

COUNTY GOVERNMENT OF NAIROBI CITY



NAIROBI CITY COUNTY ASSEMBLY

SECOND ASSEMBLY – SECOND SESSION

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FOURTH REPORT OF THE SELECT COMMITTEE ON FINANCE, BUDGET AND  
APPROPRIATIONS

ON

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THE NAIROBI CITY COUNTY FISCAL STRATEGY PAPER AND THE DEBT MANAGEMENT  
STRATEGY PAPER FOR THE FY 2018-19 AND OVER THE MEDIUM TERM

APRIL 2018

Paper Laid  
on  
18<sup>th</sup> April, 2018  
@ 2.30pm  
S/CA  
18/4/2018

## I. PREAMBLE

Madam Speaker,

The provisions of Section 117 (1) of the Public Finance Management (PFM) Act 2012 require that the County Treasury submits to this Chamber the County Fiscal Strategy Paper (CFSP) by the 28<sup>th</sup> day of February in each year. The CFSP is a policy document that provides a transition path from the Plans that were approved by County Assembly to the annual financial estimates that should be presented by the end of this month. The import of the CFSP is that it specifies 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. In addition the Paper also attempts to explain and forecast the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year.

Whereas the CFSP is expected to contain aspects of any County borrowing over the coming financial year, the provisions of Section 123 (1) of the Act require that on the same date that the County Government submits the CFSP it also communicates to the Assembly the debt management strategies for the medium term. In this regard the underpinning law requires that the submitted Debt Management Strategy Paper (DMSP) be aligned to the CFSP by stating the County's past, present and future debt portfolios. The law also dictates that the DMSP provides information on the details of any loans acquired by the County Government and details on how the County intends to deal with the same over the medium term. It is in line with these provisions that the County Treasury submitted to the County Assembly the CFSP and the DMSP for approval.

The CFSP and the DMSP for the FY 2018-19 were tabled in the County Assembly on the 1<sup>st</sup> day of March 2018. Members may recall that prior to this, in February 2018; the County Assembly had been seized with the Annual Development Plan for the FY 2018-19 and the County Integrated Development Plan 2018-22. And on the same date that the two papers were laid in the Assembly the County Assembly also received the Supplementary Estimates for the FY 2017-18.

Having been laid, the papers stood committed to all the Sectoral Committees and the Budget Committee for consideration and reporting as per their respective mandates. The guiding legal principles of the PFM law require that when finalizing the consideration of any budget document, the Budget Committee shall consult the Sectoral Committees, members of the public and the County Executive Committee Member for Finance.

**Madam Speaker**, the provisions of Standing Order 221 (6) dictate that the County Assembly approval of the motion on this report presented by the Budget Committee constitutes the County Assembly resolution setting forth the total overall projected revenue, the ceilings recommended for the County Government, and County Assembly and where necessary, the total sums for each Vote and the allocations to individual programs for the fiscal year 2018-19. The law does not permit any discretion in implementing the resolutions of this Assembly as contained in this report.

**Madam Speaker**, the County Assembly Finance, Budget & Appropriations Committee comprises of the following 19 Members:

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|-------------------------------|-------------|
| 1. Hon. Robert Mbatia, MCA    | Chair       |
| 2. Hon. Patrick Karani, MCA   | Vice- Chair |
| 3. Hon. Michael Ogada, MCA    |             |
| 4. Hon. Osman Adow, MCA       |             |
| 5. Hon. Chege Mwaura, MCA     |             |
| 6. Hon. Anthony Ngaruiya, MCA |             |
| 7. Hon. Kariuki Wanjiru, MCA  |             |
| 8. Hon. J.M Komu, MCA         |             |
| 9. Hon. Paul Ndungu, MCA      |             |
| 10. Hon. James Kariuki, MCA   |             |
| 11. Hon. Susan Mukungu, MCA   |             |
| 12. Hon. Catherine Okoth, MCA |             |
| 13. Hon. Emily Oduor, MCA     |             |
| 14. Hon. Herman Azangu, MCA   |             |



15. Hon. Nancy Muthami, MCA
16. Hon. Elias Okumu, MCA
17. Hon. Peter Imwatok, MCA
18. Hon. Jane Muasya, MCA
19. Hon. Fredrick Okeyo, MCA

**Madam Speaker**, the Nairobi City County Assembly Finance, Budget and Appropriations Committee is constituted under the provisions of Standing Order 199 and mandated to:-

- i. investigate, inquire into and report on all matters related to coordination, control and monitoring of the of the county budget;
- ii. discuss and review the estimates and make recommendations to the County Assembly;
- iii. examine the County Fiscal Strategy Paper presented to the County Assembly;
- iv. examine Bills related to the county budget, including Appropriations Bills; and
- v. Evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlay.

#### **Examination of the County Fiscal Strategy Paper and the Debt Management Strategy Paper for the FY 2018-19**

**Madam Speaker**, as has been canvassed, the Papers were presented to the County Assembly at a time when the Committee was engaged in the process of scrutinizing the County marshal plan for the coming five years. Cognizant of the fact that the provisions of Section 104 of the County Government Act 2012 read together with the provisions of Section 125 of the PFM Act 2012 require that Planning precedes budgeting, the Budget Committee resolved to differ the consideration of these Papers awaiting the approval of the County Integrated Development Plan and the Annual Development Plan. The Committee wishes to assure this Assembly that it remains committed to abiding with the timelines provided in law and the unique challenges we faced this year as a result of the general elections should not be misconstrued as precedent setting.

**Madam Speaker**, this is the first CFSP and DMSP that the Second County Government of Nairobi City County has presented to this County Assembly for consideration and approval.

Members of the Committee note that whereas the budget process has been a monumental task more so because of the number of documents that it had to consider within very stringent timelines, it has learnt very valuable lessons on the County public finance management that it undertakes to put to use over the coming years.

The Papers represent the first policy documents that would roll out the preliminary aspects of the CIDP 2018-22 by providing very sound grounding for the ADP for the FY 2018-19. The Finance, Budget and Appropriations Committee has in this regard undertaken due diligence to ensure that the fiscal strategies contained in the two documents would put the County Government on the right development path.

In reviewing the FY 2018-19 County Fiscal Strategy Paper and the Debt Management Strategy Paper, the Committee held a total of five (5) sittings within and outside the County Assembly precincts. In these deliberations, the Committee received submissions from the County Executive Committee Member responsible for Finance, the Chairs of Sectoral Committees, the Clerk to the County Assembly and the public. The recommendations from the discussions have been sieved and included in this report.

### **Acknowledgment**

**Madam Speaker,** the Committee would wish to pay special tribute to the following:

- i. Members of the County Assembly who worked tirelessly to ensure that this onus task was completed within the stipulated time;
- ii. Officers from the County Executive who appeared before it for purposes of making their submissions;
- iii. Members of the public who honored their civic duty and participated in the public hearings held at Charter Hall on Monday 26<sup>th</sup> March 2018;
- iv. Offices of the Speaker and the Clerk for the support received as it discharged its mandate of scrutinizing the 2018 County Fiscal Strategy Paper and Debt Management Strategy Paper; and
- v. The County Assembly Fiscal Analysts who crystallized the content of the papers for both the Sectoral Committees and the Budget Committee.

Madam Speaker, it is therefore my pleasant duty and privilege, on behalf of the Finance, Budget & Appropriations Committee to table this report and recommend it to the Assembly for adoption.

Signed.....



Date.....

18/04/18

Hon. Robert Mbatia, MCA

Chairman: Finance, Budget and Appropriations Committee

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## II. SCRUTINY OF THE DEBT MANAGEMENT STRATEGY PAPER FOR THE FY 2018-19

1. **Madam Speaker**, the DMSP for the year 2018 indicates that that at the end of the financial 2016-17 the total stock of County debt stood at Kshs. 56.52billion. The reported figures represent an increase by about Kshs. 7billion from the amount reported as at 30<sup>th</sup> June 2016. The DMSP further reports that the unaudited financial statements had the debt figures at Kshs. 60.17billion as at 31<sup>st</sup> December 2017. The Committee in reviewing the DMSP notes that there is lack of consistency in the debt figures presented to the County Assembly. For example, the CFSP reports the total debt at 30.6.2017 as Kshs. 56.62billion while the DMSP has a figure of Kshs. 56.52billion. Even more discrepancies are noticed when the figures are compared with the quarterly reports which have been tabled in this County Assembly. The Budget Committee has insisted on the County Treasury to always confirm that reports submitted to this County Assembly are factually accurate.
2. **Madam Speaker**, the growth of public debt, the County Fiscal Strategy Paper asserts, is due to accrual of interest and penalties. Further the CFSP reports that the County's strained resources have over the years limited the amounts available for debt repayments thereby leading to growth of the amounts. The Committee notes that unless there is deliberate effort to reverse the worrying trend of the debt expansion the County would soon be facing a debt overhang. Debt overhang refers to sustained growth in the amount owed making the entity non- credit worthy. The Committee has been consistent in urging the County Treasury to revamp measures on how to settle financial commitments with commercial banks, timely remittance of amounts due to statutory creditors, ensuring that suppliers of goods and services are paid in line with approved budgets and procurement plans as well as limiting the pending contingent liabilities. The Committee agrees with the County Treasury that settlement of pending bills is of utmost importance but these efforts must be prudently managed to ensure that the same does not prejudice the long-term County's financial standing.
3. **Madam Speaker**, of note is that any efforts by the County Governments to clean up their books cannot succeed without the unwavering support of the National

Government. The defunct Transition Authority was tasked with the responsibility of profiling the debts owed to and by County Governments prior to setting in of the devolved systems of governments, a function they were not able to finalize. The residual functions of the Authority have been taken over by the Intergovernmental Relations Technical Committee (IGRTC). The Committee has agreed with the County Treasury on the need to keenly follow up the proceedings of this Committee with a view of ensuring that the County gets the comprehensive data on County debts.

4. On the other hand **Madam Speaker**, the amounts owed to the County Government have also been piling up at a fast rate. Whereas the DMSP tabled had no information on the amounts receivables the CFSP reports that amounts due to the County stood at over Kshs. 298.2billion as at 30.6.2017 being an increase from Kshs. 63.5billion as at 2013. The Committee was not convinced with the explanations given by the County Treasury on this unwarranted growth.
5. **Madam Speaker**, His Excellency the Governor has appointed a Committee on pending bills and the Committee urges the Pending Bills Committee to move with speed and ensure that Nairobi City County is credit worthy again. That notwithstanding, the Pending Bills Committee is alerted not to take the route which was chosen by the previous taskforce on pending bills whose findings were neither shared nor implemented. The Committee has urged the County Executive to ensure that the findings of the Pending Bills Committee are made public at the earliest opportunity. It is also the expectation of the Budget Committee that all efforts being made by various actors to sanitize the account receivables and payables in the County's financial records be included in the annual DMSP. The Committee once again reminds this Chamber that the principles of Public Finance enumerated in Article 201 of the Constitution of Kenya require among others responsible financial management and clarity in financial reporting. This in effect implies that the public should at very least get value for money for every activity in which public funds have been expended. The Committee commends the Governor for the bold step he has taken and assures him of undiluted support. In this regard the Committee recommends that the operations of the Pending Bills Committee be included in the County's fiscal disposition.



6. **Madam Speaker,** the County intends to continue implementing some of the strategies first documented in the FY 2015-16 as ways of managing the County debt. The initiatives include reforms in establishment of fiscal, legal, institutional and operational framework to strengthen issues of debt management. To achieve these, the County planned to pursue debt rescheduling, external borrowing, borrowing from money and capital markets, debt/asset swap and debt write-offs as possible strategies of curtailing the growth of public debt and alternative financing. In addition to the above, the County has introduced new measures aimed at cleaning the County debt records. Going forward, the County has undertaken to thoroughly verify arrears, increase budgetary allocation for debt repayment, upscale capacity of the County to handle its legal matters, engage in public-private partnerships, enhance revenue collection among others. The Committee urges the new administration to zealously implement these strategies.

7. **Madam Speaker,** the Finance, Budget and Appropriations Committee in the First Assembly made a conscious decision to review the Debt Management Strategy Paper alongside the County Fiscal Strategy Paper to enable it to have a holistic view of the budget projects and any future financing plans. Continuing with this resolution, the Committee notes that the DMSP has been underpinned on the County Fiscal Strategy Paper for the FY 2018-19 and the fiscal responsibility principles in the two papers are consistent.

### III. SCRUTINY OF THE COUNTY FISCAL STRATEGY PAPER FOR THE FY 2018-19

#### 3.1. INTRODUCTION

8. **Madam Speaker**, the provisions of Standing Order 221 require that the report of the Budget Committee on the County Fiscal Strategy Paper contains a schedule of overall projected revenue and ceilings recommended for the County Government, and County Assembly and where necessary the total sums of each Vote and the allocations for each programme for the fiscal year in question. It therefore goes without saying that this County Assembly remains the umpire between various actors in the County Government on total the allocation of resources.
9. **Madam Speaker**, in compiling the strategies and priorities to be contained in the CFSP the County Treasury is expected to take into account the views of the Commission on Revenue Allocation, the National Treasury, members of the public among other relevant stakeholders. These consultations are meant to ensure that the County has sound fiscal projections and reasonable strategies for implementation of the budget. **Madam Speaker**, relying on the submitted information the Committee cannot guarantee to what extent this provision of the law was complied with.
10. **Madam Speaker** , the provisions of Section 117 of the Public Finance Management Act, 2012 outlines the contents of the CFSP which in summary include:
  - Specification of the broad strategies and policy goals that will guide in budget preparation;
  - Financial outlook with respect to county government revenues, expenditures and borrowing for the next financial year and the medium term;
  - The total resources to be allocated to individual programmes and projects within the various sectors in the County;
  - The proposed expenditure ceilings for the two arms of government; and
  - Financial outlook with respect to county government borrowing



11. **Madam Speaker**, the presented County Fiscal Strategy Paper for the FY 2018/19 is divided into five parts. Chapter I of the CFSP provides background information on the County Government with specific emphasis on the legal underpinning for preparation of the CFSP, the recent economic development that have informed the County budget performance, the macroeconomic indicators that explain that performance as well the achievements that various sectors realized over the previous financial years. Chapter II of the Paper provides a review of various policy issues that influence the County Government's financial environment. These include the national growth parameters, internal revenue sources, payroll costs, asset management, debt and debt repayment. Chapter III enumerates the County Government's policy direction that will be employed to achieve the medium term outlook. There is a detailed discussion on the strategies that the County Government would employ to expand revenues and measures to contain recurrent expenditure. Chapter IV documents the budget priorities for the FY 2018-19 with information provided on the expected revenue outturn, expenditure projections, the priority areas for the various Sectors and the maximum resources each of the sectors is expected to utilize to achieve the strategic priorities (budget ceilings for the FY 2018-19). Chapter V of the Paper provides a brief on the implementation of the fiscal responsibility principles and the fiscal risks that are associated with the presented outlook.

### 3.2. REVIEW OF COMPLIANCE OF THE COUNTY FICAL STRATEGY PAPER 2018-19 TO THE PREVAILING LEGISLATION

12. **Madam Speaker**, the Budget Committee has over time encouraged the County Treasury to apply bottom-up approach to budgeting and top-down approach to resource allocations. The Committee once again wishes to point out that the CFSP submitted to the County Assembly should be a result of Sector resource bidding which should consider the unique requirements for all spending units. The law requires that the County Treasury through the County Executive Committee Member for Finance should only submit the CFSP to the County Assembly once it has been approved by the County Executive Committee. This therefore means that all Sectors through their County Executive Committee Members should not only own the Paper but should also believe

in the realism of the revenue targets, expenditure figures and sector ceilings. The Committee shall not tire in reminding all budget actors in the County Government that strict adherence to good budgeting practices does not have holidays and temporary reprieves.

13. **Madam Speaker**, the PFM Regulations which came to life in March 2015 set the stage for some shift in public finance management with most of the hurricane effects being felt at the County Government. Of note is that the regulations introduced provisions that appeared to limit the role of the County Assembly in budget making and approval. The Regulations among others require that the County Assembly total budget does not exceed the lower of seven percent of total county revenues or twice personnel emoluments and that the County Assembly to limit any amendments on the annual estimates to not more than 1% of the approved CFSP. The Committee continues to urge all stakeholders in the PFM arena to avoid any backdoor attempt to take away the autonomy of the devolved legislatures. That notwithstanding, the Committee appreciates the current legal environment and has undertaken to live within it. In this regard the Committee would be proposing that the County Assembly also approves the Sector projects, contained in Sectoral Committees' reports, for the coming financial year in addition to the sector strategies and ceilings proposed in the tabled CFSP.
14. **Madam Speaker**, the provisions of Article 201 of the Constitution advocate for open, transparent and accountable systems of financial management in government. The Constitution has opened the democratic space and cleared the way for public scrutiny of various institutions of governance. The CFSP 2018 has not detailed whether the County Government undertook public hearings in the process of coming up with the document and to what extent those views were taken to account. The Budget Circulars issued by the County Treasury have consistently underscored the need for the Sector Working Groups to identify and involve stakeholders throughout the budget process and 'information of their involvement documented'. In this regard therefore, it is the expectation of the Budget Committee that the County Treasury should have attached details of those who submitted their views, the views received and how they were incorporated in finalizing the CFSP. Once again, the Committee continues to reiterate



that all budget documents should contain submissions from all stakeholders and analysis on how the various views were incorporated.

15. **Madam Speaker**, the provisions of Section 117 of the PFM Act 2012 require that the CFSP be aligned to the broad national government priorities contained in the Budget Policy Statement (BPS). The National Government has set out a marshal plan on how to sort out with finality some of the challenges that have halted the Kenyan transition from a middle income to a developed economy. The Budget Policy Statement 2018 purposes to create jobs for the populace as a way of transforming lives. In this regard the National Government has undertaken to support value addition and raise share of manufacturing sector to GDP by 2022; enhance food and nutrition security to all Kenyans by 2022; provide universal health coverage and provide affordable and decent housing for all Kenyans. To achieve these, the BPS has identified that enhancement of the service delivery function through devolution would be an enabler to the realization of the Big Four economic plan.

### 3.3. BUDGET CEILINGS FOR THE FY 2018-19

16. **Madam Speaker**, the CFSP has documented the budget outlay for the County for the coming financial year by providing a guiding policy on expenditure, resource envelope, prioritization criteria for the FY 2018-19 and the allocations for the earmarked funds like Wards Development Fund, Emergency Fund and the rolling out of the bursaries fund.
17. **Madam Speaker**, in the FY 2018-19 the total County budget has been proposed for downward revision to Kshs. 33.57billion composed of Kshs. 22.95billion for recurrent and Kshs. 10.12billion for development expenditures. Further and as part of the above allocations, the County Treasury has proposed to allocate Kshs. 80million for emergency fund and Kshs. 13.833billion as employee costs including Kshs. 500million for Voluntary Early Retirement (VER). The total allocation for the Wards Development Fund is set at Kshs. 1.25billion being a reduction by over Kshs. 500million from the amounts contained in the FY 2017-18 supplementary budget estimates.

18. **Madam Speaker**, the Budget Committee has been vocal on pointing out that focus on expenditures without due diligence on how the budget is being funded is an exercise in futility. In the FY 2018-19 the total resource envelope is proposed at Kshs. 33.57billion composed of Kshs. 16.52billion from the National Share of revenue and Kshs. 17billion from internal sources of revenue. From the internal sources the County projects to net in Kshs. 4.6billion from the rate payers, harness Kshs. 2.97billion from parking fees, collect Kshs. 2.9billion from Single Business Permits while those interested in developing property are expected to inject Kshs. 1.47billion in terms of Building Permits into the County resource basket. The County Treasury presented to the Committee the fiscal strategies it wishes to employ in the coming financial year to ensure that these revenue figures are realized. Whereas the Committee is still not fully convinced on the figures and the strategies to realize the figures, it has given the County Treasury the benefit of doubt.
19. **Madam Speaker**, in this regard therefore, to ensure that the County Sector ceilings are realistic and within the most achievable resource envelope, the Committee would be making recommendations on the same to this House for adoption.

#### IV. SUBMISSION FROM MEMBERS OF THE PUBLIC

20. **Madam Speaker**, Members may recall that on Monday 26<sup>th</sup> March 2018 the Budget Committee undertook public hearings on the CFSP at Charter Hall. The following were some of the recommendations from the Members of the public: -
- i. **Maintain the development budget at 30% and above of the total budget as required by the PFM law** - the public urged the County Assembly to ensure that the development budget is allocated and spent as required by the law.
  - ii. **Ensure there is clear link between the County Plans, policies and the budget estimates.**
  - iii. **Provide information on the implementation of the budget**– the public requested the County to be apt in sharing information on implementation of the budget.



- iv. **Enact a comprehensive policy on the implementation of the Bursary Fund**– the Members of Public requested the County to fast-track the enactment of the bursary fund regulations.
- v. **Formulate Health Bill to allow hospitals to spend their collections at source** – the public notified the County Assembly of the need to comply with the provisions of Section 109 of the PFM Act 2012 and ensure that expenditure by hospitals is governed by law.
- vi. **Empower the people to engage in urban agriculture** – the Public pointed out that a percentage of Nairobi residents were capable of engaging in urban agriculture if fully enlightened and supported. The public called upon the County Assembly to enhance their extensions services support.
- vii. **Invest in environmental protection and sanitation by engaging the youth** – the Members of public raised concerns over neglect of the youth in matters of the environment protection and sanitation and called upon the County to change this trend.
- viii. **Improve waste management mechanisms**- The public noted that the efforts which had been put in place to clear the streets of garbage and waste refuse had not worked. They called upon the County to change tact.
- ix. **Implement the Wards Development Fund** – the Public urged the County to fully operationalize the Ward Development Funds to ignite fair and equitable development in the Wards.
- x. **Allocate funds for development and promotion of sports to create employment**– Members of Public complained that the County had put in place lackluster efforts towards supporting sports and sports related activities. The public called upon the County to develop statutes to improve sports by engaging youths to pursue careers in sports.
- xi. **Facilitate Community Based Organizations to support local communities.**
- xii. **Provide feedback mechanism for the MCAs to inform the public on the various issues expressed during public hearings**- The Public asked their ward representatives to be active in giving them information on the extent of the implementation of their submissions.

- xiii. **Have a realistic revenue figure in the FY 2018-19-** The public noted that over time the County had maintained unrealistic revenue figures and requested that trend be corrected.
- xiv. **Improve absorption of the development budget-** The County was urged to ensure that funds allocated to sectors are utilized for the intended purposes.
- xv. **County Government should invest in coaching single mothers on best parenting-** The residents from some parts of Nairobi City noted that single parenting was eroding the key morals that are enshrined in the institution of family. The County was urged to ensure that provide coaching classes for single mothers.
- xvi. **Invest in water distribution in the City-** The lack of water across the City was pointed out and the County encouraged to invest more resources in improving the County water infrastructure.
- xvii. **Repossess the grabbed Kayole Social Hall, Open Spaces in Kayole-** The residents of Kayole informed the County that the properties had been grabbed and requested the County to ensure they were retaken for public use.
- xviii. **Set up County Governance Youth Oversight Board-** The youths who attended the public hearings urged the County Government to urgently set up the Board as a way of ensuring that youth affairs are streamlined in the County operations.

## V. SUBMISSIONS FROM SECTORAL COMMITTEES

21. **Madam Speaker** the provisions of Standing Order 199 (6) guide on the procedure of scrutinizing the County Fiscal Strategy Paper once it has been tabled in the County Assembly. In this process, the Sectoral committees of the County Assembly have an integral duty of not only ensuring that the resources allocated to departments within their watch are sufficient for the intended sector priorities but also to confirm to this Assembly that there is value for money in all such endeavor. Further the Sectoral Committees are expected to validate the sector achievements and the viability of any mitigating measures. After considering the contents of paper in line with their respective mandates as outlined in our Standing Orders, the Committees are then required to submit their recommendations to the Finance, Budget and Appropriations Committee. In this regard, therefore the Budget Committee commends all those Sectoral Committees



who diligently reviewed their sector programmes, priorities and budget ceilings for the FY 2018-19.

22. The following were some of the recommendations of the Sectoral Committees:

a) Agriculture, Livestock and Fisheries Committee

- That Kshs. 100million be allocated for purchase of land for holding wandering animals that is becoming a menace in the County;
- That the multistorey gardening units be initiated in all informal settlements as part of smart technologies to improve food security; and
- That the recurrent ceilings for the Sector be revised from Kshs. 459,750,231 to Kshs. 736,750,231 and the development ceilings be revised from Kshs. 195million to Kshs. 474million.

b) Trade, Tourism and Cooperatives Committee

- That the budget ceilings and fiscal strategies for the Sector be approved as contained in the presented CFSP

c) Justice and Legal Affairs Committee

- That the recurrent budget ceilings for the Governor's Office be increased from Kshs. 4,893,000,000 to Kshs. 5,845,000,000 and that the development expenditure be increased from Kshs. 419million to Kshs. 624.5million.

d) Culture and Community Services Committee

- That the budget ceilings and fiscal strategies for the Liquor Board contained in the report of the Sectoral Committee be included in the County Fiscal Strategy Paper for the FY 2018-19; and
- That the recurrent ceilings for the Education, Youth Affairs, Sports and Social Services Sector be increased from Kshs. 1.599billion to Kshs. 3.249billion and the development budget ceilings be increased from Kshs. 300million to Kshs. 1.8billion. Kshs. 950million be allocated for construction of stadia

e) Energy and ICT Committee

- That the fiscal strategies and budget ceilings for the Energy Sub- Sector and the ICT Sector be approved as proposed.

f) Transport and Public Works Committee

- That the development ceiling for the Sector be increased from Kshs. 4.2billion to Kshs. 5.3billion; and
- That the Finance and Economic Planning Sector ensures payment of all capital projects outlined in the Sector budget.

g) Health Services Committee

- That the recurrent ceilings for the Health Commodities Sub-programme be increased from Kshs. 550million to Kshs. 804million; and
- That the recurrent ceilings for the Administration/ Human Resource for Health be increased from Kshs. 4,859,322,271 to Kshs. 5,590,179,853.

h) Environment and Natural Resources Committee

- That Kshs. 3.5million be allocated for procurement of a specialized pick-up for the Environment Monitoring and Compliance Enforcement (EMCE); and
- The recurrent expenditure ceilings be maintained at Kshs. 1.329billion while the development expenditure ceilings be increased from Kshs. 700million to Kshs. 1.577billion to undertake the development projects contained in the Committee report.

i) Children, Early Childhood Education and Vocational Training Committee

- That the development ceilings for the Education, Youth Affairs, Sports, Culture and Social Services be increased from Kshs. 300million to Kshs. 440million to take care of the development projects contained in the Sectoral Committee report;
- That the strategies for the Sector be approved as contained in the CFSP; and
- That the Executive should institute reforms in the procurement process because elongated procurement procedures stalls the sub-sectors approved projects.

j) Physical Planning and Housing Committee

- That the Sector budget ceilings and fiscal strategies for the Sectors under the Sectoral Committee be approved as proposed



k) Labor and Social Welfare Committee

- That the strategies and ceilings for the Public Service Management and the County Public Service Board be maintained as in the tabled CFSP;

l) Water and Sanitation Committee

- That the development ceiling for the Sector be increased from Kshs. 96million to Kshs. 340million in order to fully meet the target under programme of all the 85wards; and
- That the recurrent ceiling for the Sector be increased by Kshs. 200million to enable the Sub-Sector settle pending bills of water consumed by County facilities.

## VI. GENERAL OBSERVATIONS ON THE FISCAL STRATEGIES AND THE BUDGET CEILINGS

23. **Madam Speaker**, the Budget Committee oversights the roles and mandate of the Finance and Economic Planning Sector. In this regard, during the consideration of this CFSP the Committee was keen to determine the revenue raising measures for funding the budget of the financial year 2018-19. The report on the revenue performance provided by the Revenue Mobilization department indicates that as at 30<sup>th</sup> March 2018 the County had only been able to collect about Kshs. 7.8billion from all internal sources of revenue. This out-turn, the Committee notes, presents a gloomy figure which makes it highly unlikely that the programmes approved in the supplementary estimates for the FY 2017-18 would not be implemented. The Committee has urged the County Government to ensure that the strategies contained in the CFSP on revenues enhancement are implemented without fail and the report in that regard presented to this County Assembly on a monthly basis.

24. **Madam Speaker**, during the scrutiny of this CFSP the Committee relooked at the place and value of use of technology in revenue generation. The Committee has once again noted that the County has been at the losing end of the technologies employed to improve revenue inflows. The Committee discussed at length the benefits associated with Jambopay and was quick to identify the demerits which have come along with the

continued partnership. Of note is that the Budget Committee recommends that the agency fees be swept through the County Revenue Fund in line with the budgeting process employed by the Kenya Revenue Authority. Further, the County should be able to take control of all revenue generation modules and ensure that there is full compliance with the provisions of Section 109 of the Public Finance Management Act 2012. The Committee has further agreed with the County Treasury that going forward there is need to renegotiate all revenue collection contracts in a way that leaves the County Government with the leading role.

25. **Madam Speaker**, the CFSP 2018 has decried low revenue performance over the last few financial years and indeed pointed out the reasons for that underperformance. Under parking fees, the document asserts that MCAs do not utilize the parking allocated to them at the Law Courts and instead they park their vehicles along other designated areas. The Committee notes that this is a stale assessment that only applied to the previous regime of Members and effort should be made to ensure that the document is realistic and current as possible. The Committee wishes to point out that the revenue streams have various strategies which were first presented in the CFSP 2017 and the progress which has been made towards implementing the same need to be properly reported instead of the strategies themselves being presented for the coming financial year. The Paper indicates that Single Business Permits are charged based on City By-Laws and Planning Charges imposed on the strength of the Physical Planning Act. The CFSP to this extent has not taken cognizance of the existing legal framework that the County Government should use to employ fees and charges – The Nairobi City County Revenue Act 2015. On a positive note, the Committee specifically appreciates the undertaking to separate unified licenses and stagger their due dates as a positive intervention that should be implemented as a way of ensuring that those who cannot afford the lump sum payments do not default on county dues.

26. **Madam Speaker**, the Budget Committee as a watchdog has a role of standing in the gap and midwifing between the County Treasury, the various Sectors in the County Government, the Public and this County Assembly on requests for funding. It is the role



of the Committee to ensure that the Sectors present realistic budget figures that can be funded within the available resources. During deliberations on this CFSP for the FY 2018-19, the Budget Committee noted with concern that despite the well broadcasted fact that the County has been largely unable to collect its optimal amount of revenue, most Sectoral Committees once again came up with proposals that, if implemented, would have the net effect of doubling our budget totals to almost twice the sum of the revenues the County generates. Sectors like Transport and Public Works presented requests for over Kshs. 10billion, Education Sector requested for additional Kshs. 1billion and the Devolution Sector requested for an increase in their development budget by Kshs. 1billion. The Budget Committee during this process followed up to ensure that the County undertakes its priorities but more so that it does the same within a realistic budget estimate. The Committee after extensive deliberations with various stakeholders on the prevailing realities has taken a conscious decision to deny some of the requests from the Sectoral Committees.

27. **Madam Speaker**, as the Committee observed during the consideration of the CFSP for the FY 2017-18 the Committee continues to lament the slow pace of implementation of projects approved by this Assembly. The Committee notes that the zeal with which Sectors advance arguments for additional allocations is never directly translated to real work which is utilizing the development funds. It is for this reason that the budget documents are still filled with projects which have been with us since the financial year 2013-14. Most of the repetitive projects are majorly in Transport Sector, Health Sector and the Devolution Sector which despite a generous allocation in the previous financial years still projects to roll over a number of development projects to coming financial year. The Lands, Urban Planning and Housing Sector has spent the better part of the previous financial years developing plans with no clear progress on the implementation of these plans.

28. **Madam Speaker**, in the FY 2016-17 the total expenditure on personnel emoluments amounted to Kshs. 13.981billion with the figure consuming 40.19% of total revenues against fiscal responsibility principle requirement of 35%. The comparative expenditure on wages is projected to rise to 44.7% in FY 2017-18 before marginally reducing to 44.45% in the FY 2018-19. The CFSP reports that the County

Government has undertaken a number of measures to make the wage bill sustainable. The Committee has advised the County Executive to confirm the exact measures which have been employed by the County Government and what they have been able to achieve be reported as a way of ensuring that their success and weaknesses are tracked and addressed. To realign the county's organizational structure, the County undertakes to make substantive appointments to various positions.

29. **Madam Speaker**, it is a growing concern that Nairobi County remains heavily burdened by a huge wage bill that needs not only an urgent but also a lasting solution. Limiting the growth on expenditures on personnel emoluments is paramount to ease resources for development and make the wards better. However, it was shocking to note that most Sectors presented to the Committee proposals of additional employment in the coming financial year which would raise the remuneration package to more than 60% of our total revenues. Whereas the Committee was at times swayed by the reasons given for additional recruitments, it considered our revenues against the proposed expenditures and resolved to invite this Assembly to continue implementing the freeze on all additional employments over the medium-term period. This will enable us to get our development footing before we continue committing more funds to avoidable recurrent expenditures.

30. **Madam Speaker**, the Committee during its scrutiny of the Sector reports with the Chairs of the Sectoral committees noted again that there were discrepancies on the sector achievements with the reality on the ground. Some of the Chairs of Sectoral Committees informed the Budget Committee that there were many cases of projects that had neither started nor made meaningful progress yet the same were reported as sector achievements. The Budget Committee urges the Sectoral Committees to take it upon themselves to ensure and ascertain that the claims by the County Executive are verifiably factual.



## VII.COMMITTEE'S RECOMMENDATIONS

31. **Madam Speaker**, in addition to the recommendations contained in other parts of this report, the Committee recommends that the Assembly resolves as follows:

a) Policy Measures

- That in line with the provisions of the Nairobi City County Alcoholic Drinks Control and Liquor Licensing Act 2014, a separate vote be created in the Estimates indicating the inflows and outflows from the Liquor Fund;
- That under the Health Sector, Sub- Programme on County Referral Hospitals be split into four hospitals for easy tracking and oversight of incomes and expenditures by the four County health facilities;
- That in line with the provisions of Section 109 of the Public Finance Management Act 2012, the County Treasury develops and presents to this County Assembly for approval a legislative proposal exempting County health facilities from sweeping their revenues into the County Revenue Fund;
- That in compliance with the provision of Section 107 (2) (c) and Regulation 25 (1) (b) the Assembly resolves that the County continues implementing the freeze on replacement of employees leaving the service due to natural attrition and retirement as approved in the CFSP for the FY 2016-17. The County maintains the freeze on any additional employment over the medium term and that any specialized employment requirement shall be subject to budgetary provision as approved by this County Assembly;
- That the County Treasury avails the specific projects and programmes for all sectors while tabling the budget estimates for the FY 2018-19;
- That the County implements and finalizes the incomplete projects from the previous financial years;
- That the Public Service Management develops a policy to guide Voluntary Early Retirement and the same be presented to the County Assembly for consideration;

- That the Legal Affairs department develops a policy regarding decretal fees and that the same be presented to this County Assembly for consideration;
- That in line with the provisions of Section 148 of the PFM Act 2012, the County Executive Committee Member for Finance decentralizes all financial, accounting and procurement functions to all departments of the County Government;
- That going forward all Sectors should endeavor to utilize all amounts set aside for development and if Sectors are unable to absorb the amounts allocated to them then their budgets be reduced by the amounts unspent in the subsequent budget process;
- The CEC Finance to come up with proper policies to regulate commitments, to march quarterly commitments to revenues for each quarter; and
- That measures initiated to ensure that actual expenditure on wages and salaries reduces gradually to 35% by FY 2020/21 be implemented.

#### **b) Expenditure Ceilings**

- That the ceilings for the two arms of government be set as follows:
  - **County Assembly- Kshs. 2.177billion** consisting of Kshs. 592million for development and Kshs. 1.585billion for recurrent expenditures.
  - **County Executive – Kshs.31.71billion** consisting of and Kshs. 9.85 for development and Kshs. 21.86billion for recurrent expenditures.
- That the budget ceilings for the various Sectors be reduced as follows under the respective programmes:
  - The budget ceilings for both development and recurrent expenditure for the Office of the Governor and the Deputy Governor be reduced by Kshs. 605million;
  - The budget ceilings for both development and recurrent expenditure for the Finance and Economic Planning Sector be reduced by Kshs. 765million;
  - That the recurrent budget ceilings for the following sub- programmes under the Education, Youth Affairs, Sports and Social Services Sector be reduced as indicated: Early Childhood Development Centres by Kshs. 20million, Youth empowerment and promotion by Kshs. 10million and Social welfare and care for the aged by Kshs. 15million.



- That the budgets for the various Sectors be rationalized to provide for the following priority areas:
  - Under the Agriculture, Livestock and Fisheries Sector Kshs. 100million for purchase of land for holding wandering animals that is becoming a menace in the County;
  - Additional Kshs. 150million for the development expenses under the Agriculture, Livestock and Fisheries Sector;
  - Additional Kshs. 800million be allocated to the Transport and Infrastructure Sector( Kshs. 450million for Construction of Roads and Drainages, Kshs. 150million for maintenance of roads and drainages, Kshs. 150million for maintenance of street lighting and Kshs. 50million for maintenance of motor vehicles and machineries);
  - Additional Kshs. 244million for wards based water projects under the Water Sector;
  - Kshs. 400million be reallocated from development to recurrent expenditures under the Public Health Sector to carter for purchase pharmaceuticals, non-pharmaceuticals and other medical supplies;
  - Additional Kshs. 200million for the development projects under the Education, Youth Affairs, Sports and Social Services Sector for development of sports; and
  - Additional Kshs. 171million for solid waste management projects under the Environment and Natural Resources Sector.
- That the expected bank balances for the FY 2017-18 be included in the budget estimates for the FY 2018-19.
- That the schedules 1 and 2 attached to this report forms the basis for the FY 2018-19 budget.

**c) Medium Term Debt Management Strategy**

- That the Assembly approves the debt management strategies underpinning the 2018 CFSP and the budget estimates for the FY 2018-19 and that the same remains binding for the next two financial years.

Madam Speaker, in conclusion and pursuant to the provisions of Section 117 (6), Section 123 of the Public Finance Management Act 2012 and Standing Order 221 (7) the County Finance, Budget and Appropriation Committee recommends that:

“This County Assembly adopts the Nairobi City County Fiscal Strategy Paper for the FY 2018-19 and the Nairobi City County Debt Management Strategy Paper for the FY 2018-19”



**Schedule 1: Revenue Projections for the FY 2018-19**

	2018/19			2019/20			2020/21	
	CFSP 17	BROP 17	CFSP 18	CFSP 17	BRO P 17	CFSP 18	BRO P 17	CFSP 18
External Revenues								
Equitable Share	15,715	16,172	15,794	16,501	16,980	16,981	17,830	17,831
<b>CONDITIONAL GRANTS</b>								
Free Maternal Health Care	303	-		303	-	-	-	-
Compensation For User Fees Forgone	73	83	79,423	73	87	87	92	92
Road Maintenance Levy	394	582	415.85	394	611	611	641	641
DANIDA	-			-				
Youth Polytechnics	-	33	34.57	-	34	34	35	35
Kenya Devolution Support Programme	-	82		-	86	86	90	90
Agricultural Support Programme (ASDSP II)	-	-		-	-	-	-	-
Other disbursements-MOH (Leasing of equipment)	-		200	-				
Health Support- World Bank								
<b>Sub-total External Revenues</b>	<b>16,485</b>	<b>16,952</b>	<b>16,524</b>	<b>17,271</b>	<b>17,798</b>	<b>17,799</b>	<b>18,688</b>	<b>18,689</b>
Internal Revenues								
Rates	5,722	3,830	4,600	5,893	5,022	5,022	5,273	5,200
Parking Fees	3,682	2,673	2,973	3,793	2,806	2,990	2,946	3,000
Single business Permits	3,745	2,628	2,900	3,857	2,759	2,950	2,897	2,990
Building Permits	1,769	1,473	1,473	1,822	1,546	1,546	1,624	1,600
Billboards & Adverts	1,248	798	1,400	1,286	838	1,450	880	1,500
Other Incomes	4,188	3,556	3,700	4,313	3,735	3,734	3,921	3,900
Cash Balances b/f			400					
<b>Sub-total Internal Revenues</b>	<b>20,354</b>	<b>14,958</b>	<b>17,346</b>	<b>20,964</b>	<b>16,706</b>	<b>17,692</b>	<b>17,541</b>	<b>18,190</b>
<b>Total Revenues</b>	<b>36,839</b>	<b>31,910</b>	<b>33,970</b>	<b>38,235</b>	<b>34,504</b>	<b>35,491</b>	<b>36,229</b>	<b>36,879</b>



**Schedule 2: Sectors Expenditure Ceilings for the FY 2018-19**

Sector	Gross Recurrent	Development	Total
5311000000 County Public Service Board	61,463,231	15,000,000	76,463,231
5312000000 Office Of Governor & Deputy Governor	4,606,773,783	100,000,000	4,706,773,783
5313000000 ICT, E-Govt & Public Communications	270,579,519	200,000,000	470,579,519
5314000000 Finance & Economic Planning	2,127,948,145	100,000,000	2,227,948,145
5315000000 Health	6,375,249,327	601,356,000	6,976,605,327
5316000000 Urban Planning And Lands	375,585,332	200,000,000	575,585,332
5317000000 Public Works ,Transport & Infrastructure	1,252,288,201	4,950,000,000	6,202,288,201
5318000000 Education, Youth Affairs, Sports, Culture & Social Services	1,553,874,497	500,000,000	2,053,874,497
5319000000 Trade, Commerce, Tourism & Cooperatives	505,805,228	391,000,000	896,805,228
5320000000 Public Service Management	2,408,905,154	100,000,000	2,508,905,154
5321000000 Agriculture, Livestock Development, Fisheries & Forestry	459,750,231	195,000,000	654,750,231
County Assembly	1,585,000,000	592,000,000	2,177,000,000
5323000000 Environment, Water, Energy & Natural Resources	1,395,682,456.2	1,115,000,000	2,510,682,456
5324000000 Urban Renewal And Housing	100,640,897	417,598,000	518,238,897
5325000000 Ward Development Fund	37,500,000	1,212,500,000	1,250,000,000
5326000000 Emergency Fund	-	80,000,000	80,000,000
<b>TOTALS</b>	<b>23,117,046,000</b>	<b>10,769,454,000</b>	<b>33,886,500,000</b>