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Division of Revenue Analysis 2016

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Revenue going to the counties is not rising as fast as the national shareable revenue

- The National Treasury has recommended Ksh 302 billion be devolved to the counties, up from Ksh 287 billion in 2015/16
- Shareable revenue is projected to grow by 11% between 2015/16 and 2016/17
- But, the county equitable share allocation is growing by only 8%
- The proportion of the shareable revenue allocated to counties is reducing slightly from 21% to 20%

Revenue growth

	2015/16 (Billions)	2016/17 (Billions)	% Growth
National Sharable Revenue	**1,243**	**1,380**	**11%**
Total County Allocation	287	302	5%
Equitable Share	260	280	8%
Equitable Share as a % of National Sharable Revenue	21%	20%	

How fast should national and county shares rise?

This depends on 2 key factors:

1) Are we as a country prioritizing certain functional areas in the coming year that happen to be carried out by one level or the other?
2) Are there differentials in the rate of increase of costs for these functions caused by sector specific inflation or certain one-off costs?

- The DoR does not answer these question or explain what is driving differing growth rates.

The right revenue growth factor…

- The National Treasury has applied a revenue growth factor of 7.8% over last year's equitable share figure of Ksh 260 billion.
- CRA used a factor of 15.1% in its recommendations
- Both speak of an "agreed" approach, so why do we have different figures?

CRA estimates the growth factor

- CRA used the annual revenue growth in revenue over the last 3 years based on audited revenue accounts.

	2011/12	2012/13	2013/14	2014/15	Average 3 Year Growth
Audited Revenue Accounts	682	777	936	1,038	
Growth in Shareable Revenue		13.9%	20.5%	10.9%	15.1%

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Treasury Differs....but why?

- National Treasury indicates that it also relied on prior year figures but looked at performance (e.g., missed revenue targets) leading to a lower figure than what CRA used
- But CRA uses audited accounts, which takes actual performance into account
- So what is Treasury actually looking at? How is it taking performance into account and arriving at lower figures?
- It is also notable that the National Treasury had given a growth factor of 9.85% in the draft Budget Policy Statement (BPS) released in late January

CRA additional allocations to the equitable share

- CRA has recommended funding for two items be added to the equitable share as shown below.

Item	Allocation 2016/17
Allocation for County Roads	27,790
Allocation for Public Participation	5,000

How did CRA arrive at these allocations?

- The allocations for roads is based on approved capital budgets for KERRA and KURA for 2015/16.
- Many Counties are struggling when it comes to consulting the public as required by the law.
- CRA recommends that Ksh 5 billion be allocated to help counties set up public participation structures.
- What is the cost of carrying out public participation in all the counties? Is Ksh 5 billion enough?
- Who should fund public engagement processes in the counties?

Delay in Transfer of Functions and the Role of State Corporations

- There is an agreement that there are county functions that are still at the national level.
- Majority of these functions are currently under state corporations.
- The slow process to reform these corporations means the funds remain held at that level.
- Lets take an example of roads:
- In Dec 2015,the high court ruled that functions in road classes D and E plus any unclassified roads should be devolved as it was approved by the Senate in 2014.

State corporation reforms key for devolution…

- This might explain why CRA allocated all KERRA and KURA capital funds to the counties.
- In the DoRB, Treasury has opposed that because the TA has not published a gazette to that effect.
- But this process has delayed inordinately
- The reform of the road corporations will not only ensure funds for county roads are devolved but also the right proportion of the RFLF.
- The current 15% excludes any RFLF allocated to KURA and KERRA. Previous allocations show that roads class A,B and C get around 40% of the fund.

Which way for conditional grants?

- The DoR Act 2015 had 5 conditional grants and these are all maintained in 2015/16 by CRA and the National Treasury.
- However, the amounts recommended for each grant by both institutions vary.

Allocations to current conditional grants

	Conditional Grants (2016/17)	CRA	National Treasury
1	Level 5 Hospitals	4,143	4,000
2	Free Maternal Health Care	4,947	4,100
3	Compensation for user fees forgone	1,036	900
4	Leasing of medical equipment	5,179	4,500
5	Road Fuel Levy Fund (15% of Actual Revenue for the Fund in 2014/15)	4,756	4,300
	Total	**20,061**	**17,800**

…Roads and other grants

- CRA arrived at its figures by adjusting the 2015/16 figures by its revenue growth factor of 15.1 percent, with the exception of the Road Fuel Levy Fund.
- Also its not clear why the figures of the RFLF differ when they both agree the allocation is 15% of the actual collections into the fund.
- It is not clear from the DORB or the CARB what is driving Treasury's proposals.

New conditional grants

- National Treasury has recommended the addition of one conditional grant in 2016/17 while CRA has recommended an additional 5 grants.
- Treasury has included a special conditional grant for two health facilities in Tana River and Lamu Counties to help them meet demand for emergency services.

New conditional grants proposed by CRA

	New Conditional Grants Proposed by CRA	2016/17 (Millions)
1	Personnel emoluments for devolved staff	5,196
2	Construction of headquarters in five counties	4,000
3	Rehabilitation of primary and secondary schools	5,000
4	Establishment of County Emergency Funds (2% of Equitable Share: Ksh. 259,775 Million)	5,196
5	Rehabilitation of village polytechnics	6,300
	Sub-Total for New Grants	***25,692***
	Total	**45,753**

Distribution criteria for conditional grants

- Treasury and CRA have embraced additional conditional grants each year.
- But how fair and equitable are the distribution mechanisms for these grants?
- There has been little discussion of this since the first DORB in 2013/14

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Level 5 hospital grant

- The CARB shows that the grant will be distributed based on the bed occupancy rates in the facilities.
- The higher the bed occupancy the more a facility is allocated.
- For instance, Kakamega Level 5 has the highest bed occupancy rate at 88 percent and the facility is allocated Ksh 407 million (highest) while Embu Level 5 with the lowest occupancy rate is allocated Ksh 287 million (lowest allocation).

Allocations to level 5 facilities

1	2	3	4	5	6	7	8
Facility	Occupancy	*Bed capacity*	*Occupied Bed*	Share of Occupied Bed to the total	CARB County Allocation	Allocation Based on Number of Occupied Bed as a share of the Total	Difference
Machakos	79%	*375*	*296*	8%	365,317,919	339,446,400	25,871,519
Embu	62%	*618*	*383*	11%	286,705,202	439,028,802	(152,323,600)
Garissa	71%	*224*	*159*	5%	328,323,699	182,229,723	146,093,976
Kakamega	88%	*449*	*395*	11%	406,936,416	452,732,697	(45,796,281)
Meru	77%	*306*	*236*	7%	356,069,364	269,975,901	86,093,463
Mombasa	80%	*499*	*399*	11%	369,942,197	457,407,604	(87,465,407)
Nakuru	77%	*588*	*453*	13%	356,069,364	518,777,222	(162,707,858)
Nyeri	84%	*323*	*271*	8%	388,439,306	310,881,341	77,557,965
Kisumu	76%	*457*	*347*	10%	351,445,087	397,962,949	(46,517,862)
Thika	85%	*265*	*225*	6%	393,065,584	258,093,845	134,971,739
Kisii	86%	*379*	*326*	9%	397,687,861	373,465,517	24,222,344
Total		***4,483***	***3,491***	**100%**	**4,000,001,999**	**4,000,001,999**	**-**

How fair is the current criteria?

- While Nakuru and Meru have the same occupancy rates, the number of beds in Nakuru is almost double the number of beds in Meru but they get the same allocation.
- If we use the actual share of occupied beds per facility, Nakuru level 5 would get almost double the allocation going to Meru level 5.
- It is also not clear that we should allocate funds based exclusively on inpatient services.
- The government has previously looked at other aspects, including outpatient services.

Previous criteria used by MoH to allocate revenue to level 4 and 5 facilities.

Variable	Weight
Poverty	20%
Beds Utilized	40%
Outpatient Cases	20%
Accident Prone Facilities	5%
Fuel Costs	15%
Total	**100%**

Foregone user fees grant

- This is distributed based on the county population and then distributed among facilities in the county based on outpatient attendance figures.
- Attendance data is a better measure of service demand and since the data is available it can be applied directly without the use of population data.

Road Fuel Levy Fund

- The DoRB and CARB are silent on the criteria used to distribute the fund.
- CRA indicates that the fund will be distributed according to the equitable share formula.
- The formula does not directly measure any road parameters and the distribution criteria might not be meeting the need for maintenance in the counties.

Rehabilitation of primary and secondary

- The grant is supposed to help improve dilapidated facilities in schools.
- CRA recommends that the fund be distributed based on the equitable share formula.
- It would be better to distribute based on the number of schools and those that need rehabilitation.
- The same applies for the rehabilitation of village polytechnics grant to improve school infrastructure

Conclusion

- The DoR should justify the drivers of allocations to both levels of government in terms of revenue growth and priorities
- Conditional grants should be properly explained and distributed using mechanisms that are equitable and evidence- based.
- Failure to reform state corporations for a fourth year has led to tension over roads, etc. Parliament should step in to ensure these corporations are reformed this year

Thank You