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REPUBLIC OF KENYA

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24/02/26

STANDING COMMITTEE ON FINANCE AND BUDGET

REPORT

ON

CLERK AT THE TABLE

PAPERS LAID

DATE

24/02/2026

TABLED BY

COMMITTEE

Chewp.

THE 2026 BUDGET POLICY STATEMENT

Clerk's Chambers,
Parliament Buildings,
NAIROBI.

February, 2026

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LIST OF ABBREVIATIONS/ACRONYMS

ABMTs	–	Appropriate Building Materials and Technologies
AfD	–	French Development Agency
A-I-A	–	Appropriation-in-Aid
BPS	–	Budget Policy Statement
BREHS	–	Building Resilient & Responsive Health Systems
CAF	–	County Assembly Forum
CBR	–	Central Bank Rate
CCRI	–	Climate Change Resilience Investment
CHPs	–	Community Health Promoters
CoG	–	Council of Governors
CRA	–	Commission on Revenue Allocation
DRPNK	–	Drought Resilience Programme in Northern Kenya
FIF	–	Facility Improvement Financing
FLLoCA	–	Financing Locally-Led Climate Action Program
FSRP	–	Food Systems Resilience Project
FY	–	Financial Year
GDP	–	Gross Domestic Product
HRIS-Ke	–	Human Resource Information System – Kenya
ICPAK	–	Institute of Certified Public Accountants of Kenya
ICRMS	–	Integrated County Revenue Management System
IDA	–	International Development Association
IFAD	–	International Fund for Agricultural Development
IFMIS	–	Integrated Financial Management Information System
INReMP	–	Integrated Natural Resources Management Programme
KDSP	–	Kenya Devolution Support Program
KDSP	–	Kenya Devolution Support Programme
KELCOP	–	Kenya Livestock Commercialization Project
KfW	–	German Development Bank
KIE	–	Kenya Industrial Estates
KISIP	–	Kenya Informal Settlements Improvement Project

KMRC	–	Kenya Mortgage Refinance Company
KSh	–	Kenya Shilling
K-WASH	–	Kenya Water, Sanitation and Hygiene
MDAs	–	Ministries, Departments, and Agencies
MSME	–	Micro, Small, and Medium Enterprise
NAVCDP	–	National Agricultural Value Chain Development Project
NYOTA	–	National Youth Opportunities Towards Advancement
OSR	–	Own Source Revenue
PFM	–	Public Finance Management
UDG	–	Urban Development Grant
UIG	–	Urban Institutional Grant
US	–	United States
WSDP	–	Water and Sanitation Development Project

PRELIMINARY

1.0 ESTABLISHMENT AND MANDATE OF THE COMMITTEE

Article 124(1) of the Constitution of Kenya provides that each House of Parliament may establish committees and shall make Standing Orders for the orderly conduct of its proceedings, including the proceedings of its committees.

Parliamentary committees consider policy issues, scrutinize the workings and expenditures of the National and County Governments and examine proposals for legislation. The result of any process in Committees is a report, which is tabled in the House for consideration.

The Standing Committee on Finance and Budget is established pursuant to section 8(1) of the Public Finance Management (PFM) Act, Cap 412A and Standing Order 228 of the Senate Standing Orders and is mandated to-

- a) investigate, inquire into, and report on all matters relating to coordination, control, and monitoring of the county budgets and examine-
 - (i) the Budget Policy Statement presented to the Senate;
 - (ii) the report on the budget allocated to Constitutional Commissions and Independent Offices;
 - (iii) the Division of Revenue Bill, County Allocation of Revenue Bill, County Governments Additional Allocations Bill, and cash disbursement schedules for county governments;
 - (iv) all matters related to resolutions and Bills for appropriations, the share of national revenue amongst the counties, matters concerning the national budget, including public finance and monetary policies and public debt, planning, and development policy; and
- b) Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments.

2.0 MEMBERSHIP OF THE COMMITTEE

The Standing Committee on Finance and Budget was constituted by the Senate of the Thirteenth (13th) Parliament on Thursday, 13th October, 2022 during the First Session. The Committee was later reconstituted on Wednesday, 12th February, 2025, during the Fourth Session. The Committee as currently constituted is comprised of the following Members-

- | | | |
|--|---|-------------------------|
| 1) Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2) Sen. Maureen Tabitha Mutinda, CBS, MP | - | Vice-Chairperson |
| 3) Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4) Sen. Mohamed Faki Mwinyihaji, MP | - | Member |
| 5) Sen. Richard Momoima Onyonka, MP | - | Member |
| 6) Sen. Shakila Abdalla Mohamed, MP | - | Member |
| 7) Sen. Eddy Gicheru Oketch, MP | - | Member |
| 8) Sen. Mariam Sheikh Omar, MP | - | Member |
| 9) Sen. EsSsy Okenyuri, MP | - | Member |

3.0 CHAIRPERSON’S FOREWORD

Section 25(2) of the Public Finance Management Act, Cap 412A provides that the National Treasury shall submit to Parliament the Budget Policy Statement (BPS) on or before 15th February in each year.

Pursuant to this provision, the National Treasury and Economic Planning submitted the 2026 Budget Policy Statement to Parliament on 11th February, 2026. Subsequently, the 2026 BPS was tabled in the Senate at its plenary sitting held on 12th February, 2026. Thereafter, pursuant to standing orders 186(4) of the Senate Standing Orders, the BPS was committed to each Standing Committee for consideration and subsequent submission of recommendations to the Standing Committee on Finance and Budget.

Section 25(7) of the PFMA, Cap 412A provides that Parliament shall, not later than 14 days after the BPS is submitted to Parliament, table and debate a report on the BPS containing recommendations with aim of approving with or without amendments. The BPS is a government policy document that sets out the broad strategic priorities and policy goals which guides the national and county governments in the preparation of budgets.

In compliance with the provisions of standing order 186(6) of the Senate Standing Orders, the Committee held consultative meetings with various stakeholders. The Committee received either written or oral submissions on the BPS from the following stakeholders-

- a) The National Treasury and Economic Planning;
- b) The Commission on Revenue Allocation (CRA);
- c) The Council of Governors (CoG);
- d) The Committee on Fiscal Studies, Faculty of Law – University of Nairobi;
- e) The Institute of Certified Public Accountants of Kenya(ICPAK);
- f) Bajeti Hub;
- g) The County Assembly Forum (CAF);
- h) Food for Education;
- i) Mtoto News International Ltd (Mtoto News);
- j) The All Saints’ Cathedral Church;
- k) The Lake Region Budget Hub;

- l) Joint submission by the Northern Regional Budget Hub, Wajir County Civil Society Consortium and Wajir County Civil Society Network;
- m) The Budget Talk Global;
- n) The Rift Valley Budget Hub;
- o) The Hennes;
- p) The Interregional Development Agency (IRDA)
- q) Ms. Halima Sarah-Child Protection Specialist; and
- r) The Coast Regional Budget Hub.

The theme of the 2026 BPS is *Accelerating gains under Bottom-Up Economic Transformation Agenda for Inclusive and Sustainable Growth*. The BPS envisions the global economic growth to perform at 3.3 percent in 2026, with projections of 3.2 percent for 2027. The economic growth in emerging markets and developing economies is projected to moderate to 4.2 percent in 2026, from 4.4 percent in 2025, supported by continued policy stimulus, increased policy bank lending, and lower effective US tariff rates.

The National Treasury projects the economy to expand by 5.3 percent in 2026. This economic performance is mainly supported by stabilizing global economic conditions with easing trade tensions, accommodative financial conditions and expanding technology investment. Domestically, the growth projection is anchored on robust agricultural performance attributed to favourable weather conditions, climate smart investments and government initiatives aimed at improving productivity and access.

The BPS indicates that inflation has remained stable within the 5.0 ± 2.5 percent target band, standing at 4.4 percent in January 2026 compared to 3.3 percent in January 2025. This stability reflects the easing of monetary policy, lower energy costs, and easing food prices.

Stability in key indicators has fostered a conducive investment environment, with interest rates declining in line with an accommodative monetary policy stance. The Central Bank Rate was reduced to 8.75 percent in February 2026 from 13.0 percent in August 2024.

Under the revenue outlook, total revenues are projected at KSh 3,352.1 billion (17.6 percent of GDP). The ordinary revenue will increase by KSh. 147.2 billion (5.3 percent), from KSh. 2,754.7 billion in the approved FY 2025/26 budget to KSh. 2,901.9 billion in FY 2026/27. This domestic revenue mobilization is anchored on a mix of tax administrative and tax policy measures. These include continued implementation of the National Tax Policy and the Medium-Term Revenue Strategy which will simplify and harmonize tax laws, rationalize and target tax expenditures, and create a predictable and fair tax system. Additionally, the national government commits to deepen tax administration reforms and increase non-tax revenues through enhanced capacity of MDAs to effectively generate income and strengthen their operational systems.

By the end of December 2025, total revenue collected including A-I-A amounted to KSh.1,525.1 billion against a target of KSh.1,636.7 billion. The revenue collection was below target by KSh.111.6 billion largely from ordinary revenue. The under-performance is attributed to slower-than-projected tax receipts largely due to compliance gaps, administration challenges, and the impact of revenue-reducing measures in the Finance Bill 2025.

The projected total expenditure and net lending for FY 2026/27 is KSh.4,737.5 billion. This comprises KSh.2,021.1 billion in ministerial recurrent expenditure and KSh.846.3 billion in ministerial development expenditure. Additionally, interest payments on public debt are estimated at KSh.1,203.1 billion. The fiscal deficit (including grants) is projected at KSh.1,149.5 billion in FY 2026/27. This will be financed through KSh.225.5 billion borrowed from foreign sources and KSh.924 billion from domestic sources.

The total shareable revenue for FY 2026/27 is estimated at KSh.2,901.9 billion, of which KSh.2,472.3 billion is to be allocated to the national government, KSh.420 billion for county governments. The shareable revenue is projected to increase by KSh.147.2 billion (5.3 percent increase) from the approved revenue of KSh.2,754.7 billion (14.3 percent of GDP) for FY 2025/26.

The proposed county equitable share will be shared among the counties using the Fourth Basis for revenue sharing approved by Parliament in June 2025, according to the provisions of Article 217 of the Constitution.

The BPS proposes to allocate Ksh.9.6 billion to the Equalisation Fund in the FY 2026/27. This amount is equivalent to 0.5 percent of the most recent audited and approved revenues of (Ksh.1,920.4 billion for FY 2021/22) pursuant to the provisions of Article 204(1) of the Constitution. Further, the BPS proposes an additional Ksh.5.6 billion as a partial payment for the Equalisation Fund arrears making the total allocation to Ksh.15.2 billion for FY 2026/27.

The BPS identifies growing debt servicing costs and revenue underperformance as the primary reasons for allocating Ksh.420 billion to counties. Public debt-related expenditures are projected to hit Ksh.1,542.1 billion in the FY 2026/27, accounting for 53.1 percent of the projected shareable revenue.

The BPS proposes to allocate Ksh.75.69 billion as additional allocations to county governments in FY 2026/27 pursuant to Article 202(2) and 190(1) of the Constitution. The proposed additional allocations are categorized as follows: unconditional additional allocations (statutory) amounting to Ksh. 1,981 million; conditional additional allocation of Ksh.16.3 billion from the national government's share of revenue; and Ksh.57.4 billion loans and grants from development partners.

The unconditional allocations consist of; provision for transfer of Ksh.148 million of court fines collected by judiciary from the contravention of county laws and shared among twenty-nine (29) counties and Ksh.1,833 million is from the 20% share of mineral royalties divided among 30 counties with mining activities.

The Committee held a total of five (5) sittings (*Annex 1- Minutes of the Committee*) to deliberate on the BPS and made several observations and recommendations. These include-

Observations

- a) The fiscal deficit for FY 2026/2027 is estimated at Ksh.1,149.5 billion (5.5% of GDP), an increase by Ksh.216 billion from the approved level of Ksh.933 billion

in FY 2025/2026. This is despite the national government's commitment to pursue a fiscal consolidation path.

- b) In FY 2026/2027, the shareable revenue is projected to increase by Ksh.147.2 billion, which is a 5.3 percent increase from the approved revenue of Ksh.2,754.7 billion for FY 2025/26. The Committee notes with concern that despite this projected revenue increase, the allocation to county equitable share is Ksh.5 billion only, which is 3.4 percent of the increase in shareable revenue and is a paltry 1.2% growth from the previous allocation of Ksh.415 billion in FY 2025/26.
- c) There is an over-reliance on domestic borrowing to cover the expanding fiscal deficit and this is likely to crowd out private sector access to credit, thereby constraining investment and economic activity in the medium term.
- d) As of December 2025, revenue performance had fallen short of target by Ksh. 148.3 billion implying a likelihood of revenue underperformance by the end of FY 2025/2026. As such, the baseline for the revenue projection of FY 2026/2027 is likely to be lower.
- e) The BPS points out the need for counties to limit their recurrent expenditure in favour of development priorities but fails to recognize key contributors to heavy recurrent spending which include inherited staffing rigidities, asymmetric service delivery burdens between urban and rural areas and the increasing number of health personnel. These factors are critical and need to be factored in the discussion and comprehensively addressed for the recurrent budget to be streamlined and optimized.

Having considered the BPS and the stakeholders' submissions the Committee recommends that, among others-

- a) The national government's equitable share for FY 2026/27 will be Ksh.2,437,529,429,840.
- b) The county equitable share for FY 2026/27 will be Ksh. 454,743,157,879- *(baseline of Ksh.415 billion, 5% inflation upward adjustments, then inclusion of Ksh. 8.94 billion for transition of UHC workers to permanent and pensionable and Ksh.20.75 billion for implementation of SRC 3rd and 4th review cycle of salary/ remuneration for county staff.)*
- c) That the Equalisation Fund be allocated Ksh. 15,163,170,425
 - *Of which:* Allocation in FY 2026/27 Division of Revenue—Ksh. 9,602,170,425
 - Arrears—Ksh. 5,561,000,000
- d) That Additional Allocations to counties be Ksh.66,755,175,182 billion.

3.0 ACKNOWLEDGEMENT

The Committee thanks the stakeholders who submitted written memoranda and who appeared before the Committee to present their comments and views on the 2026 BPS.

The Committee also appreciates the Offices of the Speaker and the Clerk of the Senate for the support extended to the Committee in undertaking this important assignment.

I take this opportunity to commend the Members of the Committee for their devotion and commitment to duty, which made the consideration of the 2026 BPS successful.

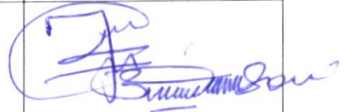
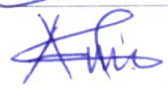
It is now my pleasant duty, pursuant to standing order 186(5) of the Senate Standing Orders and section 25(7) of the PFM Act, Cap 412A to present the 2026 Budget Policy Statement Report of the Standing Committee on Finance and Budget to the Senate for consideration and adoption.

Signature..........Date.....23/02/2026.....

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP.
CHAIRPERSON,
STANDING COMMITTEE ON FINANCE AND BUDGET)

4.0 ADOPTION OF THE REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET ON THE 2026 BUDGET POLICY STATEMENT

We, the undersigned Members of the Senate Standing Committee on Finance and Budget, do hereby append our signatures to adopt this Report-

	Name	Designation	Signature
1.	Sen. Capt. Ali Ibrahim Roba, EGH, MP	Chairperson	
2.	Sen. Maureen Tabitha Mutinda, CBS, MP	Vice-Chairperson	
3.	Sen. (Dr.) Boni Khalwale, CBS, MP	Member	
4.	Sen. Mohamed Faki Mwinyihaji, CBS, MP	Member	
5.	Sen. Richard Momoima Onyonka, MP	Member	
6.	Sen. Shakila Abdalla Mohamed, MP	Member	
7.	Sen. Eddy Gicheru Oketch, MP	Member	
8.	Sen. Mariam Sheikh Omar, MP	Member	
9.	Sen. Esther Okenyuri, MP	Member	

CHAPTER ONE

THE 2026 BUDGET POLICY STATEMENT

1.0 Introduction

1. The Budget Policy Statement (BPS) 2026 was submitted to Parliament pursuant to section 25(1) of the Public Finance Management Act (Cap. 412A) on 11th February, 2026. The law requires the National Treasury to prepare and present to Parliament the Budget Policy Statement as approved by Cabinet by the 15th of February each year. The BPS contains broad strategic priorities and policy goals that should guide the national and county governments in preparing their budgets in the subsequent financial year and the medium term.
2. The Budget Policy Statement should contain the following-
 - i. an assessment of the current state of the economy, including macroeconomic forecasts as well as the priorities of the Government current pillars of growth and strategic directions.
 - ii. the financial outlook concerning Government revenues, expenditures, and borrowing for the next financial year and over the medium term.
 - iii. the proposed expenditure limits for the national government, including those of Parliament and the Judiciary, and indicative transfers to county governments (*Division of Revenue between the two levels of government and County Governments Additional Allocations*).
 - iv. the fiscal responsibility principles and financial objectives over the medium term, including limits on total annual debt.
3. Section 25(7) of the PFM Act requires that not later than fourteen days after the Budget Policy Statement has been submitted, Parliament shall discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The BPS 2026 was tabled in the Senate on Thursday, 12th February, 2026, and pursuant to standing order 186(4) of the Senate Standing Orders, referred to each Standing Committee to consider and submit its recommendations to the Standing Committee on Finance and Budget

4. Pursuant to standing order 186(5) of the Senate Standing Orders the Committee on Finance and Budget is required to consider the BPS and recommendations from the Committees, and table a report within twelve days.

1.1 The Macro-Fiscal Framework

1.1.1 Highlights of the Macro Framework FY 2026/2027

5. The National Treasury projects the economy to expand by 5.3 percent in 2026. This economic performance is mainly supported by stabilizing global economic conditions with easing trade tensions, accommodative financial conditions and expanding technology investment. Domestically, the growth projection is anchored on robust agricultural performance attributed to favourable weather conditions, climate smart investments and government initiatives aimed at improving productivity and access. Other key drivers of economic growth include strong industrial activity supported by easing production costs and a stable exchange rate, resilient private consumption and investment as well as rising exports.
6. The monetary policy framework is anchored on an inflation targeting regime, with the current target set at 5 percent (plus or minus 2.5 percent). The focus will be on preserving credibility of the inflation targeting framework, improving the transmission of policy rates to lending rates and safeguarding financial stability. Policy efforts will ensure that monetary conditions remain supportive of private sector credit growth and broader economic activity underpinned by prudent fiscal management, robust financial sector oversight and continued development of digital financial infrastructure.

1.1.2 Highlights of the Fiscal Framework 2026/2027

7. The National Treasury projects that ordinary revenue will increase by Ksh. 147.2 billion (5.3 percent), from Ksh. 2,754.7 billion in the approved FY 2025/26 budget to Ksh. 2,901.9 billion in FY 2026/27. This domestic revenue mobilization is anchored on a mix of tax administrative and tax policy measures.

These include continued implementation of the National Tax Policy and the Medium-Term Revenue Strategy which will simplify and harmonize tax laws, rationalize and target tax expenditures, and create a predictable and fair tax system. Additionally, the national government commits to deepen tax administration reforms and increase non-tax revenues through enhanced capacity of MDAs to effectively generate income and strengthen their operational systems.

8. The National Treasury further commits to foster fairness and equity in Personal Income Tax by rebalancing the system so that all income earners can contribute according to their ability to pay. It is expected that this will improve compliance and strengthen tax morale.
9. The projected total expenditure and net lending for FY 2026/27 is Ksh.4,737.5 billion. This comprises Ksh.2,021.1 billion in ministerial recurrent expenditure and Ksh. 846.3 billion in ministerial development expenditure. Additionally, interest payments on public debt are estimated at Ksh.1,203.1 billion. The fiscal deficit (including grants) is projected at Ksh.1,149.5 billion in FY 2026/27. This will be financed through Ksh.225.5 billion borrowed from foreign sources and Ksh.924 billion from domestic sources.

1.2 Proposed policy priorities under the Bottom-Up Economic Transformation Agenda

i. Agricultural transformation for inclusive green growth

10. In FY 2026/2027 and over the medium term the government intends to prioritize food security through crop diversification, modernizing agricultural value chains, strengthening extension services, improving livestock productivity and expanding agricultural insurance schemes. Specific interventions in the BPS include expanding access to fertilizer subsidies, improving large scale irrigation, supporting farmers through agricultural insurance services, distribution of assorted fruit tree seedlings, livestock genetic improvement programmes, livestock vaccination, identification and traceability mechanisms to enhance quality assurance and food safety. Further, these will be complemented by meat,

dairy and leather processing infrastructure, regulatory reforms, trade facilitation initiatives and increased private sector participation aimed at improving competitiveness, expanding export volumes and increasing foreign exchange earnings from the private sector.

ii. Transforming the Micro, Small and Medium Enterprise (MSME) Economy

11. The BPS recognizes structural constraints faced by MSMEs including limited access to affordable credit, punitive collateral requirements, high interest rates averaging 18 percent, restrictive licensing framework, inadequate infrastructure, weak market linkages and low technical and managerial capacity. The BPS therefore proposes to increase access to affordable credit by expanding the Hustler Fund, expanding the credit guarantee scheme and strengthening linkages between Kenya Industrial Estates (KIE) financing products to enhance affordability and credit uptake by MSMEs.
12. Further, National Youth Opportunities Towards Advancement (NYOTA) beneficiaries will be linked to complementary financial interventions including the Hustler Fund, Uwezo Fund and KIE financing windows to support enterprise graduation and financial upscaling. MSME hubs will also be set up in all 47 counties to offer business mentorship and technical training.

iii. Healthcare

13. The target of this pillar is to achieve Universal Health Coverage. Over the medium term, the government plans to expand enrolment into the Social Health Insurance Fund targeting 35 million people. The government also intends to strengthen community health services through expansion of the Community Health Promoters (CHP) workforce to 120,000 CHPs with at least two CHPs per community health unit. The government commits to targeted recruitment and deployment to underserved rural areas. Financial sustainability of health facilities will be enhanced by retaining funds at the facility level and ring-fencing resources for Health Products and Technologies. The government also commits to expand Primary Healthcare Networks in all 47 counties, build and

equip health facilities with modern medical equipment and improve digital health systems.

iv. Housing and Settlement

14. The government commits to continued support to housing finance through Kenya Mortgage Refinance Company (KMRC), creation of jobs in construction, and development of markets and urban renewal projects. In FY 2026/27 and over the medium term, the government targets to establish 15 Constituency Appropriate Building Materials and Technologies (ABMTs) centres to promote use of locally sourced, climate-appropriate building materials and provide technical training in modern construction methods. Additionally, 506 markets will be constructed to enhance commercial infrastructure and support local economic activities.
15. To increase access to housing finance, the government commits to scale up capitalization of the Housing Fund, expand the Boma Yangu affordable mortgage product including disbursement of Ksh.1 billion in rural housing loans to underserved areas.

v. Digital superhighway and creative economy

Digital Superhighway

16. In FY 2026/27 and over the medium term, the government commits to install 37,645 kilometres of backbone fibre optic network across the country, provide internet connectivity to 18,680 public institutions nationwide and install 27,516 public Wi-Fi hotspots.
17. Further, the government commits to equip one million youth with digital skills through establishment of 100 digital hubs to provide youth and entrepreneurs with requisite infrastructure for the development of digital skills. The government also commits to digitize all government services.

Creative Economy

18. Planned reforms over the medium term include specialized skills training in areas such as digital media, animation, fashion design, music production and gaming with a focus on youth and women entrepreneurs. The government commits to introduce creative economy credit facilities, blended finance instruments and public-private partnerships. Additional reforms will focus on strengthening policy coordination and institutional capacity including the Kenya Film Commission, National Arts Council and county cultural departments to support creative clusters and innovation hubs.

vi. National Infrastructure Fund and Sovereign Wealth Fund

National Infrastructure Fund

19. The government aims to establish a National Infrastructure Fund to accelerate development of national infrastructure and to mobilize private capital and non-traditional sources of infrastructure finance. The Fund will be established as a limited company with initial capitalization from privatization proceeds. Through domestic resource mobilization, monetisation of mature public assets, democratisation of ownership via capital markets and deployment of national savings, the Fund will crowd in large-scale private capital. The Fund is expected to finance infrastructure investment while reducing reliance on borrowing and taxation for such projects.

Sovereign Wealth Fund

20. The government aims to establish a dedicated national Fund to prudently manage revenues from mineral and petroleum resources, dividends from public investments and a portion of privatisation proceeds.

1.3 Adherence to Fiscal Responsibility Principles by County Governments in FY 2024/25.

21. The Budget Policy Statement (BPS) 2026 presents an assessment of how county governments adhered to the statutory fiscal responsibility principles outlined in the Public Finance Management Act and Public Finance Management (County Governments) Regulations, 2015, in the implementation of their budgets in FY

2024/25. The review indicates that most of the principles were contravened by breaching the set thresholds of expenditures.

22. Overall budget implementation across the 47 counties remained below target in FY 2024/25 on account of delayed equitable share disbursement and underperformance of own-source revenue collections. The BPS indicates that county governments collectively absorbed Ksh.470.74 billion (78.23%) of their total annual budget of Ksh.601.69 billion. A review of exchequer releases indicates that counties received Ksh.32.761 billion in the first quarter, Ksh.128.019 billion in the second quarter, Ksh.63.923 billion in the third quarter, and Ksh.162.72 billion of the total Ksh.387.425 billion equitable share allocation during the fourth quarter. The fourth quarter exchequer release was equivalent to 42 percent of total allocation of the FY 2024/25, significantly affecting the execution of development activities due to late disbursement.
23. The recurrent expenditures remained within overall revenue limits, however there is a high potential for recurrent expenditures to crowd out development expenditure in some counties. County governments spent Ksh.346.98 billion on recurrent expenses in FY 2024/25. This accounted for nearly two-thirds (65.1%) of their total revenue and constituted almost three-quarters (73.7%) of their total budget. Some counties reported high recurrent expenditures of over 75 percent of the total expenditure. These counties were: Nairobi-81.7%, Bungoma-77.9%, Kajiado-76.4%, Machakos-76.2%, Bomet-75.6%, Tharaka-Nithi-75%, and Baringo-74.5%.
24. According to the BPS, all county governments met the requirement to allocate at least 30 percent of their total budget to development spending in FY 2024/25. Out of the total budget of Ksh.601.69 billion, counties allocated Ksh.218.99 billion to development expenditure (36.4% of the total budget). However, the actual total expenditure amounted to Ksh.470.74 billion, with development spending being Ksh.123.76 billion, equivalent to 26.3% of the actual total budget.

25. Analysis of development spending for individual counties indicates that 18 counties met the 30 percent development expenditure threshold. Out of the 18, Kilifi, Trans-Nzoia, and Siaya counties recorded the highest development spending at 42.1%, 36.3%, and 35.6%, respectively. 23 counties fell short of the 30% threshold but spent more than 20% of their budgets on development. six (6) counties recorded development expenditure below 20% with Nairobi City County recording the lowest at 12.2%.
26. The BPS identifies high wage burden as a potential risk to spending flexibility and development expenditure. In FY 2024/25, total expenditure on personnel emoluments was higher than the recommended fiscal threshold of 35 percent accounting for Ksh.220.64 billion (41.38%) of the total revenue of Ksh.533.11 billion.
27. Notably, eight (8) counties complied with the fiscal rule on wages. These were: Kilifi (24.2%), Tana River (26.9%), Siaya (27.1%), Nakuru (29.7%), Kwale (31.2%), Nandi (32.7%), Nyandarua (33.0%), and Narok (34.8%). However, ten counties spent more than half (50%) of their total revenue for employee compensation. These were: Bungoma (56.5%), Nyeri (54.7%), Machakos (54.3%), Baringo (53.4%), Tharaka-Nithi (53.1%), Kajiado (51.2%), Taita-Taveta (50.9%), Embu (50.8%), Nairobi (50.8%), and Homa Bay (50.5%).

1.4 Review of the performance of County Governments Own Source Revenue (OSR).

28. OSR consists of two components: ordinary revenue and Facility Improvement Financing (FIF). A review of OSR performance indicated that FIF surpassed its target by 18% while ordinary revenue underperformed by 36.2%. Therefore the significant increase in total OSR (Ksh. 25.9 billion being 76.8% of the annual target) was from the FIF there is, however, a persistent weakness in the core OSR base.

29. The BPS highlights several policy measures that the National Government will implement to enhance the collection of OSR in County Governments. These measures include: operationalization of the National Rating Act 2024, enactment of County Governments (Revenue Raising Process) Act, development of a model of Tariffs and Pricing Policy, adoption of the Integrated County Revenue Management System (ICRMS) in revenue collection, and development of a model for revenue forecasting.

1.5 County Governments Pending Bills

30. The BPS indicates that the forty-seven (47) counties had accumulated outstanding pending bills amounting to Ksh.183 billion by the end of FY 2024/25. Out of this amount, Ksh.177.9 billion is owed by county executives while county assemblies account for Ksh.5.1 billion. Further analysis shows that Ksh.127.5 billion was for recurrent expenditures, and Ksh.56.3 billion was for development expenditures. The BPS highlights that the accumulation of these pending bills violates section 94(1)(a) of the Public Financial Management (PFM) Act, CAP 412A, which considers it a serious or persistent material breach for government entities to fail to settle payments when they fall due. Notably, outstanding debts for Nairobi City County amounting Ksh.86.77 billion accounted for nearly half (47.4%) of the total pending bills.
31. The BPS acknowledges that the growing stock of pending bills in county governments poses a fiscal discipline and sustainability risk. The ongoing transition from cash basis accounting to accrual accounting and development of Pending Bills Action plans through the support of the Kenya Devolution Support Programme (KDSP II) are identified as some of the strategies to address this risk. It is indicated that the plans have already been approved and adopted and county governments are urged to customize and implement their respective Pending Bills Action Plans.
32. To fast-track the timely remittance of pension contributions and other statutory deductions, the BPS indicates that the government has developed a Human Resource Information System – Kenya (HRIS-Ke). The system is expected to

automate payroll processing and facilitate the simultaneous computation and remittance of pension contributions and other statutory deductions hence reducing the accumulation of unremitted statutory deductions. This system shall be integrated with IFMIS and approved budgets to strengthen enforcement, reduce manipulation and risk of non-remittance.

1.6 The sharing of revenue between the two levels of government for FY 2026/27.

33. The total shareable revenue for FY 2026/27 is estimated at Ksh.2,901.9 billion, of which Ksh.2,472.3 billion is to be allocated to the national government, Ksh.420 billion for county governments and Ksh.9.6 billion to the Equalisation Fund. The shareable revenue is projected to increase by Ksh.147.2 billion (5.3 percent increase) from the approved revenue of Ksh.2,754.7 billion (14.3 percent of GDP) for FY 2025/26.
34. Out of an increment of Ksh.147.2 billion, the county equitable share is meant to increase by Ksh.5 billion (1.2% growth) from the previous allocation of Ksh.415 billion in FY 2025/26. The proposed Ksh.5 billion increase is equal to 3.2 percent of the increase in revenue.
35. The BPS indicates that shareable revenue (*ordinary revenues*) have been performing below target in the last ten years (FY 2015/16 to FY 2024/25), with FY 2021/22 standing out as the only year in which collections surpassed projections. The actual revenue collection over this period has more than doubled, increasing from Ksh.1,152.5 billion in FY 2015/16 to Ksh.2,420 billion in FY 2024/25. However, the county equitable share has grown by Ksh.127.7 billion from an allocation of Ksh.259.71 billion to Ksh.387.4 billion.
36. The BPS identifies growing debt servicing costs and revenue underperformance as the primary reasons for allocating Ksh.420 billion to counties. Public debt-related expenditures are projected to hit Ksh.1,542.1 billion in the FY 2026/27, accounting for 53.1 percent of the projected shareable revenue.

Sharing of revenue among counties in FY 2026/27

37. The proposed county equitable share of Ksh.420 billion will be shared among the counties using the Fourth Basis for revenue sharing approved by Parliament in June 2025, according to the provisions of Article 217 of the Constitution.

1.7 Additional Allocations to County Governments in FY 2026/27

38. The BPS proposes to allocate Ksh.75.69 billion as additional allocations to county governments in FY 2026/27 pursuant to Article 202(2) and 190(1) of the Constitution. The proposed additional allocations are categorized as follows: unconditional additional allocations (statutory) amounting to Ksh.1.981 billion; conditional additional allocation of Ksh.16.3 billion from the national government's share of revenue; and Ksh.57.4 billion loans and grants from development partners.
39. The unconditional allocations consist of; provision for transfer of Ksh.148 million of court fines collected by judiciary from the contravention of county laws and shared among twenty-nine (29) counties and Ksh.1,833 million is from the 20% share of mineral royalties divided among 30 counties with mining activities.
40. The conditional additional allocations from the national government's share of revenue are for the implementation of the following five (5) programmes–
- i. The Community Health Promoters (CHPs) programme with a total allocation of Ksh.3.24 billion shared amongst all the 47 counties as per the number of CHPs per county. The CHPs programme is part of the government agenda on the implementation of Universal Health Coverage (UHC) through integrated Primary Healthcare Networks, expansion of community health services, and deployment of sufficient medical personnel. The BPS indicates that the government plans to expand the number of CHPs to 120,000 from the current deployed 107,831 with a view of having at least two CHPs serving each community health unit.
 - ii. Construction of County Headquarters with an allocation of Ksh.523 million shared amongst five (5) counties that did not have adequate infrastructure for hosting county headquarters at the inception of devolution.

- iii. The County Aggregation and Industrial Parks (CAIPs) Programme with a proposed allocation of Ksh.3.25 billion to be shared across 13 counties. The BPS reports that the first phase of thirteen CAIPs has been developed and are fully operational, and the next phase of 34 counties will be completed by 2027. The CAIPs programme which started in FY 2023/24 was designed to support creation of value chains and value addition to agricultural products.
 - iv. Allocation of Ksh.8.94 billion as Remuneration of Universal Health Coverage (UHC) Workers to be shared among the 47 counties as per the number of health workers under the UHC programme. The allocation is earmarked to support transitioning Universal Health Coverage (UHC) workers' salaries to permanent and pensionable terms as from FY 2026/27. Most of the UHC workers were engaged by the national government through the Ministry of health during the COVID-19 pandemic and deployed to facilities under county governments but the payroll was managed by the Ministry of Health.
 - v. Allocation of Ksh.365.99 million being the 0.5% entitlement of Housing Levy Fund allocated to the County Rural and Urban Affordable Housing Committees pursuant to section 11(4)(c) of the Affordable Housing Act, Cap.117A. The amount is shared equally amongst the 47 counties to cater for the operations and administration of the committees.
41. The conditional additional allocations from proceeds of loans and grants from Development Partners is spread across 15 programmes and allocate funds as follows;
- i. Kenya Informal Settlements Improvement Project Phase II (KISIP II) Financed by French Development Agency (Afd) by Ksh.400 million.
 - ii. Building Resilient & Responsive Health Systems (BREHS) programme funded by IDA (World Bank) by Ksh.7.8 billion.
 - iii. Financing Locally- Led Climate Action Program, (FLLoCA) CCRI- Grant funded by KfW (German Financial Cooperation) by Ksh.1,2 billion.
 - iv. Financing Locally- Led Climate Action Program (FLLOCA) CCRI Grant financed by IDA (World Bank) by Ksh.6.2 billion.

- v. Food Systems Resilience Project (FSRP) programme funded by IDA (World Bank) by Ksh.3.6 billion.
- vi. National Agricultural Value Chain Development Project (NAVCDP) financed by the IDA (World Bank) with Ksh.3.9 billion
- vii. Water and Sanitation Development Project (WSDP) funded by the IDA (World Bank) by Ksh.850 million
- viii. Kenya Urban Support Project (KUSP)—Urban Institutional Grant (UIG) financed by the IDA (World Bank) with a total of Ksh. 954.7 million
- ix. Kenya Urban Support Project (KUSP) - Urban Development Grant (UDG) funded by IDA (World Bank) with a total of Ksh.16.7 billion
- x. Kenya Livestock Commercialization Project (KELCOP) financed by the International Fund for Agricultural Development (IFAD) by Ksh. 378.7 million.
- xi. Drought Resilience Programme in Northern Kenya (DRPNK) funded by the KfW (German Development Bank) amounting to Ksh.853.6 million.
- xii. Integrated Natural Resources Management Programme (INReMP) funded by International Fund for Agricultural Development (IFAD) with Ksh.812 million.
- xiii. Kenya Devolution Support Program (Level I Grant) (KDSP) financed by the IDA (World Bank) with Ksh.1.7 billion
- xiv. Kenya Devolution Support Program (Level II Grant) (KDSP) financed by the IDA (World Bank) with Ksh.7.8 billion
- xv. Kenya Water, Sanitation and Hygiene (K-WASH) funded by the IDA (World Bank) with Ksh.4.3 billion.

42. The BPS proposes the following amendments to the PFM Act—

- (a) to repeal sections 191A to 191E which relate to the Intergovernmental Partnership Agreements; and
- (b) amendments to sections 42 and 191 to provide for two separate Bills for development partners' funds and additional allocations from the national government's share of revenue.

1.8 Allocation to the Equalisation Fund

43. The BPS proposes to allocate Ksh.9.6 billion to the Equalisation Fund in the FY 2026/27. This amount is equivalent to 0.5 percent of the most recent audited and approved revenues of (Ksh.1,920.4 billion for FY 2021/22) pursuant to the provisions of Article 204(1) of the Constitution. Further, the BPS proposes an additional Ksh.5.6 billion as a partial payment for the Equalisation Fund arrears making the total allocation to Ksh.15.2 billion for FY 2026/27.

CHAPTER TWO

SUBMISSIONS BY STAKEHOLDERS

2.0 Introduction

44. This Chapter entails a summary of submissions received from stakeholders. The Committee published an advert (*Annex- 4*) inviting members of the public to submit their views on the 2026 BPS. Also, the Committee invited various stakeholders to submit their written views. The Committee received submissions (*Annex 3*) from the following stakeholders –

- a) The National Treasury and Economic Planning;
- b) The Commission on Revenue Allocation (CRA);
- c) The Council of Governors (CoG);
- d) The Committee on Fiscal Studies, Faculty of Law – University of Nairobi;
- e) The Institute of Certified Public Accountants of Kenya (ICPAK);
- f) Bajeti Hub;
- g) The County Assembly Forum (CAF);
- h) Food for Education;
- i) Mtoto News International Ltd (Mtoto News);
- j) The All Saints' Cathedral Church;
- k) The Lake Region Budget Hub;
- l) The Budget Talk;
- m) Joint submission from Northern regional Budget Hub, Wajir County Civil Society Consortium and Wajir County Society Network.
- n) The Rift Valley Budget Hub;
- o) The Hennes;
- p) The Interregional Development Agency (IRDA)
- q) Ms. Halima Sarah-Child Protection Specialist; and
- r) The Coast Regional Budget Hub.

2.1. Submissions by the National Treasury and Economic Planning

45. The National Treasury appeared before the Committee and submitted as follows. That—

- a) the government intends to consolidate the gains realized under the Bottom-Up Economic Transformation Agenda (BETA) through a value chain approach aimed at bridging urban-rural divides. Special emphasis will be placed on agricultural transformation, the MSME economy, healthcare, housing and settlement, and the digital superhighway and creative economy;
- b) the next phase of transformation will focus on four key priorities: scaling up investment in people through education and innovation; transforming the economy from a net importer to a net exporter; ensuring abundant and affordable energy; and developing efficient transport and logistics infrastructure;
- c) the 2026 BPS was prepared against a backdrop of a resilient global economic environment, with global growth projected to remain at 3.3 percent in 2026. It was further noted that the Kenyan economy continued to demonstrate strong resilience, with real GDP projected to grow by 5.3 percent in 2026 and 2027;
- d) implementation of the FY 2025/26 budget has faced pressures driven by persistent revenue underperformance and rising expenditure demands. By the end of December 2025, total revenue collection amounted to KSh 1,525.1 billion, which was KSh 111.6 billion below the target. The underperformance is attributed to slower-than-projected tax receipts largely due to compliance gaps, administration challenges, and the impact of revenue-reducing measures in the Finance Bill 2025;
- e) the total expenditure and net lending for the period ending December 2025 amounted to KSh 2,019.8 billion, against a target of KSh 2,097.0 billion. The below target expenditure of Ksh 77.1 billion is largely attributed to below absorption in domestic interest, foreign interest, and pensions payments;

- f) the fiscal performance during the first half necessitated revision of the FY 2025/26 budget, in order to safeguard budget implementation while maintaining fiscal consolidation path.
- g) accordingly, fiscal projections for the FY 2025/26 have been revised in the 2026 Budget Policy Statement as follows;
 - i) Total revenues are projected at Ksh 3,352.1 billion (17.6 percent of GDP), an increase of Ksh 30.5 billion from the approved budget. Of this, ordinary revenue is projected to decline by Ksh 10.3 billion to Ksh 2,744.4 billion (14.4 percent of GDP), while Ministerial Appropriations-in-Aid are projected to increase by Ksh 40.8 billion to Ksh 607.7 billion.
 - ii) Total expenditure is projected at Ksh 4,532.8 billion (23.9 percent of GDP), representing an increase of Ksh 262.9 billion from the approved budget.
 - iii) The resultant fiscal deficit for FY 2025/26 is projected at Ksh 1,140.7 billion (6.0 percent of GDP), up from Ksh 901.0 billion (4.7 percent of GDP) in the approved Budget, and will be financed through net external financing of Ksh 254.8 billion (1.3 percent of GDP) and net domestic financing of Ksh 885.9 billion (4.7 percent of GDP).
- h) in the FY 2026/27 and medium term budget, the Government will continue to pursue a prudent fiscal strategy aimed at reinforcing macroeconomic stability while safeguarding priority development expenditure;
- i) medium-term fiscal consolidation will be anchored on sustainable domestic revenue mobilization through targeted tax policy and administrative reforms, rationalization of non-essential expenditure, strengthened expenditure control and improved spending efficiency;
- j) fiscal projections for FY 2026/27 Budget- total revenue inclusive of Appropriation in Aid is projected at Ksh.3,533.7 billion (16.9% of GDP) and expenditure of Ksh 4,703.9 billion (22.5% of GDP), resulting in a

fiscal deficit of Ksh 1,115.8 billion (5.3% of GDP), to be financed through net external borrowing of Ksh 225.5 billion and net domestic financing of Ksh 890.4 billion;

- k) fiscal consolidation would be pursued through strengthened domestic revenue mobilization, tax and administrative reforms, rationalization of non-essential expenditure, improved spending efficiency, digitization, Zero-Based Budgeting, Treasury Single Account implementation, PPP expansion, and SOE reforms.
- l) resource allocation will follow five clusters: Finance and Production; Infrastructure; Environment and Natural Resources; Social Sectors; and Governance and Public Administration - anchored on value chain development (Leather; Cotton; Dairy; Edible Oils; Tea; Rice; Blue Economy; Natural Resources (including Minerals and Forestry); and Building Materials) to enhance competitiveness, jobs, and exports;
- m) ministerial budget ceiling for FY 2026/27 budget is set at Ksh 2,867.4 billion. This comprises of Ksh 2,021.1 billion in recurrent expenditure; and Ksh 846.3 billion in development expenditure;
- n) the hard sector ceilings provided in the 2026 Budget Policy Statement will form the basis of the detailed budget allocations for submission to Parliament by 30th April 2026;
- o) County Financial Management and Division of Revenue- a total of Ksh 495.7 billion is proposed for County Governments, comprising Ksh 420.0 billion as equitable share of revenue—equivalent to 21.9% of the most recent audited and approved revenue of Ksh 1,920.4 billion for FY 2021/22—and Ksh 75.7 billion as additional allocations, of which Ksh 18.3 billion will be financed from the National Government's share of revenue and Ksh 57.4 billion from loans and grants by Development Partners;
- p) the Division of Revenue Bill, 2026 has projected shareable revenue at Ksh 2,901.9 billion, including Ksh 15.2 billion for the Equalization Fund, while the County Allocation of Revenue Bill, 2026 distributes the

equitable share among the 47 counties using the Fourth Basis formula, which applied the Baseline Allocation Ratio, Affirmative Action Allocation, and indices on Population (45%), Basic Share (35%), Poverty (12%), and Geographical Size (8%); and

- q) the proposed allocations were informed by persistent revenue shortfalls, increasing mandatory expenditures under Article 203(1) of the Constitution—including debt service, pensions, and interest payments—rising public debt service costs projected to account for 52% of ordinary revenue in FY 2026/27, macroeconomic conditions, and the need to maintain fiscal consolidation while safeguarding debt sustainability.
- r) **Revenue Growth and Fiscal Pressure:** While national revenue has shown a substantial and projected increase, this growth is being consistently outpaced by Consolidated Fund Services (CFS) obligations. The reality of our fiscal environment is that debt servicing and other CFS commitments, such as pensions, are growing faster than our revenue collection. It is a misconception to view debt service as a purely national expense; it is a country-wide obligation to both external and domestic lenders that must be met to maintain economic integrity.
- s) **Impact on County Allocations:** The heavy burden of debt servicing and CFS obligations directly impacts the government's ability to increase the pace of revenue share releases to the counties. As a result, significant portions of additional revenue are diverted to debt service and critical national sectors, limiting the fiscal space available for expanded county funding.
- t) **Security and Intelligence Funding:** Funding for national security and the National Intelligence Service (NIS) is a non-negotiable priority. Underfunding these sectors poses a direct risk to national stability, particularly at the coast and in urban centers like Nairobi.

- u) **Education Sector Investment:** Education remains one of the largest beneficiaries of the national budget, currently accounting for 26% to 28% of total expenditure. With an allocation of KSh 760 billion, the government recognizes the need for continued support in this sector, even as we face pressure to increase these figures further to meet national demands.
- v) **Transition to Social Health Authority (SHA):** The transition from NHIF to SHA is a courageous step toward Universal Health Coverage (UHC). While the primary healthcare component is 100% government-supported with an initial KSh.13 billion (and an additional KSh.4 billion in the supplementary budget). KSh.2 billion specifically for maternity services at Level 2 and Level 3 facilities to ensure mothers in rural areas are not disenfranchised by facility grading.
- w) **Natural Resources and Sovereign Wealth Fund:** To ensure intergenerational equity, the government has established a Sovereign Wealth Fund. This will ensure that revenues from mineral exploitation, such as gold, benefit both the current generation and future Kenyans.
- x) **Privatization of State-Owned Enterprises (KPC):** The government's policy is to reduce its footprint in commercially viable enterprises to eliminate bureaucracy and optimize asset value. In the case of the Kenya Pipeline Company (KPC), privatizing 65% of the entity will allow it to adopt corporate governance principles.
- y) **Utilization of Privatization Proceeds:** Proceeds from the sale of government assets will not be used to plug the general budget. Instead, these funds will serve as seed capital for the National Infrastructure Fund and the Sovereign Wealth Fund. This strategy is designed to "crowd in" private investment and free up fiscal space by moving commercially viable projects off the government's balance sheet.

- z) **Road Sector Securitization:** To address the backlog of pending bills in the road sector dating back to 2005, the government increased the road maintenance levy from KSh 18 to KSh 25. By securitizing KSh 7 of this levy through a Special Purpose Vehicle (SPV), KSh 175 billion was raised, allowing payment of KSh 160 billion to contractors. This has effectively restarted construction of stalled projects across the country.
- aa) **Zero-Based Budgeting and Pending Bills:** The National Government is progressively reducing pending bills and moving toward Zero-Based Budgeting. This is a complex transition that will take approximately three years to fully implement. For the 2024/25 financial year, significant strides have been made in ensuring these bills are not carried over.
- bb) **County Statutory Deductions and Pensions:** To solve the persistent issue of counties failing to remit statutory deductions, the government will implement a system by the end of March to deduct these funds at the source. This ensures that employee pensions and other statutory obligations are secured and deducted at the source.
- cc) **Debt Sustainability and Exchange Rate Volatility:** The Treasury is balancing domestic and external borrowing to manage risk. Domestic borrowing is preferred because it does not carry foreign exchange risk. However, domestic borrowing is being carefully managed to avoid crowding out the private sector.

2.2. Submissions by the Commission on Revenue Allocation (CRA)

46. The Commission appeared before the Committee and submitted as follows. That—

- a) the proposed increase in the number of Community Health Promoters (CHP) from 107,831 to 120,000 does not have a corresponding increase in the budget allocation for the expansion of the programme. The BPS proposes that the budgetary allocation to the programme is Ksh.3.23 billion, which is the same as the allocation in FY 2025/26. That there is

need for details regarding the actual number of personnel recruited to date, the total budgetary implications of hiring additional staff and a formal determination on which level of government would remain responsible for the payment of stipends;

- b) the BPS indicates that the government intends to complete the National Cybersecurity Agency, the National Security Operations Centre and seven Sectoral Security Operation Centres to protect critical digital infrastructure. However, the BPS also indicates that the government has already completed and operationalized these entities. Therefore, there is need for clarity on whether these facilities have been completed and operationalized or are yet to be finished.
- c) revenue for the period ending December 2025 underperformed by Ksh. 136.1 billion while recurrent expenditure increased by Ksh. 10.9 billion. They submitted that this trend worsened the fiscal deficit and urged the government to operationalize its fiscal consolidation policy;
- d) there was a discrepancy in the reported revenue targets. The Commission pointed out that the BPS presents two different revenue targets at different sections of the report: paragraph 184 indicates a revenue target of Ksh. 1,637.7 billion and Table 2.5 indicates the total revenue target as Ksh. 1,636.7 billion resulting in an inconsistent variance of Ksh. 1 billion. Therefore there is need for clarity;
- e) that the proposed Ksh. 5 billion increase to county governments was inequitable given that it is proposed that the national government be allocated Ksh. 152.5 billion of the projected Ksh. 157.5 billion revenue growth. Consequently, the Commission urged Parliament to raise the equitable share to Ksh. 458.94 billion to ensure adequate funding for essential services particularly in the health sector;

- f) the BPS presented inconsistent expenditure projections for FYs 2025/26, 2026/27 and 2027/28. They noted that paragraph 240 provides for the projected overall expenditure and net lending as Ksh. 4,703.9 billion while Table 3.1 and Annex Table 2 provide for the projected overall expenditure as Ks. 4,737.5 billion.
- g) the national government's adherence to fiscal responsibility principles should have been presented as a substantive section in the BPS rather than as an annex. They further observed that the section "*county fiscal management*" ought to have included an analysis of transfers to counties of nationally raised revenue which accounted for the majority of county revenues. The Commission emphasized that county governments could not realistically comply with fiscal responsibility requirements where the national government failed to adhere to the disbursement schedule;
- h) while the BPS provided a detailed analysis of county government pending bills it did not offer a similar analysis for the national government, making it difficult to assess compliance with section 94(1)(a) of the PFM Act. The Commission recommended that the BPS should include details of national government pending bills.
- i) the Equalisation Fund allocation of 0.5 percent was based on the most recent audited and approved accounts for FY 2021/22, which might not result in an equitable allocation for FY 2026/27. They noted that the constitutional requirement to rely on audited and approved accounts limits the allocations to the Fund. The Commission therefore urged the National Assembly to expedite the approval of audited accounts or alternatively, for Parliament to amend Article 204(1) to allow allocations to be based solely on audited accounts; and
- j) the Ksh. 8.93 billion allocated for UHC workers should form part of the equitable share base to counties with distribution to each county determined according to the UHC workers' payroll as maintained by the

Ministry of Health. That the change is necessary to facilitate counties in paying these workers in perpetuity, as resolved during the 12th National and County Governments Coordinating Summit.

Presentation on CRA proposed budget allocation for FY 2026/2027

47. CRA submitted that-

- a) They prepared their budget for FY 2026/27 and the medium term in full alignment with the Government's policy directives and its constitutional mandate.
- b) Following the finalization of the Sector Working Groups retreat and in accordance with the Budget Policy Statement, the Commission's proposed budget allocation is Ksh. 510.7 million against a budget request of Ksh. 1,182.2 billion, resulting in a resource shortfall of Ksh. 671.5 million.
- c) The Commission's proposed allocation for salaries and allowances is Ksh. 230.4 million (45% of the total allocation), with a minimal shortfall of Ksh. 4.7 million. This funding will enable the Commission to achieve an optimal staff complement over the planning period.
- d) In contrast, the three technical sub-programmes constituting the Commission's core mandate may face significant compromise due to budgetary constraints. Only 15% of the proposed allocation, equivalent to Ksh. 74.0 million will be allocated to these sub-programmes collectively, which may directly impede the realization of the Commission's constitutional mandate.
- e) Further, the Commission's recommendations have direct implications for operations at both national and county levels of government. Accordingly, comprehensive stakeholder consultations and engagements are essential for all recommendations developed. This necessitates adequate resource provision for effective execution
- f) The Senate should help to enhance the Commission's budget by addressing the substantial resource gap of Ksh. 671.5 million, which

threatens to impede the implementation of their constitutional mandate in the planning period for FY 2026/27.

- g) The commission functions on making recommendations to achieve vertical and horizontal equity, ensure prudent public financial management of county governments and determination of a policy that sets the criteria to identify marginalised areas requires extensive stakeholder consultations at both the national and county governments levels. Therefore, the Commission budget on such engagements needs to be considered by parliament as core to the execution of the commission functions.

2.3. Submissions by the Council of Governors

- 48. The Council of Governors appeared before the Committee and made the following submissions. That—

General Comments

- a) the BPS projected a positive macroeconomic outlook with GDP expected to grow by 5.3% in 2026 and remain stable over the medium term supported by favorable weather and improved agricultural productivity, and increased climate-smart investments. They emphasized that macroeconomic stability and predictability should guide resource allocation between the national and county governments;
- b) while the agriculture sector was the primary driver of Kenya's resilient economic growth in 2025, counties continue to be viewed as mere "spending units" rather than centers of development. The Council argued that as agriculture is a devolved function counties are central to national stability. Therefore, they recommended that all future fiscal projections for county transfers be based on objective cost drivers and the need to spur productivity rather than being determined by the National Treasury in an arbitrary manner.
- c) the county share of ordinary revenue for FY 2026/27 is inconsistent with growth trends. Noting that arbitrary revisions by the National Treasury undermine the

revenue-sharing framework, they recommended that future allocations be based on objective data, cost drivers and emerging needs;

- d) the National Treasury ignored counties' views on the draft 2026 BPS and the Council urged the Senate to ensure they are considered in the final report;

Specific Comments

- e) there is a declining trend in county transfers as a share of GDP which was projected to drop from 2.6% in FY 2025/26 to 1.8% by FY 2029/30. The Council stated that this downward trajectory threatens the long-term sustainability and stability of devolved units. Consequently, they proposed that county allocations be revised upward to match GDP growth trends ensuring that funding remains commensurate with the projected growth;
- f) on average there's a Ksh.31.79 billion increase in the national government sectoral allocation for FY 2026/27 while county equitable share is projected to increase by Ksh.5 billion. The sectoral increments, especially on the largely devolved sectors such as Agriculture, Health and Water, are unjustified *vis-a-vis* the counties' proposed allocation;
- g) the proposed Ksh. 29.30 billion budget increase for national health is unjustified for a largely devolved function. The Council noted with concern the lack of a clear policy on transitioning Universal Health Coverage (UHC) workers to permanent and pensionable terms. Consequently, the CoG recommended that the Ksh. 8.94 billion required for this transition be integrated into the county equitable share rather than being treated as a conditional grant. They aver that this would ensure financial predictability and uphold the principle that resources follow functions;
- h) the CoG highlighted a significant fiscal challenge noting that counties spent an average of 41.4% of total revenue on wages in FY 2024/25, exceeding the 35% threshold under the PFM Act with only nine counties meeting the legal limit. The Council argued that the current cap was untenable due to inflationary pressures, population growth, and the rising demand for service delivery. Consequently, they proposed a comprehensive review of the 35% threshold to determine its scientific basis and long-term feasibility. The Council further

suggested reclassifying certain human capital expenditures, such as those in health and education, to better reflect their contribution to development rather than mere recurrent consumption;

- i) Ksh.534.96 billion be allocated to counties in the FY 2026/27 as equitable share. This represents a Ksh.106.97 billion increment comprised of Ksh.35 billion being an adjustment for revenue growth, Ksh.8.94 billion budget requirement to transition UHC Workers, Ksh.10.06 billion budget requirement to implement the outstanding 3rd and 4th remuneration and benefits review cycles and Ksh.65.97 billion identified for transfer under the first phase of delineated and gazetted devolved functions;
- j) that the 12th Summit adopted the interim report requiring CRA and National Treasury to verify and include financial resources from delineated devolved functions in the 2026/27 Division of Revenue. They noted that resource identification was incomplete, with several national government MDAs and SAGAs yet to be analyzed, and non-financial resources such as assets and human resources unaccounted for. The Council proposed that the resources identified so far be recognized and transferred to counties; that pending financial resources be finalized by 31st March 2026; and all outstanding delineation issues resolved by the same date. Further, that non-financial resource identification be completed by 30th June, 2026;
- k) the Kenya Watershed Services Improvement Project (KEWASIP) was omitted from the BPS on the proposed Additional Allocations to County Governments for FY 2026/27 yet the project is active and planned for implementation in 12 counties in FY 2026/27. That this allocation should be factored in the budget FY 2026/27;
- l) they noted with concern the delayed, partial or non-disbursement of additional allocations to counties. In this respect, the Council recommended that the National Treasury be compelled to release all outstanding balances in line with law. They further proposed that for the FYs 2023/24 and 2024/25 arrears the Senate should require the National Treasury to prepare a Supplementary

Appropriation Bill under Article 223 of the Constitution to regularize the payments as advised by the Attorney-General;

- m) sections 191A to 191E of the PFM Act had complicated the flow of additional conditional allocations, as the Controller of Budget withheld approvals for conditional grant withdrawals until Intergovernmental Participatory Agreements were executed. Further, while the Cabinet had approved a Bill to repeal these sections, their application had only been partially suspended preventing counties from accessing development partner grants. The Council proposed that Parliament fast-track the repeal of sections 191A to 191E and that the Senate work with the Attorney-General to exempt development partner conditional grants from these sections to ensure their timely release to counties; and
- n) the National Treasury's proposal to split the County Governments Additional Allocations Bill (CGAAB) into two separate laws—one for allocations from the National government's share and another for development partners—would worsen delays in enactment. The Council proposed that the draft PFM Amendment Bill on section 42 be withdrawn to allow an alternative framework where the County Governments Additional Allocations are passed alongside the County Allocation of Revenue Bill.

2.4. Submissions by the Institute of Certified Public Accountants of Kenya(ICPAK)

49. ICPAK submitted the following—

- a) Agriculture- although agriculture contributed 22.5% to GDP in 2024, allocations under BPS 2026 remained below the 10% Maputo Declaration target, rising only from 3.2% to 3.4% of total expenditure. They noted a 74% funding shortfall for County Aggregation Centres and Industrial Parks and recommended increasing agriculture's budget share, ensuring full disbursement of Ksh.3.348 billion and prioritizing climate-resilient investments.
- b) MSMEs- despite MSMEs contributing 40% of GDP and employing 14.9 million Kenyans, initiatives such as the Credit Guarantee Scheme and Hustler Fund faced planning inefficiencies, irregularities, delays, budget constraints and skills gaps. They observed the absence of documentation on the survival status of

funded MSMEs and over-regulation across counties. ICPAK recommended strengthening oversight, enhancing PPP resource mobilization, training MSMEs in financial literacy, simplifying tax and disbursement systems, and publishing going-concern status reports.

- c) Healthcare- the critical doctor-patient ratio of 1:17,000 against WHO's 1:1,000 benchmark and cited financing gaps, Human Resource for Health (HRH) shortages, infrastructure deficits, governance weaknesses, and inequities. They recommended prioritizing primary healthcare, fully implementing the Community Health Promoters programme, stabilizing HRH management, ensuring timely disbursements, strengthening oversight, and reducing political interference.
- d) Housing- ambiguity in reported job creation figures and failure to embed the 250,000 annual housing target in budgets, noting low absorption (32.6%) and underperformance in social housing delivery (57.7%). They recommended embedding annual targets in the MTEF, enforcing readiness criteria, sourcing 70% local materials, redesigning the social housing programme, and using 2026 as a reset year.
- e) Digital Economy- there is growth in the digital sector (projected Ksh 2.96 trillion, 9.24% of GDP) and milestones such as the AI Strategy and BPO Policy but warned of automation risks, power unreliability, low internet penetration (35%), and wage instability below minimum wage. They recommended modernizing labour laws, targeting high-value digital jobs, leveraging regional platforms, and strengthening digital infrastructure investment.
- f) Infrastructure- there are legal uncertainties and duplication of PPP frameworks in the implementation of the proposed Ksh 5 trillion National Infrastructure Fund (NIF) and Sovereign Wealth Fund. They recommended fast-tracking the introduction and passage of the Sovereign Wealth Fund Bill, clarifying NIF roles, ensuring PPP-driven financing and adopting phased investment approaches.
- g) Manufacturing- there was modest growth (2.1%) and persistent underfunding of CAIPs with a 74% deficit and unrealistic timelines. They also cited aggressive tax administration challenges affecting the sector. They recommended strategic

PPP financing, realistic budgeting aligned to project readiness, innovative revenue mobilization, and facilitative tax administration.

- h) Education- they recommended improving recurrent efficiency, prioritizing development spending (especially TVET), strengthening governance and digital fund management, aligning education with labour market needs, and enhancing PPPs.
- i) Women Agenda- there are funding increases for affirmative action and bursary support but weak implementation of the two-thirds gender rule. They recommended constitutional amendments to strengthen gender representation and enforcement by IEBC.
- j) Foreign Policy & Regional Integration- there are financing constraints, arrears risks, weak M&E, and underfunded peacebuilding in this sector. They recommended strengthening economic diplomacy, AfCFTA participation, accountability systems, peace initiatives, multilateral compliance, and aligning allocations with measurable outcomes.
- k) Revenue Projections- the following measures to be taken to support meet revenue projections: expanding the tax base; formalizing the informal sector; rationalizing exemptions; and integrating iTax and eTIMS.
- l) Expenditure Performance- there should be strict adherence to the fiscal responsibility principles as stipulated under section 15 of the PFM Act.
- m) County Expenditure- they recommended implementation of payroll reforms, migrating to the Human Resource Information System (HRIS), strengthening compliance and wage bill monitoring, and enhancing sectoral strategic planning aligned to development priorities. These interventions will assist in controlling the wage bill within the 35% threshold, eliminating inefficiencies in payroll management, enhancing transparency and accountability and free up resources from recurrent expenditure to support sustainable development and infrastructure investment.
- n) Own Source Revenue- counties missed OSR targets by 23% and over-relied on FIF despite CRA estimating Ksh.216 billion potential. ICPAK recommended automation, realistic projections and revenue officer capacity building.

- o) Pending Bills- that as at 30th June 2025, counties had reported pending bills of Ksh. 176.90 billion, consisting mainly of unpaid contractors, suppliers and statutory deductions. These pending bills arise largely from over-commitment and unrealistic revenue projections. They expressed concern over the lack of enforcement despite constitutional provisions and recommended prioritizing pending bills as a first charge in budgets, employing qualified ICPAK accountants and ensuring compliance with agreed payment plans and Senate resolutions.
- p) Equalisation Fund- that in FY 2024/25 the National Treasury had allocated Ksh. 9.6 billion to the Equalisation Fund based on FY 2021/22 audited and approved revenues but had failed to remit an outstanding Ksh. 46.5 billion as required under Article 204(1) of the Constitution. They expressed concern that with the Fund's twenty-year lifespan nearing its end, few new projects had been initiated and only Ksh. 12.4 billion of the Ksh. 51 billion allocated since 2011 had been transferred. This leaves significant arrears despite a proposed Ksh. 5.56 billion partial payment in FY 2026/27.
- q) Performance of shareable revenue - ordinary revenue has fallen below target over the past ten years except in FY 2021/22 when the target was surpassed. They raised concerns over counties' non-adherence to the Public Procurement and Asset Disposal Act leading to rising pending bills, low absorption of development budgets, underperformance in own-source revenue, and failure to comply with fiscal responsibility principles. They recommended strict adherence to existing legal and policy frameworks on economic planning and public finance management, as well as strengthening capacity in macroeconomic forecasting, fiscal sensitivity, fiscal impact and economic analysis.
- r) Division of Revenue- they noted that reliance on the FY 2021/22 audited accounts might not accurately reflect total national revenue collections, and that the proposed equitable share of Ksh.420 billion for FY 2026/27—though equivalent to 21.87% of the most recent audited and approved revenues—does not represent a true reflection of counties' share of total sharable revenue. They therefore recommended expediting the approval of audited accounts to ensure a

more accurate revenue base and enhanced allocations to counties in line with prevailing economic conditions.

- s) State Corporations- there are inconsistencies in reported pending bills in State Corporations (Ksh.25 billion vs. Ksh.404.33 billion). In this respect, they recommended correcting figures and including risk mitigation measures.

2.5. Submissions by Bajeti Hub

50. Bajeti Hub submitted the following. That —

- a) Parliament should institute a legislative ceiling on the annual fiscal deficit to curb the projected 21% increase from Ksh.923.2 billion in FY 2025/26 to Ksh. 1,116 billion in FY 2026/27, noting that the situation has not improved despite previous reforms. They highlighted that Kenya's GDP growth averaged 5.1% between 2022 and 2024, surpassing the sub-Saharan Africa average, and that actual revenue collections grew at 11% annually, though targets were consistently missed by 9%, except in FY 2021/22. They averred that the lack of a unified, scientific revenue forecasting methodology by the National Treasury, KIPPRA, and KNBS had undermined predictability and budget planning.
- b) The Hub urged the Senate to push for a single harmonized, evidence-based revenue forecasting model and recommended that Parliament condition BPS approval on credible revenue forecasts with contingency expenditure plans for mid-year shortfalls.
- c) They recommended that the BPS should include gender and equity assessments across all five BETA pillars, beyond the Women Agenda enabler, using disaggregated data to track whether policy interventions advanced gender equality.
- d) They submitted that the government should fully devolve health functions as per the IGRTC Gazette Notice of 2024, ensuring resources follow functions so that counties can independently manage primary healthcare without duplication by the national government.
- e) They advised Parliament to push for a performance audit on public primary school infrastructure and to increase development funding, particularly to address equity gaps created by the Competency Based Curriculum and support

learners with special needs, noting that parents continued to bear out-of-pocket costs despite significant resource allocations.

- f) They stated that there should be a clear legislative distinction between the roles of the State Department for Social Protection and the National Council for Persons with Disabilities to eliminate duplication in registration and issuance of disability cards as required under the Persons with Disabilities Act, 2025, to clarify financing.
- g) Food Security- Agriculture Rural and Urban Development (ARUD) and Climate Change-The Hub recommended that all ARUD sector state departments should mainstream climate-resilient strategies across their programs due to worsening drought conditions, noting that counties in the “Alarm” category rose from zero in August 2025 to four by January 2026.
- h) They urged that all stalled donor-funded water projects should be reviewed and resolved and that adoption of PPP models should be made more transparent to meet the target of increasing clean water access from 74% to 80% of the population.
- i) They observed that although some progress had been made in gazetted functions by IGTRC, transfers of functions must include adequate administrative and operational resources. They emphasized the need for a costing framework for each function, beginning with health, agriculture and education to determine actual needs at national and county levels and progressively fund them accordingly.

2.6. Submissions by the County Assembly Forum (CAF)

51. CAF submitted the following. That—

- a) the Senate considers shareable revenue to counties of not less than Ksh. 500 billion to cater for the budget requirement for transition of the UHC workers, 3rd and 4th remuneration and benefits review cycles. Even with the prevailing economic situation, an additional allocation of Ksh.5 billion would serve no purpose with only a few counties gaining from the increment.
- b) the projected ministerial budget ceilings of Ksh.2,867.4 billion reveal a significant concentration of resources at the national level, particularly in sectors

whose core service delivery functions are constitutionally devolved under the Fourth Schedule of the Constitution.

- c) adherence to the Funds-Follows-Functions Principle: Budget allocations must strictly align with constitutional functional assignments to avoid duplication and underfunding of counties.
- d) national ministries should progressively reduce operational expenditures in fully devolved functions and redirect resources to counties through equitable share or conditional grants.
- e) The equitable share must be enhanced to reflect the actual cost of delivering devolved services in health, agriculture, water and rural development.
- f) Clear Functional Delineation and Conditional Grants Framework: Where national government retains strategic or regulatory roles, funding should be channeled transparently through conditional grants with clear accountability and coordination mechanisms to avoid duplication and fiscal inefficiencies.

2.7. Submissions by Food for Education

52. Food for Education submitted the following—

- a) The BPS sets a bold direction for school feeding in Kenya but this policy should be matched with adequate, predictable financing and robust accountability mechanisms to ensure measurable impact. In this respect, they recommended strengthening Monitoring, Evaluation, Accountability, Reporting, and Learning (MEARL) systems for the School Feeding Programme to track coverage, quality, and impact, supporting evidence-based decision-making and enhancing programme effectiveness over time.
- b) They stated that governance coordination within the national framework should be enhanced, ensuring clarity of roles between the Ministry of Education and the designated implementing agency, efficient resource use and alignment with national education priorities.
- c) They recommended that structured partnerships within the school feeding ecosystem should be deepened, with improved collaboration between the Ministry of Education and implementing partners on planning, data-sharing,

procurement standards and programme design to reduce duplication and maximize impact.

- d) They recommended strengthening collaboration between national and county governments to promote coherence in school feeding interventions and expedite progress towards universal school feeding.
- e) They urged for a costed medium-term framework, providing a quantified multi-year expenditure forecast from the current 3 million learners to the 10 million target by 2030, including explicit assumptions on meal costs and inflation.
- f) They recommended increasing the allocation for the FY 2026/27 estimates to protect programme quality and expansion, suggesting restoration toward the 2024 Ksh.4.9 billion level to maintain real value and purchasing power.
- g) They proposed embedding Home-Grown School Feeding (HGSF) principles through clear procurement guidelines prioritizing local sourcing from smallholder farmers, turning school feeding into a stimulus for local economies and advancing the government's food systems policy.
- h) They recommended fiscal guidance for counties on pre-primary feeding by encouraging dedicated budget lines within County Fiscal Strategy Papers (CFSPs) and the next CIDPs ensuring a continuous support from early years through primary school.

2.8. Submissions by Mtoto News International Ltd (Mtoto News)

53. Mtoto News submitted the following—

- a) High cost of education- they recommended the provision of free compulsory education, alongside increased funding for school infrastructure such as laboratories and classrooms.
- b) They indicated that the digital divide is a major issue and recommended the provision of adequate computers and reliable internet connectivity in all public schools to support effective learning under the Competency-Based Curriculum (CBC).
- c) Child hunger and inadequate school meals- they recommended scaling up school feeding programs such as “Dishi na County,” ensuring that meals provide balanced diets.

- d) They noted that expensive medication and healthcare pose challenges and recommended expanding Social Health Insurance and the Primary Health Care Fund to reduce medical costs for families and children nationwide.
- e) They highlighted child abuse and violence as pressing issues and recommended allocating funds to employ more Children Officers and establishing Child Protection Units in all police stations to address cases of abuse and children in conflict with the law.
- f) They indicated that parent unemployment affected children's well-being and recommended government measures to create jobs for parents to support children's basic needs.
- g) They recommended providing free sanitary towels and proper disposal bins in all schools to prevent school absenteeism and ensure safety.
- h) They highlighted mental health concerns and recommended increased investment in mental health facilities, free access to services for children, deployment of professional school counsellors, and government-funded mental health awareness campaigns through the media.
- i) They noted that children with disabilities face barriers and recommended ensuring inclusive school infrastructure, specialized support, and provision of assistive items such as braille machines to enable equitable participation in school.
- j) They recommended funding digital literacy programs for children, teachers and parents to protect children from online grooming and inappropriate content.
- k) They highlighted drug and substance abuse as a concern and recommended funding nationwide awareness campaigns and providing free rehabilitation for affected children.
- l) They recommended institutionalizing child involvement in national and county budgeting and policy-making processes, including support for Student Councils and the Kenya Children Assembly.
- m) They noted challenges in access to clean water and sanitation and recommended increased funding for water projects to ensure access to clean water in homes and schools

2.9. Submissions by the All Saints' Cathedral Church

54. All Saints' Cathedral Church submitted the following. That—

- a) "national interest" is the first constitutional criterion for revenue sharing but ranked third in funding priority (Ksh 36.4 billion) behind debt (Ksh 1.5 trillion). They recommended that the National Treasury clearly define and provide detailed, program-based budgets for national interest and debt obligations to ensure accountability.
- b) They indicated that zero-based budgeting (ZBB) guidelines were not fully reflected in Ministry, Department and Agency (MDA) proposals, which lacked fresh justification for programmes and projects. They recommended that Parliament should ask the National Treasury to demonstrate how MDAs' budget justifications were reviewed, publicize compliance with ZBB across sectors, and include sub-county-specific lists of projects with expected outcomes and beneficiaries.
- c) They noted that non-financial indicators in the BPS were not matched with corresponding budget projections, making it difficult to track estimated recurrent or development funding per target. They recommended that Parliament should direct the National Treasury to amend templates to show funding per target under each output with explanatory notes.
- d) They stated that there's limited alignment of county government priorities with national priorities despite section 25(3) of the PFM Act requiring strategic alignment. They recommended that Parliament should establish criteria to assess alignment beyond allocation compliance, ensuring county health budgets, for example, reflect BPS priorities like Universal Health Coverage.
- e) They observed that there was insufficient public participation in budget preparation, with only one forum held at KICC and no forums in constituencies or counties. They recommended that Parliament should request a detailed report showing how public views were considered, categorized by constituency and sub-county.
- f) Further, they observed that most citizens lacked knowledge of public finance management limiting participation. They recommended allocating funds for

national civic education on public finance and simplifying budget documents to enable informed engagement.

- g) They highlighted challenges in access to food, noting that many households, especially in rural and informal urban areas lacked adequate nutrition. They recommended that Parliament request a detailed sub-county list of ongoing and planned food and nutrition security interventions.
- h) They noted that youth employment opportunities remain inadequate and recommended that the BPS should present a clear approach to ensure that at least 70% of young people in every sub-county access sustainable income-generating opportunities supported by sub-county data.
- i) They stated that there were gaps in social assistance for vulnerable households and recommended prioritizing at least Ksh. 6,000 per month per household unable to support itself alongside a sub-county list of beneficiaries and planned interventions.
- j) They indicated that capitation for primary, junior, and senior schools was insufficient, forcing parents to pay fees and preventing some learners from attending school. They recommended increasing capitation and channeling bursaries and scholarships directly to schools based on enrolment.
- k) They noted teacher shortages and recommended that the BPS clearly state the total shortfall and number of teachers to be recruited in FY 2026/2027, aligned to actual needs across all school levels.
- l) They highlighted the need for teacher capacity development to support CBC delivery and recommended proportionate budgets for continuous professional development.
- m) They highlighted limited public participation in budget implementation with concerns about project timing, procurement, and disbursement delays. They recommended that all MDAs publish annual work plans, procurement plans, cash flow plans, monitoring plans, and sub-county-specific development project lists to support participation in implementation.

2.10. Submissions by the Lake Region Budget Hub

55. The Lake Region Budget Hub submitted the following. That—

- a) the BPS emphasized Universal Health Coverage (UHC), primary healthcare, and maternal/child health, but lacks measurable indicators, timelines, or baselines for monitoring progress. This makes accountability weak and risks commitments remaining aspirational;
- b) preventive interventions like immunization, health education, nutrition programs, disease surveillance and sanitation were under-prioritized and underfunded threatening long-term system sustainability;
- c) the BPS inadequately addressed the transition from donor funding (such as the US-Kenya Health Cooperation and GAVI) to domestic financing risking service disruption, particularly in immunization and HIV programs;
- d) details on eligibility, funding sustainability of the Emergency Chronic and Critical Illness Fund (ECCIF) and integration into broader health insurance reforms are lacking, raising concerns about fiscal strain;
- e) delays in identifying and registering beneficiaries, disbursing funds and reimbursing facilities undermine equity, efficiency, and public confidence in the Social Health Insurance Fund (SHIF) framework; and
- f) although nominal health allocations are projected to rise from Ksh. 167.4 billion in FY 2026/27 to Ksh. 203.1 billion by 2028/29, the growth lags behind population pressures, epidemiological shifts and inflation. They observed that recurrent spending such as wages and subsidies continue to dominate, limiting investment in development areas like infrastructure and digitization. They further pointed out specific funding shortfalls, including PHC-F, ECCIF, and SHA subsidies for vulnerable groups and stated that SHA faces an overall deficit of Ksh. 166 billion, compounded by low compliance rates and under-resourced donor absorption.
- g) the Senate should therefore—
 - i) demand granular, disaggregated data and county-level baselines in future BPS documents;

- ii) align priorities with benchmarks (such as WHO standards, GAVI timelines) and quantify donor transitions (US-Kenya, GAVI);
- iii) advocate increased allocations to close SHIF's Sh. 166 billion gap, boost preventive health, and expand social protection coverage; and
- iv) push for stronger M&E, efficiency reforms, and inter-sectoral integration to ensure equity and sustainability amid fiscal pressures.

2.11. Submissions by the Committee on Fiscal Studies, Faculty of Law – University of Nairobi

56. The Committee on Fiscal Studies submitted as follows. That—

- a) the 2026 BPS does not outline a credible revenue recovery strategy noting that the revenue-to-GDP ratio had declined to 13.9% without clear measures to reverse the trend.
- b) the BPS failed to quantify tax expenditures, potential revenues from high-net-worth individuals, the digital economy, illicit financial flows and the extractive sector, despite significant mineral and blue economy potential;
- c) although the BPS outlined commitments under Article 43 of the Constitution—covering health, education, housing, and social protection—it did not provide a costed framework for progressive realization of these rights. Additionally, they noted that while the digital transformation agenda is ambitious, lacks a consolidated financing, energy, environmental and revenue sustainability model; and
- d) the BPS omitted transparency measures such as tax expenditure reporting, gender and disability budgeting and geographic impact analysis.

2.12. Joint Submissions by the Northern Regional Budget Hub, Wajir County Civil Society Consortium and Wajir County Civil Society Network and the Northern Regional Budget Hub

57. The Joint submissions provided that—

- a) the government's efforts to stabilize the economy through the Bottom-Up Economic Transformation Agenda (BETA) is commendable. However, there's persistent disconnect between national policy and the "lived realities" of

Northern Kenya, noting that the BPS lacks an integrated strategy to address the region's unique vulnerabilities, historical marginalization, and pastoralist livelihoods;

- b) although climate vulnerability has been recognized, the BETA value chain model tends to favor regions with established infrastructure. They stated that without deliberate measures to integrate mobile pastoralist economies, the approach risks deepening regional inequalities rather than reducing them;
- c) there's a vertical fiscal imbalance in service delivery, observing that the National Government retained a disproportionate share of revenue while ASAL counties remained on the front lines of delivering essential services such as water and healthcare in challenging environments. They urged for a more equitable distribution of resources to address this imbalance.
- d) there is need for specific support to the health sector, for instance through the prompt disbursement of Ksh.3.235 billion for Community Health Promoters and recommended that those serving in ASAL regions be equipped with rugged equipment. They further called for a time-bound recruitment program for health workers in hardship areas and for clear guidelines to ensure that the Social Health Authority accurately identified vulnerable households eligible for subsidies.
- e) they were critical of the national focus on mega-dams and advocated for decentralized water and livestock solutions, and climate-resilient infrastructure such as sand dams and solar-powered boreholes. They further urged full funding of livestock vaccination programs, expansion of the De-Risking, Inclusion and Value Enhancement (DRIVE) insurance program and the establishment of a Ksh 500 million ring-fenced Fund to support the camel milk value chain;
- f) there's need for tailored interventions in agriculture and education, noting that national crop-based policies have limited relevance in their region. They proposed support for dryland crops such as date palms and drought-resistant seeds.
- g) In education, they called for the ring-fencing of the School Meals Programme budget and recommended that TVET centers offer courses aligned to the local economy, including solar technology and water pump maintenance;

- h) they urged a shift toward long-term climate resilience and security measures, proposing the establishment of a dedicated National Climate Resilience Fund capitalized with at least Ksh. 10 billion instead of relying on annual emergency responses. They also emphasized that sustainable development requires improved security calling for increased investment in security infrastructure and strengthened community policing to safeguard regional investments;
- i) they called for enhanced public participation and fiscal transparency, urging the National Treasury to prioritize the settlement of pending bills owed to local contractors to stimulate the regional economy. They further recommended that future budget hearings be devolved to the ward level to ensure that marginalized groups, including pastoralist women and youth, are meaningfully heard.

2.13. Submissions by the Budget Talk Global

58. Budget Talk Global submitted the following-

- a) Budget Talk Global recommended that Parliament should request the National Treasury to provide a detailed breakdown of revenue-increasing measures and their expected outcomes, and to establish achievable revenue targets grounded in past performance and realistic macroeconomic assumptions to enhance credibility and avoid persistent shortfalls.
- b) That the Senate should seek clarity from the National Treasury on the binding plan to cushion development spending during mid-year budget revisions, identify specific non-core areas targeted under fiscal consolidation, and publish a clear expenditure rationalization framework showing where reductions were being made.
- c) They urged the Senate to interrogate why the budget deficit remained very high, particularly net domestic borrowing, despite the fiscal consolidation plan, and to ensure that domestic borrowing was aligned with liquidity conditions, debt maturities, and the Medium-Term Debt Management Strategy (MTDMS).

- d) That the Senate should demand prudent management of domestic borrowing in line with the Medium-Term Debt Management Strategy, and most importantly, require greater transparency on debt rollovers, refinancing arrangements, and repayment schedules to safeguard fiscal sustainability.
- e) Parliament should clarify the status of pending audits of nationally raised revenue and determine whether the Kshs. 108.2 billion financing gap could be addressed without undermining deficit targets or county allocations, while safeguarding predictability of county transfers.
- f) That Parliament should push for periodic publication of a comprehensive Contingent Liability Register, annual reporting on Public Private Partnerships (PPPs) financial commitments, and strengthened oversight of guarantees and on-lent loans to mitigate fiscal risks from SOEs and other obligations.
- g) The National Treasury should develop and publish a multi-year plan for liquidation of pending bills and strengthen enforcement of Public Finance Management Act (PFMA) provisions to prevent further accumulation and restore fiscal credibility.
- h) The National Treasury and MDAs should introduce and publish explicit gender, child, and equity budget tagging in reports and programme-based budgets, beyond narrative mainstreaming, to ensure transparency, accountability, and effective tracking of allocations to vulnerable and disadvantaged groups.

2.14. Submissions by the Rift Valley Budget Hub

59. The Rift Valley Budget Hub submitted the following;

- a) Review the ordinary revenue projection based on historical performance and realities on the current state of the economy.
- b) Higher domestic borrowing by the government will impact negatively on local lenders and borrowers and is likely to result in crowding out private-sector credit hence reduction of loans to businesses and individuals. The

Senate should moderate domestic borrowing and also institute austerity measures.

- c) The Senate should sanction expenditure rationalization by the line departments to avoid huge deficits which might lead to more borrowing, especially for recurrent expenditures.
- d) The Senate should compel the National Treasury to publish a comprehensive debt register accompanied by a debt management strategy that balances short-term financing needs with long-term debt sustainability objectives.
- e) The Senate should push for the development of a sound strategy to improve budget implementation.
- f) The Senate should sanction the enforcement of the Public Finance Management (Public Investment Management) Regulations 2022 that requires all public investment projects to be procured and delivered on time, within budget, and in accordance with the design specifications.
- g) The Senate should ensure that the National Treasury undertakes public engagements during all critical stages of the PPP project implementation processes. Contracting Authorities should publish all intended and ongoing projects in line with Sections 43 and 69 of the PPP Act of 2021.
- h) The Senate should interrogate the priorities for capital expenditure based on established needs in publicly available reports e.g. KDHS as in the case of water, health and related sectors.
- i) Raise the percentage of revenue allocation to county governments in line with the Principle of Resources follow functions to ensure adequate funding for devolved functions.
- j) Use up-to-date audited revenue computations as a basis for equitable share allocations to counties. The equitable share should be increased in proportionality to reflect the current revenue growth.

2.15. Submissions by Hennet

60. Hennet submitted the following-

- a) They reported a significant funding gap in the health sector, noting that while the 2026 BPS allocates KSh 167.4 billion, this falls far short of the KSh 235–250 billion required to fully operationalize Universal Health Coverage (UHC) and address human resource deficits.
- b) Hennet expressed concern over low per capita health spending, which currently stands at approximately KSh 3,200 compared to the WHO recommended minimum of KSh 11,000. They highlighted that high out-of-pocket expenditures push over 1 million Kenyans into poverty annually.
- c) They highlighted data gaps in Social Health Authority (SHA) enrollment, stating that the BPS lacks real-time, disaggregated metrics. They noted that as of January 2026, active contributions stood at only an 18% compliance rate overall.
- d) They pointed out the lack of a sustainable wage strategy for Community Health Promoters (CHPs), warning that expanding the workforce to 120,000 without a clear cost-sharing framework between national and county governments leads to unsustainable recurrent expenditure and payment arrears.
- e) They cited a 92% shortage of doctors and a 46% shortage of nurses and proposed introducing bonded deployment schemes to compel publicly funded graduates to serve in underserved rural areas.
- f) Hennet pointed out critical underfunding of key health funds, specifically noting that the Primary Health Care Fund received KSh 13.1 billion against a need of KSh 61 billion, and the Emergency Fund received KSh 8 billion against a need of KSh 107 billion.
- g) They critiqued the digitalization of health services, reporting that despite the 2023 Digital Health Act, 40% of Level 2-3 facilities lack reliable electricity and internet, while 50% of CHPs face training deficits in using digital tools.
- h) Hennet warned of a major financing gap for Family Planning (FP), emphasizing that there is no domestic budget allocation for FP

commodities despite an estimated need of USD 17 million. They recommended creating a protected domestic budget line to reduce donor dependence.

- i) They noted inconsistencies in the implementation of the Facility Improvement Financing Act 2023, observing that only 20 counties were fully compliant by 2025. They recommended that facilities be allowed to retain 80% of their collections to improve local supply chains.
- j) They highlighted the risks of donor dependency for HIV, Malaria, and Tuberculosis programs, stating that 70% of funding for these areas remains partner-supported. They urged the government to develop domestic financing strategies to sustain treatment for over 50,000 patients at risk if donors withdraw.

2.16. Submissions by the Interregional Development Agency (IRDA)

61. IRDA submitted the following-

- a) They advocated for increased support for individual home construction, stating that while the Affordable Housing Programme (AHP) is vital, the government should also facilitate citizens from low-income strata to build their own houses by subsidizing materials and streamlining clearance processes like NEMA and health approvals.
- b) IRDA expressed concern over the lack of situational analysis regarding the Women's Agenda, noting that the budget fails to provide clear statistics or indicators on factors such as the feminization of poverty, Gender-Based Violence (GBV), and Female Genital Mutilation (FGM) from previous years.
- c) They requested for urgent disaggregation of all gender-related data, arguing that without breaking down beneficiaries by age, disability, and region, it is impossible to conduct a transparent monitoring and evaluation of the impact of empowerment programs.
- d) They critiqued the use of "block figures" in social protection programs, warning that stating beneficiary numbers (such as the 1.2 million under

Inua Jamii) without geographical or demographic "faces" creates opportunities for corruption and complicates service delivery verification.

- e) They recommended specific economic empowerment for guardians and parents of Persons with Disabilities (PWDs), suggesting that providing these caregivers with sustainable resources would reduce their long-term reliance on government cash transfers.
- f) They called for the involvement of the Kenya National Bureau of Statistics (KNBS) to ensure that social protection data is tracked at the household level, enabling better verification of whether allocated resources actually reach the intended targets.
- g) IRDA highlighted the need for transparency in affirmative action funds, such as the NGAAF and Women Enterprise Fund, by demanding a published list of beneficiaries categorized by region and social-economic status to prevent the misuse of aggregated figures.
- h) They questioned the impact of child protection and human trafficking interventions, stating that the lack of clear, county-specific data for the thousands of victims and children in conflict with the law makes it difficult to evaluate the effectiveness of these programs for future learning.

2.17. Submissions by Halima Sarah-Child Protection Specialist.

62. Halima Sarah submitted the following;

- a) She identified significant financing gaps in child protection systems, stating that cash transfers for Orphans and Vulnerable Children (OVC) currently reach only 441,516 households despite a national population of 21.9 million children.
- b) She expressed concern over inadequate family-based care placements, noting that only 50,000 children are supported, which she stated is likely far below the actual national requirement.

- c) Halima highlighted the severe underfunding of sanitary towel distribution, pointing out that only 2.4 million girls are being reached against a national target of 11.1 million.
- d) She pointed out the lack of resources for Sub-County Children Officers and urged the Senate to review the 2025 Social Workforce Investment Report to guide necessary investments in the child protection workforce.
- e) That there's a policy inconsistency regarding the Child Welfare Fund, noting that while a Street Children Fund exists, it has reported zero targets for past years despite the visible presence of unsupported street children.
- f) She recommended a revision of the Child Welfare Fund's objectives to focus specifically on transitioning children from institutional care back to family and community environments.
- g) She expressed concern that the BPS lacks needs-based budgeting for pastoralist counties, stating that the unique vulnerabilities of the North Eastern region—such as chronic drought and low school retention—are not reflected in the current allocations.
- h) Halima proposed the establishment of a ring-fenced National Child Protection Fund to specifically cover OVC support, Gender-Based Violence (GBV) response, case management, and care reform.
- i) She called for mandatory child protection budget lines at the county level to complement national efforts and requested the public release of Child Protection Expenditure Reports from all levels of government.
- j) She urged the National Treasury to clear all pending bills owed to child protection service providers to ensure the continuity of essential services.

2.18. Submissions by the Coast Regional Budget Hub

63. The Coast Regional Budget Hub submitted the following-

- a) They expressed concern over ambitious revenue projections for FY 2026/2027, stating that the target of KSh 3.39 trillion (16.7% of GDP) relies heavily on aggressive tax measures that may increase the cost of living and burden small businesses.

- b) They critiqued the financing of devolution, pointing out that the proposed Equitable Share of KSh 420 billion for FY 2026/27 is insufficient to cover the rising costs of devolved functions, such as the Social Health Authority (SHA) and the recruitment of Community Health Promoters.
- c) They noted the slow completion and stagnation of major water projects in the Coast Region, specifically highlighting that the Mwache Dam has remained stagnant and the Mzima II water pipeline was notably missing from the Draft BPS 2026 despite previous executive promises.
- d) They recommended a "completion-first" approach for water infrastructure, urging the government to fast-track and commission existing dam projects before committing resources to new dam pipelines to avoid spreading limited funds too thin.
- e) The Hub advocated for the full implementation of the Facility Improvement Financing (FIF) Act, recommending that the National Treasury ensure health facilities in the region can retain and utilize their own revenue to prevent service delivery interruptions.
- f) They urged for greater transparency in the intergovernmental transfer of funds, requesting that the government produce detailed progress reports for all major regional projects to improve accountability and ensure resources reach the intended communities.

CHAPTER THREE

SUBMISSIONS FROM STANDING COMMITTEES

64. Pursuant to standing order 186(x) of the Senate Standing Orders, the Senate Standing Committees examined matters within their respective sectoral mandates and made the following submissions-

3.1 STANDING COMMITTEE ON LABOUR AND SOCIAL WELFARE

65. The Committee observed the continued accumulation of unremitted statutory deductions by county governments which will affect the welfare of employees, upon retirement. The Committee noted that according to the Multi-Agency Taskforce Report on Non-remittance of Deductions, the outstanding statutory remittances amounted to Kshs.115.7 billion as at 31st October 2024. In this regard, the Committee recommended that counties should avail quarterly reconciled reports linking allocations received with remittances and that a public dashboard should be developed to track arrears and compliance.
66. The Committee also observed that the Government was set to implement the National Youth Opportunities Towards Advancement (NYOTA) programme with the objective of empowering youth across the country. The programme is a World Bank-funded, multi-agency initiative implemented through the State Departments for Labour and Skills Development; Youth Affairs and Creative Economy; and Micro, Small and Medium Enterprises Development, with support from other relevant agencies.
67. The Committee further observed that while the NYOTA programme presented opportunities to create sustainable livelihoods for the youth, key aspects remained unclear, including the criteria for selection, distribution by ethnic representation, terms and conditions of funding and the age distribution of successful applicants. There was emphasis on the need for the anchor Ministry to make such information publicly available in order to promote credibility, fairness and equal opportunity. In this regard, the Committee recommended that

the State Department for youth affairs and creative economy should publish clear selection criteria, funding terms, age and regional distribution for the NYOTA programme and establish clear communication channels for programme participants.

68. The Committee also observed that the State Department for Labour had facilitated various foreign employment opportunities for youth under the labour migration programme during the previous financial year. This programme remains a key intervention under the State Department in the 2026 Budget Policy Statement (BPS). It was further observed that there was a need for the Government to strengthen and encourage bilateral labour agreements that guarantee safe job placements, ensure fair terms and conditions of employment, and provide citizens with clear and accessible communication channels with the Government. This will facilitate timely assistance and safe evacuation where necessary.
69. The Committee observed that in the 2024 BPS, additional allocations of Ksh. 30,184,835 were earmarked for transfer of the Museums function. The Museums identified for transfer comprised eight stations: Meru-Njuri-Njeke; Narok; Garissa, Wajir; Loiyangalani; Kisumu; Kitale; and Isiolo Museums. The Committee noted that these allocations were not transferred to the respective county governments in FY 2024/25 or FY 2025/26, as they had not been included in the overall budget. The Committee recommended that Kshs. 30,184,835 allocation for the eight museums to be disbursed to counties. Further that audit be conducted for proper use of the allocated funds, strengthening of counties capacity to manage museums effectively and accountability on the resource's utilization.
70. Stadium Infrastructure Readiness - the Committee observed that Kenya was set to co-host the 2027 Africa Cup of Nations (AFCON) tournament jointly with Tanzania and Uganda following a successful joint bid. The tournament is expected to generate broader socio-economic benefits, including the promotion

of Kenyan culture, tourism, hospitality, and the creative industry, as well as stimulation of economic growth.

71. The State Department for Sports is undertaking refurbishment of stadia earmarked for the tournament and other related sporting events. Further, the State Department had a proposed increment of Ksh. 5.78 billion in its recurrent allocation to facilitate preparations for hosting the tournament. There was emphasis on the need for the relevant government agencies to deliver facilities that met international standards in a timely manner to ensure a seamless championship in 2027. Further, the recurrent and development allocations should be aligned to project milestones for effective monitoring and accountability. The appropriate mechanisms should also be put in place to maximize socio-economic benefits for tourism, hospitality and the creative sector during the championship while ensuring prudent and transparent use of all funds allocated.
72. The Committee observed that, notwithstanding ongoing gender and affirmative action initiatives, notable gaps persisted in the implementation including resourcing, and targeting of programs intended to advance gender equity and protect vulnerable groups. The Committee further noted that existing gender policies did not adequately address the specific challenges affecting boy-child, and that interventions lacked clearly defined, measurable targets and structured monitoring and evaluation mechanisms to assess effectiveness and ensure equitable distribution of resources.
73. The Committee recommended the introduction of specific programs targeting boy-child development alongside existing gender policies; allocations based on measurable and targeted interventions; and regular monitoring and reporting to ensure policy effectiveness and equitable distribution of resources.
74. The Committee observed that the BPS 2026 proposed expanded social protection interventions, including cash transfers for Orphans and Vulnerable Children (OVC), the rollout of a cash-plus pilot program for vulnerable

adolescents and continued implementation of the NICHE Program in 25 counties to improve nutritional outcomes for children and expectant mothers. While these initiatives were commendable, their effective implementation would require adequate funding, coordination and oversight.

75. The Committee recommended that the State Department for Children Services be adequately resourced and supported institutionally to effectively deliver its expanded mandate. It further recommended that sufficient budgetary allocations be provided for the OVC cash transfers, the cash-plus pilot program, and the Nutritional Improvement through Cash and Health Education (NICHE) Program with clear implementation frameworks, inter-agency coordination mechanisms, and robust monitoring and evaluation systems to ensure impact, accountability, and equitable coverage of beneficiary counties.

3.2 STANDING COMMITTEE ON HEALTH

76. The Committee noted that the 2026 BPS indicates that the Social Health Insurance Fund administered by the Social Health Authority (SHA) membership has grown to over 29 million Kenyans, a substantial increase from the 8 million members of the defunct NHIF. However, while 29 million people are registered, only 4 million (approximately 14%) are active contributors. Consequently, a significant portion of the population requires government subsidies, making the contributory base too narrow to ensure the Fund's long-term financial sustainability without increased exchequer support or a broader contribution base. The Committee therefore recommended that the Ministry of Health and the SHA should develop and implement targeted strategies to secure continuous contributions from the informal sector, whose irregular income currently poses a major barrier to the fund's stability.
77. The Committee observed that the BPS proposes expansion of the Community Health Promoters (CHPs) from 107,831 to 120,000 CHPs receiving a monthly stipend. The attendant proposed resources for the CHPs are at Kshs. 3.2 billion. However, the BPS does not account for the additional 12,169 CHPs to be

recruited whose resource requirement for payment of stipends is estimated at Kshs. 365,070,000.00 and does not provide resources for their training and adequate equipment.

78. The Committee recommended that the National Treasury should provide an additional Ksh.365 million for FY 2026/27 required to cover stipends for the proposed 12,169 new CHPs. Additionally, the Committee recommended that the National Treasury should allocate dedicated funds for the procurement of essential medical kits and digital devices, such as mobile phones for the eCHIS system to ensure the new CHPs are functional from the point of deployment.
79. The Committee observed that Kenya Medical Supplies Authority (KEMSA) is owed a total of Kshs. 6 billion in pending bills (Kshs. 3.5 billion by counties and Kshs. 2.5 billion by the Ministry of Health). Some of these debts are over 90 days old, threatening to cripple KEMSA's ability to procure and distribute essential medicines and health products and directly impacting service delivery.
80. In this regard, the National Treasury, the Ministry of Health and the Council of Governors should establish a clear, time-bound roadmap to settle pending bills owed by the National referral hospitals and county government healthcare facilities to restore KEMSA's liquidity and procurement capacity.
81. The Committee noted that the Facility Improvement Financing Act, 2023 was enacted to ensure that resources collected within health facilities are retained at the facility level to support daily operations rather than being diverted to other county functions. However, despite the improved revenue collection, the Committee observed that there is a delay in the establishment of health facility management committees in some of the facilities. These committees are essential for ensuring transparency, accountability, and proper decision-making regarding the utilization of FIF resources.
82. The Committee observed that the government has proposed a conditional allocation of Kshs. 8.9 billion in the FY 2026/27 to facilitate the remuneration and transition of Universal Health Coverage (UHC) workers to permanent and pensionable terms. These resources are to be distributed among county governments based on the specific number of UHC workers currently serving in

each county. The Committee recommended that the Ministry of Health should provide a framework for transitioning the UHC workers.

83. The BPS has consistently emphasized universal health coverage and workforce expansion. In 2023 BPS provided for the recruitment of 20,000 healthcare workers to address staffing shortage, especially in underserved counties. However, there is no implementation status of this particular programme reported and it is not clear how the healthcare workers were to be distributed.
84. The Committee observed that the BPS 2026 does not provide detailed provisions on the remuneration and transition of the ninety-four (94) Human Resource for Health under Global Fund TB Program whose resource requirement for transition to Permanent and Pensionable is estimated at approximately Ksh.136 million. The Committee recommended that the Ministry of Health and the National Treasury should provide a conditional allocation of Ksh.136 million for the transition of the ninety-four (94) Human Resource for Health staff under the Global Fund TB Program to permanent and pensionable terms.

3.3 STANDING COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES

85. The Committee observed that budgetary allocations to the agriculture sector by both the National and County Governments remain relatively low despite the sector's significant contribution to the economy. Over the period 2020 - 2024, agriculture, forestry and fishing contributed an average of 21.8 percent to GDP. However, at the National Government level, the agriculture sector accounts for 3.4 percent of the total budget, while at the County Government level, the Agriculture, Livestock and Fisheries sector accounts for 5.4 percent of total county budgets. These allocations are not commensurate to the sector's economic contribution and underscore the need for enhanced prioritization. In this regard, the Committee recommended that both the National and County Governments progressively increase budgetary allocations to the agriculture sector in line with the Maputo Declaration (2003) and the Kampala/Malabo Comprehensive Africa Agriculture Development Programme (CAADP) commitments (2014), which require allocation of at least 10 percent of public

expenditure to agriculture to support growth, food security, and rural development.

86. The Committee observed that during FY 2024/25, the State Department for Agriculture implemented a maize seed subsidy programme. However, maize seed prices remain high, limiting affordability for many farmers. The 2026 BPS does not indicate continuation of a seed subsidy intervention. In addition, the absence of an accurate and comprehensive farmer register undermines effective targeting of such support programmes. The Committee recommended allocations toward a targeted seed subsidy programme, with safeguards to ensure the intervention reaches genuine farmers. Consequently, all County Governments should establish and maintain comprehensive farmer registers to support accurate targeting of agricultural support programmes.
87. The Committee observed that a number of grain dryers procured and distributed to National Cereals and Produce Board (NCPB) depots and across counties remain non-functional and idle several years after distribution, limiting their intended role in improving post-harvest management and reducing losses. The Committee recommended that the Ministry of Agriculture, in collaboration with County Governments, undertake a comprehensive assessment of the status and location of existing grain dryers and facilitate their repair, redistribution, or redeployment to areas of need to enhance post-harvest management and reduce post-harvest losses.
88. The Committee observed persistent regulatory and institutional gaps in the fisheries sub-sector nationwide, including weak coordination between national and county governments, incomplete operationalization of county fisheries frameworks, and limited enforcement and resource management. Despite the legal foundation under the Fisheries Management and Development Act, 2016, implementation challenges continue to affect sustainable fisheries development and governance of Beach Management Units (BMUs) and value chains.
89. In this regard, the Committee recommended that targeted review of the Fisheries Management and Development Act, 2016 and its implementation framework to address regulatory and coordination gaps, clarify national–county roles,

strengthen enforcement, and support full operationalization of county fisheries regulations, with a view to enhancing sustainable management and development of the fisheries sub-sector.

90. The Committee observed low uptake and underutilization of existing irrigation infrastructure by farmers, which has constrained agricultural productivity and slowed progress toward achieving the MTP IV targets. The Committee recommended that County Governments should play a more active facilitative role in promoting adoption and utilization of irrigation infrastructure by farmers to maximize agricultural productivity. Further, the Committee recommended that the State Department for Irrigation submits, by 30th March, a comprehensive report on existing irrigation infrastructure nationwide, detailing crops under irrigation, utilization levels, targeted output, key challenges and proposed interventions.
91. The Committee observed that Kenya continues to experience severe livestock feed shortages, particularly during dry weather conditions, which negatively affect livestock productivity and resilience. The Committee recommended that National and County Governments should prioritize investments in fodder seed multiplication and distribution, establishment of feedlots, rangeland development, provision of feed mechanization equipment, support for feed bulking at livestock farms, and creation of a strategic livestock feed reserve to stabilize feed availability. The State Department for Livestock should submit a detailed status report by 30th March 2026.
92. The Committee noted that agricultural extension services remain inadequate, with an estimated ratio of one extension officer to 1,500 farmers compared to the FAO recommended ratio of 1:400, and only about 25 per cent of farmers are able to access extension services. The Committee therefore recommended that County Governments should finalize and implement a uniform extension service framework by 30th June 2026, with dedicated funding ring-fenced to establish fully equipped extension service units across all 1,450 wards countrywide.

93. The Committee noted that despite Kenya slaughtering approximately 3.35 million cattle annually, over 90 per cent of hides and skins are exported in raw form, undermining the domestic leather value chain, and that the Kenya Leather Industrial Park at Kenanie lacks critical infrastructure necessary for value addition. The Committee recommended that the National Treasury should allocate adequate funding to support the completion of key infrastructure at the Kenya Leather Industrial Park, including the Common Effluent Treatment Plant, access roads, water reticulation, ICT infrastructure, security systems, power facilities, and warehouses. The Committee further recommended strengthened enforcement measures to curb illegal export of raw hides and skins in order to protect and promote the domestic leather industry

3.4 STANDING COMMITTEE ON DEVOLUTION AND INTERGOVERNMENTAL RELATIONS

94. The Committee noted that as of 30th June, 2025, County Governments reported outstanding pending bills amounting to Ksh. 183.0 billion. This comprises Ksh. 130.8 billion for recurrent activities and Ksh. 52.2 billion for development activities. The Committee observed that recurrent pending bills constitute a disproportionately large share of the total stock of outstanding obligations which shows that operational expenditures exceed available resources.
95. The Committee further noted that the national government plans to settle Ksh. 80.3 billion of pending bills related to the road sector through securitization and Ksh. 155.3 billion recommended for settlement in FY 2025/26. In this regard, the Committee recommended that in line with the National Government's financing strategy of settling road-related pending bills, the National Treasury should in the FY 2026/27 budget, make provision of verified pending bills relating to county roads.
96. The Committee noted that ongoing implementation of the Human Resource Information System - Kenya (HRIS-Ke) is a forward-looking reform aimed at automating payroll processing and facilitating the simultaneous computation and

remittance of pension contributions and other statutory deductions. While the system is expected to enhance transparency, accuracy, and real-time compliance going forward, the Committee notes that HRIS-Ke does not resolve the existing stock of pension and statutory deduction arrears. The Committee recommended that the National Treasury, in consultation with county treasuries, should by 30th June, 2026 verify and publish the full stock of outstanding pension and statutory deduction arrears and develop a fully costed, time-bound clearance plan with identified funding sources.

97. The Committee noted that in the 2026 BPS, no funds have been allocated to support the functions gazetted by the IGRTC for transfer to county Governments. This is despite IGRTC, in the first phase of costing, identifying resource requirements amounting to Kshs. 65.97 billion to facilitate the transferred functions. This lack of budgetary provision has delayed the operationalization of devolved functions and undermined the principle of funds follow functions and further constrained Counties' capacity to effectively plan, implement and deliver services associated with the proposed transferred functions.
98. The Committee recommended that the National Treasury provide a framework to transfer budgetary allocations amounting to KShs. 65.97 billion as identified in the first phase of costing to support the transferred functions. The National Treasury should provide this allocation either in full or in part in the Division of Revenue Act, 2026 to give effect to the principle of funds follow functions.
99. The Committee noted that although Cabinet approved reforms including merging of forty-two (42) State Corporations into twenty (20) and dissolving 25 corporations, with their functions reverting to parent ministries and other entities, the National Treasury is yet to implement these decisions. Consequently, the affected institutions continue to operate under the old structure, leading to continued overlap of mandates, administrative costs and delayed realization of the intended efficiency, governance and fiscal benefits of the reform programme.

100. In this regard, the Committee recommended that the National Treasury should implement the cabinet-approved reforms on the merger and dissolution of state corporations within four (4) months after approval of the 2026 BPS. The National Treasury should also provide a clear transition framework to ensure continuity of services during the restructuring process. In addition, by June 30th 2026, the National Treasury should submit a detailed progress report to the Senate outlining actions taken, expected timelines for completion and fiscal savings realized from the reforms.
101. The Committee noted that counties continue to carry out mandates arising from national policy decisions, which are provided as conditional grants and subsequently transferred to counties to finance from their own budgets. This places significant pressure on county government recurrent expenditure, widening the gap between devolved service delivery responsibilities and the fiscal capacity of counties to sustainably meet these obligations.
102. The Committee noted the persistent non-adherence to the fiscal responsibility principles, particularly regarding development expenditure at both levels of government and expenditure on wages and benefits largely at the county level. The BPS has focused on compliance but has not provided frameworks to address the structural issues resulting in this non-adherence.
103. The Committee recommended that other than only focusing on compliance with the fiscal responsibility principles, the National Treasury, in consultation with the Council of Governors, should undertake a comprehensive assessment of the underlying structural bottlenecks affecting county governments. This should be accompanied by a review of the legal and institutional framework to identify and implement targeted reforms that can restore compliance and strengthen fiscal discipline. The report of this exercise should be submitted to the Senate by 30th September, 2026.

3.5 STANDING COMMITTEE ON ENERGY

104. The Committee noted with concern the continued allocation of funds to the Lokichar-Lamu Crude Oil pipeline (LLCOP) project by the State Department for Petroleum despite earlier indications by the Ministry that the construction of the Pipeline had been deferred due to change of plans to use other means (road and rail) to evacuate crude oil from Turkana to the port of Mombasa for export. The Committee recommended that any future allocations to the project should be aligned to a clearly approved implementation framework to ensure prudent use of public resources.
105. The Committee observed that although the Liquefied Petroleum Gas (LPG) Growth Strategy approved by Cabinet in 2023 remains a key intervention under the BETA, detailed milestones achieved, progress status, or measurable outcomes across the six key components of the strategy have not been provided. The Committee particularly raised concerns on the low achievement under the LPG programme for schools component noting that out of the 200 schools that were targeted during FY 2025/26 only one had been provided with clean cooking gas as at 31st December, 2025. The Committee recommended that the State Department for Petroleum should submit to the Senate, within 30 days of tabling of this report, a detailed progress report on the implementation of the LPG Growth Strategy outlining milestones achieved under each of the six components, clear annual targets, budget absorption levels, specific corrective measures to address the low uptake under the LPG programme for public learning institutions and criteria applied in selection of beneficiary public learning institutions for the Clean Cooking Gas (CCG) project.
106. The Committee observed that the proposal to increase national power generation capacity by an additional 10,000 MW over the next seven years through investments in geothermal, wind, solar, hydro and nuclear potential should be accompanied with clear financing plans and specific projects to be prioritized to actualize the target. The Committee recommended that the State Department for Energy should submit a detailed financing and resource mobilization plan including prioritized projects, projected costs, funding sources, and any envisaged PPP arrangements, within one month of tabling of this report.

107. The Committee noted that several projects in the sector are being implemented under the PPP model and that risks such as foreign exchange exposure, construction delays, and completion uncertainties are inherent and should be prudently managed. The Committee recommended that the Ministry of Energy and Petroleum submits a detailed status report on all ongoing energy PPP projects, specifying implementation progress, risk mitigation strategies and expected completion timelines within thirty days of tabling of this report.
108. The Committee observed the need for the Ministry of Energy and Petroleum to be prepared both technically and financially to support the activities related to the production of oil in South Lokichar subject to ratification of the Field Development Plan and associated Production Sharing Contracts by Parliament. The Committee recommended that subject to ratification of the South Lokichar Field Development Plan and the associated Production Sharing Contracts, the Ministry of Energy and Petroleum submits to the Senate, within thirty days of tabling of this report, clear timelines and financing arrangements for the key government enablers within the Ministry's mandate.
109. The Committee noted that while the BPS proposes reforms to accelerate adoption of e-mobility, including tax incentives, expansion of charging infrastructure, and support for local assembly, the transition agenda is not anchored on measurable targets, clear timelines, or defined performance indicators. The Committee recommended that the State Department for Petroleum, in collaboration with relevant agencies, develop clear targets, timelines, performance indicators, and fiscal incentive measures to guide the transition.
110. The Committee observed that the BPS proposes a Sovereign Wealth Fund for the prudent management of petroleum and mineral revenues. However, there is potential overlap with the existing petroleum revenue management framework under section 57 of the Petroleum Act, Cap. 308. This would require clarification on institutional alignment and revenue governance arrangements. In this regard, the Committee recommended that the Cabinet Secretary for Energy and

Petroleum clarifies, within 30 days of tabling of this report, how the proposed Sovereign Wealth Fund aligns with section 57 of the Petroleum Act.

3.6 STANDING COMMITTEE ON ROADS, TRANSPORTATION, AND HOUSING

111. The Committee made the following general observations. That—
- a) the Equitable share transfer to counties is proposed at Ksh.420 Billion far below the expected threshold of Ksh.450 billion that will improve the financing of county government functions.
 - b) financing of the sub sectors in roads, transport, housing, shipping and maritime affairs and public works is below the sub sector resource needs. The Committee noted the marginal increases compared to the current baseline.
112. The Committee also observed that given the importance of undertaking routine road maintenance including county roads, there is an urgent need by the National Treasury and the Ministry of Roads and Transport to set aside a portion of the Road Maintenance Levy Fund (RMLF) for county governments.
113. The Committee also observed that proceeds arising from securitization of the RMLF and related borrowings were used to settle pending bills in the road sector. In this regard, the Committee recommended that any further proceeds arising from securitization or related borrowings using future cash flows of the RMLF should take into account the needs of the county governments including settling of verified pending bills incurred as result of maintenance of county roads.
114. Moreover, the Committee recommended that the Ministry of Roads and Transport should within thirty (30) days submit to the Senate the status of the proceeds realized from securitization of the RMLF indicating the terms of the borrowing and how the resulting obligations from the borrowing are serviced and further provide details on the utilization of the proceeds.

115. The Committee observed that a total of Ksh.366 million has been set aside as conditional allocations to support operations of County Rural and Urban Affordable Housing Committees, pursuant to the Affordable Housing Act of 2024. The Committee recommended that the State Department for Housing and Urban Development ensure that the statutory allocation under section 11 (4) (c) of the Affordable Housing Act for county committees be promptly remitted to respective counties.
116. The Committee noted that there is more investment on sea based marine transport and less infrastructure development for lake and river transport, which disadvantages the transport needs and livelihood of Kenyans who depend on lakes and rivers for transport. In this regard, the Committee recommended that the National Treasury and the relevant ministries should within six (6) months, submit to the Senate comprehensive policy measures and expenditure prioritization to enhance lake-based transportation with a view to support and enhance the economic livelihoods of Kenyans depending on lake waters.
117. Further, the Committee recommended that the National Infrastructure Fund which will be capitalized by privatization proceeds should be used to fund infrastructure projects in the roads, ICT connectivity in underserved areas and the transport sector including inland lake transportation infrastructure in the country.
118. On the projects under the PPP financing, the Committee noted various projects planned to be undertaken using this model including the Rironi - Mau Summit and among others. The Committee noted the need to ensure that risks associated with PPPs are managed appropriately taking into account transparency of PPP financing framework to meet constitutional standards. Additionally, the Committee recommends that mechanisms are put in place to ensure affordability of proposed tolls.

3.7 STANDING COMMITTEE ON EDUCATION

119. The Committee noted that there are several challenges affecting the sector including the absence of a capitation policy for ECDE and VTC learners, inadequate infrastructure in county institutions, weak support for ECDE school feeding programmes, and non-standardized employment terms for ECDE teachers resulting in low remuneration, stagnation and heavy workloads. The Committee recommended the establishment and funding of ECDE school feeding programme estimated at Ksh. 3 billion as a nutrition component from either Health or Agriculture Sector to support education and learning at the foundational learning level.
120. The Committee further recommended the introduction of a Conditional Grant to counties to support vocational training centers (VTCs) in infrastructure development, equipping and capitation for VTC learners estimated at Ksh.3 billion for three financial years.
121. The Committee noted that although education is prioritized in policy, the support to devolved education functions remains inadequate and the need for increased national support to ECDE school feeding programmes and development of capitation policies for ECDE and VTC learners. The Committee recommended increased national and county funding for ECDE and VTCs in standard policy formulation and implementation to ensure equitable access and quality across counties.
122. The Committee also observed that whereas national revenue grew by 10.1%, and allocations to Agriculture and Health, Sectors, which are devolved functions, increased by 18.3% and 21% respectively, the allocation to county government only increased by 1.2 per cent. which portrays inequality in sharing of revenue raised nationally by the two levels of Government. In this regard, the Committee recommended an increase in total County Governments allocation to be commensurate with the proportion of revenue growth.

3.8 STANDING COMMITTEE ON JUSTICE, LEGAL AFFAIRS AND HUMAN RIGHTS

123. The Committee observed that the Independent Electoral and Boundaries Commission (IEBC) faces a funding gap of Ksh.22.495 billion. Although the proposed allocation reflects a significant increase in preparation for the 2027 General Election, the ceiling remains substantially below the projected resource requirement for voter registration, electoral technology upgrades, logistics, implementation of legal reforms, and overall electoral preparedness. The Committee notes that this shortfall presents a material risk to timely and effective discharge of the Commission's constitutional mandate. The Committee recommended that the National Treasury prioritizes bridging critical funding gaps for the IEBC to ensure timely electoral preparedness, including voter registration, technology upgrades, logistical planning, and compliance with constitutional timelines ahead of the 2027 General Elections.
124. The Committee observed that the State Law Office has been allocated Ksh.5.93 billion against a resource requirement of Ksh.9.785 billion, resulting in a funding shortfall of Ksh.3.854 billion. The Committee notes that this gap may significantly constrain the implementation of planned legal reforms, automation and decentralization of services, and effective management of government litigation, thereby affecting service delivery and legal advisory functions of the State.
125. The Committee observed that the allocation to counties on account of court fines under the County Government Additional Allocations, has increased from Kshs. 11,519,280 benefiting ten (10) counties in the previous BPS to Kshs. 148,259,370 benefiting twenty-nine (29) counties in the 2026 BPS.
126. The Committee observed that the Ethics and Anti-Corruption Commission (EACC) faces a deficit of Kshs. 3.232 billion against its projected resource needs. The Committee is concerned that this shortfall may weaken the Commission's capacity to intensify anti-corruption enforcement, enhance asset recovery efforts, strengthen whistle-blower protection frameworks, and sustain

high-impact investigations and prosecutions as envisaged in the 2026 governance reform agenda. The Committee recommended that additional resources be provided to the EACC to strengthen enforcement, asset recovery, whistle-blower protection, and preventive anti-corruption measures in line with the governance reform priorities outlined in the 2026 BPS.

127. The Committee observed that notwithstanding an increment of Kshs. 1.29 billion from FY 2025/26, the Office of the Director of Public Prosecutions (ODPP) still faces a funding deficit of Kshs. 2.7126 billion. The Committee notes that this gap may limit prosecutorial expansion, integration of digital case management systems, and the Office's capacity to effectively manage election-related disputes, corruption cases, and other complex prosecutions. The Committee recommended that the ODPP be adequately facilitated to enhance prosecutorial capacity, expand digitized case management systems, and effectively handle increased caseloads, particularly those arising from anti-corruption enforcement and election-related disputes.
128. The Committee observed that the Office of the Registrar of Political Parties (ORPP) has been allocated Ksh.2.323 billion. This allocation falls below the statutory threshold of 0.3% of national Government revenue for the Political Parties Fund (estimated at approximately Ksh.7.4 billion). The Committee notes that this variance raises concerns regarding compliance with statutory provisions and may affect regulation, oversight, and funding of political parties. The Committee recommended that the allocation to the ORPP Fund be aligned with the statutory requirement under section 24 of the Political Parties Act and that the National Treasury submits a justification where this threshold is not met.
129. The Committee observed that the Kenya National Commission on Human Rights faces a funding deficit of Ksh.318.01 million, which may impair its mandate in investigations, human rights monitoring, complaints resolution, and constitutional oversight. The Committee underscores the importance of adequately resourcing the Commission to safeguard fundamental rights and freedoms.

130. The Committee further recommended that the allocation to the Witness Protection Agency be increased to guarantee effective protection of threatened and intimidated witnesses, especially in corruption and electoral justice cases.
131. Overall, the Committee recommended that the development component of the sector ceiling be progressively increased beyond the current 4.7% to support modernization of infrastructure, digitization of services, automation of legal processes, and expansion of institutional capacity and further that incremental allocations to sector agencies be linked to measurable performance indicators, including case backlog reduction, conviction rates, asset recovery values, human rights complaint resolution timelines, and voter registration milestones.

3.9 STANDING COMMITTEE ON NATIONAL SECURITY, DEFENCE AND FOREIGN RELATIONS

132. The Committee noted various proposed investments to enhance national security. However, the committee observed that there is no corresponding resource allocation to actualize these policy priorities in the 2026 BPS. In this regard, the Committee recommended that the National Treasury should allocate the resources required under the policy priorities under the BPS.
133. The Committee observed the government policy to integrate village elders under the National Government Administrative Officers (NGAO) structure has not been considered for funding under the 2026 BPS despite being a major policy pronouncement. The Committee therefore noted that the National Treasury should allocate Ksh. 2.5 billion during the FY 2026/27 for this initiative.
134. The Committee noted that the gazettelement of new sub-counties, police divisions, and administrative units have not been matched with adequate funding for infrastructure, staffing, equipment, and logistics leading to delayed operationalization. The Committee recommended that the Ministry of Interior and National Administration should adopt a Phased Rollout Strategy where establishment of new administrative units are matched with confirmed budgetary allocations for infrastructure, staffing and mobility.

135. The Committee noted that the harmonization of house allowances across disciplined services in line with the National Task Force recommendations may surge the recurrent expenditure of the disciplined services given the constrained fiscal space. The Committee therefore recommended that the Ministry of Interior and National Administration should adopt a phased harmonization plan of the house allowances across disciplined services to align to fiscal space may be adopted to ensure sustainability.

3.10 STANDING COMMITTEE ON INFORMATION, COMMUNICATION AND TECHNOLOGY

136. The Committee noted with concern that pending bills in the State Department for ICT and Digital Economy and the State Department for Broadcasting and Telecommunication have increased compared to the previous financial year and raised concerns that the continued accumulation of arrears poses a risk to the effective implementation of key policies and programmes within the sector. The Committee recommended that the Ministry should put in place strong financial management measures, including strict control of spending commitments and prioritizing the payment of outstanding bills. This may prevent further accumulation of pending bills and ensure that key sector programmes are implemented effectively.
137. The Committee noted that the proposed allocations to the State Department for Broadcasting and Telecommunication to cater for recurrent expenditure has reduced despite some of the corporations under the State Department having high wage bills and pending bills.
138. The Committee noted the introduction of a new programme called the ICT security and data protection services, allocated Ksh.1.381 billion, aimed at addressing the growing threat of cyberattacks. The programme will focus on the establishment of a National Security Operations Centre and seven Sectoral Security Operations Centres to strengthen the country's cybersecurity framework.

139. The Committee noted that the government has put efforts into ensuring that they have brought internet access to the people by establishing wi-fi hotspots in the country. The Committee recommended regular monitoring and performance audits to ensure that the installed Wi-Fi hotspots are fully operational and delivering the intended benefits to the public. The Committee further recommended an additional allocation of Ksh.100 million for the Last Mile County Connectivity Network with existing foreign funding, this will ensure internet connectivity for all 1,500 government institutions across counties.
140. The Committee also noted that the proposed allocation to the State Department for Broadcasting and Telecommunications has been reduced by Ksh.113.3 million despite targets remaining unchanged, and the overall allocation is still below the stated resource requirements. Similarly, although the allocation to the State Department for ICT and Digital Economy has increased, it remains lower than the identified resource needs. In this regard, the Committee recommended an additional allocation of Ksh. 200 million to the State Department for ICT and Digital Economy, noting that the current allocation is below the identified resource requirements. The proposed enhancement is intended to support the establishment and operationalization of digital hubs, expansion and maintenance of public Wi-Fi hotspots, and the digitization of government records to ensure the successful achievement of the set targets.

3.11 STANDING COMMITTEE ON LANDS, ENVIRONMENT AND NATURAL RESOURCES

141. The Committee observed that the National Rating Act has not been fully operationalized as the Cabinet Secretary for Land is yet to make Regulations under the Act. The Committee noted that without these Regulations, the "Contribution in Lieu of Rates" (CILOR) framework remains unenforceable. This results in a continued loss of revenue for County Governments. The Committee recommended that the National Land Commission under section 20(2) gazettes the Regulations under the National Rating Act within three months of the tabling of the report.

142. The Committee observed the backlog relating to Human-Wildlife Conflict Compensation with unpaid verified and unverified claims remaining high and hence the need to allocate sufficient funds for compensation specifically to clear the multi-year backlog of verified claims. The Committee recommended that, the National Treasury allocates adequate budgetary resources to the State Department for Wildlife to enable the settlement of all pending Human-Wildlife Conflict (HWC) compensation claims in a timely manner; and that the State Department for Wildlife should submit to the Senate a comprehensive aging analysis of both verified and unverified HWC compensation claims, together with a clear compensation and payment plan.
143. The Committee also noted that there have been persistent delays in the disbursement of the allocations relating to mineral royalties under section 183(5)(b) of the Mining Act, Cap. 306 to counties. To further compound this issue, there have been delays in the gazettement of the Mining (Mineral Royalties Sharing) Regulations to facilitate the transfer of 10% share of mineral royalties due to communities. In this regard, the Committee recommended that the State Department for Mining expedite the finalization and gazettement of these Regulations within three months of the tabling of this report.
144. The Committee observed that there is an accumulation of interest on penalties and legal fees caused by payment delays for compensation for land scheduled for national infrastructure projects. In this regard, the Committee noted the need for compliance with Public Investment Management (PIM) Regulations 2022 to be strictly enforced, requiring land availability as a prerequisite for project acquisition. The Committee recommended that the National Treasury, in consultation with the relevant implementing agencies, ensures strict enforcement of the PIM Regulations, 2022, particularly the requirement that proof of land availability and full compensation arrangements be secured prior to approval and commencement of national infrastructure projects and apprise the Committee on the same within three months.

145. The Committee observed that despite prolonged drought conditions experienced in some parts of the country the BPS has not outlined any drought intervention measures.

3.12 STANDING COMMITTEE ON TRADE, INDUSTRIALIZATION AND TOURISM

146. The Committee observed the low funding towards New Kenya Planters Cooperative Union (NKPCU) warehouses noting that out of the Ksh.2.04 billion projects only Ksh.229 million has been appropriated, representing 11 per cent since its inception in FY 2023/24.
147. The Committee noted that as of 30th of June 2025, county governments reported pending bills totaling Ksh.183 billion, of which Nairobi County accounted for the highest at Ksh.86.77 billion (49 per cent). The Committee recommended that counties prioritize payment of all verified pending bills with a specific concentration of pending verified bills that are aged over 3 years.
148. The Committee noted that the modernization of New Kenya Co-operative Creameries (NKCC) has stalled in funding and the factory expansion remains unfunded, despite the dairy sub-sector being a key pillar of the BETA. The Committee recommended that New KCC should be allocated adequate funding for its expansion in order to increase production.
149. The Committee observed that the Hustler Fund has so far received a total of Ksh.14.8 billion out of the Ksh.50 billion targeted.
150. The Committee noted the need for submission of a progress report on the establishment of MSME development hubs in all the 47 counties as listed among the key priorities.
151. The Committee observed that the 2026 BPS reports that the first phase of 13 CAIPs projects had been developed and are fully operational. The Committee recommended monitoring and evaluation of the implementation process of CAIPs to ensure counties get value for money and intended purpose is achieved.
152. The Committee noted the slow completion of the Ronald Ngala Utalii College, with the project having attained 85% completion since its inception over 13

years ago. The Committee recommended that the completion of the College be prioritized to ensure time value for money is not lost. The Committee recommended that resources required for completion should be allocated immediately.

3.13 STANDING COMMITTEE ON NATIONAL COHESION, EQUAL OPPORTUNITY AND REGIONAL INTEGRATION

153. The Committee observed that the National Cohesion and Integration Commission (NCIC), the National Gender and Equality Commission (NGEC) and the State department for EAC and International Relations are unlikely to meet their targets in FY 2026/27 and the Medium Term due to budgetary constraints. In this regard, the Committee recommended that, the National Treasury provides adequate resources for the aforementioned agencies in FY 2026/27 as per their respective resource requirement to ensure that they meet their objectives and targets in line with the 2026 BPS priorities.
154. The Committee observed that outstanding Pension Payments by County Governments owed to three pension schemes (LAPFUND, LAPTRUST and CPF) as reported by the Retirement Benefits Authority amounts to Ksh.115.7 billion as at 31st October 2024. Non-remittance of these pension funds means that the people who attain retirement age might not be able to access their pensions and this would affect their quality of life after retirement. The Committee recommended that the Retirement Benefits Authority, in collaboration with the National Treasury and the Council of Governors, undertakes an immediate reconciliation of all outstanding pension arrears owed by County Governments to the Local Authorities Pension Trust (LAPTRUST), the Local Authorities Provident Fund (LAPFUND), and the County Pension Fund (CPF), and submits a verified status report to the Senate within sixty (60) days.
155. The Committee expressed concerns over the failure by the National Treasury to adequately consider and incorporate past recommendations of the Senate on the BPS, thereby undermining Parliament's constitutional oversight and advisory

role in matters of public finance. The Committee therefore recommended that the National Treasury table in the Senate, alongside the BPS, a comprehensive matrix outlining all recommendations made by the Senate in the previous financial year, clearly indicating those adopted, partially adopted, or not adopted, together with detailed justifications.

CHAPTER 4

COMMITTEE OBSERVATIONS AND FINDINGS

156. Having considered the 2026 BPS, submissions from stakeholders and Standing Committees, the Committee made the following observations and findings-

- a) In FY 2026/2027, the shareable revenue is projected to increase by Ksh.147.2 billion, which is a 5.3 percent increase from the approved revenue of Ksh.2,754.7 billion for FY 2025/26. The Committee notes with concern that despite this projected revenue increase, the allocation to county equitable share is Ksh.5 billion only, which is 3.4 percent of the increase in shareable revenue and is a paltry 1.2% growth from the previous allocation of Ksh.415 billion in FY 2025/26. The BPS indicates that the proposed Ksh.420 billion county equitable share is informed by various factors including increased expenditures for the national government for purposes of debt servicing. The Committee, while cognisant of the various debt management strategies in place, takes great exception to this position. Allocations to counties are not a residual consideration in the fiscal framework but a constitutional requirement. A top-down allocation approach therefore defeats the purpose of fiscal decentralization.
- b) An assessment of the proposed county equitable share indicates that the BPS is not taking a holistic view of what would constitute an equitable allocation to counties of nationally raised revenue: this misalignment has persisted since the inception of devolution. The starting point is Article 203(2) of the Constitution but is certainly not the end. Equity demands that county share of nationally raised revenue takes into account not only the 15% constitutional threshold but also factors such as optimal financing for the delivery of services at the lowest level of governance, inflation and expenditures relating to employee remuneration and benefits. Notably, counties have an outstanding obligation to implement the SRC 3rd and 4th review cycle of benefits and remuneration of county staff. This holistic approach reinforces the fact that counties are not simply spending units but are active contributors to the GDP of the country

through the delivery of crucial devolved functions and creation of a conducive environment for economic investment.

- c) The county equitable share allocations as a percentage of the total revenue raised nationally has been declining in the last five years, from 20.3% in FY 2021/22 to 15.1% in FY 2025/26. It is further observed that since 2020, the County Equitable Share has increased by a total of Ksh.98.5 billion whereas the national government allocation increased by Ksh. 978.3 billion.
- d) The fiscal deficit for FY 2026/2027 is estimated at Ksh.1,149.5 billion (5.5% of GDP), an increase by Ksh.216 billion from the approved level of Ksh.933 billion in FY 2025/2026. This is despite the national government's commitment to pursue a fiscal consolidation path.
- e) There is an over-reliance on domestic borrowing to cover the expanding fiscal deficit and this is likely to crowd out private sector access to credit, thereby constraining investment and economic activity in the medium term.
- f) As of December 2025, revenue performance had fallen short of the target by Ksh. 148.3 billion implying a likelihood of revenue underperformance by the end of FY 2025/2026. As such, the baseline for the revenue projection of FY 2026/2027 is likely to be lower.
- g) The BPS points out the need for counties to limit their recurrent expenditure in favour of development priorities but fails to recognize key contributors to heavy recurrent spending which include inherited staffing rigidities, asymmetric service delivery burdens between urban and rural areas and the increasing number of health personnel. These factors are critical and need to be factored in the discussion and comprehensively addressed for the recurrent budget to be streamlined and optimized.
- h) The BPS indicates that expenditure on personnel emoluments is currently estimated at 41.4% of total revenue. This is in contravention of the statutory threshold of 35% as set out in regulation 25(1)(b) of the PFM (County

Governments) Regulation, 2015. However, the numbers only tell half the story. National policies such as scaling up the number of CHPs and UHC workers and CBAs negotiated between the national government and trade unions have implications on county budgets and contribute significantly to wage pressures. Expenditure on such policies are not factored into the analysis on personnel emoluments in counties. To effectively deal with the issue of compliance with regulation 25(1)(b), all factors influencing the wage bill in counties must be taken into account.

- i) The BPS underscores county underspending on development, noting that only 26.3% of the total expenditure was spent on development contrary to the 30% statutory requirement under section 107(2)(b) of the PFM Act. This is attributed to higher recurrent spending as well as challenges in executing development plans. However, it should be recognized that delayed disbursements of the equitable share is a critical factor that significantly contributes to inability to fully implement county budgets, especially the development budget.
- j) Ostensibly, there seems to be a marked improvement in total OSR collection, but a more nuanced consideration of the categories of OSR reveals that the Facility Improvement Fund (FIF) exceeded its collection target in FY 2024/25 while ordinary OSR underperformed. Therefore, including FIF in OSR analysis gives a false impression of revenue performance in counties.
- k) The BPS identifies several strategies for the enhancement of OSR collection in counties such as development of an Integrated County Revenue Management System (ICRMS), a model Tariffs and Pricing policy, Revenue Forecasting Model and enactment of the National Rating Act, 2024 including development of a framework for Contribution in Lieu of Rates (CILOR). The Committee noted that these are not new interventions but their implementation continues to be mired in significant delays in the development of regulations and systems. For instance, whereas the National Rating Act came into force on 24th December, 2024, the National Land Commission is yet to develop regulations under Section

20(2) of the Act to enable the payment of CILOR to counties by the national government.

- l) Through the support of the second Kenya Devolution Support Programme (KDSP II), counties formulated Pending Bills Action Plans to enable them offset the outstanding pending bills which amounted to Ksh.183 billion by the end of FY 2024/25. However, counties are not adhering to these plans and there is no strategy of how their implementation will be enforced. This failure to implement the action plans constitutes an additional indicator of persistent material breach under section 94(1)(a)(i) of the PFM Act.
- m) The 2026 BPS reports that the first phase of 13 CAIPS projects had been developed and fully operational. However, the operationalisation of the same as per the initial proposed strategy could not be ascertained by the relevant state department to meet the intended intervention.
- n) Noting the continuous accumulation of unremitted pension for county workers, the BPS has proposed integration of the HRIS-Ke system with IFMIS. However, the timeline for implementation of this strategy has not been provided.
- o) The BPS indicates that the national government intends to establish the Sovereign Wealth Fund and the National Infrastructure Fund. These Funds are intended as mechanisms to mobilize and consolidate the proceeds of the sale of government owned enterprises and the mineral royalties. The Committee notes that to ensure the prudent use of public funds, these Funds have to be subjected to rigorous parliamentary scrutiny underpinned by full disclosure and financial reporting by the National Treasury.
- p) County governments are in arrears regarding implementation of the 3rd and 4th review cycles of the remuneration and benefits, amounting to Ksh.4.77 billion and Ksh.5.28 billion respectively for county government staff. This is a critical expenditure need that should be budgeted for by counties to avoid industrial action and enhance productivity.

- q) In FY 2026/2027, UHC workers are to be transitioned to county governments on permanent and pensionable terms. In this respect, the BPS proposes that Ksh.8.94 billion needed for this transition will be transferred to counties as a conditional allocation.
- r) The National Government intends to increase the number of Community Health Promoters (CHPs) from 107,831 to 120,000. However, there is no additional allocation provided for the additional CHPs. There is need for clarification by the National Treasury on the funding of this additional expense, noting that this is a co-funded programme.
- s) There is a proposal to consider County Governments Additional Allocations in two separate bills: one dealing with allocations from the national government's revenue share; and another providing for allocations from proceeds of loans and grants financed by development partners. However, this will not solve the issue of delayed enactment of CGAAA.
- t) The BPS fails to acknowledge the impact of the ongoing drought on the macro framework and livelihoods. The Kenya Meteorological department has predicted that during the March to May long rains 2026, ASAL areas are likely to receive average to below average rainfall which is not enough to offset the current food deficit.
- u) The continued non-remittance of pension deductions by county governments affects the welfare of employees upon retirement. The Committee noted that according to the Multi-Agency Taskforce Report on Non-remittance of Deductions, the outstanding pension remittances amounted to Kshs.115.7 billion as at 31st October, 2024.
- v) The process of determining the cost of delineated functions, gazetted by the IGRTC on 16th December, 2024 remains outstanding. The Committee observes that without the costing of these functions, the estimated resources to discharge these functions cannot be ascertained.

- w) Whereas 29 million people have registered with the Social Health Insurance Fund, only 4 million (approximately 14%) are active contributors. This indicates that the funding model for the Fund is over-relying on a small contribution base which threatens the sustainability of the Fund. Further, this narrow contribution base has meant that a significant portion of the population requires government subsidies. Notably, section 3(c) of the Social Health Insurance Act provides that one of the objects of the Fund is to, inter alia, *“enhance the pooling of resources and risks based on the principles of solidarity, equity and efficiency so as to guarantee access to health care services to all”*. This reliance on a small base of contributors may lead to inequities in the pursuit of quality healthcare for all. Therefore, for the objects of the Fund to be fully realized, there needs to be an increased and significant exchequer support for the Fund.
- x) The national government and the county governments owe KEMSA a significant outstanding payment for medical supplies. These pending bills pose an imminent risk to KEMSA’s ability to execute its mandate which has a direct and negative impact on the delivery of health services. The timely and uninterrupted supply of medical supplies is a central pillar in the provision of universal healthcare and pending bills undermine the realization of this policy objective.
- y) A certain portion of the proceeds from the RMLF (Ksh.7.0 per litre) were securitized for purposes of clearing pending bills relating to the maintenance of roads under the purview of the national government. However, under the Road Maintenance Levy Fund Act, the counties (as the successors in law of the defunct local authorities) are entitled to the proceeds of the RMLF and by extension any monies that arise from the securitization of any monies expected to be received in the Fund. Therefore, the counties are legally entitled to receive a portion of any funds raised from the securitization to settle pending bills arising out of maintenance of county roads. Additionally, there is an underlying fiscal risk if the government provides guarantees which will create contingent liabilities and this has implications on public debt.

z) The Committee noted with great concern that the recommendations of the Senate on the BPS in previous years are not taken into account and subsequent BPS' do not give an explanation on how the National Treasury intends to take into account the House's resolution. Section 25(8) of the PFM Act provide that—

(8) The Cabinet Secretary shall take into account resolutions passed by Parliament in finalising the budget for the relevant financial year.

Therefore, the resolutions of both Houses of Parliament are not the product of an academic exercise but a serious consideration of policy proposals that inform the budget. The National Treasury therefore has a duty to demonstrate that the Houses' resolutions were taken into account and provide an explanation where the final budget deviated from a resolution of the House.

CHAPTER 5

COMMITTEE RECOMMENDATIONS

157. Arising from the above observations, the Committee recommends as follows-

A) Policy Recommendations

- a) That, by 30th June 2026, the National Land Commission should gazette regulations relating to the Contribution in Lieu of Rates (CILOR) under section 20(2) of the National Rating Act, 2024.
- b) That, in the BPS 2027 under the chapter on County Financial Management, the National Treasury should include a section on their adherence to the cash disbursement schedule and reasons for deviation, including an analysis of how this may have impacted budget implementation in counties.
- c) That, the National Treasury should fast-track development of a Revenue Forecasting Model for County Governments to enable counties to accurately forecast their OSR revenue.
- d) That, the failure of counties to adhere to their Pending Bills Action Plans within the first quarter of the financial year be considered a serious material breach of obligations and the Cabinet Secretary for National Treasury should subject the concerned counties to Article 225(3) of the Constitution on stoppage of transfer of funds to county governments.
- e) That, within thirty (30) days of tabling of this Report, the National Treasury should provide a timeline for integrating the HRIS-Ke system with IFMIS as well as an action plan on how the issue of unremitted pension funds will be addressed.
- f) That, the quarterly budget implementation Report of the Controller of Budget (CoB) should set out the status of payment of arrears related to pension deductions in various county governments.
- g) That, the Cabinet Secretary responsible for Mining should gazette regulations, within thirty days of the tabling of this report, to enable the transfer of mineral

royalties to communities under section 183(5)(c) of the Mining Act, Cap.306. Further, the National Treasury and State Department for Mining should submit to the Senate, within thirty days of the tabling of this report, the status of disbursement of the 20% share to county governments under section 183(5)(b) of the Act.

- h) That, by 30th June, 2026, the National Treasury in collaboration with the relevant Ministries Departments and Agencies (MDAs) implementing the conditional additional allocations, should prepare and submit to Parliament an impact assessment report of all additional allocation funds since inception. This report should detail the actual transfers, any pending disbursements under each programme per county and the purpose and period of implementation of the projects.
- i) That, within six months from the tabling of this report, IGRTC, National Treasury and CoG to finalize the costing of delineated functions.
- j) That, the Ministry of Health and the Social Health Authority should develop and implement targeted strategies to secure increased contributions to the Social Health Insurance Fund from the informal sector. Additionally, the National Treasury should increase exchequer transfers to the Fund under section 25(2) of the Social Health Insurance Act, 2023.
- k) That, considering the critical mandate of CRA in making recommendations on equitable sharing of revenue between the two levels of government and other matters concerning the financing of and financial management by county governments under Article 216(1) and (2) of the Constitution, it is imperative that the Commission receives adequate resources to effectively discharge its functions.
- l) That the National Treasury should demonstrate the extent to which the resolutions of the Senate on BPS were taken into account as required in section 25 of the PFM Act..

B) Financial Recommendations

a) The Committee made the following financial recommendations:

- i) The national government's equitable share for FY 2026/27 will be **Ksh.2,437,529,429, 840.**
- ii) The county equitable share for FY 2026/27 will be **Ksh. 454,743,157,879.**
(Baseline of Ksh.415 billion, 5% inflation upward adjustments, then inclusion of Ksh. 8.94 billion for transition of UHC workers to permanent and pensionable and Ksh.20.75 billion for implementation of SRC 3rd and 4th review cycle of salary/ remuneration for county staff.)
- iii) That the Equalisation Fund be allocated **Ksh. 15,163,170,425**
Of which: Allocation in FY 2026/27 Division of Revenue—Ksh. 9,602,170,425
Arrears—Ksh. 5,561,000,000
- iv) That Additional Allocations to counties be **Ksh.66,755,175,182** billion as per (*Annex 2*).

b) Following receipt of requests for additional funding from the CRA the Committee recommends that the National Treasury consider, within the fiscal framework for FY 2026/27, an extra allocation of **Ksh.100 million** to cater for the shortfall in funding for the following three technical sub-programmes: equitable sharing of revenue; public financial management; and transitional equalisation and stakeholder engagement.
