youth mentorship programme
- c) Capacity building for PLWDs
- d) Sensitization of PWD SACCOs
- e) Capacity building for women through Twaweza programme
- f) Campaigns against gender based violence

**i. Tourism marketing and Development**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Construction of a star rated hotel at Meru National park with PPP engagement.
- b) Upgrading Major attraction sites in the county
- c) Capacity building of tourism industry service providers
- d) Tourism Marketing and promotion

**j. Trade and Cooperatives Development**

Under this strategic objective, some of the priority economic policies, structural reforms and



sector-specific expenditure programs listed include:

- a) Upgrading market infrastructure
- b) Construction of modern kiosks.
- c) Financial support to SACCOs through county microfinance corporation
- d) Dairy sector support e.g. purchase of milk coolers.
- e) Coffee sector support

**k. Environmental conservation**

Under this strategic objective, some of the priority economic policies, structural reforms and sector-specific expenditure programs listed include:

- a) Introduce bamboo farming to boost forest cover; and
- b) Highway beautification programme
- c) Rehabilitation of rivers and water catchment areas
- d) Solid waste management
- e) Cleaning of towns
- f) Afforestation

## 3.0 RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

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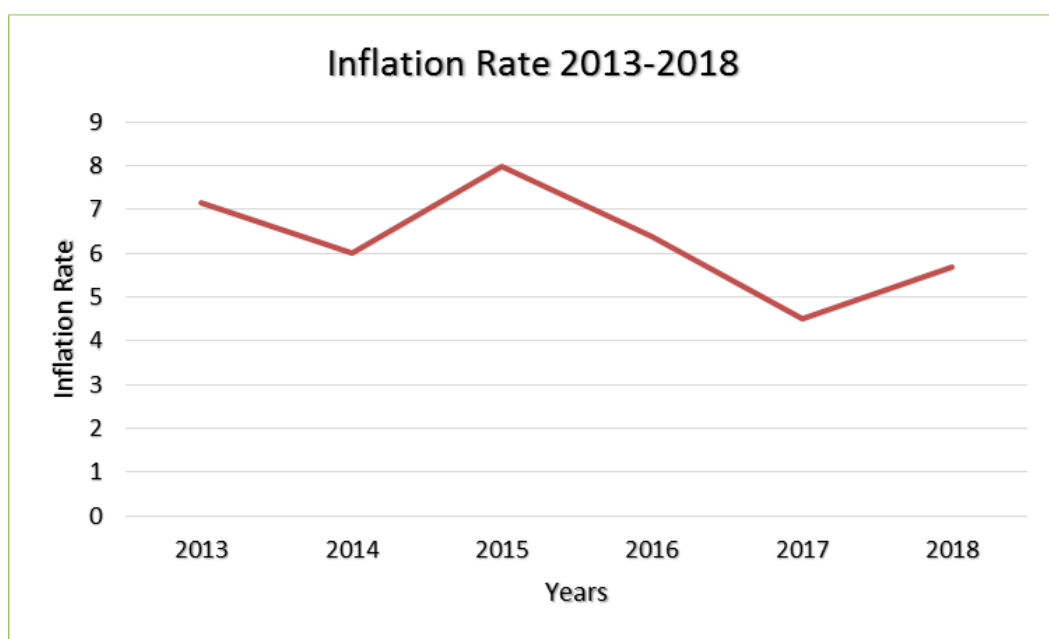
### 3.1. Overview

This section reviews the latest information on the macroeconomic variables, their latest trends at the national level and linking them with the county's own economy in terms of their broad impacts. It addresses part of requirements of the PFM regulations to assess the medium term macroeconomic framework, its outlook as contained in the Budget Policy Statement released by the Cabinet Secretary for Finance and to deduct impacts on the county's economic environment.

The analysis of these national macroeconomic variables is as follows;

- 1) In 2018, the economic activities in the country were observed to have picked up after the slowdown witnessed in 2017. In the first three quarters of 2018, an average growth of 6.0 percent was recorded, up from 4.9 in 2017. This growth was attributed by improved rains, better business sentiment and easing of political uncertainty. In the county, impacts have been noted in agricultural sector (which is a key driver of the local economy). Diversifications, adoption of improved agricultural methods and improved rains have been sighted as key enablers of the observed growth.
- 2) In terms of the broad money supply, M2 in Kenya increased to 2717.89 KES Billion in October from 2671.31 KES Billion in September of 2018. On average, Money supply stood at 961.17 KES Billion from 1995 until 2018 where it reached an all-time high of 2717.89 Billion in October 2018. This impressive performance has brought significant impacts in the county witnessed by lower interest rates, which in turn has generated more investments, as well as putting more money in the hands of consumers. This stimulated spending, especially in the later years of 2018 with local business responding by increases in inputs and production. Demand of labour also improved correspondingly,
- 3) The performance of Kenya's Private sector is recorded to have seen its greatest performance in February on 2018 according to Stanbic Bank's Purchasing Managers Index, which registered a score of 54.7 in February compared to 52.9. This performance indicates an improved business trend where production and orders sharply improved. In Meru, this has been evidenced by the increase in new private enterprises which resulted in increased local revenues in the county, though none of them is on within the PPP engagement.

- 4) The annual inflation rate in Kenya on the other hand rose to its highest since October 2017 standing at 5.71 percent in December 2018 from 5.6 percent in the previous month. This has remained elevated especially for housing & utilities and transport at the start of 2019. On average the inflation rate for the country has been 9.70 between 2005 and 2018. This rate has influenced the purchasing power of commodities and consumption patterns. The introduction of VAT on fuel products contributed significantly to rise in the rates for late last year. In the local scene, the standard of living is being affected adversely due to the rising costs of basic commodities such as transport. Therefore there is strong possibility that inflation has to be catered for in the budget estimates.



*Source: Central bank of Kenya*

- 5) In regards to the interest rate, the central bank of Kenya left its benchmark interest rate unchanged at 9.0 percent at its January 28th 2019, meeting. This was based on the committee's observation that inflation expectations remaining consistent within the target range, and that the economy was operating 'close to its potential. The impacts of this in the local economy were macroeconomic stability and economic growth prospects.
- 6) Kenya's balance of payment current account deficit in the 1st quarter of 2018, showed an improvement from Ksh. 107.9 Billion compared with the corresponding quarter of 2018, which stood at 129.7 billion. This improvement signals prospects for favorable BoPs given the developments witnessed later in the year. With the trade agreements between the Kenyan Government and the Chinese Governments, trade opportunities for Kenyan Products, the Local Industries are organizing to tap into the presenting opportunities. Towards this end, the Department of Trade development, cooperatives, and Tourism initiated the process of setting up of industrial parks within

the county. This move is not only to target the Chinese market, but also, the European Union, the American market through Ageo and even other fellow African states as facilitated by the AU's free trade agreement.

- 7) On the exchange rate trends, it was notable that in July 2018, the Kenyan Shilling appreciated against the major trading currencies except for the Sterling Pound and the Ugandan Shilling. This continues to enhance confidence of investors, thereby contributing to macro-economic stability in the period: Locally and nationally.
- 8) The Nairobi Securities Exchange (NSE) 20 share index increased from 3,286 points in June 2018 to 3,320 points in July 2018, while the total number of shares traded dropped from 453 million shares to 323 million shares during the same period. The total value of NSE shares traded decreased from KSh 13.69 billion in June 2018 to KSh 9.74 billion in July 2018.

### **3.2. Impact of the Macro-economic performance indicators to the County**

- 9) As the economy expands and as noted by the increase in GDP, more opportunities arise for investments and growth in the productive sectors. An immediate impact will be an increase in the equitable share from the government, due to increased revenue flows at the national level, which will offer the County government more resources to invest in the transformative programs already identified. Further, the third generation computation that has been proposed by CRA that places a greater weight on population results in increase in the equitable share to the County. The growth in the economy promotes foreign direct investments, and therefore will be able to realize more private and public investments if the trend continues in the medium term.
- 10) The rate of inflation has largely been held stable, due to a favorable macroeconomic environment and a prudent fiscal and monetary policy regime. Holding the rate of inflation stable enables the county maintain stable public investment and service delivery projections and hence, a more stable approach to planning and budgeting. This is contrasted against an unstable inflation environment, which ultimately affects the buying power of the resources both at the disposal of the government and residents, and increases poverty demographics to levels that may impact the spending patterns of the County Government. Therefore the stability in the inflation rates is important for the continued implementation of the County development strategy.
- 11) The Country has benefitted from the recovery of the Tourism sector and the county has already developed clear strategies to tap into this previously unexploited sector. In the medium term to 2021/22, the County has planned to develop more cultural sites and products, improve advertisement of the available tourism products and harness incidental businesses through improved tourism at the Meru National Park. The proposed investments in infrastructure will enhance connectivity, as well as access and further enhance various initiatives targeted by the County.

### 3.3. Update on Fiscal Performance and Emerging Trends

Budget execution started on a slow note in the first quarter of the FY 2017/18 due to the prolonged electioneering period and budget rationalization to align expenditure priorities to revenues. The expenditure rationalization was to ensure sustainable fiscal position in the FY 2017/18 and the medium term, and reaffirm the County Government's commitment to its fiscal consolidation plan and to prudent fiscal management in general. During the FY 2017/18, the total revenue received amounted to Ksh. 10, 048,619,034 with a total expenditure of Ksh. 7,480,788,371 representing 70% budget absorption rate. The shortfall in expenditure target was attributed to the long electioneering period, slow growth and collection of local revenue and delay in disbursements from the national government.

#### Revenue

During the FY 2017/18, the county received in County Revenue Fund Kshs. 7,701,000,000 as equitable share of revenue raised nationally, Kshs. 884,775,289 as total conditional grants, raised Kshs. 463,103,416 from own source revenue.

#### Expenditure

In 2017/18 a total of Kshs. 6,084,890,891 was spent on recurrent activities while Kshs. 1,395,897,480 was spent on development activities. The expenditure excluded pending bills which amounted to Kshs. 2,490,000,000 for development activities and Kshs. 126,715,675 for recurrent expenditure as at June 30, 2018.

*Table 1: Comparison of Actual Performance against budget*

Item	2017/18 FY	2018/19 FY		% Utilization
	Actual	Budget estimates	Actual (first half)	
TOTAL REVENUE & GRANTS	9,048,878,705	10,586,428,895	2,635,993,497	24.90%
Unspent Bal from Previous FY	999,740,329	1,913,167,088		0.00%
<b>Revenue (Total)</b>	<b>10,048,619,034</b>	<b>12,465,595,846</b>	<b>4,515,160,448</b>	<b>36.22%</b>
Equitable Share Allocation	7,701,000,000	8,007,000,000	2,500,865,641	31.23%
Local Revenue	463,103,416	1,108,796,286	192,138,860	17.33%
Grants income	884,775,289	1,470,632,609	135,129,856	9.19%
<b>Grand (Total)</b>		<b>10,586,428,895</b>	<b>2,828,134,357</b>	<b>26.71%</b>
<b>Total Expenditure</b>	<b>7,480,788,371</b>	<b>12,465,595,846</b>	<b>3,538,131,441</b>	<b>28.38%</b>
<b>Recurrent</b>	6,084,890,891	7,794,673,016	3,137,844,179	40.26%
<b>Development</b>	1,395,897,480	4,670,922,830	2,800,287,262	59.95%

## **Fiscal balance**

In the medium term, the government is forecasting a balanced budget hence there will be no need for debt financing.

## **Significant economic, legislative and financial events**

The elections in August 2017 came immediately after the start of the financial year 2017/18, the heated political temperatures coupled with uncertainties associated with elections saw a subdued budget implementation at the start of the financial year. The repeat of the presidential elections in October further disrupted national and county operations resulting to a slower budget implementation.

### **1.1. Economic Policy and Outlook**

The BPS projects a growth in GDP of 7% in the medium term. The growth in GDP is expected to result to improved national revenue and guarantee a revenue growth of at least 3% annually for the county governments. This anticipated growth in revenue allocations to the county has been factored in the budget projections in this CFSP. Further, Commission on Revenue Allocation has released the 3<sup>rd</sup> generation revenue allocation basis for comments from the public and from stakeholders. The 3<sup>rd</sup> generation formula governments intends to share revenue based on the three components, namely; the service delivery component with shares 69% of the revenues, the development component that shares 26% of the revenues and the fiscal incentive component that shares 5% of the revenues. If the formula is adopted, then Meru County is projected to receive higher revenue share than was received using the current 2<sup>nd</sup> generation formula.

Inflation has been projected to remain within target of 5+/- 2.5% in the medium term and is therefore not expected to have adverse effect on the budgetary resources for the county government.

In order to align and support the National government focus on the four areas of Food security, universal health care, expansion of manufacturing and housing, the county has committed to sustain allocation of significant resources to the concerned sector. An average of 32% of budgetary allocations will go to the health sector while agriculture, Trade and Cooperatives, Water and irrigation, Education, Gender Social Service and Sports, Road

transport and Energy sub-sectors that support food security and value addition will consume 33% in the medium term.

Table 3: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework (FY 2019/20 MTEF)

	2018/19	2019/20	2020/21	2021/22
<b>Annual percentage change</b>				
<b>National Account and Prices</b>				
Real GDP	5.4	5.4	6.1	6.1
GDP Deflator	8.4	8.4	7	7
CPI Index (eop)	6.7	5	5	5
CPI Index (avg)	8.1	5.2	5	5
Terms of Trade (-deterioration)	0.7	0	-2.6	-2.6
<b>Percentage of GDP</b>				
<b>Investment and saving</b>				
Investment	17.9	21.1	22.8	22.9
Gross National Savings	14	15.5	17.6	17.6
<b>Central Government Budget</b>				
Total revenue	18.6	17.3	18.5	18.5
Total expenditure and net lending	27.6	24.4	25.1	24.8
Overall balance (commitment basis) excl. grants	-9	-7.1	-6.6	-6.2
Overall balance (commitment basis) incl. grants	-8.8	-6.8	-6.1	-5.8
Gross international reserve coverage in months of imports	6.5	6.9	7	7

### Risks to the Outlook

This sub-section deals with the risks associated with the outlook of the proposed budget 2019/20 and the medium term.

<i>Risks</i>	<i>Mitigation measures</i>
<p><b>Risk in Changes in Macroeconomic Assumptions</b></p> <p>Unexpected changes in macroeconomic variables create risks to both revenue and expenditure projections in this CFSP as they play a key role in the formulation of the budget. Some of these risks include adverse changes in real GDP growth rates, inflation rate, exchange rate and volatility of commodity prices that</p>	<p><b>Mitigation Measures</b></p> <p>The County understands that the risks in macro-economy largely affect the programmed spending on the development budget. The National Treasury has developed a national mitigation measure by establishing the Public Investment Management Unit which will be responsible for ensuring that all capital projects are planned, appraised and evaluated before funds are finally committed in the budget. Meru County shall ensure that capital projects planning, appraisal and evaluation are conducted efficiently and</p>

<i>Risks</i>	<i>Mitigation measures</i>
<p>affect the County's own source revenue. However, on the overall, any negative external and internal shocks to our economy may adversely affect transfers from the national government and may significantly affect the funds allocated to the county.</p>	<p>that funds are allocated early in the financial year. To this end the County will develop comprehensive work plans, procurement plans and cash flow projections and ensure these are submitted as required (by the 15 June of each financial year) to mitigate the effects of any adverse macroeconomic changes and ensure that if this risk crystalizes then the effects are borne by the National government.</p>
<p><b>Shortfall in County Revenue</b></p> <p>The third revenue sharing formula proposed by CRA will lead to reduction of county revenue significantly.</p> <p>The County government has projected as part of its revenue envelope own source revenue that will be used for budgetary support. Own source revenue generation has continued to face challenges that has resulted in consistent drop in the revenue collected and the failure to achieve the targets in the past.</p>	<p><b>Mitigation Measures</b></p> <p>With the country's GDP growth projected at 7%, the county government is optimistically ambitious to project the county revenue growth at around 20% in the FY 2019; The county has reengineered the Meru County Revenue Board for enhanced capacity.</p> <p>However, in the medium term the government will undertake measures aimed at expanding the revenue base and increasing tax compliance through the integration of technology in revenue collection. Further, the County will develop legislation over key revenue sources and develop enforcement mechanisms to stem the revenue leakages.</p>
<p><b>Pending bills</b></p> <p>The County continues to face major challenges of pending debts and bills. The pending bills carried forward from the FY 2017/18 stands at Kshs 1.913 billion.</p>	<p><b>Mitigation measures</b></p> <p>The president asked the National Treasury to put in place measures that will see Counties allocated funds to help clear the growing pending bills during the FY 2018/19. A verification audit has been conducted as elaborate consultations are being made on the modalities to clear the amounts.</p> <p>Further, in the medium term, commitments will be against the appropriated resources and payments will be made in strict compliance with the approved estimates.</p> <p>The county will also implement austerity measures and fiscal discipline to minimize any arising pending bills. This will involve the growth in local revenues and any associated leakages</p>



## 4.0 FISCAL POLICY BUDGET FRAMEWORK

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### 4.1. Overview

The FY 2019/20 MTEF budget framework is intended to implement the County's fiscal agenda of transforming lives through promotion of sustainable development, technological innovations and industrialization that will empower citizens and public officers and promote partnerships and networks. The County plans to pursue prudent fiscal policies to ensure economic growth and development. Further, the fiscal policies are aimed at providing support to economic activities while at the same time creating a sustainable and conducive environment for the implementation of programs and transformational interventions.

The County Government will endeavor to improve on service delivery to the county residents in the medium term. In doing so the following key decisions will guide allocation during the medium term:

- a) There will be focus on strengthening resource mobilization to eliminate the fiscal gaps that have been experienced in the past as a result of own source revenue shortfalls. This will be through automation of revenue streams to enhance their potential and reduce leakages;
- b) The government will strengthen the efficiency monitoring unit to ensure that programmes and sub-programmes are effectively monitored and efficiency is achieved in the use of resources;
- c) The County Government will implement performance management and institute critical actions to manage the growth in wage bill.
- d) For effective and efficient management of human resources the County is in consultation with the National Treasury on appropriating all salaries under one department. This will ensure ease of monitoring compensation to employees.

The total resource envelope for FY 2019/20 is expected to be Kshs 11.389 billion. Based on the analysis of the macro-economic environment and the trend of growth of the County revenues, the projections are that it will grow by 14% per annum to Kshs 12,969.35 billion for FY 2020/21 and by 20% to Kshs 13,919.65 billion for FY 2021/22. This is hedged on the projected growth of 7% in GDP and impact of the 3<sup>rd</sup> generation formula on revenues allocation to Counties. Own Source revenues are also expected to increase in the medium term compared to the current revenue levels. The County intends to improve revenue collection through automation, enhancing enforcement, developing underpinning legislation for various revenue streams.

The County Government will strive to ensure that the budget is balanced in the medium term and that expenditure for development shall constitute 32.53% in FY 2019/20 and 33% in FY 2020/2021 and FY 2021/22. Further and on the back of prudent financial management, the

county will also seek to keep the recurrent expenditures below 70% in the medium term. Expenditure ceilings are based on county priorities extracted from the CIDP 2018-2022, ADP 2019/20, sector working group reports and submissions made to the macro working group from each of the departments. Moreover, the ceilings were also adjusted based on, own source revenue performance, expenditure trends and the changes in priority based on sector working group discussions and submissions from departments. Expenditure related to conditional funding and grants has been ring fenced based on the purpose for the funding and estimates developed and included in the sector working group reports.

The proposed FY 2019/20 MTEF fiscal strategy is based on a balanced budget. However, any shortfall in revenue that may occur within the MTEF period will be addressed through supplementary or borrowing within the framework by sub-nationals as approved by the Intergovernmental Budget and Economic Forum (IBEC).

#### **4.2. Fiscal policy status**

The government's fiscal policy objective in the medium term will be to focus resources to priority and growth potential areas. Allocation and utilization of resources in the medium term will be guided by the priorities outlined in CIDP 2018-2022 and other county plans; and in accordance with fiscal responsibility principles as set out in section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

The County Budget and Economic Forum and the Sector Working Groups (SWGs) will continue to be the forum for permanent and continuing dialogue between the government and the various sectors of the county economy. The SWGs will be key in coordinating the preparation of Departmental Public Expenditure Reviews (DPERs); reviewing sectors objectives and strategies; identifying sector priorities and rankings; identifying linkages; identifying sources of funding for sector programmes and improving communication and nurture partnerships within each of the sectors.

#### **4.3. Fiscal Strategy Paper's Obligation to Observe Principles**

To have sustainable development and growth, the government is planning to meet the fiscal targets set by making policies aimed at ensuring strict adherence to fiscal responsibility principles. These policies will aim at rationalizing allocation of more resources from recurrent to capital and development programs so as to promote sustainable and inclusive growth. Further, the government will operate within a framework of balanced budget in the medium term with occasional short term borrowing as may be necessary for cash flow management purposes.

## **Fiscal Responsibility**

The policies set out are in line with the Constitution of Kenya 2010 and the PFM Act, 2012 which sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The fiscal responsibility principles that will be observed in FY 2019/20 and in the medium term are as follows:

- ii) Over the medium term, a minimum of thirty (30) per cent of the budget shall be allocated to the development expenditure. In FY 2015/16, FY 2016/17 and FY 2017/18, the government achieved an allocation to development expenditure of 34%, 38% and 30%, respectively. The projections for the medium term is 32% across the years which is within the law;
- iii) The Government's expenditure on wages shall not exceed a percentage of 35% of the County total revenue. This is a challenging fiscal principle as the county is faced with huge wage bill without equivalent corresponding revenue that support cash flow to meet this requirement. Personnel Emoluments for FY 2017/18 stood at 46%. The projected percentage of the wage bill in FY 2019/20 is 45%. However, the focus on productivity and the need to enhance own source revenues by automation and legislation are key to enable the County achieve the 35% in the medium term.
- iv) Over the medium term, the Government's borrowing shall be used only for purpose of financing development expenditure and not for recurrent expenditure. The County government has no plans within the FY 2019/20. However, if need arises to borrow in the medium term it will be tied to development purpose.
- v) The county debt shall be maintained at a sustainable level as approved by County Assembly. The county debts are limited to pending bills of Kshs 1,913.17 million which were carried forward from FY 2017/18. These amounts are expected to be included in the revised estimates for FY 2018/19 and payments made against the available resources;
- vi) The fiscal risks identified under section 2.8 above shall be managed prudently and all mitigation measures indicated put in place to manage all identified and emerging risks; and
- vii) The government shall maintain a reasonable degree of predictability with respect to the level of tax/ levy rates and bases shall be maintained, taking into account any tax reforms that may be made in the future. The projections for the own source revenues have taken this into account and in the medium term, the county will focus more on stemming revenue leakages by enacting enforceable laws and automation on various revenue streams.

#### **4.3.1. Fiscal structural reforms**

The county government aims at managing spending proposals, which will undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure, especially on areas pertaining to Subsistence Foreign Travel, and other transportation costs, Printing, Advertising and Information Supplies, Hospitality Supplies and Services Office and General Supplies, Contracted Professional Services, Contracted Technical Services, Alterations to Buildings and Civil Works. In addition, the county government will adhere to procurement statutes across all departments to ensure transparency and accountability. The county government intends to widen tax base by instilling sound revenue management systems through;

- a) Improved automation of revenue collection function
- b) Capacity building, accountability and efficiency of revenue staff
- c) Effective and consultative process in enactment of the Finance Bill
- d) Effective enforcement measures of the Finance Act
- e) Drawing an urgent implementable debt recovery strategy
- f) Continued implementation of the Integrated Financial Management Information System (IFMIS);
- g) Use and feedback on use of GPay;
- h) Capacity building efforts to date and the measure of progress in: Staff training in IFMIS, percentage of finance officers trained and competent in IFMIS;
- i) Training, roll out and use of process manuals such as the County Budget Operations Manual, the accounting manual etc.;
- j) Recruitment and retention levels of finance staff;
- k) Establishment versus actual numbers of finance staff;
- l) Trainings conducted to date against targets.

In regard to deficit financing and borrowing, the County Government is alive to the provisions of PFM Act, 2012 and although the government is faced with a mismatch of financial resources vis-a-vis planned programs, adherence to the requirements of these laws is ensured. Section 107(3) (4) of the PFM Act provides as follows:

Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

#### **Debt Financing Policy**

The County Government's current debts are limited to the pending bills. The pending bills are expected to be included in the revised estimates for FY 2018/19 subject to availability of resources. The pending debts represent carried forward debts over the years and some that date back to the pre-devolution period. A review and consultative process will be planned for and a decision made on how to clear this amounts. Except for these two categories, the County does not finance its operations through debt and hence no outstanding debt.

In the medium term, no debt has been factored in the financial projections for the County. However, Meru County government would take up any opportunity to borrow from domestic sources to fund key capital investments and will be willing to revisit the current projections upon the completion of a framework to be developed by the National Treasury on borrowing by County governments. When such borrowings happen, the County will undertake careful and critical analysis of financial position and capability of the county in repaying its debts and ensure that such amounts are for development.

#### 4.4. Budget Framework Proposed for FY 2019/20 MTEF

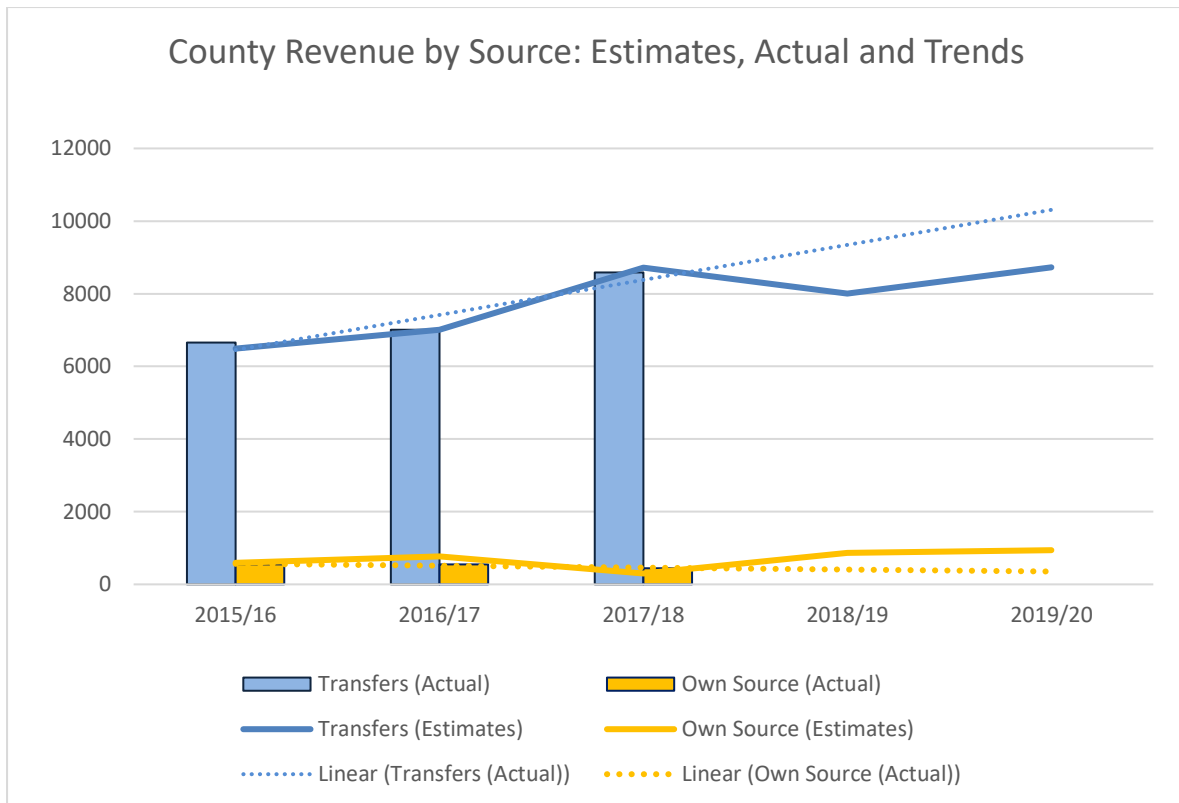
##### Revenue Projections

The county expects to receive total revenue of Kshs 7.874 Billion from national treasury as indicated in the County Allocation of Revenue Bill. The own source revenue is projected to be 705 Million.

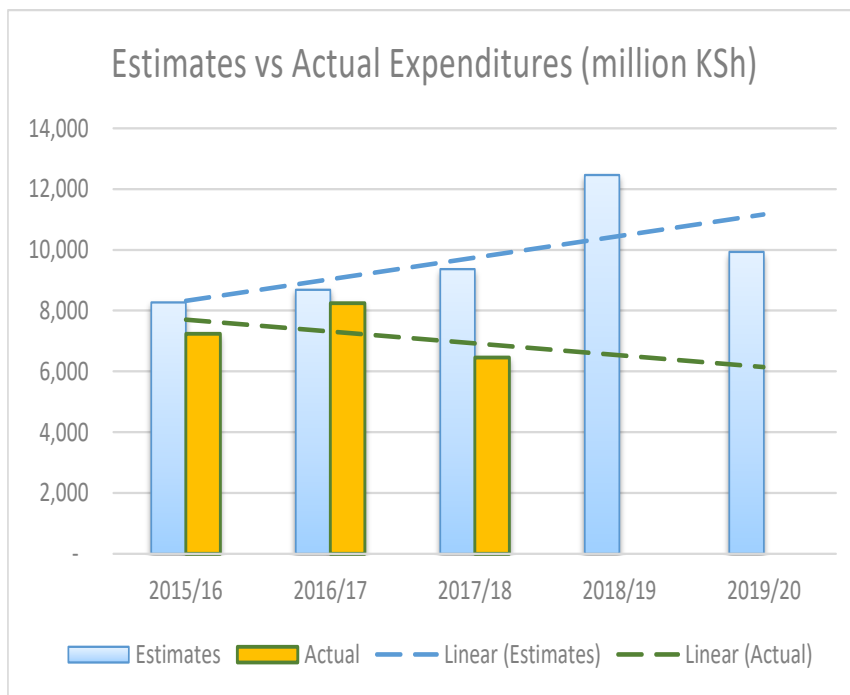
**Table 4: County Government Revenue trends and projections**

Financial Year	Equitable Share(Ksh. Million)	OSR	DANIDA	Universal Health Care Transforming	Level 5	User Fees forgone	Fuel Levy	KDSP Grant	Development of Youth Polytechnics Conditional Grant	Leasing of Medical equipment	Agricultural Sector Development Support Programme 11	Kenya Urban Support Programme	NARIGP	Alcohol Board	Hospital FIF	UHC	Total
2017/18	7,701.00	463.10	29.06	13.42	373.87	31.65	276.67	50.38	58.67	95.74			50.61				9,144
2018/19	8,007.00	635.40	25.82	50.00	373.87	31.65	210.82	53.94	66.03	200.00	20.08	116.89	140.44				9,932
2019/20	8,705.00	905.60	25.82	50.00	385.40	31.60	250.10	53.94	66.03	-	20.10	160.00	180.40	35.00	120.00	400.00	11,389
2020/21	9,401.00	1,177.28	25.82	50.00	385.40	31.60	229.10	53.94	66.03	131.90	20.10	160.00	140.40	50.00	180.00	466.00	12,569
2021/2022	9,700.00	1,648.19	25.82	50.00	385.40	31.60	229.10	53.94	66.03	131.90	20.10	160.00	140.40	100.00	220.00	957.00	13,919
<b>Proportion of total Revenues (2019/20)</b>	<b>76.43%</b>	<b>7.95%</b>	<b>0.23%</b>	<b>0.44%</b>	<b>3.38%</b>	<b>0.28%</b>	<b>2.20%</b>	<b>0.47%</b>	<b>0.58%</b>	<b>0.00%</b>	<b>0.18%</b>	<b>1.40%</b>	<b>1.58%</b>	<b>0.31%</b>	<b>1.05%</b>	<b>3.51%</b>	<b>100.00%</b>

The county relies heavily on equitable share followed by other laws and grants. Own source revenue has a lot of potential and the County will focus on increasing the amounts collected. In the figure below, we note the trend in own source revenue over the years which does show that there has been a general decline. The County will revisit the legislation in place and review the operations to enhance own source revenue levels.



### Expenditure projections



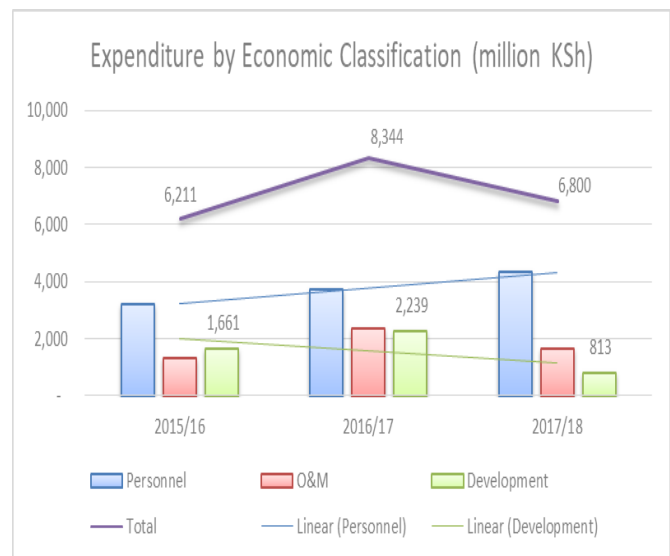
Overall expenditure for FY 2019/20 are projected at Ksh 11.389 billion from the estimated Ksh 12.499 billion in the FY 2018/19 revised budget. These expenditures comprise among others, recurrent of Ksh 7.58 billion (62 percent of total projected Expenditure) and development of Ksh 3.005 billion (37 percent of total projected expenditure). However,

the amounts of FY 2017/18 were inclusive of unpaid commitments carried forward from the FY 2017/18.

However, in the expenditure plan, the government recognizes that Non-discretionary expenditures takes first charge and includes payment of statutory obligations such as salaries and allowances of staff and related deductions. In addition, consideration is made about the need to complete the ongoing development projects; and more importantly, the strategic priority programs that spur socio-economic development and enhance the living standards of our people.

### Recurrent expenditure forecasts

The total recurrent expenditure forecasts is Kshs 7.68 Billion in 2019/20 which is an increase from the previous year's allocation of 7.587 Billion. The moderate increase is as a result of the increase occasioned by increased staff numbers. There is therefore need to rationalize expenditures in the 2019/20 budget. Expenditure related to office furnishing and capacity building will be critically scrutinized to ensure no avoidable expense is budgeted for. The 7.68 Billion recurrent expenditure forecast comprises of 5.175 Billion as compensation to employees and 2.507 Billion as operations and maintenance. The Compensation to employees represents 45% of total revenues for the financial year compared to 39.78 % for the 2018/19 approved supplementary budget estimates.



Personnel emolument is projected to be Ksh. 5,175,452,000 in 2019/20 FY. This is an increase by 4 per cent from a budget of Ksh. 4,972,868,693 in 2018/19 FY. In this regard, the county government will over the medium term ensure compliance with the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The county government is expected to enhance expenditure productivity in the proposed year and manage the rising wage bill to be within the required limit.

Operations & Maintenance is projected to be Kshs 2,507,533,442 in 2019/20 FY. This is a 4 percent decrease from Kshs 2,619,523,442 allocated in FY 2018/19 and is mainly attributed to the decrease in available resources between the two years.

### Development and Net lending

The FY 2019/20 budget projects total development expenditure will be Kshs 3.705 billion compared to last year (FY 2018/19)'s Kshs 2.92 billion (less pending bills) representing 30% of total budget and expected to retain the same proportion over the medium term.

Development expenditure will be funded by equitable share transfers from National Treasury as well as loans and grants from national government.

Table 8: Actual and projected development expenditure

	<b>Actual Expenditure</b>	<b>Budget Estimates</b>	<b>Projections</b>		
	<b>2017/18 FY</b>	<b>2018/19 FY</b>	<b>2019/20 FY</b>	<b>2020/21 FY</b>	<b>2021/22 FY</b>
Total Expenditure	7,780.79	12,499	11,389	12,969	13,919.65
Development	1,395.90	4,692.02	3705.34	4,360.84	5,040.84
<i>Development as % of CG Total Revenue</i>	<i>18.67%</i>	<i>37.54%</i>	<i>33%</i>	<i>34%</i>	<i>36%</i>



Table 3: County Government Fiscal Projections FY 2019/20 MTEF

Table 3.1: County Government Fiscal Projections FY 2019/20 MTEF								
	2017/18 FY	2018/19 FY	2019/20 FY		2020/21 FY		2021/22 FY	
	Actual	Budget	CFSP 2019	CBROP 2018	CFSP 2020	CBROP 2019	CFSP 2021	CBROP 2020
TOTAL REVENUE & GRANTS	9,048.88	10,586.43	10,833.99	11,299.97	12,919.57	12,235.83	14,017.71	14,350.20
A.I.A			555.00					
Unspent Bal b/f \Previous FY	999.74	1,913.17	-	-				
<b>Revenue (Total)</b>	<b>10,048.62</b>	<b>12,499.60</b>	<b>10,833.99</b>	<b>11,299.97</b>	<b>12,969.35</b>	<b>12,235.83</b>	<b>14,017.71</b>	<b>14,350.20</b>
Equitable Share Allocation	7,701.00	8,007.00	8,705.00	8,812.38	1,177.28	9,605.49	11,689.44	11,995.44
Local Revenue	463.10	1,228.80	905.60	941.62	696	933.99	1,018.62	1,098.62
A.I.A			555.00					
Grant income	884.78	1,350.63	1,223.39	1,545.98	1,645.29	1,696.35	1,309.65	1,256.14
<b>Grand (Total)</b>	<b>9,048.88</b>	<b>10,586.43</b>	<b>11,388.99</b>	<b>11,299.98</b>	<b>12,969.57</b>	<b>12,235.83</b>	<b>14,017.71</b>	<b>14,350.20</b>
<b>Total Expenditure</b>	<b>6,084.89</b>	<b>7,807.57</b>	<b>11,389.00</b>	<b>11,299.97</b>	<b>12,969.35</b>	<b>12,235.83</b>	<b>14,017.71</b>	<b>14,350.20</b>
Recurrent	6,084.89	7,807.57	7,683.66	7,909.98	8,608.51	8,565.08	9,672.22	9,758.14
Development			3,705.34	3,389.99	4360.84	3,670.75	4,345.49	4,592.06

	2017/18 FY	2018/19 FY	2019/20 FY	2020/21 FY	2021/22 FY			
	Actual	Budget	CFSP 2019	CBROP 2018	CFSP 2020	CBROP 2019	CFSP 2021	CBROP 2020
<i>Recurrent as % of CG Total Revenue</i>	60.55%	62.46%	70.92%	70.00%	66.63%	70.00%	69.00%	68.00%
<i>Development as % of CG Total Revenue</i>	0.00%	0.00%	34.20%	30.00%	33.75%	30.00%	31.00%	32.00%
Personnel Emolument	4,623.29	4,972.87	5,175.81	4,745.99	5,279.32	4,894.33	5,319.72	5,464.56
<i>Personnel Emoluments as % of CG Revenue</i>	46.01%	39.78%	47.77%	42.00%	35.60%	40.00%	37.95%	38.08%
Operations & Maintenance	1,461.60	2,834.70	2,507.85	3,163.99	3,329.19	3,670.75	4,352.50	4,293.58
<i>Operations &amp; Maintenance as % of CG Revenue</i>	14.55%	22.68%	23.15%	28.00%	19.78%	30.00%	31.05%	29.92%
Development	1,395.90	4,692.02	3,705.34	3,389.99	4,360.48	3,670.75	4,345.49	4,592.06
<i>Development as % of CG Total Revenue</i>	13.89%	37.54%	34.20%	30.00%	23.73%	30.00%	31.00%	32.00%

## **Fiscal Balance and Deficit Financing**

The proposed FY 2019/20 county budget is balanced, but however, any shortfall in revenue that may occur within the year will be addressed through supplementary or borrowing within the borrowing framework by sub-nationals as approved by the Intergovernmental Budget and Economic Forum (IBEC).

### **Summary**

The Government's fiscal policy goals will focus on adherence to fiscal responsibility principles and mainly on ensuring that 30% of the budget is spent on development. Further, the government plans to make legislative and process changes to revenue collection including automation to enhance the own source revenues. On expenditure, strict controls over budgets and budget execution will continue to be instituted in line with the PFM Act and Public Financial Management Regulations (PFR). Through the above policies, the investments made in priority and growth potential areas will be achieved in the medium term.

## 5.0 MEDIUM TERM EXPENDITURE FRAMEWORK

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### 5.1. Resource envelope

The County projects and programmes in the various departments will be funded by equitable shares from National Treasury, conditional grants, loans and grants and own source revenue collected by county government. In the Financial year 2019/20 the county projects to receive the following resources: This is depicted in table 4

- 8,705 billion (76.43%) as Equitable Share;
- 905.6 Million (7.95%) as own source revenue;
- 25.82 Million (0.23%) DANIDA;
- 50 Million (0.44%) Health Transforming;
- 385.4 Million (3.38%) Level 5 support;
- 31.6 Million (0.28%) User Fees Forgone;
- 250.10 Million (2.20%) Fuel Levy;
- 53.94 Million (0.47%) KDSP grant;
- 66.03 Million (0.58%) Development of Youth Polytechnics;
- 20.10 Million (0.18%) Agriculture sector development;
- 160 Million (1.40%) Kenya Urban Support Programme; and
- 180.40 Million (1.58%) NARIGP.
- 35 Million (0.31%) County Alcohol Board
- 120 Million (1.05%) Hospital FIF
- 400 Million (3.51%) Universal Health Care

**11,389 Billion Total County Revenue**

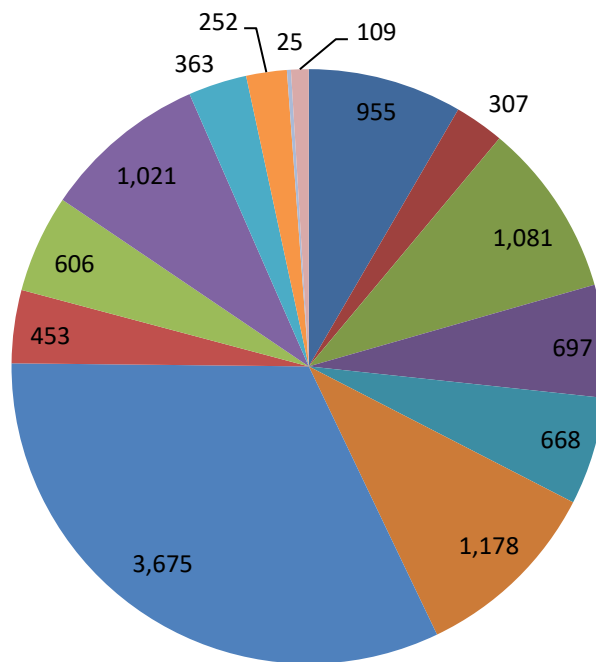
### 5.2. Spending priorities

The County Government will finance all existing programmes and sub-programmes in the various departments. All sectors will receive funding to enable them provide service to the residents. In the medium term, priority will be given to projects and programmes geared toward ‘the big 4 agenda’ and especially the universal health care, and food and nutritional security. In the medium term, 34% of the county funding will be allocated to health care

services, 11% towards Education, Gender Social Service and Sport and 8% towards roads and transport.

Figure 4: Ceiling projections per sector

- County Assembly
- Office of the Governor
- Finance, Economic Planning & ICT
- Agriculture, Livestock &, Fishery
- Water & Irrigation
- Education Technology, Gender Culture & Social Development
- Health Services
- Land, Physical Planning, Urban Development & Public Works
- Legal Affairs, Public Service Management And Administration
- Roads, Transport & Energy
- Trade, Investment, Industrialization, Tourism & Cooperative Development
- Youth Affairs & Sport
- Public Service Board
- Environment, Wildlife & Natural Resources



### 5.3. Medium Term Expenditure Estimates

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in CIDP 2018-2022 and other county plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

In the FY2019/20 the Health care services department have the biggest allocation as the county government moves towards offering universal healthcare to the county residents. As the government enhances service delivery, the other high beneficiaries include public services and special services, transport services, water services as well as education sector.

The table below therefore provides indicative sector ceilings for the 2019/2020 – 2021/22 MTEF period. The projections are inclusive of conditional allocations and grants/loans.

Table 8: Summary of Indicative Sector Ceilings for FY 2019/20 – FY 2021/22(Kshs. Million)

NO	Department/Sector	Expenditure Type	Budget Estimates 2018/19	2019/20 Ceiling	Projection 2020/21	Projection 2021/22
1	County Assembly	Recurrent	925.21	925.22	925.22	925.22
		Development	60.00	30.00	60.00	100.00
		<b>Sector Total</b>	<b>985.212</b>	<b>955.22</b>	<b>985.22</b>	<b>1025.22</b>
2	Office of the Governor	Recurrent	305.26	296.90	316.90	366.90
		Development	10.50	10.00	15.50	35.50
		<b>Sector Total</b>	<b>315.76</b>	<b>306.904</b>	<b>332.40</b>	<b>402.40</b>
3	Finance ,Economic Planning & ICT	Recurrent	933.96	870.59	1120.59	1135.59
		Development	196.00	210.00	360.00	450.00
		<b>Sector Total</b>	<b>1,129.96</b>	<b>1,080.59</b>	<b>1480.59</b>	<b>1585.59</b>
4	Agriculture, Livestock and Fisheries Development	Recurrent	327.48	352.36	372.36	397.36
		Development	303.84	345.00	395.00	455.00
		<b>Sector Total</b>	<b>631.32</b>	<b>697.363</b>	<b>767.36</b>	<b>852.36</b>
5	Water Resources Development	Recurrent	112.40	123.12	142.97	172.97
		Development	616.30	544.94	644.94	794.94
		<b>Sector Total</b>	<b>728.7</b>	<b>668.058</b>	<b>787.91</b>	<b>967.91</b>

NO	Department/Sector	Expenditure Type	Budget Estimates 2018/19	2019/20 Ceiling	Projection 2020/21	Projection 2021/22
6	Education, Gender and Social Services	Recurrent	928.96	961.13	1361.13	1373.13
		Development	156.55	216.55	256.55	296.55
		<b>Sector Total</b>	<b>1085.51</b>	<b>1177.682</b>	<b>1617.68</b>	<b>1669.68</b>
7	Health Services	Recurrent	2,937.00	3,034.47	3066.47	3090.47
		Development	453.10	640.28	680.28	720.28
		<b>Sector Total</b>	<b>3390.1</b>	<b>3674.749</b>	<b>3746.75</b>	<b>3810.75</b>
8	Lands, Physical Planning & Public Works	Recurrent	107.94	104.74	125.74	155.74
		Development	246.99	348.10	388.10	428.10
		<b>Sector Total</b>	<b>354.93</b>	<b>452.8375</b>	<b>513.84</b>	<b>583.84</b>
9	Legal Affairs, Public Service Management and Administration	Recurrent	647.78	606.26	658.26	670.76
		Development			40.00	80.00
		<b>Sector Total</b>	<b>647.78</b>	<b>606.264</b>	<b>698.26</b>	<b>750.76</b>
10	Roads Transport and Energy	Recurrent	95.37	99.53	112.53	129.23
		Development	664.55	921.62	961.62	1001.62
		<b>Sector Total</b>	<b>759.92</b>	<b>1021.151</b>	<b>1074.15</b>	<b>1130.85</b>
11	Trade, Tourism and Co-operative Development	Recurrent	76.90	108.50	120.50	136.35
		Development	80.30	254.30	294.30	334.30
		<b>Sector Total</b>	<b>157.2</b>	<b>362.804</b>	<b>414.80</b>	<b>470.65</b>
12	Sports, Youth Affairs & Culture	Recurrent	140.81	132.54	162.54	192.79
		Development	82.08	119.00	159.00	199.00
		<b>Sector Total</b>	<b>222.89</b>	<b>251.5395</b>	<b>321.54</b>	<b>391.79</b>
13	County Public Service Board	Recurrent	21.67	25.00	45.00	51.00
		Development				
		<b>Sector Total</b>	<b>21.67</b>	<b>25</b>	<b>45.00</b>	<b>51.00</b>
14	Environment, Natural Resources & Wildlife Management	Recurrent	31.65	43.29	78.29	81.29
		Development	51.72	65.55	105.55	145.55
		<b>Sector Total</b>	<b>83.37</b>	<b>108.8425</b>	<b>183.84</b>	<b>226.84</b>
	<b>Total</b>	<b>Total</b>	<b>10,514.32</b>	<b>11,389.00</b>	<b>12,969.35</b>	<b>13,919.65</b>



#### 5.4. Baseline Ceilings

The baseline ceilings reflect the current departmental spending priorities in sector programmes. In development programmes, adjustment has been made to take into consideration the transformative projects which are key to development of the county economy and also the governor's objectives as outlined in his manifesto. Adjustments have also been made to augment the "Big Four" Agenda as espoused in the National Treasury Budget Policy Statement.

The departmental ceilings in Table 8 above will form the indicative baseline for the FY 2019/20 budget. In the recurrent expenditure category, non-discretionary expenditures take first charge. Compensation of employees for the county overall expenditure shall account for a maximum of 45% of the budget estimates. The County intends to keep this percentage below the 35% prescribed in the medium term by continuous expansion of own source revenue and staff rationalization aimed at enhancing productivity and capacity within the County.

Development expenditure are undertaken on the basis of CIDP 2018-2022 and the Annual Development Plan (FY2019/20) and inputs from various groups, stakeholders and the public.. The Governors Manifesto for Meru County was included in the CIDP 2018-2022 and the ADP draws on the CIDP year two of implementation. All these planning documents were subjected to public participation and were used by the sector working groups to develop sector working group reports that ranked programmes and sub-programmes in the order of priority and subject to the provisional ceilings in the County Budget Review and Outlook Paper (CBROP) 2018.

Development expenditures have been shared out on the basis of the transformative projects in the CIDP 2018-2022 and linked to the flagship projects in Vision 2030, "The Big Four" Plan and the national governments MTP III priorities. The following criteria have been used in apportioning the development budget;

- a) On-going projects: emphasis was given to completion of on-going capital projects and in particular development projects with high impact on poverty reduction, equity and employment creation;
- b) County counterpart funding from development partners projects;
- c) Projects that are in full compliance with the County Government regulations and priorities as outlined in the CIDP, Annual Development Plan and which are fully justified for financing through the sector working group reports;
- d) High priority community needs identified through public participation i.e. ward based priority projects;
- e) Department/sector strategic needs that contribute greatly in addressing county's socioeconomic needs.

The following will also be taken into consideration:

- a) Cross cutting issues such as climate change, disaster management, community resilience, youth development, gender and disability mainstreaming;
- b) Implementing projects that require massive resources in phases such as the water and sanitation projects and the grading of intra county roads to improve connectivity.

### **5.5. Finalization of spending plans**

The finalization of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. Since detailed budgets are scrutinized and the resource envelope firmed up, in the event that additional resources become available, the County Government will utilize them to accommodate key County strategic priorities.

Specifically, the following will receive priority:

- i.* Interventions identified during the stakeholders consultation for the FY 2019/20 budget and over the medium term;
- ii.* Strategic interventions in the areas identified by the County including (i) enhancing food security by investing in appropriate technologies and crops; (ii) improving access to universal health care to guarantee quality and affordable health for all (iii) improving trade; (iv) Improving Roads and Transport; (v) improving early childhood education and youth groups empowerment; and (vi) Improving access to adequate portable water.
- iii.* Emerging issues which require much attention in provision of service delivery such as drought response, livestock disease breakouts and clan/resource based conflicts.

### **5.6. Details of Sector/Departments Priorities**

The MTEF for FY 2019/20 to FY 2021/22 period will ensure that there is continuous resource allocation based on the programme priorities aligned to the CIDP 2018-2022 and the ADP for FY 2019/20. The MTEF for FY 2019/20 to FY 2021/22 ensures continuity in resource allocation based on prioritized programmes aligned to the CIDP and to augment the National government priorities espoused in the Budget Policy Statement 2019. The sector achievements, sector challenges and the sectors medium term plans and usage are based on the Sector Working Group Reports. These were prepared through a consultative process that involved stakeholders and gives the current status and how the sectors will be funded.

See Table 10 attached herein.

### **5.7. Public participation/sector hearings and involvement of stakeholders**

The law requires that the input of the public be taken into account before the Budget proposals are firmed up. In this regard, the County government of Meru held Public Hearings for the FY2019/20 Budget between 11th and 15th February 2019. Some of the key issues arising during the Public Hearings are highlighted in Annexure 2.

## 6.0 CONCLUSION AND NEXT STEPS

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This CFSP has detailed the set of fiscal policies that are aimed at balancing between changing circumstances due to emerging issues and the need to keep the link to the CIDP and the fiscal responsibility principles espoused in the PFM Act, 2012. The policies are also consistent with the national strategic objectives as detailed in the Budget Policy Statement which provides the basis for allocation of public resources to the County Government.

Details of these strategic objectives are contained in the CIDP (2018-2022). These details were also reviewed and refined during the sector working groups and each sector working group report provides clarity on the key priorities and resources needed for the 2019/20 MTEF budget. The policies and sector ceilings provided in this document will guide the Sectors/departments in preparation of the 2019/20 MTEF Programme Based Budgets.

Budgetary resources are usually limited, thus it is imperative that departments prioritize their programmes within the available resources to ensure that utilization of public funds are in line with county government priorities. Departments need to carefully consider detailed costing of projects, strategic significance, deliverables (output and outcomes), alternative interventions, administration and implementation plans in allocating resources. Further, allocation of resources should be done to projects that have been fully processed. The departments should also pay attention to estimated requirements for each of the stages in the project cycle to ensure that the budget amounts are based on clear timelines and milestones. There is also need to ensure that recurrent resources are being utilized efficiently and effectively before funding is considered for programmes.

Monitoring and Evaluation will play a critical role in tracking the implementation of the projects and programmes envisaged in this document and strengthen the county's capacity to deliver services to its residents. Monitoring and evaluation will involve the tracking of activities, tracking of budget usage, the assessment of performance and putting in place strategies and actions for the attainment of results.

Proper implementation of the budget is critical towards providing services that will promote sustainable growth. Sustainability requires greater effort from all the stakeholders including county government departments, sector working groups, civil societies, communities, County Assembly and development partners to get things done. This means providing for continuous consultations with each other, finding solutions and encouraging innovation to build a sustainable County.

The Sector Working Groups have been established to provide a forum for effective engagement by stakeholders as was witnessed during the sector reporting which was a precursor to the development of this paper. The government looks forward to an increased tempo in implementation and vibrancy in public participation in the budgeting and implementation of activities in FY 2019/20 and in the medium term.

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