

SPECIAL ISSUE

Kenya Gazette Supplement No. 95 (Senate Bills No. 9)



REPUBLIC OF KENYA

KENYA GAZETTE SUPPLEMENT

SENATE BILLS, 2025

NAIROBI, 24th June, 2025

CONTENT

Bill for Introduction into the Senate —

PAGE

The County Allocation of Revenue Bill, 2025 147

**THE COUNTY ALLOCATION OF REVENUE BILL,
2025**

ARRANGEMENT OF CLAUSES

Clause

- 1—Short title.
- 2—Interpretation.
- 3—Object.
- 4—Equitable allocation of county governments' share of revenue.
- 5—Budget ceilings for recurrent expenditure.
- 6—Funding of transferred functions.
- 7—Report on actual transfers.
- 8—Books of accounts to reflect National Government transfers.
- 9—Financial misconduct.
- 10—Applicable revenue - sharing formula.

FIRST SCHEDULE: ALLOCATION OF EACH
COUNTY
GOVERNMENTS'
EQUITABLE SHARE OF
REVENUE RAISED
NATIONALLY,
FINANCIAL YEAR
2025/2026

SECOND SCHEDULE: COUNTY GOVERNMENT
BUDGET CEILINGS OF
RECURRENT
EXPENDITURE IN
FINANCIAL YEAR
2025/2026

THE COUNTY ALLOCATION OF REVENUE BILL, 2025

A Bill for

AN ACT of Parliament to provide for the equitable allocation of revenue raised nationally among the county governments for the 2025/2026 financial year; the responsibilities of national and county governments pursuant to such allocation; and for connected purposes.

ENACTED by Parliament of Kenya, as follows—

1. This Act may be cited as the County Allocation of Revenue Act, 2025. Short title.

2. In this Act — Interpretation.

“Cabinet Secretary” means the Cabinet Secretary responsible for matters relating to finance; and

“revenue” has the meaning assigned to it under section 2 of the Commission on Revenue Allocation Act. Cap. 428.

3. The object of this Act is to — Object.

(a) provide, pursuant to Article 218(1)(b) of the Constitution, for the allocation of an equitable share of revenue raised nationally among the county governments, in accordance with the resolution approved by Parliament under Article 217 of the Constitution for the financial year 2025/26; and

(b) facilitate the transfer of allocations made to counties under this Act from the Consolidated Fund to the respective County Revenue Funds.

4. (1) Each county governments’ equitable share of revenue raised nationally, on the basis of the revenue sharing formula approved by Parliament in accordance with Article 217 of the Constitution in respect of the financial year 2025/26 shall be as set out in Column F of the First Schedule. Equitable allocation of county governments’ share of revenue.

(2) Each county government’s allocation under subsection (1) shall be transferred to the respective County Revenue Fund in accordance with a payment schedule approved by the Senate and published in the *Gazette* by the

Cabinet Secretary in accordance with section 17 of the Public Finance Management Act.

Cap 412A.

5. The budget ceilings for recurrent expenditure for county governments for the financial year 2025/2026 shall be as set out in the Second Schedule.

Budget ceilings
for recurrent
expenditure.

6. (1) Where a county government has transferred a function to the National Government pursuant to Article 187 of the Constitution, the respective county executive in consultation with the National Government shall determine the cost of the transferred functions.

Funding of
transferred
functions.

(2) The respective county assembly shall appropriate such monies as may be required for the transferred function in accordance with the determination made under subsection (1) and the allocation shall not be less than the amount appropriated by the county assembly in the preceding financial year.

(3) The monies appropriated under subsection (1) shall be transferred to the National Government.

(4) A national government entity to which a county government function has been transferred shall submit a quarterly report to the Senate and the respective county assembly on the status of the discharge of the devolved function.

(5) The Auditor-General shall, no later than three months after the end of a financial year, prepare a special audit report on the financial and non-financial performance of an entity to which a county government function has been transferred.

(6) The Auditor-General shall submit the report under subsection (5) to the Senate and the respective county assembly.

7. The Cabinet Secretary shall publish a monthly report on actual transfers of all allocations to county governments.

Report on actual
transfers.

8. (1) Each county treasury shall reflect all transfers by the national government to the county governments in its books of accounts.

Books of accounts
to reflect National
Government
transfers.

(2) The estimates of revenue of each county shall separately reflect the total equitable revenue share under section 4 of this Act transferred to the County Revenue Fund.

(3) A county treasury shall as part of its consolidated quarterly and annual reports required under the Public Finance Management Act report on actual transfers received by the county government from the national government, up to the end of that quarter or year in the format prescribed by the Public Sector Accounting Standards Board or in the absence of a format prescribed by the Board, in the format prescribed by the National Treasury.

Cap. 412A.

9. Despite the provisions of any other law, any serious or persistent non-compliance with provisions of this Act constitutes an offence under the Public Finance Management Act.

Financial
misconduct.

Cap. 412A

10. For the avoidance of doubt the allocation of the equitable share of revenue to county governments under section 4 of this Act shall be in accordance with the fourth determination of the basis of the division of revenue among counties approved by Parliament pursuant to Article 217(7) of the Constitution.

Applicable
revenue-sharing
formula.

FIRST SCHEDULE**Allocation of Each County Government's Equitable Share of Revenue Raised Nationally in the FY 2025/26.**

		Baseline Allocation of Ksh.387.425 billion		Affirmative Action Allocation	Additional equitable share above Ksh.391.885 (Ksh.23.115billion)		Total Equitable Share
SN	County	Allocation factor	Equitable share	Ksh.4.46 Billion	Allocation Ratio	Equitable Share	
		A	B	C	D	E	F=B+C+E
1	Baringo	1.72520	6,683,873,223		1.72966	399,810,161	7,083,683,384
2	Bomet	1.81070	7,015,121,755		1.86926	432,078,744	7,447,200,499
3	Bungoma	2.88331	11,170,673,599		2.88722	667,381,067	11,838,054,666
4	Busia	1.93971	7,514,935,582		1.91057	441,628,476	7,956,564,058
5	Elgeyo-Marakwet	1.24585	4,826,732,019	371,666,667	1.37031	316,748,026	5,515,146,712
6	Embu	1.38605	5,369,896,832	371,666,667	1.45307	335,878,174	6,077,441,672
7	Garissa	2.13988	8,290,447,365		2.54094	587,337,311	8,877,784,676
8	Homa-Bay	2.10887	8,170,280,800		2.05968	476,095,263	8,646,376,063
9	Isiolo	1.27083	4,923,507,187	371,666,667	1.45440	336,183,445	5,631,357,298
10	Kajiado	2.15397	8,345,013,610		2.37612	549,241,276	8,894,254,886
11	Kakamega	3.35046	12,980,503,320		3.00387	694,345,246	13,674,848,566
12	Kericho	1.73930	6,738,465,302		1.90440	440,203,054	7,178,668,356
13	Kiambu	3.17318	12,293,696,674		3.36630	778,121,312	13,071,817,986
14	Kilifi	3.14121	12,169,843,476		2.78414	643,553,294	12,813,396,770
15	Kirinyaga	1.40654	5,449,272,719	371,666,667	1.43077	330,722,506	6,151,661,892
16	Kisii	2.40197	9,305,835,688		2.22317	513,886,080	9,819,721,768
17	Kisumu	2.16954	8,405,328,573		2.14881	496,698,365	8,902,026,938
18	Kitui	2.80983	10,885,968,099		2.67333	617,939,738	11,503,907,837
19	Kwale	2.22634	8,625,411,603		1.96101	453,288,040	9,078,699,643
20	Laikipia	1.39047	5,387,034,732	371,666,667	1.49418	345,380,610	6,104,082,008
21	Lamu	0.84002	3,254,430,723	371,666,667	1.00162	231,523,815	3,857,621,205
22	Machakos	2.47718	9,597,223,940		2.51745	581,908,741	10,179,132,681
23	Makueni	2.19328	8,497,308,272		2.07237	479,027,382	8,976,335,654
24	Mandera	3.01752	11,690,618,560		2.48517	574,446,433	12,265,064,993
25	Marsabit	1.96093	7,597,151,194		2.19995	508,517,884	8,105,669,078
26	Meru	2.56678	9,944,340,480		2.63727	609,605,579	10,553,946,059
27	Migori	2.16431	8,385,076,399		2.15818	498,863,320	8,883,939,719
28	Mombasa	2.03902	7,899,674,038		2.09263	483,711,243	8,383,385,281
29	Murang'a	1.93892	7,511,867,031		1.97966	457,597,845	7,969,464,876
30	Nairobi City	5.20842	20,178,711,957		5.35763	1,238,416,440	21,417,128,397
31	Nakuru	3.52765	13,666,997,646		3.40969	788,150,012	14,455,147,658
32	Nandi	1.89613	7,346,071,107		1.84169	425,706,959	7,771,778,066
33	Narok	2.38546	9,241,860,519		2.28621	528,456,627	9,770,317,146
34	Nyamira	1.38349	5,359,987,994	371,666,667	1.47861	341,779,695	6,073,434,356
35	Nyandarua	1.53230	5,936,521,652	371,666,667	1.53358	354,487,312	6,662,675,631
36	Nyeri	1.68255	6,518,609,255		1.63324	377,523,418	6,896,132,673

		Baseline Allocation of Ksh.387.425 billion		Affirmative Action Allocation	Additional equitable share above Ksh.391.885 (Ksh.23.115billion)		Total Equitable Share
SN	County	Allocation factor	Equitable share	Ksh.4.46 Billion	Allocation Ratio	Equitable Share	
		A	B	C	D	E	F=B+C+E
37	Samburu	1.45144	5,623,228,509	371,666,667	1.47988	342,075,188	6,336,970,364
38	Siaya	1.88462	7,301,473,431		1.95979	453,005,454	7,754,478,885
39	Taita- Taveta	1.30764	5,066,138,383	371,666,667	1.39582	322,644,636	5,760,449,685
40	Tana-River	1.76156	6,824,718,834		1.72077	397,755,896	7,222,474,730
41	Tharaka- Nithi	1.13558	4,399,508,312	371,666,667	1.24210	287,111,314	5,058,286,293
42	Trans- Nzoia	1.94631	7,540,500,922		1.94947	450,619,915	7,991,120,837
43	Turkana	3.41054	13,213,283,320		2.93876	679,294,051	13,892,577,371
44	Uasin- Gishu	2.18685	8,472,398,961		2.18307	504,615,809	8,977,014,770
45	Vihiga	1.36618	5,292,921,648	371,666,667	1.48892	344,162,910	6,008,751,224
46	Wajir	2.55606	9,902,799,041		2.61640	604,781,642	10,507,580,683
47	West Pokot	1.70607	6,609,735,714		1.69885	392,690,294	7,002,426,008
	Total	100	387,425,000,000	4,460,000,000	100.00000	23,115,000,000	415,000,000,000

SECOND SCHEDULE

County Government Budget Ceilings on Recurrent Expenditure in Financial Year 2025/26 (Figures in Kenya Shillings)					
		County Assembly Ceilings		County Executive Ceilings	
	COUNTY	FY 2024/25	FY 2025/26	FY 2024/25	FY 2025/26
1	Baringo	757,858,506	823,469,122	811,330,131	496,161,163
2	Bomet	677,847,307	725,816,719	675,271,762	468,730,626
3	Bungoma	1,019,575,196	969,221,694	794,269,934	562,059,982
4	Busia	804,254,206	859,603,045	740,954,156	514,728,802
5	Elgeyo-Marakwet	642,494,863	682,127,598	682,571,452	445,655,740
6	Embu	612,356,235	653,997,909	599,617,223	445,585,855
7	Garissa	805,632,232	903,212,868	693,214,915	510,888,235
8	Homa-bay	865,455,765	901,349,007	807,946,650	538,863,664
9	Isiolo	455,851,471	471,957,767	483,811,987	376,492,992
10	Kajiado	739,100,667	797,493,878	705,785,753	459,200,063
11	Kakamega	1,277,560,747	1,240,150,864	954,360,037	631,900,264
12	Kericho	753,482,865	801,439,308	742,119,652	491,924,215
13	Kiambu	1,122,733,276	1,207,680,576	937,949,817	642,094,266
14	Kilifi	811,428,332	851,651,828	732,390,410	528,153,096
15	Kirinyaga	626,637,101	667,134,062	591,357,406	436,378,706
16	Kisii	994,072,293	1,051,143,180	842,938,395	569,351,784
17	Kisumu	862,083,652	793,261,872	720,990,566	522,102,171
18	Kitui	946,077,555	990,218,850	1,034,274,047	556,906,939
19	Kwale	625,406,505	667,152,528	561,039,626	447,387,205
20	Laikipia	477,594,112	511,501,082	543,968,003	406,459,778
21	Lamu	466,864,730	472,735,064	439,219,777	373,334,857
22	Machakos	924,156,126	957,194,136	817,384,477	540,775,483
23	Makueni	780,912,038	839,631,315	772,648,310	494,768,774
24	Mandera	825,043,653	917,936,058	709,410,958	511,948,091
25	Marsabit	666,740,178	741,494,088	620,635,223	458,101,332
26	Meru	991,451,371	1,033,230,263	1,046,885,894	565,023,558
27	Migori	907,920,737	936,954,113	803,308,177	538,507,125
28	Mombasa	700,845,894	732,807,953	550,949,872	497,268,190
29	Murang'a	755,814,834	813,710,947	822,212,796	515,207,988
30	Nairobi City	1,596,625,912	1,568,909,510	924,648,890	775,756,999
31	Nakuru	1,034,293,969	1,121,659,233	949,692,125	622,626,699
32	Nandi	727,658,319	781,140,379	829,614,196	492,132,433

County Government Budget Ceilings on Recurrent Expenditure in Financial Year 2025/26 (Figures in Kenya Shillings)					
		County Assembly Ceilings		County Executive Ceilings	
	COUNTY	FY 2024/25	FY 2025/26	FY 2024/25	FY 2025/26
33	Narok	834,927,075	878,624,509	715,936,269	499,621,001
34	Nyamira	650,614,404	689,414,409	584,106,355	444,949,706
35	Nyandarua	706,936,676	758,345,693	683,959,845	469,042,680
36	Nyeri	710,551,514	760,288,009	779,895,747	492,365,209
37	Samburu	557,171,977	569,616,860	611,274,116	400,557,424
38	Siaya	710,085,117	759,893,500	701,924,604	491,970,700
39	Taita-Taveta	635,498,816	686,797,720	567,140,475	450,325,811
40	Tana-River	605,987,033	580,218,891	558,967,389	422,272,274
41	Tharaka-Nithi	485,355,131	508,533,605	561,403,884	404,731,372
42	Trans-Nzoia	636,754,015	664,759,854	557,198,937	474,454,626
43	Turkana	770,739,999	863,842,883	704,903,707	510,888,235
44	Uasin-Gishu	727,164,370	762,273,308	623,694,943	498,842,007
45	Vihiga	659,816,891	703,918,304	628,658,777	467,917,374
46	Wajir	784,444,072	884,853,943	791,932,190	502,524,835
47	West-Pokot	637,364,488	699,024,354	743,044,332	447,670,353
	Total	36,369,242,225	38,257,392,660	33,756,814,187	23,414,610,681

MEMORANDUM OF OBJECTS AND REASONS

The principal object of this Bill is to make provision for the allocation of revenue raised nationally among the county governments for the financial year 2025/26.

Section 1 of the Bill provides for the short title while **Section 2** defines the various terms used in the Bill.

Section 3 of the Bill contains the objects and the purpose of the Bill which is to provide for the allocation of revenue raised nationally for the financial year 2025/26 as well as the transfer of the county allocations from the Consolidated Fund to the respective County Revenue Fund.

Section 4 of the Bill deals with the allocation of equitable share of revenue raised nationally to each county government.

Section 5 of the Bill provides for budget ceilings for recurrent expenditure for county governments in accordance with section 107(2)(a) of the Public Finance Management Act No. Cap 412A.

Section 6 of the Bill provides for the modalities of funding of transferred functions.

Section 7 of the Bill provides for the publishing of monthly reports by the national government, on actual transfers of all allocations to county governments.

Section 8 of the Bill provides for the respective county treasury to reflect the total allocations from the national government separately in the County Finance Bill and reflect all transfers in the books of accounts.

Section 9 of the Bill provides for the actions constituting financial misconduct.

Section 10 of the Bill provides for use of the third determination of the basis of the allocation of revenue among counties as approved by Parliament pursuant to Article 217(7) of the Constitution.

Dated the 19th June, 2025.

ALI IBRAHIM ROBA,
Chairperson,
Committee on Finance and Budget.

APPENDIX**EXPLANATORY MEMORANDUM TO THE COUNTY
ALLOCATION OF REVENUE BILL, 2025****Background**

1. This memorandum is prepared as an attachment to the County Allocation of Revenue Bill (CARB), 2025 in fulfilment of the requirements of Article 218(2) of the Constitution and section 191 (5) of the Public Finance Management Act, 2012.

2. Article 218 (2) of the Constitution requires that the Bill be submitted to Parliament every year together with a memorandum explaining:

- (a) the proposed revenue allocation set out in the Bill;
- (b) the extent to which the Bill has taken into account the provisions of Article 203 (1) of the Constitution; and
- (c) a summary of any significant deviation from the recommendations of the Commission on Revenue Allocation (CRA), with an explanation for each such deviation.

3. Section 191 (5) of the Public Finance Management Act, 2012 requires that the Bill be accompanied by a memorandum which explains:

- (a) how the Bill takes into account the criteria listed in Article 203(1) of the Constitution;
- (b) the extent of the deviation from the Commission on Revenue Allocation's recommendations;
- (c) the extent, if any, of deviation from the recommendations of the Intergovernmental Budget and Economic Council; and
- (d) any assumptions and formulae used in arriving at the respective shares mentioned in subsections 191 (2) and (3) of the Public Finance Management Act, 2012.

4. The memorandum is also prepared based on the approved fourth basis for revenue allocation among County Governments pursuant to Article 217 of the Constitution. In June 2025, Parliament approved the Fourth basis for allocation of the share of national revenue among the County Governments.

Explanation of the Allocations to the County Governments as Proposed in the Bill***County Governments' Equitable Share***

5. The Bill proposes to allocate County Governments KSh. 415.0 billion for the financial year 2025/26 as equitable share of revenue raised

nationally, translating to an increase of KSh. 27.6 billion from a base of KSh. 387.4 billion allocated in the financial year 2024/25.

6. In the financial year 2024/25, the Division of Revenue (Amendment) Act, 2024, allocated KSh. 387.4 billion to County Governments as equitable share resulting from mediation between the National Assembly and the Senate.

7. The Division of Revenue Bill, 2025 provides for an allocation of KSh. 2,332.4 billion to the National Government; and KSh. 415 billion to County Governments in the financial year 2025/26, translating to an increase of KSh. 27.6 billion (see Table 1).

Table 1: Equitable Revenue Share Allocation to County Governments, Financial Year 2025/26

BUDGET ITEM	Amount (KSh. million)
1. Baseline (i.e. allocation in the previous FY 2024/25)	387,425
Add:	
2. Adjustment for Revenue Growth	27,575
Equitable Revenue Share allocation for FY 2025/26 (1+2)	415,000

Source: National Treasury

8. The proposed County Governments' equitable revenue share allocation of KSh. 415 billion is informed by the following factors:

- (a) Trends in the performance of revenue (this was taken into consideration in determining the KSh. 27.6 billion increase in equitable share of revenue in financial year 2025/26);
- (b) Increased expenditures for National Government for purposes of debt servicing, coupled with a weakened shilling against the dollar;
- (c) The Government commitment to implement a fiscal consolidation plan targeting to reduce the fiscal deficit to 4.5 percent of GDP in financial year 2025/26. This is designed to slow down accumulation of public debt, improve primary surplus thereby achieve fiscal sustainability;
- (d) Financing constraints due to limited access to finance in the domestic and international financial markets;

- (e) Low ordinary revenue collections attributed to the ongoing geopolitical shocks. The global economy is on a recovery path from the negative shocks in supply chain constraints and the rising US Federal Reserve interest rate that destabilized dollar exchange rate and the international debt market; and
- (f) The National Government continues to solely bear shortfalls in revenue in any given financial year whereas the County Governments continue to receive their full allocation despite the budget cuts affecting the National Government.

9. The above proposed Equitable Share for the financial year 2025/26 of **KSh. 415 billion** is equivalent to **21.6 percent** of the last audited and approved actual revenues raised nationally of KSh.1,920,434 million for the financial year 2021/22 pursuant to Article 203(3) of the Constitution.

10. Fiscal Capacity and Efficiency of County Governments: The Bill has proposed an increase of KSh. 27.6 billion equitable share to County Governments. Similarly, it is expected that the County Governments will also grow their Own Source Revenue (OSR). The National Treasury has further instituted measures to support County Governments enhance their revenue collection. These include the National Rating Act, 2024, the County Governments Revenue Raising Process Bill currently under consideration, the Model Tariffs and Pricing policy proposed for adoption by County Governments, as well as the proposed Integrated County Revenue Management System.

11. County Governments' ability to perform the functions assigned to them and meet other developmental needs of the County Governments: As explained above, the baseline for the equitable share allocation for the financial year 2025/26 was derived from the Division of Revenue Act, 2024. This baseline is informed by the costing of expenditure for devolved functions done at the onset of devolution, which has been the basis for the equitable share over the years.

12. Developmental needs of the County Governments and their ability to perform the functions assigned to them: County Governments are allocated equitable share of revenue which is an unconditional allocation to enable counties have autonomy to plan, budget and implement development projects based on county priorities and account for the same. In addition, Article 209 of the Constitution has assigned counties revenue-raising powers, and as such, counties are expected to improve and maintain sustained collection of their own source revenues.

13. Additionally, the equitable share to County Governments is proposed to increase from a base of KSh. 387.4 billion in financial year 2024/25 to KSh. 415 billion in financial year 2025/26, an increase of KSh. 27.6 billion, which is meant to facilitate County Governments enhance service delivery in performance of their assigned functions under Part II of the Fourth Schedule of the Constitution.

14. It should be noted that, in order to achieve balance between priority development and performance of the assigned functions, the Fourth Basis for horizontal revenue sharing is premised on previous allocations and four parameters which relate to devolved functions assigned to County Governments in Part II of the Fourth Schedule of the Constitution.

15. Thus, the proposed vertical division of revenue proposed in the Division of Revenue Bill, 2025, therefore, takes into account the cost of County Governments' developmental needs and it is expected that County Governments will have the ability to perform the functions assigned and transferred to them as contemplated under Article 203(1) (f).

16. Economic Disparities within and among counties and the need to remedy them: Allocation of the sharable revenue (i.e., equitable share of KSh. 415 billion) among County Governments is based on the Fourth-generation formula approved by Parliament in June, 2025 pursuant to provisions of Article 217 and paragraph 16 of the Sixth Schedule of the Constitution. The Fourth Basis formula which is applicable from financial year 2025/26 to financial year 2029/30 has taken into account the following parameters; (i) Population (45%) (ii) Poverty Index (12%); (iii) Geographical Size Index (8%); and; (vi) Basic Share index (35%). The horizontal distribution of County Governments' equitable revenue share allocation of KSh.415 billion for financial year 2025/26 shall be based on the Fourth Basis Formula. Noting the equity and the parameters outlined above, the Fourth basis formula applied in financial year 2025/26, takes into account disparities among counties and aims at equitable distribution of resources across counties.

17. Further, KSh. 9.6 billion has been set aside for the Equalization Fund in the financial year 2025/26, which for purposes of Division of Revenue in financial year 2025/26, which is equivalent to 0.5 per cent of the last audited and approved actual revenues for financial year 2021/22 (i.e., KSh. 1,920,434 million). The Equalisation Fund is used to finance development programmes that aim at reducing regional disparities among beneficiary counties.

18. Need for Economic Optimization of Each County: Allocation of resources to County Governments was guided by the historical costing

of expenditures for functions assigned to the County Governments. The equitable share of revenue allocated to County Governments in the financial year 2025/26 is KSh. 415 billion, an allocation which is KSh.27.6 billion higher than the allocation of KSh. 387.4 billion for financial year 2024/25. This is an unconditional allocation which means that the County Governments can independently plan, budget and spend the funds. With the resources, therefore, County Governments are able to prioritize projects and allocate resources, thus optimizing their potential for economic development.

19. Stable and Predictable Allocations of County Governments' Vertical Share of Revenue: The County Governments' equitable share of revenue raised nationally has been protected from reductions that may be occasioned by a shortfall in revenue raised nationally more so in the advent of the effects of the projected global economic downturn in 2025. According to Clause 5 of the Division of Revenue Bill (DoRB) 2025, the National Government will bear any shortfall in revenue raised nationally.

20. Need for Flexibility in Responding to Emergencies and Other Temporary Needs: The National Government equitable share of revenue has an allocation of KSh. 5 billion for the Contingencies Fund established pursuant to Article 208 of the Constitution. This Fund will be used to meet the demands arising from urgent and unforeseen needs in all Counties that suffer from calamities in the manner contemplated under Sections 19 - 21 of the Public Finance Management Act, 2012. In addition, the Public Finance Management Act, 2012 requires each County Government to set up a County Emergency Fund. County Governments are, therefore, expected to set aside budgets to respond to emergency functions.

21. It should be noted that after taking into account all the other factors contemplated under Article 203(1) of the Constitution, including the needs of County Governments, there are no resources left to finance other National Government needs, such as defense, roads, energy among others. In fact, the National Government is left with a huge to finance needs of other non-discretionary expenditures such as salaries of National Government staff. To bridge this financing gap, the National Government will require additional borrowing which may negatively impact on the fiscal consolidation plan.

Summary of Deviations from the Recommendations of the Commission on Revenue Allocations

22. The County Allocation of Revenue Bill (CARB), 2025 proposes to allocate county governments an equitable share of KSh. 415 billion from the shareable revenue raised nationally to be shared among county governments on the Fourth basis formula for sharing revenue approved by

Parliament under Article 217 of the Constitution. The CRA, on the other hand, recommended County Governments' equitable share of revenue of KSh. 417.4 billion as an unconditional allocation to be shared among county governments on the CRA proposed fourth basis formula for sharing revenue submitted to Parliament for consideration and approval pursuant to Article 217 of the Constitution.

23. The difference between the proposed allocation by the National Treasury and CRA is occasioned by: -

- (a) **Adjustment for Revenue Growth:** - While the Bill has proposed an increase of KSh. 27.6 billion to county governments' equitable share, the CRA has proposed an increase of KSh. 30.0 billion, in FY 2025/26, resulting into a difference of KSh.2.4 billion; and
- (b) **Assumptions Used in Arriving at the Respective Shares:** - Both the National Treasury and the CRA have made varying assumptions in arriving at the respective proposals on County Equitable Share for FY 2025/26, as discussed in paragraph 29 for the National Treasury; and paragraph 30 for the CRA.

Table 3 analyses the approaches by CRA and the National Treasury in computing the proposal on the division of revenue between the national and county governments in FY 2025/26.

Table 3: Comparison of approaches towards recommendations of the Commission on Revenue Allocation and the National Treasury on the equitable share of revenue proposed for FY 2025/26

Expenditure Item	CRA	National Treasury	Variance
	A(million)	B(million)	C=(A-B(million))
1. Equitable Revenue Share in FY 2024/25	387,425	387,425	0
Add:			
2. Increase in Revenue Allocation	30,000	27,6575	2,425
TOTAL EQUITABLE OF REVENUE = (2+3)	417,425	415,000	2,425

Source: The National Treasury

Assumptions Used in Arriving at the Respective Shares

24. In arriving at the allocation of KSh. 415 billion, the National Treasury was informed by the following economic assumptions:

- (i) The Equalization Fund arrears to be financed from the National Government's share of revenue;
- (ii) That there will be no major economic shocks negatively affecting forecasted revenue in financial 2025/26;
- (iii) That Ordinary revenues projected at KSh. 2,757.0 billion (14.7 % of GDP) from KSh. 2,631.4 billion (14.6% of GDP) in financial year 2024/25 is attainable;
- (iv) That there shall be stability in interest rates and foreign exchange rates;
- (v) That inflation shall remain stable within the government target of 5 ± 2.5 percent;
- (vi) That there shall be a steady GDP growth momentum with a projection of 5.3 percent in 2025; and
- (vii) That County Governments will continue to enhance their Own Source Revenues to reduce overreliance on national transfers and improve their fiscal sustainability.

25. In arriving at the allocation of KSh. 417.4 billion, the CRA was informed by the following factors:

- (a) The need to ensure adequate resources for counties to perform assigned functions
- (b) To provide for counter-part funding of shared commitments for County aggregated parks and community health promoters
- (c) The need to ensure County Governments are able to meet financial obligations of non-discretionary commitments such as Housing Levy and Universal Health Coverage
- (d) The need to ensure no County gets lower allocation than that for FY 2024/25 upon the application of the fourth basis revenue sharing among counties.
- (e) Predictable and stable allocation to Counties in line with Article 203 (2) (c) & j
- (f) Meeting of National Government provisions for National Debt and obligations under Article 203 (1) (b).

Conclusion

26. The proposals contained in the Bill take into account the financial objectives set out in the 2025 BPS and are intended to achieve fiscal sustainability against the backdrop of escalating expenditure pressure on the fiscal framework occasioned by an increase in Consolidated Fund Services (CFS) and the persistent underperformance of ordinary revenue.

27. The proposed equitable share allocated to County Governments in the County Allocation of Revenue Bill (CARB), 2025 has also taken into account the approved Fourth Basis Formula for Revenue Allocation. The proposed KSh. 415 billion allocations among County Governments pursuant to Article 217 of the Constitution is equivalent to 21.6 percent of the audited and approved actual revenue for financial year 2021/22. This is above 15 per cent minimum threshold required under Article 203(2) of the Constitution.