MEMORANDUM TO THE SENATE ON THE COUNTY ALLOCATION OF REVENUE BILL, 2018

Introduction

The International Budget Partnership Kenya (IBPK) is a Kenyan non-profit organization working to advance transparency, accountability, participation and equity in national and county budgeting processes. Since 2013, IBPK has consistently done analysis on revenue sharing and published our findings to support discussions among different stakeholders in debates on equity.

In this memorandum we have restricted ourselves to three key issues that are pertinent. They are:

1. The conditional grant to Level 5 Hospitals,
2. Conditional grant from Road Maintenance Fuel Levy Fund for county roads and
3. The proposed conditional grant to build two regional cancer centers and procurement of cancer related drugs. It builds on concerns we raised in our earlier submission on the Division of Revenue Bill, 2018.

In our analysis, we find that the allocations for the Level 5 hospitals and maintenance of county roads are both inequitable. The allocations do not seem to correspond to the differing needs of the different counties. Below are specific observations and concerns on each conditional grant that we think the Senate should pronounce itself on before enacting the County Allocation of Revenue Bill 2018.

1. Conditional Grant to Level 5 Hospitals

The conditional grant to level 5 Hospitals targets the former provincial hospitals and other high-volume facilities that serve clients beyond the host county and thus have spill over costs. The CARB gives the criteria of distribution as the percentage bed occupancy in each hospital. Allocations to the hospitals year on year over the last three years has a peculiar allocation to each of the 11 facilities. (Kiambu Level 5 Hospital has been added in the 2018 allocations). Looking at the share of the total allocation received by each facility over the last three allocations, they all receive exactly the same portion of the total grant. This would mean that over the period, each facility had the same occupancy rate. While that is statistically possible, it's highly unlikely that 11 hospitals had the same occupancy rates for three continuous years. The 2018/19 recommendations indicate the use of 2017 rates, therefore, there is no unitary rate that was applied across the three years. So why would each facility get the same share of the grant?

Further, using percentage bed occupancy is misleading because percentages give different outcomes for different facilities because of their bed capacity.[1] For example, whereas Nakuru and Meru are allocated equal amounts (KES 373 million), Nakuru has almost twice the number of beds than Meru. Even when the occupancy rates are applied, Nakuru still has many more beds occupied than Meru. What is the criteria applied that allocates the two facilities an equal amount of funding? Table 1 in the annex shows this in detail.

While Garissa has the lowest occupancy rate of 62 per cent with fewer number of beds (224), it is allocated KES. 334 million which is higher to what is allocated to Embu (Ksh 301 million) which has a higher percentage of bed occupancy (79%) as well as more number of beds (618) than all the other facilities. The two examples are an indication that the allocations are not equitable.

Percentage occupancy is not the only measure of demand for services

While percentage occupancy is the measure used to assess demand for services on each facility, we find that it is not an adequate measure. Occupancy is just one measure but there are a number of other cost drivers that determine the expenditure needs of these large referral hospitals. For example, there will still be large numbers of outpatient clients who are attended to everyday. They would still need a doctor and all procedures of treatment. Also, not all patients referred to Level 5 Hospitals are admitted. The total need would require other measures than occupancy.

The table below shows the criteria for distributing funds to these facilities prior to devolution. The factors indicated go beyond in-patient services and this provides an option that has been used before that we can still borrow from after devolution.

[1] http://kmhfl.health.go.ke/#/facility_filter/results

Ministry of Health Resource Distribution Criteria for Level 4 and 5 Hospitals

Variable	Weight
Poverty	20%
Beds utilized	40%
Outpatient cases	20%
Accident prone facilities	5%
Fuel costs	15%
Total	100%

Source: Health Rights Advocacy Forum, "Mapping Government Decentralized Health Funds," 2011

2. Conditional Grants for County Roads Maintenance

The allocation for the road maintenance under the Road Fuel Levy Fund for the FY 2018/19 has been reduced from KES. 11.1 billion in 2017/18 to KES. 8. 3 billion in 2018/19. It is not clear why there is a reduction in the total allocation as it's a pre-determined percentage (15 percent) of what is collected from the fuel levy. Does this mean that there is a reduction in the levy that will be raised in 2017/18 compared to what was raised in 2016/17?

There is fundamental problem in using the equitable revenue sharing formula to distribute a conditional grant with a very specific objective. The length of roads that exist in each county, whether tarmacked or all weather is available. The Transition Authority released the details in a Gazette in 2016. Therefore, there is a good starting point to determine how much each county requires to maintain its roads. Based on this data a county like Makueni has about 6 percent of all roads and one might assume that it would require more to maintain existing roads in the county compared to a county like Vihiga that has a smaller share.

The equitable revenue sharing formula does not do this in any direct way. Therefore, it is unlikely to achieve the grant's objective which is to enhance county governments' capacity to repair and maintain county roads. In addition, CRA and National treasury should have a set period to revise the allocation formula in order to update the length of kilometers that need to be maintained in order to ensure equitable and fair distribution as counties construct more roads.

The percentage growth in allocations to each county seems to have been even between 2015/16 and 2016/17 and it was even in 2016/17 and 2017/18. However, there is a decrease in allocations between the allocations in 2017/18 and the proposed allocations for 2018/19. It is not clear as to why the changes in 2018/19 are so varied or any explanation in the CARB. For instance, Lamu County has an increase of 7 per cent while Turkana County a cut of 36 per cent. We do not find any justified reasons for this case.

There are also some examples in the continent that Kenya can borrow from on how to distribute road maintenance grants. In South Africa, the provincial road maintenance grants are distributed on road networks in each province, road traffic and weather conditions. These factors affect the cost of maintaining a KM of road and could provide a fairer distribution amongst all counties.

3. Conditional Grant on Cancer Treatment

In appreciation of the burden that Cancer treatment has put on Kenyan's households, The Commission on Revenue Allocation recommended two new conditional grants for building two Regional Cancer Centers of Ksh. 5 billion and for Cancer Drug Access Program of Ksh. 1 billion. However, the National Treasury did not include both the recommendations in the bill before Senate. The reason given is that careful planning is required to ensure that adequate human and financial resources can be availed to guarantee the sustainability and viability of such a program. As well consultation with the Ministry of Health which provides policy leadership on such matters have not been concluded.

Given the threat Cancer poses on lives of Kenyans it should be considered as one of the national high priorities that require immediate response as well as direct implementation in order to reduce the number of deaths which is currently estimated over 28,000 annually. The reasons given notwithstanding, we believe the Senate should at the least give a timeline for when these consultations should be concluded, and the new grants enacted.

Signed and submitted on this date: 03 May 2018, Nairobi

Abraham Rugo Muriu, PhD
Country Manager

Annex I

	Tabe 1: Allocations to Level 5 Hospitals														
			A	B	C	D	E	F	G	H	I	J	K	L
	County	Hospital	Occupancy rate for 2018/19 Allocations	Beds at the facility	Average Actual Beds Occupied	2016/17 (Millions)	2017/18 (Millions)	2018/19 (Millions)	Facility Share of Total Allocations in 2016/17	Facility Share of Total Allocations in 2017/18	**Facility Share of Total Allocations in 2018/19**	**Share of Average Beds Occupied**	Difference between Allocations and Actual Occupancy	*Facility Share of Total Allocations in 2018/19, Minus Kiambu L5*
1	EMBU	Embu Provincial General Hospital	62%	618	383	286.71	301.04	301.04	7%	7%	**7%**	**10%**	-3%	*7%*
2	GARISSA	Garissa Provincial General Hospital	71%	224	159	328.32	344.74	344.74	8%	8%	**8%**	**4%**	4%	*8%*
3	KAKAMEGA	Kakamega Provincial General Hospital	123%	449	552	406.94	427.28	427.28	10%	10%	**10%**	**14%**	-4%	*10%*
4	KIAMBU	Thika Level 5 Hospital	103%	265	273	393.06	412.72	412.72	10%	10%	**10%**	**7%**	3%	*10%*
5	KISII	Kisii Level 5 Hospital	88%	379	334	397.69	417.57	417.57	10%	10%	**10%**	**8%**	1%	*10%*
6	KISUMU	New Nyanza Provincial General Hospital	81%	457	370	351.45	369.02	369.02	9%	9%	**9%**	**9%**	-1%	*9%*
7	MACHAKOS	Machakos Level 5 Hospital	79%	375	296	365.32	383.58	383.58	9%	9%	**9%**	**8%**	1%	*9%*
8	MERU	Meru Level 5 Hospital	115%	306	352	356.07	373.87	373.87	9%	9%	**9%**	**9%**	0%	*9%*
9	MOMBASA	Coast Province General Hospital	81%	499	404	369.94	388.44	388.44	9%	9%	**9%**	**10%**	-1%	*9%*
10	NAKURU	Nakuru Provincial General Hospital	90%	588	529	356.07	373.87	373.87	9%	9%	**9%**	**13%**	-5%	*9%*
11	NYERI	Nyeri Provincial General Hospital	86%	323	278	388.44	407.86	407.86	10%	10%	**9%**	**7%**	2%	*10%*
12	KIAMBU	Kiambu Level 5 Hospital	120%			-	-	126.00			**3%**			
	TOTAL			4,483	3,930	4,000	4,200	4,326	100%	100%	**100%**	**100%**	0%	*100%*
								4,200						

Source: County Allocation of Revenue Acts 2016-2018, Kenya Health Facility Master list

Annex II

Conditional Grant- Road Maintenance Fuel Levy

		A	B	C	D	E	F	G	H	I	J	K
	County	FY 2015/16	FY 2016/17	FY2017/18	FY2018/19	Length (Km)	Allocation Per KM	Change 15/16 to 16/17	Change 16/17 to 17/18	Change 17/18 to 18/19	Share of Roads	Share of Allocation in 2018/19
1	Baringo	56.41	73.62	189.20	133.93	1,981	67,601	31%	157%	-29%	1.6%	1.6%
2	Bomet	59.79	78.04	200.55	156.25	1,517	102,994	31%	157%	-22%	1.2%	1.9%
3	Bungoma	97.51	127.25	327.03	235.62	2,027	116,229	31%	157%	-28%	1.7%	2.8%
4	Busia	69.11	90.19	231.79	157.08	1,154	136,082	31%	157%	-32%	1.0%	1.9%
5	Elgeyo/Marakwet	41.55	54.22	139.34	99.21	1,223	81,152	31%	157%	-29%	1.0%	1.2%
6	Embu	48.75	63.63	163.52	117.40	2,655	44,219	31%	157%	-28%	2.2%	1.4%
7	Garissa	73.32	95.69	245.91	182.71	1,661	110,026	31%	157%	-26%	1.4%	2.2%
8	Homa Bay	71.58	93.42	240.09	176.09	1,917	91,840	31%	157%	-27%	1.6%	2.1%
9	Isiolo	38.83	50.67	130.23	103.34	1,566	66,004	31%	157%	-21%	1.3%	1.2%
10	Kajiado	56.06	73.16	188.01	157.91	4,538	34,794	31%	157%	-16%	3.7%	1.9%
11	Kakamega	113.16	147.69	379.55	272.00	3,105	87,608	31%	157%	-28%	2.6%	3.3%
12	Kericho	57.23	74.69	191.95	150.47	1,312	114,693	31%	157%	-22%	1.1%	1.8%
13	Kiambu	94.81	123.74	318.00	246.37	4,545	54,203	31%	157%	-23%	3.7%	3.0%
14	Kilifi	94.53	123.37	317.05	285.22	2,764	103,203	31%	157%	-10%	2.3%	3.4%
15	Kirinyaga	44.95	58.66	150.75	108.30	1,944	55,725	31%	157%	-28%	1.6%	1.3%
16	Kisii	90.11	117.61	302.24	203.38	1,689	120,427	31%	157%	-33%	1.4%	2.5%
17	Kisumu	72.17	94.19	242.06	181.88	2,224	81,792	31%	157%	-25%	1.8%	2.2%
18	Kitui	92.32	120.48	309.64	229.83	6,752	34,037	31%	157%	-26%	5.6%	2.8%
19	Kwale	65.11	84.98	218.39	198.42	2,480	80,023	31%	157%	-9%	2.0%	2.4%
20	Laikipia	43.82	57.19	146.97	109.13	2,446	44,621	31%	157%	-26%	2.0%	1.3%
21	Lamu	26.07	34.02	87.42	93.42	415	225,057	31%	157%	7%	0.3%	1.1%
22	Machakos	85.98	112.22	288.39	219.08	4,727	46,347	31%	157%	-24%	3.9%	2.6%
23	Makueni	75.83	98.97	254.35	187.67	6,939	27,044	31%	157%	-26%	5.7%	2.3%
24	Mandera	113.77	148.48	381.57	267.04	1,839	145,199	31%	157%	-30%	1.5%	3.2%
25	Marsabit	65.92	86.04	221.11	184.36	2,887	63,866	31%	157%	-17%	2.4%	2.2%
26	Meru	82.49	107.66	276.67	210.82	3,886	54,248	31%	157%	-24%	3.2%	2.5%
27	Migori	74.15	96.77	248.69	176.92	1,655	106,920	31%	157%	-29%	1.4%	2.1%
28	Mombasa	66.03	86.18	221.47	216.60	739	292,986	31%	157%	-2%	0.6%	2.6%
29	Murang' a	68.04	88.80	228.20	164.52	3,135	52,484	31%	157%	-28%	2.6%	2.0%
30	Nairobi	165.10	215.47	553.75	415.85	2,505	166,040	31%	157%	-25%	2.1%	5.0%
31	Nakuru	103.10	134.56	345.81	248.85	8,526	29,186	31%	157%	-28%	7.0%	3.0%
32	Nandi	60.41	78.84	202.60	141.37	1,958	72,217	31%	157%	-30%	1.6%	1.7%
33	Narok	67.17	87.67	225.30	167.83	3,251	51,625	31%	157%	-26%	2.7%	2.0%
34	Nyamira	52.78	68.88	177.01	125.66	858	146,512	31%	157%	-29%	0.7%	1.5%
35	Nyandarua	54.71	71.41	183.51	129.80	3,046	42,608	31%	157%	-29%	2.5%	1.6%
36	Nyeri	56.52	73.76	189.57	132.28	3,292	40,182	31%	157%	-30%	2.7%	1.6%
37	Samburu	45.13	58.90	151.37	116.57	1,491	78,177	31%	157%	-23%	1.2%	1.4%
38	Siaya	63.46	82.82	212.83	158.73	1,636	97,019	31%	157%	-25%	1.3%	1.9%
39	Taita	42.04	54.87	141.01	106.65	3,086	34,554	31%	157%	-24%	2.5%	1.3%
40	Tana River	50.62	66.06	169.77	146.33	1,786	81,914	31%	157%	-14%	1.5%	1.8%
41	Tharaka Nithi	39.86	52.02	133.68	95.90	1,326	72,340	31%	157%	-28%	1.1%	1.2%
42	Trans Nzoia	64.78	84.55	217.28	147.99	1,400	105,674	31%	157%	-32%	1.2%	1.8%
43	Turkana	133.12	173.73	446.48	283.57	2,969	95,510	31%	157%	-36%	2.4%	3.4%
44	Uasin Gishu	65.94	86.06	221.17	156.25	3,406	45,882	31%	157%	-29%	2.8%	1.9%
45	Vihiga	49.18	64.18	164.95	117.40	552	212,790	31%	157%	-29%	0.5%	1.4%
46	Wajir	91.88	119.91	308.16	223.22	3,330	67,041	31%	157%	-28%	2.7%	2.7%
47	West Pokot	54.80	71.52	183.79	129.80	1,318	98,451	31%	157%	-29%	1.1%	1.6%
	TOTAL	**3,300**	**4,307**	**11,068**	**8,269**	**121,456**	**68,082**	**31%**	**157%**	**-25%**	**100.0%**	**100.0%**
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Source: County Allocation of Revenue Acts 2015-2018, Transition Authority Gazette 2016