



# THE NATIONAL TREASURY

## Public Statement on the Status of Fiscal Transfers to County Governments 14th August, 2016

### Preamble

1. This Statement is issued in public interest, pursuant to Article 35(3) of the Constitution of Kenya, 2010, as well as section 8 of the County Allocation of Revenue Act, 2015.

### Growth in fiscal transfers to County Governments

2. Over the last three financial years, fiscal transfers to County Governments have grown significantly. The total amount transferred to the Counties during this period increased from Ksh. 195.7 billion in 2013/14; Ksh. 231.1 billion in 2014/15; and, Ksh. 272.1 billion in 2015/16 -- a 40 percent growth. Thus, since their establishment, the County Governments have collectively received Ksh. 698.8 billion, of which 97 percent comprises the equitable share of revenue raised nationally. Table 1 shows the distribution of these transfers per County in each of the last three years, the average transfer per person for each County, as well as unspent cash balances at the Central Bank of Kenya (CBK). A breakdown of the transfers by type is shown in Table 2.

### Additional conditional allocations to County Governments

3. In addition to equitable share transfers, the National Treasury has over the last three financial years disbursed additional conditional allocations to County Governments amounting to Ksh. 22.4 billion to supplement financing of devolved functions and improve service delivery. The conditional grants are for: i) level-5 hospitals (Ksh. 8.9 billion); ii) free maternal healthcare (Ksh. 7.0 billion); iii) compensation for foregone user fees (Ksh. 0.9 billion); iv) Road Maintenance Fuel Levy Fund (Ksh. 3.3 billion); and, v) external loans and grants, including: a grant from the Government of Denmark to supplement financing of County health facilities (Ksh. 1.4 billion); a World Bank loan to supplement financing of County health facilities (Ksh. 0.9 billion); and, financing under the Kenya-Italy Debt for Development Programme (Ksh. 30 million).

### County allocations for financial year 2016/17

4. In the financial year 2016/17, Parliament allocated to County Governments Ksh. 280.3 billion as their equitable share of revenue raised nationally. This reflects a Ksh. 20.5 billion (or eight percent) increase compared with the equitable share allocation in 2015/16. As has been the case in the last three financial years, the 2016/17 allocation is more than double the constitutional minimum of 15 percent. Parliament allocated another Ksh. 23.9 billion to County Governments in form of additional conditional grants financed by both Government of Kenya and development partners (loans and grants), bringing total allocations to Ksh. 304.2 billion. Hence, it is expected that at the end of the current financial year, transfers to the Counties since the roll out of devolution will exceed Ksh. 1 trillion.

County	FY 2013/14	FY 2014/15	FY 2015/16 (Total Transfers as at 30.06.2016)	Cumulative Transfers (2013/14 - 2015/16)	Transfer Per Person (Annual Av.)	CBK Cash Balances (As at 08.07.2016)
	A	B	C	D=A+B+C	E	F
Baringo	3,281,383,323	3,926,106,431	4,591,408,016	11,798,897,770	7,079	958,662,264
Bomet	3,473,870,878	4,162,524,827	4,844,379,748	12,480,775,453	5,745	38,333,884
Bungoma	6,271,462,041	6,783,170,481	7,963,669,491	21,018,302,013	9,276	780,847,161
Busia	3,463,379,155	4,799,492,252	5,602,986,940	13,865,858,347	9,470	841,878,325
Elgeyo Marakwet	2,413,729,091	2,894,583,377	3,406,017,460	8,714,329,928	7,851	845,002,872
Embu	3,100,540,129	3,571,958,959	4,139,595,181	10,812,094,269	6,982	1,254,815,950
Garissa	4,431,683,790	5,190,150,287	6,285,718,831	15,907,552,908	8,510	320,135,450
Homa Bay	4,182,101,595	4,991,175,873	5,845,596,266	15,018,873,734	5,194	30,638,153
Isiolo	2,247,835,837	2,682,961,881	3,134,152,311	8,064,950,029	18,761	10,788,309
Kajiado	3,253,239,859	3,890,104,860	4,584,832,515	11,728,177,234	5,688	529,096,451
Kakamega	6,931,155,657	8,090,604,228	9,580,701,229	24,602,461,114	4,938	936,047,706
Kericho	3,353,059,897	3,973,438,352	4,683,027,689	12,009,525,938	5,279	679,042,290
Kiambu	5,980,601,386	6,707,156,605	8,142,391,235	20,830,149,226	4,277	213,932,789
Kilifi	5,518,308,482	6,574,938,022	7,776,636,993	19,869,883,497	5,968	156,575,691
Kirinyaga	2,621,282,589	3,122,463,813	3,662,033,674	9,405,780,076	5,937	496,913,876
Kisii	5,487,250,383	6,361,766,497	7,706,618,898	19,555,635,778	5,657	728,758,181
Kisumu	4,615,876,577	5,262,002,848	6,258,879,588	16,136,759,013	5,552	853,548,791
Kitui	5,348,827,428	6,407,041,897	7,517,973,075	19,273,842,400	6,344	1,891,776,340
Kwale	3,788,132,670	4,531,614,262	5,339,737,653	13,659,484,585	7,006	1,019,018,199
Laikipia	2,557,539,642	3,037,429,843	3,585,508,196	9,180,477,681	7,665	423,715,255
Lamu	1,509,775,102	1,802,318,513	2,107,426,390	5,419,520,005	17,791	617,448,450
Machakos	5,114,071,345	6,134,394,187	7,280,967,119	18,529,432,651	5,622	545,049,280
Makueni	4,403,546,303	5,255,759,064	6,169,089,351	15,828,394,718	5,965	3,341,743,853
Mandera	6,569,847,929	7,851,533,937	9,159,202,537	23,580,584,403	7,663	1,898,617,141
Marsabit	3,805,077,542	4,554,700,287	5,298,161,602	13,657,939,431	15,636	923,962,511
Meru	5,006,846,175	5,811,720,035	6,958,139,247	17,776,705,457	4,369	1,428,496,300
Migori	4,339,034,161	5,178,050,161	6,114,175,919	15,631,260,241	5,681	262,274,577
Mombasa	4,291,377,471	4,805,790,006	5,791,015,010	14,888,182,487	5,283	84,033,810
Murang'a	3,964,995,471	4,733,688,227	5,540,315,315	14,238,999,013	5,035	507,204,164
Nairobi	9,729,818,320	11,441,036,548	13,468,644,381	34,639,499,249	3,679	296,523,660
Nakuru	6,647,425,748	7,503,232,007	8,843,624,423	22,994,282,178	4,781	1,886,973,194
Nandi	3,513,121,827	4,196,573,747	4,893,100,616	12,602,796,190	5,579	506,172,690
Narok	3,897,497,831	4,664,355,024	5,471,542,331	14,033,395,186	5,497	102,234,675
Nyamira	3,081,787,287	3,684,498,196	4,292,522,200	11,058,807,683	6,162	633,802,484
Nyandarua	3,176,663,544	3,797,904,157	4,425,233,940	11,399,801,641	6,373	323,210,014
Nyeri	3,685,716,476	4,138,865,733	4,976,751,918	12,801,334,127	6,152	747,188,805
Samburu	2,604,240,722	3,118,803,006	3,635,379,321	9,358,423,049	13,930	286,058,221
Siaya	3,717,804,335	4,436,323,009	5,180,544,700	13,334,672,044	5,277	1,096,311,640
Taita Taveta	2,443,413,498	2,922,341,963	3,422,806,457	8,788,561,918	10,291	63,841,860
Tana River	2,921,556,211	3,495,601,069	4,071,970,389	10,489,127,669	14,564	336,415,344
Tharaka Nithi	2,316,285,957	2,764,643,356	3,239,937,332	8,320,866,645	7,592	200,303,047
Trans Nzoia	3,768,041,967	4,490,618,357	5,257,547,437	13,516,207,761	5,503	254,656,475
Turkana	7,674,315,857	9,178,804,658	10,682,488,020	27,535,608,535	10,730	1,905,054,443
Uasin Gishu	3,811,462,902	4,564,237,642	5,325,054,685	13,700,755,229	5,107	603,938,560
Vihiga	2,860,896,942	3,420,828,036	3,989,004,984	10,270,729,962	6,173	369,707,452
Wajir	5,311,159,775	6,355,760,549	7,405,324,292	19,072,244,616	9,604	474,412,339
West Pokot	3,177,935,726	3,795,568,370	4,446,096,324	11,419,600,420	7,425	188,477,720
<b>Grand Total</b>	<b>195,664,976,833</b>	<b>231,058,635,439</b>	<b>272,097,931,229</b>	<b>698,821,543,501</b>	<b>7,355</b>	<b>32,893,640,642</b>

### Notes:

1. Transfers shown above include equitable share allocations as well as conditional grants as provided in County Allocation of Revenue Acts for FYs 2013/14, 2014/15 and 2015/16.
2. Transfers shown in Table 1 (as well as in Table 2) exclude the following two conditional grants: i) Government of Kenya-financed Medical Equipment Services; and, ii) World Bank-financed National Urban Transport Improvement Project (NUTRIP).
3. Column "F" reflects the sum total of cash balances in five CBK accounts namely: County Revenue Fund Accounts; Recurrent Accounts; Development Accounts; Deposit Accounts and County Assembly Recurrent Accounts.

**Table 2: Breakdown of Fiscal Transfers to County Governments by Type (Ksh. millions)**

Transfer Type	FY 2013/14	FY 2014/15	FY 2015/16	Cumulative
	(Total Transfers)	(Total Transfers)	(Total Transfers as at 30.06.2016)	Transfers (2013/14 - 2015/16)
	A	B	C	D=A+B+C
Equitable Share Transfers	190,000.0	226,660.0	259,774.5	676,434.5
Level Five Hospitals	3,418.7	1,863.3	3,600.5	8,882.5
Free Maternal Healthcare	2,246.3	1,398.0	3,321.0	6,965.3
Foregone User Fees Compensation	-	-	900.0	900.0
Road Maintenance Levy Fund	-	-	3,300.0	3,300.0
Danida (HSPP III)	-	733.7	663.7	1,397.3
World Bank (KHSSP-HSSF)	-	403.7	508.2	911.9
Italy (KIDDP)	-	-	30.0	30.0
<b>Grand Total</b>	<b>195,665.0</b>	<b>231,058.6</b>	<b>272,097.9</b>	<b>698,821.5</b>

### Implementation of the Equalization Fund

5. The Equalization Fund was officially launched on 11th March, 2016 by His Excellency the President, following Parliament's approval of Guidelines on the Administration of the Fund. To ensure the Fund's smooth operations, the National Treasury has appointed an Administrator, and the Fund's newly-constituted Board has commenced operations. Moreover, an Equalization Fund account has been opened at the Central Bank of Kenya (CBK) with a balance of Ksh. 6.4 billion as at 30th June, 2016, being undisbursed allocations from previous years. In the financial year 2016/17, a further amount of Ksh. 6.0 billion has been budgeted for distribution to 14 Counties identified in the Policy on Marginalized Areas, which was developed by the Commission on Revenue Allocation. The 2016/17 allocation is approximately 0.6 percent of the last-audited revenues approved by the National Assembly, which exceeds the constitutionally-prescribed minimum of 0.5 percent. In the medium-term, this allocation will be maintained at levels above the constitutional minimum, so as to make up for non-disbursement in earlier years.

### Achievements and challenges

6. Enhancement of transfers to Counties is causing notable positive impacts in service delivery and livelihoods. For example, as reported in the Economic Survey, 2016:
  - a) Between 2013 and 2015, the pre-primary gross enrolment rate improved from 71.6 percent to 76.4 percent, while net enrolment went up from 66.9 percent to 74.6 percent. In the same period, teachers in Early Childhood Development centres grew by 6 percent while student enrolment in youth polytechnics improved by nearly 10 percent.
  - b) Health facilities in most Counties are now equipped with state-of-the-art medical equipment, thus enhancing their capacity to deliver specialized health care, and easing demand for specialized health care at national referral hospitals. In 2015, the proportion of births registered in health facilities had gone up to 90 percent, compared with 82 percent in 2013.
  - c) Infrastructure development has witnessed remarkable improvements, such as in Wajir County where the first ever tarmac road has been constructed, stretching nearly 30 kilometres.

7. Despite these positive trends, a number of challenges have emerged in the last three years which in our view, have the potential of undermining the gains made so far. Key among the challenges are:
  - a) Escalation of unbudgeted commitments; outstanding payments relating to service providers and statutory deductions; and, unauthorized debt.
  - b) Low mobilization of own-source revenue with significant leakages in revenue collection processes, as well as making of payments directly from accounts still being held in commercial banks, contrary to a directive from the National Treasury. Adherence to this directive is being monitored.
  - c) Deterioration in the absorption of County budgets. According to reports by the Controller of Budget, Counties absorbed 79 percent of their budgets in the Financial Year 2013/14; 64 percent in 2014/15, and, 50 percent in the first three quarters of 2015/16.
  - d) Continued accumulation of idle cash balances. As at 8th July, 2016, the Counties had collectively accumulated cash balances in various CBK accounts amounting to Ksh. 32.9 billion, equivalent to 13 percent of aggregate equitable share transfers in 2015/16. This trend should be a concern for the general public because unspent budgetary resources signify undelivered public services, and could lead to mismanagement.
  - e) Unproductive utilization of public funds. Counties continue to allocate huge resources to non-priority expenditures such as domestic and foreign travels, hospitality and unnecessary committee meetings outside their respective Counties.
  - f) Over recruitment of staff with pay scales above those recommend by the Public Service Commission (PSC).

### The National Government is committed to supporting devolution

8. Over the last three financial years, the National Treasury has fully disbursed to County Governments their equitable share allocations as well as the vast majority of additional conditional allocations. It should be noted that continued accumulation of idle cash reserves in the Counties' accounts at CBK, combined with the lack of improvement in their budget absorption rates essentially negate persistent claims that service delivery disruptions being frequently witnessed particularly in the health sector are primarily due to disbursement delays by the National Treasury. Nevertheless, in order to further accelerate the release of funds from County Revenue Fund accounts to operational accounts, the National Treasury and the Controller of Budget have developed standard guidelines to facilitate this process.

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