



REPUBLIC OF KENYA
COUNTY GOVERNMENT OF MACHAKOS
COUNTY ASSEMBLY OF MACHAKOS



County Hall
Along Mwatu wa Ngoma Rd
P O Box 1168 – 90100,
MACHAKOS – KENYA

Email: assemblymks@gmail.com

**THE BUDGET AND APPROPRIATIONS COMMITTEE’S
FIFTH REPORT ON THE**

COUNTY FISCAL STRATEGY PAPER (CFSP), 2024

*THEME: CONSOLIDATING ECONOMIC GAINS TO ENHANCE SUSTAINABLE GROWTH
THROUGH SOCIO-ECONOMIC EMPOWERMENT AND INFRASTRUCTURE DEVELOPMENT*

SUMMARY

MARCH, 2024

1.0 INTRODUCTION

1. **Hon. Speaker**, the County Fiscal Strategy Paper (CFSP) is a policy document that outlines the County Government's fiscal strategy and priorities for a given Financial Year (FY) and serves as a guide for the County Government's budget. The Fiscal Strategy Paper is an important document as it sets the overall policy framework for resource allocation and informs budgetary allocation.
2. The Fiscal Strategy Paper contains elements such as economic analysis, revenue projections, expenditure priorities and ceilings, fiscal risks and constraints, performance targets, alignment with other policy documents and how the County Plans to manage its pending bills over the Medium Term. It also documents and considers the input of different stakeholders and the public at large as submitted during public participation fora.
3. The Fiscal Strategy Paper therefore, provides a strategic framework for the County Government's budget and will guide in decision-making around resource allocation and spending priorities for the Financial Year 2024-2025 and in the Medium Term.
4. The Machakos CFSP, 2024 is the second in the County's Plan period 2023-2027 and was submitted to the County Assembly on 28th February, 2024 as required by the law. Standing Order 205(3) states that "upon being laid before the Assembly the CFSP shall be deemed to have been committed to each Sectoral Committee without question put, for each such committee to deliberate upon according to their respective mandate and make recommendations to the Budget and Appropriations Committee".

1.1 LEGAL BASIS FOR PREPARATION OF THE CFSP

5. **Hon. Speaker**, the County Treasury, pursuant to Section 117(1) of the Public Finance Management (PFM) Act, 2012 is mandated to prepare and forward the Fiscal Strategy Paper to the County Executive Committee for approval and subsequently submit the approved CFSP to County Assembly, by 28th February of each year. Further, Section 117(6) of the PFM Act, 2012 as read with Standing Order 205(7) of Machakos County Assembly Standing Orders stipulates that the Assembly shall consider and may adopt the CFSP with or without amendments not later than fourteen (14) days after its submission.
6. Section 117(2) of PFM Act, requires the County Treasury to align the proposed revenue and expenditure plan to the national financial objectives in the Budget Policy Statement (BPS). In line with the PFM Act, 2012 Section 117(5) the County Treasury carried out public participation both at village and sub-County level from 19th to 24th February, 2024.

7. The County Assembly conducted Sectoral Committees' interrogations on 5th and 6th March, 2024 and held public participations fora on 7th March, 2024 in all the nine (9) sub Counties (*Annex I Public Participation Advert*). The public was also invited to submit written memoranda on or before Friday, 8th March, 2024 by 5:00 pm. The submissions and priorities from these fora have been considered in the preparation of this report and on the recommended budget ceilings.

1.2 RATIONALE FOR THE FISCAL STRATEGY PAPER

8. **Hon. Speaker**, the strategy paper articulates priorities, socio-economic policies and structural reforms as well as sectoral expenditure programmes to be implemented in the fiscal year 2024/2025 and in the Medium Term.
9. The CFSP specifically aims to:
- i. Specify the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for the coming financial year and over the Medium Term;
 - ii. Provide linkage with the national objectives in the BPS;
 - iii. Provide the financial outlook with respect to County Government revenues, expenditures and borrowing over the Medium Term; and;
 - iv. Provide a basis for stakeholders' engagement in the formulation and implementation of County priorities and budgeting.

2.0 Performance Review

10. **Hon. Speaker**, the County's approved budget for FY 2023/2024 was Kshs.14.75 Billion which was revised to Kshs. 16.58 Billion during the reporting period. This was made up of Kshs. 11billion, Kshs. 12.9 Million, Kshs. 1.45 Billion, Kshs. 4 Billion and Kshs. 100 Million as Equitable Share, Equalization Fund, Conditional Grants, Own Source Revenue and Asset Disposal respectively.
11. As at 31st December, 2023 or at the end of the first half, the County received Kshs. 5.19 Billion in the compared to Kshs. 3.86 Billion during the same period in FY 2022/2023. These comprised of Kshs. 4.86 Billion and Kshs. 295 Million from equitable share and own source collections respectively.
12. The total Expenditure as at 31st December, 2023 was Kshs. 4.03 Billion consisting of Kshs. 3.68 Billion and Kshs. 0.35 Billion of recurrent and development expenditures respectively.
13. The overall budget execution declined to 24% in the reporting period compared to 28% over the same period in FY 2022/2023 with the department of Health recording the highest absorption at 37%. This was attributed to delayed disbursement from exchequer and low collection due to low

economic activities in the County. Despite this decline, development expenditure increased from 4% last financial year to 6% in FY 2023/2024.

14. The recurrent expenditure constituted of Compensation of employees at Kshs. 2.54 Billion and Use of Goods at Kshs. 1.14 Billion representing 15.3% and 6.9% of budget execution respectively.

3.0 The Proposed County Resource Envelope for FY 2024/25 and Over the Medium Term

15. **Hon. Speaker**, the County has not been able to achieve its targets on OSR over the years. There is need for the County to look beyond the regular revenue sources as Equitable Share and this includes options for supplementing its budget like Grants, Donations, Loans, Public Private Partnerships, Bonds, Joint Ventures among others. The table below presents the revenues expected to finance the County budget in the FY 2024/2025 and over the medium term.

S/No	Description	Printed Revenues FY 2023/2024	Proposed Estimates FY 2024/2025	Projected Estimates FY 2025/2026	Projected Estimates FY 2026/2027
1	Equitable Share	9,547,295,309	9,689,368,198	9,865,000,000	9,865,000,000
2	Equalization Fund	-	12,923,347	12,923,347	12,923,347
	Leasing of Medical Equipment	124,723,404.30	-	-	-
	Roads Maintenance Levy Fund	-	314,847,146	314,847,146	314,847,146
	Aggregated Industrial Parks Programme	100,000,000	-	-	-
	Fertilizer Subsidy Programme	195,350,986	-	-	-
	Court Fines	14,436,324	14,436,324	14,436,324	14,436,324
	Mineral Royalties	99,716.30	99,716	99,716	99,716
	Kenya Devolution Support Program	-	35,000,000	35,000,000	35,000,000
	Kenya Climate Smart Agriculture Project (KCSAP)-World Bank	90,000,000	-	-	-
	Universal Healthcare in Devolved Context (PHCDC) - DANIDA	14,148,750	14,148,750	14,148,750	14,148,750
	Agricultural Sector Development Support Programme (ASDP) II – Sweden	3,761,966	-	-	-
	Emergency Locust Response Project (ELRP) -World Bank	105,095,561.15	105,095,561.15	105,095,561.15	105,095,561.15
	Aquaculture Business Development Programme (ABDP) - IFAD	15,401,768	15,401,768	15,401,768	15,401,768
	Locally Led Climate Change Action Programme (FLLoCA) - World Bank	133,000,000	137,500,000	137,500,000	137,500,000
	FLLoCA County Climate Institutional Support - World Bank	11,000,000	11,000,000	11,000,000	11,000,000
	Livestock Value Chain Support Project – Poland	35,809,200	-	-	-
	National Agricultural Value Chain Development Project (NAVCDP)	250,000,000	250,000,000	250,000,000	250,000,000
3	Total Conditional Grants	1,092,827,676	897,529,265	897,529,265	897,529,265
4	Own Source Revenue	2,998,879,462	2,694,783,195	2,829,522,355	2,970,998,472
5	Hospital Revenues	1,008,000,000	500,000,000	550,000,000	605,000,000
6	Asset Disposal	100,000,000			
	Total County Budget	14,747,002,447	13,794,604,005	14,154,974,967	14,351,451,085

4.0 SECTORAL INTEROGATIONS AND PUBLIC PARTICIPATION SUBMISSIONS

16. **Hon Speaker**, the County Assembly interrogated the chief officers from all the county sectors on 5th and 6th March, 2024 and conducted Public participation in nine (9) Sub Counties on 7th March 2023.

5.0 SUBMISSIONS FROM THE CECM FINANCE

17. **Hon Speaker**, the Committee was concerned on the low absorption rate on Development budget where most of the projects were at procurement stage. Also, during Sectoral interrogations committees were informed that the departments' requisitions were at the Department of Finance since procurement officers in respective departments have no procuring rights. The CECM Finance submitted that the procurement process is decentralized, and all procurement officers have rights to facilitate procurement process for their respective departments. Further the committee was informed that the under absorption of funds was also caused by delayed exchequer releases.

18. On pending bills cutting across all departments the CECM Finance informed the Committee that;

- i. Total pending bills as at 30th June, 2023 was Kshs. 3,163,747,597.00
- ii. Amount paid to date Kshs. 76,155,751.00
- iii. Current pending bills balance is Kshs. 3,087,591,846.00
- iv. Current funds requisitioned for pending bills amounts to Kshs. 109,089,841.00
- v. Further bills being processed for payment is Kshs. 341,741,616.00
- vi. This will leave a Pending bills balance of Kshs. 2,636,387,388.00

19. The CECM Finance informed the Committee that Own Source Revenue (OSR) estimates was based on some of the key revenue streams such as rates, building plan approvals and Single Business Permits on anticipation that the new valuation roll will be in use in the current Financial Year. However, due to involvement of the National Government on the same, it has taken a longer time but it will be finalized by end of May to take effect the next Financial Year. Revenue collection will improve due to enforcement and individual departments being given revenue collection targets that fall within their jurisdictions.

20. The Committee was concerned that the proposed Compensation to Employees is at 47%. The CECM Finance informed the Committee that the high wage bill is occasioned by crucial sectors such as the Health Sector which accounts for 54% of the proposed budget on compensation to employees for Financial Year 2024/2025 (Proposed ceilings for Compensation of employees

amounts to Kshs. 6,502,230,319.00 for FY 2024/2025 which includes Kshs. 3,508,357,191.00 for the department of Health).

21. On the major deviations from the CBROP primary ceilings, the Committee was informed that the outer years in CBROP were based on estimation which are normally confirmed in the subsequent Budget Policy Statement.
22. On non-receipt of any conditional grants during the first half of the year the Committee was informed that this was due to the absence of County Additional Allocations Act to facilitate release of the funds which was approved by the National Assembly and Senate on 21st and 22nd February, 2024 respectively.

6.0 SUBMISSION OF WRITTEN MEMORANDUM

23. **Hon. Speaker**, the Assembly received a written memorandum on 7th March, 2024 from Wavumilivu Self Help Group in Mavoko Sub County requesting for enhancement of the budget ceilings for the Departments of Health, Youth and Education to cater for HIV/AIDS prevention and sensitization of the youth on alcohol, drugs and substance abuse. The Committee deliberated on the submission and incorporated the concerns in the setting of the ceilings.

7.0 PROPOSED AND RECOMMENDED DEPARTMENTAL CEILINGS

24. **Hon. Speaker**, the County Treasury has proposed the following departmental ceilings for FY 2024/25:

	DEPARTMENT	RECURRENT	DEVELOPMENT	TOTAL
1	Office of the Governor	580,874,154.00	59,830,059.00	640,704,213.00
2	Trade, Industry, Tourism and Innovation	174,927,292.00	184,145,112.00	359,072,404.00
3	Finance, Economic Planning and Revenue Management	969,712,272.00	410,636,670.00	1,380,348,942.00
4	Devolution	998,776,935.00	154,910,474.00	1,153,687,409.00
5	Agriculture, Food Security and Co-operative Development	285,086,746.00	518,789,949.00	803,876,695.00
6	Health	4,172,490,010.00	495,335,643.00	4,667,825,653.00
7	Roads, Transport and Public Works	244,405,006.00	869,916,379.00	1,114,321,385.00
8	Education	571,903,754.00	143,410,378.00	715,314,132.00

9	Lands, Urban Development, Housing and Energy	199,613,016.00	272,741,084.00	472,354,100.00
10	Gender, Youth, Sports, and Social Welfare	138,671,815.00	296,358,502.00	435,030,317.00
11	Water, Irrigation, Environment and Climate Change	169,150,496.00	546,350,000.00	715,500,496.00
12	County Public Service Board	38,013,709.00	21,796,951.00	59,810,660.00
13	County Assembly	1,008,995,826.00	174,400,000.00	1,183,395,826.00
14	County Attorney	86,851,773.00	6,510,000.00	93,361,773.00
	TOTAL	9,639,472,804.00	4,155,131,201.00	13,794,604,005.00

25. The Committee recommends the following Departmental ceilings in the FY 2024/2025:

	DEPARTMENT	RECURRENT	DEVELOPMENT	TOTAL
1	Office of the Governor	580,874,154.00	59,830,059.00	640,704,213.00
2	Trade, Industry, Tourism and Innovation	174,927,292.00	184,145,112.00	359,072,404.00
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14	County Attorney	86,851,773.00	6,510,000.00	93,361,773.00
	TOTAL	9,639,472,804.00	4,155,131,201.00	13,794,604,005.00

8.0 GENERAL COMMITTEE OBSERVATIONS

26. The Budget and Appropriations Committee made the following observations;

- (i) That the personnel emolument is at 47% of the total revenue against a set limit of 35%.
- (ii) During sectoral interrogations all departments presented a list of pending bills to be considered for budgetary allocation and that all the bills are domiciled at the department of Finance hence they have no control over them.
- (iii) That the 2023/2024 half year absorption rates are too low especially under the development vote.
- (iv) That the own source revenue target for the next FY 2024/25 is Kshs. 3.19 billion.
- (v) That there were major deviations from the CBROP primary ceilings and the CFSP ceilings.
- (vi) That there was no receipt of any conditional grant during the first half of the current financial year.
- (vii) That there were additional projects which were attached in the CFSP document and not captured in the Annual Development Plan FY 2024/2025.

9.0 GENERAL RECOMMENDATIONS

27. **Hon Speaker**, the 2024 CFSP provides an all-inclusive state of the County enabling the Budget and Appropriations Committee to properly scrutinize the proposed ceilings and draw proper recommendations. Some of the guiding areas include the criteria for resource sharing, half year departmental expenditures absorption rates, trends, views of the CECM – Finance, current Financial Year CRA recommendations on ceilings, submission from Sectoral Committees and Public participation, pending bills and county own source revenues. The Committee recommends as follows:

- 1) The county Treasury should come up with mitigation measures to control the wage bill which now stands at 47% against a set limit of 35% of the total revenue as per Section 107 of the PFM Act, 2012 read together with Regulation 25 (1) (b) of the PFM Regulations, 2015.
- 2) That the Pending bills taskforce finalizes its report to enable the county clear the eligible pending bills because some bills may lead to accumulation of penalties on the amounts due causing strain on the budget.
- 3) 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.
- 4) That strategies be put in place to realize the own source revenue target as it has been on a declining trend over the previous years.
- 5) That the County Treasury should consider policy documents such as CBROP while preparing the CFSP ceilings.
- 6) The County should meet the conditions set for donors in order to be able to access conditional grants
- 7) The County Treasury should ensure that all the projects in the CFSP are as captured in the ADP
- 8) Regulation 37(1) of the PFM Regulation, 2015 stipulates that where a County Assembly approves any changes in the Annual Estimates of the Budget under Section 131 of the PFM Act, 2012, any increase or reduction in expenditure of a vote shall not exceed 1 percent of the vote ceilings. Pursuant to this provision, any changes in the forthcoming budget estimates should adhere to this provision.
- 9) The Committee recommends prioritization of the programs which impart directly to wananchi such as water, education, health, roads, agriculture and Energy.
- 10) That the County should keep on increasing the budgetary provisions for development budget estimates as this will lead to more & better services to the people.
- 11) The committee recommends that the projected ceilings should greatly guide the preparation of the FY 2024/25 budget estimates.
- 12) That the County Treasury adheres to the FY 2024-2025 budget calendar.

10.0 ACKNOWLEDGEMENT

28. **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 2024 CFSP. It is therefore my pleasant undertaking, on behalf of the Budget and Appropriation Committee to table this report and recommend it to the House for adoption.

Thank you, **Hon Speaker**.

SIGNED: _____



DATED: _____

13-03-2024

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