

GOVERNMENT OF NAIROBI CITY COUNTY

by Hon. Ogada
Kalon
PCA (CLIP)



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

3RD SESSION

NBI CA. PLC. 2015 / (29)

30th April, 2015

PAPER LAID

Pursuant to Standing Order 180 (6) I beg to lay the following Paper on the Table of the Assembly, today Thursday 30th April, 2015.

THE REPORT OF THE WORKSHOP HELD BETWEEN THE BUDGET AND APPROPRIATIONS COMMITTEE, THE OFFICE OF THE CONTROLLER OF BUDGET AND THE COUNTY SECRETARY ON THE CONSIDERATION OF THE REPORT FROM THE OFFICE OF THE CONTROLLER OF BUDGET ON THE COUNTY BUDGET IMPLEMENTATION, THE COUNTY FISCAL STRATEGY PAPER FOR THE FY 2015/16 AND THE DEBT MANAGEMENT STRATEGY PAPER FOR THE FY 2015/16.

(The Chairperson, Select Committee on Budget and Appropriations)

Copies to:

The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press

Approved
Hon Speaker
~~[Signature]~~
30/4/15

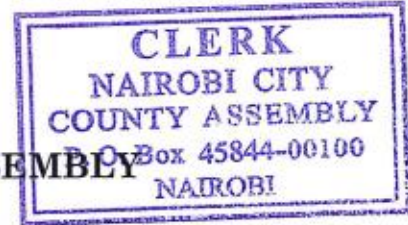
by Hon. Ogada

COUNTY GOVERNMENT OF NAIROBI CITY

My Hon.
PCA (CLIP)



NAIROBI CITY COUNTY ASSEMBLY



REPORT OF THE WORKSHOP HELD BETWEEN THE BUDGET AND APPROPRIATIONS COMMITTEE, THE OFFICE OF THE CONTROLLER OF BUDGET AND THE COUNTY TREASURY

ON

THE COSIDERATION OF THE REPORT FROM THE OFFICE OF THE CONTROLLER OF BUDGET ON THE COUNTY BUDGET IMPLEMENTATION, THE COUNTY FISCAL STRATEGY PAPER FOR THE FY 2015/16 AND THE DEBT MANAGEMENT STRATEGY PAPER FOR THE FY 2015/16

HELD FROM FRIDAY 12TH TO SUNDAY 15TH MARCH 2015 AT THE

SWEET LAKE RESORT, NAIVASHA-NAKURU COUNTY

BACKGROUND INFORMATION

The provision of Section 117(1) of the Public Finance Management Act 2012 requires the County Treasury to prepare the County Fiscal Strategy Paper (CFSP) and submit it to the County Executive Committee (CEC) for approval. The approved document is then supposed to be submitted to the County Assembly by the 28th February of each for consideration and subsequent approval. Further the County Treasury is required, pursuant to the provisions of Section 123 of the PFM Act, 2012 to prepare and submit to the County Assembly by 28th of each year a statement setting forth the debt management strategies for the county government over the medium term including actual and potential liabilities in terms of loans and how it intends to deal with those loans. The Constitution under Article 228(6) requires the Office of the Controller of Budget (COB) to submit to each House of the Parliament a report on the implementation of the budgets of national and county governments every four months. To consider the above reports, the Budget and Appropriations organized for a two day retreat at the Sweet Lake Resort, Naivasha. The objectives of the workshop were to:

- i. To discuss with the County Treasury on the financial objectives contained in the CFSP;
- ii. To deliberate on the debt management strategies contained in the debt management strategy paper;
- iii. To agree with the County Treasury and the Office of the Controller of Budget on the material breaches identified in the COB report;
- iv. To resolve on the way forward regarding the three documents; and
- v. Any other matter of interest

OFFICIAL OPENING AND INTRODUCTORY REMARKS

The Session Chair, Hon. Samuel Irungu, called the meeting to order and then invited the Hon. Petronilla Nafula to commit the meeting before the Lord. Having made the round of introductions, the Acting Chair invited the Deputy Controller of Budget to make his introductory remarks.

The Deputy COB noted his delight at the invitation emphasizing that his office and the County Assembly had to work hand in hand to guard against

misuse of public resources. He noted that both as oversight institutions on budgetary implementation, such regular engagements were of value going forward.

The Director of Economic Planning who represented the County Executive Committee Member for Finance thanked the Budget Committee for having organized the workshop emphasizing that the County Executive was always willing to cooperate with the County Assembly to ensure that there was service delivery in the County

The Chairman thanked the participants for attending the meeting and pointed out that the discussions were of utmost importance in the budget making process for the county government.

TOPIC 1: DELIBERATION ON THE COUNTY BUDGET IMPLIMENTATION REVIEW REPORT FROM THE OFFICE OF THE CONTROLLER OF BUDGET: PRESENTED BY MR. STEPHEN MASHA(DEPUTY CONTROLLER OF BUDGET).

The Controller started his presentation by giving a tabulation of the overall performance for all the counties. In this aspect he told the meeting that during the period under review Kshs.37.58 Billion was transferred to the Counties from the National Government and the counties collected a total of Kshs.6.25 Billion.

On the budget performance for Nairobi County, the Controller of Budget informed Members that in the first quarter of FY 2014/15 the County received a total of Kshs.2.44 Billion as national equitable share and raised Kshs.1.78 Billion and spent Kshs.4.66 Billion. However, he noted that the total expenditure had fallen compared to a similar period in the previous financial year. He went ahead to point out that the expenditure on personal emoluments had doubled in the particular quarter which he illuminated was of concern. Mr. Masha also informed the members that during the particular duration of the report, the county government had not requisitioned any amounts for development expenditures. In this regard therefore, it was his conclusion that any amounts which might have been utilized for development

initiatives resulted from expenditure at source in complete contravention of the PFM Act, 2012. On this matter, he reported that his office was exploring the option of invoking the provisions of Section 95 of the PFM Act, 2012 thereby stopping release of funds to the County.

On the challenges facing the County, the officer told Members that these included huge liabilities, delays in release of equitable share by the National Treasury, huge wage bill and the failure to adopt IFMIS by the County Assembly. These, he proposed, had to be addressed to ensure proper running of the County.

During plenary the members raised the following issue and the responses were as indicated:

- i. **Tracking released funds to ensure they are used as per the work plans:** Members inquired from the Controller of Budget on whether his office had the mechanism to track exchequer releases to ensure that they were utilized strictly as per the requisitions. Mr. Masha explained that whereas the office insisted on adherence to the work plans, the responsibility of allocating funds once released from the County Revenue Fund fell within the pavilion of the County Executive Committee Member for Finance. He reminded the members that the onus on tracking such distribution of monies fell with the Committee. He was categorical that under the circumstances, his office did not have enough employees to watch against expenditure of every budget line.

In conclusion the Members requested the Controller of Budget to frequently furnish them with details of funds released to the county as a way of ensuring the Committee follows on releases to various county entities.

TOPIC 2: PRESENTATION OF THE COUNTY FISCAL STRATEGY PAPER FOR THE FY 2015/16 AND THE MEDIUM TERM- MR KEFA OMANGA (DIRECTOR, ECONOMIC PLANNING)

In his presentation, Mr. Omanga outlined the objectives of the paper as aimed at, detailing the actual fiscal performance for the year under review, highlighting the macroeconomic policies and outlook as well as providing a brief on the county's strategic priorities and policies for the fiscal year 2015/2016 and the medium term.

On the strategies that the county intended to employ in order to accelerate economic development, the economist informed the meeting that the county would be interested in enforcing fiscal discipline, ensuring sustainable debt management strategy, containing the wage bill, enhancing revenue collection and reducing recurrent expenses among others.

Mr. Omanga presented to the members the resource envelope for the fiscal year 2015/2016, tabulating both the internal and external revenues projections for the financial year. Further he presented to the Committee the expenditure projections for the FY 2015/2016.

The economist unveiled the sector priorities and expenditure projections for the FY2015/2016 as outlined in the CFSP before he presented to the members the sector ceilings for the financial year. He acknowledged that some expenditure projections were not consistent with the ceilings as expected to be either lower or equal to the ceilings. For example, he noted that the proposed ceilings for the County Assembly and the public service management had not been rightly captured and told the Committee this was due to delays by some sectors to present their expenditure projections to the County Treasury.

**TOPIC 3: ANALYSIS OF THE COUNTY FISCAL STRATEGY PAPER-
MR. ERICK OTIENO, FISCAL ANALYST (NAIROBI CITY COUNTY
ASSEMBLY BUDGET OFFICE)**

The Fiscal Analyst began by reminding the Members of the role of the Budget Office which he noted was mainly to identify how well the document had lived within the statutory parameters and set procedures. He further noted that as an institution guided by rules and procedures, the County Assembly had to make sure that all documents submitted to it followed the due process. In summary the analyst identified the following areas as of concern and which needed to be addressed before the paper could be approved by the County Assembly:

- i. The paper had largely been a replica of the 2014 CFSP: The analyst informed the meeting that there were large sections of the paper which remained the same to the 2014 County Fiscal Strategy Paper making it difficult to comprehend why the strategies had stagnated over a year later;

- ii. The paper did not contain any proof that there had been public participation and how the views from various stakeholders were incorporated;
- iii. Whereas it had rightly identified the theme of the BPS (economic transformation for shared prosperity) and undertaken to align itself to it, the paper did not make mention of the five pillars that make up the 2015 theme of the Budget Policy Statement;
- iv. That while one of the revenue enhancement methods identified was the issuance of waivers for penalties however the County Treasury had not outlined the success rate of such previous initiatives;
- v. Expenditures beyond approved budgets, failure to sweep revenues to the CRF and lack of accounting officers for sections noting that the Transition Authority vide a letter TA/7/5 Vol. III (72) dated 16th February 2015 had advised that the County Secretary could not be an accounting officer as was the case;
- vi. The paper had omitted details of any proposed borrowing for the coming financial year and the medium term as required in statute;
- vii. Some sector projected expenditures for the coming financial year exceeded the set ceilings by the Treasury; and
- viii. It had omitted the actual county allocation from the national share of revenue.

In conclusion the fiscal analyst informed the committee that the report prepared by the Budget Committee was expected to provide its comments on the Paper and specifically include a schedule of revised ceiling if any. He further advised that subsequent discussions with the CECM Member for Finance especially on the identified gaps were necessary towards finalization of the document.

Plenary

The Budget Committee recognized that while the CFSP while commending the County Treasury for having put in effort to improve on the paper noted that the gaps identified by the Budget Office needed to be addressed in the final version of the paper. In furtherance and in addition to the above, the Members raised issues on the following areas:

- i. **Strict adherence to statutes:** Members emphasized on the need for the Treasury to follow the laid down laws concerning the contents and dates of submission of all the documents. The Senior Accountant appreciated the correction and assured the committee that all future documents submitted would be in accordance with the laid down statutes;
- ii. **Inconsistency in capturing the allocation from the national government-** members were concerned by the continuous failure of County Treasury to reflect the actual amount in its financial reports and demanded an explanation pertaining the same. The Treasury official indicated that this was due to delay in passage of the County Allocation of Revenue Act but nonetheless undertook to submit a supplementary budget capturing the amount; and
- iii. **Lacks of representation by Treasury Head of Departments and CECM for Finance** – Members were uneasy that despite the critical role of the County Fiscal Strategy Paper in the budget process, the County Treasury did to send its senior officers to assist in the deliberations. The Treasury officials present assured the Members that their concerns would be addressed with the CECM for Finance.

**TOPIC 4: ANALYSIS OF DEBT MANAGEMENT STRATEGY PAPER-
MR. ERICK OTIENO, FISCAL ANALYST (NAIROBI CITY COUNTY
ASSEMBLY BUDGET OFFICE)**

The Fiscal Analyst briefed the Committee on the details as contained in the Debt Management Strategy Paper and highlighted that the paper had been submitted in line with the provisions of Section 123 of the Public Finance Management Act, 2012. He reminded Members that in line with the quoted provisions of the Act, the Paper was legally required to contain the total stock of debt as at the date of the Statement, the sources of loans made to the county government, the principal risks associated with those loans, the assumptions underlying the debt management strategy as well as an analysis of the sustainability of the amount of debt, both actual and potential. These, he noted, the paper had largely tried to comply with.

That notwithstanding, the analyst pointed out the following areas as those that needed to be corrected in the paper:

- i. The Debt Management Strategy Paper had areas of inconsistencies in its contents in that whereas it was dated July 2014, it purported to contain figures for up to January 2015;
- ii. Some amounts of liabilities tabulated in the paper were different from those presented on the first quarter report by the Treasury;
- iii. The paper had been submitted long after the deadline;
- iv. It did not contain any analysis of any future borrowing as required anticipated under the provisions of Section 123(1) of the PFM Act, 2012;
- v. The paper attempted to satisfy the provisions of Section 107 (2) (c) of the PFM Act, 2012 by setting borrowing limit at 2.5% of all revenues. This, he pointed out, was a grave procedural error as the debt ceiling could only be set through a sessional paper;

The Fiscal Analyst concluded his presentation by reminding the members that in case the then debt management strategies did not yield any tangible results, the law allowed the County Treasury to request for assistance from the Public Debt Management Office for better outcomes in that aspect. However, he was categorical that it was worth appreciating that the debts were accumulated over a long period of time and repayment would also take time. All in all it was his view that the 2015 Debt Paper was summarily shallow in many aspects and without requisite changes it would not be able to realize the intended objectives.

Plenary: Members noted the following:

- i. That the paper was shallow and the Committee had expected a more detailed paper that outlined clear cut methodologies and actual plan;
- ii. The issue of National Government guaranteed loans and Onlet water loans needed to be settled with the National Treasury once and for all; and
- iii. Further the members expressed deep concerns over the inconsistencies noted in the paper and instructed that by 10th of January 2015 the Treasury needed to present a revised DMSP.

WAY FORWARD AND CONCLUDING REMARKS

The Committee resolved as follows regarding the County Fiscal Strategy Paper and the Debt Management Strategy Paper:

- a) That all the areas of inconsistency identified in the papers be rectified as recommended;
- b) That further discussions be held with the Sectoral Committees and County Executive Committee Member for Finance with a view of reaching consensus on the proposed sector ceilings;
- c) That all future meeting of the Committee shall not kick off unless top representatives of the County Treasury are present

In his concluding remarks, the Chairman thanked the Honorable members for their diligence in scrutinizing the documents before them and the important insights they provided. He appreciated the good work the Budget Office was doing to ensure that Members were able to synthesize the various budget documents. He further thanked the officers from the COB and the County Treasury for availing themselves for that important engagement noting especially that the Office of the Controller of Budget had been a friend of the County and prayed that the cordial working relationships needed to continue.

2013

ANNEX 1

PARTICIPANTS

MEMBERS OF THE BUDGET AND APPROPRIATIONS

- | | |
|----------------------------------|----------------|
| 1. Hon. Michael O. Ogada, MCA | Chairman |
| 2. Hon. George O. Ochola, MCA | Vice- Chairman |
| 3. Hon. Osman O. Ibrahim, MCA | |
| 4. Hon. Kenneth T. Muroki, MCA | |
| 5. Hon. David N. Kairu, MCA | |
| 6. Hon. Petronilla Nafula, MCA | |
| 7. Hon. Herman Azungu, MCA | |
| 8. Hon. Joash Omwega, MCA | |
| 9. Hon. Emmaculate Musya, MCA | |
| 10. Hon. Kennedy Oduru, MCA | |
| 11. Hon. Ngaruiya Chege, MCA | |
| 12. Hon. Samuel Irungu, MCA | |
| 13. Hon. Victoria Alali, MCA | |
| 14. Hon. Oscar Lore, MCA | |
| 15. Hon. Isaac N. Ngige, MCA | |
| 16. Hon. Alfred Ambani, MCA | |
| 17. Hon. Jackson K. Gikandi, MCA | |
| 18. Hon. Maurice Akuk, MCA | |



OFFICERS FROM THE COUNTY TREASURY

<u>NAME</u>	<u>DESIGNATION</u>
Mr. Kefa Omanga	Director, Economic Planning
Mr. James Ngunjiri	Senior Accountant
Ms. Molly Achieng	Economist

STAFF OF THE COUNTY ASSEMBLY

- | | |
|----------------------|---------------------------------------|
| 1. Mr. Erick Otieno | Fiscal Analyst/Clerk Assistant to BAC |
| 2. Mr. Farah Gabow | Finance Officer |
| 3. Mr. Moses Senator | Fiscal analyst |