

COUNTY GOVERNMENT OF NAIROBI CITY



NAIROBI CITY COUNTY ASSEMBLY

FIRST ASSEMBLY – SECOND SESSION

**NINTH REPORT OF THE SELECT COMMITTEE ON BUDGET AND
APPROPRIATIONS**

ON

**THE NAIROBI CITY COUNTY FISCAL STRATEGY PAPER FOR THE FY 2014/15
AND OVER THE MEDIUM TERM**

APRIL 2014

Mr. Speaker, as you are aware the County Fiscal Strategy Paper (CFSP) was laid in the Assembly on March 4th, 2014.

Mr. Speaker Sir, as per the PFM Act 2012 and Standing Order 206 (4) the Budget and Appropriations Committee has the onus to consider the CFSP and table a report to the County Assembly. Given the significance of the CFSP on the budget process, the Assembly resolutions on it will guide preparations of the 2014/15 budget estimates. On behalf of the Members of the Committee and pursuant to the provisions of Standing Order 206, it is my pleasant duty to present to the Assembly, the Committee's Report on the consideration of the Nairobi City County Fiscal Strategy Paper.

Mr. Speaker Sir, the County Assembly Budget & Appropriations Committee comprises of the following 19 Members:

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|--------------------------------------|----------------------|
| 1. Hon. Michael O. Okumu, MCA | Chairperson |
| 2. Hon. George Ochola, MCA. | Vice Chairman |
| 3. Hon. Alfred Ambani, MCA. | |
| 4. Hon. Maurice O. Akuk, MCA | |
| 5. Hon. Oscar Lore, MCA | |
| 6. Hon. Osman Adow Ibrahim, MCA. | |
| 7. Hon. Jackson Kiama Gikandi, MCA. | |
| 8. Hon. Kenneth Thugi Muroki, MCA | |
| 9. Hon. David Njoroge Kairu, MCA | |
| 10. Hon. Petronilla Nafula, MCA | |
| 11. Hon. Herman Azungu, MCA | |
| 12. Hon. Emmaculate Musya, MCA | |
| 13. Hon. Joash Omwega, MCA | |
| 14. Hon. Kennedy Oduru, MCA | |
| 15. Hon. Isaac N. Ngige, MCA | |
| 16. Hon. Ngaruiya Chege, MCA | |
| 17. Hon. Samuel Irungu, MCA | |
| 18. Hon. Benedette Wangui, MCA | |
| 19. Hon. Victoria Alali, MCA | |

Committee's Mandate

Mr. Speaker Sir, the Nairobi County Assembly Budget and Appropriations Committee is constituted under the provisions of Standing Order 187. Its mandate pursuant to Standing Order 187(3) is to:-

- a) investigate, inquire into and report on all matters related to coordination, control and monitoring of the of the county budget;
- b) discuss and review the estimates and make recommendations to the County Assembly;
- c) examine the County Fiscal Strategy Paper presented to the County Assembly;
- d) examine Bills related to the county budget, including Appropriations Bills; and
- e) evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlay

It is in this regard that the Standing order 206 (3), (4), (5) and (6) are explicit on the procedures of considering the CFSP once laid on the floor of the Assembly.

Mr. Speaker, processing of the CFSP for the FY 2014/15 has been a special historic undertaking because it was the first of its kind. Indeed, Hon. Members will recall that processing the current Financial Year budget was experimental. This is what we will avoid as an Assembly. Despite this being a new process, we cannot continue to gamble on public finances. The Committee has taken a lot of due diligence to scrutinize the submitted CFSP document and in making this report.

Examination of the County Fiscal Strategy Paper

In reviewing the 2014/15 County Fiscal Strategy Paper the Committee held a total of four (4) sittings, two of which officers from the County Treasury were in attendance. The Executive was accorded the opportunity to take members through the document in addition to shedding light on the gray areas identified by the Committee.

ACKNOWLEDGMENT

Mr. Speaker Sir, the Standing Orders requires that Sectoral Committees consider the CFSP and report to the Budget and Appropriations Committee. This was further emphasized with the Communication from the Chair on 5th March 2014 which directed the Sectoral Committees to do so within seven days. However, all Sectoral Committees did not make their recommendations to this Committee as required by law.

Mr. Speaker, I would like to thank Members of the Budget and Appropriations Committee for their dedication, untiring commitment and valuable contributions. It is because of their dedications that we have been able to complete this demanding task.

Mr. Speaker Sir, the Committee is grateful to the Office of the Speaker and the Office of Clerk of County Assembly for the support received as it discharged its mandate. Further, the Committee would wish to pay special recognition to the experts who helped the Committee digest the paper.

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

SIGN..... DATE.....

Hon. Michael O. Okumu, MCA Chairman

A. INTRODUCTION

1. **Mr. Speaker Sir**, on the 28th February 2014 the County Fiscal Strategy Paper was submitted to this Assembly as required by Section 117 (1) and Standing Order 206 (1). The document was then tabled in the Assembly on the 4th of March 2014 and committed for consideration by all the Sectoral Committees. The Sectoral Committees were required to consider the document and report back to the Budget and Appropriations Committee which was then to compile a report and table before this Assembly.
2. **Mr. Speaker Sir**, the underpinning legal provisions and our own Standing Orders requires that the report of the Committee contains schedule of total 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.
3. **Mr. Speaker Sir**, County Fiscal Strategy Paper is a critical budget document that guides the subsequent processes in the budget cycle. It is for this reason that the County Treasury is mandated to do a lot of groundwork and intensive consultations with the public and stakeholders before presenting the document to the Assembly for consideration.
4. **Mr. Speaker Sir**, Section 117 of the Public Finance Management Act, 2012 outlines the contents of the CFSP which in summary include:
 - i. Specification of the broad strategies and policy goals that will guide in budget preparation;
 - ii. Financial outlook with respect to county government revenues, expenditures and borrowing for the next financial year and the medium term;
 - iii. The total resources to be allocated to individual programmes and projects within the various sectors in the County;
 - iv. The proposed expenditure ceilings for the two arms of government; and
 - v. Financial outlook with respect to county government borrowing

B. SCRUTINY OF THE NAIROBI CITY COUNTY FISCAL STRATEGY PAPER 2013/14

5. **Mr. Speaker Sir**, it is within the domain of the Budget and Appropriations Committee to determine whether any budget related document submitted to this Assembly has complied with the statutory regulations as outlined in the Public Finance Management Act, 2012 and other statutes.

6. **Mr. Speaker Sir**, during the scrutiny of the Strategy Paper the Committee noted that the timeline for its submission was complied with. The document was submitted to the Assembly through the Office of the Clerk on the 28th of February 2014 in line with Section 117 (1) of the PFM Act, 2012. The Committee was also convinced that the document was procedurally laid before the Assembly at the earliest opportunity. Upon being laid before the County Assembly, the County Fiscal Strategy Paper was committed to each Sectoral Committee without question put, for each such committee to deliberate upon according to their respective mandates and make recommendations to the Budget and Appropriations Committee.
7. In considering the County Fiscal Strategy Paper, the Budget and Appropriations Committee is required to consult each Sectoral Committee and table a report, containing its recommendation on the statement to the County Assembly for consideration within 14 days. **Mr. Speaker** as you may recall the report was supposed to be brought to the Assembly by the 18th of March 2014 at a time when the House had adjourned. The Assembly through Section 90 applied together with Standing Order 1 has the power and legal backing to extend the timelines for deliberation on the documents under the PFM Act.

C. ECONOMIC GROWTH

8. **Mr. Speaker**, aware that the CFSP is supposed to be aligned to the national objectives as contained in the Budget Policy Statement (BPS) prepared by the National Treasury; it is worth recognizing the national agenda with regard to economic growth in various government blueprints including the Medium Term Plan and Vision 2030 remain focused on attaining an economic growth of not less than 10%. The 2014 BPS forecasted that the Kenyan economy would grow by 5.2%, a growth figure that the document projects would hit 6.8% by 2016.
9. **Mr. Speaker Sir**, the Committee notes that the County Treasury has done well to highlight that Nairobi County would be keen in matching the 10% growth rate projected by the National government. However, **Mr. Speaker**, the paper presents macroeconomic policies and outlook that does not give specifics on how to effect fundamentals for growth and prosperity like investment, resource mobilization, how to ease cost of living. The document failed to outline how the national objectives would apply to Nairobi County and how the County would aim to customize the national forecasts to fit within the county plans. The Committee therefore recommends that in future the County Treasury should aim to forecast the County Economic growth that the Committee believes could be higher than the 10%

projected nationally. Further, the document should aim to give detailed analysis of how the County aims to influence the determinants of growth of the County.

D. DEBT

10. **Mr. Speaker Sir**, it is commendable that the CFSP has undertaken to ensure that there is a sustainable debt ratio. In fact, the document recommends that there need to be an assessment of County's net worth as a long-term strategy of redeeming the County from the overbearing problem of servicing its debt. The need to halt the growth of public debt cannot be overemphasized. The globally accepted debt ratio to GDP is 45% and it is worth applauding that the CFSP has appreciated the need for the County to align its debt management to this global figures. However, with no clear GDP figures for the County it is difficult to establish the level of the County's sustainable debt. This Committee therefore proposes that a comprehensive survey be undertaken to establish the GDP figures for the County which would be compared with the debt figures for sustainability evaluation. In future, the paper should also aim to discuss in more detail this subject of debt management.

E. FISCAL PERFORMANCE OF 2013/14 AND EMERGING CHALLENGES

11. **Mr. Speaker Sir** as with any new system and institutional framework there are bound to be challenges and mistakes. The 2013/14 budget is being implemented under very peculiar scenarios. The Committee was however concerned that the paper failed in its entirety to highlight how the 2013/14 budget is being implemented and any challenges that might have been encountered thereof. It was the expectation of the Committee that the paper would give a brief on the areas that this Assembly could help the Executive correct for the forward progress of our County. Going forward therefore the Committee is of the view that the next submission of the CFSP must adhere to this legal requirement.
12. **Mr. Speaker Sir**, such details should strive to cover the revenue performance and its relation to the approved budget of 2013/14 and the net effects of the same on the expenditure figures.

F. SECTOR CEILINGS

13. **Mr. Speaker**, the main reason as to why the formulators of the PFM Act thought it wise to introduce the Budget Policy Statement for the National Government and CFSP for the County Governments was so that budget process does not only become consultative, but most importantly, to enable agencies plan for their estimates and programs.

14. **Mr. Speaker**, the Committee however noted that the document as it was presented lacked the necessary information that would be the key concern of this Assembly. The lack of ceilings for each of the sectors as anticipated by the law was a big shortcoming of the paper as presented. This was the problem that faced Sectoral Committees as they tried to make sense of the paper. It was hence difficult for the Sectoral Committees to make any meaningful recommendations for their sectors from the very general statements that were contained in the paper with no clear budgetary and fiscal direction.
15. However, **Mr. Speaker**, the County Treasury was able to provide the Committee with the Sector Ceilings which were considered by the Committee and would be attached as annexures in this report.
16. **Mr. Speaker Sir**, the Committee is indeed aware that the National Assembly through the BPS has recommended that the PFM Act, 2012 be amended to give the National Assembly sufficient time to consider the BPS. It is our hope that the same treatment should be given to the CFSP so as to allow County Assemblies more time to thoroughly scrutinize the document.

G. ALIGNMENT TO NATIONAL AND COUNTY OBJECTIVES

17. The County Fiscal Strategy Paper as a document was prepared at a time when the County Integrated Development Plan had not been presented and adopted to the Assembly. It was hence difficult for the Committee to relate the paper with future development agenda.
18. **Mr. Speaker Sir**, Section 117 (2) provides that the County Treasury aligns the County Fiscal Strategy Paper with the national objectives as outlined in the Budget Policy Statement. The Committee in its perusal of the paper was able to highlight a number of areas where the County Treasury managed to explain how the document would conform to the national objectives. However, it was the resolve of the Budget Committee that the document took a lot of focus on the national objectives without explaining how the same would influence the forward progress of Nairobi County.
19. **Mr. Speaker Sir**, the Committee noted that the paper failed to discuss Nairobi County economy. General reading of the provisions of the law, one gets the understanding that the County Fiscal Strategy Paper need not be a copy-paste of the Budget Policy Statement. The document has wholly failed to address the county specific concerns. Further, **Mr. Speaker**, the document is general in manner in its medium term policies without specifying the exact initiatives that the County intended to employ to achieve the various macroeconomic targets. National macroeconomic details such as GDP, inflation and growth forecasts are widely relied upon in the paper without being simplified to target Nairobi County as a small but integral part of the national economy.

H. FISCAL POLICY AND BUDGETARY FRAMEWORK

20. **Mr. Speaker Sir**, these highlighted the medium term targets of the national government which would alter the macroeconomic stance of the County. The Committee noted that the County aims to adhere to the fiscal principles outlined in the PFM Act, 2012. Further, there are fiscal reforms that would be key in achieving these objectives.
21. **Mr. Speaker**, the Committee was however concerned that the revenue forecasts are not based on anything as the revised target that project to collect in excess of KSh.15billion is over ambitious. Furthermore, the planned national transfer of KSh.12billion is more than the figures published in the Budget Policy Statement as adopted by the National Assembly. The Committee hence recommends that there need to be clear explanation on how the revenue targets would be achieved.
22. **Mr. Speaker Sir**, section 117 (4) of the PFM Act, 2012 provides that the County Treasury shall include in the County Fiscal Strategy Paper among other things a statement on borrowing for the coming financial year and the medium term. However, the report lacks any discussion on any upcoming borrowing plan and debt management strategies.
23. **Mr. Speaker Sir**, the Committee noted that the County Treasury did identify correctly the fiscal risks that face the county and the same was with the Medium Term Expenditure Framework. The fiscal risks like inaccuracy of rates records, low collection of single business permits, and insufficient collection of parking fees, under costing of building permits, rivalry on billboards and adverts and political interference are indeed a detriment to the achievement of the shared growth. However, the Committee is not convinced that the mitigating measures that were proposed by the County Treasury are adequate in addressing the cited risks. Most of the measures were considered general in nature and never gave any clear line of action.
24. **Mr. Speaker Sir**, while appreciating that the County Treasury is in transition and may not have had the necessary capacity required to efficiently and effectively prepare and submit budget documents, the Committee was concerned that the paper failed to focus on the Medium Term and rather stuck to the coming Financial Year.

MEETINGS WITH THE NAIROBI CITY COUNTY TREASURY

25. **Mr. Speaker Sir**, the Committee met with Nairobi City County Treasury officials led by the County Executive Committee Member for Finance and the Chief Officer for Finance on 8th March 2014 at the Hill Court Resort where extensive discussion on the County Fiscal Strategy Paper took place. Further the Budget and Appropriations Committee with assistance from development partners held a joint training workshop with the County Treasury Officials where resolutions on how to

process the paper were arrived at. **Mr. Speaker**, the Committee noted the weak capacity on budget process especially on the Executive arm and thus has made recommendations towards improving the process in future. The obvious mistakes in the document are therefore expected to be addressed in future.

26. **Mr. Speaker** the Committee recommends that the Paper be amended by inserting the attached schedules as Annexes 1 and 2. This schedule was arrived at after due consultations with the County Treasury which pointed out to the Committee the resource requirements that would ensure an efficient and responsive budget going forward.

COMMITTEE'S RECOMMENDATIONS:

Mr. Speaker Sir, during the scrutiny of the document as has been mentioned the Committee noted various gaps that it would wish addressed as follows:

- a. That notwithstanding the provisions of Section 117 (1) of the PFM Act 2012, the Committee recommends that the County Treasury should in future submit the CFSP to this Assembly earlier than the statutory deadline;
- b. The document must in future contain detailed analysis of sector ceilings, revenue and expenditure projections;
- c. The County Treasury should undertake a thorough study to establish the exact revenue potential, economic growth rate and Gross Domestic Product of the County. Further these should be related to the debt figures for the coming years;
- d. The County Treasury should consult with the Commission on Revenue Allocation and the National Treasury to determine the exact amount which constitutes Nairobi County's share of National Revenue;
- e. Future documents must contain a detailed analysis of debt management within the County;
- f. The National Treasury in subsequent report should aim to furnish this Assembly with a breakdown of fiscal performance for any financial year in progress; and
- g. The CFSP should focus on the national objectives only as far as they can be related to the County development agenda and priorities.

Mr. Speaker Sir, in conclusion and pursuant to the provisions of Section 117 (6) of the Public Finance Management Act 2012 and Standing Order 206 (7) the County Budget and Appropriation Committee recommends that:

This County Assembly adopts the Nairobi City County Fiscal Strategy Paper for the FY 2014/15 with amendments.

Annex 1: Revenue and Expenditure Projections

Nairobi County Government Operations 2013/14-2016/17 (Millions)						
	Budget	2013/14 Rev Budget	2014/15 CBROP 14	2014/15 CFSP 14	2015/16 CFSP 14	2016/17 CFSP 14
A. Total Revenue	24,584	24,584	21,885	26,308	29,592	33,311
External Revenues*	9,853	9,853	9,853	11,168	12,938	14,992
National Transfers	9,500	9,500	9,500	11,065	12,835	14,889
Conditional Grants	390	390	390	-	-	-
Equalization Fund	-	-	-	-	-	-
Unconditional Grants	-	-	-	-	-	-
Others (RMLF)	250	250	250	-	-	0
CILOR	103	103	103	103	103	103
Internal Revenues	14,731	14,731	12,032	15,140	16,654	18,319
Rates	3,600	3,600	3,050	4,100	4,510	4,961
Single Business Permits	1,700	1,700	1,600	2,200	2,420	2,662
Parking Fees	1,920	1,920	1,825	2,200	2,420	2,662
Building Permits	3,000	3,000	2,200	2,400	2,640	2,904
Bill Boards and Adverts	800	800	520	900	990	1,089
Other Fees and Charges	3,711	3,711	2,837	3,340	3,674	4,041
B. Expenditure	25,224	26,114	22,362	26,282	28,139	30,143
Recurrent Exp	17,624	18,524	17,693	18,423	19,494	20,634
Loan Repayment	2,700	2,700	2,700	3,000	3,300	3,630
Wages and Salaries	10,439	13,164	11,934	12,633	13,265	13,928
of which: CE	9,783	12,508	11,406	12,079	12,683	13,317
CA	656	656	528	554	582	611
Operations	4,485	2,660	3,059	2,790	2,929	3,076
of which: CE	4,084	2,485	2,244	1,948	2,143	2,357
CA	401	175	815	463	486	560
Development Exp	7,600	7,590	4,669	7,859	8,645	9,509
of which: CE	7,038	7,038	4,322	7,615	8,377	9,214
CA	562	552	347	244	268	295
Contingencies Fund	-	-	-	24	36	48
C. Financing Gap	(640)	(1,530)	(477)	26	1,454	3,168
Note:						
* Excludes conditional grants						
CFSP - County Fiscal Strategy Paper						
CBROP - County Budget Review & Outlook Paper						

Annex 2: Medium Term Sector Ceilings For Financial Years 2014/15-2016/17

NAIROBI CITY COUNTY								
MEDIUM TERM SECTOR CEILINGS 2014/2015-2016/2017								
				Projections		% Share of Total Expenditure		
Sector	Estimates FY2013-2014	Revised2013/2014	CFSP 2014/2015	2015/2016	2016/2017	Estimates20 13/2014	Revised	CFSP C 2014/2
CountyAssem bly								
Reccurent	1,058,201,208	1,342,978,329	1,016,697,462	1,067,532,335	1,120,908,952	4.20	6.01	
Development	562,000,000	347,154,184	244,000,000	268,400,000	295,240,000	2.23	1.55	
CountyPublicS erviceBoard								
Reccurent			230,000,000	241,500,000	253,575,000	0.00	0.00	
Development			120,000,000	132,000,000	145,200,000	0.00	0.00	
GovernorsOffi ce								
Reccurent	3,001,453,740	2,712,504,269	2,821,004,440	2,962,054,662	3,110,157,395	11.90	12.13	
Development	725,000,000	208,000,000	500,000,000	550,000,000	605,000,000	2.87	0.93	
Finance and Economic Planning								
Reccurent	1,897,418,785	1,493,985,713	1,533,745,142	1,610,432,399	1,690,954,019	7.52	6.68	
Development	242,500,000	227,500,000	100,000,000	110,000,000	121,000,000	0.96	1.02	
DebtResolutio n	2,700,000,000	2,700,000,000	3,000,000,000	3,300,000,000	3,630,000,000	10.70	12.07	
Environment and Forestry Sector								
Reccurent	2,701,107,130	2,561,005,935	2,663,446,172	2,796,618,481	2,936,449,405	10.71	11.45	
Development	427,000,000	336,000,000	420,000,000	462,000,000	508,200,000	1.69	1.50	
Health Sector								
Reccurent	1,787,270,187	3,013,040,356	3,133,561,970	3,290,240,069	3,454,752,072	7.09	13.47	
Development	869,500,000	251,500,000	1,000,000,000	1,100,000,000	1,210,000,000	3.45	1.12	
Physical Planning, Housing and Lands	-							
Reccurent	795,006,920	660,090,680	686,494,307	720,819,023	756,859,974	3.15	2.95	
Development	405,000,000	50,000,000	150,000,000	165,000,000	181,500,000	1.61	0.22	
Public Works and Infrastructure	-							
Reccurent	1,415,070,005	1,057,703,963	1,100,012,122	1,155,012,728	1,212,763,364	5.61	4.73	
Development	3,638,500,000	2,994,500,000	4,300,000,000	4,730,000,000	5,203,000,000	14.42	13.39	
Education Youth Affairs, Sports,								

Culture & Social Services								
Reccurent	1,465,087,705	1,258,780,311	1,309,131,523	1,374,588,100	1,443,317,505	5.81	5.63	
Development	295,000,000	110,000,000	600,000,000	660,000,000	726,000,000	1.17	0.49	
Trade and Enterprise Development								
Reccurent	184,034,211	259,219,931	269,588,728	283,068,165	297,221,573	0.73	1.16	
Development	300,000,000	119,500,000	400,000,000	440,000,000	484,000,000	1.19	0.53	
Public Service Management	-							
Reccurent	621,031,439	346,720,132	360,588,937	378,618,384	397,549,303	2.46	1.55	
Development	5,000,000	5,000,000	5,000,000	5,500,000	6,050,000		0.02	
Agriculture and Livestock Development Sector	-							
Reccurent		287,414,798	298,911,390	313,856,959	329,549,807	0.00	1.29	
Development	50,000,000	20,000,000	20,000,000	22,000,000	24,200,000	0.20	0.09	
Water, Energy and Sanitation Sector								
Reccurent				-	-	0.00	0.00	
Development	80,000,000		-	-	-	0.32	0.00	
EMERGENCY TRANSFER FUND			24,000,000.00	36,000,000	48,000,000	0.00	0.00	
TOTAL	25,225,181,330	22,362,598,601	26,306,182,194	28,175,241,303	30,191,448,369	100	100	100