

COUNTY GOVERNMENT OF NAIROBI CITY

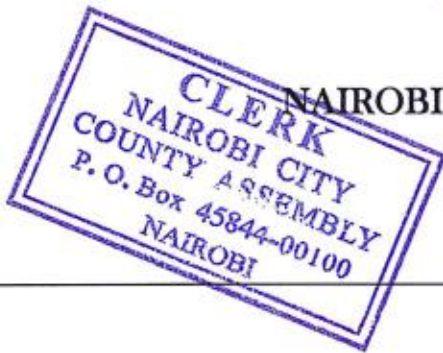
by Hon. Oganda

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PCA Chs P3



NAIROBI CITY COUNTY ASSEMBLY



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**REPORT OF THE WORKSHOP HELD BETWEEN THE BUDGET AND  
APPROPRIATIONS COMMITTEE AND THE COUNTY TREASURY**

**HELD ON**

**Friday 13<sup>th</sup> to Tuesday 17<sup>th</sup> February 2015**

**ENASHIPAI RESORT AND SPA, NAIVASHA-NAKURU COUNTY**

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## **BACKGROUND INFORMATION**

In compliance to the provisions of Section 166 of the Public Finance Management (PFM) Act 2012, the County Treasury submitted to the County Assembly the 2<sup>nd</sup> Quarter Revenue and Expenditure Returns detailing the extent of budget implementation between October and December 2014. It's in accordance to this prevailing legislation that the report was prepared and laid on the table of the Assembly then committed to the Budget and Appropriations Committee for review in line with the Assembly Standing Orders.

The County Treasury in consultation with the Budget and Appropriations Committee organised a three day retreat to:

- a. Discuss the 2<sup>nd</sup> quarter report on Revenues and Expenditures;
- b. Discussion on the County Assembly Approvals for Borrowing;
- c. Discuss the performance of Jambo pay on County Revenue collection; and
- d. Discuss on the implementation of Bursaries.

## **OFFICIAL OPENING AND INTRODUCTORY REMARKS**

The Vice-Chair called the meeting to order and invited the Hon. Petronnilla Nafula to say the opening prayers. He then welcomed the County Executive Committee Member for Finance (CECM-F) to make his introductory remarks. The CECM-F welcomed members to the venue and thanked them for having abandoned their valentine festivities to undertake their oversight role. He called upon them to make the workshop as interactive as possible while insisting that the importance of sober engagement could not be gainsaid.

The Chairman of the Budget and Appropriations Committee on his part reminded Members of the importance of monitoring budget implementation and at all times ensuring that they remain on top of things as far as county finances were concerned. He pointed out that it was key for the Committee to ensure that problems experienced in the preparation of the 2014/15 budget were not replicated in the coming financial year. This he explained could only be the case if Members sought clarification on any grey areas to ensure that all officers remained accountable on the use of public funds.

## **TOPIC 1: DISCUSSION ON THE 2<sup>nd</sup> QUARTER REPORT ON REVENUES AND EXPENDITURES: Mr. Luke Gatimu-Head of County Revenue.**



Mr. Gatimu began his delivery of the contents of the report by reminding Members that the County budget for the FY 2014/2015 amounted to Kshs.28.76b comprising of Kshs. 19.35billion for recurrent expenses and another Kshs. 9.4billion for capital projects. He went ahead to state that the budget was to be financed through Kshs.11billion from the national equitable share and Kshs. 17.76 from local revenue sources. On why the printed County's national share was short of the figure captured in the County Allocation of Revenue Act, 2014, the Head of County Revenue informed the workshop the report had only limited itself to the approved budget 2014 which only had an approximate figure of national transfers. During the period, Mr. Gatimu explained, the County had managed to collect Kshs. 2.54billion in addition to the Kshs. 2.78billion received from the national government. He added that the total commitment for employee costs amounted to Kshs. 3.48billion which was about 65.67% of the total revenues recognised during the period, further the total commitments for operations and maintenance amounted to Kshs. 711.6million and development expenditure amounted to Kshs 295.6million

On the reasons for below par revenue performance during the period, the Head of County Revenue said they had been occasioned by:

- a. Court cases on land rates which had led to a number of property owners stop paying the rates as per the Finance Act, 2013;
- a. Lack of faster way of enforcing payment of defaulters;
- b. Matatus and taxis invading parking bays due to court order.
- c. Legal cases on the increase in house rents in some estates;
- d. Delays in setting up of decentralization offices due to lack of enough human capacity and infrastructure; and
- e. Delay in implementation of devolved functions such as betting and control boards, weights and measures and liquor licensing.

He informed the members that the total cumulative development fund for the quarter was Kshs. 295m at 6.5% of total development expenditure. He decried the following issues as having been responsible for slow absorption of development funds:

- Delay in preparation of bills of quantities;
- Long procurement processes;
- Long periods of getting County executive expenditure approvals; and
- Cash flow constraints leading to delays in paying contractors.



Mr. Gatimu concluded by mentioning that huge wage bill and very high debts inherited from the former NCC continued to be a major challenge in realization of budgeted objectives.

*(See Annex 2 for the detailed presentation)*

**Analysis of 2<sup>nd</sup> Quarter Report on Revenue and Expenditure FY 2014/2015- Mr. Erick Otieno, Fiscal Analyst (Nairobi City County Assembly Budget Office)**

Mr. Otieno while noting that the report had been rightly prepared pursuant to the provisions of Section 166 of the Public Finance Management Act, 2012 indicated that the quoted Section required that such report contains the financial and non-financial performance of the county government and be in a form determined by the Accounting Standards Board (ASB). He observed that the report did not contain non-financial statements as anticipated in the law but however added that it was not clear how far the report had complied with guidelines of the ASB since the guidelines were not publicly available. On how to accommodate the Kshs. 340,191,382 the Analyst proposed that the County Treasury needed to present a Supplementary Budget to appropriate the amount.

In comparison, he observed that the revenue collection during the period was low but nonetheless still slightly higher than the over Kshs.1.9billion collected during a similar period in 2013/14 representing growth of 29%. Mr. Otieno picked out the following as the revenue streams that were performing way below the intended targets:

- i. Pumwani Maternity Hospital which had only collected Kshs.3.6million out of a target of Kshs.140million. He urged Members to determine the effects of free maternal health on the revenue source;
- ii. Building Occupational Certificate which had only realised Kshs.216,220 out of Kshs.20,000,000;
- iii. Council Premises Annual Rent which had only netted 6% of the Kshs.20million target implying that many city residents were defaulting on payment of their annual rent

On the other hand the Fiscal Analyst identified the following as revenues that had surpassed their targets:

- i. Zebra Crossing under Inspectorate at 95%;
- ii. Garbage/Tip Charges which collected Kshs.33million collected which was way above the budgeted Kshs.14million; and

- iii. Hording/Encroachment fees, Kshs.1.4million realized against a target of Kshs.100,000

The Fiscal Analysis office made the following further observations

- i. Most revenue targets were performing way below the targets;
  - ii. There were legality issues on implementing revenues not contained in the Finance Act, 2013;
  - iii. There needed to be an urgent supplementary budget to capture the mismatches;
  - iv. The report was detailed in its expenditure returns and had elaborated the exact development projects undertaken in the 2 quarters but:
    - There was still very low absorption of development funds and some of the expenditures needed to be explained like Kshs.9.3million used in the Second Quarter for Development of CIDP,CBROP yet the CIDP was submitted to the Assembly in July(Quarter 1)
    - Further some development projects undertaken not in the approved budget like CCTV in cash office.
  - v. The report lacked details of how much money had been swept to the County Revenue Fund in line with Section 109 PFM Act, 2012;
  - vi. The report did not indicate the prioritization criteria in sharing of revenue among various departments;
  - vii. The report lacked details of debt repayments and statutory deductions as well as details of any borrowing
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- i. On the future outlook the Budget Office informed Members that unless drastic policy changes were made then following held true: It would be impossible to achieve the revenue targets. He pointed out that in 2013/14 the County collected a total of Kshs 9.9billion representing a growth of 25% so assuming similar growth margin, only 13billion may be collected in 2014/15 creating budget deficit of Kshs.4billion;
  - ii. The County may end up spending less than 10% in development in the FY 2014/15 which is contrary to the fiscal responsibility principles that require the amount to total 30% over the medium term. The analysis office pointed out that unless more emphasis is put in development the County may end up like any other consumer of public funds as high wages would continue to limit the amount available for discretionary expenditures. Mr. Otieno suggested that it



was time the CECM-F submitted regulations on county government wages as required by section 107 ( c) of the PFM Act,2012 The Analysis Office observed that with borrowing still a possibility in the current FY the level of indebtedness of the county would increase even further and the request to borrow Kshs.4billion if approved would shoot the county's debt portfolio higher. In this regard he advised that the 2015 Debt Management Strategy Paper needed to contain clear debt management strategies and debt ceilings. The analyst concluded by informing the plenary that it was important that the level of compliance to Section 109 of the PFM be enhanced and failure subjected to necessary sanctions.

The following issues were raised during plenary:

- i. Members asked the County Treasury to consider working hand in hand with the County Assembly Fiscal Analysts in preparation of documents to improve their quality and compliance with the law; Members were unconvinced of the explanations pertaining to low absorption of development funds. It was their view that officers entrusted with the responsibility of fast-tracking development needed to be put in performance contracts as a way of improving service delivery;
- ii. Members wanted to know why despite the incessant cry over sky-rocketing wage, there persisted continuous hiring in the County. The County Treasury explained that devolution had created new functions in addition to the earlier existing ones and these needed officers to implement;
- iii. Questions were raised on the exact amounts which had been swept into the County Revenue Fund in compliance to the provisions of Section 109 of the PFM Act, 2012. The CECM-F informed Members that whereas they had not come with the exact figures, the County Treasury had instituted measures to ensure that all monies were swept into the County Revenue Fund;
- iv. Members raised concerns over the County Executive's apparent expenditure on non-budgeted items. This they noted was unacceptable and could not be entertained; and
- v. Members inquired from the Head of County Revenue on the measures his office had put in place to expand the revenue basket.. The Head of County Revenue informed the Committee that use of technology in revenue collection was a major advancement which would seal most revenue leakages as well increase efficiency.



**TOPIC 2: PRESENTATION ON THE ROLLING OUT OF JAMBOPAY -  
Mr.Luke Gatimu (Head of County Revenue)**

Mr. Gatimu started by informing Members that Jambo pay had been implemented across several services in the County including collection of parking fees

In addition he said there were a number of areas where they would soon roll out e-payment system and these included e-constructions and ad-manager.. On the problems that had faced the e-payment system, he told the meeting that there was lack of awareness by many customers and enforcement challenges posed by non-conversant officers. To address the above Mr. Gatimu stated that his office was working hand in hand with other sectors to train all the officers. Further he pointed out that the county aimed to decentralize its revenue to sub counties in effort to decongest the City Hall Cash Office.

*(See Annex 2 for the detailed presentation)*

The following issues were raised during plenary:

- i. Members informed the County Treasury that many city motorists were reluctant to use the USSD code as they argued it was slow and consumed a lot of credit thereby pushing the cost of the transactions high. The Head of County Revenue noted this as a real challenge and admitted that to address the problem negotiations were under way to provide a specific USSD for Jambo pay which would reduce the transaction charges to Kshs.2.
- ii. The committee members wanted to be informed whether the revenue management of the county had been transferred to Jambo they were informed by Mr.Gatimu that Jambo only provided the platform but the management of County revenues was exclusively the work of the County Government.
- iii. Members wanted to be informed if there was any substantial improvement since the inception of the Jambo pay system. The Revenue Officer explained that the system, having gone through its debutant challenges, was fully operational and had increased the revenue inflows substantially. For, example it was noted that whereas amounts collected for Single Business Permits in the FY 2013/2014 amounted to Kshs.510.6million thus far the County had attained Kshs.787million in only half a year.



- iv. The committee questioned issues that the system were slow some times during peak hours and that the attendants ran out of float and data bundle, they were informed by the revenue officer system was examining ways of handling the peak hours, the float problems were solved and the service provider has provided an limited data bundle to avoid float shortages

### **TOPIC 3: DISCUSSION ON THE IMPLEMENTATION STATUS OF BURSARIES:Ms. Nancy Kiruri- Head of County Treasury(Budgeting)**

Ms. Nancy informed the Members that there were 60 bursaries files have being received out of which cheques had been drawn in favor of 40files. However, it was her undertaking on behalf of the County Treasury that they were working tirelessly to ensure that the remaining files were dispensed with. It was agreed that all signed cheques which were lying in Room 10 be paid by Thursday the following week.

### **TOPIC 4: DISSEMINATION OF THE DRAFT DEBT MANAGEMENT STRATEGY PAPER FOR FINANCIAL YEAR 2014/2015- Mr. Gregory Mwakanongo- CECM for Finance**

The County Executive Member commenced by reiterating the commitment of the Governor and his entire administration to solving the debt problem that was chocking the County. He stated that such debts included loans from commercial banks, overdrafts, unremitted staff statutory deductions and other creditors which included unpaid staff arrears and suppliers for goods and services. Mr.Mwakanongo went ahead to single out the implementation of the workers Collective Bargaining Agreement as one major enemy to the reduction of the wage bill. With no similar growth in revenues, the Executive Committee Member lamented it would be almost impossible to halt the County's progression to more indebtedness.

On the County Debt Management Strategy Paper (DMSP) the CECM informed Members that its primary objective was to ensure that the County Governments financial requirements were met at the least cost with prudent degree of risk. In this regard, he was quick to point out the commitment of his sector towards ensuring that the public debt did not act as a deterrent to the realization of the aspirations of budgeting.

The CECM stated that large proportion of Nairobi County debt is owed to national government, commercial banks, statutory creditors and merchants. Further he told the



meeting that the amounts of outstanding county debt was estimated at Kshs 26billion excluding the contingent liabilities which amounted to Kshs19billion. He reported that the 2014 DMSP would guide the County Government debt management operations in the 2014/2015. To this conclusion the strategy sought to balance cost and risk of public borrowing while taking into account County Government financial needs. In addition, the strategy incorporated initiatives to seek new sources of funding, support macroeconomic stability and achieve debt sustainability.

Mr. Mwakanongo told the Members that the total debt portfolio as at 30<sup>th</sup> September 2014 was Kshs.26 billion which was almost equal the total budget for the year 2014/2015. This figure, he clarified, had excluded disputed loans advanced to the defunct City Council of Nairobi by the Local Government Loans Authority (LGLA) and other Government guaranteed loans amounting to almost Kshs. 19billion, making the total debt portfolio equal Kshs.45 billion. The CECM clarified that the National Government Guaranteed loans were the loans taken by the Council in the 1970s from the World Bank to finance the water infrastructure. He stated that those loans had remained subserviced for long and the reforms in the water sector saw the creation of other water service providers and the assets taken over by the water company and the Athi Water Services Board.

In his presentation he explained that on the external front, the County had not been able to access external financing due to the poor credit rating. In addition and owing to the short term nature of debts the County was faced with many risks in terms of high interest rates on commercial loans and overdrafts and undue pressure to pay these short term creditors. This he said had in effect made the Counties' liquidity and service delivery very shaky.

On the strategies that the County would aim to employ the CECM informed Members that they would pursue debt rescheduling, external borrowing, borrowing from money and capital market, debt/asset swaps and debt write offs.

*(See Annex 2 for the detailed presentation)*

## **WAY-FORWARD**

The following were agreed upon as way forward:

- i. That the Committee be briefed as often as possible on the sweeping of revenue to the County Revenue Fund;
- ii. That any future budgets must be realistic and all development projects contained attainable; and
- iii. The County Treasury undertook to present pieces of legislations to ease revenue collection to the Assembly for consideration;

## **CONCLUDING REMARKS**

The Chair thanked Members of the Committee for their due diligence in scrutinising the reports and thanked the County Treasury for having organized the workshop. It was his submission that such deliberations were critical especially then that the budget making process for the next financial year had started and the role of cooperation in the new dispensation could not be wished away. On his part the CECM Finance stated the commitment of his office towards ensuring that County Assembly and the Committee remain alert watchdogs of expenditure and budget implementation. He assured the members that the County treasury would be most available for any such encounters to discuss matters that could be of great impact to the functioning of Nairobi County.



## **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. Bernadette Wangui, MCA
19. Hon. Maurice Akuk, MCA

#### **OFFICERS FROM THE COUNTY TREASURY**

<b><u>NAME</u></b>	<b><u>DESIGNATION</u></b>
Mr. Gregory Mwakanongo	CECM- Finance
Ms. Nancy Kiruri	Head of County Treasury (Budgeting)
Mr. Luke Gatimu	Head of County Revenue.
Mr. Kefa Omanga	Director, Economic Planning
Mr. Andrew Kigen	Economist

#### **STAFF OF THE COUNTY ASSEMBLY**

1. Mr. Fred Macharia Senior Finance Officer

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| 2. Mr. Erick Otieno  | Fiscal Analyst/Clerk Assistant to BAC |
| 3. Mr. Alphonse Ouma | Fiscal Analyst                        |
| 4. Mr. Moses Senator | Fiscal analyst                        |



## ANNEX 2: PRESENTATIONS