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REPUBLIC OF KENYA

THE NATIONAL TREASURY

Division of Revenue Bill, 2026

A Legislative Proposal for submission to Parliament

DIVISION OF REVENUE BILL, 2026

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Division of Revenue Bill, 2026

ARRANGEMENT OF CLAUSES

Clause

- 1—Short title.
- 2—Interpretation.
- 3—Object and purpose of the Act.
- 4—Allocations to National Government and County Governments.
- 5—Variation in Revenue.

SCHEDULE

Equitable Share of Revenue Raised Nationally between the National and County Governments for the Financial Year 2026/27

APPENDIX

Explanatory Memorandum to The Division of Revenue Bill, 2026

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Division of Revenue Bill, 2026

A Bill for

AN ACT of Parliament to provide for the equitable division of revenue raised by the National Government among the national and county levels of government in financial year 2026/27, and for connected purposes.

ENACTED by Parliament of Kenya, as follows—

| | |
|--|---|
| Short title. | 1. This Act may be cited as the Division of Revenue Act, 2026. |
| Interpretation. | 2. In this Act, unless the context otherwise requires— |
| | “Cabinet Secretary” means the Cabinet Secretary for the time being responsible for matters relating to finance; and |
| Cap. 428 | “revenue” has the meaning assigned to it under Section 2 of the Commission on Revenue Allocation Act. |
| Object and purpose of the Act. | 3. The object and purpose of this Act is to provide for the equitable sharing of revenue raised nationally among the national and county governments in the 2026/27 financial year in accordance with Articles 202(1) and 203(2) of the Constitution. |
| Allocations to National Government and county governments. | 4. Revenue raised nationally in respect of the financial year 2026/27 shall be shared equitably among the National and county governments as set out in the Schedule to this Act. |
| Variation in revenue. | 5. (1) If the actual revenue raised nationally in the financial year falls short of the expected revenue set out in the Schedule, the shortfall shall be borne by the National Government. (2) If the actual revenue raised nationally in the financial year exceeds the projected revenues set out in the Schedule, the excess revenue shall accrue to the National Government, and may be used to reduce borrowing or pay debts. |

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Division of Revenue Bill, 2026

Allocation of Revenue Raised Nationally Between the National Government and County Governments for the Financial Year 2026/27

| Type/level of allocation | Amount in KSh. | Percentage (%) of 2021/22 audited and approved Revenue i.e., KSh. 1,920,434,085,078 |
|---------------------------|-------------------|---|
| A. Total Sharable Revenue | 2,901,874,758,144 | |
| B. National Government | 2,472,272,587,719 | |
| C. Equalization Fund | 9,602,170,425 | 0.5% |
| D. County equitable share | 420,000,000,000 | 21.9% |

MEMORANDUM OF OBJECTS AND REASONS

The principal object of this Bill is to provide for the equitable division of revenue raised by the National Government among the National and county governments as required in Article 218 (1) of the Constitution in order to facilitate proper functioning of governments and to ensure continuity of service delivery to the citizens.

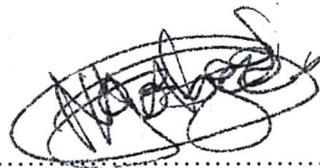
Clauses 1 and 2 of the Bill provide for the short title of the Bill and the interpretation of terms used in the Bill, respectively.

Clause 3 of the Bill contains the provisions on the objects and purpose of the Bill.

Clause 4 of the Bill prescribes the allocations for the National Government and the county governments from the revenue raised nationally for the financial year 2026/27.

Clause 5 of the Bill outlines the mechanisms for adjusting for variations in revenue performance during the financial year in which this Bill relates to.

Dated the.....



5/2/2026, 2026

HON. FCPA JOHN NG'ONGO MBADI, EGH.

Cabinet Secretary for The National Treasury

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Division of Revenue Bill, 2026

APPENDIX

EXPLANATORY MEMORANDUM TO THE DIVISION OF REVENUE BILL, 2026

Background

1. This memorandum has been prepared as an attachment to the Division of Revenue Bill (DoRB), 2026 in fulfilment of the requirements of Article 218(2) of the Constitution and Section 191 (5) of the Public Finance Management Act, CAP 412A.
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, CAP 412A requires that the Bill be accompanied by a memorandum which explains:
 - a) how the Bill takes into account the criteria set out 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, CAP 412A.

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Division of Revenue Bill, 2026

Explanation of the Allocations to the National and County Governments as Proposed in the Bill

4. The Bill proposes an allocation of KSh. 2,472.3 billion to the National Government and KSh. 420.0 billion to county governments for the financial year 2026/27 as equitable share of revenue raised nationally. The allocation of KSh. 420.0 billion translates to an increase of KSh. 5.0 billion or 1.2 % from a base of KSh. 415.0 billion allocated in the financial year 2025/26 (see Table 1).

5. Further the Bill proposes to allocate KSh. 9.6 billion to the Equalisation Fund in FY 2026/27, which is 0.5 % of KSh. 1,920.4 billion, being the latest audited revenues raised nationally for FY 2021/22, as approved by the National Assembly.

Table 1: Equitable Revenue Share Allocation to County Governments for Financial Year 2026/27

| BUDGET ITEM | Amount (KSh. million) |
|--|-----------------------|
| 1. Baseline (i.e., allocation in the previous FY 2025/26) | 415,000 |
| Add: | |
| 2. Adjustment for Revenue Growth | 5,000 |
| Equitable Revenue Share allocation for FY 2026/27 (1+2) | 420,000 |

Source: National Treasury

6. The proposed allocation of KSh. 420.0 billion to county governments equitable revenue share is informed by the following factors:-

- a) Performance of FY 2025/26 Revenues: As at end of December 2025, ordinary revenues for FY 2025/26 recorded a shortfall of KSh 115.3 billion from the target. If this trend continues, it is bound to affect the projected ordinary revenue for FY 2026/27;
- b) Over the years, the National Government has continued to solely bear shortfalls in revenue in any given financial year except for FY 2024/25;
- c) The macroeconomic assumptions outlined in 2026 Budget Policy Statement (BPS), including anticipated growth rates, inflation, and other economic performance indicators, which influence the resources available for allocation;
- d) Declining ordinary revenue as a percent of GDP which indicates that revenue collection is not keeping pace with economic growth. Ordinary revenue as a share of GDP has declined from a high of 18.1% in FY 2013/14 to 14.1% in FY 2024/25 Budget and is projected at 14.4 % in FY 2025/26;
- e) Consolidated Fund Services (CFS) is accounting for 48.5% of ordinary revenue in the FY 2025/26, up from 16.4% in FY 2013/14, pensions and interest payments tripling their share of revenues to 8.7% and 39.8% from FY 2013/14 to FY 2025/26. This trend is expected to remain constant in FY 2026/27;

- f) The spending allocation for FY 2026/27 and medium-term is guided by the Government's fiscal consolidation plan intended to reduce annual uptake of debt and thereby reduce debt vulnerabilities and improve debt sustainability. The implementation of the fiscal consolidation plan by the Government which is aimed at reducing the fiscal deficit inclusive of grants from 5.9 percent of GDP in FY 2024/25 to 5.3 percent of GDP in FY 2026/27. In this regard, there is need for continuous rationalization of expenditures by eliminating non-core expenditures while improving efficiency in implementation of development projects to contain expenditure growth, and stabilize debt;
- g) Increased expenditures for National Government for purposes of debt servicing;
- h) The proposed Equitable Share for financial year 2026/27 of KSh 420 billion is equivalent to 21.9 percent of the most recent audited and approved actual revenues raised nationally of KSh 1,920.4 billion for financial year 2021/22, pursuant to Article 203 (2) and (3) of the Constitution.

Evaluation of the Bill against Article 203 (1) of the Constitution

7. Article 218(2)(b) of the Constitution requires that the division of revenue between the two levels of government and among county governments takes into consideration the criteria set out in Article 203(1) of the Constitution. The criteria include the following: national interest, public debt and other national obligations, the needs of the disadvantaged groups and areas, among others.

8. Table 2 provides an assessment of the extent to which this Bill has taken into consideration the requirements of Article 203(1) of the Constitution in determining the division of revenue between the national and county levels of Government in the financial year 2026/27.

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Division of Revenue Bill, 2026

Table 2: Evaluation of the Bill against Article 203 (1) of the Constitution

| ITEM DESCRIPTION (KSh. millions) | FY2021/22 | FY2022/23 | FY2023/24 | FY 2024/25 | FY 2025/26* | FY 2026/27** |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| ORDINARY REVENUE (EXCLUDING AIA) | 1,775,624 | 2,141,584 | 2,565,959 | 2,631,418 | 2,754,709 | 2,901,875 |
| National Interest [Article 203 (1)(a)] | 83,197 | 61,423 | 97,853 | 92,455 | 125,380 | 136,430 |
| <i>Enhancement of security operations (police vehicles, helicopters, defence etc.)</i> | 22,261 | 24,299 | 23,969 | 33,044 | 49,315 | 53,512 |
| <i>National irrigation & fertilizer clearance</i> | 11,199 | 16,800 | 24,654 | 17,943 | 15,548 | 17,971 |
| A Youth empowerment | 14,548 | 15,290 | 13,087 | 10,290 | 15,004 | 15,016 |
| <i>National social safety net - (for older persons, OVC, child welfare, presidential bursary, severe disability, Hunger Safety Net)</i> | 29,286 | 31,074 | 31,120 | 29,178 | 39,614 | 40,031 |
| <i>School examination fees (KSCE & KCPE & Grade 6(CBC Examination)</i> | 4,103 | 5,003 | 5,023.47 | 2,000 | 5,900 | 9,900 |
| B Public debt (Art. 203 [1][b]) | 1,174,013 | 930,354 | 1,187,784 | 1,340,588 | 1,437,879 | 1,542,069 |
| Other National obligations (Article. 203 [1][b]) | 557,863 | 595,269 | 691,149 | 738,456 | 811,376 | 876,111 |
| <i>Pensions, constitutional salaries & other</i> | 136,978 | 145,951 | 211,019 | 227,357 | 239,635 | 247,049 |
| <i>Constitutional commissions (Art. 248(2)) i.e., CRA, SRC, NLC, NPSC, IEBC, TSC</i> | 299,333 | 321,968 | 332,497 | 355,313 | 402,386 | 453,967 |
| <i>Independent offices (Art. 248(3)) - i.e., AG & CoB</i> | 6,499 | 6,981 | 8,756 | 8,808 | 9,523 | 9,690 |
| C Parliament | 37,883 | 38,477 | 41,002 | 40,865 | 47,991 | 48,779 |
| <i>Other constitutional institutions- State Law Office and DPP</i> | 8,371 | 8,713 | 10,054 | 9,414 | 10,889 | 12,983 |
| <i>Other statutory bodies (e.g., EACC, RPP, WPA, CAJ, IPOA, NGEK)</i> | 7,036 | 8,462 | 9,002 | 8,911 | 10,375 | 10,904 |
| Judiciary | 17,918 | 18,297 | 22,287 | 22,505 | 27,780 | 29,942 |
| <i>Other statutory allocations/earmarked funds (e.g., NG-CDF, Affirmative Action)</i> | 43,845 | 46,420 | 56,532 | 65,283 | 62,798 | 62,798 |
| D Emergencies [Art. 203 (1)(k)] | 5,000 | 5,000 | 1,200 | 4,000 | 2,000 | 2,000 |
| <i>a) Contingencies</i> | 5,000 | 5,000 | 1,200 | 4,000 | 2,000 | 2,000 |
| Equalization Fund [Art. 203 (1) (g) and (h)] | 6,825 | 7,068 | 10,867 | 8,014 | 9,604 | 15,163 |
| E Of which: | | | | | | |
| <i>a. Allocation in FY 2026/27</i> | 6825 | 7068 | 10867 | 7,867 | 6,867 | 9,602 |
| <i>b. Arrears</i> | | | | 147 | 2,737 | 5,561 |
| BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT | -51,274 | 542,470 | 577,106 | 447,905 | 368,469 | 330,101 |
| County Government allocation from revenue raised nationally of which; - | 377,537 | 375,654 | 391,661 | 394,419 | 427,894 | 438,293 |
| <i>a) Equitable Share of Revenue</i> | 370,000 | 370,000 | 380,645 | 387,425 | 415,000 | 420,000 |
| <i>b) Additional conditional allocations financed from revenues raised nationally</i> | 7,537 | 5,654 | 11,016 | 6,994 | 12,894 | 18,293 |
| G Balance left for the National Government | -428,811 | 166,816 | 185,445 | 53,486 | -59,425 | -108,192 |

Source: – Division of Revenue Act, 2025; and actual revenue and expenditure turnout.

*FY 2025/26 Approved Budget Estimates

**National Treasury Proposals

9. National Interest: These are expenditures affecting both levels of governments, which relate to projects and programmes with the following descriptions:

- are critical to the achievement of the country's economic development objectives;
- potentially will have significant impact on social well-being of citizens;
- are anchored in the Vision 2030 and the Medium-Term Plan IV (2023 – 2027);
- are addressing the Bottom-Up Economic Transformation Agenda (BETA) of the Government;
- have significant resource investment requirements and whose benefits accrue nationwide; and
- are contained in the 2026 BPS.

The identified programmes of national interest include activities aimed at enhancing security operations; national irrigation and fertilizer subsidy initiatives; Youth Empowerment Programme; provision of national social safety net for vulnerable groups, and school examination fees subsidy and preparation for 2027 national general elections.

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10. Allocations to these national interest programs is expected to increase significantly by KSh. 11.1 billion from KSh. 125.4 billion in financial year 2025/26 to KSh. 136.4 billion in financial year 2026/27 on account of increased allocations to all national interest expenditures as shown in Table 2. This increase is primarily attributed to a KSh. 4.2 billion increase in enhancement of security operations expenditures; KSh. 0.4 billion additional funding to National Safety Net Programme to cover the elderly persons under the Indigent Fund for Social Health Authority; KSh. 4.0 billion additional funding towards school examination fees; KSh. 0.1 billion additional funding towards Youth Empowerment Programme; and KSh. 2.4 billion additional allocation for National irrigation & fertilizer clearance.

11. **Public Debt:** The Bill has taken into account public debt related costs. These comprise of the annual debt redemption cost as well as the interest payment for both domestic and external debt. In financial year 2026/27, the allocation for payment of public debt related costs is expected to increase from KSh. 1,437.9 billion allocated in financial year 2025/26 to KSh. 1,542.1 billion allocated in the financial year 2026/27, reflecting an increase of KSh. 104.2 billion.

12. **Other National Obligations:** As provided for under Article 203(1) (b) of the Constitution, the Bill has also taken into account the requirements for other national obligations, such as, mandatory pension contributions and/or payments, financing for constitutional offices, including Parliament and Judiciary as well as expenses relating to other statutory bodies. These are estimated to cost KSh. 876.1 billion in financial year 2026/27 up from KSh. 811.4 billion allocated in the financial year 2025/26, reflecting an increase of KSh. 64.7 billion. This increase is largely attributed to a significant increase in allocation to the Constitutional Commissions by KSh. 51.4 billion with allocation to the Independent Electoral Commission (IEBC) and Teachers Service Commission increasing by KSh. 35.8 billion and KSh. 15.6 billion, respectively; while allocation to repayments of pensions has increased by KSh. 7.4 billion.

13. **Fiscal Capacity and Efficiency of County Governments:** The Bill has proposed an increase of KSh. 5.0 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 instituted measures to support county governments enhance their revenue collection. These include the National Rating Act, 2024, development of the County Governments Revenue Raising Process Bill, 2023 the Model Tariffs and Pricing Policy for adoption by county governments and recommendation for an Integrated County Revenue Management System.

14. **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, 2025. This baseline is informed by costing of expenditure for devolved functions

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done at onset of devolution, which has been the basis for equitable share over the years. KSh. 8.9 billion has been identified by the Ministry of Health as the total attendant remunerations for Universal Health Coverage (UHC) Workers to be transitioned to permanent and pensionable terms within counties in the financial year 2026/27. This allocation is proposed to be allocated to county governments fully as a conditional additional allocation in FY 2026/27.

15. Developmental needs of the county governments and their ability to perform their assigned functions: County governments are allocated equitable share of revenue which is an unconditional allocation to enable them 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.

16. Additionally, the equitable share to county governments is proposed to increase by an increase of KSh. 5.0 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.

17. Thus, the proposed vertical division of revenue proposed in the Division of Revenue Bill, 2026, takes into account the cost of county governments' developmental needs, measures by counties to improve OSR and facilitate the ability to perform County functions as contemplated under Article 203(1) (f).

18. Economic disparities within and among counties and the need to remedy them: The Fourth Basis for horizontal revenue allocation among counties was approved by Parliament in 2025 and is applicable from financial year 2025/26 to financial year 2029/30. The Fourth Basis has taken into account the following parameters; 1) The Baseline Allocation Ratio; 2) Affirmative Action Allocation; and 3) The Fourth Basis indices namely: - (i) Population (45%); (ii) Basic Share index (35%); (iii) Poverty Index (12%); and (iv) Geographical Size (8%). The baseline sharing was based on the Third Basis which is premised on eight parameters which relate to devolved functions assigned to county governments in Part II of the Fourth Schedule of the Constitution.

The three components contained in the Fourth Basis are as follows: -

- **The Baseline Allocation Ratio-** This is derived from each County's allocation for Financial Year 2024/25. The Baseline Allocation Ratio ensures that each county maintains what it had already secured in the FY 2024/25 out of KSh. 387.43 billion, which is meant to ensure that no county loses on revenue, hence holding all Counties harmless.

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- **The Affirmative Action Allocation-** This component provides for equitable share amounting to KSh.4.46 billion that has been ring-fenced to cater for and be shared equally among the 12 smaller counties that are not favoured by the other parameters such as population and geographical size. This component considers disparities among counties and aims at equitable distribution of resources across all counties in line with Article 203(1)(g).
- **The Fourth Basis indices-** The third component of the formula shares out the difference amounting to KSh. 28.12 billion using the parameters of the approved Fourth basis which are Population Index, Equal share Index, Poverty Index and Geographical Size Index. The Population Index is based on the 2019 Kenya Population and Housing Census whereas the Poverty Index is based on the 2022 Kenya Poverty Report by the Kenya National Bureau of Statistics

19. Need for Affirmative Action in respect to disadvantaged areas and groups: KSh. 15.2 billion has been set aside for the Equalization Fund in financial year 2026/27. For purposes of Division of Revenue in financial year 2026/27, KSh. 9.6 billion has been allocated being 0.5 per cent of the last audited and approved revenues for financial year 2021/22 (i.e., KSh. 1,920.4 billion), in line with Article 204 of the Constitution. Further, the National Treasury has provided an additional KSh. 5.6 billion towards settlement of arrears to the Fund, in line with the commitment made to Parliament to progressively clear accrued arrears. The Equalisation Fund is used to finance development programmes that aim at reducing regional disparities among beneficiary counties in water, education, health and infrastructure sectors.

20. 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 2026/27 is KSh. 420.0 billion, an allocation which is KSh. 5.0 billion higher than KSh. 415.0 billion allocations in financial year 2025/26. This is an unconditional allocation which means that the county governments can independently plan, budget and spend the funds. With these allocated resources, therefore, county governments are able to prioritize projects and allocate resources, thus optimizing their potential for economic development.

21. Stable and Predictable Allocations of County Governments' Vertical Share of Revenue: The county governments' equitable share of revenue raised nationally has been shielded from possible shocks in performance of total revenues raised nationally more so in the advent of the effects of projected global economic downturn in 2026. Clause 5 of the Division of Revenue Bill, 2026, provides that the National Government will bear the cost of any shortfall in revenue raised nationally in FY 2026/27.

22. Need for Flexibility in Responding to Emergencies and Other Temporary Needs: The National Government has allocated KSh.2.0 billion towards the Contingencies Fund established pursuant to Article 208 of the Constitution. This Fund will be used to finance urgent and unforeseen expenditures in the two levels of government to meet the demands arising from needs in all Counties that suffer from calamities in the manner contemplated under Sections 19 - 21 of the Public Finance Management Act, CAP 412A. In addition, the Public Finance Management Act, CAP 412A mandates each County Government to set up County Emergency Fund to respond to urgent and unforeseen expenditures within their jurisdiction.

23. 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 defence, roads, energy among others. In fact, the National Government is left with a financing gap of KSh 108.2 billion to finance National Government other development priorities and non-discretionary expenditures such as salaries for National Government staff. This implies a huge negative financing gap that may occasion additional borrowing which may distort the fiscal framework already set out in the 2026 Budget Policy Statement and negatively impact on the fiscal consolidation plan.

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

24. The Division of Revenue Bill, 2026 proposes to allocate county governments an equitable share of KSh. 420.0 billion from the shareable revenue raised nationally to be shared among county governments using the Fourth basis formula for sharing revenue approved by Parliament under Article 217 of the Constitution. The Commission on Revenue Allocation (CRA), on the other hand, recommends county governments' equitable share of revenue of KSh. 458.9 billion as an unconditional allocation to be shared among county governments using the fourth basis formula for sharing revenue approved by Parliament, pursuant to Article 217 of the Constitution. The proposed allocation by the National Treasury and CRA has occasioned a variance of KSh. 38.9 billion.

25. The variation of KSh. 38.9 billion between the proposed allocation by the National Treasury and CRA is occasioned by: -

- (a) Adjustment for Revenue Growth from the baseline:** - While the National Treasury has proposed an increase of KSh. 5.0 billion to county governments' equitable share, from the FY 2025/26 baseline, the CRA has proposed an increase of KSh.35.0 billion, in FY 2026/27, resulting into a difference of KSh. 30 billion. Whereas CRA allocation is largely premised on projected revenue performance there may be a likelihood of this growth not being attained, as demonstrated in paragraph 6 (a) whereby projected ordinary revenues for FY 2025/26 underperformed by KSh 115.4 billion as at end of December 2025. Secondly, most of the projected ordinary revenue will go towards financing mandatory expenditures under

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Article 203 (1) of the Constitution including public debt, as shown in Table 2. In fact, taking into account all mandatory expenditures under Article 203 (1) of the Constitution and allocating counties the proposed equitable share of KSh. 420.0 billion and KSh.18.3 billion as additional conditional allocations financed from revenues raised nationally, the national government is left with a deficit of KSh. 108.2 billion.

(b) Remuneration of Universal HealthCare (UHC) Workers: - CRA has proposed an allocation of KSh. 8.94 billion, as equitable share, in FY 2026/27 to fully transition UHC workers to permanent and pensionable staff. Article 187 of the Constitution require that, when a function is transferred from one level of government to another, arrangements shall be made to ensure that the resources necessary for the performance of the function are transferred. In this regard, therefore, both the National Treasury and the CRA have proposed that the attendant total resources for remunerations of the UHC workers be allocated to county governments in FY 2026/27. However, while the CRA has proposed that these resources be allocated as part of the County Equitable Share of revenue in their recommendations on division of revenue for FY 2026/27, the National Treasury proposes that these resources be allocated as a conditional additional allocation to county governments through the County Governments Additional Allocations Bill, 2026.

(c) 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 2026/27, as discussed in paragraph 26 for the National Treasury; and paragraph 27 for 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 2026/27.

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 2026/27

| Expenditure Item | CRA | National Treasury | Variance |
|--|------------|-------------------|------------------|
| | A(million) | B(million) | C=(A-B(million)) |
| 1. Equitable Revenue Share in FY 2025/26 (Base line) | 415,000 | 415,000 | - |
| Add: | | | |
| 2. Increase in Revenue Allocation (a+b) | 43,938 | 5,000 | 38,938 |
| <i>of which</i> | | | |
| a) Revenue growth from baseline | 35,000 | 5,000 | 30,000 |
| b) Transfers of UHC workers (Remuneration for UHC Staff) | 8,938 | - | 8,938 |
| TOTAL EQUITABLE OF REVENUE = (1+2) | 458,938 | 420,000 | 38,938 |

Source: The National Treasury

Assumptions Used in Arriving at the Respective Shares

26. In arriving at the respective allocations to National and County level of governments, the National Treasury was guided by the following economic assumptions:

- (i) That there will be no major economic shocks negatively affecting forecasted revenue in financial 2026/27;
- (ii) That Ordinary revenues projected at KSh 2,901.9 billion (13.9 percent of GDP) in financial year 2026/27 will be attained. This revenue performance will be underpinned by the on-going reforms in fiscal policy and revenue administration;
- (iii) That fiscal deficit shall reduce from an estimated 5.9% of GDP in FY 2024/25 to 5.3 percent of the GDP in FY 2025/26 and 3.2% of GDP over the medium term with strong primary surplus so as to stabilize growth in public debt;
- (iv) The Equalization Fund arrears will be financed from the National Government's share of revenue;
- (v) That there shall be stability in interest rates and foreign exchange rates;
- (vi) That inflation shall remain stable within the government target of 5 ± 2.5 percent;
- (vii) Implementation of the Medium-Term Revenue Strategy (MTRS) for the period FY 2024/25 to FY 2026/27 shall progressively strengthen tax revenue mobilization efforts to 20.0% of GDP over the medium term;
- (viii) That projected public debt/GDP ratio will decline to the debt anchor of 55 ± 5 percent of GDP in PV terms over the medium term, supported by the medium-term fiscal consolidation efforts;
- (ix) Sustained positive Credit Rating by various Agencies including Moody's, S&P and Fitch, will positively influence Kenya's borrowing costs and access to international capital markets;
- (x) A sustained national economic growth momentum with projected GDP growth of 5.3 percent in 2026;
- (xi) That County governments will continue to enhance their Own Source Revenues to reduce overreliance on national transfers and improve their fiscal sustainability.

27. In arriving at the allocation of KSh. 458.9 billion, the CRA was informed by the following factors:

- (a) A stable macroeconomic environment that is characterized with low inflation, low interest rates and a stable exchange rate;
- (b) A projected economic growth of 5.3 per cent in the medium term;
- (c) Projected revenue growth of 13.1 per cent that will increase revenue to KSh. 2,982.3 billion for financial year 2026/27 from 2,639.7 billion in the financial year 2025/26; and
- (d) The need to provide adequate resources for each level of government to finance functions assigned to it by the Fourth Schedule of the Constitution.

Conclusion

28. The proposals contained in the Bill considers the financial objectives set out in the 2026 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.

29. The proposed KSh. 420.0 billion allocations among county governments as equitable share of revenue is equivalent to 21.9 percent of the audited and approved revenue for financial year 2021/22. This is above 15 per cent minimum threshold required under Article 203(2) of the Constitution. The proposed equitable share allocated to county governments in the Division of Revenue Bill, 2026 has also taken into account the approved Fourth Basis Formula for Revenue Allocation pursuant to Article 217 of the Constitution.