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REPUBLIC OF KENYA

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**SENATE BILLS, 2026**

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**NAIROBI, 30th April, 2026**

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**THE COUNTY ALLOCATION OF REVENUE BILL,  
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# THE COUNTY ALLOCATION OF REVENUE BILL, 2026

## A Bill for

**AN ACT of Parliament to provide for the equitable allocation of revenue raised nationally among the county governments for the 2026/2027 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, 2026.

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 2026/27; 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 2026/27 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.

5. The budget ceilings for recurrent expenditure for county governments for the financial year 2026/2027 shall be as set out in the Second Schedule.

Cap 412A.  
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 2026/27.

SN	County	Baseline Allocation of Ksh.387.425 billion		Affirmative Action Allocation	Additional equitable share above Ksh.391.885 (Ksh. 62.858 billion)		Total Equitable Share
		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	1,087,230,381	7,771,103,604
2	Bomet	1.81070	7,015,121,755		1.86926	1,174,980,485	8,190,102,240
3	Bungoma	2.88331	11,170,673,599		2.88722	1,814,853,751	12,985,527,350
4	Busia	1.93971	7,514,935,582		1.91057	1,200,949,705	8,715,885,287
5	Elgeyo-Marakwet	1.24585	4,826,732,019	371,666,667	1.37031	861,353,988	6,059,752,674
6	Embu	1.38605	5,369,896,832	371,666,667	1.45307	913,375,871	6,654,939,370
7	Garissa	2.13988	8,290,447,365		2.54094	1,597,185,439	9,887,632,804
8	Homa-Bay	2.10887	8,170,280,800		2.05968	1,294,677,533	9,464,958,333
9	Isiolo	1.27083	4,923,507,187	371,666,667	1.45440	914,206,015	6,209,379,869
10	Kajiado	2.15397	8,345,013,610		2.37612	1,493,588,356	9,838,601,966
11	Kakamega	3.35046	12,980,503,320		3.00387	1,888,179,239	14,868,682,559
12	Kericho	1.73930	6,738,465,302		1.90440	1,197,073,461	7,935,538,763
13	Kiambu	3.17318	12,293,696,674		3.36630	2,115,997,070	14,409,693,744
14	Kilifi	3.14121	12,169,843,476		2.78414	1,750,057,303	13,919,900,779
15	Kirinyaga	1.40654	5,449,272,719	371,666,667	1.43077	899,355,722	6,720,295,108
16	Kisii	2.40197	9,305,835,688		2.22317	1,397,444,619	10,703,280,307
17	Kisumu	2.16954	8,405,328,573		2.14881	1,350,704,921	9,756,033,494
18	Kitui	2.80983	10,885,968,099		2.67333	1,680,404,655	12,566,372,754
19	Kwale	2.22634	8,625,411,603		1.96101	1,232,656,334	9,858,067,937
20	Laikipia	1.39047	5,387,034,732	371,666,667	1.49418	939,216,478	6,697,917,877
21	Lamu	0.84002	3,254,430,723	371,666,667	1.00162	629,598,120	4,255,695,510
22	Machakos	2.47718	9,597,223,940		2.51745	1,582,423,166	11,179,647,106
23	Makueni	2.19328	8,497,308,272		2.07237	1,302,651,040	9,799,959,312
24	Mandera	3.01752	11,690,618,560		2.48517	1,562,130,417	13,252,748,977
25	Marsabit	1.96093	7,597,151,194		2.19995	1,382,846,527	8,979,997,721
26	Meru	2.56678	9,944,340,480		2.63727	1,657,741,021	11,602,081,501
27	Migori	2.16431	8,385,076,399		2.15818	1,356,592,228	9,741,668,627
28	Mombasa	2.03902	7,899,674,038		2.09263	1,315,388,176	9,215,062,214
29	Murang'a	1.93892	7,511,867,031		1.97966	1,244,376,274	8,756,243,305
30	Nairobi City	5.20842	20,178,711,957		5.35763	3,367,708,246	23,546,420,203
31	Nakuru	3.52765	13,666,997,646		3.40969	2,143,268,780	15,810,266,426
32	Nandi	1.89613	7,346,071,107		1.84169	1,157,653,266	8,503,724,373
33	Narok	2.38546	9,241,860,519		2.28621	1,437,067,275	10,678,927,794
34	Nyamira	1.38349	5,359,987,994	371,666,667	1.47861	929,424,271	6,661,078,932
35	Nyandarua	1.53230	5,936,521,652	371,666,667	1.53358	963,980,940	7,272,169,259

SN	County	Baseline Allocation of Ksh.387.425 billion		Affirmative Action Allocation	Additional equitable share above Ksh.391.885 (Ksh. 62.858 billion)		Total Equitable Share
		Allocation factor	Equitable share	Ksh.4.46 billion	Allocation Ratio	Equitable Share	
		A	B	C	D	E	
36	Nyeri	1.68255	6,518,609,255		1.63324	1,026,624,557	7,545,233,812
37	Samburu	1.45144	5,623,228,509	371,666,667	1.47988	930,227,826	6,925,123,002
38	Siaya	1.88462	7,301,473,431		1.95979	1,231,887,880	8,533,361,311
39	Taita-Taveta	1.30764	5,066,138,383	371,666,667	1.39582	877,389,031	6,315,194,080
40	Tana-River	1.76156	6,824,718,834		1.72077	1,081,644,079	7,906,362,913
41	Tharaka-Nithi	1.13558	4,399,508,312	371,666,667	1.24210	780,760,904	5,551,935,883
42	Trans-Nzoia	1.94631	7,540,500,922		1.94947	1,225,400,726	8,765,901,648
43	Turkana	3.41054	13,213,283,320		2.93876	1,847,249,521	15,060,532,841
44	Uasin-Gishu	2.18685	8,472,398,961		2.18307	1,372,235,353	9,844,634,314
45	Vihiga	1.36618	5,292,921,648	371,666,667	1.48892	935,905,105	6,600,493,420
46	Wajir	2.55606	9,902,799,041		2.61640	1,644,622,968	11,547,422,009
47	West Pokot	1.70607	6,609,735,714		1.69885	1,067,868,853	7,677,604,567
	<b>Total</b>	<b>100</b>	<b>387,425,000,000</b>	<b>4,460,000,000</b>	<b>100.00000</b>	<b>62,858,157,879</b>	<b>454,743,157,879</b>

## SECOND SCHEDULE (S.6(1))

<b>County Government Budget Ceilings on Recurrent Expenditure in FY 2026/27(Figures in Kenya Shillings)</b>					
SN		County Assembly Ceilings		County Executive Ceilings	
	COUNTY	FY 2024/25	FY 2025/26	FY 2024/25	FY 2025/26
1	Baringo	847,469,122	847,626,854	496,161,163	528,170,814
2	Bomet	755,816,719	731,537,286	468,730,626	498,289,418
3	Bungoma	1,074,221,694	976,506,613	562,059,982	601,422,211
4	Busia	859,603,045	869,947,142	514,728,802	549,189,312
5	Elgeyo-Marakwet	682,127,598	684,431,351	445,655,740	472,763,673
6	Embu	653,997,909	651,091,348	445,585,855	472,693,787
7	Garissa	1,010,212,868	995,206,383	510,888,235	544,919,368
8	Homa-bay	901,349,007	913,968,214	538,863,664	575,775,034
9	Isiolo	571,957,767	515,234,218	376,492,992	398,239,140
10	Kajiado	797,493,878	833,655,216	459,200,063	488,452,144
11	Kakamega	1,440,150,864	1,282,977,973	631,900,264	678,615,072
12	Kericho	801,439,308	808,829,560	491,924,215	523,933,866
13	Kiambu	1,332,680,576	1,233,843,597	642,094,266	688,809,074
14	Kilifi	871,651,828	867,147,393	528,153,096	562,613,607
15	Kirinyaga	667,134,062	666,664,869	436,378,706	463,333,283
16	Kisii	1,051,143,180	1,061,001,255	569,351,784	608,714,014
17	Kisumu	993,261,872	799,826,065	522,102,171	638,237,442
18	Kitui	1,025,218,850	1,007,699,946	556,906,939	593,818,310
19	Kwale	667,152,528	675,305,556	447,387,205	474,495,138
20	Laikipia	511,501,082	526,142,878	406,459,778	430,810,140
21	Lamu	502,735,064	479,609,506	373,334,857	395,081,004
22	Machakos	957,194,136	970,874,933	540,775,483	577,686,853
23	Makueni	964,631,315	847,824,561	494,768,774	526,778,425
24	Mandera	917,936,058	974,349,992	511,948,091	543,957,742
25	Marsabit	741,494,088	792,562,104	458,101,332	490,972,864
26	Meru	1,033,230,263	1,040,373,863	565,023,558	604,385,788
27	Migori	936,954,113	941,149,982	538,507,125	575,418,495
28	Mombasa	862,807,953	736,274,590	497,268,190	529,277,841

**County Government Budget Ceilings on Recurrent Expenditure in FY  
2026/27(Figures in Kenya Shillings)**

SN	COUNTY	County Assembly Ceilings		County Executive Ceilings	
		FY 2024/25	FY 2025/26	FY 2024/25	FY 2025/26
29	Murang'a	813,710,947	851,528,548	515,207,988	549,668,499
30	Nairobi City	1,603,909,510	1,569,710,435	775,756,999	834,726,105
31	Nakuru	1,121,659,233	1,139,437,714	622,626,699	666,890,648
32	Nandi	811,140,379	797,267,097	492,132,433	524,142,084
33	Narok	878,624,509	927,319,735	499,621,001	531,630,652
34	Nyamira	689,414,409	698,351,387	444,949,706	472,057,639
35	Nyandarua	758,345,693	785,219,049	469,042,680	498,601,472
36	Nyeri	760,288,009	763,643,931	492,365,209	524,374,860
37	Samburu	569,616,860	605,962,163	400,557,424	633,218,705
38	Siaya	759,893,500	770,412,462	491,970,700	523,980,352
39	Taita-Taveta	706,797,720	694,446,178	450,325,811	477,433,743
40	Tana-River	710,218,891	612,807,695	422,272,274	446,775,992
41	Tharaka-Nithi	508,533,605	513,863,636	404,731,372	429,081,734
42	Trans-Nzoia	664,759,854	663,677,259	474,454,626	504,013,417
43	Turkana	863,842,883	946,217,760	510,888,235	551,543,287
44	Uasin-Gishu	887,273,308	767,346,325	498,842,007	530,851,658
45	Vihiga	703,918,304	704,103,951	467,917,374	497,476,165
46	Wajir	992,853,943	937,865,189	502,524,835	542,527,721
47	West-Pokot	699,024,354	711,194,510	447,670,353	474,778,286
	<b>Total</b>	<b>39,936,392,658</b>	<b>39,192,038,271</b>	<b>23,414,610,682</b>	<b>25,250,626,877</b>

## 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 2026/27.

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

**Clause 3** of the Bill contains the objects and the purpose of the Bill which is to provide for the allocation of revenue raised nationally among county governments for the financial year 2026/27 as well as the transfer of the county allocations from the Consolidated Fund to the respective County Revenue Fund.

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

**Clause 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.

**Clause 6** of the Bill provides for the modalities of funding of transferred functions from a county government to the National Government.

**Clause 7** of the Bill provides for the publishing of monthly reports by the Cabinet Secretary, on actual transfers of all allocations to county governments.

**Clause 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.

**Clause 9** of the Bill provides for the actions constituting financial misconduct.

**Clause 10** of the Bill provides for use of the fourth 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 9th April, 2026.!

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

## APPENDIX

### EXPLANATORY MEMORANDUM TO THE COUNTY ALLOCATION OF REVENUE BILL, 2026

#### Background

1. This memorandum is prepared as an attachment to the County Allocation of Revenue Bill (CARB), 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 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, if any, of the deviation from the recommendations of the Commission on Revenue Allocation;
- (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.

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. On 24<sup>th</sup> 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 National and County Governments as Proposed in the Bill***

1. The Division of Revenue Bill proposes an allocation of KSh. 2,436.9 billion to the National Government and KSh. 454.7 billion to county governments for the financial year 2026/27 as equitable share of revenue raised nationally. The allocation of KSh. 454.7 billion translates to an increase of KSh. 39.7 billion or 9.6 % from a base of KSh. 415.0 billion allocated in the financial year 2025/26 (see Table 1).

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

<b>BUDGET ITEM</b>	<b>Amount (KSh. million)</b>
<b>1. Baseline</b> (i.e., allocation in the previous FY 2025/26)	<b>415,000</b>
<b>Add:</b>	
<b>2. Adjustment for Revenue Growth</b>	<b>39,743</b>
<b>Equitable Revenue Share allocation for FY 2026/27 (1+2)</b>	<b>454,743</b>

***Source: National Treasury***

2. The proposed allocation of KSh. 454.7 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. 454.7 billion is equivalent to 22.2 percent of the most recent audited and approved actual revenues raised nationally of KSh. 2,050.1 billion for financial year 2022/23. The allocation is therefore in line with the provision of Article 203 (2) and (3) of the Constitution.

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

**3. Fiscal Capacity and Efficiency of County Governments:** The Division of Revenue Bill, 2026 has proposed an increase of KSh. 39.7 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.

**4. 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 2026/27 was derived from the Division of Revenue Act, 2025. This baseline is informed by costing of expenditure for devolved functions 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.

**5. 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.

**6. 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 2025/26. 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.
- **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. 62.81 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

**7. Need for Affirmative Action in respect to disadvantaged areas and groups:** KSh. 15.8 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. 10.2 billion has been allocated being 0.5 per cent of the last audited and approved revenues for financial year 2022/23 (i.e., KSh. 2,050.1 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.

**8. 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. 454.7 billion, an allocation which is KSh. 39.7 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.

**9. 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.

**10. 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, 20 and 21 of the Public Finance Management Act. In addition, the Public Finance Management Act mandates each County Government to set up County Emergency Fund to respond to urgent and unforeseen expenditures within their jurisdiction.

11. 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***

12. The Division of Revenue Bill, 2026 proposes to allocate county governments an equitable share of KSh. 454.7 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 and CRA has occasioned a variance of Ksh. 4.2 billion.

13. The variation of Ksh. 4.2 billion between the proposed allocation and CRA is occasioned by: -

- (a) **Adjustment for Revenue Growth from the baseline:** - The proposed an increase of KSh. 39.7 billion to county governments'

equitable share, from the FY 2025/26 baseline, CRA has proposed an increase of KSh. 35.0 billion, in FY 2026/27, resulting into a difference of KSh. 4.2 billion. Whereas CRA allocation is largely premised on projected revenue performance, there may be a likelihood of this growth not being attained 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 Article 203(1) of the Constitution including public debt.

**(b) Remuneration of Universal Health Coverage (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. However, the DORB, 2026 has not provided for transfer of the same as part of equitable share. 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 to align with actual UHC payroll spread across counties.

**(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 14 for the National Treasury; and paragraph 15 for CRA.

14. In arriving at the respective allocations to National and county level of governments, the it 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) That there shall be stability in interest rates and foreign exchange rates;
- (v) That inflation shall remain stable within the government target of  $5\pm 2.5$  percent;
- (vi) 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;
- (vii) That projected public debt/GDP ratio will decline to the debt anchor of  $55\pm 5$  percent of GDP in PV terms over the medium term, supported by the medium-term fiscal consolidation efforts;
- (viii) 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;
- (ix) A sustained national economic growth momentum with projected GDP growth of 5.3 percent in 2026;
- (x) That County governments will continue to enhance their Own Source Revenues to reduce overreliance on national transfers and improve their fiscal sustainability.

15. 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) That projected revenue growth of 13.1 per cent 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;

- (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**

16. 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.

17. The proposed KSh. 454.7 billion allocations among county governments as equitable share of revenue is equivalent to 22.2 percent of the audited and approved revenue for financial year 2022/23. 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 County Allocation of Revenue Bill, 2026 has also taken into account the approved Fourth Basis Formula for Revenue Allocation pursuant to Article 217 of the Constitution.