

**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF MACHAKOS
COUNTY ASSEMBLY OF MACHAKOS**



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**THE BUDGET AND APPROPRIATIONS COMMITTEE'S
THIRD REPORT ON THE COUNTY BUDGET REVIEW
AND OUTLOOK PAPER (CBROP), 2023**

FEBRUARY, 2024

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ACRONYMS

ADP	Annual Development Plan
BAC	Budget and Appropriations Committee
BETA	Bottom-up Economic Transformation Agenda
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
COVID	Corona Virus Disease
CRA	Commission on Revenue Allocation
CT	County Treasury
EAC	East African Community
EMDE	Emerging Markets and Developing Economies
FY	Financial Year
GDP	Gross Domestic Product
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
PFM	Public Finance Management
RRI	Rapid Results Initiative
SBP	Single Business Permit
SPA	Special Purpose Account

1.0 PREAMBLE

1. **Hon. Speaker**, Section 118 of the Public Finance Management (PFM) Act, 2012 requires that each County Treasury (CT) prepares the County Budget Review and Outlook Paper (CBROP) in respect of their County for each financial year.

The CBROP presents:

1. Actual fiscal performance in the reporting period compared to the budget;
 2. Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
 3. Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest CFSP;
 4. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.
2. The CBROP should be considered and approved by the County Executive Committee before it is submitted to the Assembly. Once approved by the County Executive Committee, the County Treasury should within seven days and by 21st October of every year submit the Paper to the Assembly and have it published and publicized.
 3. The 2023 CBROP was submitted to the County Assembly on 19th October, 2023; within the legal timeline and was thereafter committed to the Budget and Appropriations Committee (BAC).

1.1 ESTABLISHMENT AND MANDATE OF THE COMMITTEE

4. **Hon. Speaker**, the Budget and Appropriations Committee is a select committee established in line with the provisions of Standing Order No. 186 (3) (a) which provides that there shall be a select committee to be known as the County Budget and Appropriations Committee consisting of a Chairperson and not more than eight other members. The main role of the committee is to take the lead in budgetary preparation and oversight by the County Assembly, among other roles including to examine the CBROP and make recommendations to the House. Other mandates of the committee include the following:

- a. Investigate, inquire into and report on all matters relating to coordination, control and monitoring of County budget.
 - b. Discuss and review the Budget Estimates and make recommendations to the House
 - c. Examine Bills related to the County Budget including Appropriation Bills.
5. The broad objective of the committee is to ensure that there is prudence and accountability in the use of public resources and that the public realizes value for money in all government expenditure.

1.2 MEMBERSHIP OF THE COMMITTEE

6. **Hon. Speaker**, the Committee currently comprises of the following Members:

- | | |
|--------------------------|--------------------|
| 1. Hon. Dominic Ndambuki | - Chairperson |
| 2. Hon. Justus Mutuku | - Vice Chairperson |
| 3. Hon. Judas Ndawa | - Member |
| 4. Hon. Phoebe Koki | “ |
| 5. Hon. Peter Kilonzo | “ |
| 6. Hon. Nicholas Nzioka | “ |
| 7. Hon. Stephen Mwanthi | “ |
| 8. Hon. Margaret Ndalana | “ |
| 9. Hon. Winfred Mutua | “ |

SECRETARIAT

- | | |
|-------------------------|-------------------------|
| 1. Ms. Evelyne Kimote | -Senior Clerk Assistant |
| 2. Mr. Sylvester Nzangi | -Senior Fiscal Analyst |
| 3. Ms. Mary Nzembi | -Clerk Assistant |
| 4. Mr. Shadrach Mbithi | -Fiscal Analyst |
| 5. Ms. Margaret Wania | -Legal Clerk. |
| 6. Ms. Ruth Mwikali | - Hansard Officer |
| 7. Ms. Abigael Mwikali | - Commissionaire |

1.3 OBJECTIVES OF THE CBROP

7. **Hon. Speaker**, the CBROP aims to provide a review of the fiscal performance for the FY 2022/23 and how the outcomes impacted the County's financial objective and fiscal

responsibility principles as envisaged in the PFM Act, 2012 and CFSP. It also relays the primary sector ceilings for the FY 2024/25 budget inclusive of indicative projections for the FY 2025/26 and 2026/27 Medium Term Expenditure Framework (MTEF) period. The ceilings will set off the budget preparation process for the next fiscal year.

1.4 FISCAL RESPONSIBILITY PRINCIPLES

8. **Hon. Speaker**, in line with Chapter 12 of the Constitution of Kenya as read together with Section 107 of the PFM Act, 2012, the County Government shall adhere to the fiscal responsibility principles which are:

- i. The County Government's recurrent expenditure shall not exceed the county Government's total revenue;
- ii. Over the medium term, a minimum of 30% of the county budget shall be allocated to development expenditure;
- iii. The County Government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County Government revenue as prescribed by the regulations;
- iv. Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- v. Public debt and obligations shall be maintained at a sustainable level as approved by County Government;
- vi. Fiscal risks shall be managed prudently, and;
- vii. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, considering any tax reforms that may be made in the future.

2.0 REVIEW OF FISCAL PERFORMANCE IN FY 2022/2023

9. **Hon. Speaker**, in the FY 2022/2023, this Assembly approved a budget of Kshs. 11.6 Billion to be financed through Equitable Share (Kshs. 9.2 Billion), Conditional Grants (Kshs. 0.6 Billion), Hospital Revenues (Kshs. 0.1 Billion) and Own Source Revenue (Kshs. 1.7 Billion) representing 79%, 5%, 1% and 15% respectively. In the course of the budget implementation, the CT revised the budget estimates to Kshs. 12.5 Billion comprising of Equitable Share Kshs. 9.9 Billion, Conditional Grants Kshs. 0.8 Billion, Hospital Revenues Kshs. 0.1 Billion and Own Source Revenue of Kshs. 1.7 Billion. The increase in both equitable share and conditional grants was attributed to balances carried forward from the previous FY (2021/2022).

2.1 Fiscal performance

2.1.1 Revenue performance

10. During the year under review, the County realized a total revenue of Kshs. 11.97 Billion against a target of Kshs. 12.54 Billion, an increase of 11.9% from the previous FY. The Table below gives the fiscal out-turn for the FY 2022/2023:

Table 1: Fiscal Out-turn for the FY 2022/2023 (Amounts in Kshs.)

	Actual FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates FY 2022/2023	Actual FY 2022/2023	Budget Execution (%)
Total Revenue	10,699,255,588	11,596,315,959	12,544,591,439	11,969,212,702	95
Equitable Share	8,429,319,897	9,162,304,232	9,895,288,567	9,895,288,567	100
Conditional Grants	135,656,077	610,440,182	798,691,933	460,815,858	58
Own Source Revenue	1,118,461,753	1,690,079,199	1,717,118,593	1,309,473,301	76
Hospital Revenues	-	133,492,346	133,492,346	120,317,958	90
Returned CRF Issues	1,015,817,861	-	-	183,317,018	1
Total Expenditure	10,332,934,983	11,596,315,959	12,544,591,439	10,257,046,327	82
Recurrent	8,700,451,133	8,088,468,725	8,778,234,893	8,398,286,797	96
County Assembly	911,640,806	1,007,126,181	1,189,846,181	1,109,670,183	93
County Executive	7,788,810,327	7,081,342,544	7,588,388,712	7,288,616,614	96
Development	1,632,483,850	3,507,847,234	3,766,356,546	1,858,759,530	60
County Assembly	137,355,091	318,500,000	318,500,000	22,470,207	7
County Executive	1,495,128,759	3,189,347,234	3,447,856,546	1,836,289,323	53

Source: Machakos County Financial Statements FY 2022/2023

2.1.2 County Own Source Revenue (OSR)

11. **Hon. Speaker**, the County Government targeted to collect Kshs. 1.69 Billion at the beginning of the FY 2022/2023 which was later revised to Kshs. 1.72 Billion and managed to collect Kshs.1.43 Billion which translates to a performance of 83%. The collection of Kshs. 1.43 Billion of OSR is inclusive of NHIF Reimbursements of Kshs. 120 Million. The tables 2 and 3 below

depicts the amount of OSR raised per month and a summary per quarter during the year under review and a comparison with previous FYs;

Table 2: County Own Source Revenue per Month

	FY 2018/2019	FY 2019/2020	FY 2020/2021	FY 2021/2022	FY 2022/2023
July, 2022	89,590,058	31,372,059	12,822,315	210,150	275,183
August	87,862,465	98,226,533	90,889,684	74,071,589	59,225,810
September	74,255,277	56,142,143	102,272,042	80,778,686	138,357,352
October	92,011,409	91,181,015	65,616,831	5,268,793	99,796,090
November	72,489,867	125,196,369	80,550,380	78,704,458	76,297,672
December	67,381,613	69,257,635	65,271,060	97,105,487	85,746,260
January	152,237,553	137,151,168	118,573,764	68,930,658	123,913,858
February	155,043,113	169,093,951	142,285,246	164,583,894	146,338,491
March	196,686,805	197,953,152	57,261,595	112,682,743	118,515,288
April	188,124,177	127,347,795	189,656,632	263,637,114	292,869,971
May	197,034,130	65,685,264	120,203,776	75,418,383	110,714,256
June, 2023	184,495,174	207,564,726	250,961,345	97,069,798	177,741,030
TOTAL	1,557,211,641	1,376,171,810	1,296,364,670	1,118,461,753	1,429,791,260

Source: Machakos County Financial Statements FY 2022/2023

12. Table 2 above shows that the month of April recorded the highest Own Source Revenue collections in the FYs 2021/2022 and 2022/2023. This is attributed to the Rapid Results Initiative (RRI) conducted during the month and the fact that most Single Business Permits (SBPs) expire in the month of March hence renewals occur in the month of April.

Table 3: County Own Source Revenue per Quarter

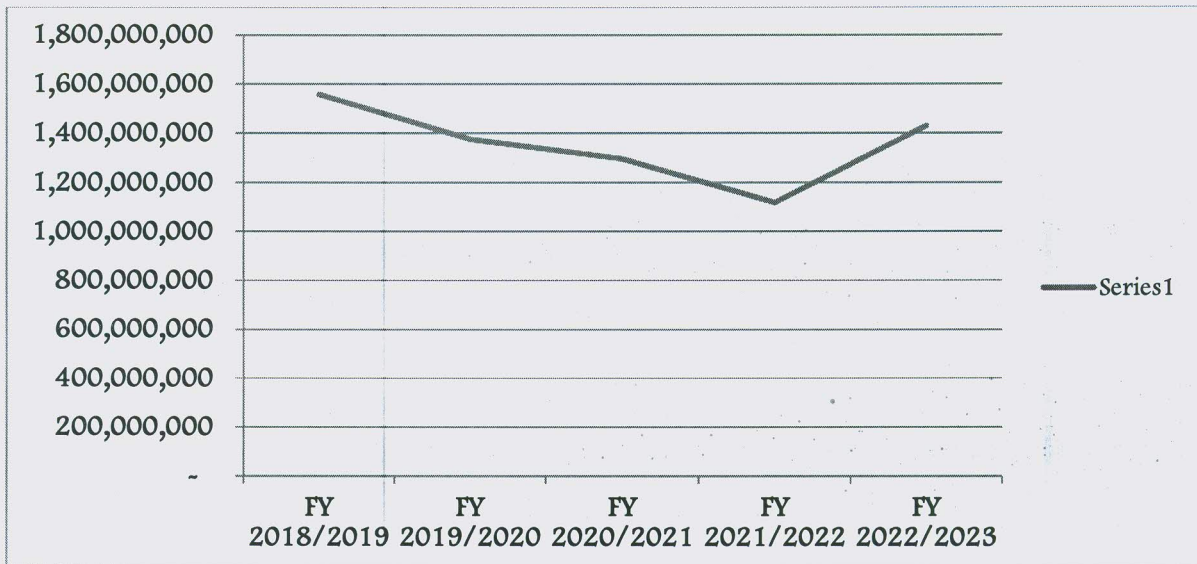
	FY 2018/2019	FY 2019/2020	FY 2020/2021	FY 2021/2022	FY 2022/2023
QTR. 1	251,707,800	185,740,735	205,984,041	155,060,425	197,858,345
QTR. 2	231,882,889	285,635,019	211,438,271	181,078,738	261,840,022
QTR. 3	503,967,471	504,198,271	318,120,605	346,197,295	388,767,636
QTR. 4	569,653,481	400,597,785	560,821,753	436,125,295	581,325,256

	FY 2018/2019	FY 2019/2020	FY 2020/2021	FY 2021/2022	FY 2022/2023
Total	1,557,211,641	1,376,171,810	1,296,364,670	1,118,461,753	1,429,791,260

Source: Machakos County Financial Statements FY 2022/2023

13. The figure below illustrates the trend of the Own Source Revenue collection between FYs 2018/19 to 2022/23:

Figure 1: Trend in Yearly Own Source Revenue Collection



2.1.3 Conditional Grants

14. **Hon. Speaker**, the County expected to receive Kshs. 0.8 Billion as conditional grants while actual receipts amounted to Kshs. 0.46 Billion representing a 58% performance.

2.1.4 Expenditure performance

15. **Hon. Speaker**, analysis of expenditure by economic classification shows that compensation of employees had the highest absorption rate at 44% of the total budget followed by use of goods and services at 23% and finally acquisition of assets and non-financial assets at 15% giving an overall absorption rate of 82%. This is tabulated below;

Table 4: Expenditure Performance by Economic Classification for FY 2021/2022 and FY 2022/2023

Economic Item	Actual Expenditure FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates 2 FY 2022/2023	Actual Expenditure FY 2022/2023	Budget Execution (%)

Economic Item	Actual Expenditure FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates 2 FY 2022/2023	Actual Expenditure FY 2022/2023	Budget Execution (%)
Compensation of Employees	5,903,699,792	6,019,963,383	6,078,655,805	5,566,708,303	44
Use of goods and Services	2,796,751,341	1,989,340,552	2,683,771,146	2,831,578,494	23
Conditional Grants	-	610,440,182	785,190,228	460,815,858	58
Acquisition of Assets	1,632,483,851	2,976,571,842	2,996,974,260	1,858,759,530	15
Sub Total	10,332,934,984	11,596,315,959	12,544,591,439	10,257,046,327	82

Source: Machakos County Financial Statements FY 2022/2023

16. The committee is concerned by the low absorption of funds especially under the capital/development budget and recommends that procurement processes under the same should be initiated in good time to ensure the projects are completed and paid for before the end of the FY.

2.1.5 County Entities Expenditure Analysis

17. **Hon. Speaker**, all the County Government entities achieved an overall absorption rate of at least 65% with the exception of Trade, Industrialization and Innovation. The highest rate of absorption of budgeted funds was recorded in the Department of Roads, Transport and Public Works at 95% and the least in the Department of Trade, Industrialization and Innovation at 46%. The absorption of development funds stood at 49%. Table 5 below gives the detailed analysis of every County entity's recurrent and development expenditures:

Table 5: County Entity Expenditure Performance for the Period Ending 30th June, 2023

County Entity		Actual Expenditure FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates FY 2022/2023	Actual Expenditure FY 2022/2023	Budget Execution (%)
Office of the Governor	Recurrent	483,535,953	552,144,648	592,144,648	466,629,103	79
	Development	2,996,800	14,334,385	19,334,385	13,638,038	71
	Total	486,532,753	566,479,033	611,479,033	480,267,141	79
County Public	Recurrent	34,202,221	50,736,706	58,718,706	39,691,446	68

County Entity		Actual Expenditure FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates FY 2022/2023	Actual Expenditure FY 2022/2023	Budget Execution (%)
Service Board	Development	-	41,112,751	20,112,751	-	-
	Total	34,202,221	91,849,457	78,831,457	39,691,446	50
Roads, Transport and Public Works.	Recurrent	195,815,377	197,914,081	255,285,089	246,490,779	97
	Development	584,232,787	942,342,159	634,490,071	599,261,197	94
	Total	780,048,164	1,140,256,240	889,775,160	845,751,976	95
Health and Emergency Services	Recurrent	4,065,419,607	3,715,790,836	3,921,205,706	3,867,858,032	99
	Development	132,306,109	452,528,294	725,101,281	209,589,012	29
	Total	4,197,725,716	4,168,319,130	4,646,306,987	4,077,447,044	88
Agriculture, Food Security and Co-operative Development.	Recurrent	408,223,924	374,588,632	312,568,368	276,876,068	89
	Development	225,727,457	456,080,148	420,675,866	270,590,704	64
	Total	633,951,381	830,668,780	733,244,234	547,466,772	75
County Assembly	Recurrent	911,640,806	1,007,126,181	1,189,846,181	1,109,670,183	93
	Development	137,355,091	318,500,000	318,500,000	22,470,207	7
	Total	1,048,995,897	1,325,626,181	1,508,346,181	1,132,140,390	75
Water, Irrigation, Environment and Natural Resources	Recurrent	99,138,802	110,746,454	109,767,159	109,514,916	100
	Development	186,804,114	444,254,627	483,227,935	292,756,892	61
	Total	285,942,916	555,001,081	592,995,094	402,271,808	68
Finance and Economic Planning.	Recurrent	546,860,952	476,591,141	552,936,479	540,798,398	98
	Development	193,270,211	63,747,742	261,530,229	91,106,401	35
	Total	740,131,163	540,338,883	814,466,708	631,904,799	78
Public Service, Quality Management and ICT	Recurrent	732,360,166	324,279,672	365,479,624	347,995,636	95
	Development	1,197,580	36,187,652	53,187,652	42,192,977	79
	Total	733,557,746	360,467,324	418,667,276	390,188,613	93
Tourism, Youth, Sports and Culture.	Recurrent	101,728,182	112,617,593	131,930,592	131,897,352	100
	Development	40,111,142	125,990,460	126,990,460	68,635,219	54
	Total	141,839,324	238,608,053	258,921,052	200,532,571	77
Trade, Industrialization and	Recurrent	113,990,530	99,344,709	147,292,138	145,457,672	99
	Development	57,663,119	180,556,594	177,960,907	5,707,822	3

County Entity		Actual Expenditure FY 2021/2022	Printed Estimates FY 2022/2023	Revised Estimates FY 2022/2023	Actual Expenditure FY 2022/2023	Budget Execution (%)
Innovation.	Total	171,653,649	279,901,303	325,253,045	151,165,494	46
Education , Skills Training and Social Welfare	Recurrent	385,378,986	428,971,858	454,161,358	432,856,655	95
	Development	22,593,487	153,460,588	236,460,588	46,271,516	20
	Total	407,972,473	582,432,446	690,621,946	479,128,171	69
Energy, Lands, Housing and Urban Development.	Recurrent	106,488,998	159,060,095	193,392,629	192,626,143	100
	Development	39,603,355	262,317,219	248,386,623	195,560,329	79
	Total	146,092,353	421,377,314	441,779,252	388,186,472	88
County Administration and Decentralized Units.	Recurrent	515,666,630	478,556,119	493,506,215	489,924,394	99
	Development	8,622,598	16,434,617	40,397,800	979,219	2
	Total	524,289,228	494,990,736	533,904,015	490,903,613	92
Total Recurrent		8,700,451,134	8,088,468,725	8,778,234,892	8,398,286,777	96
Total Development		1,632,483,850	3,507,847,236	3,766,356,548	1,858,759,533	49
Total Budget		10,332,934,984	11,596,315,961	12,544,591,440	10,257,046,310	82

Source: Machakos County Financial Statements FY 2022/2023

3.0 RECENT ECONOMIC DEVELOPMENTS AND FISCAL OUTLOOK

18. **Hon. Speaker**, the 2023 CBROP has been prepared against a background of global economic recovery with the fading effects of the COVID-19 pandemic. This is amidst of uncertainties due to the outbreak of the Russia-Ukraine war in 2022 which disrupted this recovery leading to a slowdown in economic activity in Kenya and other nations.

19. In 2022, the real GDP growth rate of the global economy dropped to 3.4%, down from the 6.0% growth observed in 2021. The deceleration was as a result of the tightening monetary policies in most regions, resurgence of COVID 19 in China and the Russia-Ukraine war that led to supply chain disruptions. The slowdown was experienced by both advanced economies and the Emerging Markets and Developing Economies (EMDEs). Growth in EMDEs was constrained by among other reasons, strengthening of the US Dollar against most currencies and recurrence of COVID-19 that negatively impacted on global supply chain. The world inflation rose from 4.7% in 2021 to 8.7% in 2022 on account of high energy prices, supply chain disruptions

associated with Russian-Ukraine war and significant depreciation of most currencies relative to the US dollar.

20. The Sub-Saharan African Economic growth decelerated from 4.8% in 2021 to 3.9% in 2022. This is mainly attributed to the COVID-19 pandemic, which affected the region's health systems, trade, tourism, remittances, and investment. The pandemic also reduced the global demand for the region's commodities, such as oil, metals, and agricultural products. Moreover, the region faced other external shocks, such as the surge in global inflation, which increased the cost of imports and reduced the purchasing power of consumers. The region also experienced supply disruptions due to the conflict between Russia and Ukraine, which affected the availability and prices of energy and fertilizers. Furthermore, the region suffered from climate shocks, such as droughts, floods, and locust invasions, which damaged crops and livestock and worsened food insecurity. These factors combined to lower the economic growth in sub-Saharan Africa in 2022.
21. However, there is some optimism as growth is expected to rebound to 3.7% in 2024 and 3.9% in 2025, indicating that the slowdown may hit its lowest point this year. Nevertheless, these growth rates are not sufficient to effectively combat extreme poverty and promote widespread prosperity in the medium to long term. The gradual recovery of per capita income growth, estimated at 1.2% in the coming year and 1.4% in 2025, still falls short of achieving poverty reduction rates seen in the region before the pandemic. The East African Community (EAC) Gross Domestic Product (GDP) expanded by 4.9% in the period under review against a growth rate of 6.7% in 2021.
22. The Kenyan experienced a GDP growth rate of 4.8 percent, which was a decrease from the strong rebound of 7.6 percent in 2021 following the COVID-19 crisis. Nominal GDP increased from Kshs. 12,027.7 billion in 2021 to Kshs. 13,368.3 billion in 2022. Agriculture remained the dominant sector accounting for 21.2% of the overall GDP in 2022. Gross National Income (GNI) rose from Kshs. 11,823.5 billion in 2021 to Kshs. 13,163.2 billion in 2022. Despite facing global financial challenges, fuel and food price shocks, and a severe drought in the second half of 2022, Kenya's growth rate remained consistent with its long-term trajectory. The growth was

primarily driven by the service sector, contributing 80 percent of the total GDP increase. Key sectors such as financial services, tourism, and transport performed exceptionally well.

23. Kenya's economy demonstrated resilience in the face of multiple crises, including inflationary pressures, exchange rate fluctuations, and food insecurity caused by the historic drought. To navigate this challenging economic environment, Kenya pursued a combination of measures, including greater exchange rate flexibility, fiscal consolidation, and tighter monetary policy. Fiscal consolidation played a crucial role in maintaining macroeconomic stability and supporting inclusive and sustained growth. The Government continued its efforts to address debt sustainability challenges, which had been interrupted by the pandemic, helping to reduce external and domestic imbalances. Looking ahead, the medium-term growth outlook remains positive, with GDP growth expected to stay at around 5 percent in 2023, down from 5.5 percent and back up to 5.3 percent in 2024 in line with pre-pandemic trends and the country's estimated potential GDP growth rate. Real per capita incomes are projected to grow at approximately 3 percent, and poverty is expected to decrease as well.

24. The County economic outlook looks promising despite spillover of both the global and domestic economic challenges. As per the 2023 Gross County Product (GCP) Machakos County is one of the Counties with a large economy of Kshs. 378.4 billion in 2022. Further Machakos County is among the top ten counties with the highest Gross County Product per capita in 2022. Over the medium term the economy is expected to grow as a result of various programmes that the Government will implement across all sectors geared towards economic turnaround. Special focus will be placed on; socio-economic empowerment, food and nutrition security, climate change, water Supply, accessibility to universal health care and infrastructure development. This is as outlined in the third generation County Integrated Development Plan (CIDP) 2023-2027, Annual Development Plan 2023-2024, County Fiscal Strategy Paper 2023, and Budget Estimates for FY 2023/2024. The County will continue to enhance its resource mobilization strategies to ensure adequate funds are available for achieving its socio-economic transformation goals.

3.1 Risks to the Outlook

25. **Hon. Speaker**, on the external front, the key downside risks include: weaker growth in Europe, rising global commodity prices and potential financial tightening in advanced economies. At the domestic level, the risks are mostly the high cost of living and sustenance of tax efforts.
26. At County level the risks include but not limited to delays in disbursements, low local revenue inflow, public expenditure pressures and low agricultural output.

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Implementation of the FY 2023/24 Budget

27. **Hon. Speaker**, the implementation of the FY 2023/24 budget began well with indicators in the first months pointing to meeting the end year target in regards to absorption of funds and improved strategies in revenue collection. The Medium-Term Fiscal Framework (MTFF) for the FY 2024/2025 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities. To finance the FY 2023/2024, the County Treasury projects its revenues at Kshs. 14.7 billion. This will comprise of Equitable Share of Kshs. 9.5 billion, Conditional Grants of Kshs. 1.1 billion, Hospital Revenues of Kshs. 1.0 Billion, Own Source Revenue of Kshs. 3.0 billion and Disposal of Assets at Kshs. 0.1 billion representing 65%, 7%, 7%, 20% and 1% of the total revenue respectively.

4.2 Medium Term Expenditure Framework

28. **Hon. Speaker**, the 2023/24-2025/26 Medium Term Expenditure Framework (MTEF) builds up on the National Government's efforts to stimulate and sustain economic activity through Bottom-up Economic Transformation Agenda (BETA). The document is framed against a backdrop of global economic slowdown occasioned by the ongoing Russia-Ukraine conflict, elevated global inflation, lingering effects of the COVID-19 pandemic, persistent supply chain disruptions, food security and climate change effects.
29. The allocation of resources in the medium term will be based on;
- i. PFM Act, 2012 principles
 - ii. The Big Four Agenda
 - iii. The Medium Term Plan of Vision 2030

- iv. Equitable share of revenue allocation from the National Government
- v. Ongoing projects
- vi. Her Excellency the Governor's Manifesto, 2022
- vii. Programmes prioritized in the 2023-2027 County Integrated Development Plan (CIDP)
- viii. Cost effectiveness and sustainability of the programmes
- ix. Annual Development Plan (ADP)
- x. Budget ceilings given by the Commission of Revenue Allocation (CRA)
- xi. Degree to which the programmes address the strategic objectives of the County
- xii. Degree to which the programmes are addressing the core functions and responsibilities of the County.

30. **Hon. Speaker**, the County's proposed Resource Envelope in the Medium Term is as presented below;

Table 6: Resource Envelope in the Medium Term

Revenue Stream	Printed Revenues FY 2023/2024	Projected Revenues FY 2024/2025	Projected Revenues FY 2025/2026
Equitable Share	9,547,295,309	9,921,609,186	10,403,201,823
Aggregated Industrial Parks Programme	100,000,000	100,000,000	100,000,000
Fertilizer Subsidy Programme	195,350,986	195,350,986	195,350,986
Court Fines	14,436,324	14,436,324	14,436,324
Mineral Royalties	99,716	99,716	99,716
Universal Healthcare in Devolved System Program (DANIDA)	14,148,750	14,148,750	14,148,750
Agricultural Sector Development Support Program (ASDSPII)-SIDA	3,761,966	3,761,966	3,761,966
Kenya Climate Smart Agriculture Project (KCSAP)-World Bank	90,000,000	90,000,000	90,000,000
Aquaculture Business Development Programme (ABDP)-IFAD	15,401,768	15,401,768	15,401,768
Financing Locally Led Climate Change Action Programme (FLLoCA)-World Bank	133,000,000	133,000,000	133,000,000
FLLoCA County Climate Institutional	11,000,000	11,000,000	11,000,000

Revenue Stream	Printed Revenues FY 2023/2024	Projected Revenues FY 2024/2025	Projected Revenues FY 2025/2026
Support Programme (CCISP)-World Bank			
Livestock Value Chain Support Project- Poland	35,809,200	35,809,200	35,809,200
National Agricultural Value Chain Development Project (NAVCDP)	250,000,000	250,000,000	250,000,000
Hospital Revenues	1,008,000,000	1,108,800,000	1,219,680,000
Asset Disposal	100,000,000	110,000,000	121,000,000
Leasing of medical equipment	124,723,404	124,723,404	124,723,404
Emergency Locust Response Project (ELRP)	105,095,561	105,095,561	105,095,561
Own Source Revenue	2,998,879,462	3,148,823,435	3,306,264,607
Total	14,747,002,447	15,382,060,297	16,142,974,105

31. Hon. Speaker, the County's Medium Term Expenditure by each entity is presented here below:

Table 7: Medium Term Expenditure by County Entity

County Entity		Printed Estimates FY 2023/2024	% Allocation	Projected Estimates FY 2024/2025	Projected Estimates FY 2025/2026
Office of the Governor	Recurrent	580,874,154	4	616,177,410	687,625,737
	Development	19,578,170	-	20,557,079	21,584,932
	Total	600,452,324	4	636,734,488	709,210,670
County Public Service Board	Recurrent	38,013,709	-	37,730,394	39,616,914
	Development	20,000,000	-	6,000,000	6,300,000
	Total	58,013,709	-	43,730,394	45,916,914
Roads, Transport and Public Works.	Recurrent	247,436,258	2	259,808,071	270,099,974
	Development	711,731,765	5	747,318,353	781,954,271
	Total	959,168,023	7	1,007,126,424	1,052,054,245
Health	Recurrent	4,062,841,432	28	4,264,041,003	4,417,873,428
	Development	994,139,145	7	1,043,846,102	1,087,225,170
	Total	5,056,980,577	34	5,307,887,105	5,505,098,598

County Entity		Printed Estimates FY 2023/2024	% Allocation	Projected Estimates FY 2024/2025	Projected Estimates FY 2025/2026
Agriculture, Food Security and Co-operative Development.	Recurrent	379,572,813	3	365,369,349	383,637,816
	Development	830,637,413	6	875,844,284	917,011,499
	Total	1,210,210,226	8	1,241,213,632	1,300,649,315
County Assembly	Recurrent	1,008,995,826	7	1,038,532,490	1,087,940,049
	Development	292,000,000	2	273,000,000	286,650,000
	Total	1,300,995,826	9	1,311,532,490	1,374,590,049
Water, Irrigation, Environment and Climate Change	Recurrent	134,088,120	1	129,242,526	135,704,652
	Development	718,500,000	5	738,380,000	747,599,000
	Total	852,588,120	6	867,622,526	883,303,652
Finance, Economic Planning and Revenue Management.	Recurrent	983,253,752	7	1,027,161,188	1,078,519,246
	Development	474,976,422	3	498,725,243	523,661,505
	Total	1,458,230,174	10	1,525,886,431	1,602,180,751
Gender, Youth, Sports and Social Welfare	Recurrent	124,639,769	1	129,821,757	136,312,845
	Development	192,655,003	1	202,287,753	212,402,141
	Total	317,294,772	2	332,109,510	348,714,986
Trade, Industry, Tourism and Innovation.	Recurrent	178,284,115	1	340,505,981	416,158,045
	Development	508,778,732	3	481,907,669	505,003,052
	Total	687,062,847	5	822,413,650	921,161,097
Education	Recurrent	546,786,371	4	574,125,690	602,831,974
	Development	172,729,112	1	181,365,568	190,433,846
	Total	719,515,483	5	755,491,258	793,265,820
Lands, Urban Development, Housing and Energy.	Recurrent	240,766,270	2	235,952,084	247,749,688
	Development	167,755,550	1	174,043,328	182,745,494
	Total	408,521,820	3	409,995,412	430,495,182
Devolution	Recurrent	979,169,215	7	973,842,676	1,022,534,810
	Development	45,934,618	-	48,231,349	50,642,916
	Total	1,025,103,833	7	1,022,074,025	1,073,177,726
County Attorney	Recurrent	83,564,716	1	87,742,952	92,130,099
	Development	9,300,000	-	10,500,000	11,025,000

County Entity		Printed Estimates FY 2023/2024	% Allocation	Projected Estimates FY 2024/2025	Projected Estimates FY 2025/2026
	Total	92,864,716	1	98,242,952	103,155,099
Total Recurrent		9,588,286,520	65	10,080,053,570	10,618,735,278
Total Development		5,158,715,930	35	5,302,006,727	5,524,238,827
Total Budget		14,747,002,450	100	15,382,060,297	16,142,974,105

5.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

32. **Hon. Speaker**, the Committee observes and recommends:


- 1) That the County Treasury adheres to the budget calendar for the FY 2023/24 budget making process. This will ensure that the process is within the set legal timelines and also give the Committee/House ample time to scrutinize, analyze and process each and every budget document.
- 2) That during the preparation of the Budget Estimates for FY 2024/25, the County Treasury should consider the matter of pending bills and ensure that they are adequately provided for as well as settle the pending bills budgeted for in the current FY.
- 3) That during the year under review, the County collected Own Source Revenue of Kshs. 1.43 billion against a target of Kshs. 1.7 Billion. The Committee observed that there was an underperformance thus recommends to the County Government as follows:
 - a. Ensure strict enforcement measures to minimize loss of revenue,
 - b. Strengthen internal controls,
 - c. Automate all the channels of revenue collection
 - d. Frequently conduct Rapid Results Initiative (RRI)
 - e. Set realistic/achievable revenue targets
 - f. Expand the revenue streams and;
 - g. Implement the County property valuation roll.
- 4) That the procurement processes under the development budget should be initiated in good time to facilitate timely completion and payment of the projects. This will also aid in addressing the issue of pending bills as projects will be executed and paid for in the FY in which they were initially budgeted for as well as increasing the absorption of the development budget.
- 5) That the County Government puts in place measures to sensitize farmers on agricultural produce storage and prevention of post-harvest losses.

- 6) That the County Government reduces the overall wage bill which stands at 44% of the previous year's actual revenues against the set legal limit of 35% of the County Government's total revenue as stipulated in Section 107 of PFMA 2012 and Section 25(b) of the PFM Regulations 2015.
- 7) That the performance of Conditional grants was way below the target and the Committee recommends that the County Government needs to establish the reasons behind the poor performance of the grants.
- 8) That all County Departments achieved overall absorption rate of at least 65% except the Department of Trade, Industrialization and Innovation. The Committee recommends that the departments ensure that they utilize their budgets as allocated to ensure service delivery.
- 9) That the Office of the Controller of Budget did a review of the CBROP, 2023 and provided a number of recommendations via a letter dated 31st November, 2023 (annexure) and the Committee urges the County Executive to consider the reviews in future.

6.0 ACKNOWLEDGEMENT

33. **Hon. Speaker**, the Committee wishes to thank the Office of the Speaker and that of the Clerk for the support extended to the Committee by facilitating it to fulfill its mandate. I wish to acknowledge the Honorable Members of the Committee for their time as well as ideas in the meetings and in preparation of this report. Our sincere gratitude is extended to the County Treasury for being part of this critical process of preparing and reviewing the 2023 CBROP. It is therefore my pleasant undertaking, on behalf of the Budget and Appropriations Committee, to table this report and recommend it to the House for adoption.

Thank you, **Hon Speaker**.

SIGNED: 

DATED: 20/02/2024

HON. DOMINIC NDAMBUKI (MCA KATHIANI CENTRAL WARD)
CHAIRMAN, BUDGET AND APPROPRIATIONS COMMITTEE

OFFICE OF THE CONTROLLER OF BUDGET



REPUBLIC OF KENYA

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DEPARTMENT OF BUDGET IMPLEMENTATION - MACHAKOS COUNTY

REF: OCOB/CBC/CGM/2023/24(010)

November 31, 2023

Executive Committee Member, Finance and Planning,
Machakos County,
Machakos.

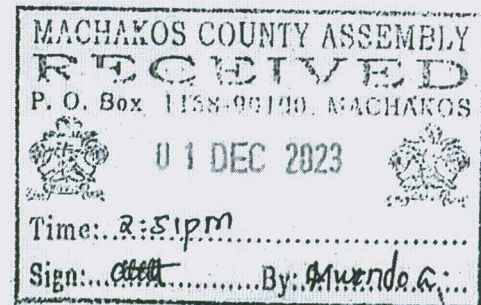
RE: REVIEW COMMENTS ON THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER 2023

The Office of the Controller of Budget (OCOB) has reviewed the County Budget Review and Outlook Paper submitted to the County Assembly. Please, find our comments attached herewith for your consideration.

BABU O. JOSIAH
COUNTY BUDGET COORDINATOR
MACHAKOS COUNTY

Cc: The Clerk, County Assembly
Chief Officer, Finance and Planning
Controller of Budget

*Asst - Budget
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*FD/Procedure
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12023*

OFFICE OF THE CONTROLLER OF BUDGET



REPUBLIC OF KENYA

Promoting Prudent and Efficient Utilization of Public Funds



OFFICE OF THE CONTROLLER OF BUDGET

COUNTY BUDGET REVIEW OUTLOOK PAPER (CBROP)

MACHAKOS COUNTY REVIEW

Background

The objective of the County Budget Review and Outlook Paper (CBROP) is to offer insight into the previous fiscal performance and provide useful guidance on how this impacts the County fiscal responsibilities principles. It reviews the performance of the immediate past year against the budget for the year. This year's CBRROP analyses the actual fiscal performance for 2022-2023 against the set budget for the same year. It looks at actual performance on the realization of objectives in the County Fiscal Strategy Paper (CFSP) for the same year.

Article 228(4) of the Constitution of Kenya 2010 mandates the Office of the Controller of Budget to oversee the budget implementation at both the National government and the County government by authorizing withdrawals from the public funds under Articles 204, 206 and 207 of the Constitution of Kenya 2010.

To effectively guide counties in budget implementation, the Office of the Controller of Budget (OCOB) undertakes reviews of the approved County Budget Review and Outlook Paper (CBROP) to ensure it is aligned with the Annual Development Plan (ADP) that is extracted from the County Integrated Development Plan (CIDP) and regulations that guide the CBRROP are followed by the County Government. Below are the review comments for Machakos County CBROP in each of the thematic areas.

The CBROP Review Comments

Table 1: The Best Practises

S/N	Thematic Area	Good Practice	Review Comments
1	Strategic priorities	County government's medium priorities and plans.	As much as the CBROP has stated that the Priorities will be based on: The Medium-Term Plan of Vision 2030, equitable share of revenue allocation from the National Government, Ongoing projects, and the Governor's Manifesto 2022, among other factors there is no a detailed description of specific strategic priorities and their plans.
2	Approaches of coping with changing economic and financial environments	Description of how to cope with changes in the financial and economic environment	The CBROP does not have approaches with details on how to cope with the financial and economic environment.
3	Programmes to be delivered	Well-detailed programmes describing: <ul style="list-style-type: none"> ❖ strategic priorities to which the programme will contribute to; ❖ the service and goods to be provided; ❖ measurable indicators of performance and ❖ budget allocated to the programmes 	The CBROP does not have a consolidated set of programmes to be delivered with strategic priorities, measurable indicators, and budget allocation.
4	Capital Development Projects	The PFM Act section 126(1)(f) requires the CBROP to provide a well-detailed description of significant capital developments Projects	The CBROP does not have Capital Development Projects.
5	Summary budget	The Public Finance Management Act requires the CBROP to have a summary	A summary budget has been included in the CBROP as required

budget for the whole county, with rough allocations (projected costs) for each programme based on their priorities in accordance to section 126(1)(g) of PFMA,2012

7

Timelines

Section 126(3) of PFMA, 2012 requires the County Executive Committee member responsible for planning shall, not later than the 1st of September in each year, submit the development plan to the county assembly for its approval, and send a copy to the Commission on Revenue Allocation and the National Treasury County assembly. Timelines were well observed in the submission of the CBRQP

Table 2: The Legal Basis

10.

Theme

Good practice/ Legal requirement

Expectations, Findings and Comments

1. *Timeliness*

The County Treasury shall prepare a CBROP in respect of the county for each FY and submit the paper to the County Executive Committee by the 30th of September of that year per the PFM Act, 2012 section 118(1)(a &b).

❖ The County Treasury submitted the CBROP to the County Executive Committee on 20th Sep. 2023 and to the County Assembly on 29th Sep. 2023 in line with Section 118(1) and 118(4) of PFM Act 2012.

2. *Previous year's Fiscal performance*

The County Treasury shall specify the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year. Section 118(2) (a) of the PFM Act, 2012

❖ The CBROP 2023 shows the financial performance in terms of shareable revenue, own source revenue, conditional grants, and expenditure performance. The fiscal outturn also includes departmental performance by major economic classification including sector performance. The details of fiscal performance for the previous FYs 2018/19, 2019/20, 2020/21, 2021/22, and 2022/23 for OSR, total revenue receipts, and total payments have been illustrated in Chapter 2. However, the comparison to budget

FY 2023/24 with previous FYs is lacking in the analysis.

The paper should illustrate the details of the actual fiscal performance in the previous year(s) compared to the budget appropriation for that year/2023/24.

- ❖ However, the financial performance excludes the existence of the pending bills as of 30th June 2023. This further, fails to make provision on the settlements in the approved estimates and the medium term. The fiscal risk associated with such pending bills is not also illustrated in the CBROP 2023.

The County should include the financial performance of the pending bills, provision for its settlements, and the fiscal risks associated with such bills.

- ❖ The paper makes no mention of how the programmes undertaken by the

programmes and sub-programmes) influenced the fiscal performance. This could provide an opportunity for the County to appraise its performance systems to highlight whether the financial objectives have been met or not and to evaluate the best approach to adopt.

The County should in future highlight the budget execution by programmes and sub-programmes in the achievement of the financial by the departments.

❖ Under Chapter 3 of the CBROP 2023 (recent economic development & fiscal outlook (Paragraphs 16 - 21), the paper outlines the global economic prospects, regional economic outlook, domestic economic outlook and county's economic outlook. The general analysis of the prospects shows that this has not been linked to the CFSP of 2023 which should lead to an updated projection in the economic and financial forecasts in the 2023 CBROP. This has limited mention of how

3. *Updated macroeconomic and financial forecast*

Section 118(2) (b) of PFM Act, 2012 stipulates that the County Treasury shall specify the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP)

changes from the forecast are likely to affect budget performance in the MTEF period.

We recommend that the county shows how the economic and financial forecasts are linked to the CFSP of 2023.

Changes in the forecasts compared with the CFSP

The County Treasury shall specify Information on any changes in the forecasts compared with the CFSP Section 118(2)(c)(i) of the PFM Act 2012

❖ On the changes in the forecasts compared with the CFSP, the paper has not illustrated the comparison between the 2023 CFSP ceilings and FY 2022/23 approved budget, and differences, if any, explained. The failure to recognize the differences indicates a shortcoming in proper forecasting and planning on fiscal priorities in the FY2023/24 and the medium term. Further, the revenue forecast is not comparable to CFSP 2023 forecasts and deviations, if any.

The County should consider comparing the current projected revenues and expenditure which was outlined in the 2023 CFSP, and adjusted for CBROP 2023, and provide explanations for any differences.

should be organized in terms of the broader budget classification of recurrent and development broken down into sectors and/or departments. This should cater for approved appropriations, proposed supplementary budget changes and deviation.

Effects of Fiscal Performance on CFSP

The County Treasury shall specify Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year. Section 118(2)(c)(ii) of PFM Act 2012

❖ The County Treasury has stated in Chapter 1(B) of the CBROP 2023 the fiscal responsibility principles (i to vii). In Chapter 2 on the review of fiscal performance in the FY 2022/23 which we largely expect to illustrate how it has largely adhered to the fiscal responsibility principles to ensure prudence and transparency in the management of public resources is missing. A closer analysis shows that the previous financial year's performance has not been linked to the fiscal responsibility principles or financial responsibilities of wages, tax rates and levels actual

county's debt levels, if any, as it relates to a per cent of total revenues approved by County Assembly.

The County should revise its compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year, and show the proposed framework in achieving the fiscal responsibility principles in the medium term.

Reasons for deviation from financial objectives if any

The PFM Act, 2012 section 118(2) (d) requires the County Treasury to provide reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

- ❖ The CBROP falls short of detailing the financial objectives in the 2023 CFSP to provide deviation if any. A review of fiscal performance for the financial year 2022/23, in chapter 2 of the CBROP 2023, has not enumerated financial objectives to enable any comparisons, and/or deviations if any, in the FY 2023/24 and the medium-term to enable establish the deviations and understand the reason for the deviations.

We recommend that the paper enumerates the financial objectives and reasons for deviation from the

CFSP 2023 together with proposals to address the deviations and time estimated for doing so be captured in the CBROP.

Recommendations

As much as the CBROP has stated that the Priorities will be based on: The Medium-Term Plan of Vision 2030, Equitable share of revenue allocation from the National Government, ongoing projects, and the Governor's Manifesto 2022 Among other factors there is a need to have a detailed description of specific strategic priorities and their plans as required. The CBROP should have approached with details on how to cope with the financial and economic environment. The CBROP should be a consolidated set of programmes to be delivered with strategic priorities, measurable indicators, and budget allocation including Capital Development Projects.



REPUBLIC OF KENYA
COUNTY GOVERNMENT OF MACHAKOS
COUNTY ASSEMBLY OF MACHAKOS



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**Adoption schedule for Report of the Budget and Appropriations
Committee on County Budget Review and Outlook Paper, 2023**

The report was adopted by the following Members:

Date: 19th February, 2024

	COMMITTEE MEMBERSHIP	SIGNATURE
1.	Hon. Dominic Ndambuki –Chair	
2.	Hon. Justus Mutuku – Vice Chair	
3.	Hon. Judas Ndawa - Member	
4.	Hon. Phoebe Koki - “	
5.	Hon. Peter Kilonzo – “	
6.	Hon. Nicholas Nzioka – “	
7.	Hon. Stephen Mwanthi – “	
8.	Hon. Margaret Ndalana – “	
9.	Hon. Winfred Mutua – “	

