MEMORANDUM ON THE DIVISION OF REVENUE BILL 2024 PRESENTED TO THE SENATE

BY THE RIFT VALLEY BUDGET HUB

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Introduction

The Rift Valley Budget Hub brings together budget practitioners from the 10 counties of Nakuru, Baringo, Elgeyo Marakwet, West Pokot, Turkana, Marsabit, Narok, Kericho, Bomet and Nandi as a platform to build synergy in the county, regional and national level budget engagements. The hub is also a platform for peer-to-peer learning on best practices in the budget processes.

The Hub builds the budget capacity of citizens, civil society organizations and government officials to deliberate and make budget decisions that are responsive to citizens' needs. Over the last 3 years, the hub has conducted budget analyses and monitoring with focus on the water sector with the objective of contributing to improved access to adequate, clean and safe water in the Rift Valley Region

Pursuant to the call for submissions, and in fulfillment of our mandate, the Rift Valley Budget Hub hereby presents our submission for your consideration review and enactment of the Division of Revenue Bill 2024.

1. Inadequate allocation to the counties

Article 203 (2) and (3) of the Kenyan Constitution requires that the equitable share of the revenue raised nationally that is allocated to county governments be calculated on the basis of **most recent audited accounts of revenue received, as approved by the National Assembly.**

The Ksh. 391.1 billion recommended in the Division of Revenue Bill 2024 is equal to 24.86% of the Ksh 1.57 Trillion recently audited revenue for FY 2019/2020. Based on the trend of revenue growth, this is unjust. Kenya reported preliminary ordinary revenue of over **Ksh. 2.14 Trillion** in 2022/2023, which significantly higher than the **Ksh. 1.57 Trillion** realized FY 2019/2020. Although the revenue has grown by 36%, the projected equitable share has increased only by 24% (from 316.5 billion in the FY 2019/2020).

The fact that revenue divides are still based on **out-of-date audited** revenue implies that counties are getting the shorter end of the stick.

Our key asks

- The Senate should collaborate with the National assembly to ensure that the approval of audited accounts of revenue is expedited.
- The Senate should ensure that revenue sharing is based on up to date audited revenue accounts. This will mitigate against scramble for resources and eliminate the perennial conflicts emanating from the division revenue debate.

2. County functions still being executed by the National Government

Being closer to them, citizens look up to county governments for critical services including and not limited to county health services, water supply and agriculture. However, commensurate funds have not followed these functions making it difficult for county governments to deliver. Even worse, the national government continues to perform functions that are constitutionally allocated to county governments through the ministries, departments and agencies (MDAs). The functions of a number of state corporations largely remain unbundled to date leading to the overlap and duplication of responsibilities. According to the Intergovernmental Relations Technical Committee (IGRT) report to the Senate, several components of devolved functions amounting up to **Ksh 272.2 Billion** are still run by the national government ten years into implementation of devolution.

Our Key Asks

- We ask the Senate to push IGRTC and relevant institutions to complete the process of unbundling and costing county government functions that are still held by the national government, to pave way for transfer of commensurate resources to county governments.

3. Cash flow challenges at the county level emanating from delayed disbursements

Counties rely heavily on funds from the National Treasury to finance essential services such as healthcare, early child education, infrastructure development, and public administration. Delay in disbursement causes financial strain and cash flow problems that affect the ability of county governments to pay salaries, contractors, and suppliers, leading to arrears, reduced services, and even temporary shutdowns of essential facilities. Delayed funds undermine the principles of devolution by impeding the ability of counties to exercise their constitutional mandate effectively. It weakens the devolved governance structures and can erode public trust in the devolved system of government.

In our cashflow research[1], we note that disbursements to counties are lowest in the first two quarters and peaks during the last quarter of the financial years. In some occasions, disbursements are made very late in the financial year such that counties do not have ample time to spend before the close of the financial year. For instance, the Budget Implementation Review Report for the first half of the FY 2023/24 shows that the National Treasury as at December 2023, had disbursed Ksh. 141 Billion which is only 37% of the equitable share allocation of Ksh. 385 Billion for FY 2023/24.

We also note with concern that debt servicing is crowding out service delivery and more so at the County level. In the current financial year, National Executive has publicly[2] blamed delayed disbursement to County Government on pressure of Eurobond debt payments.

Our Key Asks

- The Senate should compel the National Treasury to disburse the resources due to counties as per the disbursement schedule approved by Senate alongside the County Allocation of Revenue Act.

- In the ongoing national discourse on public debt sustainability, Senate should guard County Governments from bearing the brunt.

[1] https://internationalbudget.org/publications/cash-flow-kenya-implications-for-national-county-spending/
[2] https://www.the-star.co.ke/news/2024-02-16-ruto-why-we-have-delayed-funds-disbursement-to-counties/

Conclusion:

The Hub is cognizant of the state of the economy, including revenue performance and the state of public debt. Even then, majority of the functions assigned to County Governments are the lifeline of citizens. Therefore, in this year's revenue sharing deliberations and decisions, we call on Senate to diligently execute its mandate of protecting devolution.

In the same vein, the Hub urges the Senate to step up its oversight role towards prudent, equitable and accountable utilization of public funds both at the county and national level.