

② Approved for tabling only.

By
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24/6/14



REPUBLIC OF KENYA



KENYA NATIONAL ASSEMBLY

ELEVENTH PARLIAMENT

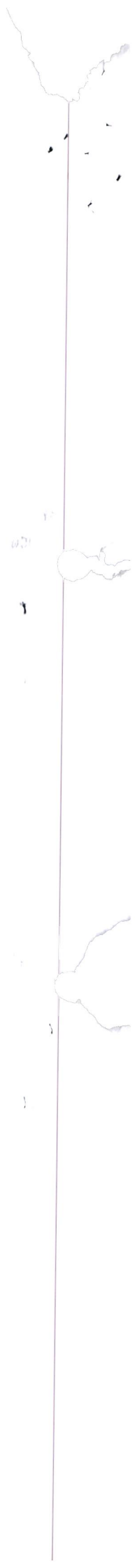
THE BUDGET AND APPROPRIATIONS COMMITTEE REPORT ON THE SECOND SUPPLEMENTARY BUDGET FOR 2013/2014

June 2014

① *Speaker*
Chair in order
The Report will enrich the debate under motion
order 9 on supp. Estimates II.
Submitted for your approval.
Sialai
24/6/14

③ ~~Paper Laid~~
By Hon. Musyimi,
June 24/2014
D. Mungai

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PREFACE

Mr. Speaker Sir, on behalf of the Members of the Budget and Appropriations Committee and as required under Article 221(4) of the Constitution as well as Standing Order 243 which give direction on how the Estimates of Revenue and Expenditure and the Supplementary estimates will be dispensed with by the House, I hereby present to the House, the Committee's Report on the 2nd Supplementary Budget for the 2013/14 Financial Year.

Mr. Speaker Sir, in line with Article 223 of the Constitution, the National Government may spend money that has not been appropriated if the amount appropriated was not sufficient or if a need has arisen for expenditure for a purpose that was not catered for in the planned budget. Such expenditure will necessitate the approval of supplementary appropriation by the National Assembly hence the submission of a supplementary budget estimates. This is the second supplementary budget estimates to be submitted in the 2013/14 financial year, the first one having been submitted on 18th February 2014 and approved by this House on 26th February 2014.

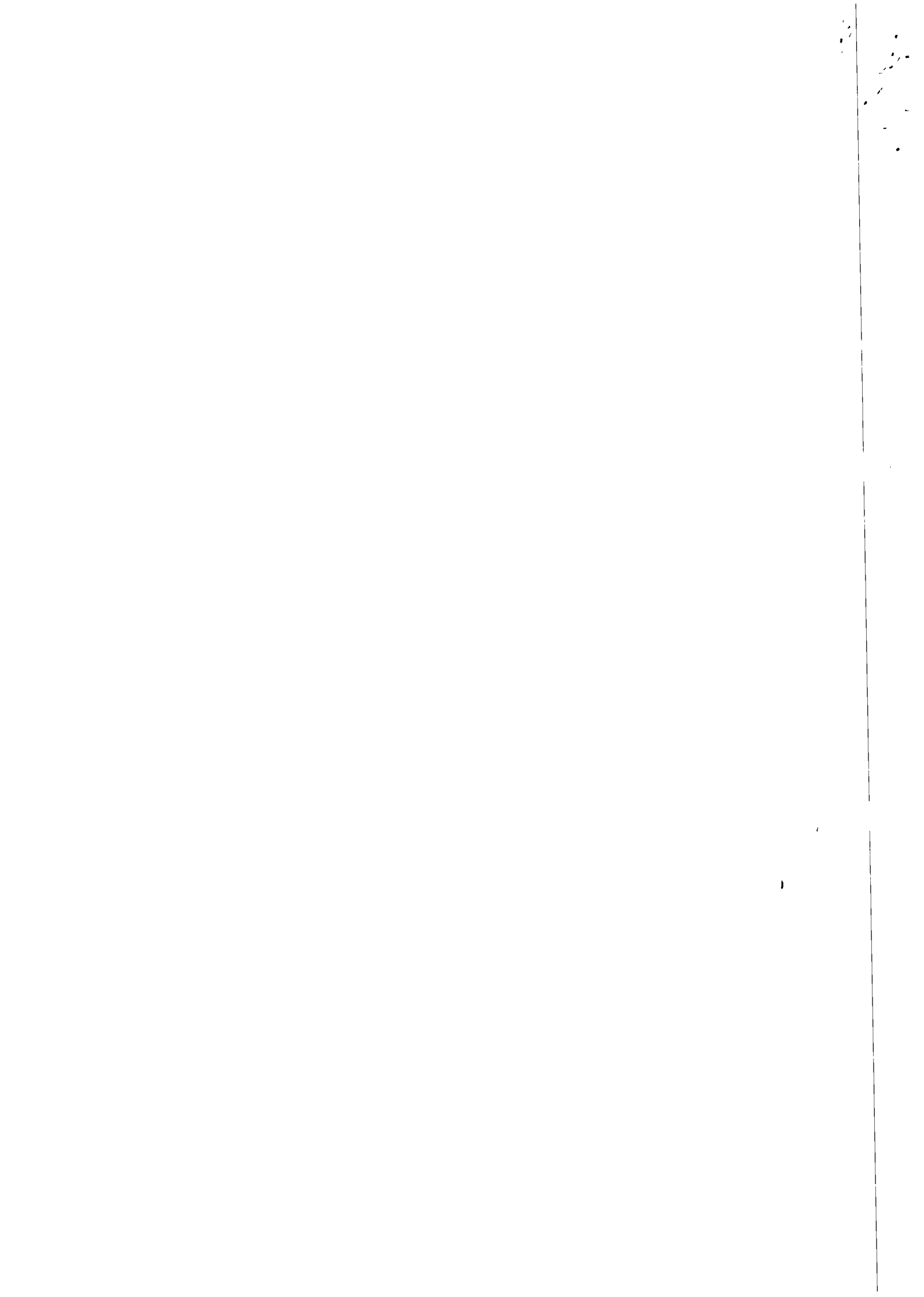
Mr. Speaker Sir, the main role of the Budget and Appropriations Committee is to oversee the budget process. Article 221 (4) and 221 (6) of the Constitution as well as Standing Order 207 grants the Committee specific mandate to:

- a) Investigate, inquire into and report on all matters related to coordination, control and monitoring of the national budget,
- b) Discuss and review the estimates and make recommendations to the House; and
- c) Examine Bills related to the national budget, including Appropriations Bills.

In this regard **Mr. Speaker Sir**, pursuant to Standing Order 207 3 (b) and Article 221(4) of the Constitution, the Budget and Appropriations Committee discussed and examined the Supplementary Estimates and hereby makes recommendations to the National Assembly.

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

- | | |
|-------------------------------------|-------------------------|
| 1. Hon. Mutava Musyimi, M.P. | Chairperson |
| 2. Hon. Mary Emaase, M.P. | Vice Chairperson |
| 3. Hon. Alfred Sambu, M.P. | |
| 4. Hon. Benjamin Langat, M.P. | |



5. Hon. Charles Nyamai, M.P.
6. Hon. Clement Wambugu, M.P.
7. Hon. Jackson Kiptanui, M.P.
8. Hon. Jamleck Kamau, M.P.
9. Hon. John Mbadi , M.P.
10. Hon. Mohamed Shidiye, M.P.
11. Hon. Moses Lessonet, M.P.
12. Hon. Moses Ole Sakuda, M.P.
13. Hon. Nelson Gaichuhie, M.P.
14. Hon. Abdikadir Omar Aden, M.P.
15. Hon. Abdulaziz Farah, M.P.
16. Hon. Alfred Agoi, M.P.
17. Hon. Alice Ng'ang'a, M.P.
18. Hon. Banticha Jaldesa, M.P.
19. Hon. Benjamin Andola Andayi, M.P.
20. Hon. Bitok S. Kirwa, M.P.
21. Hon. Daniel Nanok, M.P.
22. Hon. Dennis Kariuki, M.P.
23. Hon. Dr. James. W. Nyikal, M.P.
24. Hon. Dr. Reginalda Wanyonyi, M.P.
25. Hon. Dorcas Kedogo, M.P.
26. Hon. Eng. Stephen Ngare, M.P.
27. Hon. Fatuma Ali Ibrahim, M.P.
28. Hon. Francis Njenga, M.P.
29. Hon. George Muchai, M.P.
30. Hon. Irshad Sumra, M.P.
31. Hon. Isaack Mwaura, M.P.
32. Hon. James Gakuya, M.P.
33. Hon. James Lusweti, M.P.
34. Hon. Jared O. Opiyo, M.P.
35. Hon. Jonathan Lati Lelelit, M.P.
36. Hon. Joseph Limo, M.P.
37. Hon. KK Stephen Kinyanjui, M.P.
38. Hon. Makali Mulu Benson, M.P.



39. Hon. Muriuki Njagagua, M.P.
40. Hon. Mwashetani Khatib Abdallah, M.P
41. Hon. Omar Mwinyi, M.P.
42. Hon. Omondi George Mallan, M.P.
43. Hon. Patrick Ole Ntutu, M.P.
44. Hon. Peter Weru Kinyua, M.P.
45. Hon. Priscilla Nyokabi, M.P.
46. Hon. Samuel Gichigi, M.P.
47. Hon. Shukran Hussein Gure, M.P.
48. Hon. Silverse Lisamula Anami, M.P.
49. Hon. Suleiman Murunga Kasuti, MP
50. Hon. Tiyah Galgalo, M.P.

Mr. Speaker Sir, in reviewing the 2013/2014 Supplementary Estimates, the Committee held 2 sittings during which the clarification of the National Treasury was sought on a number of key salient issues arising from review of the supplementary budget which have been highlighted in this report.

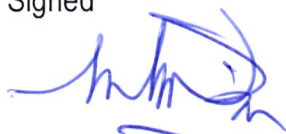
Mr. Speaker Sir, the Committee is grateful to the representatives from the National Treasury and particularly the Cabinet Secretary who appeared before the Committee and gave the much needed clarification to the Committee's concerns.

The Committee is also grateful to the Office of the Speaker, the Office of the Clerk of the National Assembly and the Parliamentary Budget Office for the support received as it discharged its mandate of reviewing the second 2013/14 Supplementary Budget Estimates.

Mr. Speaker Sir,

It is therefore my pleasant duty and privilege, on behalf of the Budget and Appropriations Committee to table this Report and recommend it to the House for adoption.

Signed



The Hon. Mutavà Musyimi, MP
Chairman, Budget and Appropriations Committee

Date **24th June, 2014**



I. INTRODUCTION

- 1) **Mr. Speaker Sir**, on 17th June 2014, the second Supplementary Budget Estimates for the 2013/14 financial year were submitted to the National Assembly for consideration, review and approval in line with Article 223 of the Constitution. This comes barely four months after submission and approval of the first Supplementary Budget Estimates in February this year.
- 2) **Mr. Speaker Sir**, the purpose of a Supplementary Budget Estimates is to address insufficient allocation for certain expenditure items, or expenditure which has arisen during the financial year, for which no amount was appropriated in the budget. Ideally, supplementary appropriation should cater for expenditures which are urgent, could not be foreseen or were uncertain at the time of budget approval and were therefore not adequately planned for in the current budget.
- 3) However, **Mr. Speaker Sir**, the Committee notes with concern the emerging trend by the National Treasury, of introducing two supplementary budgets within the same financial year which drastically adjust expenditures as was approved by the House in the planned budget which is passed every June. Excessive use of supplementary appropriation not only undermines the credibility of the budget but is also an indication of poor public expenditure planning and a hindrance to the country's development agenda. Efforts should be made therefore, to reduce the pressure to change or revise the budget within the year.

II. ADHERENCE OF THE SECOND 2013/14 SUPPLEMENTARY BUDGET TO PREVAILING LEGISLATION

- 4) **Mr. Speaker Sir**, It is noted with concern that despite the Printed Estimates having been presented and approved on programme basis, the format of the **Supplementary Budget Estimates II** does not conform to that of the Printed Estimates. The supplementary budget appears in itemized format as well as programmes with no indicative outputs. The same observation was made in the first Supplementary Budget Estimates but it appears that this

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concern has not been taken into account by the National Treasury. This makes it difficult for Parliament to understand the effect of the budget changes on outputs.

- 5) Secondly **Mr. Speaker Sir**, Section 44 of the Public Finance Management Act provides that the supplementary budget should include a statement showing how additional expenditure relates to the fiscal responsibility principles and financial objectives. However, this has not been provided making it difficult to understand the basis of the various budgetary reductions and additions. Yet again, this issue was raised during review of the first Supplementary Budget Estimates but has not been taken into account.

III. AREAS OF SIGNIFICANT DEVIATION FROM THE REVISED BUDGET 2013/14

- 6) **Mr. Speaker Sir**, whereas the overall budget has gone down by Kshs. 19.6 billion, the Committee notes that recurrent expenditure has increased relative to development expenditure which has decreased significantly. This trend was also observed in the first Supplementary Budget Estimates but despite concerns being raised by the Committee it has carried on to the second Supplementary Budget Estimates. The Committee feels that this may lead to a violation of the provision in law as per section 15(2) (a) of the Public Finance Management Act to maintain development expenditure at a minimum of 30% of the budget over the medium term.
- 7) **Mr. Speaker Sir**, continued reduction and re-adjustment of development funds during the financial year is disruptive to implementation of planned projects and ultimately the growth strategy of the country. If this country is to achieve its targeted growth, then it would be advisable to let the budget especially with regard to development projects, be implemented as originally planned.
- 8) However, **Mr. Speaker Sir**, the Committee acknowledges that there are various challenges encountered by the Ministries, Departments and Agencies (MDAs), which have adversely



affected their absorption capacity and may be contributing to the re-adjustment of development expenditures. These include procurement challenges which have routinely been cited as an impediment to the absorption capacity of the various MDAs. Unfortunately, little effort has been made to improve the situation.

- 9) The Committee in its report on the 2014/15 estimates of Revenue and Expenditure, recommended that the reviewed Public Procurement and Disposal Act 2005, should be submitted to the National Assembly within 90 days from the day the report was approved. It is the expectation of the Committee that the reviewed Act will address these procurement challenges and ensure timely implementation of projects.
- 10) **Mr. Speaker Sir**, the Committee also observes that a contributing factor to the increasing need for supplementary appropriation could be an overestimated budget due to overestimation of revenue. **Mr. Speaker Sir**, it is the opinion of the Committee that the economy will benefit more if the country implements smaller budgets which are more achievable based on realistic revenue targets as opposed to huge budgets which have to be reduced with time.
- 11) On the issue of growing recurrent expenditure **Mr. Speaker Sir**, the Committee notes that this could be due to an over-established civil service which necessitates budgeting of a recurrent nature at the expense of development. In this regard the Committee called for an audit of the staffing levels at both the National and County levels, noting that counties have continued to hire staff despite the National Government maintaining staff for the same jobs.

IV. CONSOLIDATED FUND SERVICES (CFS)

- 12) **Mr. Speaker Sir**, the total Consolidated Fund Services (CFS) allocation in the 2013/14 revised estimate II has decreased to Kshs. 266.4 billion from a total of Kshs. 364.3 billion in revised estimates I. This decrease is mainly on account of the deferred payment of the syndicated loan to August 2014 due to delays in floating of the Euro Bond and a reduction to zero, of the

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new loan item under internal debt redemption. However, members should note that this decrease does not imply an equal saving since the syndicated loan will eventually be repaid in August 2014 including over Kshs. 2 billion as additional interest.

- 13) On the issue of the new loans item **Mr. Speaker Sir**, the Committee observes that despite being revised to zero, interest on internal debt for new loans which stood at Kshs. 5.9 billion in the first Supplementary Budget Estimates has been maintained with no explanation being given.
- 14) In addition **Mr. Speaker Sir**, the Committee observed that an additional amount of Kshs. 161.7 million and 774.8 million has been introduced in the second Supplementary budget estimates as interest and loan redemption respectively to repay the loan from Standard Bank that was used to acquire the BVR kits. This is not a new expenditure item **Mr. Speaker Sir**, and to be introduced under the second Supplementary, is indicative of poor planning of the CFS by the National Treasury.
- 15) Another notable increase **Mr. Speaker Sir**, is an amount of Kshs. 1.5 billion in the new loans item, presumably to pay for the Anglo Leasing type contracts. The approval of these estimates by the National Assembly therefore, will regularize the payments.
- 16) The total deviation in the overall CFS **Mr. Speaker Sir**, is approximately Kshs. 98 billion. However, it should be noted that this amount differs from the figure of Kshs. 98.7 billion provided in this estimates.

V. RECOMMENDATIONS

- 17) **Mr. Speaker Sir**, the Committee is concerned by the continued disregard by the National Treasury of the resolutions of this House pertaining to policy issues, as pointed out in various sections of this report. In this regard, **Mr. Speaker Sir**, the Committee directs the National Treasury to implement the resolutions of this House as contained in the Budget and Appropriations Committee report on the first Supplementary Budget Estimates for 2013/14.

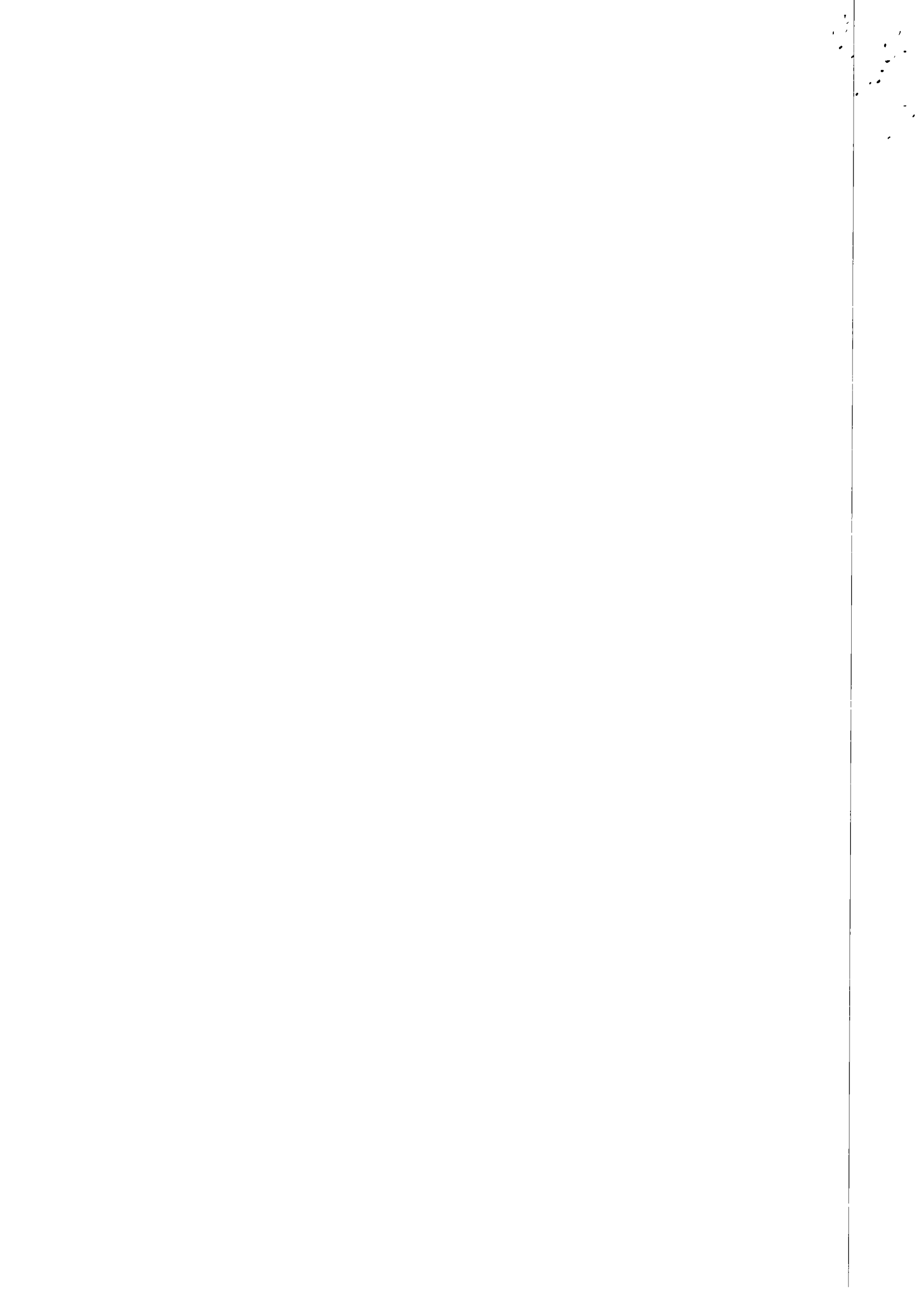


18) In addition **Mr. Speaker Sir**, the Committee proposes the following policy measures:

- i. That in order to ensure that the planned budget actually functions as a tool for growth, supplementary budgets should be limited to one per year. Frequent disruptions and reductions in expenditure especially for the development budget undermine Government investment and the country's growth strategy.
- ii. That before any Supplementary Budget Estimates is approved by the House, the statement on how additional expenditure relates to the fiscal responsibility principles and financial objectives as required by the Public Finance Management Act should be provided.
- iii. That since the House approved the budget on programme basis, the supplementary budget should be presented in the same format.
- iv. That as was resolved by this House in the Budget and Appropriations Committee report on Estimates of Revenue and Expenditure for 2014/15, the reviewed procurement law should be submitted to the National Assembly within the stipulated timeframe to address procurement challenges.
- v. That measures should be put in place to address issues surrounding collection and accounting of A-in-A to address A-in-A underperformance.

19) **Mr. Speaker Sir**, taking into account the recommendations contained in this report and the lapsing of the financial year, I do now propose to this House to adopt this report and resolve that the Supplementary Budget be approved as presented by the National Treasury.

20) I beg to move.



MINUTES OF THE 38TH SITTING OF THE BUDGET AND APPROPRIATIONS COMMITTEE (BAC) HELD ON TUESDAY, 24TH JUNE, 2014 AT 10:00 AM AT SMALL DINING

PRESENT

1. Hon. Mutava Musyimi, M.P. - Chairman
2. Hon. Mary Emaase, M.P. - Vice Chairperson
3. Hon. James Gakuya, M.P.
4. Hon. K.K Stephen Kinyanjui, M.P.
5. Hon. Priscilla Nyokabi, M.P.
6. Hon. Nelson Gaichuhie, M.P.
7. Hon. Francis Njenga, M.P.
8. Hon. Jackson Kiptanui, M.P.
9. Hon. Joseph Limo, M.P.
10. Hon. Lati Lelelit, M.P.
11. Hon. Bitok S. Kirwa, M.P.
12. Hon. Daniel Nanok, M.P.
13. Hon. Alfred Sambu, M.P.
14. Hon. Muriuki Njagagua, M.P.
15. Hon. Samuel Gichigi, M.P.
16. Hon. Dorcas Kedogo, M.P.
17. Hon. John Mbadi, M.P.
18. Hon. Suleiman Murunga Kasuti, M.P.
19. Hon. Omondi George Washington Mallan, M.P.
20. Hon. Irshad Sumra, M.P.
21. Hon. Abdikadir Omar Aden, M.P.
22. Hon. Silverse Lisamula Anami, M.P.
23. Hon. Dr. James. W. Nyikal, M.P.
24. Hon. Charles Nyamai, M.P.
25. Hon. Shukran Hussein Gure, M.P.
26. Hon. Benson Makali Mulu, M.P.
27. Hon. Isaack Mwaura, M.P.
28. Hon. Clement Wambugu, M.P.
29. Hon. Omar Mwinyi, M.P.

ABSENT

1. Hon. (Eng.) Stephen Ngare, M.P.
2. Hon. Ali, Fatuma Ibrahim, M.P.
3. Hon. Jamleck Kamau, M.P.
4. Hon. James Lusweti, M.P.
5. Hon. Benjamin Andola Andayi, M.P.
6. Hon. Jared O. Opiyo, M.P.
7. Hon. Mwashetani Khatib Abdalla, M.P.



8. Hon. Alfred Agoi, M.P.
9. Hon. (Dr.) Reginalda Wanyonyi, M.P.
10. Hon. Alice Ng'ang'a, M.P.
11. Hon. Peter Weru Kinyua, M.P,
12. Hon. Omar Mwinyi , M.P.
13. Hon. Banticha Jaldesa, M.P.
14. Hon. Abdulaziz Farah, M.P
15. Hon. Moses Lessonet, M.P.
16. Hon. Benjamin Langat, M.P
17. Hon. George Muchai, M.P.
18. Hon. Dennis Kariuki, M.P
19. Hon. Tiyah Galgalo, M.P
20. Hon. Patrick Ole Ntutu
21. Hon. Mohammed Shidiye, M.P

IN ATTENDANCE

1. Mr. Martin Masinde
2. Mr. Frederick Muthengi
3. Mr. Gichohi Mwaniki
4. Mr. Joseph Ndirangu
5. Mrs. Lucy Makara
6. Mrs. Millicent Makina
7. Mr. Benjamin Ngimor

COMMITTEES SECRETARIAT

- | | |
|---|-----------------------------|
| | Senior Deputy Director- PBO |
| Principal Fiscal Analyst/ Committee Clerk | |
| Senior Fiscal Analyst | |
| Fiscal Analyst/Committee Clerk | |
| Principal Fiscal Analyst | |
| Fiscal Analyst | |
| Fiscal Analyst | |

AGENDA

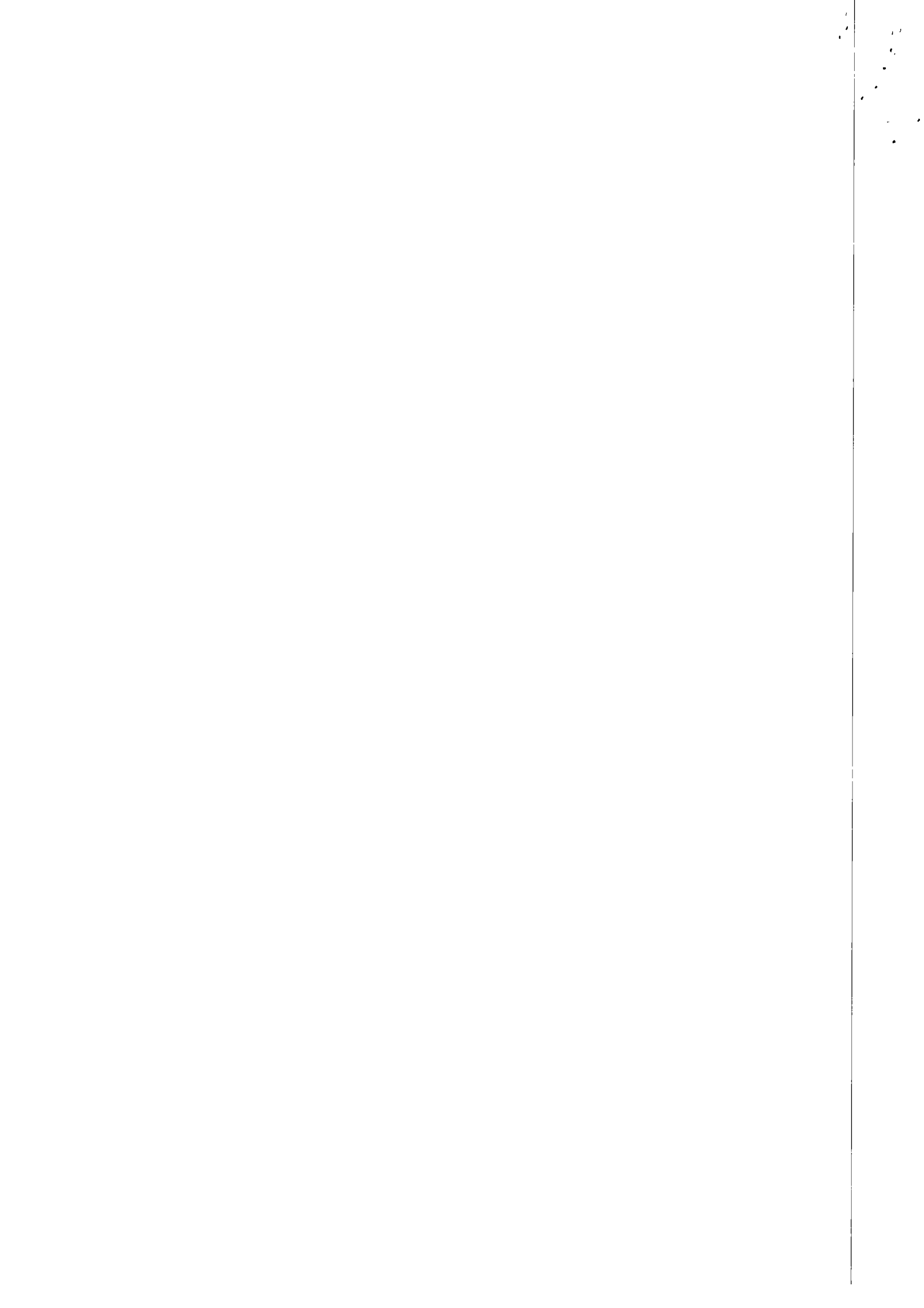
1. Preliminaries / Confirmation of Agenda
2. Confirmation of the Minutes of the Previous Meeting.
3. Matters arising
4. Consideration of the report of the Second Supplementary Budget Estimates for 2013/14
5. Any Other Business

MIN 177/2014: Preliminaries and Confirmation of Agenda

The Chair meeting was called to order at 10:30a.m. He led members with a word of prayer. He informed members that the committee had various pending agendas that it required to dispense.

MIN 178/2014: Confirmation of the minutes of the previous meeting

The minutes of the 37th sitting meeting held on Thursday, 19th, June, 2014 were confirmed as the true reflection of the deliberations that took



place. They were proposed by Hon. Muriuki Njagagua and seconded by Hon. Suleiman Murunga. Members also agreed to confirm the day's meeting minutes at the end of the meeting.

MIN179/2014: Consideration and Adoption of the report of the second 2013/14 Supplementary Budget estimates

Members went through the draft report of the Second 2013/14 Supplementary Estimates. They were concerned on the total deviation in the overall CFS allocation which differed from the figure in the estimates and the correct value. The deviated amount was noted as Kshs.0.7 Billion. However, it was clarified that the deviation has been caused by omission of new loan item and thus the committee need raise a concern on the issue and recommend that it is corrected.

Members also raised a concern that it had been noted that Kshs. 1.9 Billion had been reduced in the Ministry of Devolution and Planning. Members wanted a clarification on whether the reduction affected allocation to Constituency Development Fund. However, they were assured that the reduction did not affect the CDF.

The Chair informed members that he had been informed that in the Second Supplementary Estimates there was a proposal to re-allocate/shift Kshs. 570 Million in the Parliamentary Service Commission Vote from recurrent expenditure to development expenditure. Members were informed that the re-allocation if approved would lead to a shortfall in the mileage and medical expenses vote heads.

Members agreed to retain Kshs. 300 Million in the recurrent expenditure and Kshs. 270 Million be allocated to development expenditure.

After long deliberations members agreed to adopt the report but asked the chair to move the amendment of the Parliamentary Service Commission reallocation in the floor of the House.

MIN 180/2014: Adjournment

There being no other business the Chairman, Budget and Appropriations Committee adjourned the meeting at 12.00 pm. The next meeting will be held on the same day at 12:30 p.m at the small dining.



SIGNED

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CHAIRPERSON

24-6-14

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MINUTES OF THE 37th SITTING OF THE BUDGET AND APPROPRIATIONS COMMITTEE (BAC) HELD ON THURSDAY, 19th JUNE, 2014 AT 10:00 AM AT SMALL DINING

PRESENT

1. **Hon. Mutava Musyimi, M.P -Chair**
2. Hon. Abdikadir Omar Aden, M.P
3. Hon. Alfred Sambu, M.P
4. Hon. Ali, Fatuma Ibrahim, M.P
5. Hon. Benjamin Langat, M.P
6. Hon. Bitok S. Kirwa, M.P
7. Hon. Clement Wambugu, M.P
8. Hon. Daniel Nanok, M.P
9. Hon. Dennis Kariuki, M.P
10. Hon. Dr. J.W. Nyikal, M.P
11. Hon. Dr. Reginalda Wanyonyi, M.P
12. Hon. Francis Njenga, M.P
13. Hon. George Wanjohi, M.P
14. Hon. Irshad Sumra, M.P
15. Hon. James Gakuya, M.P
16. Hon. John Mbadi, M.P
17. Hon. Joseph Limo, M.P
18. Hon. KK Stephen Kinyanjui, M.P
19. Hon. Makali Mulu Benson, M.P
20. Hon. Mohamed Shidiye, M.P
21. Hon. Moses Lessonet, M.P
22. Hon. Moses Ole Sakuda, M.P
23. Hon. Muriuki Njagagua, M.P
24. Hon. Mwashetani Khatib Abdallah, M.P
25. Hon. Nelson Gaichuhie, M.P
26. Hon. Omar Mwinyi, M.P
27. Hon. Patrick Ole Ntutu, M.P
28. Hon. Peter Weru Kinyua, M.P
29. Hon. Priscilla Nyokabi, M.P
30. Hon. Samuel Gichigi, M.P
31. Hon. Shukra Hussein Gure, M.P
32. Hon. Silverse Lisamula Anami, M.P
33. Hon. Suleiman Murunga Kasuti, M.P
34. Hon. Tiyah Galgalo, M.P

ABSENT

1. **Hon. Mary Emaase ,M.P - Vice Chair**
2. Hon. Abdulaziz Farah, M.P
3. Hon. Alfred Agoi, M.P
4. Hon. Alice Ng'ang'a, M.P
5. Hon. Banticha Jaldesa ,M.P
6. Hon. Benjamin Andola Andayi, M.P
7. Hon. Charles Nyamai, M.P

8. Hon. Dorcas Kedogo, M.P
9. Hon. George Muchai, M.P
10. Hon. Isaac Mwaura, M.P
11. Hon. Jackson Kiptanui, M.P
12. Hon. James Lusweti, M.P
13. Hon. Jamleck Kamau, M.P
14. Hon. Jared O. Opiyo, M.P
15. Hon. Jonathan Lati Lelelit, M.P
16. Hon. Omondi George W. Mallan, M.P
17. Hon. (Eng) Stephen Ngare, M.P

IN ATTENDANCE

1. Mr. Henry Rotich
2. Dr. Kamau Thugge
3. Mr. Ontweka Onderi

NATIONAL TREASURY

Cabinet Secretary
Principal Secretary
Ag. Director BSD

IN ATTENDANCE

1. Ms. Phyllis Makau
2. Mr. Martin Masinde
3. Mr. Frederick Muthengi
4. Ms. Lucy Makara
5. Mr. Gichohi Mwaniki
6. Ms. Millicent Makina
7. Mr. Joseph Ndirangu
8. Mr. Jonathan Lemurt
9. Mr. Abel O. Nyagwachi
10. Mr. Danson Kachumbo

BUDGET COMMITTEE

SECRETARIAT

Director
Senior Deputy Director
Principal Fiscal Analyst/clerk
Principal Fiscal Analyst
Senior Fiscal Analyst
Fiscal Analyst
Fiscal Analyst
Fiscal Analyst
Fiscal Analyst
Fiscal Analyst

AGENDA

1. Preliminaries / Confirmation of Agenda
2. Confirmation of the Minutes of the Previous Meeting
3. Matters arising
4. *Brief by PBO on the supplementary II and appropriation bill, 2014*
5. *Meeting with the Cabinet Secretary of National Treasury*
6. Any Other Business

MIN 166/2014: Preliminaries

The Chairman called the meeting to order at 10.30 a.m. and led the members with a word of prayer. He requested members to sign the petition for a caucus meeting for mediation of the DORB, 2014 in order to show the support. He also informed members that the cabinet secretary for National Treasury shall be appearing before them to discuss the Appropriation Bill

for 2014/15 in light of the budget statement which appeared to differ with the resolutions of the House as contained in the Budget and Appropriations Committee report on the Estimates of Revenue and Expenditure for 2014/15. Members were also informed that the Euro Bond was a huge success and that they would seek more information from the cabinet secretary when he appears before the committee.

MIN 167/2014: Confirmation of the Minutes of the Previous Meeting

It was agreed that the minutes of the previous meeting and matters arising shall be discussed in the forth coming meeting. The chair thereafter called upon the Parliamentary Budget Office to give highlights on the second Supplementary Budget for 2013/14.

MIN 168/2014: Brief by PBO on the supplementary II on 2013/14

The presentation highlighted that:

1. The Supplementary II estimates is a re-alignment of the estimates with the overall budget having gone down by Ksh. 19.6 billion. Notable reductions were mainly under the State Department of Education (Ksh. 9 billion), the National Treasury (Ksh. 19.5 billion), the State Department of Environment and Natural Resources (Ksh. 11.3 billion) and the Ministry of Energy and Petroleum (Ksh. 4 billion).
2. On the other hand, major increases in the budget were observed in the State Department for Coordination of National Government (Ksh. 3.1 billion), Ministry of Defence (Ksh. 3.5 billion), Ministry of Foreign Affairs (Ksh. 1.2 billion), State Department of Infrastructure (Ksh. 9.4 billion), State Department for Agriculture (Ksh. 4.6 billion), the Independent Electoral and Boundaries Commission (Ksh. 1.01 billion) among others.

a. Recurrent Expenditure

3. It was noted that the recurrent budget had increased by Ksh. 12 billion. Major increments in the recurrent budget were observed under the Presidency (Ksh. 0.7 billion), State Department for Coordination of National Government (Ksh. 3.1 billion), State Department for Planning (Ksh. 2 billion), Ministry of Defence (Ksh. 3.5 billion), Ministry of Foreign Affairs (Ksh. 1.2 billion), Ministry of Health (Ksh. 1.1 billion), Ministry of Lands, Housing and Urban Development (Ksh. 0.6 billion), Office of the Attorney General and Department of Justice (Ksh. 0.5 billion), National Security Intelligence Service (Ksh. 0.8 billion), Independent Electoral Boundaries Commission (Ksh. 1 billion), Teachers Service Commission (Ksh. 0.8 billion).

b. Development Expenditure

4. It was pointed out that the development budget had gone down by Ksh. 31.7 billion. The reductions are mainly from the State Department of Planning (Ksh. 1.9 billion), State Department for Education (Ksh. 9.4 billion), the National Treasury (Ksh. 15.4 billion), State Department for Environment and Natural Resources (Ksh. 11.3 billion), Ministry of Lands, Housing and Urban Development (Ksh. 1.3 billion), Ministry of Labour, Social Security and Services (Ksh. 0.6 billion), Ministry of Energy and Petroleum (Ksh. 4 billion) and the Judiciary (Ksh. 0.9 billion).
5. On the other hand, notable increments in the development budget were observed in the State Department of Infrastructure (Ksh. 9.5 billion), State Department for Agriculture (Ksh. 4.5 billion) and the Parliamentary Service Commission (Ksh. 0.6 billion). It is noted that the PSC allocation is a transfer from recurrent due to erroneous application of funds under Supplementary I.

c. Consolidated Fund Services (CFS)

6. The total Consolidated Fund Services (CFS) allocation in the 2013/14 revised estimate II had decreased to Kshs. 266,369 million from a total of Kshs. 364,335 million in revised estimates I. The decrease was noted in the following items;
 - i. The deferred payment of the syndicated bank loan under external debt redemption and
 - ii. New loans item under internal debt redemption was decreased to zero.
4. The decrease in the CFS budget by Kshs. 97,965 million does not imply an equal saving since following the rescheduling of the syndicated loan for three months due to delays in floating the Euro Bond, the amount of Kshs. 53,655 million that had been set aside to repay it will be paid in August, 2014. Further, the government will have to pay over Kshs. 2 billion as additional interest including the six months London Inter-Bank Offered Rate (LIBOR), agent and arrangement fees accruing as a result of rescheduling the syndicated bank loan.
5. The government had also reduced the new loan item under internal debt redemption from Kshs. 49, 003 million to zero. However, interest on internal debt for new loans which stood at Kshs. 5,953 million in the revised estimates I has been maintained. Further information is required on why the interest on internal debt remained unchanged. There were no changes in the total amount for pensions, salaries and allowances.
6. An additional amount of Kshs. 161.7 million and 774.77 million had been introduced in the revised estimates II as interest and loan redemption respectively to repay the loan from Standard Bank that was used to acquire the BVR kits. The other increase was an amount of Kshs. 1,477 million in the new loans item; these funds may have been used to pay for the Anglo Leasing type contracts.

Overall Concerns highlighted in the brief

7. **Excessive use of supplementary appropriation:** Too many supplementary budgets hinder the implementation of the budget and undermine its credibility.
8. **Increasing recurrent expenditure:** It is observed that recurrent expenditure has been on an increasing trend both in the first and the second supplementary budgets whereas reductions are observed under development expenditure. If this trend continues, it will affect implementation of development projects
9. **Format of supplementary budget:** It is noted with concern that despite the Printed Estimates having been presented and approved on programme basis, the format of the supplementary budget II does not conform to that of the Printed Estimates. The supplementary budget appears in itemized format as well as programmes with no indicative outputs. The same observation was made in the first Supplementary budget but it appears that this concern has not been taken into account.
10. **Statement on how supplementary budget relates to fiscal responsibility principles missing:** Section 44 of the Public Finance Management Act provides that the supplementary budget should include a statement showing how additional expenditure relates to the fiscal responsibility principles and financial objectives. However, this had not been provided.
11. **Reduction in development expenditure:** The bulk of reductions to the budget were in development. This was disruptive to implementation of planned projects and ultimately the growth strategy of the country.

Response on Members Concern

1. Whether the supplementary 11 for 2013/14 followed the legal requirement where 70 percent goes to recurrent and 30 percent goes to development?
2. There was need to investigate if the public service was overstaffed?
3. Why in the CFS there was no adjustment of interest rates in the new loans
4. There was need to get more information in terms of the nature of increments and reductions, and the impact

MIN 170/2014: Brief on the Draft Appropriation Bill 2014/15

Members were reminded that the BAC report on the estimates of revenue and expenditure for 2014/15 was approved by the House on the 11th June, 2014 with the following resolutions:

That;

- i. Total amount of the National Budget to be Kshs. 1.78 trillion

- ii. The schedules 1 and 2 which were attached to the report be the basis for appropriation for 2014/15 budget

Members were also informed that on Friday, 13th June 2014, the Clerk of the National Assembly issued the certificate of approval of the 2014/15 budget estimates communicating the above House resolutions to the Principal Secretary, National Treasury.

It was further indicated that according to National Assembly Standing Orders 240 (13) the BAC shall introduce the Appropriation Bill in the House. Article 221 and 222 of the Constitution states that the Appropriation Bill is introduced in the House and approved to authorise withdrawal from the Consolidated Fund of the money needed for expenditure.

If the Bill will not be assented to by the President and is not likely to be assented to by 30th June then the House could resolve on the Vote on Account. Members were informed that to avoid Vote on Account, the Bill had to be debated and approved by 26th June, 2014 which was the last sitting day before the next financial year. It was noted that to date no legislative proposal/ draft appropriation bill had been submitted to the National Assembly.

Members agreed that this was indeed an important issue which would require an in-depth discussion with the Cabinet Secretary.

MIN171/2014: Meeting with Cabinet Secretary of the National Treasury

The Chairman welcomed the Cabinet Secretary to address the Committee on the key issues which had been raised with regard to information on performance of the Eurobond, the second supplementary budget and the Appropriation Bill 2014.

The Cabinet Secretary informed members that the sovereign bond was a success. He informed them that it was priced for 10yrs and 5 yrs respectively. However the international market was concerned with:

i. Devolution.

There was need for Kenya to have a strong fiscal framework to achieve it

ii. The Fiscal deficit in the 2014/15 estimates

There was a concern on the fiscal deficit in the 2014/ 15 budget estimates

iii. National Security

There was concern over the increase of terror attacks being witnessed in major towns

With regard to the supplementary budget, the Cabinet Secretary informed Members that the constitution allowed them to bring supplementary budget after every 2 months. He pointed out that the new procurement law

will try to solve some of the bottle necks experienced by the spending agencies and which hindered implementation of projects. The National Treasury is currently addressing issues of absorption capacity it was hoped that the situation will improve with time.

He informed members that in accordance with the provisions of article. 223 of the constitution, the withdrawal from the CFS was Ksh. 13,426,943,763 representing the total net estimates of Recurrent and Development comprising the following:

1. A sum not exceeding Kshs. 17,406,873,257 be granted from the Consolidated Fund to meet expenditure during the year ending 30th June , 2014, in respect of Supplementary Estimates 11 of 2013/14 Financial Year (Recurrent) having regard to proposed reduction of Ksh. 5,440,402,092
2. A sum not exceeding Kshs. 24,185,684,315 be granted from the Consolidated Fund to meet expenditure during the year ending 30th June, 2014, in respect of Supplementary Estimates 11 of 2013/14 Financial Year (Development) having regard to proposed reduction of Ksh. 22,725,211,717.

Regarding the Appropriation Bill 2014/15, members were informed that the reason why there was a delay in presenting the bill to parliament was because the ministry was trying to find solutions to the apparent financing gap in the budget. He proposed some changes such as:

- i. A reduction of allocation to zero to special economic zones since the bill was not in parliament
- ii. The 1.2 billion allocated for the construction of Ronald Ngala Utalii College be reduced to Kshs. 500 million
- iii. CDF be reduced to Kshs. 33 billion
- iv. The strategic response to public initiatives allocation of Kshs. 5 billion be considered in the supplementary budget for 2014/15 after the identification of the projects.

There was deliberation on the matter and it was agreed that the matter stated above shall be discussed on Sunday. The Chairman informed members that it was unconstitutional for him to sign a bill that did not contain the House resolutions on estimates of revenue and expenditure for 2014/15 hence the need for BAC to meet National Treasury and agree on some modalities before it being tabled. It was therefore agreed that the BAC together with the National Treasury and Cabinet Secretary of Transport to meet at Boma Hotel on Sunday, 22nd June, 2014 from 12.00 pm to build consensus on the 2014/15 Appropriation Bill and agree on the funding of the projects that were identified in the public hearings .

The Secretariat was directed by BAC to hold a technical review meeting with National Treasury before the proposed Sunday meeting.

MIN:172/2014: Any Other Business

There being no other business the Chairman adjourned the meeting at 2.55 pm. Next sitting will be held on Sunday, 22nd June, 2014 at 12.00 p.m. at the Boma Hotel.

SIGNED



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CHAIRPERSON

24-6-14

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DATE