

REPUBLIC OF KENYA



MURANG'A COUNTY ASSEMBLY

THE FIRST ASSEMBLY

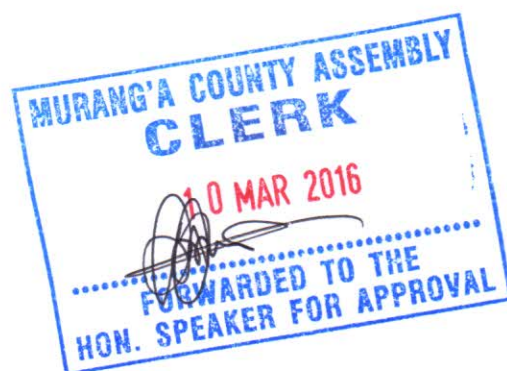
(Fourth Session, 2016)

March, 2016

The Hon. Speaker

Thro'

The Clerk
Murang'a County Assembly
P.O.Box 731
Murang'a



• **Paper Laid:**

*Mr. Speaker Sir, I beg to lay the following paper on the table of the Assembly today
Thursday, March 10, 2016.*

The Budget and Appropriations Committee report on the Murang'a County Fiscal Strategy Paper
for FY 2016/2017

Hon. Peter Mweri Maina, MCA

(Chairperson, Budget and Appropriations Committee)

Date: 10/03/2016.....

REPUBLIC OF KENYA



MURANG'A COUNTY ASSEMBLY

FIRST ASSEMBLY

**THE BUDGET AND APPROPRIATIONS COMMITTEE REPORT ON
THE MURANG'A COUNTY FISCAL STRATEGY PAPER FOR FY 2016/17
AND OVER THE MEDIUM TERM**

Clerk's Chambers,
Murang'a County Assembly Buildings,
MURANG'A.

March 2016

Mr. Speaker, as you are aware the County Fiscal Strategy Paper (CFSP) was laid in the Assembly on Tuesday, March 1, 2016.

Mr. Speaker Sir, as per the PFM Act 2012 and Standing Order 210 (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 2016/17 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 Murang'a County Fiscal Strategy Paper 2016.

Mr. Speaker Sir, the County Assembly Budget & Appropriations Committee comprises of the following 15 Members:

1. Hon. Peter Mweri Maina **-(Chairperson)**
2. Hon. Joseph Ndung'u Muchina **-(Vice-Chairperson)**
3. Hon. Joseph Kimani Gitau, MCA
4. Hon. Joseph Kimani Machiri, MCA
5. Hon. Rosemary Wakuthii Njine, MCA
6. Hon. Esther Wanjiru Ngugi, MCA
7. Hon. Cecilia Wanjiku Gitu, MCA
8. Hon. Charles Mwangi Kirigwi, MCA
9. Hon. Duncan Mwangi Njuguna, MCA
10. Hon. John Njoroge Gitau, MCA
11. Hon. Eliud Kabuthi, MCA
12. Hon. Caroline Njoroge, MCA
13. Hon. James Kariuki Ngugi, MCA
14. Hon. Boniface Mbogo, MCA
15. Hon. Jesse Mburu Gitau, MCA

COMMITTEE'S MANDATE

Mr. Speaker Sir, the County Budget and Appropriations Committee is constituted under the provisions of Standing Order 190(1) & (2). Its mandate pursuant to Standing Order 190(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 210 (3), (4), (5) and (6) are explicit on the procedures of considering the County Fiscal Strategy Paper once it is laid on the floor of the Assembly.

Mr. Speaker, processing of the County Fiscal Strategy Paper for the FY 2016/17 has been challenging due to the Public Finance Management regulations, 2015. Indeed, Hon. Members will recall that processing the current Financial Year budget was argumentative. This is what we will avoid as an Assembly this time round. **Mr. Speaker**, we cannot continue to gamble on public finances and the County Treasury must ensure that the much needed expertise is instilled to ensure an acceptable and quality document. The Committee has taken a lot of due diligence to scrutinize the submitted County Fiscal Strategy Paper 2016 and in making this report.

EXAMINATION OF THE COUNTY FISCAL STRATEGY PAPER

In reviewing the 2016/17 County Fiscal Strategy Paper the Committee held several sittings. The Committee in a letter dated March 2, 2016 invited the County Executive Member for Finance, IT and Planning pursuant to Section 26 (3) of the Public Finance Management Act, 2012, regulations (Legal Notice No. 35) states that, before tabling a report containing recommendations on the County Fiscal Strategy Paper for adoption by the County Assembly in accordance with section 117(6) of the Act, the relevant committee of the County Assembly shall seek the views of the County Executive Committee member on its recommendations. However, the said Executive Member did not turn up but was represented by the Budget Officer and the Director of Planning. 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. It's worth noting that, all Sectoral Committees through their Chairpersons made 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 Committee secretariat that 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.....*Peter Mweri*..... DATE.....*10/3/2016*.....

The Hon. Peter Mweri Maina, MCA
(Chairperson)

A. INTRODUCTION

1. **Mr. Speaker Sir**, on the 26th February 2016, the County Fiscal Strategy Paper, 2016 was submitted to this Assembly as required by Section 117 of the Public Finance Management Act, 2012 and Standing Order 210 (1). The document was then tabled in the Assembly on the 1st of March 2016 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 Executive, 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 County Assembly for consideration.

4. **Mr. Speaker Sir**, Section 117 of the Public Finance Management Act, 2012 outlines the contents of the County Fiscal Strategy Paper 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 programs 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 MURANG'A COUNTY FISCAL STRATEGY PAPER 2016

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 26th of February 2016 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 by 15th, March pursuant to Public Finance Management regulations.

C. ECONOMIC GROWTH

8. **Mr. Speaker**, aware that the County Fiscal Strategy Paper 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 6%. The 2016 BPS forecasted that the Kenyan economy would grow by 5.3% and 5.6% in the year 2014 and 2015 respectively.

9. **Mr. Speaker Sir**, the Committee notes that the County Treasury has failed to highlight how Murang'a County would match the 6% growth rate projected by the National government in the Budget Policy Statement 2016. Notably, **Mr. Speaker**, the paper presents macroeconomic policies and outlook that does not give specifics on fundamentals for growth and prosperity. The document failed to outline how the national objectives would apply to Murang'a County and how the County would aim to customize the national forecasts to fit within the county plans.

D. DEBT

10. **Mr. Speaker Sir**, it is regrettable that the County Fiscal Strategy Paper does not indicate the ideal debt ratio and most importantly the sustainable debt ratio for the County. In fact, the document recommends that there need to be a Debt Management Office to control debts in the County. The County Treasury seems to be in the dark on all debts that the County owes the third parties.

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 2014/15 AND EMERGING CHALLENGES

11. **Mr. Speaker Sir** as with any new system and institutional framework there are bound to be challenges and mistakes. The 2015/16 budget is being implemented under very peculiar scenarios. The Committee was however concerned that the paper failed in its entirety to highlight how the 2014/15 budget and its relationship with the County Fiscal Strategy Paper for FY 2014. 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 County Fiscal Strategy Paper must adhere to this legal requirement.

12. **Mr. Speaker Sir**, such details should strive to cover explicitly the revenue performance and its relation to the approved budget of 2014/15 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 Public Finance Management Act thought it wise to introduce the Budget Policy Statement for the National Government and County Fiscal Strategy Paper 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 programmes.

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. Additionally, **Mr. Speaker**, the County Treasury totally failed the fundamental test in respect to sector ceilings due to the omission of well tabulated details on; the Medium Term Sector ceilings, for FY 2014/15 – FY 2017/18, the Recurrent and Development Sector ceilings for the same period as well as summaries of Expenditure by Programmes for FY 2015/16 -2017/18.

G. ALIGNMENT TO NATIONAL AND COUNTY OBJECTIVES

16. The County Fiscal Strategy Paper as a document was prepared at a time when the County Integrated Development Plan has been set in motion. Additionally, the County Fiscal Strategy

Paper ought to be hinged on the Murang'a County annual Development Plan and the County Budget review Outlook Paper. While the paper is to a great extent in line with some of the documents, it should be wholly consistent with the Annual Development Plan for the FY 2016/2017 and as such any omissions thereto should be rectified and included in the Budget Estimates for the FY 2016/2017.

17. **Mr. Speaker Sir**, Section 117 (2) provides that the County Treasury should align 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 did not full take much focus on the key priorities which would influence the forward progress of Murang'a County.

H. FISCAL POLICIES AND BUDGETARY FRAMEWORK

18. **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 pivotal in achieving these objectives.

19. **Mr. Speaker**, the Committee was however concerned that the revenue forecasts are not based on anything as the County projects to collect in KSh.680million, which is lower than the past two financial years' projections. While the Committee appreciates that the County Treasury is practical based on the actual local revenues for the FY 2013/14, it's yet to clearly highlight the local revenue potential of the County so as to make a sound judgment as to whether the projection is under-ambitious or not. Furthermore, the revenue mobilization strategies and automation have not been implemented. The Committee hence recommends that there need for a clear explanation on how the revenue targets would be achieved and the local revenue sources potential.

20. **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. The County Treasury has indeed stipulated that it has no intention of acquiring a loan in the near future.

21. **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 setting the ceilings for programs in the County Fiscal Strategy Paper.

I. FISCAL RESPONSIBILITY PRINCIPLES

22. **Mr. Speaker Sir**, Section 25 (I) (g) of the Legal Notice (No.35) of the Public Finance Management regulations, 2015 stipulates that the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower.

Mr. Speaker, as may recall, the current approved expenditure for this Assembly is Kshs. 844 million. Going by the aforementioned section of the County Governments regulations, it would mean that the expenditure of this Assembly would reduce almost by half.

This would adversely affect the operations of this House and more importantly, the oversight role of County Assemblies.

Mr. Speaker, it's instructive to note that the County Allocation of Revenue Act, 2015 was amended to provide for setting of expenditure ceilings by the Commission on Revenue Allocation. To this end, it's apparent from the outset that Section 25 (I) (b) of Public Finance Management regulations, 2015 is inconsistent with afore stated Act and as such it's null and void.

Mr. Speaker, it's within the knowledge of the Committee that the Senate Finance Committee is looking into the matter with a view of requiring the National Treasury to annul all the unconstitutional sections of the County Governments regulations, 2015.

23. **Mr. Speaker, in view of the foregoing**, the Committee resolved to adjust the County Assembly ceilings based on the ideal situation on the ground in its quest to live to the letter of the Constitution and the County Allocation of Revenue Act, 2015.

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:

- (I.) The FY 2016/2017 Budget Estimates should be in line with the percentages of departments' ceilings as enclosed in under the resource envelope in the County Fiscal Strategy Paper, 2016;
- (II.) The document must in future contain program-based analysis of sector/departmental ceilings, revenue and expenditure projections;
- (III.) That there should be strict adherence to the sector/departmental ceilings and other legal requirements when preparing the budget;
- (IV.) The County Treasury should undertake a thorough audit to establish the exact amount of personnel emoluments in the County so as to determine whether it is within the 35% of

the County Government total revenue as provided for under Section 25 (I) (b) of the Public Finance Management regulations, 2015 ;

- (V.) The County Treasury in subsequent report should aim to furnish this Assembly with a breakdown of fiscal performance for any financial year in progress; and
- (VI.) The County Fiscal Strategy Paper 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 210 (7) the County Budget and Appropriation Committee recommends that: *This County Assembly adopts the Murang'a County Fiscal Strategy Paper for the FY 2016/2017 with amendments, as stipulated below on the Amended Financial Resources Allocation Ceilings.*

Amended Financial Resources Allocation Ceilings per Department

DEPARTMENT	TOTAL BUDGET 2015/16 (KSHS)	FY2015/2016 ALLOCATION IN %AGE	FY2016/2017 ALLOCATION IN %AGE	CEILING IN KSHS	PROPOSED FY2016/2017 ALLOCATION IN %AGE	PROPOSED CEILINGS (KSHS)
Office of the Governor	224,472,000	3.4	3.3	213,174,701	3.3	213,174,701
County Assembly	844,574,000	12.7	10	645,983,943	11.5	742,881,535
Finance, ICT and Planning	1,115,443,000	16.8	6	387,590,366	6	387,590,366
Agriculture, Livestock & Fisheries	243,607,000	3.7	7	452,188,760	6	387,590,366
Energy, Transport & Infrastructure Dev't	753,222,000	11.3	17.1	1,104,632,543	17.6	1,136,931,740
Commerce, Trade, Industry & Tourism	152,130,000	2.3	1.5	96,897,591	1.5	96,897,591
Health & Sanitation	1,554,253,000	23.3	28	1,808,755,041	28	1,808,755,041
Lands, Housing & Physical Planning	114,564,000	1.7	2	129,196,7881	2	129,196,788
Public Service & Administration	753,025,000	11.3	10.9	704,122,498	10.9	704,122,498
Education and Technical Training	264,800,000	3.9	6	387,590,366	6	387,590,366
Youth, Culture, Gender, Social Services & Coop.	501,393,000	7.5	6	387,590,366	5	322,991,972

Environment and Natural Resources	91,725,000	1.4	1.5	96,897,591	1.5	96,897,591
County Public Service Board	45,504,000	0.7	0.7	45,218,876	0.7	45,218,876
TOTAL		100.00			100.00	6,459,839,431

From the above table, amendments made were as a result of the following justifications taking into account the views of the County Executive Member for Finance, IT and Planning pursuant to Section 26 (3) of the Public Finance Management Act, 2012, regulations (Legal Notice No. 35), which are attached to this report:

- a) County Assembly ceilings were increased by 1.5% although its fall below the sufficient amount, despite the imposition of 7% ceiling by Public Finance Management regulations due to the fact that, the ceiling provided in the County Fiscal Strategy paper 2016, would be inadequate, taking into account the personnel emoluments of about Kshs. 434 million, O & M of Kshs. 180 million, constitutional obligations such as car loan and mortgage of Kshs. 150 million as well as development ongoing projects of about Kshs. 89 million. Further, the Senate Finance Committee is looking into the matter and is expected to give its recommendations later in the month. In order to increase, the ceilings, the ceiling for the department of Youth, Culture, Gender, Social Services & Cooperatives was reduced by 1% from 6% to 5%; where 0.5% was diverted to the County Assembly while the balance of 0.5% was directed to the Energy, Transport and Infrastructure thereby increasing its ceiling from 17.1% to 27.6%. This was prompted by the fact that, the Supplementary Budget for the FY 2015/2016, allocated Kshs. 433 million to Milk Chain which is a key component of the department of Youth, Culture, Gender, Social Services & Cooperatives, and as such, 5% would be sufficient for other programs that are domiciled in the said department

- b) The Committee observed that the department of Agriculture, Livestock and Fisheries has continued to allocate much resources to programs that cannot be felt on the ground and as such its ceiling was reduced from 7% to 6%, where 1% so reduced was directed to the County Assembly so as to make it 11.5%.

ADOPTION OF THE REPORT

The following Committee Members adopted the report:

- 1. Hon. Peter Mweri Maina, MCA.
- 2. Hon. Joseph Muchina, MCA.
- 3. Hon. Joseph Kimani Gitau, MCA
- 4. Hon. Joseph Kimani Machiri, MCA
- 5. Hon. Rosemary Wakuthii Njine, MCA
- 6. Hon. Esther Wanjiru Ngugi, MCA
- 7. Hon. Cecilia Wanjiku Gitu, MCA
- 8. Hon. Charles Mwangi Kirigwi, MCA
- 9. Hon. Duncan Mwangi Njuguna, MCA
- 10. Hon. John Njoroge Gitau, MCA
- 11. Hon. Eliud Kabuthi, MCA
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- 15. Hon. Jesse Mburu Gitau, MCA


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