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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

TWELFTH PARLIAMENT

FIFTH SESSION

THE BUDGET AND APPROPRIATIONS COMMITTEE REPORT ON THE COUNTY
ALLOCATION OF REVENUE BILL (SENATE BILL NO. 30 OF 2021)

JUNE, 2021

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CHAIRPERSON'S FOREWORD

In accordance with Article 110 of the Constitution of Kenya 2010 Section 191(4) of the Public Finance Management Act, 2012 and Standing Orders 41, I am honoured to present to this House, on behalf of the Members of the Budget and Appropriations Committee, the Committee's Report on the County Allocation Revenue Bill (Senate Bill No. 30 of 2021).

The County Allocation of Revenue Bill is an annual legislation introduced in accordance with the provisions of Article 218 of the Constitution with the objective of equitably allocating the share of national revenue amongst the forty-seven (47) Counties. The Senate on Thursday, 3rd June 2021 passed with amendments the County Allocation of Revenue Bill, 2021 and sought concurrence of the National Assembly on the said Bill in accordance with provisions of Article 112(1) (b) of the Constitution.

On Tuesday, 8th June 2021, the Speaker received the message from the Senate regarding its passage and referred the Message to Budget and Appropriations Committee for consideration.

Consideration of the County Allocation of Revenue Bill (Senate Bill No. 30 Of, 2021)

In reviewing the message, the Committee held two (2) Sittings where extensive deliberations were held. Arising from these deliberations, the committee made the following observations:

- i. There is high level of pending bills at the County Level as well as lack of transparency in reporting of pending bills. County governments need to prioritize pending bills as a first charge in the budget implementation cycle for the FY 2021/22 before embarking on new financial commitments. In addition, for prudence in the management of public finances at county level, reporting of pending bills should be for both the Executive and Assembly.
- ii. The County Assembly ceilings has been improved on account of personnel emoluments and for settlement of outstanding pending bills. The County Assembly salaries and wages have risen over the past years due to annual salary increments. The increments further have an effect on gratuity costs and hence the small growth in County Assembly ceilings.

Committee recommendation

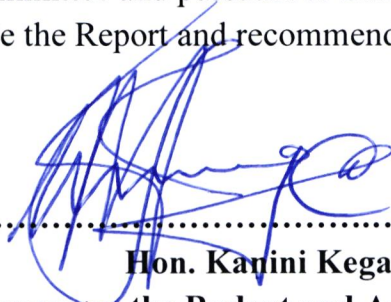
The Committee recommends that this House do concur with the Senate on the schedules hereby attached.

Acknowledgements

The Budget and Appropriations Committee is 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 support extended in fulfilling this mandate of reviewing the County Allocation of Revenue Bill (Senate Bill No. 30 of 2021) during this period of uncertainty.

On behalf of the Committee and pursuant to Standing Order 199(6), it is my pleasant duty and privilege to table the Report and recommend it to the House for adoption.

Signed:



Hon. Karini Kega, CBS, M.P.
Chairperson, the Budget and Appropriations Committee

Date:

14TH JUNE 2021

A. PREFACE

1.1: Establishment and Mandate of the Committee

Article 221 (4 and 5) of the Constitution and Section 7 of 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. Pursuant to this constitutional provision, Standing Order 207 established 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.
- ii. Discuss and review the Estimates and make recommendations to the House.
- iii. Examine the Budget Policy Statement, the Medium-Term Debt Strategy Paper, and the Division of Revenue Bill (DoRB) presented to the House.
- iv. Examine Bills related to the national budget, including the Appropriations Bill; and
- v. Evaluate tax estimates, economic and budgetary policies, and programmes with direct budget outlays.

1.2. Membership of the Committee

The Budget and Appropriations Committee as currently constituted comprises of the following Honourable Members of Parliament:

Member	Constituency	Party
1. Hon. Kanini Kega, CBS, M.P. – Chairperson	Kieni	Jubilee
2. Hon. Benard Masaka Shinali, M.P. – Vice Chairperson	Ikolomani	Jubilee
3. Hon. CPA John Mbadi, EGH, CBS, M.P.	Suba South	ODM
4. Hon. Emmanuel Wangwe, CBS, M.P.	Navakholo	Jubilee
5. Hon. CPA Moses K. Lessonet, CBS, M.P.	Eldama Ravine	Jubilee
6. Hon. Samwel Moroto, M.P.	Kapenguria	Jubilee
7. Hon. Millie Odhiambo, M.P.	Suba North	ODM
8. Hon. Alfred Kiptoo Keter, M.P.	Nandi Hills	Jubilee
9. Hon. Richard Onyonka, M.P.	Kitutu Chache South	Ford Kenya
10. Hon. (Dr.) Makali Mulu Benson, M.P.	Kitui Central	Wiper

11. Hon. Twalib Bady, M.P.	Jomvu	ODM
12. Hon. Jude Njomo, M.P.	Kiambu Town	Jubilee
13. Hon. Sarah Paulata Korere, M.P.	Laikipia North	Jubilee
14. Hon. Fatuma Gedi Ali, CBS, M.P.	Wajir County	PDR
15. Hon. Wangari Mwaniki, OGW, M.P.	Kigumo	Jubilee
16. Hon. Josephine Naisula Lesuuda, OGW, M.P.	Samburu West	KANU
17. Hon. Sakwa Bunyasi, M.P.	Nambale	ANC
18. Hon. Florence Chepng'etich Koskey Bore, M.P.	Kericho County	Jubilee
19. Hon. James Gichuki Mugambi, MBS, M.P.	Othaya	Jubilee
20. Hon. Danson Mwashako, M.P.	Wundanyi	Wiper
21. Hon. (Eng.) Mark Nyamita, M.P.	Uriri	ODM
22. Hon. Paul Abuor, M.P.	Rongo	ODM
23. Hon. Mercy Wanjiku Gakuya, M.P.	Kasarani	Jubilee
24. Hon. CPA Francis Kuria Kimani, M.P.	Molo	Jubilee
25. Hon. Samuel Atandi, M.P.	Alego Usonga	ODM
26. Hon. Joseph Manje, M.P.	Kajiado North	Jubilee
27. Hon. Marselino Arbelle, M.P.	Laisamis	Jubilee

1.3 Parliamentary Budget Office and Committee Secretariat

The Committee is facilitated by the following officers from the Parliamentary Budget Office:

1. Ms. Phyllis Makau, OGW	Director, Parliamentary Budget Office
2. Mr. Martin Masinde	Senior Deputy Director, Parliamentary Budget Office
3. Mr. Fredrick Muthengi	Chief Fiscal Analyst
4. Ms. Amran Yunis	Fiscal Analyst I

The Committee Secretariat comprises of the following officers:

1. Mr. Joseph Ndirangu	Fiscal Analyst I/ Clerk of the Budget and Appropriations Committee
2. Mr. Danson Kachumbo	Fiscal Analyst I/ Clerk of the Budget and Appropriations Committee
3. Ms. Winfred Kizia	Media Relations
4. Mr. Benard Omondi	Serjeant-at-arms
5. Mr. Stephen Nyakuti	Audio Officer
6. Mr. George Mbaluka	Office Assistant

B. INTRODUCTION

1. The County Allocation of Revenue Bill (CARB) is prepared in accordance with the resolution made by the Senate as provided for in Article 217 of the constitution of Kenya 2010. The CARB 2021 was published on 30th April 2021, read a first time on 4th May 2021 and approved by the Senate on Thursday, 3rd June 2021.
2. The Bill was further read a first time in the National Assembly on Tuesday, 8th June 2021 and committed to the Budget and Appropriation Committee. CARB guarantees county governments their respective share of revenue raised nationally and ensures seamless operations at county level. This is done through the enactment of the County Allocation of Revenue Act based on the overall provisions in the Division of Revenue Act (DoRA).
3. The DoRA 2021 gives a total allocation of Kshs. 370 billion as equitable share to county governments. The county Allocation of Revenue Bill has therefore been prepared based on the approved DORA 2021.

Content of the County Allocation of Revenue Bill (Senate Bills No. 30 of 2021)

4. The County Allocation of Revenue Bill 2021 proposes to share the allocation of Kshs. 370 billion amongst the county governments for FY 2021/22 and it contains two schedules relating to the following: -
 - i) First Schedule on equitable share- Kshs. 370 billion allocations of each County Government equitable share of revenue raised nationally, financial year 2021/22.
 - ii) Second Schedule on County Government budget ceilings of recurrent expenditure in financial year 2021/22.
5. The first schedule of CARB 2021 provides for the horizontal distribution of the equitable share among the 47 County governments using the formula approved by Parliament in September 2020 which is arrived at by using one half of the equitable share allocated to counties in the financial year 2019/ 20 amounting to Kshs. 158. 25 billion and netting out from the equitable share of Kshs. 370 billion, while the resulting balance of Kshs. 211.75 billion is allocated among county governments using the Formula $0.18 * \text{Population Index } i + 0.17 * \text{Health Index } i + 0.10 * \text{Agriculture}$

Indexi+0.05*Urban Indexi+0.14* Poverty Indexi+0.08*Land Area
Indexi1+0.08*Roads Indexi +0.20* Basic Share Index.

6. The proposed 2nd schedule is in relation to county governments' budget ceilings on recurrent expenditure for the county executive and the county assemblies for the financial year 2021/22. The recommendations are in fulfillment of the requirement of Articles 216 (2) and (3) of the Constitution of Kenya 2010 and Section 107 (2) (a) of the Public Finance Management Act (PFMA) 2012.

C. PROPOSED SENATE AMENDMENT TO THE COUNTY ALLOCATION OF REVENUE BILL, 2021

7. In its consideration of the County Allocation of Revenue Bill, 2021, the Senate observed that county assemblies have raised concerns on the non-disbursement of all budgetary allocation. The slow or delayed exchequer releases have contributed to loss of unspent resources at the end of each financial year as well as pending bills from one financial year to the other.
8. Counties have pending bills which include Kshs. 26.02 billion for County Pension Fund (CPF) as of 31st December 2020 and Kshs. 14.57 billion for Local Authorities Pension Trust (LAPT) as of 30th November 2020 as per the Controller of Budget reports. With the ceiling of recurrent budget remaining the same as in FY 2020/21, the county governments might have a challenge in settling the pending bills and having sufficient resources to meet statutory requirements and offer other services.
9. Calculation of P/E by the CRA was based on actuals and not the optimal staffing levels to avoid litigation through non-payments of dues. The County Assembly salaries and wages have therefore risen over the past years due to annual salary increments which have not been captured within the ceilings. The increments further have an effect on gratuity costs as well and need to be covered within the ceilings.
10. Considering the above observations, the Senate made amendments to the recurrent expenditure ceilings of the County assemblies and increased the ceilings from the proposed Kshs. 33.25 billion to Kshs. 35.66 billion.

D. COMMITTEE OBSERVATIONS

The committee made the following observations:

1. There is high level of pending bills at the County Level as well as lack of transparency in reporting of pending bills. County governments need to prioritize pending bills as a first charge in the budget implementation cycle for the FY 2021/22 before embarking on new financial commitments. In addition, for prudence in the management of public finances at county level, reporting of pending bills should be for both the Executive and Assembly.
2. The County Assembly ceilings has been improved on account of personnel emoluments and for settlement of outstanding pending bills. The County Assembly salaries and wages have risen over the past years due to annual salary increments. The increments further have an effect on gratuity costs and hence the small growth in County Assembly ceilings.

E. COMMITTEE RECOMMENDATION

The Committee recommends that this House do concur with the Senate on the schedules hereby attached.

Schedule I: Allocation of Each County Governments' Equitable Share of Revenue Raised Nationally in the financial year 2021/22										
No.	County	2020/2021			0.5(Allocation Ratio)		Equitable share** -0.5 allocation ratio)*(Formula***)		Total Equitable Share *** FY 2021/22	Column H= D+F
		Column A	Column B	Column C	Column D	Column E	Column F	Column G		
		Allocation Ratio	Actual Allocations 2019/20- Allocation Factor	Allocation Ratio	0.5% county allocation	Allocation Ratio	Equitable share using formula	Allocation Ratio	Total Equitable share	
1	Baringo	1.61	5,095,650,000	1.61	2,547,825,000	1.80	3,821,569,592	1.72	6,369,394,592	
2	Bomet	1.74	5,507,100,000	1.74	2,753,550,000	1.86	3,937,549,118	1.81	6,691,099,118	
3	Bungoma	2.81	8,893,650,000	2.81	4,446,825,000	2.93	6,212,610,192	2.88	10,659,435,192	
4	Busia	1.90	6,013,500,000	1.90	3,006,750,000	1.97	4,165,412,009	1.94	7,172,162,009	
5	Elgeyo-Marakwet	1.22	3,861,300,000	1.22	1,930,650,000	1.26	2,675,882,480	1.25	4,606,532,480	
6	Embu	1.36	4,304,400,000	1.36	2,152,200,000	1.40	2,973,043,762	1.39	5,125,243,762	
7	Garissa	2.22	7,026,300,000	2.22	3,513,150,000	2.08	4,414,062,254	2.14	7,927,212,254	
8	Homa-Bay	2.13	6,741,450,000	2.13	3,370,725,000	2.09	4,434,628,300	2.11	7,805,353,300	
9	Isiolo	1.34	4,241,100,000	1.34	2,120,550,000	1.22	2,589,838,265	1.27	4,710,388,265	
10	Kajiado	2.03	6,424,950,000	2.03	3,212,475,000	2.24	4,742,293,229	2.15	7,954,768,229	
11	Kakamega	3.29	10,412,850,000	3.29	5,206,425,000	3.39	7,182,987,168	3.35	12,389,412,168	
12	Kericho	1.70	5,380,500,000	1.70	2,690,250,000	1.77	3,740,414,924	1.74	6,430,664,924	
13	Kiambu	2.98	9,431,700,000	2.98	4,715,850,000	3.31	7,001,675,720	3.17	11,717,525,720	
14	Kilifi	3.30	10,444,500,000	3.30	5,222,250,000	3.03	6,419,342,941	3.15	11,641,592,941	
15	Kirinyaga	1.34	4,241,100,000	1.34	2,120,550,000	1.45	3,075,627,952	1.40	5,196,177,952	
16	Kisii	2.46	7,785,900,000	2.46	3,892,950,000	2.36	5,001,324,509	2.40	8,894,274,509	
17	Kisumu	2.16	6,836,400,000	2.16	3,418,200,000	2.18	4,607,939,240	2.17	8,026,139,240	
18	Kitui	2.79	8,830,350,000	2.79	4,415,175,000	2.82	5,978,795,413	2.81	10,393,970,413	
19	Kwale	2.46	7,785,900,000	2.46	3,892,950,000	2.06	4,372,635,516	2.23	8,265,585,516	
20	Laikipia	1.32	4,177,800,000	1.32	2,088,900,000	1.44	3,047,365,679	1.39	5,136,265,679	
21	Lamu	0.82	2,595,300,000	0.82	1,297,650,000	0.85	1,807,999,643	0.84	3,105,649,643	
22	Machakos	2.45	7,754,250,000	2.45	3,877,125,000	2.50	5,285,179,232	2.48	9,162,304,232	
23	Makueni	2.34	7,406,100,000	2.34	3,703,050,000	2.09	4,429,733,562	2.20	8,132,783,562	
24	Mandera	3.23	10,222,950,000	3.23	5,111,475,000	2.87	6,078,907,598	3.02	11,190,382,598	
25	Marsabit	2.14	6,773,100,000	2.14	3,386,550,000	1.84	3,890,454,032	1.97	7,277,004,032	

Schedule 1: Allocation of Each County Governments' Equitable Share of Revenue Raised Nationally in the financial year 2021/22									
No.	County	2020/2021		0.5(Allocation Ratio)		Equitable share** -0.5 allocation ratio)*(Formula***)		Total Equitable Share *** FY 2021/22	
		Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H= D+F
		Allocation Ratio	Actual Allocations 2019/20- Allocation Factor	Allocation Ratio	0.5% county allocation	Allocation Ratio	Equitable share using formula	Allocation Ratio	Total Equitable share
26	Meru	2.54	8,039,100,000	2.54	4,019,550,000	2.59	5,474,307,338	2.57	9,493,857,338
27	Migori	2.14	6,773,100,000	2.14	3,386,550,000	2.18	4,618,470,448	2.16	8,005,020,448
28	Mombasa	2.23	7,057,950,000	2.23	3,528,975,000	1.91	4,038,379,061	2.05	7,567,354,061
29	Murang'a	1.99	6,298,350,000	1.99	3,149,175,000	1.90	4,030,980,855	1.94	7,180,155,855
30	Nairobi City	5.03	15,919,950,000	5.03	7,959,975,000	5.33	11,289,702,414	5.20	19,249,677,414
31	Nakuru	3.31	10,476,150,000	3.31	5,238,075,000	3.68	7,788,041,323	3.52	13,026,116,323
32	Nandi	1.69	5,348,850,000	1.69	2,674,425,000	2.04	4,316,444,041	1.89	6,990,869,041
33	Narok	2.54	8,039,100,000	2.54	4,019,550,000	2.28	4,825,239,456	2.39	8,844,789,456
34	Nyamira	1.52	4,810,800,000	1.52	2,405,400,000	1.29	2,729,940,036	1.39	5,135,340,036
35	Nyandarua	1.54	4,874,100,000	1.54	2,437,050,000	1.53	3,233,394,228	1.53	5,670,444,228
36	Nyeri	1.71	5,412,150,000	1.71	2,706,075,000	1.66	3,522,653,555	1.68	6,228,728,555
37	Samburu	1.46	4,620,900,000	1.46	2,310,450,000	1.45	3,060,896,037	1.45	5,371,346,037
38	Siaya	1.83	5,791,950,000	1.83	2,895,975,000	1.92	4,070,532,531	1.88	6,966,507,531
39	Taita-Taveta	1.34	4,241,100,000	1.34	2,120,550,000	1.29	2,721,624,698	1.31	4,842,174,698
40	Tana-River	1.85	5,855,250,000	1.85	2,927,625,000	1.70	3,600,783,765	1.76	6,528,408,765
41	Tharaka-Nithi	1.24	3,924,600,000	1.24	1,962,300,000	1.06	2,251,898,593	1.14	4,214,198,593
42	Trans-Nzoia	1.82	5,760,300,000	1.82	2,880,150,000	2.03	4,306,007,670	1.94	7,186,157,670
43	Turkana	3.33	10,539,450,000	3.33	5,269,725,000	3.47	7,339,580,994	3.41	12,609,305,994
44	Uasin-Gishu	2.00	6,330,000,000	2.00	3,165,000,000	2.32	4,903,858,318	2.18	8,068,858,318
45	Vihiga	1.47	4,652,550,000	1.47	2,326,275,000	1.29	2,741,081,827	1.37	5,067,356,827
46	Wajir	2.70	8,545,500,000	2.70	4,272,750,000	2.46	5,201,976,151	2.56	9,474,726,151
47	West Pokot	1.58	5,000,700,000	1.58	2,500,350,000	1.79	3,796,934,329	1.70	6,297,284,329
	Total	100	316,500,000,000	100	158,250,000,000	100	211,750,000,000	100	370,000,000,000

SECOND SCHEDULE

(s.5(1))

Schedule II: County Government Budget Ceilings on Recurrent Expenditure in Financial Year 2021/2022 (Figures are in Kenya Shillings)					
No.	County	County Assembly Ceilings		County Executive Ceilings	
		FY 2020/21	FY 2021/22	FY 2020/21	FY 2021/22
1	Baringo	687,926,864	746,019,020	569,787,017	569,787,017
2	Bomet	606,321,526	648,066,449	552,531,315	552,531,315
3	Bungoma	852,697,315	890,983,497	621,554,119	621,554,119
4	Busia	738,972,659	801,409,679	587,042,718	587,042,718
5	Elgeyo/Marakwet	572,974,781	593,254,972	535,275,615	535,275,615
6	Embu	580,057,624	595,875,448	535,275,615	535,275,615
7	Garissa	758,771,695	829,101,968	569,787,017	569,787,017
8	Homa Bay	852,232,576	931,868,578	604,298,418	604,298,418
9	Isiolo	421,383,160	448,252,685	463,713,275	463,713,275
10	Kajiado	666,147,523	765,404,524	527,830,690	527,830,690
11	Kakamega	1,066,936,774	1,189,967,209	673,321,221	673,321,221
12	Kericho	692,058,978	728,813,928	569,787,017	569,787,017
13	Kiambu	1,085,527,936	1,206,180,907	673,321,221	673,321,221
14	Kilifi	756,635,440	797,062,541	587,042,718	587,042,718
15	Kirinyaga	569,393,333	634,065,925	522,925,302	522,925,302
16	Kisii	919,508,597	990,572,876	621,554,119	621,554,119
17	Kisumu	701,921,494	745,033,801	587,042,718	587,042,718
18	Kitui	836,025,472	886,616,229	604,298,418	604,298,418
19	Kwale	591,895,413	618,445,792	535,275,615	535,275,615
20	Laikipia	452,388,054	470,108,195	493,319,288	493,319,288
21	Lamu	405,697,936	418,152,304	463,713,275	463,713,275
22	Machakos	841,145,156	907,790,391	604,298,418	604,298,418
23	Makueni	703,984,829	756,641,539	569,787,017	569,787,017
24	Mandera	726,834,897	811,048,184	578,963,987	578,963,987
25	Marsabit	640,182,991	715,654,362	535,275,615	535,275,615
26	Meru	914,997,229	988,437,598	621,554,119	621,554,119
27	Migori	836,834,225	863,486,098	604,298,418	604,298,418
28	Mombasa	658,609,194	679,254,392	569,787,017	569,787,017
29	Murang'a	735,143,240	761,307,014	587,042,718	587,042,718
30	Nairobi City	1,409,977,879	1,545,872,087	759,599,725	759,599,725
31	Nakuru	983,219,236	1,049,146,986	656,065,520	656,065,520
32	Nandi	649,760,252	669,452,972	569,787,017	569,787,017
33	Narok	709,598,198	769,346,518	569,787,017	569,787,017
34	Nyamira	596,107,510	612,444,433	535,275,615	535,275,615
35	Nyandarua	633,970,935	664,643,697	552,531,315	552,531,315
36	Nyeri	676,085,232	717,305,285	569,787,017	569,787,017
37	Samburu	490,297,034	518,009,214	480,968,975	480,968,975
38	Siaya	666,308,584	686,651,724	569,787,017	569,787,017
39	Taita/Taveta	601,130,595	631,282,421	535,275,615	535,275,615

Schedule II: County Government Budget Ceilings on Recurrent Expenditure in Financial Year 2021/2022 (Figures are in Kenya Shillings)

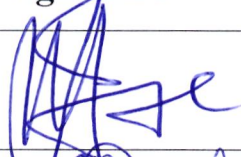
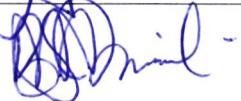

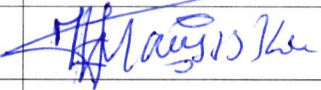

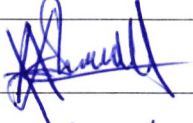


No.	County	County Assembly Ceilings		County Executive Ceilings	
40	Tana River	486,497,243	588,396,752	505,669,601	505,669,601
41	Tharaka -Nithi	423,104,928	455,222,064	493,319,288	493,319,288
42	Trans Nzoia	628,139,110	676,650,593	552,531,315	552,531,315
43	Turkana	767,192,392	821,950,164	569,787,017	569,787,017
44	Uasin Gishu	686,014,946	707,791,808	569,787,017	569,787,017
45	Vihiga	621,955,167	659,609,764	552,531,315	552,531,315
46	Wajir	760,194,403	853,341,593	560,610,046	560,610,046
47	West Pokot	584,824,909	610,173,508	535,275,615	535,275,615
	Total	33,247,585,463	35,656,167,687	26,708,080,067	26,708,080,067

ADOPTION
SCHEDULE

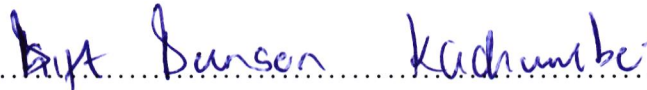
Members' attendance list

Budget and Appropriations Committee

Date...14.06.21... Time...2.00p.m... Sitting:

Name	Signature
1. The Hon. Kanini Kega, CBS, M.P.- Chairperson	
2. The Hon. Benard Masaka Shinali, M.P.- Vice Chairperson	
3. The Hon. (CPA) John Mbadi, EGH, CBS, M.P.	
4. The Hon. Emmanuel Wangwe, CBS, M.P.	
5. The Hon. (CPA) Moses K. Lessonet, CBS, M.P.	Virtual
6. The Hon. Samwel Moroto, M.P.	
7. The Hon. Millie Odhiambo, M.P.	Virtual
8. The Hon. Alfred Kiptoo Keter, M.P.	
9. The Hon. Richard Onyonka, M.P.	Virtual
10. The Hon. (Dr.) Makali Mulu, M.P.	
11. The Hon. Badi Twalib, M.P.	
12. The Hon. Jude Njomo, M.P.	
13. The Hon. Sarah Paulata Korere, M.P.	
14. The Hon. Fatuma Gedi Ali, CBS, M.P.	
15. The Hon. Wangari Mwaniki, OGW, M.P.	Virtual
16. The Hon. Josephine Naisula Lesuuda, OGW, M.P.	

Name	Signature
17. The Hon. Sakwa Bunyasi, M.P.	
18. The Hon. Florence C. K. Bore, M.P.	
19. The Hon. James Gichuki Mugambi, MBS M.P.	
20. The Hon. Danson Mwashako, MP	
21. The Hon. (Eng.) Mark Nyamita, MP	
22. The Hon. Paul Abuor, MP	
23. The Hon. Mercy Wanjiku Gakuya, M.P.	
24. The Hon. (CPA) Francis Kuria Kimani, M.P.	
25. The Hon. Samuel Atandi, M.P.	
26. The Hon. Joseph Manje, M.P.	
27. The Hon. Masalino Arbelle, M.P.	

Signed 

Date 14 06 21
Committee Clerk

Signed 

Date 15/6/2021

Director of Audit, Appropriations & Other Select Committees

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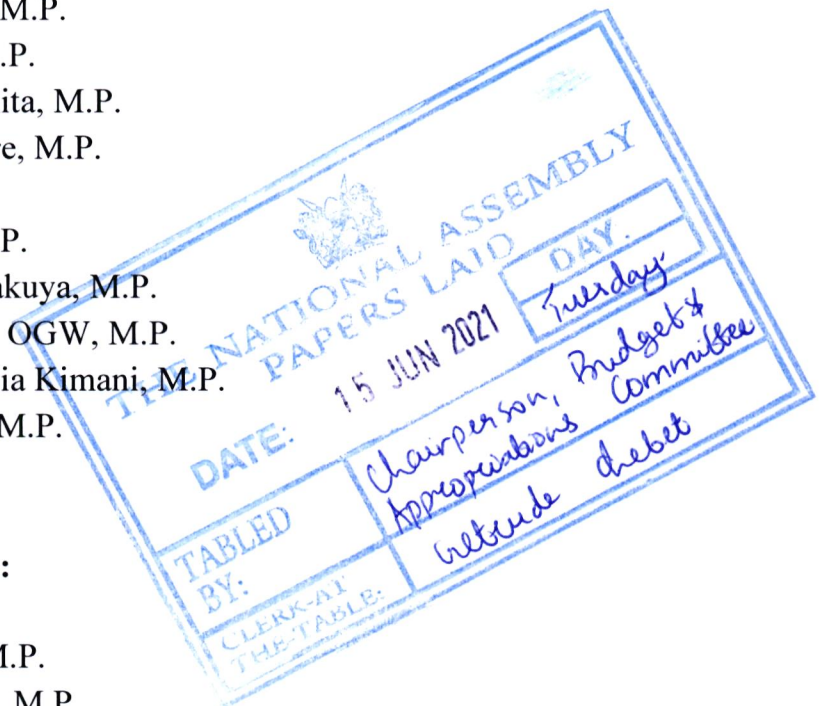
MINUTES OF THE 34th SITTING OF THE BUDGET AND APPROPRIATIONS COMMITTEE HELD AT MINI CHAMBER, FIRST FLOOR, COUNTY HALL ON MONDAY, 14TH JUNE 2021, AT 2.00 P.M.

PRESENT:

1. **Hon. Kanini Kega, CBS, M.P.- Chairperson**
2. **Hon. Benard Masaka Shinali, M.P.- Vice Chairperson**
3. Hon. (CPA) John Mbadi, EGH, CBS, M.P.
4. Hon. Emmanuel Wangwe, CBS, M.P.
5. Hon. (CPA) Moses K. Lessonet, CBS, M.P.
6. Hon. Millie Odhiambo, M.P.
7. Hon. Alfred Kiptoo Keter, M.P.
8. Hon. Richard Onyonka, M.P.
9. Hon. Sakwa Bunyasi, M.P.
10. Hon. (Eng.) Mark Nyamita, M.P.
11. Hon. Florence C. K. Bore, M.P.
12. Hon. Paul Abuor, M.P.
13. Hon. Samuel Atandi, M.P.
14. Hon. Mercy Wanjiku Gakuya, M.P.
15. Hon. Wangari Mwaniki, OGW, M.P.
16. Hon. (CPA) Francis Kuria Kimani, M.P.
17. Hon. Masalino Arbelle, M.P.

ABSENT WITH APOLOGY:

1. Hon. Samwel Moroto, M.P.
2. Hon. (Dr.) Makali Mulu, M.P.
3. Hon. Badi Twalib, M.P.
4. Hon. Jude Njomo, M.P.
5. Hon. Sarah Paulata Korere, M.P.
6. Hon. Josephine Naisula Lesuuda, OGW, M.P.
7. Hon. Danson Mwashako, M.P.
8. Hon. James Gichuki Mugambi, MBS, M.P.
9. Hon. Joseph Manje, M.P.
10. Hon. Fatuma Gedi Ali, CBS, M.P.



PARLIAMENTARY BUDGET OFFICE

- | | |
|----------------------------|------------------------|
| 1) Mrs. Phyllis Makau, OGW | Director, PBO |
| 2) Mr. Martin Masinde | Senior Deputy Director |
| 3) Dr. Abel Nyagwachi | Fiscal Analyst |
| 4) Mrs. Julie Mwithiga | Fiscal Analyst |

COMMITTEE SECRETARIAT

- | | |
|------------------------|--------------------------|
| 1) Mr. Joseph Ndirangu | Fiscal Analyst I & Clerk |
| 2) Mr. Danson Kachumbo | Fiscal Analyst I |
| 3) Mr. Dennis Mawira | Audio Office |
| 4) Mr. George Muoki | PBO Office Assistant |

AGENDA

1. Preliminaries & Confirmation of Agenda
2. *Adoption of the draft report on the County Allocation of Revenue Bill, 2021*
3. *Briefing on the contents of Supplementary Estimates II for FY2020/21*
4. Any Other Business (A.O.B)

MIN.NO.NA/BAC/2021/363: PRELIMINARY

The Chairperson welcomed the committee members to the meeting and called the meeting to order at 2.30 p.m. and thereafter led the committee through prayer.

MIN.NO.NA/BAC/2021/364: ADOPTION OF THE DRAFT REPORT ON THE COUNTY ALLOCATION OF REVENUE BILL, 2021

The Chairperson welcomed the Director to brief members on the Draft report on County Allocation of Revenue Bill, 2021. The draft report was proposed by Hon. Alfred Keter, M.P. and seconded by Hon. Paul Abour, M.P. The draft report contained the following:

A. INTRODUCTION

The County Allocation of Revenue Bill (CARB) is prepared in accordance with the resolution made by the Senate as provided for in Article 217 of the constitution of Kenya 2010. The CARB 2021 was published on 30th April 2021, read a first time on 4th May 2021 and approved by the Senate on Thursday, 3rd June 2021.

The Bill was further read a first time in the National Assembly on Tuesday, 8th June 2021 and committed to the Budget and Appropriation Committee. CARB guarantees county governments their respective share of revenue raised nationally and ensures seamless operations at county level. This is done through the enactment of the County Allocation of Revenue Act based on the overall provisions in the Division of Revenue Act (DoRA).

The DoRA 2021 gives a total allocation of Kshs. 370 billion as equitable share to county governments. The county Allocation of Revenue Bill has therefore been prepared based on the approved DORA 2021.

Content of the County Allocation of Revenue Bill (Senate Bills No. 30 of 2021)

The County Allocation of Revenue Bill 2021 proposes to share the allocation of Kshs. 370 billion amongst the county governments for FY 2021/22 and it contains two schedules relating to the following: -

- i) First Schedule on equitable share- Kshs. 370 billion allocations of each County Government equitable share of revenue raised nationally, financial year 2021/22.
- ii) Second Schedule on County Government budget ceilings of recurrent expenditure in financial year 2021/22.

The first schedule of CARB 2021 provides for the horizontal distribution of the equitable share among the 47 County governments using the formula approved by Parliament in September 2020 which is arrived at by using one half of the equitable share allocated to counties in the financial year 2019/ 20 amounting to Kshs. 158. 25 billion and netting out from the equitable share of Kshs. 370 billion, while the resulting

balance of Kshs. 211.75 billion is allocated among county governments using the Formula $0.18 * \text{Population Index} + 0.17 * \text{Health Index} + 0.10 * \text{Agriculture Index} + 0.05 * \text{Urban Index} + 0.14 * \text{Poverty Index} + 0.08 * \text{Land Area Index} + 0.08 * \text{Roads Index} + 0.20 * \text{Basic Share Index}$.

The proposed 2nd schedule is in relation to county governments' budget ceilings on recurrent expenditure for the county executive and the county assemblies for the financial year 2021/22. The recommendations are in fulfillment of the requirement of Articles 216 (2) and (3) of the Constitution of Kenya 2010 and Section 107 (2) (a) of the Public Finance Management Act (PFMA) 2012.

B. PROPOSED SENATE AMENDMENT TO THE COUNTY ALLOCATION OF REVENUE BILL, 2021

In its consideration of the County Allocation of Revenue Bill, 2021, the Senate observed that county assemblies have raised concerns on the non-disbursement of all budgetary allocation. The slow or delayed exchequer releases have contributed to loss of unspent resources at the end of each financial year as well as pending bills from one financial year to the other.

Counties have pending bills which include Kshs. 26.02 billion for County Pension Fund (CPF) as of 31st December 2020 and Kshs. 14.57 billion for Local Authorities Pension Trust (LAPT) as of 30th November 2020 as per the Controller of Budget reports. With the ceiling of recurrent budget remaining the same as in FY 2020/21, the county governments might have a challenge in settling the pending bills and having sufficient resources to meet statutory requirements and offer other services.

Calculation of P/E by the CRA was based on actuals and not the optimal staffing levels to avoid litigation through non-payments of dues. The County Assembly salaries and wages have therefore risen over the past years due to annual salary increments which have not been captured within the ceilings. The increments further have an effect on gratuity costs as well and need to be covered within the ceilings.

Considering the above observations, the Senate made amendments to the recurrent expenditure ceilings of the County assemblies and increased the ceilings from the proposed Kshs. 33.25 billion to Kshs. 35.66 billion.

After deliberations, the Committee **adopted** the report with the following observations.

The committee made the following observations that:

1. There is high level of pending bills at the County Level as well as lack of transparency in reporting of pending bills. County governments need to prioritize pending bills as a first charge in the budget implementation cycle for the FY 2021/22 before embarking on new financial commitments. In addition, for prudence in the management of public finances at county level, reporting of pending bills should be for both the Executive and Assembly.
2. The County Assembly ceilings has been improved on account of personnel emoluments and for settlement of outstanding pending bills. The County Assembly salaries and wages have risen over the past years due to annual salary increments. The increments further have an effect on gratuity costs and hence the small growth in County Assembly ceilings.

COMMITTEE RECOMMENDATION

The Committee recommends that this House do concur with the Senate on the schedules as per attached report.

MIN.NO.NA/BAC/2021/365: BRIEFING ON THE CONTENTS OF SUPPLEMENTARY ESTIMATES II FOR FY2020/21

The Chairperson welcomed the Director to brief members on the contents of Supplementary Estimates II for FY2020/21. The presentation from PBO highlighted the following:

- 1) **The Supplementary Estimates No. 2 for financial year 2020/21 were tabled in the National Assembly on 9th June 2021 pursuant to Article 223 of the Constitution and Section 44 of the Public Finance Management Act 2012¹.** The second supplementary estimates propose an allocation of Kshs. 3.03 trillion which is comprised of Kshs. 1.26 trillion for recurrent expenditure, Kshs. 705.58 billion for development expenditure and Kshs. 1.07 trillion for Consolidated Fund Services. The aim is to provide for Covid-19 related expenditures, low AIA collection due to the effects of the pandemic, changes in development partners financed projects and to regularize approved additional expenditures and reallocations.
- 2) **In terms of overall changes, the second supplementary estimates propose a reduction of Kshs. 12.29 billion from the first supplementary estimates.** A bulk of expenditure reduction is under the recurrent budget by Kshs. 17.66 billion and a reduction of Kshs. 3.63 billion under the Consolidated Fund Services. Conversely, the development budget has increased by Kshs. 9.01 billion. Other changes include a reduction of Kshs. 955.05 million from Parliament's budget and a reduction of Kshs. 105.46 million from the Judiciary's budget. It is important to note that even though the aim of this supplementary budget is to realign the expenditures to current realities, it has been submitted less than a month to the end of the financial year, putting to question whether the additional development expenditure will be utilized or will result in cumulation of pending bills.

¹ provide for supplementary appropriation for any purpose if the amount allocated in the Appropriation Act is insufficient or a need has arisen for expenditure that was unforeseen and had therefore not been provided for in the Appropriation Act

Table 1: Variation of the FY 2020/21 Budget Estimates (Kshs. Billions)

		Original Estimates	Supplementary Estimates 1	Supplementary Estimates 2	Changes from Original	Changes from Supplementary 1	% Change from Supplementary 1
Executive	<i>Recurrent</i>	1,203.81	1,226.16	1,208.86	5.05	-17.30	-1.4%
	<i>Development</i>	628.54	690.45	700.16	71.61	9.71	1.4%
	Total	1,832.36	1,916.61	1,909.02	76.66	-7.59	-0.4%
Parliament	<i>Recurrent</i>	35.24	33.74	33.49	-1.75	-0.25	-0.8%
	<i>Development</i>	2.07	3.57	2.87	0.80	-0.70	-19.6%
	Total	37.31	37.31	36.35	-0.96	-0.96	-2.6%
Judiciary	<i>Recurrent</i>	15.30	15.21	15.11	-0.19	-0.11	-0.7%
	<i>Development</i>	2.70	2.56	2.56	-0.14	0.00	0.0%
	Total	18.00	17.77	17.66	-0.34	-0.11	-0.6%
CFS	<i>Public Debt Service</i>	905.00	958.50	954.87	49.87	-3.63	-0.4%
	<i>Pensions etc.</i>	123.36	115.31	115.31	-8.05	0.00	0.0%
	Total	1,028.36	1,073.81	1,070.18	41.82	-3.63	-0.3%
Overall	<i>Recurrent</i>	1,254.35	1,275.11	1,257.45	3.10	-17.66	-1.4%
	<i>Development</i>	633.31	696.58	705.58	72.27	9.01	1.3%
	<i>CFS</i>	1,028.36	1,073.81	1,070.18	41.82	-3.63	-0.3%
	Total	2,916.02	3,045.50	3,033.21	117.19	-12.29	-0.4%

Source: National Assembly

- 3) **The National Treasury has already approved expenditures of Kshs. 26.8 billion under the provisions of Article 223 of the Constitution.** This is comprised of Kshs. 2.49 billion for recurrent expenditure, a bulk of which is under the National Treasury's programme on General Administration, Planning and Support Services (Kshs. 1.77 billion). The approved development expenditure amounts to Kshs. 24.4 billion mainly for the road transport programme (Kshs. 15 billion); preventive and promotive health programme (Kshs. 3.8 billion); Urban and Metropolitan development programme (Kshs. 3.0 billion); exploration and distribution of oil and gas programme (Kshs. 1.6 billion) and Water sewerage infrastructure development programme (Kshs. 1 billion). There is an indication that some of the specific areas that have already been funded include Kazi Mtaani (Kshs. 3 billion) and fuel price stabilization (Kshs. 1.43 billion). However, details of the specific projects under the road transport programme and the amounts already approved per project have not been provided.

- 4) **A review of the adherence to the legal framework for the second supplementary budget for financial year 2020/21 indicates a compliance rate of 64.2 percent.** It has broadly adhered to the legal provisions, however, there are some concerns particularly with regard to format, provision of adequate details and analysis of the impact of some of the proposed budgetary changes. The following are some of the key observations (A more detailed review of compliance to the legal provisions is provided in Annex 2).
- (i). Article 223(2) of the 2010 Constitution spells out that the approval of Parliament for any spending shall be sought within two months after the first withdrawal of the money. The National Treasury has provided a list of expenditures permitted under Article 223 of Constitution amounting to Kshs. 26.8 billion. However, the list does not contain dates of the first withdrawal. This therefore makes it difficult to ascertain if some of withdrawals are within the legal framework underpinned by Article 223(2) of the Constitution.
 - (ii). Some programs reallocations (which may be unforeseen) exceed the 10 percent threshold (PFM Act, 2012 section 43 (2)(c)) and will, therefore, require the approval of parliament before they are effected, e.g. Devolution Services programme. The National Treasury has requested for a special approval of these adjustments.
 - (iii). There are new projects introduced under the State Department for Infrastructure contrary to the PFM regulations 40(8) which states that no new programmes /projects are to be introduced in the Supplementary Budget.
 - (iv). Many of the affected programmes under supplementary budget do not have an analysis of the fiscal impact of the additional/ reduction expenditure for the planned outcomes of the affected programmes, no change in some KPIs e.g. the Power Transmission and Distribution programme
 - (v). No information provided on sources for funding of the additional expenditure.
 - (vi). Information provided for conformity to fiscal responsibility principles and objectives is scanty. Information such as the impact of changes on

public debt has not been provided. (Section 44(3),15(2), PFM 26(1), PFM regulations)

- 5) **The assumptions underpinning the second supplementary budget indicate fiscal expansion in FY 2020/21 driven by increased spending amid underperformance of revenue.** The fiscal deficit including grants is expected to increase to 8.6 percent from 7.5 percent of GDP during the approval of the original budget estimates for FY 2020/21. This is on account of a reduction in the total revenues as a share of GDP, increase in overall expenditure and net-lending, increase in grants as a share of GDP and increase in the net domestic and external debt levels. This implies that the negative effects of the Covid-19 pandemic were worse than envisaged, coupled by a business-as-usual approach in the implementation of the budget for FY 2020/21 where prioritization and rationalization in spending does not take place at the beginning of the financial year.

Table 2: Assumptions underpinning Supplementary Estimates No. 2 as a Share of GDP (%)

	Assumptions	Original Proj.	Revised Proj.	Remarks
1.	Total Revenues	16.8	16.5	Underperformance of revenue
2.	Overall expenditure and net lending	24.6	25.8	Increase in overall spending
3.	Grants	0.5	0.7	Increase in the grants
4.	Fiscal Deficit (Inc. grants)	7.5	8.6	Expansion of the fiscal deficit
5.	Net Foreign Financing	3.1	3.9	Increase in foreign debt
6.	Net Domestic Financing	4.4	4.7	Increase in domestic debt

Source: National Treasury

6) **The projection for total revenue as a share of GDP has been maintained at about 16.5 percent of GDP which is similar to what was presented during the first supplementary budget.** As of 30th April 2021, the cumulative revenue collected including AIA was Kshs. 1,420.6 Billion which is Kshs. 45 billion below the National Treasury's target. During the first supplementary budget, total revenue estimates for FY 2020/21 were revised down by about Kshs. 43 billion from 16.8 % of GDP to about 16.6% of GDP. Further, the fiscal deficit as a share of GDP is also similar to what was presented during the first Supplementary budget. Notably, revenue shortfall is cited as one of the main reasons that necessitated the second supplementary budget for 2020/21, however, the second supplementary budget does not provide an update on any of the tax revenue categories.

7) **The Consolidated Fund Services (CFS) expenditures have declined by Kshs. 3.63 billion in the second supplementary estimates from the first supplementary estimates.** The reduction is on account of the suspension of foreign debt servicing by Kshs. 16.8 billion and an increase in domestic debt service by Kshs. 13.16 billion. Notably, there is no change in Pensions and other CFS expenses. The reduction in external debt servicing in the second supplementary was mainly as a result of debt service relief from Exim Bank of China (Kshs. 11.2 billion); Commercial debt creditors for the Debut International Sovereign Bond (Kshs. 1.5 billion) and Commercial debt creditors for the 2019 International Sovereign Bond (Kshs. 1.1 billion). Conversely, the increase in the domestic debt service was because of interest rates for reopened or possibly tenor renegotiated bonds.

A review from the original budget, it is notable that a lot of effort has gone into seeking debt relief resulting in the suspension of external debt service worth Kshs. 94.87 billion. However, the impact of this effort is minimized by the growth in domestic debt service expenses, which grew by Kshs. 144.7 billion. Therefore, curtailment of domestic borrowing levels should take place if the overall objective of fiscal relief from debt suspension is to be achieved.

Table 3: Consolidated Fund Services for FY 2020/21(Kshs. Millions)

Item	FY 2020/21				
	Original Budget	Supplementary I	Supplementary II	SUPP. II vs SUPP. I	CFS Change from Original
Interest					
Internal debt interest	308,424	339,992	353,139	13,147	44,715
External Debt interest	154,684	118,845	107,737	(11,108)	(46,947)
Sub-total	463,108	458,837	460,876	2,039	(2,232)
Redemption					
Internal Debt redemption	261,955	361,955	361,973	18	100,018
External debt redemption	179,937	137,707	132,017	(5,690)	(47,920)
Sub-total	441,892	499,662	493,990	(5,672)	52,098
Public Debt Service	905,001	958,499	954,866	(3,633)	49,866
Pensions, Salaries, Allowances & Others					
Pension	119,192	111,142	111,142	-	(8,050)
Salaries & Allowances	4,152	4,152	4,152	-	-
Miscellaneous Services	16	16	16	-	-
Guaranteed Debt	-	-	-	-	-
Subscriptions to International Organizations	1	1	1	-	-
Sub-total	123,360	115,310	115,310	-	(8,050)
Total CFS Expenditures	1,028,361	1,073,810	1,070,177	(3,633)	41,816

Source: National Treasury

I. Key Proposed Changes in the Supplementary Estimates No. 2 for FY 2020/21

8) **The adjustments in the recurrent budget are mainly on account of non-performance of AIA collection due to the effects of the pandemic and enhancement of operations and maintenance.** It is not clear how these adjustments relate to the payment of pending bills and the additional expenditure may not be utilized given that its is less than one month to the end of the financial year. Therefore, more information on this is required to support the approval of these expenditures. The key areas of major changes under the recurrent budget include-

- (i). Reduction of Kshs. 17.94 billion for the University Education programme under the State Department for University Education due to non-performance of AIA.

- (ii). Reduction of Kshs. 1.95 billion for the Nairobi Metropolitan Services programme in the Executive Office of the President.
- (iii). Reduction of Kshs. 1.80 billion for the Air Transport programme under State Department for Transport on account of low AIA collection as a result of the effects of the Covid-19 pandemic.
- (iv). Increment of Kshs. 1.60 billion for the Exploration and Distribution of Oil & Gas under the State Department for Petroleum to provide for fuel price stabilization.
- (v). Increment of Kshs. 1.50 billion for the Teacher Resource Management programme under the Teachers Service Commission.
- (vi). Increment of Kshs. 1.46 billion for Wildlife Conservation and Management programme under the State Department for Wildlife for salary shortfalls and wildlife census.
- (vii). Increment of Kshs. 1.03 billion for State House Affairs programme in the Executive Office of the President, on account of enhancement of operations and maintenance.

The adjustments in the development budget are mainly due to low absorption of funds in donor-financed projects, provision of Covid-19 Vaccines, additional expenditure in the Kazi Mtaani initiative, hunger safety programme, among others. However, there is lack of supporting information on the additional development expenditure such as in road transport where a bulk of the expenditure has already been approved under the provisions of Article 223. In addition, some of the increments may not be fully utilized and may result in accumulation of pending bills. The key areas of major changes under the development budget include-

- (i). Increment of Kshs. 13.28 billion for the Road Transport programme under the State Department for Infrastructure.
- (ii). Increment of Kshs. 6.47 billion for the Preventive, Promotive & Reproductive Health programme on account of provision for Covid-19 Vaccines and a reduction of Kshs. 3.78 billion for the Health Policy, Standards & Regulations programme on account of budget realignment, under the Ministry of Health.

- (iii). Increment of Kshs. 4.98 billion for the Devolution Services Programme under the State Department for devolution, for the Kenya Devolution Support Programme.
- (iv). Increment of Kshs. 4.09 billion for the Sports programme under the State Department for Sports on account of improved AIA collection in the Sports, Arts and Social Development Fund.
- (v). Increment of Kshs. 3.05 billion for the Water & Sewerage Infrastructure Development programme under the Ministry of Water, Sanitation & Irrigation.
- (vi). Increment of Kshs. 3.0 billion for the Urban & Metropolitan Development programme under the State Department for Housing & Urban Development for Kazi Mtaani.
- (vii). Increment of Kshs.1.16 billion for the Accelerated ASAL Development programme under the State Department for Development of the ASAL for the Hunger Safety Net Programme.
- (viii). Reduction of Kshs. 7.31 billion for the Power Transmission and Distribution programme under the Ministry of Energy on account of low absorption in donor financed projects.
- (ix). Reduction of Kshs. 2.72 billion for the Public Finance Management Programme under the National Treasury
- (x). Reduction of Kshs. 2.097 billion for the Water Resource Management programme under the Ministry of Water, Sanitation & Irrigation on account of low absorption in donor financed projects.
- (xi). Reduction of Kshs. 1.45 billion for Secondary Education Programme under the State Department for Early Learning & Basic Education.

II. WAY FORWARD

The following are the policy options-

- (i). Approve the second supplementary budget for FY 2020/21 as submitted.
- (ii). Approve the second supplementary budget for FY 2020/21 with adjustments.
- (iii). Reject the second supplementary budget for FY 2020/21

After the presentation, the Committee observed the following:

1. The Committee queried the source of financing for the additional expenditure.
2. The Committee further queried the date of the withdrawals granted under Article 221 of the Constitution.

MIN.NO.NA/BAC/2021/366: ANY OTHER BUSINESS & ADJOURNMENT

There being no other matters to consider, the meeting was adjourned at 5.00 p.m.

SIGNED



.....
HON. KANINI KEGA, CBS, M.P.

CHAIRPERSON, BUDGET AND APPROPRIATIONS COMMITTEE

14TH JUNE 2021

.....
DATE