by Hon. Oganda: Ndori PCA (L&P)

COUNTY GOVERNMENT OF NAIROBI CITY

NAIROBI CITY COUNTY ASSEMBLY

REPORT OF THE WORKSHOP HELD BETWEEN MEMBERS OF THE BUDGET AND APPROPRIATIONS COMMITTEE AND OFFICERS FROM THE COUNTY TREASURY

ON

THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER AND THE 1ST QUARTER REVENUES AND EXPENDITURES RETURNS

Thursday 4th – Sunday 7th December 2014

Lukenya Getaway,Machakos County, Kenya

BACKGROUND INFORMATION

There is no shortage of legal provisions that demand for openness and clear reporting on the management of public finances in ministries, departments and agencies. One such way of injecting life into these statutory requirements is by production of reports that detail the extent of budget performance for County Governments with respect to any given period. Pursuant the provisions of Section 166 of the Public Finance Management (PFM) Act 2012, the County Treasury submitted to the County Assembly the 1st Quarter Revenue and Expenditure Returns covering the period between July and September 2014. Further in accordance to the requirements of Section 118 of the same Act, the Treasury did present the County Budget Review and Outlook Paper (CBROP) for the FY 2013/14.

Having been tabled in the County Assembly, they stood committed to the Budget and Appropriations Committee for consideration in line with the Assembly Standing Orders.

To enlighten the Committee on the contents on these two critical budget documents, the County Treasury organized for a three day retreat at the Lukenya Getaway, Machakos County.

The objectives of the workshop were to among others: -

i. Accord the County Treasury the opportunity to highlight to the Committee how the budget was implemented in the first Quarter of the financial year 2014/15;
ii. Discuss the achievements as well as challenges experienced in rolling out the budget for the previous financial year;
iii. Agree on the way forward with regard to any identified areas of concern and shortcomings in the two reports;
iv. Any other matters arising thereof.

OFFICIAL OPENING AND INTRODUCTORY REMARKS: Hon. Michael Ogada- Chair (Budget and Appropriations Committee)

The Chair began by thanking Members for having been available to attend the meeting despite the many other engagements that they were required to attend during the period. He noted that such commitment to the work of the Committee was of utmost importance towards ensuring that the Committee remains an alert watchdog of how the County entities were living within the confines of public finance legislations. Having invited those present for a round of introductions, the Chair welcomed the Head of County Revenue, Mr. Luke Gatimu, to make his remarks.

On his introductory remarks, the Head of County Revenue (HCR) emphasized the untiring desire of the County Treasury to all times remain worthy partners with the County Assembly towards ensuring that the residents of Nairobi experience the positivity of devolution. In this undertaking, he pointed out that the County Executive Committee Member for Finance was not only a committed but also a trustworthy leader. He nonetheless, presented the apologies of the County Executive Committee Member for Finance who he said would have wished to be present but was engaged in some pressing assignments.

1.0 TOPIC 1: DISCUSSION ON THE 1ST QUARTER REPORT ON REVENUES AND EXPENDITURES SESSION CHAIR: HON. PETRONILLA NAFULA, MCA.

The Session Chair briefed Members on the expected output of the session which she noted was aimed at providing the Committee with an overview of how the County had performed in the first three months of the continuing financial year. In this regard, she welcomed the HCR to highlight to Members the key areas of interest to the Committee as contained in the Report on 1st Quarter Revenues and Expenditure Returns.

1.1. Presentation on the Revenue and Expenditure Returns- Mr. Luke Gatimu(Head of County Revenue)

The Head of County Revenue began his presentation on the returns by informing Members that the total revenues that had been received in the first quarter equalled Kshs.4.2 billion out of which Kshs.1.78billion had been raised from internal sources whereas Kshs. 2.4billion was direct disbursement from the national government. On expenditure side, the Head of County Revenue highlighted that the County had utilised Kshs. 4.3billion for recurrent expenses and Kshs. 276million for development initiatives. In addition, the County spent Kshs333 million on debt repayment,Kshs13.5 million on Hospitality, Kshs.101.7million on Conference, Kshs.103.3million on Domestic and Foreign Travel, Kshs36.3 million on training, Kshs.45.05million on MCA sittings and Kshs.145 million on other Operating Expenses.

He went ahead to point out to members that as required by Section 109 of the PFM Act, 2012, the County had managed to sweep a total of Kshs. 132million to the County Revenue Fund. He concluded his submission by stating that the County had account receivable amounting to Kshs.105 million with almost 60% being accumulated by private property. On liabilities, he said that the total amount owed to creditors was ballooning at Kshs. 39billion.

1.2. Analysis of the Revenue and Expenditure Returns -Mr. Erick Otieno (Fiscal Analyst)-Nairobi City County Assembly Budget Office

The Session Chair commended the County Assembly for having considered the import of recruiting analysts to help the Committee, Members and the Assembly in general to digest the many budget documents that they would be required to dispense with. She invited the Fiscal Analyst to present to the Committee the salient issues the Office had identified on its scrutiny of the document.

The Analyst in his initial remarks informed the Members that the County Assembly Service Board had recruited competent officers who with necessary on the job-training and constant learning would be important in ensuring proper financial management. On the report under review, the fiscal analyst reminded the Committee that the report had been submitted in line with the provisions of Section 166 of the PFM Act, 2012. Under these provisions, he noted, that the report was required to contain non-financial indicators of the County Government among others. He went ahead to point out that whereas some revenue sectors had performed exceptionally well some sectors where not contributing substantial amounts. The following additional salient issues were identified by the Fiscal Analyst:

- *Slow absorption rate of development funds*: The Analyst informed the meeting that there was still a very meagre utilisation of development funds at slightly about 2.94% of the total budget in the first three months of the FY 2014/15. This he emphasized would have the net impact of limiting the total amount of development that could be realised over the year;
- *Misreporting of National Share of Revenue*: It was noted that that whereas the County was projected to receive Kshs. 11,340,000,000 as part of its national share (a figure contained in the County Allocation of Revenue Act, 2014) the 1st Quarter Report only captured Kshs. 11billion. The Analyst was categorical that Kshs. 340million was a huge amount to leave out of the County's budget framework and there needed to be a proper outline on how the amounts would be utilised given that the budget was already balanced without the difference;
- High absorption rate for the foreign travel within the first quarter for the County Assembly up to 40% of the allocated budget for the FY. The Budget Office was concerned that the County Assembly had utilised over 40% of the total amounts that had been allocated for foreign travel under the County

Assembly and implored on the Committee to seek answers on how the remaining amount would be spread out over the following nine months;

- *Accounts Receivables vs. Liabilities*: It was the submission of the Fiscal Analyst it was important to cancel out debts owned institutions that also owed the County some amounts. In this bracket, the analyst highlighted the case of Kenya Power which owed the County Kshs. 497million whereas the electricity company was owed Kshs. 519million. It was the recommendation of the Budget Office that the terms of these debts needed to be renegotiated so as to contain the County's debt portfolio;
- *Revenue vs. Expenditure Mismatch*: The Fiscal Analyst said it was difficult to comprehend how the County received only Kshs.3.199billion in revenues and ended up spending Kshs4.617billion leading to an over-expenditure of Kshs. 1.417billion;
- *Sweeping Revenue to the County Revenue Fund*: The Budget Office noted with concern that despite the previous agreements to sweep all internal revenues to the County Revenue Fund as anticipated in the PFM Act, 2012, the County was still doing very poorly in that area. Out of the total internal revenue of Ksh.1.78billion collected in the first quarter only Kshs.132million was swept to the revenue account; and
- *Government Guaranteed Loans repayment plan*: The Analyst informed the meeting that whereas the report had detailed that the Government guaranteed loans stood at Kshs. 3.8billion it was in public domain that the National Government had made strides in repayment of some of the loans that they buffered for the defunct City Council of Nairobi. He emphasized the need for the County to determine the exact types and absolute amounts of loans which were outstanding to avoid running the risk of double payment.

1.3. <u>The following issues were raised during plenary:</u>

The Committee Members appreciated the work of the County Budget Office towards bringing the salient issues out for the Committee to act appropriately. In addition and in furtherance of the issues raised by the Budget Office, the Committee Members raised the following issues and the responses were as indicated:

- **Over expenditure by the County** - The Committee was concerned that the County spending more than revenues collected was an alarming concern that needed a concise explanation. The Head of County Revenue explained that revenue-expenditure discrepancies had been occasioned by late payments and statutory debts that were serviced daily and loans deducted at source and late disbursement by Government;

- **Amount swept to County Revenue Fund** - The Committee sought answers on why the County was finding it difficult to sweep revenue to the County Revenue Fund. The Committee was categorical that there were clear guidelines from the Controller of Budget on how to swipe such revenue and any sanctions for non-compliance thereof. While acknowledging that there had not been strict adherence to the law, the Head of County Revenue explained that it was caused by mandatory daily repayment of statutory debtors. This reasoning was strongly opposed by the Committee which insisted that the County Executive to ensure that all monies are remitted to the CRF as required by the law. This they said had to be undertaken forthwith failure to which the Committee would be recommending the line officers to face the necessary disciplinary action;
- **Low collection of revenues** - The Committee sought clarification on whether the County was collecting revenues at the optimum level. The County Treasury confirmed that there had been sub-optimal revenue inflows. It was explained that low collection occurred in some sectors due to introduction of new revenue heads like hospitals where the County Treasury had not yet developed a system to identify and collect revenues;
- **E- Parking** - The Committee questioned the performance of parking fees collection since the introduction of the e-parking. It was alleged that the County was reluctant to honour the contract between it and Jambopay. This, the Committee was of the view, would further plunge the County into more debt. The HCR told the Committee that the difficulties were unavoidable due to the change from old manual system which sent shock waves arising from resistance by some parking fee attendants and some county residents. Concerning payments, the officer assured the Committee that settlements were being done through pay on account as the contract was being renegotiated from a commission of 4.5% which he said had been based on potential use of database down to 1.25% because the County was bound to use the software and not the database;
- **E-Transaction bank account-** The Committee wanted to know who operated the account where the E-parking money was deposited with concerns that it was a private account. Members were informed that revenue collected through garget went directly to County account with that collected through offshore method being deposited daily to the County account. The Executive

was nonetheless categorical that the accounts were wholly owned and operated by the County Government;

- **Development projects** - Members were concerned that the report had not detailed the exact development projects which had been undertaken during the period under consideration. It was the opinion of the Members that all the figures contained in the report needed to be accompanied by authenticating documents. In this regard it was agreed that the County Treasury submits to the Committee the list of development projects thus far accomplished and other accompanying details;
- **Inconsistency on the County's National Share of Revenue** -The Committee enquired from the Head of County Revenue reasons as to why the County Treasury had omitted from its report in excess of Kshs. 340million from the National kitty. The County Executive Official regretted the error and assured the Committee that the amount would be incorporated in the budget books. The Committee directed the County Treasury to submit to the Assembly, in the appropriate time, a supplementary budget covering the amount.

2.0. TOPIC 2: DISCUSSION ON THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER 2014/2015

The Chair reminded members of the input of the County Budget Review and Outlook Paper (CBROP) on the overall budget process. This he noted was to provide insight into the fiscal performance in respect of any financial year under review as well as document reasons for such performances. He quoted the provisions of Section 118 of the PFM Act, 2012 which he pointed out had set out the contents and purpose of the paper. Having made his initial remarks, the Chair invited the Director of Economic Planning in the County Treasury to take Members through the contents of the CBROP 2014/15.

2.1. Presentation on the County Budget Review and Outlook Paper 2014/2015 (Kefa Omanga- Director, Economic Planning)

The Director started his dissemination of the contents of the paper by informing Members that the revenue collection for the financial year ended had been lower than the target by over 23% at Kshs. 17.77billion out of a revised target of Kshs. 22.36billion. This he noted had been partly caused by unreliable rates records, low selections on Single Business Permits and inefficient collection of parking fees. In addition, the Economist highlighted the following for the FY 2013/14:

- Only Kshs. 1.967billion was spent on development compared to revised budget of Kshs. 4.669billion;

- Rise in some debt heads including:
  - KRA debt rose from Kshs. 594million in June 2013 to Kshs. 1.87billion in June 2014;
  - Suppliers amount grew from Kshs. 857million in June 2013 to Kshs. 2.4billion in June 2014; and
  - Over the period the total debt reduced by only Kshs.100million from Kshs. 14.9billion in June 2013 to Kshs. 14.8billion in June 2014 against a budgetary allocation of Kshs. 2.7billion
- Amount owed to the County remained high at Kshs. 96.61billion

2.2. Analysis of the County Budget Review and Outlook Paper -Mr. Erick Otieno (Fiscal Analyst)-Nairobi City County Assembly Budget Office

The Chair invited the County Budget Office to present its independent analysis of the Paper. The Fiscal Analyst started by noting that the Paper had largely lived up to the expectations of Section 118 of the PFM Act, 2012. That notwithstanding, he mentioned these as salient issues in the report that needed to be addressed:

- *Inconsistency on the Equity Loan*: It was identified that different County Treasury documents were presenting varying amounts of the loan owed to Equity Bank at the time. For example whereas the CBROP contained the loan at Kshs. 2.974billion as at June 2014, unrelated correspondence to the Assembly on the transfer of the loan stated that the amount transferred in August 2014 equaled Kshs. 3.060billion. The Analyst was hard pressed to understand why the figure was not coming down over the duration;

- *Focus on National Variables*: The Analyst said the paper had greatly focused on national macroeconomic variables that don't directly relate to the County like the rate of inflation, account balances among others. He decried the inability of the County Treasury to domesticate these national variables to fit within the realities of the County;

- *Highlighting Development Projects not undertaken by the County*: Whereas the Paper had done well to point out development projects that had been launched by the County Government over the past year, the fiscal analyst was concerned that the paper also detailed projects that had been undertaken by the National Government as achievements of the County. One such is the Upgrading of the Thika Superhighway which was funded by the National Government in partnership with the African Development Bank;

- *The Paper did not provide details of how the County had managed to make taxation easy and efficient*; and

- *The analyst was keen to clarify that the risks to the Outlook were okay but advised that in future such papers needed to avoid documenting risks that occur to national government like current account deficits*

In conclusion, the Fiscal Analyst reiterated that whereas the CBROP had been prepared in cognizance of the law, the identified inconsistencies in the fiscal performance and economic development sections needed to be addressed in any future budget reviews to make the document customized to the realities of Nairobi County.

2.3. <u>The following issues were raised during plenary:</u>

The Members raised the following issues in regard to the Paper in addition to the issues raised by the Budget Office;

- **Development projects:** The Committee was concerned that there had been no authenticating documents concerning development projects undertaken over the previous year. The Economist assured the Committee that plans were under way to inspect and authenticate the completed and ongoing projects;
- **Low phase of absorption of budget by the county sectors.** It was the view of the Committee that the absorption rate for development funds was alarmingly low. While agreeing with this observation, the Economist informed Members that the issue was being discussed with the relevant departments and that the Committee would be kept on the loop on any upcoming developments; and
- **Ballooning liabilities.** The Committee commended the commitment of the County Treasury in ensuring that NHIF funds were cleared and insisted that other debts pertaining statutory bodies to be handled hastily.

3.0. <u>WAY FORWARD ON THE TWO DOCUMENTS</u>

With regard to the two documents and any related matters thereof, the following were agreed upon as way forward:

- That to conclusively address the issue of sweeping monies into the County Revenue Fund, an ad-hoc consultative meeting to be held over the matter bringing together the CECM for Finance, Heads of County Treasury, Chief Finance Officer and the County Secretary. Otherwise it was resolved that henceforth ALL monies be swept into the County Revenue Fund without fail;
- The Committee and the County Executive agreed to hold a meeting with Jambopay to address all the contractual challenges;

- The Committee urged the County Treasury to enter into negotiations with Kenya power as a way of addressing possibilities of cancelling out the debts; and
- The Committee resolved to hold a meeting with the Ward Development Fund Committee and all other related stakeholders to come up with solutions on how best to roll out the fund.

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