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Committee on
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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

12TH PARLIAMENT



SECOND SESSION

THE REPORT OF THE BUDGET AND APPROPRIATIONS COMMITTEE ON THE SECOND
SUPPLEMENTARY ESTIMATES FOR 2017/2018

*Approved
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APRIL 2018

PREFACE

Mr. Speaker Sir, on behalf of the Members of the Budget and Appropriations Committee and pursuant to Article 223 of the Constitution, section 44 of the Public Finance Management Act, 2012, section 40 of the Public Finance Management Regulations, 2015 and Standing Orders 243; it is my pleasure to present to this House, the Committee's Report on the second Supplementary Estimates for financial year 2017/2018.

Mandate of the Committee

Mr. Speaker, Article 221 (4 and 5) of the Constitution and the Public Finance Management Act, 2012 provide for the establishment of a Committee of the National Assembly whose main role is to take the lead in budgetary oversight by the National Assembly. Pursuant to this constitutional provision, Standing Order 207 establishes the Budget and Appropriations Committee with specific mandates among which is to:

- i. Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the national budget, and
- ii. Discuss and review the estimates and make recommendations to the House.
- iii. Examine the Budget Policy Statement presented to the House
- iv. Examine bills related to the national budget including appropriation bills
- v. Evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays, and
- vi. Examine the Division of Revenue Bill

Mr. Speaker, the Budget and Appropriations Committee as currently constituted comprises of the following Honourable Members:

1. **Hon. Kimani Ichung'wah, M.P-** Chairperson
2. **Hon. Moses Lessonet, M.P-** Vice Chairperson
3. Hon. CPA John Mbadi, M.P.

4. Hon. Richard Onyonka, M.P.
5. Hon. Samwel Moroto, M.P.
6. Hon. Millie Odhiambo, M.P.
7. Hon. Twalib Bady, M.P.
8. Hon. (Dr.) Gideon Ochanda, M.P.
9. Hon. James Mwangi Gakuya, M.P.
10. Hon. (Dr.) Makali Mulu Benson, M.P.
11. Hon. Moses Kiarie Kuria, M.P.
12. Hon. Benard Masaka Shinali, M.P.
13. Hon. John Muchiri Nyaga, M.P.
14. Hon. Jude Njomo, M.P.
15. Hon. (Dr.) Korei Ole Lemein, M.P.
16. Hon. Sarah Paulata Korere, M.P.
17. Hon. Naisula Lesuuda, M.P.
18. Hon. Christopher Wangaya Aseka, M.P.
19. Hon. Danson Mwashako, M.P.
20. Hon. Fatuma Gedi Ali, M.P.
21. Hon. Florence Chepng'etich Koskey, M.P.
22. Hon. James Gichuki Mugambi, M.P.
23. Hon. (Dr.) John K. Mutunga, M.P.
24. Hon. (Eng.) Mark Nyamita, M.P.
25. Hon. Paul Abuor, M.P.
26. Hon. Qalicha Gufu Wario, M.P.
27. Hon. Ruth W. Mwaniki, M.P.

Examination of the Second Supplementary Estimates for Financial Year 2017/2018

Mr. Speaker, the Supplementary Estimates II for the financial year 2017/2018 was submitted to the National Assembly on 11th April 2018, just two months before the end of the financial year. In accordance with Standing Order 243(3), once the Supplementary II Estimates was tabled, it was committed to the Budget and Appropriations Committee as well as the various Departmental Committees to deliberate on in line with their respective mandates and make recommendations to the Budget and Appropriations Committee. The Committee has examined and discussed the estimates and has made recommendations, which are contained in this report. If approved by the House, these recommendations will form the basis for the passage of the second supplementary appropriation act for financial year 2017/2018.

Mr. Speaker, in reviewing the Second Supplementary Estimates for 2017/18, the Committee held 5 Sittings including one (1) Sitting with the National Treasury. The committee also received submissions and recommendations from the various departmental committees which have been taken into account in the finalization of this report.

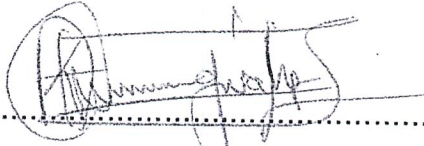
Acknowledgements

Mr. Speaker, the Committee is grateful to the departmental committees for having worked tirelessly to ensure that the National Assembly lives up to its budgetary oversight role. The committee would also like to extend its gratitude to the various Ministries, Departments and Agencies of the National Government who appeared before the departmental committees, and particularly to the National Treasury for always being at hand for deliberations on the supplementary estimates.

Lastly **Mr. Speaker**, the Committee is also grateful to the Office of the Speaker of the National Assembly, the Office of the Clerk of the National Assembly and the Parliamentary Budget Office for the steadfast support received as it discharged its mandate of reviewing the Second Supplementary Estimates for the financial year 2017/2018.

Mr. Speaker, it is therefore my humble duty and privilege, on behalf of the Budget and Appropriations Committee, to table the Report on the Supplementary II Estimates for FY 2017/2018 and recommend it to the House for adoption.

Signed:



Hon. Kimani Ichung'wah, M.P.

Chairperson, the Budget and Appropriations Committee

Date:

25/4/18

I. OVERVIEW OF THE SUPPLEMENTARY ESTIMATES II FOR 2017/2018

Introduction

Mr. Speaker, this House approved the first supplementary budget for financial year 2017/2018 in October 2017. The purpose of the first supplementary was to provide additional expenditure for a repeat of the presidential election in addition to drought mitigation, enhancement of the Free Day Secondary Education as well as implementing agreed CBAs to quell labour unrest in the education sector. Furthermore, **Mr. Speaker**, at the time of the first supplementary, it was noted that revenue had seriously underperformed due to the uncertainty in the business environment and this necessitated significant austerity measures for almost all the Ministries, Departments and Agencies particularly with regard to the recurrent budget.

Mr. Speaker, we are happy to observe a significant improvement in the country's macro-economic environment since then. Inflation rate is low at 4.2 percent for the month of March 2018 and the Exchange rate has strengthened and is stable due to increased diaspora remittances. These factors, including emerging political stability, are likely to improve the investment and general business climate. The food outlook also seems promising as a result of improved rainfall performance over most of the country's food basket.

Mr. Speaker, the second supplementary is mainly a reduction across all ministries which seems to have been necessitated by low absorptive capacity and the need to contain the budget deficit especially at this time of low performance of revenues. In terms of overall changes, the second supplementary budget proposes a net decrease in the total budget estimates by Kshs.17.6 billion (1.1% of approved estimates). Bulk of expenditure reductions is under the development budget which is proposed to reduce by Kshs.40.8 billion (6.61 % decrease). On the other hand, the recurrent budget is expected to rise by Kshs. 23.2 billion (2.20 % increase) if the supplementary budget is approved. Other changes include a reduction of Kshs. 2.1 billion from the Parliament budget and a reduction of Kshs. 0.86 billion from the Judiciary budget. Significant changes are also observed under the Consolidated Fund Services particularly with regard to debt payments. Interest

payments have increased significantly by Ksh. 24.34 billion comprising Ksh. 19.25 billion external interest payments and Ksh. 5.095 billion domestic interest payments. On the other hand, debt redemptions have increased by Ksh. 3.29 billion (internal debt redemption ksh. 2.05 billion and external debt redemption ksh.1.23 billion).

Adherence to the Legal Framework

Mr. Speaker, the process of supplementary budget preparation, approval and implementation, is provided for in Article 223 of the Constitution; Sections 43(2) and 44 of the PFM Act 2012, Section 40 of the PFM Regulations as well as the National Assembly Standing Orders. A good supplementary budget is one that complies with these set down laws and procedures in order to not only ensure that the supplementary expenditure is unavoidable, but that to the greatest extent possible, it is still in line with the overall development agenda as was envisioned in the original approved budget.

Mr. Speaker, it is noted that to a large extent, the supplementary budget has complied with the legal provisions. However, the committee observed a few matters which contravene the laid down laws and procedures. Notably, some expenditure adjustments in the supplementary budget exceed the 10 percent threshold contrary to section 43 (2) (c) of the PFM Act, 2012. In addition, there are new projects introduced in the supplementary budget such as the purchase of Ct scans, Naivasha Industrial Park, and the equipping of six youth polytechnics with modern equipment among others. This is contrary to PFM regulation 40(8). It is also noted that despite extensive changes in the budget, analysis of the fiscal impact of the addition/ reduction in expenditure for the planned outcomes of the affected programmes has not been provided for many of the affected programmes. For instance, Ksh. 1 billion has been deducted from the Ministry of water due to budget rationalization on account of reduced AiA collection with no further clarity on how this will impact service delivery. Crucial information such as outstanding liabilities and commitments as well as the impact of budget changes on contingent liabilities and pending bills has also not been provided. The committee also notes with concern that some expenditures in the supplementary

may not really be a subject matter of the supplementary as they are neither unforeseen nor unavoidable.

Mr. Speaker, these concerns are not new. They have routinely been raised during the review of past supplementary budgets but it appears that these matters are not taken into account. As was indicated during the first supplementary, submission of comprehensive information enables this House to make informed decisions and also promotes openness and transparency in the budget making process. As such, any expenditure adjustments which contravene any legal provision have been subjected to further scrutiny.

II. KEY PROPOSED ADJUSTMENTS UNDER SUPPLEMENTARY ESTIMATES II FOR 2017/2018

a) Recurrent expenditure

Mr. Speaker, under the recurrent budget, expenditure adjustments amount to a net increase of Ksh. 23.2 billion; bulk of which is on account of salary adjustments mainly in health sector and education and the other amounts in on account of security related expenditures. Major increments in recurrent expenditure are observed in the following MDAs:

- **Ksh. 18.1 billion** to the Ministry of Health to cater for the remunerations of health personnel in line with the implementation of CBAs as well as revenue adjustment with respect to increased AiA collection (to reflect actual collection position)
- **Ksh.16.3 billion** for the Teachers Services Commission (TSC) to cater for shortfalls in salaries as a result of the implementation of job evaluation as well as provisions for the recruitment of additional teachers.
- **Ksh. 5.7 billion** for the State Department for University Education to cater for the implementation of CBA for university staff.
- **Ksh. 4.0 billion** for the State Department for Interior to cater for salaries increments in the policing services.

- **Ksh.2.2 billion** for the National Intelligence Service for security related expenditure.
- **Ksh.2.0 billion** for the State Department for Transport under the Kenya Civil Aviation Authority as an adjustment of increased local Appropriation in Aid collection
- **Ksh. 1.9 billion** for the State Department for Agriculture to cater for the acquisition of strategic maize stock and purchase of fertilizers.
- **Ksh.1.9 billion** for the State Department of Basic Education of which Ksh. 1.5 billion is to cater for legal compensation in respect of compulsory acquisition of private lands by the government.
- **Ksh. 1.8 billion** for the Ministry of Foreign Affairs to cater for operations of foreign mission abroad (mostly renovations and refurbishments) and to facilitate state visits in abroad.
- **Ksh.1.4 billion** for the State Department for Broadcasting and Telecommunication to cater for pending bills, short fall in salaries and allowances for employees and adjustments in increased local AiA collection by the government advertising agency.
- **Ksh. 1.6 billion** for the Ministry of Defence for personnel emoluments.
- **Ksh. 1.3 billion** for the state department for correctional services for salaries of employees due to increased recruitment.
- **Ksh. 1 billion** under the presidency to cater for coordination of state functions

Mr. Speaker, it should be noted that the increments related to Salaries has been financed through a reduction of the funds provided for salary adjustments in the vote of National Treasury.

Mr. Speaker, the committee observes that in the second supplementary, some MDAs have collected more AiA than was originally budgeted for and this has been subsumed in their budgets. Though increased AiA is a positive factor, there is need for critical focus on the management and use of appropriations in aid given the challenges with regard to estimation and reporting as well as use of the proceeds in a transparent manner. To this extent, the committee recommends that additional AIA collected in the course of the year should not be utilized to finance new expenditures and should instead be surrendered to exchequer as miscellaneous revenues.