UNDERSTANDING FORMULA 3

REVENUE SHARING FOR FY 2019/20-2023/24

MGAO SAWA, MAENDELEO SAWA
“Equitable Sharing for Equitable Development”
What is the mandate of the Commission for Revenue Allocation?

The Constitution Article 216(1) read together with Article 217(2) (b) requires the Commission on Revenue Allocation (CRA) to make recommendations on the equitable sharing of revenue raised nationally between national and county governments, and among county governments. This is the third formula recommendation for revenue sharing revenue to cover Financial Years 2019/20 - 2023/24. In formulating this recommendation, the Commission reviewed the current revenue sharing basis and relevant intergovernmental financing frameworks, and extensively consulted with various stakeholders as well as sector experts.

What does the formula seek to achieve?

The formula aims to achieve four objectives:

- enhance service delivery;
- ensure that county governments perform their functions;
- address inequality in development between counties;
- encourage counties to increase revenue collection;
- reward accountable use of public resources.

The Formula
**Justification**
The Commission has been guided by existing policies on devolved functions, binding conventions on some of the devolved functions and actual expenditures by county governments. Article 203(d) provides that the criteria for determining equitable share among county governments take into account the need to ensure that county governments are able to perform functions assigned to them in the Fourth Schedule.

Article 203(f),(g),(h) provides that the criteria for determining equitable share among county governments consider the developmental needs and economic disparities within and among counties. In promoting balanced development, the third basis has taken into account the need for county governments to address poverty and provide infrastructure, especially county roads. The formula also addresses the need for accountability in the use of public resources and sustainability by raising of local revenues.

**CRITERIA FOR ALLOCATION**

*Health (20%)*
The allocation to health is based on health facility-gaps and in- and out-patient information gathered from counties. Variation in disease burdens across
counties results in different health service demands as measured by in-patient and out-patient attendances in each county. The facility-gap measure is weighted at 20 per cent, primary health care visits weighted at 60 per cent and in-patient days weighted at 20 per cent.

*Agriculture Services (10%)*
County governments provide agricultural extension services to farmers in each sub-sector (crop, livestock, veterinary, fisheries and irrigation). This allocation is based on the number of rural households per county due to lack of a farmers’ register.

*Other County Services (18%)*
Other services include: pre-primary education; village polytechnics; homecraft centres and childcare facilities; cultural activities, public entertainment and public amenities; animal control and welfare; fire-fighting services and disaster management; control of drugs and pornography and implementation of specific national government policies on natural resources and environmental conservation. These services are population based. A county’s allocation is based on its proportion of the national population according to 2009 census.

*Basic Share (20%)*
The share allocated to all counties as a minimum to establish administrative structures and coordinate participation of communities in county planning and governance. 19% is shared equally among all counties and 1% determined by each county’s population.

*Land Area (8%)*
A county with a larger area incurs additional administrative costs to deliver comparable standards of service to citizens. The differences in the costs of providing services increase with the size of a county at a decreasing rate. Beyond a certain threshold, incremental costs become negligible. The allocation of revenues based on land is meant to provide counties with adequate resources to cater for costs related to service delivery.

*Poverty (14%)*
The poverty measure is meant to promote the constitutional goal of ensuring that all Kenyans have access to basic services, irrespective of where they live.

*Urban Services (5%)*
Counties are responsible for provision of urban-based services such as solid waste management, environmental control, outdoor advertising, county public
works and services such as storm water management. A county’s allocation is determined by the proportion of urban households which is considered as a measure of expenditure needs.

*Roads (4%)*  
County governments are responsible for construction and maintenance of county roads. Trunk roads have been assigned in the Fourth Schedule to the national government. The roads index is defined by a county’s rural access index (RAI). It is based on the proportion of a county’s population that cannot access a motorable road within two kilometers.

*Revenue collection (2%)*  
Article 209(3) mandates county governments to raise revenues by imposing property and entertainment taxes, charges and fees for services rendered. Article 203(i) of the Constitution further provides that the basis for equitable sharing of revenue takes into account efforts by a county to raise revenue to finance its budget. This allocation is an incentive based on data from financial years 2015/16 – 2017/18 from the Controller of Budget.

*Financial management (2%)*  
Article 216(3) (c) requires that the Commission’s recommendations encourage fiscal responsibility. County governments are required to ensure prudent and responsible use of public finances.

The Public Finance Management Act (PFMA) 2012 requires county governments to allocate a minimum of thirty percent of their budget to development expenditure over the medium term, establish internal audit committees and County Budget and Economic Forum (CBEF) among other accountability measures.

This allocation considers the Auditor General’s opinion of a county’s statement of accounts and rewards adherence to PFMA and prudent financial management.