

REPUBLIC OF KENYA

MACHAKOS COUNTY ASSEMBLY

OFFICIAL REPORT

Wednesday, 24th May, 2017

The House met at 2.32 p.m.

[The Speaker (Hon. Mung'ata) in the Chair]

PRAYERS

Hon. Speaker: Good afternoon Hon. Members. Let us proceed.

PAPER LAID

COUNTY INCOME AND EXPENDITURE REPORT FOR 2015/16

Hon. Speaker: Hon. Nzeki Munyaka.

Hon. Nzeki: Mr. Speaker, Sir, I beg to lay the following paper on the table of the Assembly today, 24th May, 2017: the report of Finance and Revenue Collection committee on income and expenditure for the county for the financial year 2015/2016. Thank you, Mr. Speaker, Sir.

Hon. Speaker: Thank you. The paper is laid. Proceed.

NOTICE OF MOTION

COUNTY INCOME AND EXPENDITURE REPORT FOR 2015/16

Hon. Nzeki: Mr. Speaker, Sir, pursuant to Standing Order 44, I wish to give notice of the following motion: that this Hon. House discusses and approves the report of income expenditure for the county for the financial year 2015/2016 as tabled by Finance and Revenue Collection committee. Thank you, Mr. Speaker, Sir.

Hon. Speaker: Thank you. The notice is accordingly issued. Proceed.

MOTION

COUNTY INCOME AND EXPENDITURE REPORT FOR 2015/16

Hon. Nzeki: Mr. Speaker, Sir,

Aware THAT section 166 of the Public Finance Management Act requires every accounting officer of the county government entity to prepare a report for each quarter of the financial year in respect of the entity and submit the report to the County Treasury;

Aware THAT the County Treasury should consolidate the quarterly reports and submit them to the County Assembly not later than a month after the end of the quarter;

Further, aware THAT the County Treasury submitted a consolidated report of the income and expenditure for the financial year 2015/2016 on 3rd August, 2016;

Noting THAT the County Assembly Standing Orders define the mandate of the Finance and Revenue Collection committee to include all matters relating to the management of the county public finance and revenue collection;

Aware THAT the committee analyzed the report which was submitted by the department of Finance and Revenue Management and made recommendations, Mr. Speaker, Sir, I wish to move the motion that this Hon. House discusses and approves the report of the income and expenditure for the county for the financial year 2015/2016 as tabled by the Finance and Revenue Collection committee.

Thank you, Mr. Speaker, Sir. I call upon Hon. Benedette Mueni to second the motion.

Hon. (Ms.) Mueni: Mr. Speaker, Sir, I stand to second the motion that the Hon. House discusses this motion because you know it is where the Assembly gets the money and if we don't have money, even your salary comes from this motion. So, you be serious and don't be saying that you are going; if you don't discuss, you will not get the salary. Thank you, Mr. Speaker, Sir.

Hon. Speaker: Thank you very much Hon. Mueni. Proceed and deliver the report.

Hon. Nzeki: Mr. Speaker, Sir, Section 166 of the Public Finance Management (PFM) Act requires every accounting officer of a County Government entity to prepare a report for each quarter of a financial year in respect of the entity and submit the report to County Treasury not later than 15 days after the end of the quarter. The County Treasury shall consolidate the quarterly reports and submit them to the County Assembly not later than a month after the end of the quarter.

Mr. Speaker, Sir, the County Treasury submitted a consolidated report of income and expenditure for the financial year 2015/2016 as per PFM Act section 166 (2), (3) and (4) on 3rd August, 2016. The committee embarked on the analysis of the report on 11th to 15th October, 2016 but parts of the report presented were invisible thus forcing the committee to write to the department requesting for another report. The department provided further information to the report on 8th and 16th March, 2017.

Mr. Speaker, Sir, the committee on Finance and Revenue Collection is established pursuant to Standing Order 190 and the Second Schedule of the Standing Orders with specific

mandate on all matters relating to the management of county public finance and revenue collection.

Mr. Speaker, Sir, the Finance and Revenue Collection committee as currently constituted comprises of the following Hon. Members:-

- | | |
|--------------------------|--------------------|
| 1. Hon. Nzeki Munyaka | - Chairperson |
| 2. Hon. Bibiana Nduku | - Vice Chairperson |
| 3. Hon. Raphael Mutuku | - Member |
| 4. Hon. Timothy Kilonzo | “ |
| 5. Hon. Alice Nzioka | “ |
| 6. Hon. Philip Ndolo | “ |
| 7. Hon. Benedette Mueni | “ |
| 8. Hon. Nina Mbithe | “ |
| 9. Hon. Amina Mutio | “ |
| 10. Hon. Veronica Mbithe | “ |

Mr. Speaker, Sir, the committee discussed the report on 23rd to 25th February, 2017 in Naivasha and on 8th to 11th March, 2017 in Mombasa. The income and expenditure report for 2015/2016 financial year comprised of two parts namely; receipts and payments. The approved budget for the financial year 2015/16 was Kshs. 11,718,169,781.00 comprising of Kshs. 6,014,857,341.00 as recurrent expenditure and Kshs. 5,703,312,440.00 as development expenditure. The budget was to be financed by Kshs. 9,346,536,203.00 from the national government and Kshs. 2,371,633,578.00 from local sources.

Mr. Speaker, Sir, the actual receipts during the financial year are as reported in the table below:-

| RECEIPTS | AMOUNT (KSH) |
|--|--------------------------------|
| Proceeds from Domestic and foreign grant (Free Maternity) | 96,395,000.00 |
| Proceeds from Domestic and foreign grants (User fee foregone) | 25,607,954.00 |
| Proceeds from Domestic and foreign grants (Road Maintenance Fee) | 85,984,411.00 |
| Transfers from the treasury (exchequer releases) | 6,972,979,753.00 |
| Local revenue | 1,121,680,949.50 |
| Total Revenue | <u>8,302,648,067.50</u> |

Mr. Speaker, Sir, the receipts received from National Government amounted to Kshs. 7,180,967,118.00 and this amount was less than the amount projected in the budget by Kshs. 2,165,569,085.00. Local revenue was Kshs. 1,121,680,949.50 and this was less than the targeted revenue by Kshs. 1,249,952,628.50. This led to a total budget deficit of Kshs. 3,415,521,713.50.

Further analysis of local revenues in comparison with the previous financial year of 2014/15 is show in the table below:-

| | TOTALS (KSH) | SURPLUS/ | INCREASE/ |
|--|---------------------|-----------------|------------------|
|--|---------------------|-----------------|------------------|

| S.N | REVENUE TYPE | 2014/15 | 2015/16 | DEFICIT (KSH) | DECREASE (%) |
|-----|--|-------------------------|-------------------------|-------------------------|----------------|
| 1 | Land rates and Debt Clearance | 183,794,860 | 176,939,042.50 | (6,855,817.49) | (3.73) |
| 2 | Single business permit | 198,978,358 | 198,094,256.00 | (884,102.00) | (0.44) |
| 3 | Quarry | 160,154,848 | 163,945,473.00 | 3,790,625.00 | 2.37 |
| 4 | Sand gravel | 124,221,208 | 30,629,517.65 | (93,591,690.35) | (75.34) |
| 5 | Market fees | 56,724,663 | 47,829,717.10 | (8,894,945.90) | (15.68) |
| 6 | Plot/stall rent | 19,680,684 | 17,366,173.00 | (2,314,511.00) | (11.76) |
| 7 | Bus park | 83,812,307 | 78,695,119.00 | (5,117,188.00) | (6.11) |
| 8 | House rent | 18,144,368 | 2,324,356.00 | (15,820,012.00) | (87.19) |
| 9 | Refuse/conservancy fee | 13,181,496 | 8,443,206.00 | (4,738,290.00) | (35.95) |
| 10 | Sign board and advertisement | 38,350,050 | 35,013,041.00 | (3,337,009.00) | (8.70) |
| 11 | Firefighting and ambulance management | 16,721,775 | 14,192,309.00 | (2,529,466.00) | (15.13) |
| 12 | Slaughter house fees/ livestock | 5,180,460 | 7,125,525.00 | 1,945,065.00 | 37.55 |
| 13 | Court fines | 8,219,726 | 861,089.00 | (7,358,637.00) | (89.52) |
| 14 | Enforcement mgmt. unit | 8,762,423 | 12,912,878.00 | 4,150,455.00 | 47.37 |
| 15 | Off-street parking unit | 19,206,776 | 13,220,397.00 | (5,986,379.00) | (31.17) |
| 16 | Building plan approval | 129,153,300 | 164,386,870.00 | 35,233,570.00 | 27.28 |
| 17 | Cess | 31,319,798 | 10,173,681.00 | (21,146,117.00) | (67.52) |
| 18 | Procurement unit | 2,264,031 | 501,000.00 | (1,763,031.00) | (77.87) |
| 19 | Social Services and Sports management unit | 3,082,265 | 749,370.00 | (2,332,895.00) | (75.69) |
| 20 | Water sales | 939,572 | 695,288.00 | (244,284.00) | (26.00) |
| 21 | Miscellaneous | 1,554,185 | 1,232,999.00 | (321,186.00) | (20.67) |
| 22 | Maruba park | 350,267 | 2,536,175.00 | 2,185,908.00 | 624.07 |
| 23 | House loan repayment | 75,491 | 652,150.00 | 576,659.00 | 763.88 |
| 24 | Salary refunds/ salary advance | 1,116,333 | 3,144,893.00 | 2,028,560.00 | 181.72 |
| 25 | Health Revenue Account | 151,031,793 | 30,723,038.25 | (120,308,754.75) | (79.66) |
| 26 | Liquor | 53,691,583 | 62,677,357.00 | 8,985,774.00 | 16.74 |
| 27 | Agri-farm | 19,574,780 | | (19,574,780.00) | (100.00) |
| 28 | Tourism | 5,967,512 | 2,593,220.00 | (3,374,292.00) | (56.54) |
| 29 | Interest /Penalties on stall rent | 240,332 | 328,644.00 | 88,312.00 | 36.75 |
| 30 | Mv /motorcycle registration | 1,344,075 | 427,660.00 | (916,415.00) | (68.18) |
| 31 | Tender | | 711,000.00 | 711,000.00 | |
| 32 | Weights and Measures | | 80,800.00 | 80,800.00 | |
| 33 | Machakos County Sand harvesting | | 32,474,705.00 | 32,474,705.00 | |
| | TOTALS | 1,356,839,319.00 | 1,121,680,949.50 | (235,158,369.49) | (17.33) |

Mr. Speaker, Sir, analysis of the above tabulation of local revenue for 2014/15 and 2015/16 revealed the following information:-

- Local revenue registered an overall negative growth rate of 17.33 per cent from Ksh. 1.3 million in 2014/15 to Ksh. 1.1 billion in 2015/16. Only seven revenue types registered a

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positive Enforcement management unit 47.37 per cent, Building plan approvals 27.28 per cent, Maruba dam, growth rate and they include: Quarries 2.37 per cent , Slaughter house fees/ livestock 37.55 per cent, 624.07 per cent, Interest/ penalties on stall rent 36.75 per cent and liquor 16.74 per cent. House loan repayment and salary refund/ salary advance also registered positive growth rates but these relate to payments/ recoveries from employees of defunct local authorities.

- The top five highest contributors to local revenue in 2015/16 were: Single business permits (198,094,256.00), land rates and debt clearance certificates (176,939,042.50), building plan approval (164,386,870.00), Quarry (163,945,473.00) and bus-park (78,695,119.00) in that order. Health and Sand gravel which had registered over Ksh. 100 million in 2014/15 were missing in this list and were among revenue sources that registered biggest drop in revenue alongside Cess, Social services and sports management unit, MV/motorcycle registration and House rent.
- Health revenue, Mr. Speaker, Sir, dropped by Ksh. 120,308,754.75 from Ksh. 151,031,793 in 2014/15 to Ksh. 30,723,038.25 in 2015/16 while sand gravel dropped by Ksh. 93,591,690.35 from Ksh. 124,221,208 in FY 2014/15 to Ksh. 30,629,517.65 in FY 2015/16. Cess dropped by Ksh. 21,146,117.00 from Ksh. 31,319,798 to Ksh. 10,173,681 while House rent whose income should be constant dropped by Ksh. 15,820,012 from Ksh. 18,144,368 to Ksh. 2,324,356.

Mr. Speaker, Sir, the committee sought clarification from the department of Finance and Revenue Collection on drop of revenue collection and the response is attached to the report as annex 2. Further explanation on revenue drop and receipts from national government after the Committee met with officers from the Department of Finance on 11th May, 2017 in Naivasha is provided below.

Chief Officer's Responses on Revenue

Mr. Speaker, Sir, the Chief Officer informed members that during budgeting time, funds promised by the President of the Republic of Kenya to the County for water projects was factored in the budget. The National government did not release these funds to the County hence the difference between the budgeted revenue and the total receipts from the National Government.

Mr. Speaker Sir, the Chief Officer informed members that revenue collection was generally affected by refusal of traders to pay proposed fees, rates and charges contained in the Machakos County Finance Act, 2015 and eventually moving to court which stopped the implementation of the Act.

The Committee was informed that members complained that they were not involved in the making of the Act and that it was oppressive as it was more than doubled some of the fees. The Chief Officer cited sand gravel, bus-park, off-street parking, cess and motor vehicle/motorcycle registration as the revenue sources mainly affected by traders' protests over the hiking of fees in the Act.

Mr. Speaker, Sir, the Chief Officer further informed members that the revenue on plot/stall rent decreased because a number of property owners refused to pay their rent because of accumulated interest and penalties. The committee sought to know whether there was a provision for traders to pay rent in installments and were informed that there was none but it was possible to have traders pay accumulated rent in bits as well as have interest waived.

Mr. Speaker, Sir, the Chief Officer informed members that they encountered a challenge in collecting house rent after tenants went to court to resist an eviction notice which had been issued by the County. The County intended to renovate the houses and then re-issue them to County employees at the prevailing market rates as compared to the current scenario whereby the tenants pay Ksh. 2,000 to the County and then rent out the houses at more than Ksh. 10,000.

Revenue from market fees dropped mainly because of blockage or lack of toilets in the markets. Traders in areas where there were no toilets refused to pay market fees until toilet services were restored. The department cited Athi-River and Kaewa markets as the most affected. Cartels at the bus parks and political interference were also cited as the reasons why the department under collected revenue.

The department informed the committee that some Hon. Members were inciting their electorates not to pay taxes unless certain things were done to them. It was cited that one area was Muthetheni and Machakos town. The department called on all stakeholders to own the process of revenue collection so that the county can realize revenue collection targets.

Hon. Speaker: Order! Order! Hon. Chairman, you said the electorate were incited in Muthetheni; is that part of the report?

Hon. Nzeki: That is what we were told and I can see it was not captured here.

(Laughter)

Hon. Speaker: Order! Hon. Chairman.

Hon. Nzeki: It was not captured but that is the reality.

Hon. Speaker: Is Muthetheni in your report, Hon. Chairman?

Hon. Nzeki: Okay. Hon. Speaker I withdraw that.

Hon. Speaker: Hon. Member, you need to apologize to the House for misleading them.

Hon. Nzeki: Okay. Let me apologize, Mr. Speaker, Sir, to the Hon. House.

Hon. Speaker: Proceed.

Hon. Nzeki: Mr. Speaker, Sir, the Chief Officer cited strengthening of the enforcement unit which registered increase in revenue collection as the main reason why revenue from court fines reduced since traders were being fined as per the Finance Act instead of being taken to court. Banning of Gor-Mahia Football Club from playing in Kenyatta Stadium, Machakos after fans rioted led to decrease in revenue for Social Services and Sport Management.

Tourism revenue dropped because the amphitheatre was closed for a while to allow for construction which led to less functions such as Groove Awards and beauty pageants being held at the Machakos People's Park. The Chief Officer informed members that in 2014/15, the department had treated receipts from World Health Organization (WHO) as local revenue for health hence reported high collections compared to 2015/2016. The department also cited resistance from Health facilities on implementing efficient methods of collecting revenue such as use of pay bill numbers especially Machakos Level V Hospital as a reason of under collecting revenue from health sector.

Mr. Speaker, Sir, the Members enquired from the department on the methods of collecting revenue and they were informed that the department used Mpesa Paybill Number 656500, cash and direct bank deposits. Members observed that this form of collection was prone to leakages of revenue and called for the automation of revenue collection as well as partnering with other government agencies like KRA and platforms like E-Citizen.

The committee requested for funds transfer records to the County Revenue Account at Central Bank of Kenya (CBK). The department provided a report of revenue transfers and informed the committee that funds were transferred to CBK every Monday which members confirmed was not the case on perusing the report. Members observed in the report that several sweepings were being done in the same day. The committee observed that the department had not put in place a policy to govern transfer of funds to the CBK as recommended in the Income and Expenditure report of 2014/2015.

Expenditure Analysis

Mr. Speaker, Sir, the actual total expenditure for the FY 2015/16 amounted to Kshs. 8,328,653,880.25. This comprised of Kshs. 5,788,692,489.90 (69.50 per cent) of recurrent expenditure and Kshs. 2,539,961,390.35 (30.50 per cent) of development expenditure. The general analysis of expenditure is as reported in the table below:-

| EXPENDITURE | AMOUNT 2015/16 KSH | AMOUNT 2014/15 KSH | INCREASE % |
|-------------------------------|--------------------------------|-------------------------------|-----------------------|
| Compensation of employees | 3,832,524,480.27 | 3,361,729,870 | 14.00 |
| Operations and Maintenance | 1,956,168,009.63 | 1,312,706,987 | 49.02 |
| <u>Total Recurrent</u> | <u>5,788,692,489.90</u> | <u>5,105,042,052</u> | 13.39 |
| Development | 2,539,961,880.25 | 1,918,988,625 | 32.36 |
| Total | <u>8,328,653,880.25</u> | <u>7,031,426,528</u> | 18.57 |

Mr. Speaker, Sir, expenditure analysis reveals that recurrent expenditure increased by 13.39 per cent while development expenditure increased by 32.36 per cent. Operations went up by 49.02 per cent while compensation of employees increased by 14 per cent. Actual expenditure for the year exceeded total receipts by Kshs. 26,005,812.75. The recurrent expenditure was very high and if not checked, it was likely to have development expenditure go below 30 per cent in contravention of section 107 (2) of the PFM Act. The committee sought clarification from the department why the operations and maintenance increased by almost half (49%) and also why expenditure was more than total receipts.

Chief Officer's Responses on Expenditure

Mr. Speaker, Sir, the Chief Officer informed the committee that in 2014/2015, the County could not spend about Kshs. 541,660,311.50 as it was released by the National Government on 30th June, 2015. The money remained in the County Revenue Account hence it was not part of exchequer releases of FY 2015/2016 and was budgeted through a supplementary budget. The committee was also informed that the County closed the 2015/2016 with a balance of Kshs. 428,442,741.00 which it was not able to spend because of late release.

Mr. Speaker, Sir, the Chief Officer informed the committee that operations and maintenance increased because of increase in the number of staff involved in undertaking development projects in the County. In addition, the county had acquired more vehicles, graders, bulldozers and other equipment thus increased cost of maintenance.

Mr. Speaker, Sir, the committee questioned the department on a number of development expenditures and the Chief Officer provided a report to the committee which is attached as annex 3. This annex 3 has further finer details which are attached as annex 4 especially on the contractors who undertook different projects and also location of the projects.

The committee had observed variations of development expenditures provided on the original report of 3rd August, 2016 (annex 1) and IFMIS generated report (annex 5). For instance, construction of buildings in Governor's Office was shown in the IFMIS report as Kshs. 30,337,820 but the Department could only account for Kshs. 21,759,361.40. The same situation is noted in the total expenditure for Finance department which is reported as Kshs. 23,205,233.00 against IFMIS report of Kshs. 25,290,527.00 but the department could only account for 22,670,705.00.

The department explained that the variations were mainly systematic where payments were initiated in IFMIS but the actual payments were done by Internet Banking (IB). The Chief Officer informed members that some payments put in the IFMIS could fail to go through the IB hence the difference.

Recommendations

Mr. Speaker, Sir, the committee recommends that the department of Finance and Revenue Collection undertakes the following:-

- That the Department and the County Assembly conducts comprehensive public participation and hold stakeholder forums as per the laid down guidelines in the Machakos County Public Participation Act, 2015 when preparing the Finance Act to avoid litigations.

- The Department may consider holding discussion with the property owners on the best method of paying accumulated rent, interest and penalties in installments.
- The Department of Finance and Revenue and that of Public Works and Housing should ensure that tenants of County houses pay rent according to the prevailing market rates and that they are bona-fide employees of the County Government.
- The Department of Finance and Revenue Collection should liaise with the Department that is responsible for maintenance of market toilets to ensure that the toilets are in good condition to reduce strikes which lead to less collection of market fees.
- The Department should implement the Machakos County Revenue Administration Act of 2015 since it provided for partnering with other government agencies and the private sector to enhance revenue collection.
- The Department should map out all revenue sources, assess their potential and automate their collection.
- The Department should ensure that a policy on transfer of funds to CBK is developed and approved by the County Assembly.
- The Department should consider recommending to the County Executive Committee to lease or hire machinery and equipment instead of purchasing them to reduce on operations and maintenance so as to release more funds for development.
- The Department should consider recommending to the County Executive Committee to reduce staff emoluments through encouraging voluntary retirement to release more funds for development.

Mr. Speaker, Sir, the Finance and Revenue Collection committee is grateful to the Office of the Speaker and that of the Clerk to the County Assembly for the support accorded during the committee sittings. I wish to express my appreciation to the Hon. Members of the committee who sacrificed their time to participate in the meetings of the committee and in preparation of this report

Mr. Speaker, Sir, it is therefore my privilege, on behalf of the Finance and Revenue Collection committee, to table the income and expenditure report in this Hon. House for consideration and adoption. Thank you Mr. Speaker, Sir.

Hon. Speaker: Thank you very much chairman. The floor is open.

Hon. R. Mutuku: Mr. Speaker, Sir, let me start by thanking our able chairman of the Finance and Revenue Commission committee for tabling the reports before the House on behalf of the committee. Mr. Speaker, Section 166 of the Public Finance Management Act requires every accounting officer to prepare quarterly reports and submit to the County Treasury within every quarter not later than 15 days and the County Treasury is required by law to submit the same report, that is the quarterly report, not later than 30 days after the end of every quarter.

Mr. Speaker, I have noted the report before us comprises of the four quarters and the report is accompanied by annexes which may be to the disadvantage of members if we discuss now when members have not compared the report and the annexes for a healthy debate. Mr.

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Speaker, it is my humble request if you could defer the debate of this report to give members time to go through the report *vis-à-vis* the annexes, then we discuss later. Thank you Mr. Speaker, Sir.

Hon. Speaker: Chairman, does that make sense to you?

Hon. Nzeki: Yes, Hon. Speaker, I concur with Hon. Raphael that we defer it until next time and I am happy most of the members of the committee are here and they contributed very well and if members are given time to go and see the annexures, they will make healthy contributions. Thank you, Mr. Speaker, Sir.

Hon. Speaker: Thank you. Then it is accordingly ordered that further debate be done in the earliest. The matter is referred to the House Business committee for further balloting. Yes, Hon. Mueni.

Hon. (Ms.) Mueni: Mr. Speaker, Sir, I stand also to support what Hon---

Hon. Speaker: That is concluded, Hon. Mueni.

Hon. (Ms.) Mueni: Yes, but you know that is why we were asking you time to go for a retreat so that we can go and read this thing.

Hon. Speaker: I hear you, I hear you.

(Applause)

Hon. Speaker: Hon. Mueni, that matter is concluded. Kindly take your seat.

Hon. (Ms.) Mueni: Thank you.

ADJOURNMENT

Hon. Speaker: The House adjourns.

The House rose at 3.07 p.m.