Supplementary Budget Estimates I FY'2024/25 Note

On July 12, 2024, the National Treasury presented the Supplementary Estimates I for the Fiscal Year 2024/25 to the National Assembly. This presentation outlined plans to adjust the FY 2024/25 Budget Estimates to align with the Revised Fiscal Framework and implement expenditure cuts. The supplementary budget estimate was submitted to parliament for debate and public feedback, with a report due back to Parliament by July 24, 2024. This comes after the withdrawal of the Finance Bill 2024, which sought to raise Kshs 344.3 billion in additional revenue to fund the FY 2024/25 Budget, indicating that the funding of expenditures amounting to Kshs 344.3 billion is not feasible. Once reported back to Parliament, this will enable further review of the Supplementary Estimates and the Supplementary Appropriation legislation, which aim to implement the Revised Fiscal Framework and the proposed expenditure reductions. Notably, this will be the first supplementary budget for the fiscal year 2024/25. The table below summarizes the overall change in the FY'2024/25 budget estimates.

Cytonn Report: FY'2024/25 Supplementary Budget Estimates I (Kshs bn)			
Item	Original Approved Estimates FY'2024/25	Supplementary Estimates FY'2024/25	% Change
Recurrent Expenditure	1,632.1	1,598.0	(2.1%)
Development Expenditure	746.3	624.0	(16.4%)
Ministerial National Government Expenditure	**2,378.4**	**2,222.0**	**(6.6%)**
Consolidated Fund Services	1,213.5	1,237.2	2.0%
County Equitable Allocation	400.1	411.0	2.7%
Total Expenditure	**3,992.0**	**3,870.2**	**(3.1%)**

Source: The National Treasury

Key take outs from the table include;

i. The recurrent expenditure (Costs incurred to cover regular government expenses such as salaries, operational costs and maintenance costs) decreased by 2.1% to Kshs 1,598.0 bn in the Supplementary Estimates I from Kshs 1,632.1 bn in the original estimates, an indication of the government's initiative to cut expenditure cuts while still to boosting public services, responding to economic growth and ensuring the well-being of its citizens
ii. Development expenditure (Costs incurred in order to create assets that will provide long term public infrastructure such as roads, hospitals, and schools) declined by 16.4% to Kshs 624.0 bn in the supplementary estimates from Kshs 746.3 bn in the original estimates, a detriment to the sectors such as infrastructure, energy, water and health that require heavy development financing,
iii. Consequently, the Ministerial National Government expenditure estimates for the FY'2024/25 Supplementary Budget I is set to decrease by 6.6% to Kshs 2,222.0 bn from Kshs 2,378.4 bn in the original estimates, translating to a reduction of Kshs 156.4 bn in expenses for the government. This decline is mainly attributed to budget rationalization aimed at reducing expenditure in various sectors and public services.
iv. Consolidated Fund Services (CFS) (refers to the Consolidated Fund established in the Kenya's constitution into which development partners deposit funds before disbursing to the Exchequer accounts for projects such as servicing of public debt, and subscription to International Organizations) has increased by 2.0% to Kshs 1,237.2 bn from Kshs 1,213.5 bn in the original estimates.
v. The County Equitable Share (allocation on national government revenue to county governments) increased by 2.7% to Kshs 411.0 bn from Kshs 400.1 bn in the original approved estimates

Additionally, the table below shows the allocation of the supplementary budget to key state departments and ministries;

Cytonn Report: Supplementary Gross Budget FY'2024/25 (Kshs bn)				
	Approved Original Estimates (Kshs bn)	Supplementary Budget Estimates (Kshs bn)	Change (Kshs bn)	% Change
State Department for Energy	69.7	51.1	(18.5)	**(26.6%)**
State Department for MSMEs Development	9.4	6.9	(2.5)	**(26.5%)**
State Department for Internal Security	35.9	27.3	(8.6)	**(23.8%)**
State Department for Basic Education	142.3	127.3	(14.9)	**(10.5%)**
State Department for Roads	199.0	184.8	(14.1)	**(7.1%)**
State Department for Medical Services	99.0	92.0	(7.0)	**(7.1%)**
State Department for Higher Education and Research	125.4	120.4	(5.0)	**(4.0%)**
State Department for Agriculture	45.7	44.0	(1.7)	**(3.7%)**
State Department for Housing and Urban Development	87.6	85.1	(2.4)	**(2.8%)**
State Department for Petroleum	31.2	30.8	(0.4)	**(1.2%)**
Ministry of Defence	173.1	173.0	(0.1)	**(0.1%)**
State Department for Economic Planning	66.8	71.5	4.7	**7.0%**
Other Ministries and State Departments	1,293.6	1,207.7	(85.8)	**(6.6%)**
Total	**2,378.4**	**2,222.0**	**(156.4)**	**(6.6%)**

Source: The National Treasury

Key take outs from the table include:

i. The State Department for Energy experienced the largest decline in allocation of 26.6% to Kshs 51.0 bn, from Kshs 69.7 bn in the approved original estimates in line with government's effort to rationalize the budget through expenditure cuts. The decline in allocation is attributable to the 34.6% decrease in the budget for the programme for Power Transmission and Distribution to Kshs 33.9 bn from Kshs 51.8 bn in the original estimates. This reduction reflects the government's strategic focus on optimizing resource allocation and prioritizing essential services to ensure sustainable development and economic efficiency,

ii. The State Department for MSMEs Development suffered a notable decline in allocation of 26.5%, to Kshs 6.9 bn from Kshs 9.4 bn in the approved original estimates against the current administration's commitment to boost the MSMEs sector and is due to the 39.6% decrease in allocation for the programme for Digitization and Financial Inclusion for MSMEs. With a reduced budget, the State Department for MSMEs Development may have limited resources to provide necessary support, training, and incentives to MSMEs, a situation which could hinder could hinder their growth and competitiveness,

iii. The State Department for Housing and Urban Development also recorded a 2.8% decline in budget allocation to Kshs 85.1 bn from Kshs 87.6 bn in the original estimates, attributable to an 10.4% reduction to the allocation for the programme of Urban and Metropolitan Development to Kshs 8.6 bn from Kshs 9.6 bn due to budget rationalization. We expect this to undermine the ongoing efforts to facilitate the development of decent, safe and affordable housing under the Affordable Housing Programme,

iv. The State Department for Medical Services has seen its budget brought down by 7.1% to Kshs 92.0 bn from the original approved estimates of Kshs 99.0 bn. The budget reduction reflects the 9.2% expenditure cuts in the National Referral & Specialized Services to Kshs 55.9 bn from the original approved estimates of Kshs 61.5 bn. The adjustment could impact the availability and quality of medical services leading to a strain in medical services and reduced access to specialized services to the public,

v. The State Department for Economic Planning had the highest increase in budget allocation by 7.0% to Kshs 71.5 bn from Kshs 66.8 bn due to increase in allocation for the programme for Economic Policy and National Planning by 7.8% to Kshs 65.0 bn, from Kshs 70.0 bn

vi. The State Department for Higher Education and Research had its budget reduced by 4.0% to Kshs 120.4 bn from Kshs 125.4 bn, this is attributable to the 9.3% decreased capitation for the programme of Research, Science, Technology and Innovation. Notably, University Education allocation decreased by 3.9% to Kshs 119.5 bn, from the original approved estimates of Kshs 124.4 bn.

Key to note, reducing the fiscal deficit as a percentage of GDP needs the government to meet the revenue collection targets as well as ensuring expenditure falls within the projected range. However, the government was not able to meet the revenue collection for FY’2023/24, collecting Kshs 2.4 tn, translating to a shortfall of 4.5% against its revenue target. Moreover, the budget allocation in the Supplementary Budget I is aimed at addressing the financing gap brought about by the Withdrawal of the Finance Bill 2024, that sought general additional revenue to reduce the fiscal deficit. The government's ability to balance its revenue collection efforts, expenditure control, and prudent allocation of resources will be essential in achieving its fiscal deficit reduction target and ensuring the overall economic stability and well-being of the country. Looking ahead, the government's fiscal performance will hinge on its ability to balance these expenditure cuts with the need to maintain essential public services and drive economic growth. The withdrawal of the Finance Bill 2024, which aimed to raise additional revenue, underscores the challenges in funding the FY 2024/25 Budget. As the Supplementary Estimates undergo further review and debate, the government's strategic focus on optimizing resource allocation and ensuring sustainable development will be crucial in navigating the fiscal landscape of the coming year.