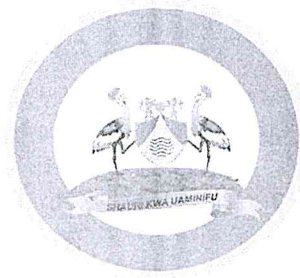


GOVERNMENT OF NAIROBI CITY COUNTY



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

SECOND ASSEMBLY-THIRD SESSION

NBI CA. PLC. 2019 / (043)

4th June, 2019

PAPER LAID

Pursuant to Article 228 (6) of the Constitution of Kenya, I beg to lay the following Paper on the Table of the Assembly, today Tuesday 4th June, 2019.

THE REPORT OF THE CONTROLLER OF BUDGET ON THE COUNTY GOVERNMENT BUDGET IMPLEMENTATION REVIEW FOR THE HALF YEAR OF FY2018/19.

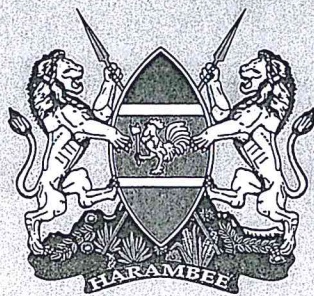
(Leader of the Majority Party)

Copies to:
The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press

Approved for Laid
[Signature]
04/June/2019.

*Paper laid
on 4/6/2019
@ 2.30pm.*

*[Signature]
Sm. Clark
4/6/19*



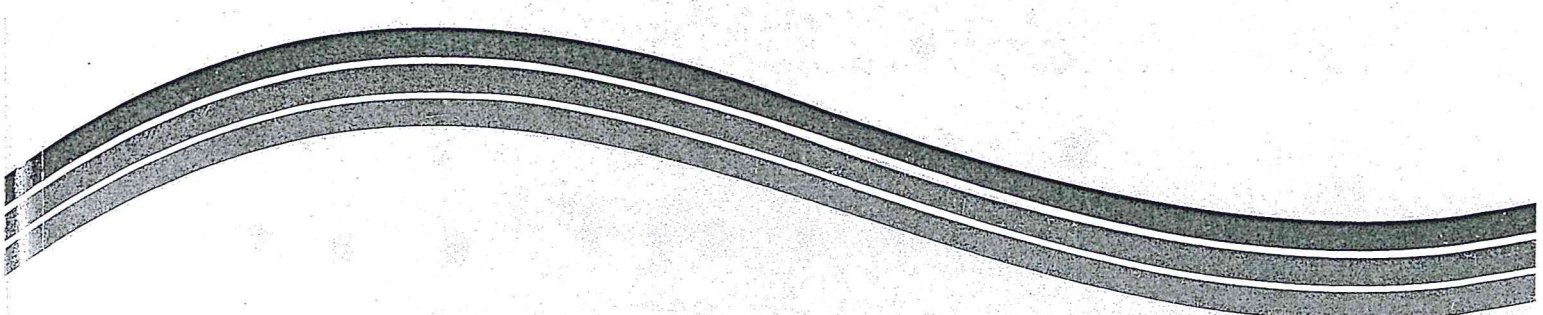
REPUBLIC OF KENYA

OFFICE OF THE CONTROLLER OF BUDGET

**COUNTY GOVERNMENTS BUDGET
IMPLEMENTATION REVIEW REPORT**

**FIRST HALF
FINANCIAL YEAR 2018/19**

FEBRUARY, 2019



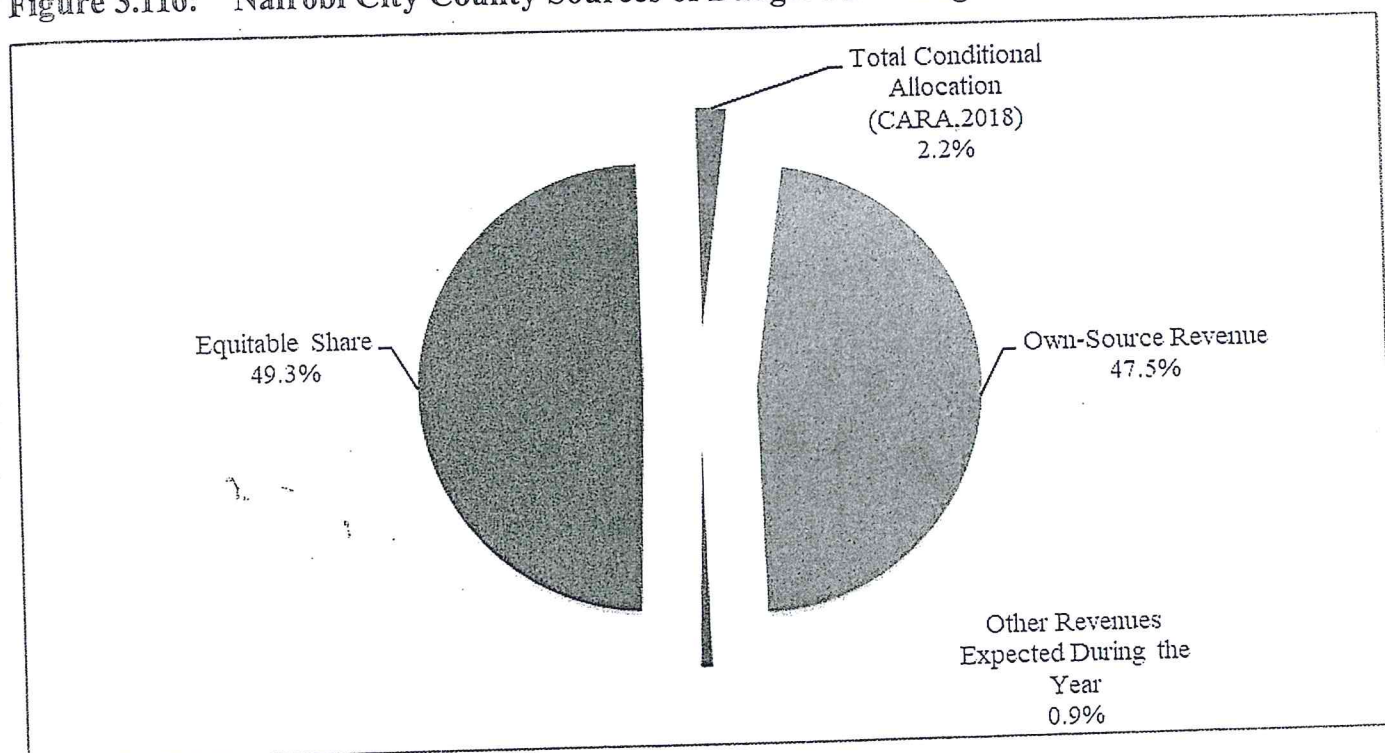
3.30 Nairobi City County

3.30.1 Overview of the FY 2018/19 Budget

The County's Approved Budget for FY 2018/19 is Kshs.32.31 billion, comprising of Kshs.21.47 billion (66.5 per cent) and Kshs.10.84 billion (33.5 per cent) allocation for recurrent and development expenditure respectively.

To finance the budget, the County expects to receive Kshs.15.80 billion (48 per cent) as equitable share of revenue raised nationally, Kshs.719.33 million (2.2 per cent) as total conditional grants, generate Kshs.15.21 billion (46.2 per cent) from own-source revenue, Kshs.287.84 million from liquor license fees, and Kshs.300 million cash balance from FY 2017/18.

Figure 3.116: Nairobi City County Sources of Budget Financing in FY 2018/19



Source: Nairobi City County Treasury

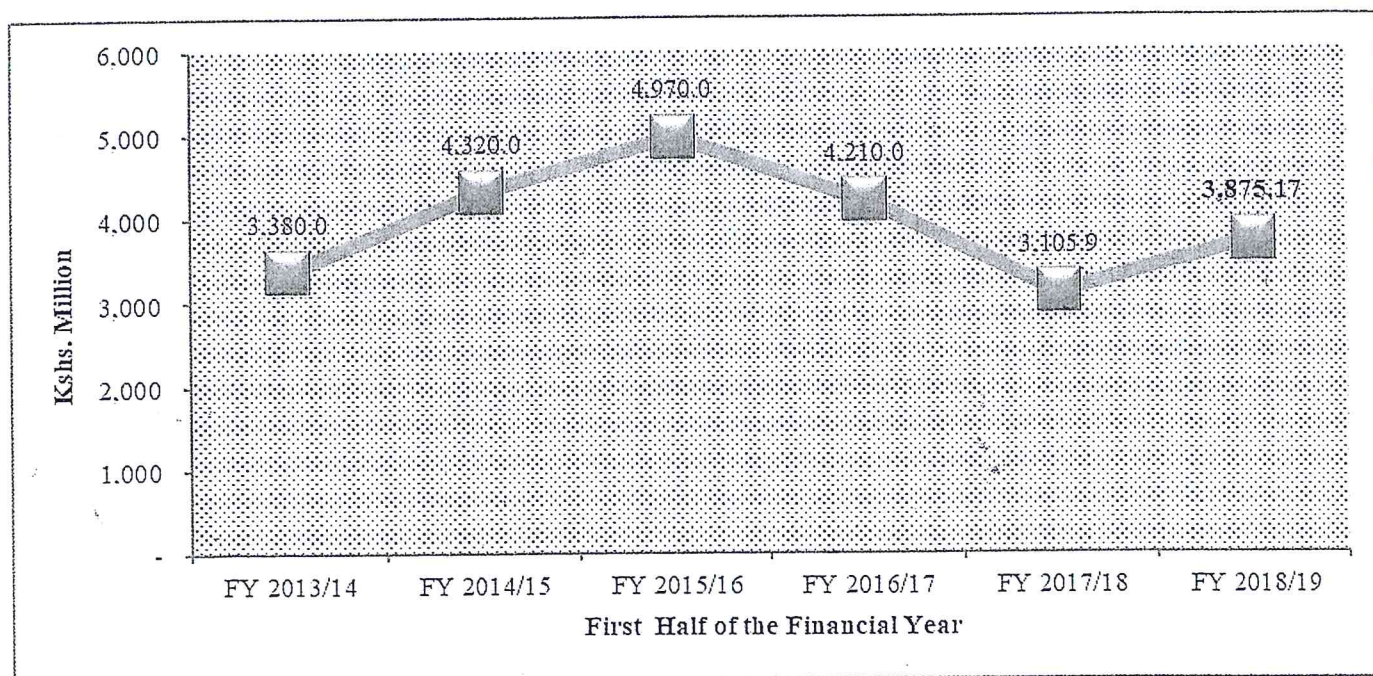
The conditional grants contained in the CARA, 2018 consist of; Kshs.79.42 million (8.4 per cent) as Compensation for User Fees Foregone, Kshs.415.85 million (44 per cent) as Road Maintenance Fuel Levy Fund, Kshs.34.57 million (3.7 per cent) for Rehabilitation of Village Polytechnics, Kshs.54.43 million (5.8 per cent) for Transforming Health Systems for Universal Care Project (WB), Kshs.83.42 million (8.8 per cent) grant for Kenya Devolution Support Project (KDSP) "Level 1 grant", and Kshs.51.64 million (5.5 per cent) grant from DANIDA, and Kshs.200 million for Leasing of Medical Equipment.

3.30.2 Revenue Analysis

During the first half of FY 2018/19, the County received Kshs.4.90 billion as equitable share of revenue raised nationally, Kshs.25.82 million as total conditional grants, raised Kshs.3.88 billion from own-source revenue, and received Kshs.105.42 million from other sources. The total funds available for the period amounted to Kshs.8.90 billion.

Figure 3.117 shows the half yearly trend in own-source revenue collection from FY 2013/14 to FY 2018/19.

Figure 3.117: Nairobi City County: Trend in Own-Source Revenue Collection for the First Half of FY 2013/14 to the First Half of FY 2018/19



Source: Nairobi City County Treasury

During the first half of FY 2018/19, The County generated a total of Kshs.3.88 billion from own-source revenue sources. This amount was an increase of 19.9 per cent when compared to Kshs.3.11 billion realised during the same period of FY 2017/18 and represented 25.5 per cent of the annual target.

3.30.3 Conditional Grants

The County received Kshs.25.82 million as conditional grants as shown in Table 3.85.

Table 3.85: Nairobi City County, Conditional Grants/Loans Received in the First Half of FY 2018/19

S / No.	Grant/Loans	Annual Allocation per CARA, 2018 (Kshs)	Annual Budget Allocation for FY 2018/19 (Kshs)	Actual Receipts in First Half of FY 2018/19 (Kshs)	Actual Receipts as Percentage of Annual Allocation (%)
Grants/Loans contained in CARA, 2018					
1	Compensation for User Fee Foregone	79,423,251	79,423,251	-	-
2	Leasing of Medial Equipment	200,000,000	-	-	-
3	Road Maintenance Fuel Levy	415,847,530	415,847,530	-	-
4	Rehabilitation of Village Polytechnics	34,570,000	34,570,000	-	-
5	Transforming Health Systems for Universal Care Project (WB)	54,429,184	54,429,184	-	-
6	Kenya Devolution Support Project (KDSP) "Level 1 grant"	83,424,144	83,424,144	-	-
7	DANIDA Grant	51,637,500	51,637,500	25,818,750	50.0
8	Agricultural Sector Development Support Programme (ASDSP)	25,659,140	-	-	-
Total		919,331,609	719,331,609	25,818,750	3.6

Source: Nairobi City County Treasury

Analysis of the revenue from conditional grants indicates that, the County received the highest percentage of receipts to annual allocation from the DANIDA grant. The receipt accounted for 50 per cent and 63.1 per cent of annual allocation.

3.30.4 Exchequer Issues

To finance implementation of the budget, the Controller of Budget approved withdrawal of Kshs.6.15 billion from the CRF account. The withdrawals represented 18.7 per cent of the Approved Budget and translate to a decrease of 37 per cent from Kshs.9.75 billion approved in the first half of FY 2017/18. This comprised of Kshs.5.71 billion (92.9 per cent) to fund recurrent expenditure and Kshs.437.10 million (7.1 per cent) for development activities.

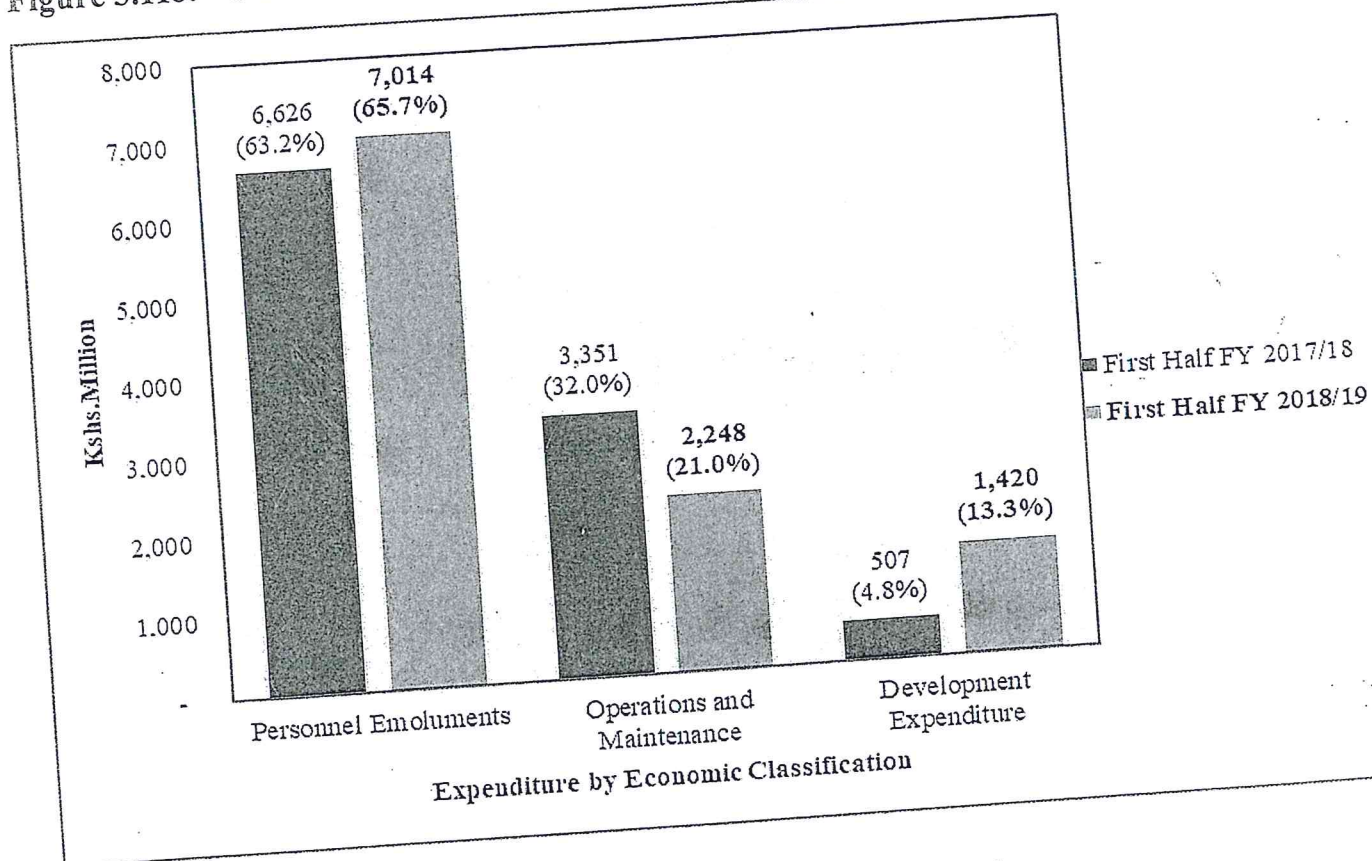
3.30.5 Overall Expenditure Review

The County government spent a total of Kshs.10.68 billion on both recurrent and development activities. This expenditure represented 173.8 per cent of the total funds released from the CRF account and was an increase of 1.9 per cent from Kshs.10.48 billion spent in the first half of FY 2017/18. The expenditure included outstanding commitments as at 31st December, 2018.

Expenditure on recurrent activities amounted to Kshs.9.26 billion while that on development activities was Kshs.1.42 billion. The recurrent expenditure was 162.2 per cent of the funds released for recurrent activities, while development expenditure was 324.9 per cent of funds released for development activities.

The recurrent expenditure represented 43.1 per cent of the annual recurrent budget and was an increase from 29.2 per cent recorded in the first half of FY 2017/18. Development expenditure recorded an absorption rate of 13.1 per cent, which was an increase from 4.3 per cent attained in the first half of FY 2017/18. Figure 3.118 presents a comparison between the total expenditure in the first half of FY 2018/19 and the first half of the FY 2017/18.

Figure 3.118: Nairobi City County, Expenditure by Economic Classification



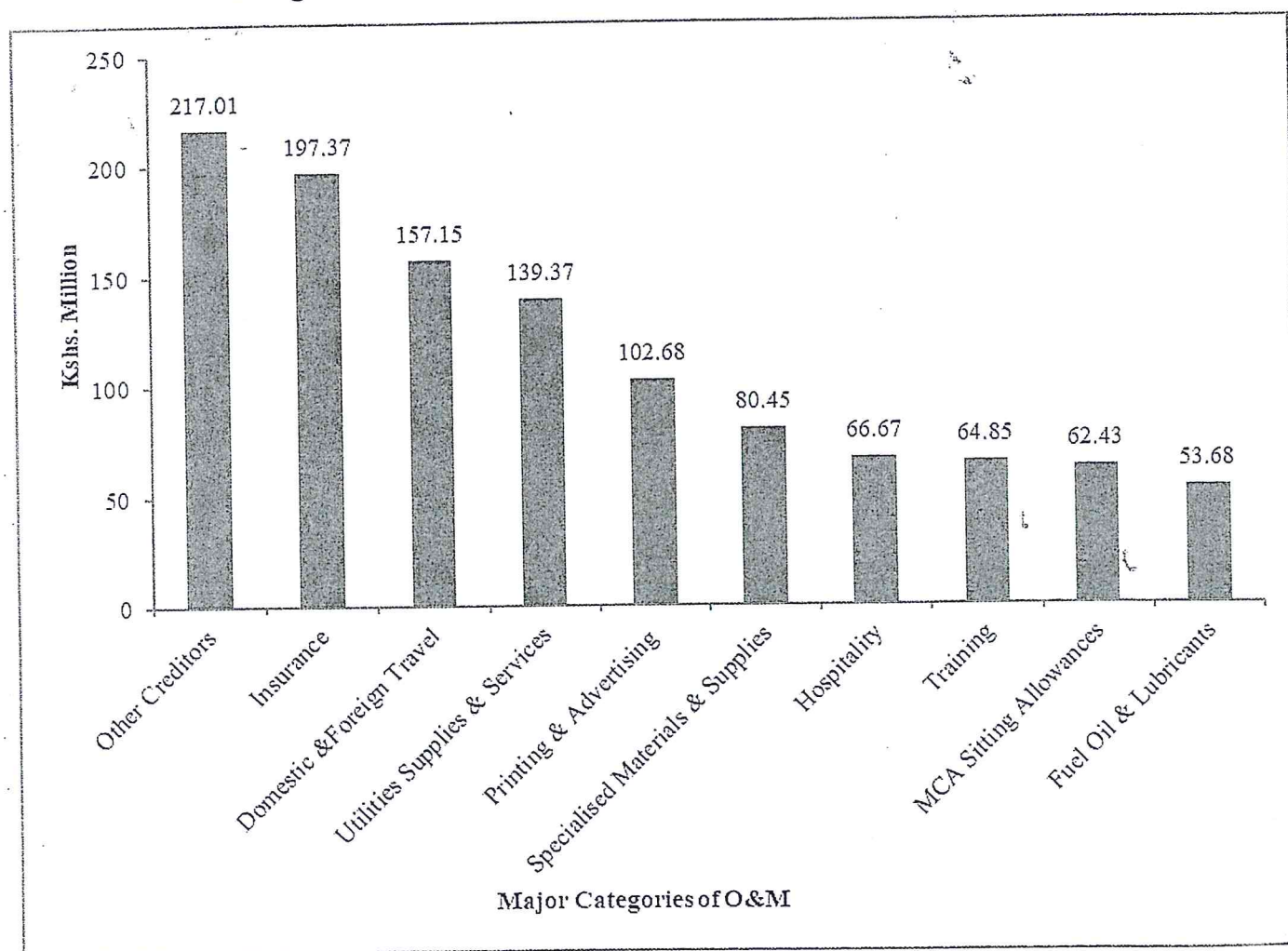
Source: Nairobi City County Treasury

3.30.6 Analysis of Recurrent Expenditure

The total recurrent expenditure of Kshs.9.26 billion comprised of Kshs.7.01 billion (75.7 per cent) incurred on personnel emoluments and Kshs.2.25 billion (24.3 per cent) for operations and maintenance as shown in Figure 3.118.

Expenditure on personnel emoluments represented an increase of 5.9 per cent compared to the first half of FY 2017/18 when the County spent Kshs.6.63 billion, and was 65.7 per cent of total expenditure for the period. Figure 3.119 shows a summary of operations and maintenance expenditure by major categories.

Figure 3.119: Nairobi City County, Operations and Maintenance Expenditure by Major Categories in the First Half of FY 2018/19



Source: Nairobi City County Treasury

The County spent Kshs.62.45 million on MCAs' committee sitting allowances for the 128 MCAs against the annual budget allocation of Kshs.66.56 million. This amount represented an increase of 251.3 per cent compared to Kshs.17.46 million spent in a similar period of FY 2017/18. The average monthly sitting allowance translated to Kshs.79,869 per MCA against the SRC's recommended monthly ceiling of Kshs.124,800.

Expenditure on domestic travel amounted to Kshs.157.35 million and comprised of Kshs.19.02 million spent by the County Assembly and Kshs.138.33 million spent by the County Executive.

3.30.7 Development Expenditure

The total development expenditure of Kshs.1.42 billion represented 13.1 per cent of the annual development budget of Kshs.10.84 billion. The County did not provide a report on development projects

3.30.8 Budget Performance by Department

Table 3.86 provides a summary of budget estimates and budget performance by department in the first half of FY 2018/19.

Table 3.86: Nairobi City County, Budget Performance by Department

Department	Annual Budget Allocation in FY 2018/19 (Kshs. Million)		Exchequer Issues in First Half of FY 2018/19 (Kshs. Million)		Expenditure in Q1 of FY 2018/19 (Kshs. Million)		Expenditure to Exchequer Issues (%)		Absorption Rate (%)	
	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
County Public Service Board	54.62	5.00	13.13	-	16.61	-	126.5	-	30.4	-
Office of Governor & Deputy Governor	4,462.17	90.00	1,340.71	-	2,279.21	4.66	170.0	-	51.1	5.2
ICT, E-Govt. & Public Communications	239.43	188.00	374.10	-	95.56	9.65	25.5	-	39.9	5.1
Finance & Economic Planning	2,130.56	154.00	566.66	-	1,005.44	-	177.4	-	47.2	-
Health	6,323.58	601.36	1,737.55	-	2,402.89	7.31	138.3	-	38.0	1.2
Urban Planning and Lands	369.82	132.50	165.03	-	180.72	0.77	109.5	-	48.9	0.6
Public Works Transport & Infrastructure	1,206.18	5,405.00	266.04	421.70	523.64	1,052.07	196.8	249.5	43.4	19.5
Education, Youth Affairs, Sports, Culture & Social Services	1,647.37	473.00	297.34	15.40	451.43	55.57	151.8	361.0	27.4	11.7
Trade, Commerce, Tourism & Cooperatives	491.43	318.00	184.11	-	204.02	0.97	110.8	-	41.5	0.3
Public Service Management	1,112.57	70.00	77.94	-	203.14	-	260.6	-	18.3	-
Agriculture, Livestock Development, Fisheries & Forestry	372.57	149.00	75.83	-	117.30	-	154.7	-	31.5	-
Environment, Water, Energy & Natural Resources	1,357.05	962.50	247.17	-	1,046.90	13.77	423.6	-	77.1	1.4
Urban Renewal and Housing	89.27	320.60	52.65	-	49.56	-	94.1	-	55.5	0.0
Ward Development Fund	25.66	1,212.50	4.57	-	6.76	273.61	147.8	-	26.3	22.6
Liquor Licensing Board	204.84	83.00	-	-	124.92	-	-	-	61.0	-
Emergency Fund	-	80.00	-	-	-	-	-	-	-	-
County Assembly	1,386.67	592.00	305.90	-	553.98	1.64	181.1	-	40	0.3
TOTAL	21,473.79	10,836.45	5,708.71	437.10	9,262.08	1,420.02	162.2	324.9	43.1	13.3

Source: Nairobi City County Treasury

Analysis of expenditure by department shows that the Ward Development Fund recorded the highest absorptive rate of development budget at 22.6 per cent followed by the Department of Public Works, Transport and

Infrastructure at 19.5 per cent. The Department of Environment, Water, and Energy & Natural Resources had the highest percentage of recurrent expenditure to recurrent budget at 77.1 per cent while there was no expenditure reported on the Emergency Fund.

3.30.9 Key Observations and Recommendations

The County has made progress in addressing some of the challenges previously identified as affecting budget implementation. Some of the progress made included:

- i. Improvement in own-source revenue collection by 19.9 per cent from Kshs.3.11 billion in a similar period in FY 2017/18 to Kshs.3.87 billion in the reporting period.

Despite the above progress, the following challenges continued to hamper effective budget implementation;

1. Failure by the County Treasury to submit a report on development projects, including the geographical location of projects to the Controller of Budget.
2. The County's wage bill has remained high, accounting for 65.7 per cent of the total expenditure in the first half of FY 2018/19.

The County should implement the following recommendations in order to improve budget execution;

1. *The County Treasury should put in systems to ensure requested financial information is provided in a timely manner to all oversight institutions.*
2. *The County Public Service Board should establish an optimal staffing structure in order to manage the wage bill.*

