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CBROP



REPUBLIC OF KENYA

County Government of Meru

**BUDGET REVIEW
AND OUTLOOK PAPER**

September 2014

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ABBREVIATIONS

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

TABLE OF CONTENTS

Foreword.....

Legal Background.....

Review of Fiscal Performance for FY 2013/14.....

Recent Development and the Outlook for the Year.....

Resources Allocation Framework.....

Revenue Outlook.....

Conclusion and Way Forward.....

Foreword

The Public Financial Management Law Act, 2012 has ushered in a Paradigm shift in budget making process both at the national level and the county level. Section 117 and 118 of the act provided for the preparation of the county fiscal strategy paper and the County Budget Review and Outlook Paper (CBROP) respectively, by the county department of finance / treasury.

Apart from introducing reforms in our public financial management system, the new law entrenches the Medium Term Expenditure Framework budgeting.

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

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

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

Legal Background

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

- Shall prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
- Submit the paper to the County Executive Committee by 30th September of that year.

The main objectives of a CBROP are to specify;

- The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- The updated economic and fiscal forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- Any changes in the forecasts compared with the (CFSP);
- How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

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

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

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

II REVIEW OF FISCAL PERFORMANCE IN 2013/14

A. Overview

The fiscal performance in 2013/14 in general was fair, despite under collection of local revenue, and under utilization of the available funds by some line departments

The absorption rate was at 71 percent of the total budget

Due to the challenges experienced in the financial year 2013/14, revenue collection fell short of the set target by 279 million.

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

2013/14 fiscal performance

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

2013/14 Fiscal outturn							
	in Ksh					% of Total Revenue	
	2013/14					2013/14	
	Actual	Target		deviation		Actual	Revised
		Budget	Revised	Budget	Revised		
A.TOTAL REVENUE & GRANTS							
Local Revenue	343,805,960	623,000,000	523,000,000	279,194,040.25	179,194,040.25	6.25	9.21
Equitable Share	4,749,444,426	4,749,444,426	4,749,444,426	-	-	86.32	83.59
Roll over from previous year	226,116,639	226,116,639	226,116,639	-	-	4.11	3.98
Conditional grants	183,151,299	183,151,299	183,151,299	-	-	3.32	3.22

TOTAL	5,502,518,324	5,781,712,364	5,681,712,364	279,194,040.25	179,194,040.25	100	100
B. EXPENDITURE							
RECURRENT							
Compensation to employees	2,372,012,670	1,255,189,743	2,907,053,049	(1,116,822,927.)	535,040,379.00	43.1	51.16
Goods and services	796,725,207	1,081,283,313	1,064,214,001	284,558,106.00	267,488,794.00	14.4	18.73
Other grant and transfers	139,625,204	75,225,000	64,975,000	(64,400,204.00)	(74,650,204.00)	2.5	1.14
Social security benefits	696,000	5,000,000	4,472,900	4,304,000.00	3,776,900.00	0.01	0.07
Acquisition of assets	86,179,439	168,875,000	151,579,219	82,695,561.00	65,399,780.00	1.5	2.66
Other Expenses	2,264,000	3,000,000	1,500,000	736,000.00	(764,000.00)	0.04	0.02
SUBTOTAL	3,397,502,520	2,588,573,056	4,193,794,169	(808,929,464.00)	796,291,649.00	61.55	73.78
DEVELOPMENTS	650,077,246	3,093,107,326	1,487,886,211	2,443,030,080.00	837,808,965.00	11.81	26.18
TOTAL EXPENDITURE	4,047,579,766	5,681,680,382	5,681,680,380	1,634,100,616.	1,634,100,614.	73.36	99.99

Revenue

Total cumulative revenue include own revenue, equitable share, conditional grants and roll over from the previous financial year all totaling to 5.5 billion.

Own revenue collected amounted to 343 million against a target of 523 million translating to an under collection of 180 million. Equitable share was 4.749 billion; roll over from previous year was 226 million and conditional grant at 183 million.

As shown in the table below

County Government Local Revenue			
	2013/14		Deviation
	Actual	Target	
TOTAL REVENUE			
Slaughter house fees	1,206,179.00	5,000,000.00	(3,793,821.00)
Market fee	46,800,647.00	75,124,953.00	(28,324,306.00)
Transfer & Subdivision fee	494,603.75	3,251,536.00	(2,756,932.25)
Plot Rent	2,915,536.90	20,000,125.00	(17,084,588.10)

Land Rates	39,652,139.00	155,500,450.00	(115,848,311.00)
Single business permit	64,730,795.00	120,365,124.00	(55,634,329.00)
Parking fees	52,986,573.00	88,125,365.00	(35,138,792.00)
House rent/Stall rent	13,330,141.50	12,533,000.00	797,141.50
Cess	31,605,116.00	35,611,200.00	(4,006,084.00)
Miraa cess	6,693,902.10	12,543,665.00	(5,849,762.90)
Building plans	5,636,282.00	344,582.00	5,291,700.00
Outdoor adverts. & Signboard	31,042,238.00	25,000,000.00	6,042,238.00
Hire of county properties	692,386.00	2,000,000.00	(1,307,614.00)
Application fees	5,743,612.00	10,000,000.00	(4,256,388.00)
Impounding fees & Fines	2,070,011.00	3,200,000.00	(1,129,989.00)
Sale of tender doc	438,170.00	500,000.00	(61,830.00)
Toilets fee	1,502,937.80	4,500,000.00	(2,997,062.20)
Miscellaneous income	19,107,586.05	20,000,000.00	(892,413.95)
Income from county estates	2,332,108.65	5,000,000.00	(2,667,891.35)
Liquor license	629,000.00	21,000,000.00	(20,371,000.00)
Liquor application	14,195,995.00	3,400,000.00	(10,795,995.00)
	343,805,959.75	623,000,000.00	(279,194,040.25)

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

Expenditure

Total expenditure for the year 2013/14 was 4.047 Billion representing an under spending of Ksh 1.634 Billion or a deviation of 29 percent from the revised budget. This was attributed to lower absorption in both recurrent and development expenditure by some line departments.

County Government Expenditure			
	2013/14		Deviation
	Actual	Target	
B.EXPENDITURE			
RECURRENT			
Compensation to employees	2,372,012,670	1,255,189,743	(1,116,822,927)
Goods and services	796,725,207	1,081,283,313	284,558,106
Other grant and transfers	139,625,204	75,225,000	(64,400,204)
Social Security benefits	696,000	5,000,000	4,304,000
Acquisition of assets	86,179,439	168,875,000	82,695,561
Other Expenses	2,264,000	3,000,000	736,000
TOTAL RECURRENT	3,397,502,520	2,588,573,056	(808,929,464)
DEVELOPMENTS	650,077,246	3,093,107,326	2,443,030,080
			-
TOTAL EXPENDITURE	4,047,579,766	5,681,680,382	1,634,100,616

Recurrent expenditure amounted to Ksh 3.397 billion against a target of Ksh 4.193 billion that translates to under spending of 0.796 billion (or 19 percent deviation from the approved revenue expenditure)

Social security benefit underperformed i.e. 0.696 million against approved estimates of 5 million.

Development expenditure was 0.65 billion against a target of Ksh 1.487 billion. This represented an under development of 66 percent (or 0.837 billion from approved development expenditure). This reflects lower absorption by the line department and delays in procurement.

Overall balance and financing;

In reference to above performance in revenue and expenditure, overall fiscal balance on a commitment basis was 1.634 billion (29% of total revenue)

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

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

- (i) The economic assumptions underpinning the 2014/2015 budget and medium term will need to be modified in light of slower than-envisaged real total revenue growth.
- (ii) The base of revenue and expenditure projections has changed implying the need to adjust the fiscal aggregates for the current budgets and the medium-term,
- (iii) Arising from (i) and (ii) as well as consideration of slower pace of execution of the budget by departments, there is need to adjust the baseline ceilings and then do firm-up in the next budget policy statements in the first quarter

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

The table below provides updated medium term fiscal forecasts

Updated FISCAL projections 2013/14-2016/17				
	2013/14	2014/15	2015/16	2016/17
Revenue and Grants				
Equitable share	4,749,444,426	5,665,865,236	6,062,475,802	6,486,849,108
Local Revenue			816,700,859	873,869,919

	343,805,595	763,271,831		
Grants	183,151,299	82,312,674	-	-
Expenditure				
Recurrent	3,397,502,520			
Development	650,077,246			
Budget Balance(-Deficit, +Surplus)	1,634,100,616			
Net Financing				
CRF rollover	226,116,635	1,063,608,625	-	-

III. RECENT ECONOMIC DEVELOPMENT AND OUTLOOK

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

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

Revenue collection was below target by 279 million hence there is need to enhance administrative measures to reverse the situation never the less with improved weather conditions and automatic of revenue collection in progress the current growth projections remain within reach although downside risk remain. While its expected for the economy to remain resilient. We expect the total revenue to grow by 84.0 % in 2013/2014.

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

(a) Medium term framework

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

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

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

(b) Risk to the outlook

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

ADJUSTMENT TO 2014/2015 BUDGET

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

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

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

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

a) Medium –Term Expenditure Framework

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

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

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

Table

b) 2014/2015 Budget Framework

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

(check)

Revenue projections

The 2014/15 budget targets revenue collection of 922 million representing 14 percent of the total revenue as indicated in the table below.

2014/15 REVENUE PROJECTIONS				
MERU COUNTY GOVERNMENT	2013/14 ESTIMATES	PROJECTED ESTIMATES		
		2014/15	2015/16	2016/17
OWN REVENUES SOURCES				
SINGLE BUSSINESS PERMIT	64,730,795.00	154,465,191.00	165,277,754.37	176,847,197.18
PUBLIC HEALTH				

LICENCE		9,620,640.00	10,294,084.80	11,014,670.74
PUBLIC HEALTH CLEARANCE CERTIFICATE		8,712,765.00	9,322,658.55	9,975,244.65
LIQOUR LICENCE	14,824,995.00	26,075,520.00	27,900,806.40	29,853,862.85
HEALTH CERTIFICATE		3,191,265.00	3,414,653.55	3,653,679.30
MARKET FEE	46,800,647.00	90,000,000.00	96,300,000.00	103,041,000.00
PARKING FEES	52,986,573.00	95,000,000.00	101,650,000.00	108,765,500.0
HOUSE RENT/STALL RENT	13,330,141.50	120,000,000.00	128,400,000.0	137,388,000.0
CESS	38,299,018.10	70,000,000.00	74,900,000.00	80,143,000.00
LAND RATES	39,652,139.00	130,000,000.00	139,100,000.00	148,837,000.0
MISCELLENOUS INCOME	19,107,586.05	68,648,128.39	73,453,497.38	78,595,242.19
BUILDING PLANS	5,636,282.00	30,000,000.00	32,100,000.00	34,347,000.00
IMPOUNDING FEES & FINES	2,070,011.00	7,000,000.00	7,490,000.00	8,014,300.00
OUTDOOR ADVERTS. & SIGNBOARD	31,042,238.00	38,000,000.00	40,660,000.00	43,506,200.00
APPLICATION FEES	5,743,612.00	3,096,134.20	3,312,863.59	3,544,764.05
PLOT RENT	2,915,536.90	7,759,943.33	8,303,139.36	8,884,359.12
INCOME FROM COUNTY ESTATES	2,332,108.65	7,312,607.80	7,824,490.34	8,372,204.67
WEIGHT & MEASURES		4,500,000.00	4,815,000.00	5,152,050.00
SLAUGHTER HOUSE FEES	1,206,179.00	16,233,578.11	17,369,928.58	18,585,823.58
TOILETS FEE	1,502,937.80	4,005,605.50	4,285,997.89	4,586,017.74
TRANSFER & SUBDIVISION FEE	494,603.75	3,500,000.00	3,745,000.00	4,007,150.00
SALE OF TENDER DOC/MINUTES	438,170.00	925,556.00	990,344.92	1,059,669.06
HIRE OF COUNTY PROPERTIES	692,386.00	20,000,000.00	21,400,000.00	22,898,000.00
LIVESTOCK MOVEMENT		2,500,000.00	2,675,000.00	2,862,250.00
A.I. PERMIT				

		1,500,000.00	1,605,000.00	1,717,350.00
TOURISM LEVY			-	-
TOTAL	343,805,959.75	922,046,934.33	986,590,219.73	1,055,651,535

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

Conclusion and way forward

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

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