Fiscal Analytics Series

How Well Did Counties Execute Their FY 2025/26 Budgets?

Snapshot of Key findings:

1 Total county resources fell short of the budget by KSh 51.5 billion

County governments had KSh 596.8 billion in available resources against approved budgets of KSh 648.2 billion, with the shortfall largely as a result of under-disbursement of additional allocations.

2 Own-source revenue recorded significant growth in FY 2025/26, reaching 90 percent of the annual target

Own-source revenue (OSR) increased by 43 percent, from KSh 67.3 billion in FY 2024/25 to KSh 96.1 billion in FY 2025/26, accounting for 16 percent of the counties' revenue. However, with the shift to accrual accounting, some counties, such as Mombasa, recognized revenue before they received it, which may overstate actual collections and revenue growth

3 Facility Improvement Financing has become the main driver of own-source revenue

FIF collections reached KSh 40.4 billion, 120 percent of target and 42 percent of OSR, largely on account of SHA reimbursements, while ordinary own source revenue attained 77 percent of target

4 39 of 47 counties exceeded the legal wage bill threshold

Compensation of employees amounted to KSh 236.0 billion, equivalent to 40 percent of total revenue against the 35 percent ceiling.

5 Development budget execution weakened

Development expenditure of KSh 126.7 billion represented 54 percent of the development budget, down from 57 percent in FY 2024/25, and 26 percent of total expenditure, below the 30 percent statutory minimum

In FY 2025/26, county governments received 100 percent of their budgeted equitable share

KSh 648.2 billion
The total approved budget for the 47 County Governments

KSh 596.8 billion
Total resources available to County Governments (Only 92% of the expected revenue)

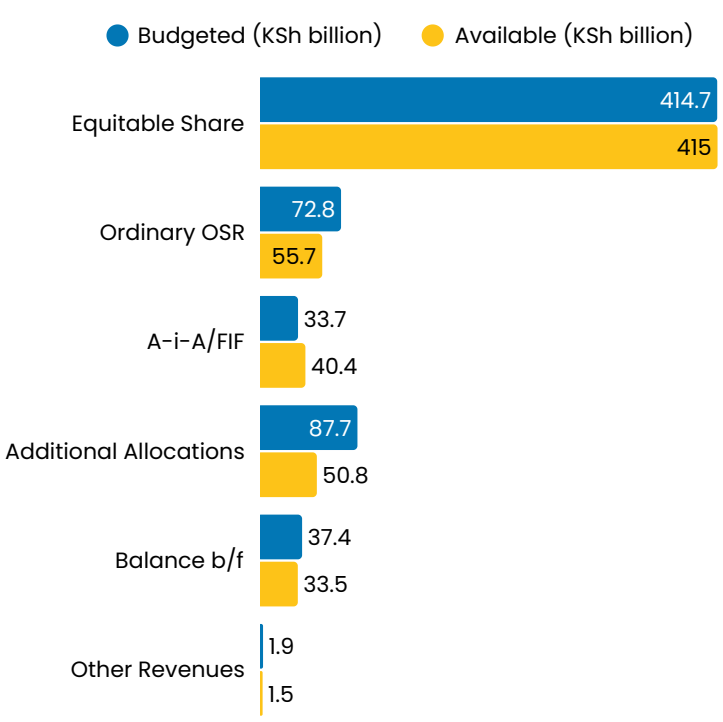
- **Counties' total resource basket for FY 2025/26 was KSh 596.8 billion against a budget of KSh 648.2 billion, leaving a shortfall of KSh 51.5 billion (8 percent of the total budget).**
- **Counties additional allocations accounted for KSh 37.0 billion of the shortfall, with only 58 percent of the budgeted KSh 87.7 billion disbursed.**
- **Equitable share of KSh 415.0 billion was fully disbursed, with funding gaps arising from additional allocations and own-source revenue.**
- **Ordinary OSR reached KSh 55.7 billion, representing 77 percent of the target, while FIF exceeded its target by 20 percent at KSh 40.4 billion.**

Expenditure at 77% of total budget for County Governments

KSh 496.6 billion

Only KSh 126.7 billion was spent on development

54% of annual development budget



KSh 236.0 billion

40% of total revenue for counties goes to wage bills

KSh 172.5 billion

County governments' stock of pending bills as at 30th June 2026

*excluding Nandi county which did not disclose its pending bills

Source: County Governments Budget Implementation Review Report

Highlights of County Own Source Revenue (OSR) Performance

Facility Improvement Financing (FIF) was a major driver of county OSR performance, accounting for 42 percent of the OSR.

- Garissa achieved 166 percent of its overall OSR target, driven by FIF performance at 188 percent, highlighting counties' growing reliance on revenues from health facilities.
- Unlike counties where FIF boosted OSR performance, Kisumu's weak FIF collections dragged down its overall revenue performance. Despite achieving 104 percent of its ordinary revenue target, Kisumu collected only KSh 0.9 billion against a FIF target of KSh 2.8 billion, resulting in an overall OSR achievement of just 50 percent.

Heavy reliance on a single revenue stream is evident in some counties

- Isiolo achieved 58 percent of its target, with half of its revenue dependent on game park fees and only 4 of 24 revenue streams automated.

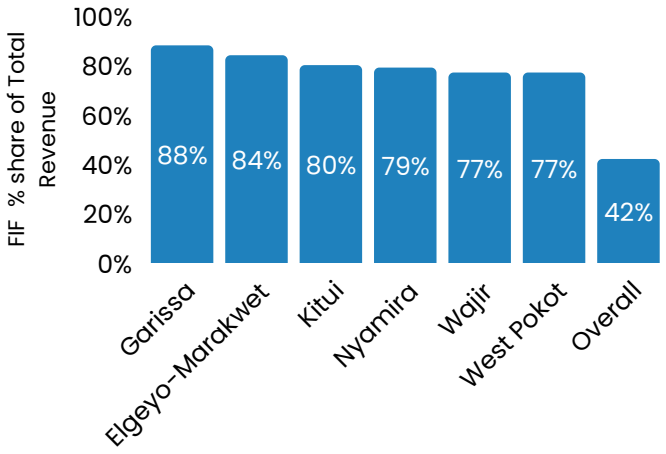
Low OSR targets overstate county revenue performance, with low targets inflating achievements and overly ambitious targets contributing to underperformance

- Samburu achieved 133 percent of its target, supported by KSh 117.1 million in unbudgeted SHIF receipts, indicating underestimated FIF projections.
- Siaya achieved only 27 percent of its target, with ordinary revenue at 13 percent against an ambitious KSh 2.2 billion target.

Risk of reporting receivable as revenue

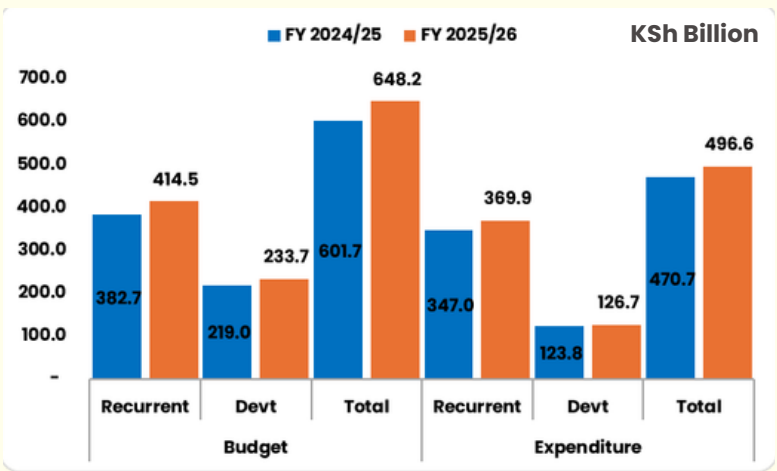
- Mombasa reported OSR of KSh 21.1 billion, 252 percent of target, whereas cash collections were KSh 6.2 billion, 74 percent of target. KSh 14.9 billion in uncollected receivables was recorded as revenue.
- The inclusion of receivables raises reported aggregate OSR growth to 45 percent, compared with about 18 percent on a cash basis, overstating county revenue performance.
- It also understates Mombasa's wage bill at 26 percent of revenue, against close to 50 percent on a cash basis, and risks commitments against resources that may not materialise.
- Accrual accounting poses risks to county budget execution, as recognising revenue before cash is received may overstate available resources, leading counties to budget and commit funds they have not yet collected, resulting in cash flow constraints, delayed project implementation and an accumulation of pending bills.

In FY 2025/26 FIF accounted for 42 percent of own-source revenue



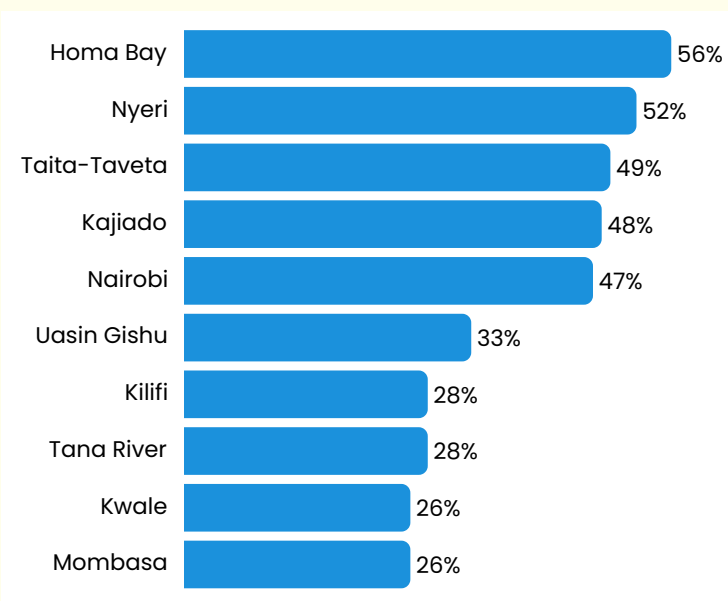
- Counties collected KSh 40.4 billion in FIF in FY 2025/26, up from KSh 24.6 billion in FY 2024/25 and 20 percent above target, largely driven by SHA reimbursements.
- FIF grew faster than ordinary OSR, which increased by 30 percent to KSh 55.7 billion, raising FIF's share of county OSR from 37 to 42 percent and reaching 88 percent in Garissa.

County budget allocations increased by 8 percent in FY 2025/26, but development expenditure fell below the 30 percent threshold



- County expenditure reached KSh 496.6 billion, representing 77 percent of approved budgets, down from 78 percent in FY 2024/25.
- Recurrent spending recorded a high absorption rate of 89 percent compared to 54 percent for development expenditure.
- Although counties allocated 36 percent of their budgets to development, exceeding the 30% statutory threshold, actual development expenditure accounted for only 26 percent of total spending, highlighting a gap between budgetary commitments and implementation.

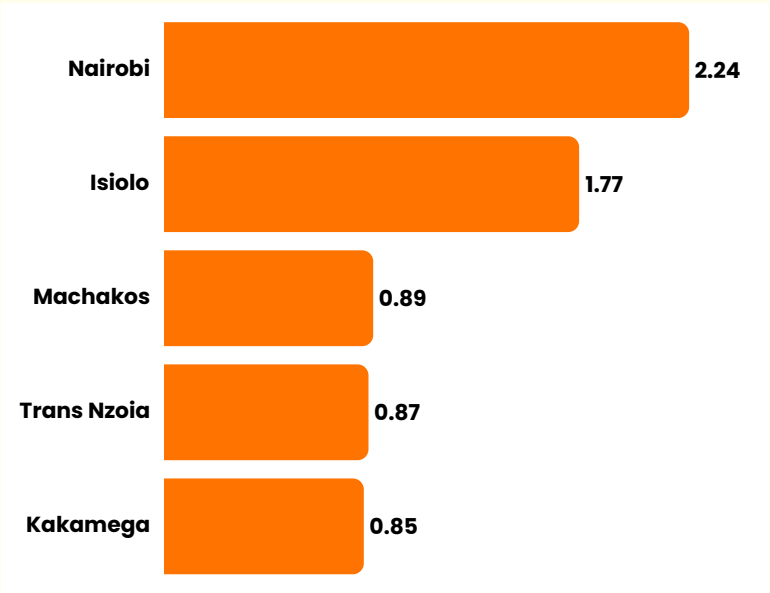
In FY 2025/26, county governments' wage bill accounted for 40 percent of total revenue received



- Employee compensation reached KSh 236.0 billion, accounting for 48 percent of expenditure and 40 percent of revenue, exceeding the statutory ceiling of 35 percent.
- 39 of 47 counties exceeded the 35 percent ceiling, led by Homa Bay at 56 percent, Nyeri at 52 percent and Taita-Taveta at 49 percent.
- Persistent breaches of the 35 percent wage-bill ceiling over the past 4 financial years, with counties spending 39.5 percent of revenue on employee compensation in FY 2025/26, raise concerns about their ability to meet the statutory ceiling by June 2028 without stronger payroll controls.

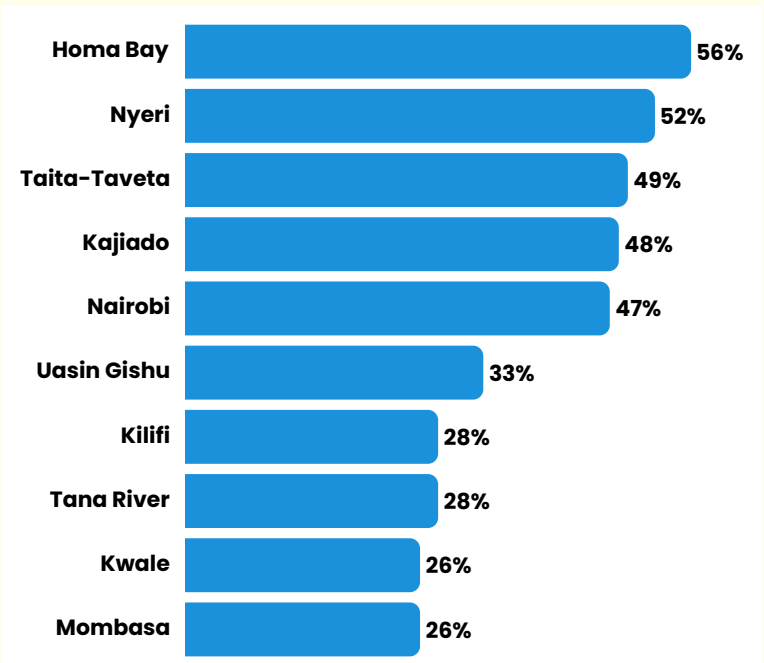
Source: County Governments Budget Implementation Review Report

Development absorption declined to 54 percent, with KSh 4.2 billion committed to 189 stalled projects valued at KSh 10.5 billion



- 22 counties reported 189 stalled projects worth KSh 10.5 billion, with KSh 4.2 billion already paid, representing 40 percent of their value.
- Nairobi recorded 57 stalled projects worth KSh 2.2 billion, of which KSh 208 million (9 percent of the value) has already been paid.
- Isiolo County reported 7 stalled projects worth KSh 1.77 billion, including the County Headquarters (KSh 556.9 million) and Isiolo Market (KSh 545.2 million), which were stalled due to undisbursed conditional funds and unresolved contract variations, respectively.

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Recommendations for County Governments

1. **Strengthen Revenue Mobilisation:** Set realistic own-source revenue targets, improve collection systems and recover outstanding revenue arrears to reduce funding shortfalls.
2. **Improve Budget Credibility:** Distinguish actual cash collections from accrued revenue and receivables to prevent overestimation of available resources and unfunded expenditure commitments.
3. **Prioritise Settlement of Pending Bills:** Budget for verified pending bills as a first charge, enforce payment plans and strengthen commitment controls to prevent further accumulation of unpaid obligations.
4. **Contain Wage Bill Growth:** Conduct payroll audits, control recruitment and rationalise staffing costs, aiming to achieve the statutory 35 percent wage bill ceiling.
5. **Improve Development Budget Absorption**: Prioritise completion of ongoing and stalled projects, strengthen procurement planning and project implementation, and improve development budget absorption while meeting the minimum 30% development expenditure requirement.

Source: County Governments Budget Implementation Review Report

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