

Financing Sub-National Development in Kenya

Leveraging Own Source Revenue for Improved Service Delivery in Taita Taveta County

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1.0 Introduction

Kenya's 2010 constitution gave counties more power on self-governance that will enhance public service delivery and ensure equitable development across the county. A key element of this is the financial independence of county governments to generate their revenue through a system called Own Source Revenue (OSR).

Own source revenue refers to the money collected by counties through different sources as permitted by law. The law allows counties to collect fees from the residents they provide services to. Own source revenue is a vital component of the County's financial structure as it helps in the functioning of counties through effective service delivery and achieving sustainable development and economic growth. This paper analyses the own source revenue collections in Taita Taveta county, in the period between 2018/19-2022/23.

2.0. Objectives of the study

The following were the objectives of the study.

1. Analyze the Taita Taveta County's Own Source Revenue performance against targets.
2. Evaluate the effectiveness and efficiency of the different revenue sources under OSR.
3. Identify challenges and opportunities for improving revenue collection.
4. Assess the legal framework governing OSR and its impact on revenue collection.
5. Develop strategies for enhancing OSR collection.
6. Analyze the impact of OSR on service delivery.
7. Evaluate the County's strategies for managing and allocating revenue from the Health Services Improvement Fund.



3.0 Methodology

This study employed a mixed-method design, combining desktop research and key informant interviews. Desktop research involved analyzing County Budget Review and Outlook Papers (CBROPs), County Quarterly Budget Implementation Reports, and reports from the Controller of Budget to gain a comprehensive understanding of OSR performance from the financial year 2018/2019 to 2022/2023. Key informant interviews were conducted with County Government officials from the Finance Department and Directorate of Revenue to provide qualitative insights into the challenges and opportunities for improving OSR collection.

The main challenge faced during the study was the availability of the budget documents on the county website, especially the County Quarterly Budget Implementation Reports and the supplementary budgets. To mitigate this challenge, the Controller of Budget Quarterly Budget Implementation reports were used.

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4.0 Summary findings

- The County lacks essential legislative frameworks for guiding revenue collection and administration. It currently relies on the Finance Act of FY 2020/2021.
- The county fell short of Kshs. 319.57M against the total set revenue target of Kshs. 1.732 billion over the five years, representing an 18% shortfall.
- OSR projections were frequently revised, often disregarding economic realities, particularly during the COVID-19 pandemic.
- Inconsistencies between CBROP and OCOB data raise questions about the reliability of reported figures.
- Revenue shortfalls, particularly in FY 2021/2022, coincided with low absorption of development funds, potentially affecting service delivery.
- The same revenue streams continue to attract audit queries, with little effort made to address these issues over the years.

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5.0. Legal Framework for own source revenue collection

Own Source Revenue (OSR) in Kenya is anchored in several key legislations, including the 2010 Constitution, the Public Finance Management Act of 2012, the County Governments Act of 2012, and the Urban Areas and Cities Act of 2011. These laws empower counties to impose property taxes, entertainment taxes, and other levies, as well as charge for services they provide.

Taita Taveta County currently uses the Finance Act 2020/2021 for OSR collection. The County has also enacted specific laws such as the Liquor Licensing Act, the Sand Harvesting Act, and the Health Services Act, which legislates the Facility Improvement Fund (FIF). However, the County lacks key legislative frameworks like a Revenue Administration Act, Trade Licenses Act, and Waiver Act.



Caption: Taita-taveta county world cafe during CBTS 2022 dissemination.

6.0. Taita Taveta Own Source Revenue Performance for the Last Five Years

The County's revenue collection performance has been inconsistent. Taita Taveta County surpassed its OSR target only in FY 2018/2019 and FY 2019/2020, with surpluses of Kshs. 32.71 million and Kshs. 66.04 million, respectively. The County Government achieved Kshs. 332.71 million in FY 2018/2019, exceeding its Kshs. 300M target. However, despite meeting the revenue target in FY 2019/2020, this represented a 64% decline from the previous year, largely due to the global pandemic and related containment measures.

In the financial year 2020/2021 the county fell short of its revenue target by Kshs. 61M. The county government had estimated that Kshs would be generated. 363 million but managed to collect Kshs302 Million. Although the County Government failed to achieve its revenue target the collection was an increase of 6M which translates to the 2% collected in the previous financial year

In 2022/2023 the County has targeted to generate Kshs. 389 million but was able to collect Kshs. 265M. The County Government in the CBROP stated that the shortfall was majorly occasioned by continued court cases restricting the county from collecting mining cess and the introduction of the Taita Taveta County Health Services Act 2021 which introduced the creation of a facility improvement fund that requires all monies (Revenues) collected from Level 4 Hospitals and Public health Facilities to be channeled to FIF account. This is also because Mwatate municipality has not received full autonomy hence it has yet to take over the tax function.

Figure 1: Taita-Taveta Own source Revenue performance between 2018/18-2022/23 in million shillings

Financial Year	Annual Target (In Millions)	Actual	Variance	% Variance
2018/2019	300.00	332.71	32.71	10.90%
2019/2020	230.00	296.04	66.04	28.71%
2020/2021	363.00	302.00	(61.00)	-16.80%
2021/2022	450.00	315.58	(134.42)	-29.87%
2022/2023	389.40	265.25	(124.15)	-31.88%
Total	1,732.40	1,511.58	(220.82)	-12.75%

Source: County Budget Implementation Review Reports (CBIRR) 2018/19-2022/23

The County Government faced several challenges in its revenue collection efforts, including suboptimal working environments at revenue centers, inadequate governance controls and risk management mechanisms, low staff motivation and lack of proper identification, capacity gaps among revenue staff, insufficient monitoring of revenue collection activities, and the absence of specific revenue targets to drive effectiveness and incentivize improvement.

To address these challenges, the County Government proposed to implement various strategies such as improving working conditions at revenue centers, enhancing governance controls and risk management, providing uniforms to motivate staff and ensure accountability, training staff to fill capacity gaps, strengthening monitoring of revenue collection, and setting clear revenue targets.



Figure 2: Targeted versus collected revenue per quarter in million shillings

Financial Year	Quarter 1 Target	Quarter 1 Actual	Quarter 2 Target	Quarter 2 Actual	Quarter 3 Target	Quarter 3 Actual	Quarter 4 Target	Quarter 4 Actual	TOTAL COLLECTED
2018/2019		66.80		57.45		93.72		114.74	332.71
2019/2020		47.48		69.18		89.87		89.51	296.04
2020/2021		58.93		41.61		101.16		100.30	302.00
2021/2022		61.39		78.95		81.34		93.90	315.58
2022/2023		51.66		47.00		73.28		93.31	265.25
Total		286.26		294.19		439.37		491.76	1,511.58

Source: CBIRR reports

The analysis revealed that there were no documents that showed the quarterly source revenue targets but only the annual target. From the above data, the County Government realizes more revenue in the third and the fourth quarters across the five years of review. This is because, between January and June, most residents pay their annual charges to avoid fines and penalties.

6.1. Own Source Revenue Stream Performances 2018/2019 -2022/2023 in million shillings.

Single Business Permit records the highest collection followed by Health-hospitals. The least collected revenue stream is public health and land rates.

In 2019/2020 there was a notable drastic decline in Single Business Permits (49 million to 28 Million), Market fees (39 Million to 26 Million), liquor licenses (17M to 4M), and House rent (5 Million to 1.3 Million. The County Government in its CBROP attributed the decline to the negative effects of the global COVID-19 pandemic and consequently the enforcement of Ministry of Health measures on containment. Great potential lies in the mining cess (Iron Ore and other minerals) where the county realized Kshs 35 million. Further stakeholder involvement and consultations will ensure that this revenue base is secured and expanded.

Figure 3: Own source revenue collections per streams between 2018/19 to 2022/23

Revenue Type	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	TOTAL collection per revenue stream
Single Business Permits	45.57	26.06	35.56	50.25	55.18	212.62
Market Fees	40.21	25.74	14.86	7.91	12.49	101.21
Mining Cess (Iron Ore and Other Minerals)	35.97	35.29	-	18.19	-	89.45
Health-Hospitals	29.04	38.69	36.10	35.07	-	138.90
Other Local levies	21.29	-	-	-	-	21.29
Cesses	27.83	28.90	-	-	-	56.73
Vehicle Parking Fees	20.26	20.23	23.35	18.04	16.76	98.64
General Cess	20.29	-	-	-	-	20.29
Liquor Licences	17.21	4.62	-	4.69	-	26.52
Public Health	15.30	50.29	-	1.21	0.21	67.01
Land Rates	15.07	9.66	19.69	9.69	13.98	68.09
Sand Cess	-	13.20	40.30	5.40	-	58.90
Ground Rent	7.69	9.42	10.85	1.20	-	29.16
Agriculture Cess ²	-	11.88	33.70	71.96	-	117.54
Natural Resources Exploitation	3.12	9.75	30.88	14.17	-	57.92
Total collection per year	298.85	283.73	245.29	237.78	98.62	1,164.27

Source: Taita-Taveta County CRBOPs

Comprehensive OSR Potential and Tax Gap has shown the county has the potential to collect up to 1.6 billion annually. This is far from what the county is currently collecting. The study has shown there are sources of revenue that the county could benefit from and are yet to be tapped into. Of these are building plan approval fees, liquor licensing fees, advertising and sign board fees, natural resource transportation fees and administrative fees.

6.2. Discrepancy in information provided by CBROP and CBIRR reports

Figure 4 presents the collections per revenue stream as reported in the County Budget Review and Outlook Papers (CBROPs). However, there are significant discrepancies in the cumulative total collections over the years when compared to the data presented in the County Budget Implementation Review Reports (CBIRRs) discussed in the previous section. These variations raise concerns about the accuracy and consistency of the financial data reported by the County Government.

Figure 4: Discrepancy in Reporting Between Various Documents -CBIRR and CBROP

Financial Year	Quarter 1	Quarter 1	Quarter 2	Quarter 2	Quarter 3	Quarter 3	Quarter 4	Quarter 4	TOTAL COLLECTED
	CBROP	OCOB	CBROP	OCOB	CBROP	OCOB	CBROP	OCOB	
2018/2019	46.50	66.80	77.70	57.45	93.70	93.72	101.90	114.74	332.71
2019/2020	47.00	47.48	39.00	69.18	89.00	89.87	119.6M	89.51	296.04
2020/2021	65.00	58.93	53.00	41.61	98.00	101.16	100.00	100.30	302.00
2021/2022	65.00	61.39	78.00	78.95	81.00	81.34	100.00	93.90	315.58
2022/2023	-	51.66	-	47.00	-	73.28	-	93.31	265.25

Source: author’s analysis of CBROP and CBIRRs

There is a notable difference in the figure for the amounts specified in the OCOBs quarterly implementation reports and what is indicated in the CBROPs for each quarter, but the total indicated is the same. For instance, in the financial year 2018/2019 in Quarter 1, the CBROP reports an actual collection of Ksh. 46.5 million while the OCOBs Quarter 1 reports a collection of Kshs. 66.80 million, the second quarter the CBROP reports a collection of Kshs. 77.70million while the OCOBs report a collection of Ksh. 57.45 million. Though the difference in the quarterly figures does not affect the total annual collected, the reasons for the discrepancy reported for each quarter remain unclear. Another observation is that the CBROP only reported the annual revenue collection and left out the quarterly source revenue collections.

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6.3. Relationship between OSR collection and Service Delivery and Budget Implementation

The extent to which revenue shortfalls impact service delivery is critical. Below is the performance of OSR revenue against the absorption percentage of funds released for development.

Figure 5: relationship between OSR collection against development budget absorption

FINANCIAL YEAR	OSR PERFORMANCE	REVENUE	ABSORPTION PERCENTAGES OF FUNDS RELEASED FOR DEVELOPMENT
2018/2019	Surpassed Revenue + 32.71M		106.4%
2019/2020	Surpassed Revenue + 66M		47.3%
2020/2021	Revenue Shortfall -61M		86.5%
2021/2022	Revenue Shortfall -134.42M		33%
2022/2023	Revenue Shortfall -124.15M		57.4%

The data above presents the OSR Performance against the development budget absorption. Though a higher revenue collection does not necessarily indicate a high absorption of funds released for development, the financial year 2021/ 2022 had the biggest revenue shortfall and recorded the lowest absorption of development funds.

6.4. OSR Revisions and improved collections

The frequent revisions of Own Source Revenue (OSR) targets in the financial years 2019/2020 and 2020/2021 raise questions about their effectiveness in improving revenue collection. In FY 2019/2020, the County initially increased its target from Kshs. 320 million to Kshs. 350 million in the second quarter but had to drastically lower it to Kshs. 230 million by the fourth quarter, likely due to the adverse effects of the COVID-19 pandemic. Despite these adjustments, the overall collection did not significantly benefit from the revisions, as the final target was still unmet.

Similarly, in FY 2020/2021, the County raised its OSR target multiple times, from an initial Kshs. 376 million to Kshs. 450 million by the fourth quarter. However, despite these optimistic projections, the final revenue collected still fell short of the revised targets. These cases suggest that upward revisions alone do not necessarily lead to better collections, particularly when external factors like economic disruptions are not adequately accounted for in the projections. This highlights the need for more realistic and data-driven approaches when setting and revising revenue targets.

6.5. Own source revenue audit issues raised in the county audit reports

- **Unconfirmed Revenue from Markets and Trading Centers-** In FY 2018/2019 and FY 2019/2020, audit reports highlighted that revenue collected from markets and trading centers could not be fully confirmed due to inadequate documentation and tracking systems. This issue persisted across both years without significant improvement.
- **Unsupported Revenue from Sub-County Health Facilities-**Revenue collected from sub-county health facilities lacked adequate documentation and system-generated reports, making it difficult to confirm the total amounts collected. For instance, in FY 2018/2019, audit reports noted that Kshs. 30,876,451 reported as revenue from sub-county health facilities was unsupported due to a lack of system-generated reports, particularly at Mwatate Sub-County Hospital. This raised concerns about the completeness and accuracy of the revenue figures.
- **Uncollected Mining Revenue-** The County failed to collect significant amounts of revenue from mining companies, with large discrepancies between the invoiced amounts and the actual payments received. In FY 2018/2019, the County was supposed to collect Kshs. 32,397,353 from three mining companies but failed to do so. As a result, the Kshs. 30,876,451 included in the revenue statement was not complete. In FY 2021/2022, only 24% (Kshs. 11,400,000) of an invoiced amount of Kshs. 47,612,940 for mining cess was collected, leaving a significant uncollected balance of Kshs. 36,212,940.
- **Issues with Revenue Management Systems-**The County's revenue management systems were incomplete or poorly implemented, resulting in untracked or misappropriated revenue. Some revenue was collected using fake receipt books, and the manual handling of records further compromised the accuracy of the reported figures. In FY 2018/2019, revenue officers collected an unquantified amount of money using fake receipt books, with Kshs. 645,865 in misappropriated revenue eventually recovered. Furthermore, some revenue reports were compiled from manual records, leading to questions about the accuracy of the total Kshs. 332,712,551 reported as own-source revenue for that year.
- **Invalid Valuation Rolls-**The County continued to use outdated valuation rolls, leading to inaccurate assessments of property taxes and other related revenues. In FY 2021/2022, it was revealed that the County was using outdated valuation rolls, some dating back to 2006 for Voi Municipality and Taveta Sub-County, and others from 2012 for other areas. This reliance on outdated valuation rolls led to inaccuracies in property tax assessments and revenue collections.

6.6. Health Service Improvement through the Facility Improvement Fund (FIF)

Taita Taveta County started the implementation of the Facility improvement fund after they enacted the Taita Taveta County Health Services Act 2021, which requires all monies (Revenues) collected from Level 4 Hospitals and Public health Facilities to be disbursed to the Facility Improvement Fund account.

In the financial year 2022/2023, the Facility Improvement Fund (FIF) collections for Taita Taveta County totaled Kshs. 161,118,235. A significant portion of this amount came from NHIF refunds, which contributed Kshs. 93,450,928. Revenue generated from Level 4 hospitals accounted for Kshs. 66,153,057, while other miscellaneous sources added Kshs. 1,514,250 to the overall fund.

The FIF realized was not included in the total revenue raised as indicated in the budget documents. Taita Taveta's budget documents report FIF collections separately from the total revenue. The Controller of the budget raised concern that the monies collected are being utilized at source. The CBROP fails to give information on departmental expenditure, and it is difficult to ascertain how much of the FIF was retained for the health budget.



Caption: CRBH team during the health systems design and thinking workshop.

6.7. Own source revenue challenges

1. **Revenue Spent at the Source-** Revenue is often used directly at the point of collection, reducing transparency and accountability in financial management.
2. **Lack of Automation-** The absence of a fully automated revenue collection system leads to inefficiencies, errors, and potential loss of revenue.
3. **Missing Key Legislation-** The County lacks essential legal frameworks to guide revenue collection and administration, leading to inconsistencies and gaps in the system.
4. **Weak Enforcement-** Inadequate enforcement mechanisms result in widespread non-compliance, with the County struggling to collect all due revenue.
5. **Lack of Accountability and Transparency-** The revenue collection process suffers from poor accountability and transparency, with recurring audit issues remaining unresolved.
6. **Public Resistance Due to Poor Service Delivery-** Residents and businesses are resistant to paying fees and taxes due to dissatisfaction with the County's service delivery.
7. **Lack of Public Awareness-** Many people lack awareness of the importance of paying fees and taxes, leading to low compliance rates.
8. **Political Interference-** Political interference disrupts the revenue collection process, leading to favoritism, inconsistent enforcement, and loss of revenue.

7.0. Recommendations

1. **Fully Automate Revenue Collection-** The county needs to implement a comprehensive, automated system to streamline the revenue collection process, reduce errors, and minimize opportunities for pilferage.
2. **Operate a Revenue Projection Model-** The county government of Taita-Taveta needs to develop and use a reliable revenue projection model to set realistic targets and improve financial planning.
3. The county may want to strengthen oversight and enforce robust controls within the revenue collection process to ensure compliance and accountability.
4. **Establish a Legislative Framework-** Create and enforce a clear legislative framework that guides revenue collection and administration, ensuring consistency and closing existing gaps.
5. **Increase Public Awareness on taxation-** the county should launch educational campaigns to raise awareness about the importance of paying taxes and how they contribute to public services, aiming to improve compliance.
6. **Identify and develop underutilized revenue sources** to diversify and increase the County's revenue collections.
7. **Enhance Service Delivery-** the county should improve the quality of public services to meet user expectations, thereby reducing public resistance to paying fees and taxes.

For more information:

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The Coast Regional Budget Hub is a platform for Public Finance Management (PFM) practitioners that brings together regional voices for collective efforts and synergy to enhance public budgets and services across the Coast Region of Kenya. The Hub is among the four hubs: The Nairobi Eastern and Central (NEC) Hub, The Rift Valley Hub and the Lake Region Hub, established by Bajeti Hub, formerly International Budget Partnership Kenya.

The Coast Regional Hub builds communities' collective capacity to engage effectively and mobilises participation in the county, regional, and national budget-making processes. The CRBH achieves this through continuous capacity building of budget champions and communities in budget processes, research, and budget analysis for evidence-based advocacy engagement and stakeholder network-building. The Hub has over 15 budget facilitators and over 300 budget champions across the Coast.

