Mobilizing Resources for County Development

PFM Seminar, ICPAK Eastern Branch

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Constitutional Provisions on County Revenue Generation

- Art.202- Provides Fiscal transfers;
- Art. 203 The revenue raised nationally shall be shared equitably among the two levels of government and among 47county governments;
- Art. 209- Counties with the powers to raise taxes;
- Art. 215- CRA to make recommendations concerning the basis for the equitable share;
- Schedule 4 assigns the responsibility for trade development and regulation to County governments;

Tax Terminologies

- **Tax** is a compulsory payment that does not necessarily involve the use or derivation of direct benefits from services, regulation or goods as defined in Article 209(3) of the Constitution.
- **User charge** is a charge for the use of a product or service and apply per use of the good or service or for the bulk or time-limited use of the good or service i.e water services charge
- **User fee** is a charge, or impost payment paid as a necessary condition for using a public facility i.e parking fees, market fees, health facility user fees and park entry charges
- **License fee** is a fee charged in respect of permission granted to an entity to undertake a certain action and is mainly issued for regulatory purposes i.e SBP

Power to Impose Taxes- Art. 209

National Government

- Income tax;
- Value-added tax;
- Customs duties and other duties on import and export goods;
- Excise tax.

Power to Impose Taxes- Art. 209

County Government

- Property rates;
- Entertainment taxes; and
- Any other tax that it is authorized to impose by an Act of Parliament
- National &county governments may impose charges for the services they provide.
- Taxation & other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labor.

Main Sources of Funding for Counties

1. Exchequer Releases

2. Funds from Development Partners

3. Own Revenues

4. Borrowings

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County Government Revenue

COUNTY BORROWING

Preconditions for guarantee of loans

- The loan is for a capital project;
- the borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it;
- The financial position of the borrower over the medium term is likely to be satisfactory;
- The terms of the guarantee comply with the <u>fiscal responsibility principles</u>

Power of Cabinet Secretary to guarantee loans

- PFM Act (section 58) grants the CS powers to guarantee loans
- The CS may guarantee a loan of a county government on behalf of the national government;
- That loan shall be approved by Parliament
- The PFMA sets preconditions for loans Guarantee

Fiscal Responsibility Principles

- over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- short term borrowing shall be restricted to management of cash flows & shall not exceed 5% of the most recent audited county government revenue.
- The county debt shall be maintained at a sustainable level as approved by county assembly;
- fiscal risks shall be managed prudently

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Fiscal Responsibility Principles Contd

- The county government's recurrent expenditure shall not exceed the county government's total revenue;
- over the medium term a minimum of 30% of the county government's budget allocated to the development expenditure;
- The county government's expenditure on wages & benefits shall not exceed a percentage of the county government's total revenue;
- a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained.

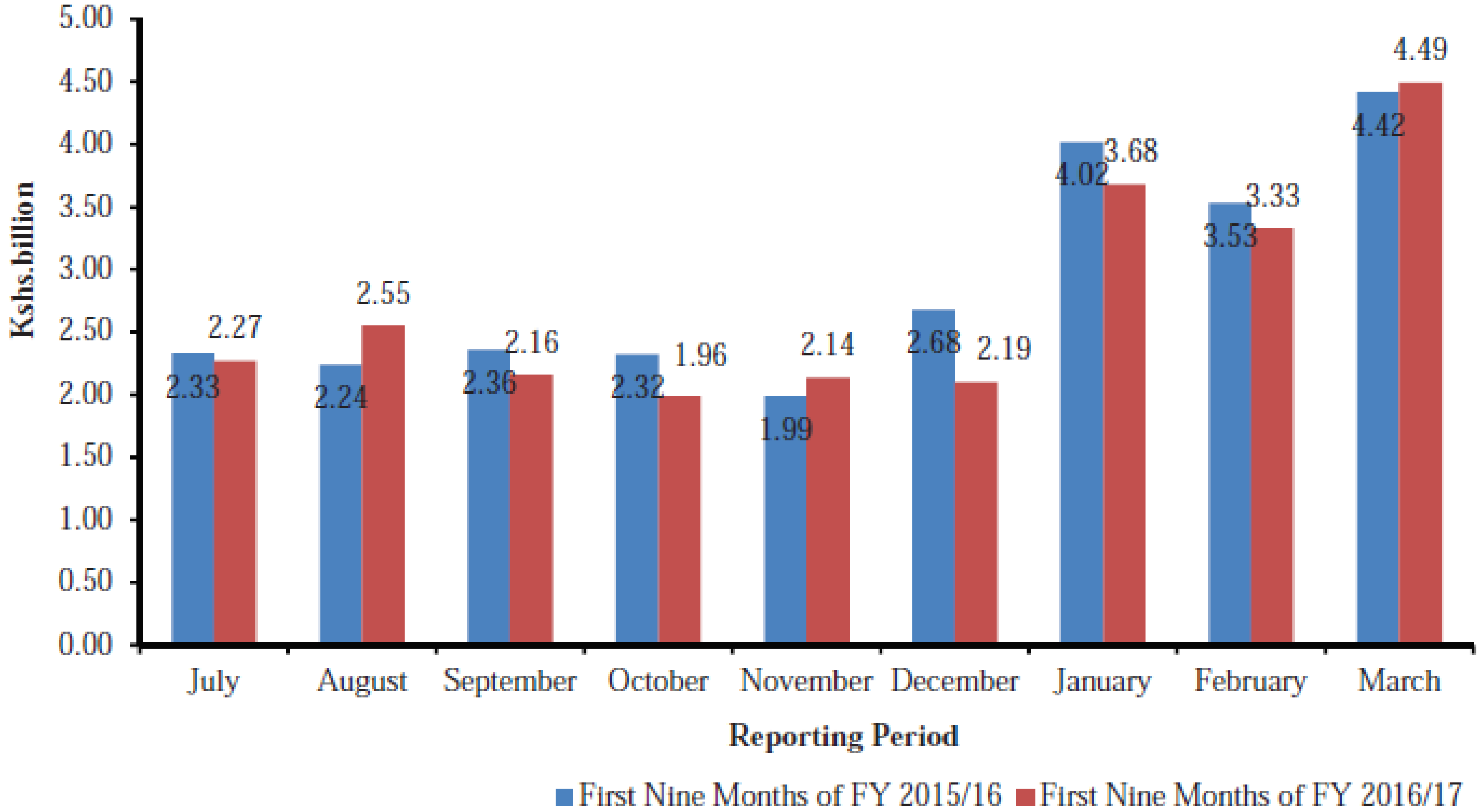
FY 2016/17 Total approved budgets for the County Governments amounted to Kshs.400.25 billion

- Kshs.234.73 billion (58.6 per cent) for recurrent expenditure and Kshs.165.51 billion (41.4 per cent) for development expenditure;
- Kshs.280.3 billion as the equitable share of revenue raised nationally
- Kshs.21.90 billion as total conditional grants from the National Government and Development Partners.
- Expected to raise Kshs.59.71 billion from local sources;
- Utilize Kshs.38.55 billion cash balance from FY 2015/16.

Performance on Revenue Allocation

- Total local revenue target for counties in FY 2016/17 Kshs.59.71 billion.
- During, 1st nine months County Governments generated a total of Kshs.24.71 billion, which was 41.4%.
- This was a decrease compared to Kshs.25.89 billion (46.9% of FY 2015/16 annual revenue target) realized in a similar period of FY 2015/16

Performance on Revenue Allocation



Roadblocks to sufficient County Resourcing

- Weak accountability and by extension governance structures;
- Unpredictability of local revenues due to a lack of information, poor planning and implementation of the plans;
- Lack of capacity skills in counties to collect and effectively account for local revenues;
- Over dependence on National Government transfers;
- Lack of awareness by the small business enterprise on county taxation
- Limited research and innovation on the new tax sources
- Lack of appreciation of value by the tax-paying public in the services provided by the County Governments – **simply put, the public is often of the view that it does not get tax-worth of services from the county government and hence the sense of apathy would easily crop in**.

Roadblocks to sufficient County Resourcing(Contd 2)

- Inadequacy and lack of clarity on county revenue legislation
- Multiplicity of fees and charges
- Unclear and inconsistent process for issuance of waivers and variations
- Failure to anchor the fees and charges in clear policy and legislation
- High cost of revenue collection vis-à-vis yields
- Outdated laws on property taxation have presented a legal vacuum – property Tax
- The challenge of entertainment taxes is levied on activities of gambling, since they generate significant revenue yet there are others – poor definition & categorization
- Weak revenue administration - human resources capacity & low level of professionalism
- Low levels of automation and integration of revenue administration systems

Draft Policy to Support Enhancement of County Governments Own –Source Revenue

Concerns that Triggered the OSR Policy

1) the smallness of Counties' OSR and its diminishing share vis-à-vis total resources;
2) the manner in which Counties plan and budget for local revenue;
3) Legal questions relating to some revenue-raising measures;
4) Short- and long-term fiscal and macroeconomic ramifications of the measures; and
5) Utilization of collections as well as reporting and accounting procedures.

Big Q? How each County can optimize its OSR within the existing rules of Public Finance Management (PFM)…….

County Governments Sources of Revenue

Source of revenue *(Figures in Kshs millions unless indicated otherwise)*	2013/14	2014/15	2015/16
Own source revenue	30,533	36,532	37,629
Transfers from National Treasury	187,239	225,650	260,709
Transfers from other government agencies	3,137	1,009	10,278
Proceeds from domestic borrowings	1,856	298	862
Proceeds from domestic & foreign grants	8	256	269
Reimbursements & refunds	7	994	118
Grants received from other levels of government	0	36	100
Social security contributions	0	26	42
Proceeds from foreign borrowings	0	12	-
Proceeds from sale of assets	7	11	-
Grand Total	**222,788**	**264,825**	**310,008**
OSR as % of total revenue	*13.7%*	*13.7%*	*12.1%*

County Governments Sources of Revenue (Categories)

OSR category	2013/14		2014/15		2015/16	
	Kshs M	*%*	*Kshs M*	*%*	*Kshs M*	*%*
Property-related revenue	3,805	12.5%	5,292	14.5%	5,587	14.9%
Administrative fees & charges	19,718	64.6%	6,250	17.2%	4,646	12.4%
Business permits	364	1.2%	3,517	9.7%	4,056	10.8%
Vehicle parking fees	303	1.0%	2,983	8.2%	3,570	9.5%
Natural resources, exploitation & conservancy	1,526	5.0%	1,922	5.3%	1,998	5.3%
Public health services	36	0.1%	705	1.9%	1,540	4.1%
Markets, trade services & slaughter houses	1,059	3.5%	1,048	2.9%	1,407	3.8%
Public health & sanitation services	162	0.5%	1,056	2.9%	1,116	3.0%
Cess	77	0.3%	976	2.7%	967	2.6%
Water & sewerage services	0	0.0%	229	0.6%	8	0.0%
All other revenue	3,485	11.4%	12,420	34.1%	12,594	33.6%
Grand Total	**30,533**	**100.0%**	**36,397**	**100.0%**	**37,490**	**100.0%**

OSR Policy Objectives

The Policy proposes a standardized institutional, policy and legal framework own source revenue raising measures and enforcement that would be applicable to all County Governments;

1. Strengthen legal and institutional frameworks for County OSR:
2. Identify opportunities for optimizing Counties' OSR potential:
3. Clarify assignment of revenue-raising powers between the two levels of Government and among Counties:
4. Improve Counties' capacities for revenue collection and administration:

OSR Policy Scope

(i) Legal and institutional framework for OSR collection
(ii) Different categories of taxes levied by County Governments (property taxes/rates, land rates, land rent, entertainment tax)
(iii) User charges and fees (including single business permit, parking fees, market fees, liquor licence fees, among others)
(iv) Introduction of new tax / review of existing tax, user charges and fees;
(v) Technological change and innovation, including a review of existing ICT infrastructure for revenue administration and management;
(vi) Revenue administration and human resource systems
(vii) Tax assignment, administration and sharing
(viii) Governance, accountability and oversight.

OSR Policy Guiding Principles

- **Simplicity and enforceability**
- **Efficiency and effectiveness**: To ensure that County Governments achieve their fiscal policy objectives at minimal costs
- **Equity**: The policy ensures that a situation of creating of imbalances between – vertical and horizontal
- **Good governance-** necessary internal controls and reporting mechanisms to enhance transparency, accountability and financial reporting.
- **Buoyancy** - a tax base that is responsive to developments in the economy over the long term

The County Governments (Revenue Raising Regulation Process) Bill 2017

Introduction – The Bill

A Bill for:

An ACT of Parliament to regulate the process to be followed by county governments in the exercise of their power under Articles 209 and 210 of the Constitution to impose, vary or waiver taxes, fees, levies and other charges

Key Provisions in the Bills

Clause 2: Interpretation	Definitions and interpretations
Clause 3: General Principles	Principles to govern the imposition of taxes, levies and fees by County Government. This power may not be exercised if it prejudices- National economic policies, economic activities across county boundaries, national mobility of goods, services, capital or labour Adherence to Article 6(3) consultation & cooperation Ensure compliance to tariff and pricing policy (sec 120 of CGA)

Key Provisions in the Bills

Clause 4: Introduction of tax, fee or charge	❑ Procedure for introduction ❑ Obligation to submit particulars of the proposals to National Treasury & CRA
Clause 5: Waivers and variations	Provision on waivers
Clause 6: Collection of Revenue	A county Government May engage KRA or any other designated person
Clause 8: Establishment & functions of Inter-Agency Transitional Committee	Composition: National Treasury, CRA, IGRTC, CoG and KRA Committee to review the taxes, charges & fees; make recommendations to the CS for consideration

Possible solutions to OSR

- Revenue enhancement studies: analyze the tax agents; collection points, potential gaps e.t.c
- Increase the political willingness and to support the tax systems reforms
- Inter-County collaborative development initiatives
- Expenditure rationalization
- Leverage on private capital
- Development of the land resource
- Industrial revolution at the counties

Possible solutions to OSR (Contd)

- Set up County enterprises and position them as profit centres
- Reform procurement through undertaking regular market studies and adoption of E-Procurement to avoid hiked prices by un-scrupulous middle men and brokers
- Conduct regular pre and post expenditure value assessments that would compliment value for money audits
- Leverage on ICT to manage operational costs

KIAMBU COUNTY GOVERNMENT

ICT ROADMAP (2015-2020)

"ICT as a tool of enhancing service delivery in the County"

OCTOBER 2015

Thank You!