Module 1 Session 3: County Revenues

KEY TAKEAWAYS

- ❖ COUNTY GOVERNMENTS PRIMARILY RELY ON NATIONAL GOVERNMENT TRANSFERS FOR THEIR BUDGET.
- ❖ COUNTIES NEED TO SET REALISTIC TARGETS WHEN PREPARING THEIR BUDGETS AS THERE IS A SIGNIFICANT DIFFERENCE IN THE ACTUAL AND TARGETED LOCAL REVENUES FOR MOST COUNTIES.
- ❖ THE COMMISSION ON REVENUE ALLOCATION HAS A CONSTITUTIONAL MANDATE TO GIVE RECOMMENDATIONS TO PARLIAMENT REGARDING TRANSFERS OF REVENUES TO COUNTIES.
- ❖ THE NATIONAL TREASURY ALSO GIVES RECOMMENDATIONS BY TABLING THE DIVISION OF REVENUE AND COUNTY ALLOCATION OF REVENUE (DOR/CAR) BILLS IN PARLIAMENT ANNUALLY.
- ❖ PARLIAMENT THEN APPROVES THESE LAWS AFTER CONSIDERATION OF BOTH THE CRA AND TREASURY RECOMMENDATIONS.

TASK 1.8▪REVIEWING COUNTY REVENUE SOURCES: CHARTS AND FIGURES

30 MINUTES

TASK OBJECTIVES

- ❖ ENHANCING UNDERSTANDING OF NATIONAL TRANSFERS AND MAJOR LOCAL REVENUE SOURCES FOR COUNTIES
- ❖ COMPARING THE SIZES OF DIFFERENT STREAMS OF LOCAL REVENUE AND NATIONAL TRANSFERS

RESOURCES NEEDED

- ✓ **Flip chart and marker pen**

HOW TO RUN THIS TASK

1. Begin with a short introduction on county government revenue sources. Try to get participants to answer the question in plenary: 'How do counties pay for the services they provide?" Ensure you fill in the gaps in their understanding.
2. Ask participants to answer (guess) the three task questions (PM, p.47) in plenary and note down their answers in a flip chart.
3. Ask participant to then look at the charts and tables in their participant manuals in pairs and compare these to what they had guessed.

Come back to plenary to hear what the participants found out. Guide them through a discussion on county revenues. Ensure you fill in the gaps in the participants' understanding by highlighting issues such as county revenues in relation to previous local governments' revenues,

the actual and target amounts of revenue collected and key stakeholders giving recommendations on national transfers to counties.

Background Information

How do counties pay for the services they provide?

- The Constitution guarantees counties several sources of revenue.
  - ❖ First, they can raise their own taxes as per Article 209. This allows a county to charge property tax and entertainment tax. It is also possible for Parliament to permit counties to raise other taxes through new legislation.
  - ❖ Second, a county (like national government) can also charge fees for services provided. These include market fees, parking, and so on, just like local authorities did. Counties therefore are able to raise the same types of money that LAs raised to pay for the same services that counties have taken over. They may also introduce new services.

The revenues LAs had traditionally been able to raise fell short of the cost of providing the services they provided, which is why most of them relied heavily on the Local Authority Transfer Fund (LATF). The main exceptions to this were the larger cities that could raise more of their own revenue and depended less on LATF. Even these cities, however, still relied on LATF for a quarter to a third of their revenues. Counties too need more money to pay for the functions they provide than what they can raise on their own. This is why they receive additional funding…

- ❖ Third, for most counties, the main source of funding is, and will remain for a number of years, national transfers. The main transfer is called the "equitable share" but there are also other transfers, known as conditional grants, to be discussed later.

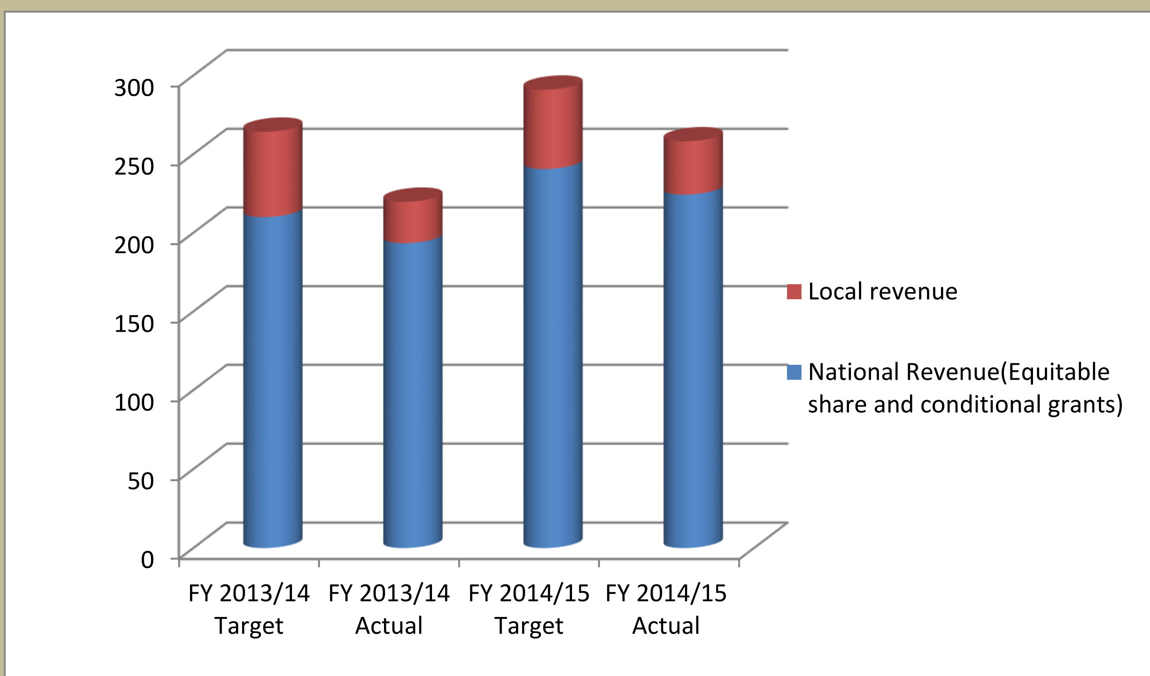
Note: Only Nairobi is collecting locally more than it receives from the national transfer (in 2014/15, Nairobi received 11.3 billion from the equitable share but collected Ksh 11.5 billion in local revenue, according to COB's annual report 2014/15).

Task 1.8
(Questions and Answers)

Q.1 What share of county budgets comes from national and what share comes from the revenues collected locally?

The chart below shows the dependence of counties on national transfers versus locally generated revenue. This chart is reproduced in the Participant Manual. The figures were derived from the Controller of Budget Annual County Governments Budget Implementation Review Reports (2013/14 & 2014/15) and County Allocation Revenue Act, 2013 & 2014.Local revenues account for less than a quarter of the revenues available to county governments. This chart shows that not only do counties depend heavily on the national transfers, they have also not met their revenue targets in the FYs 2013/14 and 2014/15.

Chart 1: Proportion of local revenues to national transfers in the FYs 2013/14 and 2014/15 (targets and actuals)



Source: The Controller of Budget Annual County Governments Budget Implementation Review Reports (2013/14& 2014/15) and County Allocation Revenue Act, 2013 & 2014

The table below indicates the % of local revenues to total revenue (for both targets and actual revenues) in the FYs 2013/14 and 2014/15. We see that counties rely heavily on national transfers.

Table 1: Percentage of local revenues to total revenue FY2013/14 and 2014/15 (PM, Table 5).

Year	National Transfers to Counties (CARA, DORA and COB)	Local Revenues (COB)	Total Revenue	Local Revenues as a Share of Total Revenue
FY 2013/14 Target	210	54.2	264.2	20.51%
FY 2013/14 Actual	193.4	26.3	219.7	11.97%
FY 2014/15 Target	242.43	50.38	292.81	17.88%
FY 2014/15 Actual	224.26	33.85	258.11	13.11%

Source: The Controller of Budget Annual County Governments Budget Implementation Review Reports (2013/14 & 2014/15) and County Allocation Revenue Act, 2013 & 2014.

- Counties in 2013/14 should have been able to raise the same types of money that LAs raised to pay for the services that LAs provided and that counties have taken over. Keep in mind, however, that the revenues LAs had traditionally been able to raise fell short of the cost of providing the services they provide, which is why most of them relied heavily on the Local Authority Transfer Fund. The main exceptions to these were the larger cities that could raise more of their own revenue and depended less on LATF. Even these cities, however, still relied on LATF for a quarter to a third of their revenues.[1]

- Clearly, since counties are doing more than the Local Authorities, they need more money. For this reason, the Constitution ensured that counties are receiving funding from at least three additional sources:
    1. First, counties are guaranteed at least 15 percent of all revenues raised at the national level.[2]In fact, in the FYs 2013/14, 2014/15 and 2015/16 counties were to receive20-22 percent of revenues raised nationally. This was highest in the FY 2014/15. There was a slight increase in the amount to counties in 2015/16.However, if compared to the total shareable revenue for the year, the counties got a slightly lesser share from 2014/15. According to the Controller of Budget, counties received the full amount of the equitable share in FYs 2013/14 and 2014/15. Below is a table showing the equitable share as a percentage of shareable revenue from 2013-2016.

Table 2: Percentage of equitable share to national shareable revenue in the years 2013/14 -2015/16

	2013/14 (billions)	2014/15(billions)	2015/16 (billion)
Total Shareable Revenue	920	1,026.31	1,242.7
County Equitable Share	190	227	259
Percentage	20.7%	22.1%	20.8%

Source: Division of Revenue Acts(2013,2014& 2015)

2. The second source of revenue for counties is the Equalisation Fund. This Equalisation Fund is an additional ½ percent of national revenues as per the Constitution. The Constitution allows the national government to spend this money directly to deliver basic services in marginalized areas, or to give it to counties as a conditional grant.[3] According to CRA's policy (2011-2014), marginalized counties are identified using four development indicators: poverty gap, infrastructure, health, and education.[4] 14 counties have been identified by the CRA as marginalized counties. These are Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo and Lamu. While money for the EF has been set aside each year since FYs 2013/14, it has not been disbursed yet due to lack of regulations. There were regulations gazetted in 2015 regarding the management of the funds but the same are yet to be approved. The fund was launched in March 11, 2016, however, and funds were appropriated in the 2016/17 budget. It should begin to flow in FY 2016/17.

3. Finally, the Constitution also foresees the possibilities that counties could receive additional funding in the form of conditional or unconditional grants.[5] (There are a growing number of such grants approved each year related to health, roads, etc. which are found in the County Allocation of Revenue Act).

- The transfers from national government include unconditional and conditional grants to counties. Below is a table showing the amount in Ksh. recommended by the CRA and Treasury as well as those approved by Parliament. The last column indicates the actual revenue transferred from the national government to the counties as revealed by the Controller of Budget.

Table 3: National Transfers Recommended by CRA and Treasury; Approved by Parliament and the Actual National Transfers as Reported by CRA

Year	CRA Recommendation(in Billions)	Treasury Recommendation CAR Bill(in Billions)	Parliament approved CAR Act (in Billions)	Actual revenue Releases by COB(in Billions)
FY 2013/14	230	198.7	210	193.4
FY 2014/15	279.16	239.9	232.4	224.26
FY 2015/16	347.68	276.4	270.4	-
FY 2016/17	385.4(approx.)	284.1	302.2	-

Q.2 How close are our counties coming to their revenue targets?

[1] World Bank, DwD, pp. 62-66; Figure 7-5 in digital (corrected) version.
[2] Constitution, 203:2.
[3] Constitution, 204:3.
[4] CRA, Policy on the Criteria for Identifying Marginalised Areas and Sharing of the Equalisation Fund, 2011-2014
[5] Constitution, 202:2.

- Generally, counties are reducing the gap between their targets and actual local revenues over time. See the table below, based on data from the Controller of Budget (COB). The information in the table below is obtained from the COB implementation reports for the FYs 2013/14 and 2014/15 which are included in the Annex of Key Documents. (The table is also in the Participant Manual). Counties are also improving in terms of setting more realistic targets for local revenues. According to the COB implementation reports, counties' actual local revenue as a percentage of target local revenue improved from 48.5% in the FY 2013/14 to 67.2% in the FY 2014/15. It is important that realistic targets be set because the counties use these figures to prepare their budget estimates. Where the actual local revenues collected are lower than the targets, some of the county functions budgeted for will not be fully implemented due to lack of resources.

Note: **Whether counties are not reaching, are meeting or are surpassing their targets should be interpreted favourably or otherwise depending on how realistic the targets were in the first place. The best way to gauge the reasonableness of targets is by looking at the revenues collected over time. In the case of county governments the actual revenue collected by local authorities in the years leading to devolution can form a yardstick of reasonableness for FY 2013/14 targets. The actual revenue collected in 2013/14 should inform targets set for FY 2014/15 and so on. In the absence of any data, revenue growth might normally range between 5% and 15% per year over the previous collections. Counties should not set their targets so low or so high to exaggerate their performance. In instances where the growth in revenue surpasses the average revenue growth in previous years (abnormal growth), then counties should avoid using this abnormal growth to set targets for future years. For example, in the case of Marsabit which collected 100.4% above their target in FY 2014/15, it would not be prudent to expect such high growth again in FY 2015/16.**

- There are counties that have consistently collected less than half of their targets. These include counties such as Bungoma, Vihiga, Garissa, Mandera and Tana River. While there may be explanations for this, such as insecurity in these areas, the fact remains that the targets are not necessarily realistic. As can be seen below, these counties had rather ambitious/ unrealistic targets. Sometimes it is possible in one year to expect unusually high growth; for example, discovery of a lucrative new source of revenue or an innovative way of collecting existing sources might lead to a spike in revenue. See below a table showing the rather unrealistic projected revenue growth for FY 2014/15.

Table 4: Projected Revenue Growths for Counties that Failed to Reach Their Local Revenue Targets in the FY 2014/15

County name	Actual Local Revenue for FY 2013/14 (A)	Annual Local Revenue Target FY 2014/15 (Kshs.) (B)	Projected Revenue Growth ((B-A)/A)	Highest 'Reasonable' Target(15% above current)
1. Garissa	35,892,845	700,000,000	1850.25%	41,276,771.75
2. Tana River	31,556,087	120,000,000	280.28%	36,289,500.05
3. Isiolo	125,064,066	452,699,367	261.97%	143,823,675.90
4. Vihiga	123,302,433	377,743,491	206.36%	141,797,798.00
5. Mandera	90,068,630	251,285,781	178.99%	103,578,924.50

6. TaitaTaveta	126,861,698	521,830,636	311.34%	145,890,952.70
7. Tharaka - Nithi	85,372,943	250,000,000	192.83%	98,178,884.45
8. Bungoma	182,702,280	1,075,035,502	488.41%	210,107,622.00
9. Kisii	250,147,453	630,000,000	151.85%	287,669,571.00
10. Siaya	99,771,315	301,530,027	202.22%	114,737,012.30
11. Machakos	1,175,227,171	2,850,000,000	142.51%	1,351,511,247.00
12. Nyamira	94,025,895	219,053,554	132.97%	108,129,779.30
13. Samburu	201,001,447	406,550,140	102.26%	231,151,664.10
14. Mombasa	1,716,054,436	5,121,608,017	198.45%	1,973,462,601.00
15. Narok	1,538,560,899	3,366,157,146	118.79%	1,769,345,034.00
16. Kitui	255,241,581	650,000,000	154.66%	293,527,818.20

- There are also counties in the financial years 2013/14 and 2014/15 that surpassed their local revenue targets. Counties such as Turkana, West Pokot, Kericho and Marsabit have collected more than their targets consistently. (See Table 10 below) How do we interpret this? It could be that that these counties are putting extra 'effort' into collection of revenue, or that they are underestimating their revenue capacity to improve their performance. The former is the more likely case for counties like West Pokot and Wajir. These counties surpassed their targets despite setting rather ambitious targets (expected growth of 63% & 72%) for the FY 2013/14. See below a table of counties and the projected revenue growth comparing the targets in FY2014/15 as compared with 2013/14 actual revenues. Whatever the case, these counties did not budget to their full capacity in the relevant FYs (they collected more than they budgeted). Marsabit collected 200% of its target revenue in FY 2014/15.

Table 5: Projected Local Revenue Growths for Counties That Surpassed their Local Revenue Targets in the FY 2014/15

County name	Actual Local Revenue for FY 2013/14 (A)	Annual local revenue target FY 2014/15 (Kshs.) (B)	Projected Revenue Growth 2014/15 ((B-A)/A))
1. Turkana	132,882,771	110,000,000	-17.22%
2. Kericho	371,395,186	383,435,490	3.24%
3. Marsabit	46,032,691	48,400,000	5.14%
4. Homa Bay	134,985,390	153,687,573	13.85%
5. West Pokot	58,887,573	96,197,480	63.36%
6. Wajir	61,032,930	105,136,917	72.26%

Table 6: County Annual Local Revenue Targets Compared to Actual Revenue for FYs 2013/14 and 2014/15

County name	Annual Local Revenue Target FY 2013/14	Actual Local Revenue for FY 2013/14	% of Local Revenue To Annual Local Revenue Target FY 2013/14	Annual local revenue target FY 2014/15 (Kshs.)	Total Local Revenue: FY 2014/15 (Kshs.)	% of Local Revenue Against Annual Local Revenue Target
Baringo	260,000,000	201,519,606	77.5%	255,800,000	249,723,429	97.6%
Bomet	235,948,424	200,949,332	85.2%	239,046,286	206,386,334	86.3%
Bungoma	2,753,780,000	182,702,280	6.6%	1,075,035,502	504,623,643	46.9%
Busia	366,327,150	328,993,569	89.8%	324,945,073	315,202,075	97.0%
Elgeyo/Marakwet	85,000,000	61,001,213	71.8%	132,023,379	128,905,771	97.6%
Embu	659,165,345	168,486,515	25.6%	748,000,000	401,105,103	53.6%
Garissa	150,533,326	35,892,845	23.8%	700,000,000	130,717,649	18.7%
Homa Bay	140,678,820	134,985,390	96.0%	153,687,573	157,860,245	102.7%
Isiolo	360,000,000	125,064,066	34.7%	452,699,367	133,699,318	29.5%
Kajiado	517,000,000	453,371,648	87.7%	959,045,150	785,837,768	81.9%
Kakamega	2,813,435,319	325,216,300	11.6%	903,537,623	516,889,024	57.2%
Kericho	338,692,707	371,395,186	109.7%	383,435,490	413,581,432	107.9%
Kiambu	3,058,567,275	1,246,683,890	40.8%	3,263,234,585	2,110,856,557	64.7%

Kilifi	735,819,493	459,575,703	62.5%	1,000,000,000	545,499,050	54.5%
Kirinyaga	437,993,243	200,373,963	45.7%	422,454,650	311,635,045	73.8%
Kisii	729,194,738	250,147,453	34.3%	630,000,000	296,771,415	47.1%
Kisumu	1,739,539,231	621,861,798	35.7%	1,500,000,000	970,903,407	64.7%
Kitui	713,850,291	255,241,581	35.8%	650,000,000	320,521,294	49.3%
Kwale	642,361,019	208,454,345	32.5%	500,000,000	253,972,260	50.8%
Laikipia	557,173,528	347,118,457	62.3%	400,000,000	400,484,744	100.1%
Lamu	86,124,909	35,566,589	41.3%	65,740,000	61,672,255	93.8%
Machakos	2,541,819,152	1,175,227,171	46.2%	2,850,000,000	1,356,559,888	47.6%
Makueni	350,000,000	189,187,741	54.1%	230,000,000	215,349,954	93.6%
Mandera	437,400,000	90,068,630	20.6%	251,285,781	87,729,461	34.9%
Marsabit	44,000,000	46,032,691	104.6%	48,400,000	99,107,465	204.8%
Meru	658,000,000	343,805,963	52.3%	588,038,730	539,239,910	91.7%
Migori	795,374,867	238,630,499	30.0%	500,000,000	355,111,556	71.0%
Mombasa	5,074,615,602	1,716,054,436	33.8%	5,121,608,017	2,492,600,145	48.7%
Murang'a	800,000,000	419,989,717	52.5%	800,000,000	562,227,534	70.3%
Nairobi City	15,448,045,417	10,026,171,804	64.9%	13,323,722,061	11,500,049,480	86.3%
Nakuru	3,076,738,273	1,816,532,538	59.0%	2,755,924,489	2,200,279,602	79.8%
Nandi	422,472,914	130,536,752	30.9%	456,070,000	298,042,483	65.4%
Narok	3,698,917,020	1,538,560,899	41.6%	3,366,157,146	1,639,205,710	48.7%

Nyamira	100,000,000	94,025,895	94.0%	219,053,554	104,254,684	47.6%
Nyandarua	174,000,000	138,439,331	79.6%	200,000,000	240,629,472	120.3%
Nyeri	479,050,914	432,229,360	90.2%	1,343,926,804	680,700,067	50.7%
Samburu	223,550,000	201,001,447	89.9%	406,550,140	195,715,348	48.1%
Siaya	153,000,000	99,771,315	65.2%	301,530,027	143,328,488	47.5%
Taita Taveta	244,119,909	126,861,698	52.0%	521,830,636	216,603,678	41.5%
Tana River	87,290,000	31,556,087	36.2%	120,000,000	33,033,490	27.5%
Tharaka -Nithi	84,000,000	85,372,943	101.6%	250,000,000	115,729,722	46.3%
Trans Nzoia	501,503,926	201,655,713	40.2%	385,000,000	301,267,105	78.3%
Turkana	250,000,000	132,882,771	53.2%	110,000,000	126,524,507	115.0%
Uasin Gishu	821,410,003	563,669,444	68.6%	890,000,000	800,823,542	90.0%
Vihiga	204,274,739	123,302,433	60.4%	377,743,491	115,939,226	30.7%
Wajir	119,030,873	61,032,930	51.3%	105,136,917	107,742,634	102.5%
West Pokot	38,000,000	58,887,573	155.0%	96,197,480	103,899,329	108.0%
Total	54,207,798,427	26,296,089,510	48.5%	50,376,859,951	33,848,542,299	67.2%

Source: Office of the Controller of Budget, County Governments Annual Budget Review Report for the FYs 2013.14 and 2014/15

Q.3What are the main sources of county own revenues? (List the top 3)

- Counties have a variety of revenues available to them. Some common ones across the county include business permit and land rates. These are the two most substantial sources, followed by a number of other fees and cesses for counties. This may vary from county to county. The snippet below from Baringo shows the local revenues expected in Baringo in FY 2015/16 (also see the Participant Manual). The county expected game park fees, hospital revenues and single business permit to be the three highest local revenue sources. The budget also indicated the local sources by geographical location. The budget did not indicate the previous year performance or future projections of these local revenue sources.

Snippet 1: Baringo Local Revenues Estimated for the FY 2015/16

NO	LOCAL REVENUE SOURCES		LOCAL REVENUE SOURCES PER LOCATIONS	
1	Game Park Fees	65,378,063.83	Kabarnet Town	43,069,209.62
2	Animal Stock Sale Fees	14,269,644.46	Eldama Ravine Town	31,657,945.51
3	Produce & Other Cess	26,754,431.28	Eldama Ravine Sub - County	12,061,778.77
4	Single Business Permit	44,430,982.05	Mogotio Sub - County	12,951,136.87
5	Plot Rent/ Rates	29,476,585.69	Baringo South Sub - County	20,048,732.54
6	Market Fees & Others	28,871,413.05	Tiaty Sub - County	11,444,796.91
7	Koibatek ATC	5,113,620.00	Baringo North Sub - County	11,642,369.52
8	Marigat AMS	8,522,700.00	Baringo Central Sub - County	10,927,086.62
10	Vetirinery	6,000,000.00	Koibatek ATC	5,113,620.00
11	Hospital Revenue	65,182,560.00	Marigat AMS	8,522,700.00
	TOTAL	-	Hospital Revenue	67,182,560.00
NO	TOTAL REVENUES	300,000,000.36	TOTAL REVENUES	300,000,000.21

Source: Baringo Approved Annual Budget FY 2015/16

FURTHER READINGS

i. CRA, "Recommendation on the Sharing of Revenue Raised Nationally between the National Government and the County Governments for the Financial Years 2013/14-2016/17." http://www.crakenya.org/downloads/3041/#more-3041

ii. County Allocation of Revenue Bills and Acts FY 2013/14 -2015/16 http://www.kenyalaw.org:8181/exist/kenyalex/index.xql

iii. Division of Revenue Bills and Acts FY 2013/14-2015/16 http://www.kenyalaw.org:8181/exist/kenyalex/index.xql