REPUBLIC OF KENYA

COUNTY GOVERNMENT OF MERU

FISCAL STRATEGY PAPER

FEBRUARY 2018

Foreword

The Meru County Fiscal Strategy Paper 2018 lays down the framework for Preparation of the FY 2018/19 County budget in accordance with the Public Finance Management Act 2012, section 117. It sets out the County Governments economic policies and key priority programs to be implemented in the Medium Term Expenditure Framework (MTEF) in line with the County Integrated Development Plan 2018-2022.

The County priorities and goals outlined herein are based on the County Integrated Development Plan (CIDP), Governors manifesto and Annual Development plan 2018 with focus on: Provision of water for domestic and irrigation services, Improved Agriculture and cash for all Households, Empowerment of Youth and women, ECDE support and development, Accessible Health Care, Improvement of land services, Quality Education and Transport Infrastructure.

The Fiscal Framework hereby presented provides the means for the County to strengthen devolution for a transformative and shared prosperity in making Meru County great. Attainment of the set programs calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline and safeguard macroeconomic stability.

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

Acknowledgement

The County Fiscal Strategy Paper 2018 is a result of contribution and concerted efforts of many people. The paper is informed by the Public Finance Management Act 2012 Section 117 (1). The Paper sets out broad strategic priorities and policy goals that will guide the County Government in preparing its budget for coming Financial Year 2018/19 and over the medium term.

The preparation of this fiscal strategy paper continues to be a collaborative effort from an array of expertise of professionals and key stakeholders in the County. Most of the information in this paper has been obtained from the National and County Government policy papers, and Agencies. We are grateful for their inputs. We are also grateful for those who provided inputs during the various budgeting forums conducted in the County.

We are particularly grateful to the Governor for his lead role, direction and guidance in developing this document; The Deputy Governor and the CEC members for their input in providing much needed information to the team working on this County Fiscal Strategy Paper 2018. Special thanks goes to the technical team in the Finance and Economic Planning department who spent a significant amount of time putting together this Paper.

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Abbreviation and Acronyms

ADP	Annual Development Plan
A-I-A	Appropriations in Aid
BPS	Budget Policy Statement
CA	County Assembly
CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CPSB	County Public Service Board
FY	Financial Year
VTCs	Vocational Training Centers
CBROP	County Budget Review and Outlook Paper
ECDE	Early Childhood Development
FSP 2018	Fiscal Strategy Paper, 2018
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
MTEF	Medium Term Expenditure Framework
PBB	Programme Based Budget
PFM	Public Financial Management
PFMA	Public Finance Management Act
PPP	Public Private Partnership
VAT	Value Added Tax

Table of Contents

Executive Summary

The fiscal strategy paper of Meru County Government for the year 2018 is set out in this paper. The contents of the CFSP are largely informed by the PFM Act section 117(2) which provides for the aligning of the CFSP with the national objectives in the Budget Policy Statement.

The fiscal framework is guided by various principles which are in line with the medium term expenditure framework and the County Integrated Development Plan (CIDP) among them: A strong revenue effort to ensure that the County budget has no deficit, budget expenditures are consistent with agreed County and sectorial priorities with increased shift away from recurrent to capital expenditures while at the same time providing sufficient fiscal space for infrastructural and social programmes necessary to achieving CIDP. The key County priority areas are; Investment in Water & Transport Infrastructure, investing in quality and accessible Health Care, improving urban development and land adjudication, Provision of Quality preprimary education and vocational training, Youth, Sports & Gender empowerment, economic empowerment and enterprise development.

The CFSP serves as the basis for the preparation of the annual estimates of revenue and expenditure for the County Budget 2018-19. The County fiscal strategy Paper is a crucial requirement according to the Public Finance Management Act, 2012 as it requires the adoption of a multi-year perspective in budgeting to allocate public resources on a rolling basis over the medium-term. The FSP 2018 is in line with the 2018 Budget Policy Statement (BPS).

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.

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.

Fiscal Responsibility Principles in the Public Financial Management Law Cont.……

The regulations in Section 25. (1) States that In addition to the fiscal responsibility principles set out in section 107 of the Act, the following fiscal responsibility principles shall apply in the management of public finances—

a. the County Executive Committee Member with the approval of the County Assembly shall set a limit on the County government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Act;
b. the limit set under paragraph (a) above, shall not exceed thirty five (35) percent of the County government's total revenue;
c. for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues that accrue from extractive natural resources including as oil and coal;
d. the County public debt shall never exceed twenty(20%) percent of the County governments total revenue at any one time;
e. the County annual fiscal primary balance shall be consistent with the debt target in paragraph;
f. the approved expenditures of a County Assembly shall not exceed seven per cent of the total revenues of the County government or twice the personnel emoluments of that County Assembly, whichever is lower;

g. pursuant to section 107(5) of the Act, if the County government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act

h. if the County government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the County executive committee member for finance shall submit a responsibility statement to County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and

i. the compliance plan above shall be binding and the County executive committee member for finance shall ensure implementation

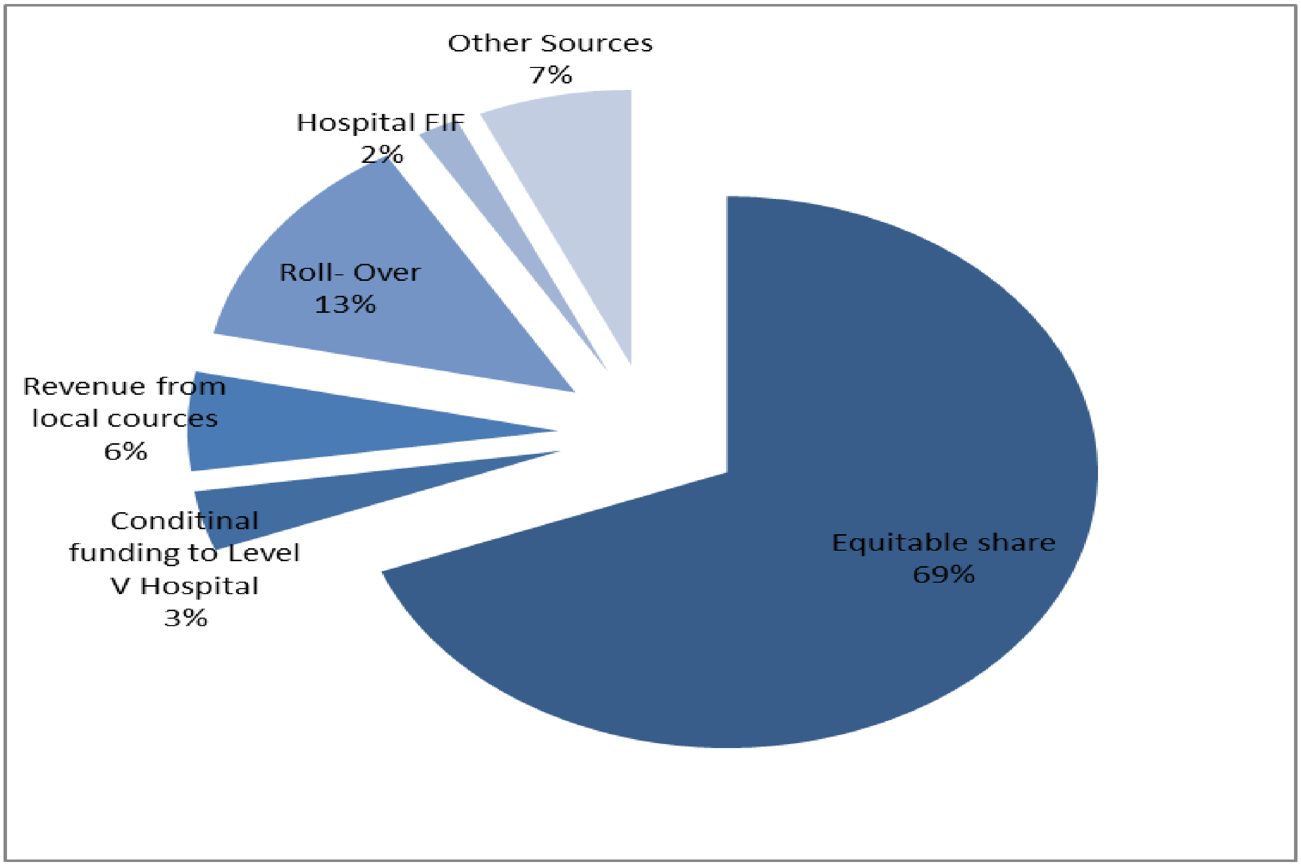
I. RECENT ECONOMIC AND FISCAL DEVELOPMENTS

1.0 REVIEW OF THE FISICAL PERFOMANCE

1.1.0 County Revenue

In the year ended 30th June 2017, the County had projected revenues of KShs 10.141billion consisting of KShs 7.006 equitable share, kshs 356,069,364 conditional funding for level 5, Kshs 1,321,187,373 as roll over from the previous year's budget, 588,236,727 from own sources, 185,000,000 as appropriation in aid from Hospital Facility improvement funds and balance from other sources.

A graphical representation of the revenue budget is as shown below:



Out of the projected revenue, the County was able to realize KShs 9,617,518,834 in actual revenues, representing 94% performance. The slight shortfall in own generated revenues was as a result of underperformance. In the table below, we present an analysis of revenue performance during the year.

Table 1: County Revenue Source

Revenue classification	Revenue budget (KShs)	Actual (KShs	Realization (%)
Equitable Share	7,006,680,257	7,006,680,257	100
Conditional funding to Level V Hospital	356,069,364	356,069,364	100
Local Sources	588,236,727	421,839,455	72
Roll over	1,321,187,373	1,321,187,373	100
Hospital FIF	185,000,000	83,996,064	45
Other sources	678,309,811	427,746,321	63

Local revenue collection was below target by 166 million while the exchequer releases were received in full over the same period. Appropriation in Aid (F.I.F) had a shortfall of 101 million while 10.4 million that the county expected to receive as grant from donors (DANIDA) was not received

1.1.1 Expenditure Trends

Implementation of the current budget for FY 2017/18 in the first and second quarter has been faced by challenges in delayed disbursement of funds from the exchequer and below target collection of local revenue therefore slowing down government operations in the first and second quarter.

Total expenditure for the year 2016/17 amounted to KShs 8,256,703,153. KShs 2,409,478,885 was spent on development expenditure while KShs 5,847,224,268 was spent on recurrent expenditure.

Much of the recurrent budget was spent on compensation for employees. This was as a result of salary increments awarded to Doctors, health workers and Nurses over the past year. However, we appreciate that a well remunerated workforce is necessary for service delivery. As such, we are committed to improving the welfare of our staff.

Below is an analysis of recurrent and development expenditure during the financial period under review.

Table 2: Summary Statement 0f Appropriation: Recurrent and Development Combined FY 2016/17

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Proceeds from Domestic and Foreign Grants	10,295,000		10,295,000	10,295,000		100%
Exchequer releases	7,362,749,621	-	7,362,749,621	7,362,749,621	-	100%
Transfers from Other Government Entities	447,575,158	-	447,575,158	447,575,158	-	100%
Roll over	1,321,187,546	-	1,321,187,546	1,321,187,546	-	
Other Receipts	503,787,633	495,504,740	999,292,373	635,132,363	(364,160,010)	64%
TOTAL	9,645,594,958	495,504,740	10,141,099,698	9,766,644,688	(364,160,010)	96.3%
PAYMENTS						
Compensation of Employees	3,300,000,000	678,108,916	3,978,108,916	3,127,549,962	850,558,954	78.66%
Use of goods and services	1,576,300,531	(68,908,432)	1,507,392,099	1,185,147,087	322,245,012	78.6%
Transfers to Other Government Units	1,449,006,794	-	1,449,006,794	1,449,006,794	-	100%

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=d-c	f=d/c %
Other grants and transfers	310,000,000	(10,000,000)	300,000,000	236,157,618	63,842,382	97%
Social Security Benefits	6,500,000	1,500,000	8,000,000	7,471,082	528,918	
Acquisition of Assets	1,540,000,000	598,591,888	2,138,591,888	2,022,474,820	116,117,068	20%
MCA Car loan Interest(executive mortgage and loan interest)	160,000,000	200,000,000	360,000,000	22,648,945	337,351,055	
Other Expenses	600,000,000	(200,000,000)	400,000,000	206,246,845	193,753,155	
TOTAL	**8,941,807,325**	**1,199,292,373**	**10,141,099,698**	**8,256,703,153**		**74%**

1.1.2 National Growth Update

Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018. The resilience in growth in 2017 was supported by the ongoing public sector infrastructure investments, recovery in the tourism sector and continued stable macroeconomic environment. In 2017, the economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate; and information and communication. The growth was somewhat constrained by subdued performances in agriculture, forestry and fishing; manufacturing; electricity; and financial intermediation sectors.

1.1.2.1 Interest Rates

Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. The rate is currently (January 2018) at 10.0 percent since August 2016. The interbank rate has remained low at 6.1 percent in January 2018 from 7.7 percent in January 2017 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.6 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.2 percent in January 2018 from 10.5 percent and 11.0 percent in January 2017, respectively.

2.1.4 Inflation

The overall month on month inflation declined to 4.8 percent in January 2018 from 7.0 percent in January 2017. The decline in inflation was a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favorable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

2.1.5 The Kenya shilling Exchange Rate

The Kenya Shilling exchange rate remained broadly stable against major international currencies.

As at January 2018, the shilling exchange rate against the Dollar was at Ksh 102.9 compared with Ksh 103.7 in January 2017. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 125.4 and Ksh 141.9 in January 2018 from Ksh 110.2 and Ksh 128.0 in January 2017, respectively.

1.1.3 County Economic and Fiscal Overview

1.1.3.1 County Economic overview

14. The County continues to invest in: agriculture to improve food security, income streams and providing raw materials to support industrialization and production; water for domestic purposes and irrigation to improve the livelihoods of the communities; infrastructure to improve connectivity and accessibility towards 24hours economy in major urban centers; Continued spatial planning for townships has helped improve land use; Expansion of health facilities and provision of drugs and medical equipment has improved service delivery and access to better health care; Construction of ECDE classrooms and employment of ECDE teachers has increased enrollment and alleviated literacy levels; Construction of Vocational Training centers and recruitment of polytechnic instructors has led to promotion of skills, which is requisite for sustainable development in the County.

1.1.4 Conclusion

The County realizes there is need to improve local revenue collection and put in mechanisms to enhance fiscal discipline. In this regard, the Revenue Board has set aside a budget for full automation of all revenue collection points to reduce leakages.

The County Government has also minimized operations expenditure and increased development expenditure with the aim of shifting more funds to development projects.

Further, the Human resource department is in the process of undertaking audit of all permanent and temporary employees with the aim of curbing the growing wage bill.

2.0 FORWARD ECONOMIC AND FISCAL OUTLOOK

2.1.1 National Economic Outlook

Kenya's Growth outlook

Over the medium term, growth is projected to average around 7.0 percent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

2.1.2 County Economic and Fiscal outlook

County Economic outlook

19. The County's growth prospects for the FY 2018/19 revolves around provision of water for domestic and irrigation purposes; value addition for ALF; empowerment of youth, women, and PWD's; promotion of preventative and curative healthcare; enhance ECDE feeding program.

21. To improve levels of inter-county trade, the County will invest in value addition of milk, bananas, coffee and potatoes, marketing of county products such as Miraa, coffee, tea, and bananas; Agriculture to enhance food security and reduce overreliance on imported agricultural products at inter-county level.

22. To caution inflation, the County focuses on reducing the costs of production, increasing supply of agricultural products, and enhancing a sustainable utility curve in line with improving individual incomes.

23. The rising number of tertiary institutions will promote research and provide employment and the requisite skills for economic growth of the county.

24. The service industry will contribute to the economic growth of the county majorly through availability of credit to invest in infrastructure network, improving transport and hence reduce the cost of trade.

County Forward Fiscal outlook

25. The County Treasury will employ adequate measures geared towards standardizing expenditures to the current resource envelope as determined by the Macro Working Group and approved by the County Executive Committee.

2.1.3 Conclusion

26. In line with the County's economic outlook, the County Government wishes to focus on improving accessibility to water; committing more funds to the agricultural sector; improve healthcare, education, and empower the youth and women to better livelihoods of the residents of Meru.

3.0 STRATEGIC PRIORITIES AND INTERVENTIONS

3.1.1 Overview

The CFSP 2018 outlines the priority economic policies as well as specific expenditure programmes to be implemented in the Medium Term in order to achieve County development agenda. These policies target the following areas;

Priority 1: Enhancing Infrastructure development and Water Connectivity for both domestic and irrigation purpose.

31. Infrastructure is key to achieving investment, increased production, access to essential services and overall economic growth. This entails an elaborate road network, water distribution and establishment of an effective transport system.

The County Government's priority in this case is enabling road infrastructure for conducive business environment ,improving housing infrastructure in the County, opening up new roads through labor intensive methods, gravelling, construction of culverts, road protection works, construction of bridges, construction of paved roads to concrete and bitumen standards, street lighting, development and upgrade of bus parks, routine maintenance of existing markets loop-roads, sinking of boreholes across the county, expansion of community based water projects, provision of plastic and construction of permanent water tanks, geophysical aerial mapping of piped water, and the realization of ward-level water supplies.

Priority 2: Promotion of Agriculture, Livestock and Fisheries Production

28. Agriculture plays a strategic role in the progress of economic development for any society. Meru County is well aware that through increase in agricultural production there is potential rise in per capita income in the rural community alongside production of primary raw materials that set stage for industrialization.

The government is strategically putting significant resources into this sector which is a key driver towards Making Meru Great. This includes value addition to ALF

Products, establishment of Meru County Agricultural Board, and investing in agriculture for food security.

Priority 3: Promotion of Education, Youth Empowerment and Social Protection

29. In every society, technical skills are requisite for economic development. The County Government (CG) is dedicated towards promoting acquisition of such skills to the youth, women, Persons with Disabilities (PWDs) as a means to empower them economically hence integrate them in the development agenda, addressing standard eight leavers, form four leavers, and adults who may want acquire vocational skills and ECDE education. The County is doing this by construction of classrooms, workshops and hostels in Youth Polytechnics across wards in the County as well as developing the Meru Youth Service (MYS). Further, the CG has enhanced a feeding program for ECDE children by providing milk and porridge.

The CG has established child care rehabilitation centers as a mode of offering child services to the Orphans and Vulnerable Children (OVC's) through Cash Transfers directly through the department of Culture. This in time promotes the continuous rehabilitation of street children.

Priority 4: Healthcare

30. The health sector is among the key priorities for Meru County Government. In this case the government will invest in improving health infrastructure, equipping hospitals and dispensaries, provision of adequate drugs in the various health centers, improving services delivered in the health centers. The CG is keen to invest in implementation of preventative health interventions and to improve access to equitable and affordable healthcare.

For the FY 2018/19, health sector has attracted the highest level of resource allocation as compared to any other sector. This clearly demonstrates the government's commitment towards promoting a healthy population hence reducing mortality.

4. FISCAL POLICY AND BUDGET FRAMEWORK

4.1 Overview

32. The 2018/19 Medium-Term Fiscal Policy aims at supporting a sustainably wealthy and vibrant county providing high quality services to improve the livelihoods of its citizens. The county will pursue prudent fiscal policies to ensure economic growth and development. In addition, these policies will provide support to economic activities while allowing for sustainable implementation of the projects and programs. Adhering to these policies will also enhance local revenue collection which will ensure there are adequate resources for capital investments.

In respect to local revenue generation, the county is striving to institute corrective measures to reduce revenue leakages from local sources. This includes full operationalization of the County Revenue Agency that was formed to solely be responsible for efficient and effective revenue collections, enforcement of local revenue laws and regulations, automation of revenue collection systems and speedy implementation of collection of other revenue streams. It also has responsibility to undertake sensitization and education of the public on revenue matters.

4.1.1 Adherence to Fiscal Responsibility Principles

36. These policies will aim at rationalizing allocation of more resources from recurrent to capital and development programmes so as to promote sustainable and inclusive growth.

Some of the fiscal responsibility principles to be observed include**:**

(i) Over the medium term, a minimum of 30% of the Budget shall be allocated to development expenditure.

37. The County's development budget allocation over the medium term is above 30 percent, which is the minimum requirement. In 2016/17 the County allocated 38% to development and 30.03% in FY 2017/18. In the FY 2018/19 the county has allocated 30% of the total revenue for development expenditure. This is expected to increase over the medium term with rationalization of staff with the aim to curb the high wage bill.

(ii) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county's total revenue.

38. On wages and benefits, the share to County revenues was 35% in the FY 2016/17, 42% in the FY 2017/18 and is estimated at 47% in the FY 2018/19. (The increase is due to increase in allowances awarded to health workers, nurses and doctors in health department, recruitment of ECDE teachers and public health officers). This expenditure item is projected to decline over the MT planning period with the County reorganization.

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.

39. The County government will prepare balanced budget where the expenditure estimates will be equal to the total revenue resource. This will help in avoiding instances of deficit financing thus eliminating the occurrence of pending bills at the end of each financial year.

(iv) Public debt and obligations shall be maintained at a sustainable level as approved by County Assembly (CA) and guaranteed by the National Government.

40. Borrowing shall be used for capital and development estimates only. While the county desire to borrow in future to fund its development agenda, this will be determined by the frame work developed between the National Government and the County Governments

4.2.2Fiscal Reforms

44. The County Government aims to widen the tax base by reviewing the relevant revenue legislations in order to improve revenue raising measures and efficiency. In order to achieve this objective, the county government is in the final stages of operationalizing the county revenue agency which was created by an Act of county assembly.

Over the medium term, the county government will rationalize its expenditure with an aim to reduce wastages. This will be done by ensuring there is improved accountability and transparency among the accounting officers who are in charge of public finances. The on-going fiscal structural reforms will eliminate duplications.

The county will strive to ensure that there is efficient and effective execution of the budget. This will be made possible through expenditure tracking and taking corrective measures on any deviations and instilling strong internal controls on expenditure. To achieve value for money there is need to strengthen audit function, through continuous review of audit risks and periodic monitoring and evaluation of projects and programmes.

The fiscal policy will be geared towards:

(i) Enhancing revenue administration and efficiency in collection, by formulating revenue administration regulations and reviewing fees, levies and charges legislations in order to simplify and modernize them. This is expected to increase revenue collection in the medium term from Kshs 447 million in 2016/2017 to a projection of Kshs 601 million in 2017/18. A new system is underway for the automation of revenue collection in the entire County.

(ii) Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all projects and consumables. Project planning and management as well as engagement on Public Private Partnership will be strengthened.

4.2.3 Deficit Financing Policy

The county envisages borrowing from domestic sources for capital investments upon the completion of a framework to be developed by the National Treasury. Borrowing will be undertaken upon careful and critical analysis of financial position and capability of the county in repaying its deb

Revenue projections

47. The FY 2018/19 budget estimates will target revenue inflow of KES. 10,038,019,496 which has both the CRA shareable revenue, conditional grants and own source of revenue. Local revenue is estimated at Kshs.601 million while Appropriation-in-Aid (Hospital FIF) is estimated at Kshs.120 million. The performance of own revenue will be underpinned by new automated systems and restructuring.

Expenditure projections

48. The County expects overall expenditure estimates to increase slightly from the revised budget of FY 2017/18. This is due to an increase in equitable shareable revenue by an average of 7.27 percent. The expenditure estimates for the FY 2018/19 is KES 10.056 billion.

Expenditure ceilings on goods and services for the County sectors/departments are based on the County priorities extracted from the CIDP 2018-2022. The ceilings are also adjusted based on expenditure trends and the County change of priority programs within the spending units. Inflation which affects the expenditure trends has been put into consideration.

An emergency fund of KES 30 million will be set aside to cater for any emergency issues that might arise during the financial year 2018/2019.

5.0 INSTITUTIONAL IMPLEMENTATION FRAMEWORK

5.1 Legal Framework

The achievements that have been realized since devolution are an indication that the county is moving in the right direction. This has taken place despite challenges emanating from factors related to capacity, intergovernmental relations, fiscal responsibility principles and pressures from the public on service delivery. The success of county government requires collaboration with all stakeholders as provided by relevant laws of Kenya that include Constitution of Kenya, County Government Act, 2012, Intergovernmental Relations Act, 2012, Urban Areas and Cities Act, 2012, Public Finance Management Act, 2012, Public procurement and Asset Disposal Act, 2015 and the Independent Offices Act 2011. These laws ensure harmony in the operation of the county governments and also boost the inter and intra government relations.

The County acknowledges the contribution by the national government in ensuring that county governments succeed in provision of devolved functions. However there is still more to be done. The national government also implemented programmes that have assisted the County to effectively and efficiently manage public finances. Some of the initiatives include Continuous training of County staff on IFMIS and the internet banking platforms and other support related to other areas of financial management such as preparing guidelines and providing way forward in those matters.

5.2 Challenges faced in the implementation of the County Budget and other plans

Some of the notable challenges faced in the implementation of the County Projects and programmes include;

a) **High expectation from the Public** – Because of pressure for development expenditure and wage bill, the development plans are usually ambitious in nature;
b) **Delays in disbursement of funds** – Delays in release of funds from the exchequer has resulted in delays in the County meeting its development aspirations;
c) **Inadequate financial allocation** – The financial resources the County is allocated through the equitable share of the national revenue, and other grants and payments is inadequate to meet the development goals;
d) **Low domestic revenue collection** – The County government has not been able to realize its targets in collecting local revenue;

e) **Inadequate policy and legal framework** – Inadequate policies and legal framework undermines the ability of the County government to adequately execute its mandates;

f) **Inadequate office space and facilities**– The County government faces shortage of office space and other facilities like land and equipment to implement its development priorities and this has impacted negatively on service delivery.

5.3 Equitable shares

Article 202 of the Constitution provides for the sharing of the Country resources between the National and the county government. This allocation has continued to increase but at a decreasing rate.

5.4 Additional resources

In addition to equitable shareable allocations, Counties are also allocated resources inform of grants from development partners and Loans granted to the National government which are then provided to the Counties as conditional grants.

The additional revenue includes conditional grant from National Government Revenue of KES.881 Million. This comprises of KES 393 Million for level 5 hospital, KES.31 million for compensation for user fees foregone, KES.95 million for Leasing of Medical Equipment, KES 58 million for development of youth Polytechnics and KES 301 million for road maintenance levy fund.

5.5 Fiscal Discipline

The County Government must ensure that county resources are used in a prudent and responsible way as required under Article 201(d) of the Constitution. In addition, the county must comply with the fiscal responsibility principles as stipulated in Section 107 of the PFM Act 2012.

County treasury will ensure compliance with the set fiscal targets. In this regard, the county will ensure that recurrent expenditure does not exceed annual revenue resources. Finally, the county will ensure that the development budget does not fall below 30 percent of the total budget over the medium term.

5.6 Capacity Building of County Staff

The County government in collaboration with the national government and other stakeholders such as World Bank (KDSP), USAID (AHADI), continues to enhance the capacity of its staff through trainings on budget preparation, accounting, reporting, monitoring & evaluation and procurement among others. So far these training have helped the county to improve service delivery to the public.

5.7 County Asset Management

Prudent management of County assets is critical for effective and efficient service delivery including enhanced revenue generation. However, management of these assets is facing challenges such as development of a reliable and accurate asset register.

To address this challenge, the County treasury intends to form a County Assets and Liabilities Committee to identify and ascertain the status of County assets and liabilities. The committee will then provide a report that will form the basis for the valuation of the County Assets and updating of the valuation roll.

5.8 Performance Contracting

The county has established performance contracting and performance management framework to improve service delivery. This will ensure that results are achieved efficiently and effectively leading to successful implementation of the County budget.

5.9 Summary

Devolution has proved to be effective in strengthening governance through provision of government services and resources up to the grass root level. This has led to economic empowerment and improved livelihoods of the people.

The established legal and institutional frameworks have been instrumental in making devolution successful.

6.0 MEDIUM TERM EXPENDITURE FRAMEWORK

6.1 Overview

49. The resource envelope available for allocation among the spending entities is based on the updated medium term fiscal framework which is outlined in Section III.

In view of the continued pressure that arise from wage bill and limited resources, MTEF budgeting will focus on adjusting non-priority expenditures to cater for the priority sectors. The financing of county budget priorities revolve around two main financing sources namely; transfers from the National Government and county local revenue. The shareable revenue transfers will account for 82.73 percent of the expenditure priorities in the budget while 5.73 percent will be financed from locally collected revenue sources.

6.2 Resource Envelope

	2018/19
Equitable share	8,304,698,608.00
Local Revenue	593,336,420.00
Conditional Grants from National Government Revenue	**899,634,705.00**
Conditional Grants to Level-5 Hospitals	393,872,832.00
User Forgone	31,648,428.00
Conditional Grant - Leasing of Medical Equipment	95,744,681.00
Road Maintenance Fuel Levy	301,500,000.00
Conditional Allocation for development of youth Polytechnics	58,668,764.00
Conditional allocations to County Governments from Loans and Grants from Development Partners	**156,749,763.00**
World Bank Loan to for transforming health systems for universal care project	29,524,087.00
World Bank for national agricultural and Rural Inclusive Growth project	50,000,000.00
KDSP (Level 1 Grant + FY 2016/17 allocation)	50,375,116.00
Danida	18,748,409.00
GoK-SIDA	8,102,151.00
Appropriation In AID	
Hospital FIF	120,000,000.00
TOTAL RESOURCE ENVELOPE	**10,056,219,496.00**

6.3 Spending Priorities for 2018/2019-2020/21 MTEF Budget

In the FY 2018/19, the sectors have prioritized projects and Programmes as shown by the key policies below.

SECTOR	**DEPARTMENT**	**POLICY PRIORITIES**
Agriculture, Rural & Urban Development	Agriculture, Livestock, & Fisheries	Value addition to ALF products
		Establishment of Meru County Agricultural Board
		Investing in Agriculture for food security
	Lands, Physical Planning, Housing, Public Works	Land adjudication, digital registry and land information
		Construction of Governor's and Deputy Governor's residence
Energy & infrastructure	Transport and Infrastructure	Establish Meru Roads Board to ensure quality in construction and maintenance of roads
	Energy	Installation of transformers and floodlights
General Economic, Commercial and Labour Affairs	Trade & Enterprise Development	Promote entrepreneurship and attract private investments in the county
	Cooperatives	Markets maintenance
	Tourism	Improved tourism
	Industrialization	Establishment of modern kiosks
	Investment Corporation	Refurbishment of Meru County Hotel to establish an office block
Health	Health	Better managed health care services by the health boards
		Promotion of both curative and preventative healthcare
Education	ECDE	Enhanced retention through free milk program
	Technical & Vocational services	Provision of Bursaries
SECTOR	**DEPARTMENT**	**POLICY PRIORITIES**
Public Administration and Intergovernmental Relations	County Public Service Board	Employment and induction of staff
	Finance, Economic Planning & ICT	Creation of Meru Economic and social council
	Office of the Governor	Improved disaster management
	Public Service Administration & Legal Services	Coordination and enforcement of government functions, performance

		contracting, employees training and strong legal department
	County Assembly	Construction of the Speaker's residence
	Microfinance Corporation	Micro loans & financial literacy
	County Revenue Board	Automation of revenue systems
Social Protection Culture & Recreation	Youth	Meru Youth Service
	Sports	Construction of stadia
	Culture and Recreation	Establishment of a museum in Nchiru, promotion of cultural festivals
	Gender, & Social Services	Women and PWD's empowerment
	Liquor Control Board	Alcohol usage control and licensing
Environmental Protection & Water Services	Environment & Natural Resources	Rehabilitation of rivers, garbage/ solid waste management.
	Water and Irrigation	Drilling of boreholes
		Conservation and protection of water towers
	Wildlife	Reduce human-wildlife conflicts