What are some of the challenges counties face in revenue collection and is automation of revenue an end in itself?

Counties depend on two major sources of revenue, that is the equitable share and their local revenue collection. Other sources include the conditional grants, loans which ought to be guaranteed by the national government and donor funding which may result from negotiations between donors and the county. Let us focus on the local revenue which counties have full control to achieve the annual targets that they set to meet. Article 209 (3) of the constitution of Kenya obliges counties to impose property rates, entertainment taxes and any other tax which should be imposed through an Act of Parliament the revenue collected at the counties is then referred to as local revenue.

Shortfalls in revenue collection has been raised severally in most counties as contributing factor to adjustments in budget and preparation of supplementary budgets that usually affects development budget by revising it downwards. The case of Nairobi County is evident where the FY 2017/2018 budget was revised downwards from Ksh 35.9 billion to Ksh 33.6 billion. The recurrent expenditure was revised upwards from Ksh 24.1 billion to Ksh 25.8 billion, while the development expenditure was revised downwards from Ksh 11.7 billion to Ksh 7.7 billion. The justification given on the revision of the development expenditure downwards was due to under-performance in local revenue. While the justification provided for increase in recurrent expenditure was NHIF cover for staff, bank overdraft and salary increment.

The Controller of Budget reports in the FY 2016/2017 indicated that out of the 47 counties except for Turkana and Marsabit meeting 103.5% and 107.3% of their targets respectively, 45 counties did not meet their revenue targets. This then makes the two counties to qualify for the fiscal responsibility effort reward being among the 18 other counties that increased their revenue collection in the period 2016/2017. The fiscal responsibility effort is calculated from each county's annual revenue increase per capita. It seeks to put an incentive to counties to maximize revenue collection and encourage fiscal prudence. It is part of the weight that informs the equitable share that goes to counties. The Commission on Revenue Allocation oversees recommending revenue sharing formula for both counties and the national government. The

current formula 2016/2017 to 2018/2019 recommends that the equitable share should be divided in the following order; Population 45%, Equal share 26%, Poverty 18%, Land Area 18%, Fiscal Effort 2% and Development Factor 1%. The 18 counties that qualified for the fiscal responsibility effort included Baringo, Bomet, Bungoma, Embu, Kericho, Kilifi, Kisumu, Lamu, Machakos, Makueni, Marsabit, Meru, Mombasa, Nandi, Nyandarua, Samburu, Siaya and Turkana.

Putting this into context with Baringo County as a case, since it is one of the counties that scores well in terms of publishing their documents online as per the stipulated timeframe in the Public Finance Management Act, 2012, according to a quarterly survey on availability of budget documents on official county websites by International Budget Partnership Kenya. Notwithstanding this great win on budget transparency, the county faces a challenge on revenue collection. In the FY 2017/2018 the county's approved supplementary budget was Ksh 6.959 billion out which Ksh 4.136 was for recurrent and Ksh 2.823 billion is for development. The estimated local revenue was Ksh 450 million which was revised downwards to Ksh 350 million. This adjustment prompts an assumption that the county will predict its revenue collection more accurately to achieve its target and finance its programmes and specific projects. But is this the case?

For the period under implementation FY 2017/2018 in the first quarter, between July to October 31 the county managed to collect Ksh 92.04 million against a target of Ksh 112.5 million. In the second quarter period November to January 31 the county collected Ksh 56.64 million against a target of Ksh 112.5 and lastly in the third quarter period February to April 30 the county had managed to collect Ksh 78.38 million against a target of Ksh 92.372 million. Evidently, for each quarter the county had a deficit despite the revision of the annual target from Ksh 450 million to Ksh 350 million. To meet its annual target of Ksh 350 million the county ought to collect Ksh 122.94 million in this last phase of implementation of 2017/2018. The Controller of Budget reports that for the FY 2016/2017 the county was able to raise a total of Ksh 289.28 million for the whole financial year against a Sh 330 million target. Is the target Ksh 450 million in the approved budget too ambitious? Is the revision in the supplementary to Ksh 350 million still

ambitious? What strategies is the county implementing to ensure that it reaches its local revenue target?

The fact is that we have a revenue raising challenge at the counties, and the county government ought to provide solutions to those challenges. A quick means of running away from this problem would be to have a supplementary and revise the local revenue targets downwards to meet it or even exceed the target to qualify for other benefits like the fiscal responsibility reward. In the case for Baringo it would be easy for the county to just revise the target for 2017/2018 to what was achieved in 2016/2017. However, the county is committed to meet its revenue target and cites some of challenges that hindered revenue collection for instance high insecurity issues and the political temperatures in the country last year. Part of the attributes that are cited in the third quarter implementation report 2017/2018 that led to increase in revenue collection included implementation of the revenue system, stringent supervision, aggressive revenue collection and low political temperatures in the county and the country.

Most counties allude to revenue automation as the way to go to achieve revenue collection a sentiment that is echoed by the Commission on Revenue Allocation. Undoubtedly, revenue automation is one of the many interconnected interventions that counties ought to take to meet their revenue targets. In addition to this however, other challenges that the counties ought to address towards achieving their revenue targets include; lack of legislative frameworks, poorly maintained databases, inadequate human capacity, ineffective enforcement, poorly structured revenue systems, inadequate civic education to rate payers and failure to match fees among other issues. The Commission on Revenue Allocation during the County Revenue Enhancement and Automation Conference 2018 cites that out of the 47 counties 32 have automated their revenue while 15 are still yet to automate their revenue.

We are at the beginning the FY 2018/2019 with a baggage of the past on revenue collection. Ideally automation is the way to go but it should be accompanied by a couple of other interventions. For instance, if we are automating all revenue sources then it should be accompanied by other interventions like civic education or capacity building of both the rate payers and revenue collectors, counties ought to give value for money to motivate citizens to pay

their rates but most importantly conduct revenue mapping and have an asset register for counties. If we employ measures in revenue collection we will move from ambitious budgets to more predictable expenditure.

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