

COUNTY GOVERNMENT OF MERU



County Treasury

COUNTY BUDGET REVIEW
AND
OUTLOOK PAPER

SEPTEMBER 2016

Table of Contents

Abbreviations and Acronyms.....	3
FOREWORD.....	4
ACKNOWLEDGEMENTS.....	5
1.0. INTRODUCTION.....	8
1.1. Objectives of the County Budget Review and Outlook Paper (C-BROP).....	8
2.0. REVIEW OF FISCAL PERFORMANCE IN FY 2015/16.....	9
2.1. Overview.....	9
2.2. 2015/16 FY Fiscal Outturn.....	9
2.2.1. Revenue Performance.....	9
2.2.2. Expenditure Performances.....	12
2.2.3. County Debt Management.....	16
2.3. Implication of 2015/16 Fiscal Performance on Financial Objectives Contained In the 2016 FSP.....	16
2.4. Continuing in Fiscal Discipline and Responsibility Principles.....	17
3.0. RECENT ECONOMIC DEVELOPMENTS AND FISCAL OUTLOOK.....	18
3.1. Recent Economic Developments.....	18
3.2. Macroeconomic Outlook and Policies.....	20
3.2.1. Global Outlook:.....	20
3.2.2. Domestic outlook:.....	20
3.3. Medium Term Fiscal Framework.....	21
4.0 RESOURCE ALLOCATION FRAMEWORK.....	23
4.1 Amendment to the 2016/17 MTEF Budget.....	23
4.2 Medium Term Expenditure Framework.....	23
4.3 2016/2017 Budget Framework.....	25
4.3.1. Revenue Projections.....	25
4.3.2. Expenditure Forecasts.....	25
5.0 CONCLUSION AND NEXT STEPS.....	26

Abbreviations and Acronyms

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CG	County Government
FY	Financial Year
PFMA	Public Financial Management Act
ECDE	Early Childhood Development Education
BPS	Budget Policy Statement
CIDP	County Integrated Development Plan
ADP	Annual Development plan
MTEF	Medium Term Expenditure Framework
CSWGs	County Sector working Groups
PER	Public Expenditure Review
PPP	Public Private Partnership

FOREWORD

This County Budget Review and Outlook Paper (CBROP) is prepared in accordance with the Public Financial Management Act, 2012. It is the third to be prepared under the devolved system of Government. It presents recent economic developments and actual fiscal outcome for the FY 2015/16 and makes comparisons to the budget appropriations for the same year. The updated macroeconomic outlook also provides useful guidance on the basis for revising the 2016/17 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term framework.

The significance of C-BROP is that it ensures that a County Government reviews its previous year's budget performance, the county and national economic-financial environment and how it's likely to impact on the level of future revenues and to set preliminary sector ceilings in light of this review of revenues.

To strengthen the budget preparation process, the County government of Meru will continue to embrace Programme-Based Budgeting and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money. Emphasis will be placed on implementation of development projects as these will spur growth of the local economy and improve the lives of Meru County residents.

Muthomi J. Kirera

COUNTY EXECUTIVE MEMBER, FINANCE

ACKNOWLEDGEMENTS

This CBROP was made successful by contributions of various participants, whom should be highly recognized and appreciated for their efforts. The document was prepared by the joint team from the County Budget and Economic Planning Directorates, with invaluable inputs from Meru County Budget and Economic Forum and the County Sector Working Groups (SWGs) who gave much needed inputs that informed the content of this document. All departments led by the executive members contributed enormously towards the preparation of the report. The county treasury enabled development of the CBROP through provision of relevant information and statistics, which aided in financial analysis in the various chapters.

The county planning unit provided technical expertise in compilation of the document, with support from the various departments which provided the needed information timely. During the preparation process, the County Economic and Budget Forum members contributed immensely and their efforts are hereby appreciated.

In particular, we wish to appreciate the County Executive Committee member for Finance, the Budget Office and Economic Planning for providing leadership throughout the preparation of this document.

Mr. Charles Mwenda
Ag. CHIEF OFFICER, FINANCE

Legal Basis for the Publication of the County Budget Review and Outlook Paper

The County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. The law states that:

1. The County Treasury shall prepare and submit to County Executive committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shall include:

a) Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;

b) Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal strategy paper

c) Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest County Fiscal strategy paper; and

d) The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2. County Executive committee shall consider the County Budget Review and outlook Paper with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the CBROP has been approved by Executive committee, the County Treasury shall:

a) Arrange for the paper to be laid before the County assembly;
and

b) as soon as practicable after having done so, publish and publicise the Paper.
publicise the Paper.

Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law (Section 107(b)) states that:

The county government's recurrent expenditure shall not exceed the county government's total revenue.

Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure.

The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations.

Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

Public debt and obligations shall be maintained at a sustainable level as approved by County Government (CG).

Fiscal risks shall be managed prudently.

7) 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.

1.0. INTRODUCTION

1.1. Objectives of the County Budget Review and Outlook Paper (C-BROP)

1. The objectives of the 2016 C-BROP is to offer insight of the previous fiscal performance and provide useful guidance on how this impact the County fiscal responsibilities principles set out in Section 104 of the PFM Act 2012 and in the County Fiscal Strategy Paper (CFSP 2016). Analysis of these budget projections in the current CFSP 2016 will guide the County in preparing Supplementary budget estimates for the current appropriations.
2. The current C-BROP will continue with the strategies set out in the current CFSP namely; Creating an enabling environment for business and private sector participation in County Economic growth and development; Development of County physical and social infrastructure facilities including feeder roads, water, ICT to stimulate growth; Promotion of health services through investing in quality and affordable health services; Promotion of value addition for agricultural produce, food security and environmental conservation; Promotion of equitable social economic development for county stability; Enhancing governance, transparency and accountability in the delivery of public goods and service by promoting participation of the people in governance as envisaged in the Constitution of Kenya 2010.
3. This C-BROP is further expected to provide preliminary sector ceilings for the FY 2017/2018 budget and an indicative projection for the FY 2017/2018 and 2019/2020 Medium term expenditure period. These ceilings will offer the primary reference for the Sector Workings Groups (SWG) before being firmed up in the CFSP 2016.
4. Further the paper includes a review of FY 2015/16, a brief delve into the recent County and National Economic Developments and how these affects the County fiscal outlook going forward given the prevailing Macroeconomic environment for the Country.

2.0. REVIEW OF FISCAL PERFORMANCE IN FY 2015/16

2.1. Overview

5. The fiscal year 2015/16 marked the second year since adoption of the Programme Based Budgeting (PBB) approach for the County Government as envisaged in section 12 of the second schedule of the Public Finance Management (PFM) Act 2012. This period revealed an appreciable improvement in performance in both revenue collections and budget execution compared to the FY 2014/15.
6. The fiscal performance in 2015/16 faced quite a lot of challenges especially occasioned by revenue shortfalls and increased expenditure pressures. This led to supplementary budgets being presented to county assembly for consideration. However, fiscal performance was generally satisfactory.

2.2. 2015/16 FY Fiscal Outturn.

2.2.1. Revenue Performance

8. Total cumulative revenue including; equitable share, own revenue, conditional grants and roll over from the previous financial year totaled to 8.223 billion. Own revenue collected amounted to 399 million against a target of 435 million as shown in the table below.

2015/16 Fiscal outturn							
	in Ksh					% of Total Revenue	
	Actual	Target		Deviation		Actual	Revised
		Budget	Revised	Budget	Revised		
A.TOTAL REVENUE & GRANTS							
Local Revenue	399,879,514.60	817,928,083.00	435,273,355.17	(418,048,568.40)	(35,393,840.57)	4.89%	5.29%
Equitable Share	6,493,602,784	6,493,602,784	6,493,602,784	-	-	79.34%	78.97%
Roll over from previous year	665,712,156.45	656,220,592.13	665,712,156.45	9,491,564.32	-	8.13%	8.10%
Conditional grants for Level 5 Hospital	244,318,286.00	244,318,286.00	244,318,286.00	-	-	2.99%	2.97%
Fuel Levy Fund	82,490,349.00	82,490,349.00	82,490,349.00			1.01%	1.00%
User foregone fees	60,000,000.00	-	60,000,000.00			0.73%	0.73%
DANIDA	-	20,590,000.00	20,590,000.00	(20,590,000.00)	(20,590,000.00)	0.00%	0.25%
Refund From Exchequer	61,029,952.60	-	61,029,952.60	61,029,952.60	-	0.75%	0.74%
Sub Total	8,007,033,042.65	8,315,150,094.13	8,063,016,883.22	(368,117,051.48)	(55,983,840.57)	0.98	0.98
Appropriation in Aid							

HOSPITAL FIF	148,987,771.00	160,000,000.00	160,000,000.00	(11,012,229.00)	(11,012,229.00)	1.82%	1.95%
ALCOHOL BOARD	28,781,300.00	20,000,000.00	-	8,781,300.00	28,781,300.00	0.35%	0.00%
Sub Total	177,769,071.00	180,000,000.00	160,000,000.00	(2,230,929.00)	17,769,071.00	2.17%	0.02
TOTAL	8,184,802,113.65	8,495,150,094.13	8,223,016,883.22	(370,347,980.48)	(38,214,769.57)	100.00%	100.00%
B.EXPENDITURE							
RECURRENT							
Compensation to employees	3,254,985,171.95	3,063,178,806.75	3,254,985,171.95	191,806,365.20	-	47.16%	39.58%
Goods and services	1,867,728,602.38	1,959,984,225.17	2,056,116,512.41	(92,255,622.79)	(188,387,910.03)	27.06%	25.00%
Finance cost including loan interest	-	84,000,000.00	86,047,677.97	(84,000,000.00)	(86,047,677.97)	0.00%	1.05%
SUBTOTAL	5,122,713,774.33	5,107,163,031.92	5,397,149,362.33	15,550,742.41	(274,435,588.00)	74.22%	0.66
DEVELOPMENTS							
Acquisition of assets	1,649,115,562.90	3,187,987,062.21	2,695,867,520.89	(1,538,871,499.31)	(1,046,751,957.99)	23.89%	32.78%
Transfer to other Govt Units	130,000,000.00	200,000,000.00	130,000,000.00	(70,000,000.00)	-	1.88%	1.58%
SUBTOTAL	1,779,115,562.90	3,387,987,062.21	2,825,867,520.89	(1,608,871,499.31)	(1,046,751,957.99)	0.26	34.37%
TOTAL EXPENDITURE	6,901,829,337.23	8,495,150,094.13	8,223,016,883.22	(1,593,320,756.90)	(1,321,187,545.99)	100.00%	100.00%

Table 1: County Government Total Revenues (local Revenues and Exchequer Releases)

9. Cumulative local revenues amounted to Ksh 399 million against a revised target of Ksh 435 million. This represented a deficit of 12.5 percent. This has been tabulated in Table 2 below. Further comparisons to the previous FY 2014/15 reveal the local revenues reduced by Ksh 55 Million. This deficit of 12.5% was mainly due to rejection of finance bill that was submitted to the County Assembly and resistance by traders to pay county fees, single business permits and charges due to political incitements' leading to closure of markets.

Table 2: Local Revenues Sources

Source: Meru County Treasury

No	REVENUE SOURCE	ACTUAL	TARGETS	ACTUALS	VARIANCE	GROWTH IN PERCENT
		(Baseline) 2014/2015	2015/16	2015/16		
1	Slaughter house fees	5,775,180	4,887,016	5,517,865	-630,850	-4.46%

2	Market fee	8	55,354,18	49,016,416	1	44,649,11	4,367,305	-19.34%		
3	Transfer & Subdivision fee	0	527,50	3,834,41	3	1,092,09	2,742,326	107.03%		
4	Plot Rent	5	5,310,73	8,669,929	0	5,738,56	2,931,369	8.06%		
5	Land Rates	7	32,239,37	56,792,03	1	39,964,791	16,827,239	23.96%		
6	single business permit	87,785,832		91,291,18	4	110,065,23	-18,774,054	25.38%		
7	parking fees	53,574,202		68,956,213	9	59,152,64	9,803,564	10.41%		
8	House rent/Stall rent	2	17,577,01	13,376,76	9	11,960,65	1,416,107	-31.95%		
9	Cess	104,093,282		55,070,75	6	58,725,01	-3,654,265	-43.58%		
10	Building plans	4	14,015,19	9,613,18	9	14,640,440	-5,027,251	4.46%		
11	Outdoor adverts. & Signboard	0	11,529,84	17,069,429	5	9,217,63	7,851,794	-20.05%		
12	Hire of county properties	0	85,00	552,47	2	1,682,10	-1,129,630	1878.94%		
13	Application fees	9,268,249		4,390,537	6	1,667,62	2,722,911	-82.01%		
14	Impounding fees & Fines	5	1,082,71	1,597,26	7	1,394,67	202,585	28.81%		
15	Sale of tender doc	7	222,87	470,47	8	177,86	292,608	-20.19%		
16	Toilets fee	5	1,697,72	1,643,23	5	1,688,94	-45,710	-0.52%		
17	miscellaneous income	7	10,405,25	12,603,54	6	10,127,67	2,475,867	-2.67%		
18	Income from county estates	-		1,402,51	8	1,348,97	53,532	100.00%		
19	Refuse collection fee	8,047,040		5,753,20	0	546,40	5,206,800	-93.21%		
20	Fire section fee	1,496,500		1,296,36	0	663,79	632,570	-55.64%		
21	Others (Meat Inspection and Veterinary Services)	45	4,526,2	5,000,000	5	3,138,48	1,861,515	-30.66%		
22	public health	67	2,845,9	3,000,000	4,578,624		-1,578,624	60.88%		
23	AMS MITUNGUU	75	359,8	542,367	0	340,40	201,967	-5.41%		
24	KANGURU ATC- DEMO FARM	14	8,963,2	15,879,654	10,433,980		5,445,674	16.41%		
25	KANGURU ATC- TRAINING	63	1,857,5	2,564,398	7	1,365,90	1,198,491	-26.47%		
	Sub Total	33	457,193,4	55	435,273,3	15	399,879,5	93,841	35,3	-12.54%

Source: Meru County Treasury 2016

The expected total Exchequer releases for the FY 2015/16 was 100%. The figure amounted to Ksh.6, 493,602,784.

In the health department, the County received conditional grant to Meru *Level 5* hospital at 100 percent (Ksh.244, 318,286), zero grant from DANIDA against a projected amount of Ksh.20, 590,000. This forced shelving of some health related projects.

Table 4: Exchequer Releases

2015/16 Fiscal outturn							
	in Ksh					% of Total Revenue	
	Actual	Target		Deviation		Actual	Revised
		Budget	Revised	Budget	Revised		
A.TOTAL REVENUE & GRANTS							
Equitable Share	6,493,602,784.00	6,493,602,784.00	6,493,602,784	-	-	91.21%	91.18%
Conditional grants for Level 5 Hospital	244,318,286.00	244,318,286.00	244,318,286.00	-	-	3.43%	3.43%
Fuel Levy Fund	82,490,349.00	82,490,349.00	82,490,349.00			1.16%	1.16%
User foregone fees	60,000,000.00	-	60,000,000.00			0.84%	0.84%
DANIDA	-	20,590,000.00	20,590,000.00	(20,590,000.00)	(20,590,000.00)	0.00%	0.29%
Refund From Exchequer	61,029,952.60	-	61,029,952.60	61,029,952.60	-	0.86%	0.86%
TOTAL	6,941,441,371.60	6,841,001,419.00	6,962,031,371.60	40,439,952.60	(20,590,000.00)	0.98	0.98

Source: Meru County Treasury Sept 2016

As a percent of the total budget the National transfers represented about 87 percent and therefore any variations in the cash flow projections would have a significant impact on the budget. Equitable share of revenue grew by 14.61 percent to reach Ksh.6.493 billion in comparison to the FY 2014/15. On the other hand Conditional grant for Level 5 Hospital increased by a 279.89 percent from Ksh.64 million in the FY 2014/15 to Ksh.244 million in the FY 2015/16.

2.2.2. Expenditure Performances

The total expenditure for the FY 2015/2016 was Ksh 6,901,829,337.23 as per the approved budget. This was against a total budget of Ksh 8,223,016,883.22. The variance of Ksh. 1,321,187,545.99 represent unpaid commitments from the various departments.

In terms of economic classification, compensation to employees' expenditure represented the highest performance at 47 percent while Development expenditure performed at 26 percent.

Table 5 below shows the total County Expenditures by economic classifications.

Table 5: Expenditure performance by Economic Classification

DESCRIPTION	ACTUAL (Baseline) 2014/2015	TARGET 2015/2016	ACTUAL 2015/2016	VARIANCE	% GROWTH	BUDGET EXECUTION RATE	PERCENT OT TOTAL BUDGET
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Current Expenditure:							
Personnel Emoluments	2,602,369,341.75	3,254,985,171.95	3,254,985,171.95	0.00	0.25	1.07	39.58%
Operations	1,780,970,167.00	2,056,116,512.41	1,867,728,602.38	188,387,910.03	0.13	1.09	24.47%
Transfers to other Gov't Entities	105,000,000.00	86,047,677.97	0.00	86,047,677.97	0.24	0.65	1.58%
Sub Total:	4,488,339,508.75	5,397,149,362.33	5,122,713,774.33	274,435,588.00	0.62	2.81	0.66
Capital Expenditure				0.00			
Acquisition Of Non Financial Assets	3,361,412,027.85	2,695,867,520.89	1,649,115,562.90	1,046,751,957.99	-0.16	0.83	34.37%
Capital Grants To Gov't Agencies	-	130,000,000.00	130,000,000.00	0.00	-	-	0.00%
Other Development	-	-	-	-	-	-	0.00%
Sub Total:	3,361,412,027.85	2,825,867,520.89	1,779,115,562.90	1,046,751,957.99	-0.16	0.83	0.34
Grand Total:	7,849,751,536.60	8,223,016,883.22	6,901,829,337.23	1,321,187,545.99	0.46	3.64	1.00

Source: Meru County Treasury Sept 2016

The total recurrent expenditure represented Ksh 5,122,713,774.33 of the total budget against a target of Ksh 5,397,149,362.33. On the other hand, development expenditures represented Ksh 1,779,115,562.9 against the budgeted estimates amounting to against Ksh 2,825,867,520.89. Reducing development expenditure from 40% to 34% was attributed to increased compensation to employees in Health department for the newly employed staff.

Table 6: Departments' Expenditure Performance for Period ending 30th June 2016 (Ksh Million.)

Co de	VOTE TITLE	RECURRENT EXPND. 2015/2016		VARIANCE	DEVELOPME NT EXPND. 2015/2016		VARIANCE	TOTAL			Rate of Budget Execution
		ACTUAL	TARGET A		ACTUAL	TARGE T B		ACTUAL	TARGET C	VARIAN CE	
356 1	County Assembly	771,942,38 2.22	792,116,9 82.01	20,174,59 9.79	112,550,893. 61	114,06 9,920.61	1,519,027.0 0	884, 493,275. 83	906,186,90 2.62	21,693, 626.79	97.61%
356 2	Office of the Governor	263,193,20 7.00	288,219,48 1.00	25,026,27 4.00	-	-	-	263, 193,207. 00	288,219,48 1.00	25,026 ,274.00	91.32%
356 3	County Treasury	464,476,11 0.16	575,640,03 2.79	111,163,92 2.63	131,098,402. 65	133,19 8,402.65	2,100,000.0 0	595, 574,512. 81	708,838,43 5.44	113,26 3,922.63	84.02%
356 4	Agricultur e, Livestock and Fisheries	302,426,19 5.91	308,462,64 4.91	6,036,44 9.00	100,330,508. 15	177,2 17,145.15	76,886,637.0 0	402, 756,704. 06	485,679,79 0.06	82,923, 086.00	82.93%
356 5	Water Environme nt and Natural Resources	98,446,5 74.94	104,222,61 3.94	5,776,03 9.00	338,581,337. 67	533,28 7,704.67	194,706,367. 00	437, 027,912. 61	637,510,31 8.61	200,482 ,406.00	68.55%
356 6	Education	446,420,81 5.62	459,412,85 4.62	12,992,03 9.00	63,180,889. 58	143,3 47,174.00	80,166,284. 42	509, 601,705. 20	602,760,02 8.62	93,158 ,323.42	84.54%
356 7	Health	1,770,327,84 6.48	1,830,327,84 6.48	60,000,00 0.00	213,996,119. 99	339,19 3,953.99	125,197,834.0 0	1,984,3 23,966.4 7	2,169,521,80 0.47	185,197 ,834.00	91.46%
356 8	Lands, Housing, Physical and Economic	94,743,0 28.80	98,001,74 8.80	3,258,72 0.00	14,795,095. 72	122,50 6,201.47	107,711,105. 75	109, 538,124. 52	220,507,95 0.27	110,96 9,825.75	49.68%

	Planning										
3569	Public Service and Administration	639,177,200.02	651,004,643.22	11,827,443.20	345,402.04	24,601,662.24	24,256,260.20	639,522,602.06	675,606,305.46	36,083,703.40	94.66%
3570	Transport and Infrastructure	96,426,283.56	98,143,283.56	1,717,000.00	496,657,975.00	804,411,411.00	307,753,436.00	593,084,258.56	902,554,694.56	309,470,436.00	65.71%
3571	Co-operatives, Tourism and Enterprise Development	78,766,872.41	79,274,768.41	507,896.00	177,183,457.11	270,099,038.11	92,915,581.00	255,950,329.52	349,373,806.52	93,423,477.00	73.26%
3572	Culture, Gender and Sports	57,368,815.00	59,629,645.00	2,260,830.00	114,201,106.00	161,434,907.00	47,233,801.00	171,569,921.00	221,064,552.00	49,494,631.00	77.61%
3573	Public service Board	18,185,468.00	18,185,468.00	-	-	-	-	18,185,468.00	18,185,468.00	-	100.00%
3574	Town Administration	34,507,349.58	34,507,349.58	-	2,500,000.00	2,500,000.00	-	37,007,349.58	37,007,349.58	-	100.00%
	TOTAL	5,136,408,149.71	5,397,149,362.33	260,741,212.62	1,765,421,187.52	2,825,867,520.89	1,060,446,333.37	6,901,829,337.23	8,223,016,883.22	1,321,187,545.99	83.93%

Source: Meru County Treasury Sept 2016

During the year under review, the development expenditure was Ksh1,779,115,562.90 against the target of Ksh. 2,825,867,520.89. This difference of Ksh1,046,751,957.99 million represents unpaid commitments from ongoing developments projects in the various departments at the closure of the financial year 2015/16.

Overall, the Department of Transport and Infrastructure had the highest rate of budget execution at 100 percent while the Department of Education had the lowest rate of budget execution at 68.82 percent which was attributed to unpaid commitments from ongoing classroom construction.

2.2.3. County Debt Management

The total departmental pending bills stood at Ksh 1.32 billion at the end of FY 2015/16. This amount represents all unpaid commitments at the closure of the year, which were rolled over to the next FY 2016/17 and is expected to cater for the County's pending bills significantly.

It is worth noting; the County government is committed to continually meet its financial obligations to creditors on debts arising from pending bills.

2.3. Implication of 2015/16 Fiscal Performance on Financial Objectives Contained In the 2016 FSP

The fiscal performance of the FY 2015/16 has a bearing on the financial objectives adopted in the CFSP 2016 and its subsequent budget for FY 2016/17. The following observations have been made;

Given the performance of revenue in FY 2015/16, the local revenue estimates for the FY 2016/17 remains largely realistic at ksh.588, 236,727.05. In analyzing the performance per revenue streams, it has been observed that potential streams such as single business permit, cess, and parking fees will increase progressively in the current budget year, due to increased efficiency in revenue administration.

The fiscal capacity of the County Government has improved in terms of growth in development expenditure as compared to the previous FY 2014/15. This performance is expected to perform even better in the financial year 2016/17 as expenditure will be focused more on development projects funding as opposed to operational expenditure.

The County share of the conditional grant for Level 5 hospital was increased marginally by Ksh 111.75 million from the 244 million adopted in the CFSP 2016 to 356 million due to increase in the National Governments allocation. These observations alongside the cash flow constraints have advised the final determination of this C-BROP going forward.

2.4. Continuing in Fiscal Discipline and Responsibility Principles

Over the medium term, a minimum of 30 percent of the county government's budget shall be allocated to development expenditure

The allocation for development budget was Ksh. 2.825 billion, which translated to 34.4% of the total budget (Ksh 8.223 billion). This value was well within the set minimum requirement of 30 percent.

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 of finance in regulations and approved by the County Assembly

The County expenditure on wages and salaries during the financial year 2015/2016 amounted to Ksh.3, 254,985,171.95 billion.

The county debt shall be maintained at a sustainable level as approved by county assembly.

The County Government has continued in its commitment to reducing its debt while observing fiscal discipline and expenditure management. Although the PFM regulations 2016 have set the limit for County Government borrowings to a maximum of 20 percent of the total revenue-the County Government does not forecast any borrowing within this MTEF period.

A reasonable degree of predictability on fees and charges shall be maintained, taking into account any reform that may be made in the future.

The County Government prepared the Finance Bill 2015, which gives the legal mandate to levy fees & charges for various activities undertaken within the County.

3.0. RECENT ECONOMIC DEVELOPMENTS AND FISCAL OUTLOOK

The performance of the county is dependent on the country's economic performance, as well as formulation and implementation of prudent policies by the County Government.

The county operated under a stable macroeconomic environment.

3.1. Recent Economic Developments.

- I. Approval of the County Government Coordination of Functions Bill by the County Assembly will strengthen efficiency in implementation of the county's development agenda;
- II. The County Treasury's establishment and operationalization of County Revenue Board and preparation of county finance bill will enhance revenue administration, consequently, leading to increased revenue collection
- III. Capacity building of staff on IFMIS, CIROMS, IFRS, budget preparation, internal audit, procurement, Implementation of e-procurement, operationalization of IFMIS to cater for Cash Management, Accounts receivable, and reporting IFMIS modules have enhanced transparency and prudence in the county's financial management.
- IV. Establishment of Meru Microfinance & Meru County Investment Corporation.
- V. Innovations in Agriculture, Livestock and Fisheries have focused on Crop development, tree crop development, Input Supply Support, Crop value addition, daily goat promotion, poultry development and artificial insemination. These initiatives have gone a long way towards improvement of food security and living standards.
- VI. Support of water projects with pipes countywide, construction of permanent water tanks and supply of plastic tanks has increased water connectivity in the County.
- VII. Women and youth empowerment, provision of seed capital to SACCOs and capacity building of entrepreneurs, have achieved the result of improved livelihoods in the County.
- VIII. Grading, gravelling and opening of new roads and construction of culverts, have in a great way improved the roads infrastructure throughout the County.

- IX. The completion and approval of the topographical mapping and preparation of integrated Strategic urban development plan for Meru Town and its environs, resolution of long-standing boundary dispute with neighboring Isiolo County, connection of sub counties to the headquarter through an ICT infrastructure and the revision of the CIDP, have been the key highlights for the department of Land, ICT and planning.
- X. Literacy and skills were imparted through the construction of 20 workshops and 3 hostels, 135 ECDE classrooms (3 per ward) worthy Kshs 162 million, and the employment of 1,203 ECDE teachers in Education and Technology sector.
- XI. In the health sector, construction and operationalization of Theera Health Centre, Kangeta Hospital, Akaiga, Kaliati, Mutunyi, Kibera, Kaathi, Ndiine, Mworoga Mbaranga, Ntemwene and Ruiga dispensaries, renovation of Kunene dispensary, Kionyo and Ruiru Health Centre, procurement of ambulance for Nthambiro Health Centre and maintenance of the oxygen generating plant at the County Referral Hospital, among other initiatives improved health standards in the county.
- XII. In enhancing the delivery of public service and administration, Igembe North & Kangeta Sub County offices, Gakoromone & Makutano Police Posts, the refurbishment & provision of additional offices at the county headquarters were constructed.
- XIII. The county government inaugurated the Meru county alcoholic board on 6th May 2015 to regulate and license alcoholic drink, launch of Governor's Cup in February 2016 to nurture and develop sporting talents among the youth, refurbishment of Mitunguu cultural centre in Imenti South sub-county and the rehabilitation of 822 Street children aimed towards promotion of Gender, Culture, Youth, Sports and Social Services
- XIV. Marking of Street parking areas and provision of dustbins by the town administration directorate has enriched cleanliness and orderliness of major towns countywide.

3.2. Macroeconomic Outlook and Policies

3.2.1. Global Outlook:

The County's economic outlook is majorly influenced by the national macroeconomic variability. From the national perspective, improved growth is

expected in 2017. World trade in 2017 is expected to grow by 3.6 percent compared to a growth of 2.8 percent during the previous year. This is in accordance to WTO economists, April 2016. Global Oil inventory in 2017 is expected to rise, due to competition between the two crudes in the US Gulf Coast refinery markets and the US current political environment. This will probably subdue oil prices in the fourth quarter of 2016 and the first quarter of 2017.

3.2.2. Domestic outlook:

Trade: Based on the projections of growth in global trade prospects, Meru County shall leverage on trade in horticulture and tourism sectors. The cost of doing business is expected to decline. This is attributable to the expected subdued oil prices, which may significantly reduce transportation and production costs. The cost of energy is also expected to fall, due to huge investments aimed at increasing the energy generated to the national grid by 2017.

Currency: The Kenyan currency is forecasted to trade poorly against the dollar. Estimations by Trading Economics global macro models and analysts, project an exchange of a much weaker shilling. Heavy imports not matched by foreign exchange inflows and stretched dollar reserves will be the main cause of the depressed shilling. This will have mixed effects on both trade and financial sectors. The cost of credit is expected to decrease significantly, due to the capping of the bank interest rates at not more than 4% from the central bank rates. This move will encourage borrowing tendencies and boost local investments. Experts have however, warned that availability of cheap loans might lock out risky borrowings. The expected low bank loan interest rates may also lead to inflation.

Agriculture Kenya projects a 7 percent economic growth in 2017, where the agricultural sector is expected to be the key driver. The sector is projected to perform averagely, due to predicted unfavorable weather conditions.

Tourism: Tourism prospects in the county are high, especially in the tourism conferences. As such, the county should continue providing a favorable environment for the tourism sector to prosper.

The county has continued to improve market infrastructure by coming up with new markets and lighting up the streets. This will enhance the growth of SMEs and

prolong business hours in the county, thereby improving the town outlook and attract new businesses. Also, essential services to hawkers such as toilets and water in a sustainable manner will be enhanced.

3.3. Medium Term Fiscal Framework

The County government has put in place funds through Meru County Microfinance Corporation to avail the necessary support to spur growth through SACCOs. This will raise income levels and encourage saving dynamisms, which will translate to high rates of investments.

The County will continue to encourage both local and international tourism by investing through tourism/investment forum so as to establish, promote and rehabilitate tourism attraction sites across the county.

The county has set aside funds to support farmers with farm inputs such as subsidized fertilizers and hybrid seeds, in addition to encouraging adoption of modern farming skills by farmers.

3.4. Risks to Fiscal Outlook

Although the growth of Meru County economy is promising, it is prone to macro and micro economic environment risks.

The major risks that have an impact on the performance of the County's economy include;

- i. Agriculture, being the main driver of the county's economy, is faced with unreliable weather patterns and exposure to pests and diseases. Greater attention needs to be taken and structures put in place to address overreliance on rain-fed production.
- ii. Delay in passing of the Public Finance Act by the County Assembly may affect revenues and expenditure estimates targeted in the budget.

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Amendment to the 2016/17 MTEF Budget

The County fiscal framework supporting the FY 2016/17 was on the basis of improved budget execution, and efficient fiscal management of the budget, buoyed by improved efficiency. In comparisons, the County Government expected more prompt performance of revenues streams from both local sources and National exchequer transfers.

4.2 Medium Term Expenditure Framework

In strengthening the linkage between planning and budgeting, the Medium-term Budget framework for the period 2016/2017-2018/2019 will sustain allocation of

resources to core programmes and sub-programmes identified in the County Integrated Development Plan (2013-2017), Annual Development Plan, and enumerated in the CFSP 2016.

Adopted fiscal strategies in the CFSP 2016 are prioritized in funding to ensure inclusive social, economic growth, and development of the County. These thematic areas include;

- i. Creating a conducive business environment for job creation;
- ii. Investing in sectoral transformation to ensure broad-based and sustainable economic growth with a major focus on agricultural transformation to ensure food security;
- iii. Investing in infrastructure in areas such as transport and energy;
- iv. Investing in environment, water and sanitation and natural resources;
- v. Investing in promoting youth, women and marginalized groups participation in the economy;
- vi. Investing in quality and accessible health care services and quality education, as well as strengthening the social safety net to reduce the burden on households and promote shared prosperity; and
- vii. Further consolidating gains made in devolution, in order to provide better service delivery and enhanced economic development.

The summary of expenditure allocation to sectors has been summarized in table below

Table 8: Total Expenditure for the Period 2016/2017-2018/2019

NO	SECTOR NAME		APPROVED ESTIMATES	PROJECTIONS		
			2016/2017	2017/2018	2018/19	2019/20
1	Agriculture Rural and Urban Development	SUB-TOTAL	928,421,098	965,583,530	1,013,862,706	1,064,555,842.
		Rec.	437,116,28	388,226,869	407,638,212	428,020,123
		Gross	9.41	.45	.92	.57
		Dev. Gross	8.61	78	.81	.51
2	Social Protection, Culture and Receptions	SUB-TOTAL	463,458,11	262,116,33	275,222,149.	288,983,257.
		Rec.	60,505,93	60,256,691	63,269,526.	66,433,002.
		Gross	2.87	.88	47	80
		Dev. Gross	6.25	.31	.38	.54

3	Energy Infrastructure and ICT	SUB-TOTAL	5.61	925,234,36	.14	504,375,847	50	529,594,639.	.47	556,074,371
		Rec. Gross		103,756,11		131,383,379		391,642,091		411,224,195.
		Dev. Gross		821,478,25		372,992,467		137,952,548.		144,850,175.
			0.35		.81		30		72	
4	Environment Protection and Water and Natural Resources	SUB-TOTAL	.00	720,259,038	.48	305,387,157	36	320,656,515.	.12	336,689,341
		Rec. Gross		139,615,475		90,612,307.		95,142,92		99,900,069.
		Dev. Gross		580,643,563		214,774,849.		225,513,59		236,789,271.
			.00		80		3.19		35	
5	General Economics and Commercial Affairs	SUB-TOTAL	6.64	483,165,06	.89	221,379,106	24	232,448,062.	35	244,070,465.
		Rec. Gross		94,705,41		97,025,950		101,877,248		106,971,110.
		Dev. Gross		388,459,653		124,353,156		130,570,81		137,099,354.
			.84		.39		4.21		92	
6	Public Administration and Intergovernmental Relations	SUB-TOTAL	2.05	3,153,999,75	.34	3,439,537,757	5.21	3,611,514,64	47	3,792,090,377.
		Rec. Gross		2,809,657,791		2,874,445,021.		3,018,167,272.		3,169,075,636.
		Dev. Gross		344,341,96		565,092,735.		593,347,372		623,014,740.
			.90		75		84		48	
7	Education	SUB-TOTAL	.85	744,322,542	.59	773,843,580	.62	812,535,759	60	853,162,547.
		Rec. Gross		516,578,72		520,380,235.		546,399,247.		573,719,210.
		Dev. Gross		227,743,81		253,463,344		266,136,511.		279,443,337.
			3.20		88		68		06	
8	Health	SUB-TOTAL	.32	2,223,968,314	.59	2,528,009,279	57	2,654,409,743.	75	2,787,130,230.
		Rec. Gross		1,855,952,19		1,843,004,238		1,935,154,450		2,031,912,172.
		Dev. Gross		368,016,120		685,005,041.		719,255,293.		755,218,058
			4.32		.21		.12		62	
	REC TOTAL		4.76	6,017,887,93	.81	6,005,334,694	44	6,559,290,972.	07	6,887,255,521.
	DEV TOTAL		1.85	3,624,940,36	.65	2,994,897,897	63	2,890,953,249.	.12	3,035,500,912
	GRAND TOTAL		6.61	9,642,828,29	46	9,000,232,592.	08	9,450,244,222.	18	9,922,756,433.

4.3 2016/2017 Budget Framework

4.3.1. Revenue Projections

Total Projected revenues for the County are estimated to rise to Ksh.9,642,828,296.61; translating to 17.27 percent growth. Local revenues are expected to improve significantly, attributed to establishment and operationalization of revenue board, which is expected to optimally manage revenue collection process. Equitable share of revenue has been rising since the first year of Devolution (FY 2014/15) by 14.61 percent in FY 2015/16. As such, therefore; the County Treasury has projected a conservative estimated growth of 7.9 percent in FY 2017/18; translating to a growth of approximately Ksh.533 million.

4.3.2. Expenditure Forecasts

In the next MTEF period, County total expenditures for FY 2017/18 are expected to rise to Ksh.9.0 billion from Ksh 8.321 billion in the Approved estimates of FY 2016/17. This translates to an overall growth of 8.1 percent.

Recurrent expenditure ceiling are forecasted to Ksh6.005 billion a decline of 0.21 percent from the approved estimates of FY 2016/17.

Overall development expenditure ceilings are projected to rise by 16.8 percent to Ksh 2.994 billion in FY 2016/2017. Development budget ceiling in FY 2016/2017 represent a 32 percent proportion of the total budget in line with the fiscal responsibility principles of PFM law.

Reflecting on the projected revenues and expenditures, the County does not anticipate deficit in financing, and, therefore; forecasted expenditures are equal to amount of expected receipts, thereby, achieving a balanced budget.

5.0 CONCLUSION AND NEXT STEPS

Preparation of the C-BROP document and fiscal decisions made in this MTEF period 2016/2017-2018/2019 has largely relied on the lessons learnt in budget execution in the period under review and beyond.

Going forward the County Integrated Development Plan (CIDP 2013-2017), the Annual Development Plan (ADP 2016/2017) and the sectoral departmental strategic plans shall continue to advise the priorities in resource allocation.

Moreover, in entrenching fiscal discipline, the County Government has relied on the fiscal responsibility principal set out in the PFM Act 2012 in making forecasts realistic and reasonable. The County Government has also continued to pursue prudent fiscal policy through reorienting expenditure toward priority programmes within the mandate given.

The next County Fiscal Strategy Paper due in February 2017, shall firm up the baseline expenditure ceilings proposed in this C-BROP document.

