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THE DIVISION OF REVENUE (NO.2) BILL, 2026

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THE DIVISION OF REVENUE (NO.2) BILL, 2026

A Bill for

AN ACT of Parliament to provide for the equitable division of revenue raised nationally between the national and county governments in the 2027/28 financial year, and for connected purposes.

ENACTED by the Parliament of Kenya, as follows—

Short title.

1. This Act may be cited as the Division of Revenue (No.2) 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 by the national government among the national and county levels of government in the 2027/28 financial year in accordance with Article 202(1) and 203(2) of the Constitution.

Allocations to national government and county governments.

4. Revenue raised nationally in respect of the 2027/28 financial year 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 projected 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 public debt.

SCHEDULE (s.4)

Allocation of Revenue Raised Nationally Between the National Government and County Governments for the 2027/28 Financial Year

Type/level of allocation	Amount in KSh.	Percentage (%) of FY 2022/23 audited and approved Revenue i.e. KSh. 2,050,114,740,913
A. Total Sharable Revenue	3,249,237,644,814	
B. National Government	2,789,520,256,109	
C. Equalization Fund	10,250,573,705	0.50%
D. County equitable share	449,466,815,000	21.92%

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 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 2027/28.

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

Dated the 13th November, 2026.

SAMUEL ATANDI,
Chairperson, Budget and Appropriations Committee.

APPENDIX

EXPLANATORY MEMORANDUM TO THE DIVISION OF REVENUE (NO.2) BILL, 2026

Background

1. This memorandum has been prepared as an attachment to the Division of Revenue (No.2) Bill, 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 as read together with section 191(5) of the Public Finance Management Act, Cap. 412A requires that the Bill be submitted to Parliament every year together with a memorandum explaining the following:

(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.

(d) the extent, if any, of deviation from the recommendations of the Intergovernmental Budget and Economic Council; and

(e) any assumptions and formulae used in arriving at the respective shares mentioned in section 191(2) and (3) of the Public Finance Management Act, Cap. 412A.

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

3. The Bill proposes an allocation of KSh. 2,789.5 billion to the national government and KSh. 449.47 billion to county governments for the financial year 2027/28 as an equitable share of revenue raised nationally. The allocation of KSh. 449.47 billion translates to an increase of KSh. 21.47 billion or 5% from a base of KSh. 428 billion allocated in the financial year 2026/27 (see Table 1).

4. Further, in compliance with Article 204 of the Constitution, the Bill proposes to allocate KSh. 10.3 billion to the Equalisation Fund in FY 2027/28, which is 0.5 % of KSh. 2,050.1 billion, being the latest audited revenues raised nationally for FY 2022/23, as approved by the National Assembly.

Table 1: Equitable Share of Revenue Allocated to County Governments for Financial Year 2027/28

BUDGET ITEM	Amount (KSh. million)
A. **Baseline** (i.e., allocation in the previous FY 2026/27)	**428,000**
Add:	
B. Adjustment for Revenue Growth	12,861
Adjusted Equitable Revenue Share allocation for FY 2026/27 (A+B)	**440,861**
C. Add Remuneration of transferred Universal HealthCare (UHC) Workers	8,606
Total Equitable Revenue Share allocation for FY 2026/27 (A+B+C)	**449,467**

Source: National Treasury

5. The proposed allocation of KSh. 449.47 billion to county governments' equitable revenue share is informed by the following factors: -

(a) The projected revenue and expenditure requirements in FY 2026/27; As at the end of September 2026, overall ordinary revenue collection was below target by Kshs 58.2 billion. If this trend continues, it is bound to impact negatively on the projected ordinary revenue for FY 2027/28;

(b) Share of ordinary revenue to GDP: Over the period FY 2013/14 to FY 2026/17 ordinary revenue to GDP has declined from a high of 18.1% in FY 2013/14 to 14.3% projected in FY 2026/27;

(c) High expenditure requirements to finance Consolidated Fund Services: Expenditures related to Consolidated Fund Services (CFS) have more than doubled from 3.2% of GDP in FY 2013/14 to 7.2% of GDP in FY 2026/27 thus narrowing the fiscal space available to support other Government expenditures. In FY 2024/25 and FY 2025/26 period, nearly half of ordinary revenue was used to finance CFS expenditures, significantly reducing fiscal space for development and other priority spending;

(d) High expenditure requirements for debt service; Debt at Present Value is recorded at 65.6% of GDP against a of PV 55%+/-5% anchor set out in section 50 (2A) and (2B) of the Public Finance Management Act, Cap. 412A. This calls for continuous liability management and strong fiscal consolidation that can yield a primary surplus of at least 2.3% of GDP each year;

(e) The macroeconomic assumptions outlined in the 2027 Budget Policy Statement (BPS), including anticipated GDP growth rates, inflation, and other economic performance indicators, which influence the resources available for allocation;

(f) The national government continues to solely bear shortfalls in revenue in any given financial year except for FY 2024/25, when the shortfall due to rejection of the Finance Bill, 2024 was borne by the national and county governments. However, even after equitably sharing the projected revenue foregone due to suspension of revenue raising measures, the national government solely bore the burden of shortfalls in revenue experienced in FY 2024/25;

(g) Over the years, county governments have continued to receive their full allocation despite the budget cuts affecting the national government entities;

(h) Adjustment for revenue growth from the baseline by 3 % or KSh. 12.86 billion;

(i) Adjustment for financing of transferred health function by KSh. 8.61 billion to fully transition UHC workers to permanent and pensionable staff;

(j) Overall adjustment for revenue growth from the baseline by 5% or KSh. 21.47 billion; and

(k) The need for compliance with the 15 per cent minimum threshold in allocating equitable share of revenue to county governments as per Article 203(2) of the Constitution. The proposed equitable share of KSh. 449.47 billion in the FY 2027/28 is equivalent to 21.92 % of the most recently audited and approved actual revenues raised nationally of Kshs 2,050.1 billion for financial year 2022/23, pursuant to Article 203(2) and (3) of the Constitution.

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

6. 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.

7. 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 2027/28.

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

S/N	ITEM DESCRIPTION (KSh. millions)	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27*	FY2027/28**
	ORDINARY REVENUE (EXCLUDING AIA)	**2,141,584**	**2,565,959**	**2,631,418**	**2,754,709**	**2,901,875**	**3,249,238**
A	**National Interest** [Article 203 (1)(a)]	**61,423**	**97,853**	**92,455**	**125,381**	**166,540**	**177,850**
	Enhancement of security operations (police vehicles, helicopters, defence, etc.)	24,299	23,969	33,044	49,315	75,671	78,231
	National irrigation and fertilizer clearance	16,800	24,654	17,943	15,548	26,681	26,752
	Youth empowerment	15,290	13,087	10,290	15,004	14,038	15,987
	National social safety net - (for older persons, OVC, child welfare, presidential bursary, severe disability, Hunger Safety Net)	31.074	31,120	29,178	39,614	40,250	46,379
	School examination fees (KSCE and KCPE and Grade 6(CBC Examination)	5,003	5,023.47	2,000	5,900	9,900	10,500
B	**Public debt (Art. 203 [1][b])**	**930,354**	**1,187,784**	**1,340,588**	**1,437,879**	**1,797,107**	**1,738,892**
C	**Other National obligations** (Article. 203 [1][b])	**595,269**	**691,149**	**738,456**	**811,377**	**891,030**	**965,779**
	Pensions, constitutional salaries and other	145,951	211,019	227,357	239,635	247,090	259,413
	Constitutional commissions (Art. 248(2)) i.e., CRA, SRC, NLC, NPSC, IEBC, TSC	321,968	332,497	355,313	402,386	459,100	511,729
	Independent offices (Art. 248(3)) - i.e., AG and CoB	6,981	8,756	8,808	9,523	10,765	11,326
	Parliament	38,477	41,002	40,865	47,991	51,012	52,576
	Other constitutional institutions-	8,713	10,054	9,414	10,889	14,493	15,852

	State Law Office and DPP						
	Other statutory bodies (e.g., EACC, RPP, WPA, CAJ, IPOA, NGEC)	8,462	9,002	8,911	10,375	11,479	12,483
	Judiciary	18,297	22,287	22,505	27,780	30,382	31,447
	Other statutory allocations/ earmarked funds (e.g., NG-CDF, Affirmative Action)	46,420	56,532	65,283	62,798	66,710	74,275
	Emergencies [Art. 203 (1)(k)]	**5,000**	**1,200**	**4,000**	**2,000**	**1,000**	**2,000**
	Contingencies	5,000	1,200	4,000	2,000	1,000	2,000
D	**Equalization Fund** [Art. 203 (1) (g) and (h)]	**7,068**	**10,867**	**8,014**	**9,604**	**10,251**	**18,602**
	Of which:						
	(a) Allocation in FY 2027/28	7068	10867	7,867	6,867	10,251	10,250
	(b) Arrears			147	2,737		8,352
E	**BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT**	**542,470**	**577,106**	**447,905**	**368,468**	**35,947**	**346,115**
F	**County Government allocation from revenue raised nationally of which; -**	**375,654**	**391,661**	**394,419**	**427,894**	**442,713**	**453,305**
	(a) Equitable Share of Revenue	370,000	380,645	387,425	415,000	428,000	449,467
	(b) Additional allocations financed from revenues raised nationally	5,654	11,016	6,994	12,894	14,713	3,838
G	**Balance left for the National Government**	**166,816**	**185,445**	**53,486**	**-59,426**	**-406,766**	**-107,190**

Source: – Division of Revenue Act, 2026; FY 2026/27 Approved Budget Estimates; and actual revenue and expenditure outturn
**FY 2026/27 Approved Budget Estimates*
***National Treasury Proposals for FY 2027/28*

8. **National Interest:** These are expenditures items 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 have significant impact on the social well-being of citizens;
   - are anchored in the Vision 2030 and the Medium-Term Plan IV (2023 – 2027);
   - are addressing the government Bottom-Up Economic Transformation Agenda (BETA);
   - requires significant resource allocation and whose benefits accrue nationwide; and
   - are contained in the 2027 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.

9. Allocations to these national interest programs is expected to increase significantly from an allocation of KSh. 166.5 billion in financial year 2026/27 to Kshs 177.9 billion in financial year 2027/28 reflecting a KSh. 11.3 billion rise as shown in Table 2. This increase is primarily attributed to a KSh. 2.6 billion increase in enhancement of security operations expenditures; KSh. 6.1 billion additional funding to National Safety Net Programme to cover the elderly persons under the Indigent Fund for Social Health Authority; KSh. 0.6 billion additional funding towards school examination fees; KSh. 1.9 billion additional funding towards Youth Empowerment Programme; and KSh. 0.07 billion additional allocations for National irrigation and fertilizer clearance.

10. **Public Debt:** The Bill has taken into account public debt related costs. These comprise the annual debt redemption cost as well as the interest payment for both domestic and external debt. In financial year 2027/28, the allocation for payment of public debt related costs is expected to reduce from KSh. 1,797.1 billion allocated in financial year 2026/27 to KSh. 1,738.9.9 billion allocated in the financial year 2027/28, reflecting a decrease of KSh. 58.2 billion.

11. **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 the Judiciary as well as expenses relating to other statutory bodies. These are estimated to cost Kshs 965.8 billion in financial year 2027/28 from KSh. 891 billion allocated in the financial year 2026/27, reflecting an increase of KSh. 74.7 billion. This increase is largely attributed to a significant increase in allocation to the Constitutional Commissions of KSh. 52.6 billion, with allocation to the Independent Electoral and Boundaries Commission (IEBC) and Teachers Service Commission (TSC) increasing by KSh. 3 billion and KSh. 52.8 billion, respectively; while allocation to repayments of pensions has increased by KSh. 9 billion.

12. **Fiscal Capacity and Efficiency of County Governments:** The Bill has proposed an increase of KSh. 21.47 billion in equitable share to county governments in financial year 2027/28. Similarly, it is expected that the county governments will also grow their Own Source Revenue (OSR) in line with the mandate given under Article 209 (3)(4) of the Constitution. 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.

13. **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 2027/28 was derived from the Division of Revenue Act, 2026. This baseline is further informed by costing of expenditure for devolved functions done at the onset of devolution and subsequent financial years. An amount of KSh. 8.6 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 2027/28. This allocation is proposed to be allocated to county governments unconditionally as a part of the equitable share in FY 2027/28.

14. **Developmental needs of the county governments and their ability to perform their assigned functions:** County governments are allocated an 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 their finances. 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.

15. Additionally, the equitable share to county governments is proposed to increase by KSh. 21.47 billion, which is meant to facilitate county governments to enhance service delivery in performance of their assigned functions under Part II of the Fourth Schedule of the Constitution.

16. Thus, the proposed vertical division of revenue proposed in the Division of Revenue Bill, 2026, considers the cost of county

governments' developmental needs, measures by counties to improve OSR and facilitates the ability to perform County functions as contemplated under Article 203(1) (f).

17. **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 is premised on the Third Basis for horizontal revenue allocation among counties as previously approved by Parliament.

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.

- **The Affirmative Action Allocation-** This component provides for an 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. 57.58 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.

18. **Need for Affirmative Action in respect to disadvantaged areas and groups:** KSh. 18.2 billion has been set aside for the Equalisation Fund in financial year 2026/27. For purposes of

Division of Revenue in financial year 2027/28, KSh. 10.25 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. 8.35 billion (from the National Government's share of revenues) 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.

19. **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 2027/28 is KSh. 449.47 billion, an allocation which is KSh. 21.47 billion higher than KSh. 428.0 billion allocation in financial year 2026/27. 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.

20. **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 the performance of total revenues raised nationally more so in the advent of the effects of projected global economic downturn in 2026. The anchoring of county governments' equitable share of revenue on the last audited and approved revenues for financial year 2022/23 (i.e., KSh. 2,050.1 billion) further assures stable and predictable allocations of County Governments. Further, Clause 5 of the Division of Revenue (No.2) Bill, 2026 provides that the national government will bear the cost of any shortfall in revenue raised nationally in FY 2027/28.

21. **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.

22. 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, this leaves a deficit of Ksh.107.2 billion, which can only be met through additional borrowing to finance the national government other development priorities and non-discretionary expenditures such as salaries for national government staff. This implies a huge financing gap that will occasion additional borrowing which may distort the fiscal framework already set out in the 2027 Budget Policy Statement and negatively impact on the fiscal consolidation plan.

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

23. The Division of Revenue (No.2) Bill, 2026 proposes to allocate county governments an equitable share of KSh. 449.47 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. 457.28 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 Kshs 7.81 billion.

24. The variation of KSh. 7.81 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. 12.86 billion to county governments' equitable share, from the FY 2026/27 baseline, the CRA has proposed an increase of KSh. 12.84 billion, in FY 2026/27, resulting into an insignificant difference of KSh. 21 million.

(b) **Remuneration of Universal HealthCare (UHC) Workers:-** Both the National Treasury and CRA propose converting conditional allocations for UHC workers in FY 2026/27 into equitable share in FY 2027/28 to support their transition them to permanent and pensionable terms. CRA proposes KSh. 8.86 billion, compared with the National Treasury's KSh. 8.61 billion, occasioning a variance of KSh. 254 million. This variance is caused by the proposal by CRA that the remuneration of UHC staff of KSh. 8.61 billion allocated in FY 2026/27 be adjusted by three per cent to KSh. 8.86 billion, while the National Treasury proposal of KSh. 8.61 billion is the actual UHC workers salary amount for FY 2027/28 as agreed at the Sector Budget Sector Working Groups which was informed by the actual projected UHC payroll budget for FY 2027/28;

(c) **Consideration for Collective Bargaining Agreements:** - CRA recommends that the county governments be allocated KSh. 2.3 billion to actualize Collective Bargaining Agreement (CBA) between county governments and the Kenya National Union of Nurses and Midwives, signed on 9th September 2026. However, the National Treasury has not provided for the same since, Health being a devolved function, we recommend county governments negotiate CBAs for Health Workers within their budgetary allocations derived from their equitable share of revenues raised nationally and own source revenues.

(d) **Implementation of the Salaries and Remuneration Commission Circular on Review of Remuneration and Benefits for State and Public Officers:-** CRA, informed by the SRC circular issued in August 2025 regarding the required budget projections for implementation of the 3rd and 4th salary review cycles for county governments' State and Public Officers, recommends that the county governments be allocated KSh. 5.28 billion to facilitate the annual implementation of the 4th cycle of the salary review for State and Public Officers. However, the National Treasury has not provided for the same since it is the Constitutional responsibility of each level of Government to implement approved salary reviews by SRC from their respective equitable share of revenue raised nationally.

25. Further, the proposed adjustment to the county equitable share from the baseline by a Revenue Growth of 3 % or KSh. 12.86 billion, is adequate to facilitate county governments actualize the CBA with the Kenya National Union of Nurses and Midwives; and implementation of the 4th cycle of the salary review for State and

Public Officers as approved by SRC. This will be complemented by deliberate efforts by county governments to enhance their Own Source Revenue as envisaged in the National Policy to Support Enhancement of County Governments' Own-Source Revenue (OSR).

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 2027/28.

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 2027/28

Expenditure Item	CRA	National Treasury	Variance
	A(million)	B(million)	C=(A-B) (million)
1. Equitable Revenue Share in FY 2026/27	**428,000**	**428,000**	**-**
Add:			
2. Increase in Revenue Allocation = (a+b+c+d) O/w	**29,280**	**21,467**	**7,813**
(a) Revenue Growth	*12,840*	*12,861*	*-21*
(b) UHC staff remuneration	*8,860*	*8,606*	*254*
(c) Implementation of the SRC 4th cycle remuneration and benefits for State and Public Officers	*5,280*	*-*	*5,280*
(d) Kenya National Union of Nurses and Midwives CBA	*2,300*	*-*	*2,300*
TOTAL EQUITABLE OF REVENUE = (1+2)	**457,280**	**449,467**	**7,813**

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 year 2027/28;

(ii) That Ordinary revenues projected at KSh. 3,249.2 billion (14.2 % of GDP) in FY 2027/28 from KSh. 2,985.7 billion (14.3% of GDP) in financial year 2026/27 is attainable;

(iii) That there shall be stability in interest rates and foreign exchange rates;

(iv) That inflation shall remain stable within the government target of 5 +/- 2.5 percent;

(v) That the planned Fiscal consolidation over the medium term shall result in a Primary surplus expected to stabilize growth despite the setbacks in the FY 2024/25 and FY 2025/26;

(vi) Overall Fiscal deficit of 5.4 percent of the GDP in FY 2027/28.

(vii) Reforms on Revenue Mobilization over the Medium Term shall progressively strengthen tax revenue mobilization, reduce tax expenditure, improve efficiency, compliance, and domestic revenue mobilization and enhance Scaling up non-tax revenues by MDAs;

(viii) Progressive implementation of the National Infrastructure Fund will promote growth of infrastructure projects by pooling capital from diverse sources including; pension funds, sovereign wealth funds, private equity, banks, development finance institution, among others, to finance large scale, long-term projects. This will ease pressure on budgetary reliance by MDAs on infrastructure projects;

(ix) Debt acquisition/repayments will be sustainable; and

(x) That County Governments will continue to enhance their Own Source Revenues to reduce overreliance on nationally raised revenue and improve their fiscal sustainability.

27. In arriving at the respective allocations to National and County level of governments, CRA was informed by the following factors:

(a) A stable macroeconomic environment that is characterized by stable inflation, low interest rates and a stable exchange rate;

(b) A projected economic growth of 5.0 per cent in the medium term;

(c) A projected revenue increase of 8.83 per cent from KSh. 2,985.7 billion in the financial year 2026/27 to KSh. 3,249. 2 billion in 2027/28; and

(d) The need to provide adequate resources for each level of government to finance functions assigned to them by the Fourth Schedule of the Constitution.

Conclusion

28. The proposals contained in the Bill considers the financial objectives set out in the 2027 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 as a per cent of GDP.

29. The proposed KSh. 449.47 billion allocations among county governments as equitable share of revenue is equivalent to 21.92 per cent of the audited and approved revenue for financial year 2022/23. This is above the 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 (No.2) Bill, 2026 has also taken into account the approved Fourth Basis Formula for Revenue Allocation pursuant to Article 217 of the Constitution.