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Paper Laid

By the chairperson of the Budget & Approp Committee Hon Ichungwa on 14/3/2018

REPUBLIC OF KENYA

PARLIAMENT OF KENYA

TWELFTH PARLIAMENT – SECOND SESSION

THE REPORT OF

THE BUDGET AND APPROPRIATIONS COMMITTEE ON THE DIVISION OF REVENUE BILL, 2018

MARCH, 2018

1.0. Table of Contents

2.0. PREFACE

Mr. Speaker, the Division of Revenue Bill (DoRB), 2018 was read a first time in the National Assembly on Tuesday, 13th March, 2018 and stood committed to the Select Committee on Budget and Appropriations Committee pursuant to Standing Order 127 (2) of National Assembly.

Mr. Speaker, The Budget and Appropriations Committee held one meeting to consider the Bill. The Committee noted that the DoRB, 2018 has been derived from the House resolution of the committees report on the Budget Policy Statement and the Debt Management Strategy for 2018/19 and the medium term and this is in accordance with the requirement of the provisions of Standing Order 232(8) (a). Further, **Mr. Speaker**, during the consideration of the Budget Policy statement, the Committee held consultative meetings on the vertical allocation with various stakeholders who include the Commission on Revenue Allocation and the National Treasury.

Mr. Speaker, the Division of Revenue Bill, 2018, therefore provides for the equitable sharing of national raised revenue between the two levels of government as well as additional resources to counties in form of conditional allocations (grants and loans) and Equalization Fund. To this end, **Mr. Speaker**, the enactment of the Division of Revenue Bill, 2018 is critical in setting the stage for the preparation of the County Allocation of Revenue Bill, 2018, which will inform the firming up and completion of preparation of the annual budget estimates for the forty seven (47) county governments. Article 224 of the Constitution requires that County Governments prepare and adopt their annual budgets and appropriations bills based on the approved DoRB. To this end, the timely approval of the bill will go a long way in facilitating the County government process to in a seamless manner.

Mandate of the Committee

Mr. Speaker, Article 221 (4 and 5) of the Constitution and Section 7 of the Public Finance Management Act, 2012 provides for the establishment of a Committee of the National Assembly to deal with budgetary matters. In addition, Standing Order 207 establishes the Budget and Appropriations Committee whose function shall be to:

i. i. Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the national budget

ii. ii. Discuss and review the estimates and make recommendations to the House;

iii. iii. Examine the Budget Policy Statement presented to the House;

iv. iv. Examine bills related to the national budget including appropriation bills; and

v. v. Evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays.

vi.

Mr. Speaker, the Budget and Appropriations Committee as currently constituted comprises of the following Honourable Members:

1) **Hon. Kimani Ichung'wah, M.P- Chairman**
2) **Hon. Moses Lessonet, M.P- Vice Chairman**
3) Hon. CPA John Mbadi, CBS, M.P.
4) Hon. Richard Onyonka, M.P.
5) Hon. Samwel Moroto, M.P.
6) Hon. Millie Odhiambo, M.P.
7) Hon. Twalib Bady, M.P.
8) Hon. (Dr.) Gideon Ochanda, M.P.
9) Hon. James Mwangi Gakuya, M.P.
10) Hon. (Dr.) Makali Mulu Benson, M.P.
11) Hon. Moses Kiarie Kuria, M.P.
12) Hon. Benard Masaka Shinali, M.P.
13) Hon. John Muchiri Nyaga, M.P.
14) Hon. Jude Njomo, M.P.
15) Hon. (Dr.) Korei Ole Lemein, M.P.
16) Hon. Sarah Paulata Korere, M.P.
17) Hon. Naisula Lesuuda, M.P.
18) Hon. Christopher Wangaya Aseka, M.P.
19) Hon. Danson Mwashako, M.P.
20) Hon. Fatuma Gedi Ali, M.P.
21) Hon. Florence Chepng'etich Koskey, M.P.

22) Hon. James Gichuki Mugambi, M.P.

23) Hon. (Dr.) John K. Mutunga, M.P.

24) Hon. (Eng.) Mark Nyamita, M.P.

25) Hon. Paul Abuor, M.P.

26) Hon. Qalicha Gufu Wario, M.P.

27) Hon. Ruth W. Mwaniki, M.P.

Acknowledgement

Mr. Speaker, The Budget and Appropriations Committee wishes to thank the Office of Speaker, the Office of the Clerk of National Assembly and Parliamentary Budget Office for the committed assistance received as it discharged its mandate during deliberations.

Mr. Speaker, on behalf of the Members of the Budget and Appropriations Committee, and as required under Articles 204 and 221 (5) of the Constitution, as well as sections 18 (4) of the Public Finance Management Act, 2012; it is with great pleasure that I table this report for the House to note its contents and approve the Division of Revenue Bill, 2018.

Signed

The Hon. Kimani Ichung'wah, M.P.

Chairman, Budget & Appropriations Committee

March, 2018

3.0. EVALUATION AND CONTENTS OF THE DIVISION OF REVENUE BILL, 2018

1. **Mr. Speaker,** the Committee did review and evaluate the DoRB, 2018 in accordance to the provisions of Article 202,203,205 and 218(2) of the Constitution. The Committee is therefore satisfied that DoRB, 2018 complies with the legal requirements of the Constitution.

2. **Mr. Speaker**, the Division of Revenue Bill, 2018 provides for sharing of revenue raised nationally between the national government and county governments for the financial year 2018/19 in accordance with Article 203 and 218 of the Constitution. The Division of Revenue Bill, 2018 sets out the indicative sharable revenue, national government share of revenue, county equitable share of revenue, conditional grants and the Equalization fund. The equitable share of revenue to counties is shared using the formula approved under Article 217 of the Constitution.

3. **Mr. Speaker,** The Constitution sets out the criteria in determining the equitable shares and it recognizes that the national government must meet all the national interest as well provide for public debt and other national obligations. Thus, in evaluating the DoRB, 2018 the committee took cognizance of the set out criteria under article 203 (1) of the Constitution. In particular, the Committee made sure that the National interest and the provision of public debt obligations were factored in.

4. **Mr. Speaker,** Article 202 (2) & (3) of the Constitution provides that at least fifteen percent of nationally raised revenues should be send aside and the basis of this proportion should be the last audited revenue accounts. The last audited and approved revenue accounts relate to financial year 2013/14 which total to Kshs 935,653 million. Thus, using the minimum constitutional threshold of 15%, the barest minimum allocation to counties should be Kshs 140,347 million. To this end, Mr. **Speaker**, the committee is contented

that the proposed equitable share in the DoRB, 2018 of Kshs. 314,000 million complies with the requirements of the provision of Article 2013(2) of the Constitution. Indeed, the committee also took into account the principle of resources follow functions.

4.0. RECOMMENDATION ON SHARING OF REVENUE FOR FINANCIAL YEAR 2018/19 BY THE COMMISSION ON REVENUE ALLOCATION

5. **Mr. Speaker**, Article 205 of the Constitution requires for consultations on financial legislation affecting counties and in particular the consideration of the recommendations of the Commission on Revenue Allocation (CRA). The Committee held two meetings with the CRA in regard to their recommendations on equitable share of revenue between national and county Governments for Financial year 2018/19. During the consultative meetings the committee was informed that the resource envelope was based on the Budget Review Outlook paper (BROP), 2017 and the CRA own projections. Specifically, he projected nationally raised revenue for financial year 2018/19 (FY) was estimated at Kshs. 1,885,000 Million of which Kshs. 1,717,000 Million is to be shareable revenue between the two levels of Government. The Commission therefore recommended the sharing of revenue as follows:

    i. Kshs. 1,371,200 Million to the national government;
    ii. Kshs. 337,200 Million for county Governments; and
    iii. Kshs. 8,600 Million for equalization fund.

6. In addition, **Mr. Speaker** ,the CRA proposed Kshs. 30,461 million for conditional allocations to county governments as follows:

    i. Level 5 hospital (Kshs. 4,500 Million) ;
    ii. Free maternity Health care (Kshs. 3,400 Million);
    iii. Compensation for user fees forgone(Kshs. 900 Million) ;
    iv. Leasing of Medical Equipment (Kshs. 4,500 Million) ;
    v. Road Fuel levy Fund (Kshs. 8,556 million);
    vi. Development of Youth Polytechnics (Kshs. 2,000Million);
    vii. Supplement for construction of county headquarter (Kshs. 605 Million)

viii. *Establishment of two Regional Cancer Referral Centers (Kshs 5,000 Million) ;and*

ix. *Establishment of a National Cancer Drug Access programme (Kshs 1,000Million).*

5.0. TOTAL SHAREABLE REVENUE

7. **Mr. Speaker, the** Division of Revenue Bill, 2018 provides that the projected total shareable revenue to be shared between the National Government and County Governments for Financial Year (FY) will be Kshs. 1,688,492 million. This comprises of: the National Government share of Kshs. 1,369,792 Million, Kshs. 4,700 Million for the Equalization Fund and Kshs. 314,000 Million for County Equitable share.

8. Furthermore, **Mr. Speaker,** from the National Government share of revenue the DoRB, 2018 has provided for additional conditional allocations to the counties which amount to Kshs.17, 231 Million. This allocations have been earmarked for the following purposes:

   i. *Leasing of Medical Equipment (Kshs. 9,400 Million);*

   ii. *Compensation for user fees forgone(Kshs. 900 Million) ;*

   iii. *Level 5 hospital (Kshs. 4,326 Million);*

   iv. *Supplement for construction of county headquarter Kshs. 605 Million); and*

   v. *Rehabilitation of Youth Polytechnics (Kshs. 2,000Million).*

6.0. COUNTY GOVERNMENT ALLOCATIONS

9. **Mr. Speaker,** the DoRB, 2018 proposes to allocate Kshs 372,741 million to County Governments as follows:

   i. *County equitable share (Kshs 314 million);*

   ii. *Additional conditional allocations from the share of the National Government (Kshs. 17,231 Million);*

   iii. *Equalization Fund (Kshs. 4,700 Million);*

   iv. *Allocation from Fuel levy Fund Kshs. 8,269 million; and*

   v. *Conditional allocations from loans and grants (Kshs. 33,241)*

10. **Mr. Speaker**, besides these five areas, there, is a provision of Kshs 4,500 million from the national government share as a special grant to the National Hospital Insurance Fund (NHIF) to cater for free maternal health care to be disbursed as reimbursements. Previously, free maternal health care was reimbursed directly to the county governments but there is policy shift in administration of the free maternal health care where the service shall be administered through the existing National Hospital Insurance Fund framework.

7.0. ADDITIONAL CONDITIONAL ALLOCATIONS (NATIONAL GOVERNMENT SHARE OF REVENUE)

11. **Mr. Speaker**, Article 202(2) of the Constitution provides for additional allocation to County Governments from the National Government's share of revenue, either conditionally or unconditionally. Pursuant to this Article, the DoRB,2018 proposes to allocate resources as additional conditional allocations to support specific national policy objectives to be implemented by County Governments:

    i. **Kshs 9.4 Billion to Facilitate the Leasing of Medical Equipment.** This grant which is in its fourth year of implementation is proposed to increase from Kshs. 6.1 billion in FY 2017/18 to Ksh. 9.4 billion in FY 2018/19 and is intended to facilitate the purchase of modern specialized medical equipment in at least two health facilities in each County Government over the medium term.

    ii. **Kshs. 4.3 Billion for Level-5 Hospitals.** Level-5 hospitals have continued to play a significant role in providing specialized health care services to Kenyans. These hospitals provide specialised health care services to citizens residing outside their host County, usually for complicated cases referred from lower level health facilities. In order to compensate them for the costs incurred in rendering services to neighboring Counties, the national government proposes to allocate Ksh. 4.3 billion in financial year 2018/2019 up from Ksh. 4.2 billion allocated in FY 2017/18.

iii. **Kshs. 900 Million to Compensate County Health Facilities for Forgone User Fees.** It is the intention of government to sustain the Government policy of not charging user fees in public health facilities. In this regard, and in furtherance of this policy, the National Government has allocated Ksh. 900 million in the financial year 2018/19 to compensate county governments for revenue forgone by not charging user fees in the county health facilities. This additional conditional allocation is in its 4th year of implementation.

iv. **Kshs. 2 billion for Rehabilitation of Youth Polytechnics:** this additional conditional allocation which is in its second year of implementation and implemented through the State Department of Vocational and Technical Training, is meant to support county governments in equipping Technical and Vocational Centres and capitation of student fees. The additional conditional allocation aims at enhancing access to quality and relevant vocational skills training.

v. **Kshs. 605 million to supplement county allocation for the construction of county headquarters in five counties:** This conditional allocation is intended to further supplement financing for construction of headquarters by five County Governments that did not inherit adequate offices. The five counties are Isiolo; Lamu; Nyandarua; Tana River and Tharaka Nithi. The allocation which is part of a three-year plan, beginning financial year 2016/17, to supplement the five counties construct their county headquarters will be shared equally, with each getting an allocation of Ksh. 121 million in FY 2018/19. This marks the second phase of the agreement whereby the National Government will contribute 70 percent of the budget while County Governments will contribute 30 percent. The National Government's contribution will be spread over three financial years.

12. **Mr. Speaker,** the DoRB, 2018 proposes a further additional conditional allocation **of Ksh. 8.3 billion from the Road Maintenance Fuel Levy Fund.** The DoRB, 2018 notes that this allocation is in its fourth year and is meant to further enhance County Govern-

ments' capacity to repair and maintain county roads. This allocation is equivalent to 15 percent (%) of the Road Maintenance Fuel Levy Fund.

8.0. CONDITIONAL ALLOCATIONS (LOANS & GRANTS)

13. Mr. Speaker, the DoRB, 2018 provides that in FY 2018/19 there will be conditional allocations to various County Governments in form of loans and grants from our development partners. This includes the following:

i. **Transforming Health Systems for Universal Care Project conditional allocation of Kshs. 3.6 billion (World Bank credit) :-** This conditional allocation through the Ministry of Health is expected to continue to improve delivery, utilization and quality of primary health care services with focus on reproductive, maternal, new-born, child and adolescent health (RMNCAH) at the county level. This additional conditional allocation amounts to Kshs. 3.6 billion for financial year 2018/19 up from Kshs. 2.75 billion in FY 2017/18.

ii. **National Agricultural and Rural Inclusive Growth Project; NARIGP of Kshs. 2.9 billion (World Bank credit):** - this additional conditional allocation, which in FY 2017/18 amounted to Kshs. 1.05 billion is expected to increase to Kshs. 2.9 billion in financial year 2018/19. This additional conditional allocation is meant to further compliment efforts by counties to increase agricultural productivity and profitability of targeted rural communities in selected counties, and to provide immediate and effective response in case of crisis or emergency.

iii. **Kenya Urban Support Program (KUSP) additional conditional allocation of Kshs. 11.5 billion:** -The Program Development Objective (PDO) of this additional conditional allocation is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya. This allocation will provide capacity building and institutional support to 47 counties; however, direct financial support will be provided to 45 counties other than the city counties of Nairobi and Mombasa, and to 59 potentially eligible urban areas within those counties.

iv. **Kenya Devolution Support Program (KDSP) County Capacity Building ("level 1") Grant of Kshs. 2.3 billion.** This is a conditional grant, which is in its second year of implementation, financed by a World Bank credit to support county government's capacity building under the Kenya Devolution Support Program (KDSP) amounting to Ksh. 2.3 billion. This grant is intended to support capacity building initiatives in the counties in the following areas:

- Strengthening public financial management (PFM) systems;
- Strengthening County Human resource management;
- Improving county planning and Monitoring & Evaluation systems;
- Civic Education and Public Participation; and,
- Strengthening Intergovernmental relations.

v. **KDSP Performance ("level 2") Grant amounting to Ksh. 4 billion.** This is a conditional grant financed by a World Bank credit which is intended to incentivise county governments that achieve good results in the following key areas:

- Strengthening public financial management (PFM) systems;
- Strengthening County Human resource management;
- Improving county planning and Monitoring & Evaluation systems;
- Civic Education and Public Participation; and,
- Strengthening Intergovernmental relations.
- Performance of counties in the above areas is to be assessed by an independent firm to be recruited through a competitive process.

vi. **EU-Instruments for Devolution Advice and Support (IDEAS) grant of Ksh. 1.04 billion:** This grant, which is in its second year of implementation, is expected to increase from Ksh. 985.8 million in financial year 2017/18 to Ksh. 1.04 billion in financial year 2018/19. The grant is meant to support National and County government's capacities for the management of the devolution process and the responsible transfer and use of resources for the achievement of local economic development at the county level.

intergovernmental collaboration in the recently devolved Kenyan health system. The Project will have a strong focus on results by allocating resources to each county based on their improved coverage and quality of essential PHC services that are directly linked to the PDO and other factors including equity. The Project's support to strengthen the M&E system, including the routine Health Information Systems (HIS), will improve the quality of data for monitoring progress toward the achievement of PDO.

9.0. COMMITTEE OBSERVATIONS

14. **Mr. Speaker**, the 2010 Constitution, Chapter 12 ushered a new public financial management architecture complete with principles of public finance, institutional responsibilities and importantly, principles to be followed when sharing of nationally raised resources between the two levels of government. Based on Article 202 and 203 of the Constitution, the Committee retreat the need to follow the following key principle:
    i. Principle of Allocative efficiency;
    ii. Principle of Developmental needs and ability to respond to emergencies;
    iii. Principle of Resources follow functions; and
    iv. Principal of subsidiarity.

15. **Mr. Speaker,** if these principles are adhered to on and followed, then the process of sharing of resources between the two levels of government will be devoid of political peddling.

16. **Mr. Speaker,** the committee noted that the most recent audited and approved accounts of revenue received and which forms the basis of revenue sharing in accordance with Article 203(2) of the Constitution relates to financial year 2013/14. This is on account that the National Assembly is yet to approve audited accounts of revenues for financial years 2014/15 and 2015/16. We implore the relevant committee and the House to fast track on the approval of these accounts.

17. **Mr. Speaker,** the committee observed that despite the allocation for Leasing of Medical Equipment has increased to its current allocation of Kshs. 9.4 billion, there was need to audit the beneficiaries of these equipment as well as the details of the contracts. The Committee observed that some of the ninety-four (94) hospitals in respective counties did not receive the specialized equipment, lacked the relevant skills and reagents to operate them. To this end, **Mr. Speaker**, the committee therefore observed that it shall engage with the Chairperson of Health Committee for Council of Governors (CoG) and National Assembly Committee on Health to discuss the matter before making its recommendations on the 2018/19 Budget Estimates. In addition, **Mr. Speaker**, while the committee will be conducting the public hearings for the 2018/19 estimates in the month of May, 2018, the committee will therefore undertake visits in some selected counties to specifically have an understanding of the leasing of medical equipment programme.

18. Finally, **Mr. Speaker**, the Committee observed that county governments continue to receive allocation from the Fuel Levy Fund despite there being no clear framework in place to support these allocations. It was noted with concern that the Kenya Roads Bill, 2017 has not been dispensed with and thus there is need to make this a priority. The enactment of the Bill shall bring forth clarity in the classification of roads. This will assist in predictability in allocation of additional resources going forward

10.0. RECOMMENDATION

19. **Mr. Speaker**, the Committee request the House to approve the Division of Revenue Bill, 2018 be read a second time.

MINUTES OF 10th SITTING OF THE BUDGET AND APPROPRIATIONS COMMITTEE HELD ON TUESDAY, 13th MARCH 2018, IN COMMISSION BOARD ROOM, COUNTY HALL AT 10.00 A.M.

PRESENT

1. **Hon. Kimani Ichung'wah, M.P- Chairperson**
2. **Hon. Moses Lessonet, M.P- Vice Chairperson**
3. Hon. Samwel Moroto, M.P.
4. Hon. James Mwangi Gakuya, M.P.
5. Hon. Twalib Bady, M.P.
6. Hon. (Dr.) Makali Mulu, M.P.
7. Hon. (Dr.) Gideon Ochanda, M.P.
8. Hon. John Muchiri Nyaga, M.P.
9. Hon. Sarah Paulata Korere, M.P.
10. Hon. Benard Masaka Shinali, M.P.
11. Hon. (Dr.) Korei Ole Lemein, M.P.
12. Hon. Fatuma Gedi Ali, M.P.
13. Hon. James Gichuki Mugambi, M.P.
14. Hon. Danson Mwashako, M.P.
15. Hon. Qalicha Gufu Wario, M.P.

ABSENT WITH APOLOGIES

1. Hon. CPA. John Mbadi, CBS, M.P
2. Hon. Moses Kiarie Kuria, M.P.
3. Hon. Millie Odhiambo, M.P.
4. Hon. Jude Njomo, M.P.
5. Hon. Richard Onyonka, M.P.
6. Hon. Naisula Lesuuda, OGW M.P.
7. Hon. Christopher Wangaya Aseka, M.P.
8. Hon. Florence Chepngetich Koskey, M.P.
9. Hon. (Eng.) Mark Nyamita, M.P.
10. Hon. (Dr.) John K. Mutunga, M.P.
11. Hon. Paul Abuor, M.P.
12. Hon. Ruth W. Mwaniki, M.P.

SECRETARIAT

1) Mr. Martin Masinde	Senior Deputy Director, PBO
2) Mr. Joseph Ndirangu	Clerk/ Fiscal Analyst III
3) Mr. Danson Kachumbo	Fiscal Analyst III
4) Mr. Joram Baraza	Office Attendant

AGENDA

1. Preliminaries
2. Confirmation of Agenda
3. Confirmation of the previous minutes
4. Matters Arising
5. Agenda: **Briefing and Consideration of legislative proposals referred to the committee**:

    i. *The Basic Education (Amendment) Bill 2017 by Hon. Ronald Tonui, M.P.*

6. Briefing on the Division of Revenue Bill (DoRB), 2018
7. Adoption of the Committee draft report
8. Any Other Business

MIN BAC /10 /2018/01: PRELIMINARIES/CONFIRMATION OF AGENDA

The vice- chairman called the meeting to order at 10.30 a.m. and welcomed members of the committee to the meeting. Thereafter, Hon. Danson Mwashako, M.P. led the committee with a word of prayer. In his introductory remarks, the Vice- Chairman read the agenda of the meeting. After reading the agenda, members were informed that Hon. Ronald Tanui, M.P. was absent. Therefore, agenda number five was differed to the next meeting. The proposal to adopt the amendment of agenda was proposed by Hon. Qalicha Gufu Wario, M.P. and seconded by Hon. (Dr.) Korei Ole Lemein, M.P. Thereafter, the vice- chairman invited Parliamentary Budget Office to brief members.

MIN BAC /10/2017/02 CONFIRMATION OF PREVIOUS MINUTES/ MATTERS ARISING

There were no minutes to be confirmed.

MIN BAC /10 /2017/03 BRIEFING BY PBO ON DIVISION OF REVENUE BILL (DoRB), 2018

The presentation from PBO highlighted that:

1. Division of Revenue Bill, 2018 provides that the projected total shareable revenue to be shared between the National Government and County Governments for Financial Year (FY) will be Kshs. 1,688,492 million. This comprises of: the National Government share of Kshs. 1,369,792 Million, Kshs. 4,700 Million for the Equalization Fund, and Kshs. 314,000 Million for County Equitable share.

2. Furthermore, from the National Government share of revenue the DoRB, 2018 has provided for additional conditional allocations to the counties which amount to Kshs.17, 231 Million. This allocation have been earmarked for the following purposes:
    1. *Leasing of Medical Equipment (Kshs. 9,400 Million)*
    2. *Compensation for user fees forgone (Kshs. 900 Million)*
    3. *Level 5 hospital (Kshs. 4,326 Million)*
    4. *Supplement for construction of county headquarter Kshs. 605 Million)*
    5. *Rehabilitation of Youth Polytechnics (Kshs. 2,000Million)*

COUNTY GOVERNMENT ALLOCATIONS

3. the DoRB, 2018 proposes to allocate Kshs 372,741 million to County Governments as follows:
    1. County equitable share will be Kshs 314 million,
    2. Additional conditional allocations (from the share of the National Government) will be Kshs. 17,231 Million

3. Equalization Fund will be Kshs. 4,700 Million
4. Allocation from Fuel levy Fund Kshs. 8,269 million
5. Conditional allocations (from loans and grants) of Kshs. 33,241

4. Besides these five areas there is a provision of Kshs 4,500 million from the national government share as a special grant to the National Hospital Insurance Fund (NHIF) to cater for free maternal health care to be disbursed as reimbursements. Previously, free maternal health care was reimbursed directly to the county governments but there is policy shift in administration of the free maternal health care where the service shall be administered through the existing National Hospital Insurance Fund framework.

ADDITIONAL CONDITIONAL ALLOCATIONS (NATIONAL GOVERNMENT SHARE OF REVENUE)

5. Article 202(2) of the Constitution provides for additional allocation to County Governments from the National Government's share of revenue, either conditionally or unconditionally. Pursuant to this Article, the DoRB,2018 proposes to allocate resources as additional conditional allocations to support specific national policy objectives to be implemented by County Governments:
    1. **Kshs 9.4 Billion to Facilitate the Leasing of Medical Equipment.** This grant which is in its fourth year of implementation is proposed to increase from Kshs. 6.1 billion in FY 2017/18 to Ksh. 9.4 billion in FY 2018/19 and is intended to facilitate the purchase of modern specialized medical equipment in at least two health facilities in each County Government over the medium term.

    2. **Kshs. 4.3 Billion for Level-5 Hospitals.** Level-5 hospitals have continued to play a significant role in providing specialized health care services to Kenyans. These hospitals provide specialised health care services to citizens residing outside their host County, usually for complicated cases referred from lower level health facilities. In order to compensate them for the costs incurred in rendering services to neighboring Counties, the national government proposes to allocate

Ksh. 4.3 billion in financial year 2018/2019 up from Ksh. 4.2 billion allocated in FY 2017/18.

3. **Kshs. 900 Million to Compensate County Health Facilities for Forgone User Fees.** It is the intention of government to sustain the Government policy of not charging user fees in public health facilities. In this regard, and in furtherance of this policy, the National Government has allocated Ksh. 900 million in the financial year 2018/19 to compensate county governments for revenue forgone by not charging user fees in the county health facilities. This additional conditional allocation is in its 4th year of implementation.

4. **Kshs. 2 billion for Rehabilitation of Youth Polytechnics:** this additional conditional allocation which is in its second year of implementation and implemented through the State Department of Vocational and Technical Training, is meant to support county governments in equipping Technical and Vocational Centres and capitation of student fees. The additional conditional allocation aims at enhancing access to quality and relevant vocational skills training.

5. **Kshs. 605 million to supplement county allocation for the construction of county headquarters in five counties:** This conditional allocation is intended to further supplement financing for construction of headquarters by five County Governments that did not inherit adequate offices. The five counties are Isiolo; Lamu; Nyandarua; Tana River and Tharaka Nithi. The allocation which is part of a three-year plan, beginning financial year 2016/17, to supplement the five counties construct their county headquarters will be shared equally, with each getting an allocation of Ksh. 121 million in FY 2018/19. This marks the second phase of the agreement whereby the National Government will contribute 70 percent of the budget while County Governments will contribute 30 percent. The National Government's contribution will be spread over three financial years.

6. the DoRB, 2018 proposes a further additional conditional allocation **of Ksh. 8.3 billion from the Road Maintenance Fuel Levy Fund.** The DoRB, 2018 notes that this allocation is in its fourth year and is meant to further enhance County Governments' capacity to repair and maintain county roads. This allocation is equivalent to 15 percent of the Road Maintenance Fuel Levy Fund.

CONDITIONAL ALLOCATIONS (LOANS & GRANTS)

7. The DoRB, 2018 provides that in FY 2018/19 there will be conditional allocations to various County Governments in form of loans and grants from our development partners. This includes the following:
   i. **Transforming Health Systems for Universal Care Project conditional allocation of Kshs. 3.6 billion (World Bank credit) :-** This conditional allocation through the Ministry of Health is expected to continue to improve delivery, utilization and quality of primary health care services with focus on reproductive, maternal, new-born, child and adolescent health (RMNCAH) at the county level. This additional conditional allocation amounts to Kshs. 3.6 billion for financial year 2018/19 up from Kshs. 2.75 billion in FY 2017/18.
   ii. **National Agricultural and Rural Inclusive Growth Project; NARIGP of Kshs. 2.9 billion (World Bank credit):** - this additional conditional allocation, which in FY 2017/18 amounted to Kshs. 1.05 billion is expected to increase to Kshs. 2.9 billion in financial year 2018/19. This additional conditional allocation is meant to further compliment efforts by counties to increase agricultural productivity and profitability of targeted rural communities in selected counties, and to provide immediate and effective response in case of crisis or emergency.
   iii. **Kenya Urban Support Program (KUSP) additional conditional allocation of Kshs. 11.5 billion:** -The Program Development Objective (PDO) of this additional conditional allocation is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya. This allocation will provide capacity building and institutional support to 47 counties; however,

direct financial support will be provided to 45 counties other than the city counties of Nairobi and Mombasa, and to 59 potentially eligible urban areas within those counties.

iv. **Kenya Devolution Support Program (KDSP) County Capacity Building ("level 1") Grant of Kshs. 2.3 billion.** This is a conditional grant, which is in its second year of implementation, financed by a World Bank credit to support county government's capacity building under the Kenya Devolution Support Program (KDSP) amounting to Ksh. 2.3 billion. This grant is intended to support capacity building initiatives in the counties in the following areas:

   a. Strengthening public financial management (PFM) systems;
   b. Strengthening County Human resource management;
   c. Improving county planning and Monitoring & Evaluation systems;
   d. Civic Education and Public Participation; and,
   e. Strengthening Intergovernmental relations.

v. **KDSP Performance ("level 2") Grant amounting to Ksh. 4 billion.** This is a conditional grant financed by a World Bank credit which is intended to incentivise county governments that achieve good results in the following key areas:

   a. Strengthening public financial management (PFM) systems;
   b. Strengthening County Human resource management;
   c. Improving county planning and Monitoring & Evaluation systems;
   d. Civic Education and Public Participation; and,
   e. Strengthening Intergovernmental relations.
   f. Performance of counties in the above areas is to be assessed by an independent firm to be recruited through a competitive process.

vi. **EU-Instruments for Devolution Advice and Support (IDEAS) grant of Ksh. 1.04 billion:** This grant, which is in its second year of implementation, is expected to increase from Ksh. 985.8 million in financial year 2017/18 to Ksh. 1.04 billion in financial year 2018/19. The grant is meant to support National and County government's capacities for the management of the devolution process and the responsible transfer and use of resources for the achievement of local economic development at the county level.

vii. **IDA – Water And Sanitation Development Project (WSDP) World Bank Credit of Ksh. 3.8 billion:** The Project Development Objective (PDO) of this program, financed by this additional conditional allocation, is to improve water supply and sanitation services in six select counties located in the coastal and north eastern regions of Kenya. This will be achieved by investing in water supply and sanitation infrastructure in urban centers in these counties. The project will also improve services by strengthening institutional capacity in areas, such as, reducing Non-Revenue Water (NRW), improving billing and revenue collection systems, and developing medium-term business plans. In addition, the WSDP will establish a results-based financing mechanism at the national level to provide incentives to the Water Services Providers (WSPs) to accelerate access to water supply and sanitation services and improve operational and financial performance.

viii. **IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP) of Kshs. 3.0 billion:** The project development objective (PDO) of this project is "to increase agricultural productivity and build resilience to climate change risks in the targeted smallholder farming and pastoral communities in Kenya, and in the event of an Eligible Crisis or Emergency, to provide immediate and effective response. "In light of this objective, the utility of Climate-smart Agriculture CSA lies in:(i) its explicit integration of the triple-wins (productivity, adaptation, and mitigation) with planning, implementation, and monitoring, which are often done in isolation; and (ii) improving the understanding of expected outcomes of context-specific CSA investments on different beneficiaries over time. KCSAP will focus on increasing agricultural productivity and enhancing resilience to impacts of climate change; reductions in Greenhouse Gas (GHG) emissions will be a co-benefit.

ix. **DANIDA-Universal Healthcare for Devolved System Program of ksh. 1.0 billion:** The project development objective (PDO) of this programme is "to improve utilization and quality of primary health care services with a focus on reproductive, maternal, new-born, child, and adolescent health services. "The Project will achieve this objective by:

(a) improving access to and demand for quality (Primary Health Care) PHC services; (b) strengthening institutional capacity in selected key areas to improve utilization and quality of PHC services; and (c) supporting cross-county and intergovernmental collaboration in the recently devolved Kenyan health system.The Project will have a strong focus on results by allocating resources to each county based on their improved coverage and quality of essential PHC services that are directly linked to the PDO and other factors including equity. The Project's support to strengthen the M&E system, including the routine Health Information Systems (HIS), will improve the quality of data for monitoring progress toward the achievement of PDO.

MIN BAC /10 /2017/04: ADOPTION OF THE REPORT

After the presentation, members were taken through the draft report by PBO. The committee observed that despite the allocation for Leasing of Medical Equipment has increased to its current allocation of Kshs. 9.4 billion, there was need to audit the beneficiaries of these equipment as well as the details of the contracts. The Committee observed that some of the ninety-four (94) hospitals in respective counties did not receive the specialized equipment, lacked the relevant skills and reagents to operate them.

The committee therefore observed that it shall engage with the Chairperson of Health Committee for Council of Governors (CoG) and National Assembly Committee on Health to discuss the matter before making its recommendations on the 2018/19 Budget Estimates. In addition, while the committee will be conducting the public hearings for the 2018/19 estimates in the month of May, 2018, the committee will therefore undertake visits in some selected counties to specifically have an understanding of the leasing of medical equipment programme.

The Committee further observed that counties continue to receive allocation from the Fuel Levy Fund despite there being no law in place to support the allocations. It was noted with concern that the Kenya Roads Bill, 2017 has not been dispensed with and thus there is need to fast-track it.

After deliberations, the Committee adopted its report that the ***House to approve the Division of Revenue Bill, 2018 be read a second time***

MIN BAC /10 /2017/05: ANY OTHER BUSINESS

There being no other business the meeting adjourned at 1.00 p.m. The next meeting will be 15th March 2018.

SIGNED

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HON. KIMANI ICHUNG'WAH, M.P.
CHAIRMAN, BUDGET AND APPROPRIATIONS COMMITTEE

13/3/2018

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DATE