



**REPUBLIC OF KENYA
DEPARTMENT OF LANDS,
PHYSICAL PLANNING
HOUSING AND URBAN
DEVELOPMENT**



NYANDARUA COUNTY URBAN AREAS FINANCING POLICY

NOVEMBER 2025

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Ol'Kalou,

KENYA

FOREWORD

The County Government of Nyandarua recognizes that sustainable urbanization is a central pillar of our development trajectory. The rapid growth of our municipalities and towns demands not only robust planning and governance but also sound, predictable, and accountable financing frameworks. This Policy on County Financing of Municipalities has therefore been developed to provide a structured mechanism for the establishment, delegation of functions, transfer of revenue-raising powers, and equitable funding of urban areas within our County.

Anchored in the Constitution of Kenya, 2010, the Urban Areas and Cities Act, 2011, and the Public Finance Management Act, 2012, this Policy operationalizes Sections 172 and 173 of the PFMA, thereby institutionalizing financial autonomy, accountability, and performance-based allocation of funds to our municipalities. It further aligns Nyandarua County with the principles of devolution—transparency, participation, equity, and efficiency—by ensuring that resources follow functions and that each urban area is empowered to meet the needs of its residents effectively.

The Policy sets out a comprehensive framework for financing and managing urban growth in a manner that strengthens local revenue generation, enhances service delivery, and promotes sustainable urban development. It reflects the County’s vision of creating well-financed, vibrant, and inclusive urban centres that drive economic transformation and improve the quality of life for all residents.

As the County Government, we remain committed to implementing this Policy with diligence, collaboration, and transparency. Its success will depend on the collective efforts of our County departments, municipal boards, residents, and development partners. Together, we will build a future where Nyandarua’s urban areas become engines of growth and models of good governance in Kenya.



HON. STEPHEN MBURU KINYANJUI KK
COUNTY EXECUTIVE COMMITTEE MEMBER
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ACKNOWLEDGEMENT

The formulation of the *Nyandarua County Municipalities Funding Policy (2025)* represents a significant milestone in our County's journey toward realizing the promise of devolution in urban governance. This Policy is the outcome of extensive research, technical consultations, and collaboration among multiple stakeholders drawn from the County Departments, Municipal Boards, the County Assembly, the National Government, and development partners.

I extend sincere appreciation to the technical drafting team from the Department of Lands, Housing, Physical Planning, and Urban Development, and the Department of Finance and Economic Planning and the Office of the County Attorney for their expertise and dedication in developing this Policy. I also acknowledge the invaluable insights contributed by the Municipal Managers of Ol'Kalou, Engineer, and Mairo-Inya, whose practical perspectives on urban governance greatly informed this document.

Special gratitude goes to the County Planning and Coordination Team (CPCT), the Office of the Governor, and the County Treasury for their policy guidance and institutional support throughout the process. Our appreciation also extends to partners under the Kenya Urban Support Programme (KUSP) for their continued technical and financial assistance in strengthening our urban systems.

This Policy provides the necessary framework to operationalize municipal fiscal decentralization and to ensure that resources are allocated equitably, managed prudently, and utilized for maximum public benefit. Its implementation will strengthen accountability, improve urban service delivery, and stimulate inclusive economic growth across Nyandarua's municipalities and towns.



JOSEPHINE MUIRU
CHIEF OFFICER HOUSING AND URBAN DEVELOPMENT

EXECUTIVE SUMMARY

The *Nyandarua County Municipalities Funding Policy (2025)* provides a comprehensive framework for the establishment, management, and financing of urban areas in Nyandarua County. It operationalizes the constitutional and statutory provisions that require county governments to delegate functions, transfer revenue-raising powers, and allocate funds to cities and urban areas in an equitable, transparent, and accountable manner.

The Policy is anchored in Sections 172 and 173 of the Public Finance Management Act (PFMA), 2012, which empower counties to allow urban areas to retain revenues collected from delegated functions and to establish criteria for allocating county funds to such entities. It is further guided by the Urban Areas and Cities Act (UACA), 2011, and aligns with the County Governments Act (2012), the National Urban Development Policy (2016), and the County Integrated Development Plan (CIDP III).

The Policy's main objectives are to:

- Establish a coherent framework for financing municipalities and towns in Nyandarua County;
- Provide a mechanism for delegation and transfer of functions and revenue-raising powers;
- Enable urban areas to retain and utilize own-source revenues as Appropriation-in-Aid (A-I-A);
- Institute objective criteria for county allocations to urban areas; and
- Strengthen fiscal accountability and performance monitoring of urban governance.

To achieve these objectives, the Policy sets out targeted interventions including:

1. Establishment and categorization of urban areas through charters;
2. Delegation and transfer of functional and financial powers;
3. Authorization of revenue retention under PFMA Section 109(2)(b);
4. Creation of municipal bank accounts and designation of accounting officers;
5. Formulation of criteria-based county allocations to urban areas; and
6. Integration of monitoring, evaluation, and reporting mechanisms within the County's CIMES framework.

The Policy will be implemented through coordinated action led by the County Department of Lands and Urban Development, working closely with the County Treasury, Municipal Boards, and the County Assembly. Monitoring and Evaluation will be undertaken annually to track progress, inform resource allocation, and support continuous policy learning.

Ultimately, the Policy seeks to empower Nyandarua's urban areas to become financially sustainable, efficiently managed, and responsive to residents' needs - thereby fostering inclusive, resilient, and productive urban growth across the County.

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LIST OF ABBREVIATIONS

Abbreviation	Full Meaning
A-I-A	Appropriation-In-Aid
BETA	Bottom-Up Economic Transformation Agenda
CEC	County Executive Committee
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CPCT	County Planning and Coordination Team
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
GIS	Geographic Information System
GoK	Government of Kenya
IDeP	Integrated Development Plan
KUSP	Kenya Urban Support Programme
M&E	Monitoring and Evaluation
NUDIPLAN	National Urban Development Implementation Plan
NUD Policy	National Urban Development Policy
PFMA	Public Finance Management Act, 2012
PPP	Public–Private Partnership
SDG	Sustainable Development Goal
UACA	Urban Areas and Cities Act, 2011 (Revised 2019)
UN-Habitat	United Nations Human Settlements Programme

DEFINITIONS OF KEY TERMS

Term	Definition
Appropriation-In-Aid (A-I-A)	Revenue generated and retained by a municipality or county entity to finance its operations and service delivery, as authorized under Section 109(2)(b) of the PFMA.
Board	The governing body of a city or municipality established under the Urban Areas and Cities Act, responsible for oversight, planning, and management of urban functions.
County Government	The devolved level of government established under Article 176 of the Constitution of Kenya, 2010, comprising the County Executive and the County Assembly.
County Revenue Fund (CRF)	The central account into which all revenues raised or received by a County Government are paid, except those lawfully excluded under the PFMA.
Delegation and Transfer of Functions	The process by which a County Government formally assigns specific functions and powers to a municipality to perform on its behalf, in accordance with Sections 20 and 21 of the UACA.
Fiscal Decentralization	The devolution of financial powers, responsibilities, and resources from the County Government to lower administrative levels such as municipalities or towns.
Function	A mandate, duty, or responsibility assigned to a municipality under the Urban Areas and Cities Act or delegated by the County Government.
Fund	The Nyandarua County Urban Areas and Cities Fund or any designated fund established under the PFMA to manage allocations and retained revenues for municipalities.
Gazette Notice	An official government publication used to communicate legal notices, including delegation of functions or establishment of urban areas.
Municipal Charter	A legal instrument issued by the County Government establishing a municipality and defining its governance, functions, and operational framework.
Municipality	An urban area declared as such under the Urban Areas and Cities Act and governed by a Municipal Board in accordance with a charter issued by the County Government.
Own Source Revenue (OSR)	Revenue collected locally within the county or municipality, including fees, rates, levies, and charges arising from delegated functions.
Performance-Based Grant	A conditional grant provided to a municipality or urban area based on achievement of agreed performance targets under national or county frameworks.
Public-Private Partnership (PPP)	A contractual arrangement between a public entity and a private sector partner for the provision of infrastructure or services.
Resident Forum	A structured platform established under the UACA to enable citizen participation in municipal planning, budgeting, and service delivery.

Term	Definition
Revenue-Raising Powers	The authority granted to a municipality to impose, collect, and retain fees, levies, or charges for services delivered within its jurisdiction.
Special Purpose Account (SPA)	A separate bank account established for managing specific funds, such as development partner grants or conditional allocations, distinct from the CRF.
Urban Area	A spatially defined area declared as a city, municipality, town, or market center under the UACA, with established governance structures and charters.
Urban Governance	The systems, institutions, and processes through which urban areas are planned, managed, and held accountable by their residents and stakeholders.

CHAPTER ONE

1.0 INTRODUCTION AND BACKGROUND

1.1 Introduction

Recognizing the vital role that urbanization plays in promoting economic growth, productivity, and sustainable development within Nyandarua County, this policy provides a strategic framework to guide the County in the establishment, management, and financing of its urban areas. It outlines key interventions to enable the County to effectively establish towns and urban centers, delegate and transfer specific functions, and grant revenue-raising powers to these entities in line with the County Governments Act. Furthermore, the policy seeks to enhance the financial sustainability of Nyandarua's urban areas through the operationalization of Sections 172 and 173 of the Public Finance Management Act, which empowers the County to allow urban areas to retain revenue collected from designated sources and to establish clear criteria for allocating additional funding to these areas through the County's annual budgeting process.

1.2 Historical Background

Before the adoption of the Constitution of Kenya, 2010 and the introduction of the devolved system of government, cities and urban areas were administered under the centralized system of local government. This system comprised both rural local authorities, known as County Councils, and urban local authorities, which included City Councils, Municipal Councils, and Town Councils. The authorities were established under the Local Government Act (Cap 265, now repealed). These entities were responsible for the management and delivery of local services within their jurisdictions but often operated under limited financial autonomy and oversight from the national government. Some of the councils in Nyandarua then included, Ol'Kalou Town Council and Nyandarua County Council.

With the promulgation of the 2010 Constitution, the governance and management of urban areas were fundamentally restructured. The Constitution established a devolved system of government that transferred significant powers and responsibilities to county governments, including the management of urban areas and cities. The Urban Areas and Cities Act, 2011 further provided the legal framework for the classification, governance, and financing of urban areas within counties.

1.2.1 The functions of the defunct urban local authorities

The City Councils, Municipal Councils and Town Councils were vested with and performed all the functions of local government which included:

a) Urban planning & Development control functions: These encompassed physical planning powers to prohibit and control the development and use of land and buildings in the interest of

proper and orderly development; control or prohibit the subdivision of land or existing plots into smaller areas; consider and approve all development applications and grant all development permissions; ensure the proper execution and implementation of approved physical development plans; and formulate by-laws to regulate zoning in respect of the use and density of development and regulating building construction and ensuring compliance with planning and zoning regulations. These functions were to ensure orderly growth of urban areas.

b) Trade licensing functions: These encompassed powers to prohibit or control all manner of trade and businesses such as peddling, hawking and street trading, barbers and hairdressers, dealers in second-hand clothes; prohibit, control and regulate such other trades, occupations and premises as the minister from time to time prescribed; control or prohibit all businesses, factories and workshops which could be or were a source of danger, discomfort or annoyance to the neighbourhood due to smoke, fumes, chemical gases, dust, smell, noise, vibration, or other cause.

c) Social and service delivery functions: These encompassed provision of social services such as housing, roads, water supply, health and education with these urban local authorities owning some of the public schools and health facilities. Under this rubric, the urban local authorities were also responsible for provision of services such as street lighting, refuse removal/solid waste management, sewerage services, fire stations and fire-fighting, the management and maintenance of local marketplaces, slaughterhouses, and recreational facilities. Following the water sector reforms introduced in 2002, water and sewerage services were provided by privately formed companies, which were, in most cases, incorporated as subsidiaries of the respective local authorities.

d) Revenue Mobilization and Financial Management: These included collecting local taxes, rates, rents, fees, and licenses to finance service delivery and Managing budgets, expenditures, and financial reporting for the urban authority.

e) Public Administration and Governance: these included representing residents through elected councils and committees and Promoting transparency, accountability, and community participation in decision-making.

1.2.2 Financing of the defunct urban local authorities

To finance these functions, the City Councils, Municipal Councils and Town Councils relied on two major sources of revenue—local sources or own revenues and central government transfers. Own source revenues included property taxes in the form of land rates, plot rents, single business licenses or permits; service charges and fees for services rendered such as water supply, refuse removal, market dues, quarry dues, change of user fees, parking fees, bus park charges, fines and penalties. Central government grants included Local Authority Transfer Fund (LATF), Road Maintenance Levy Fund (RMLF) and Contribution in lieu of Rates (CILOR).

Central government transfers to local authorities were a later introduction that formed part of a local government reform program which aimed at enhancing inter-governmental fiscal transfers, improving financial management, debt resolution, streamlining budgeting system and service provision capacity building for local authorities. The overall objective was to address the challenges local authorities were facing due to the insufficiency of own source revenues. The central government transfers were conditional grants in nature, for example, the enactment of the LATF Act in 1998 provided for transfer of five percent of national income tax to local authorities in line with population, resource base and financial performance. Further, access to LATF was conditional upon development of a Local Authority Service Delivery Action Plan (LASDAP) using a participatory approach in identifying of projects by council managements and the locals and incorporating the projects in the budgets.

1.3 Constitutional and legal background on urban areas and cities

1.3.1 Constitutional establishment of two levels of government

Article 6 (1) of the Constitution establishes two levels of government - the national and county governments - which are distinct and interdependent. It created the 47 counties which constitute the basic administrative units for decentralized governance, effectively replacing the former local authorities. The Constitution introduced devolution as a transformative governance framework, requiring equitable service delivery and decentralization of functions to counties and further to urban areas and other sub-county units.

Through Article 186 read together with the Fourth Schedule, the constitution assigns functions to only two levels of government - the national and county. The functions assigned to the county governments include the functions previously performed by local authorities. The Transition to Devolved Government Act of 2012 established a Transition Authority with responsibility to facilitate, coordinate and deal with matters relating to transition from the hitherto centralized government to the devolved system of governance.

In addition, Article 209 assigns revenue raising powers to the two levels of government with the revenue raising powers formerly used by local authorities being assigned to county governments.

Subsequently, the County Governments Act (No. 17 of 2012) was enacted to operationalize the county governments, and it continued the existence of the local authorities until the announcement of the results of the first elections held under the constitution. Section 134 of the County Governments Act repealed the Local Government Act (Cap. 265), thereby abolishing the pre-existing local authorities and transferring their functions, staff, assets and liabilities to the newly created county governments through the Transition Authority, as provided under the Transition to Devolved Government Act, 2012.

In compliance, Nyandarua County inherited the functions, assets, and liabilities of the defunct Ol Kalou Town Council and Nyandarua County Council and assumed responsibility for managing urban development and service delivery.

1.3.2 Urban areas as creatures of county governments

Article 176(2) of the Constitution requires counties to decentralize their functions and services to the extent that it is efficient and practicable to do so. Under Article 184, this decentralization in urban areas is guided by national legislation, specifically the Urban Areas and Cities Act, 2011 (as amended in 2019), which establishes the governance, management, and classification criteria for cities, municipalities, towns, and markets.

Further, Section 48(1) of the County Governments Act also provides for decentralization of the functions and provision of services of each county government to, among other entities, the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act (No. 13 of 2011).

Accordingly, Nyandarua County, through its legislative and administrative authority, is mandated to establish and operationalize municipalities and towns within its boundaries, delegate functions, and ensure adequate financing and oversight.

1.3.4 Financing of cities and urban areas

The financing of cities and urban areas under the devolved system of government is guided by the Constitution of Kenya, 2010, the County Governments Act, and the Urban Areas and Cities Act, 2011. These laws empower county governments to allocate funds and delegate revenue-raising powers to cities and urban areas to ensure effective service delivery and sustainable urban development.

1.4 Policy Objectives

The overall objective of this policy is to provide a basis for the county financing of cities and urban areas by operationalizing Sections 172 and 173 of the Public Finance Management Act.

The specific objectives of the policy are to provide for:-

- a) Establishment of cities and urban areas of various categories within the County in accordance with the criteria provided by the Urban Areas and Cities Act.
- b) Effective delegation and transfer of some of the functions and powers assigned by the Constitution by the county to the established cities or urban areas.
- c) Effective delegation and transfer of some of the county government revenue raising powers associated with the functions performed by the cities or urban areas. by the county government to the cities or urban areas,
- d) Allowing of the established cities or urban areas to retain and use such retained revenues as Appropriation-In-Aid.

- e) Establishment of criteria for allocation of additional funds by the county government to the cities or urban areas through the county annual budget processes.
- f) Allocation of additional funds from the county revenues to the cities or urban areas to enable them to effectively perform the functions delegated and transferred to them, and deliver services to the residents.
- g) A well managed implementation of charters establishing, delegating and transferring functions and revenue raising powers to cities and urban areas to avoid duplication of functions and expenditures.
- h) A well managed transition from the county departments to the cities and urban areas to avoid duplication of functions and expenditures.
- i) Coordination between the established cities and/or urban areas, and county departments and administrative officers such as sub-county and ward administrators.

1.5 Scope of Application

This policy shall apply to the County Government of Nyandarua when establishing, delegating and transferring functions and revenue raising powers, and allocating funds to cities, municipalities, towns and markets within the county as required by Sections 172 and 173 of the Public Finance Management Act.

1.6 Rationale of the Policy

This Policy is guided by one, Section 172 of the Public Finance Management Act which requires county governments to allow cities and urban areas to retain revenue arising from rates, fees, levies, charges and other revenue raising measures and use it for the purpose of defraying their costs for providing services. Two, Section 173 of the Public Finance Management Act which requires the county government, through county legislation, to establish criteria for allocation to cities and/or urban areas, of monies to enable the cities and urban areas manage and deliver services.

The development of this policy that operationalizes Sections 172 and 173 of the PFMA will result in effective;

- (i) establishment of cities and urban areas;
- (ii) delegation and transfer of functions to the cities and urban areas;
- (iii) delegation and transfer of revenue raising powers to cities and urban areas;
- (iv) retention and use of own source revenue as Appropriation-in-Aid by the cities and urban areas;
- (v) allocation of funds to cities and urban areas by the county informed by objective criteria established by the county t;
- (vi) effective implementation of the charters establishing cities and urban areas;
- (vii) well managed transition from the county departments to the cities and urban areas;

- (viii) well managed coordination between the cities and urban areas, and county departments and administrative units and ,
- (ix) In addition, the policy will result in a proper and sustainable system of county financing of cities and urban areas within the county.

1.7 Vision and Mission

Vision statement : Well-financed, sustainable, and inclusive cities and urban areas that drive economic growth, efficient service delivery, and improved quality of life for all residents of Nyandarua County.”

Mission statement: “To promote sustainable urban development in Nyandarua County by establishing effective financing frameworks that enhance revenue generation, strengthen financial management, and ensure equitable allocation of resources for improved service delivery and economic growth.”

1.8 Guiding Principles and Core Values

b) Core Values of the Policy

In line with the above principles, this policy is guided by the following values:

1. **Accountability** – Ensuring responsible use of public resources and adherence to financial management standards.
2. **Transparency** – Promoting openness, honesty, and integrity in financial and administrative operations.
3. **Equity and Inclusivity** – Guaranteeing fair distribution of resources across all urban areas and populations.
4. **Sustainability** – Fostering environmentally sound, socially inclusive, and economically viable urban development.
5. **Efficiency** – Maximizing value for money through prudent resource utilization and effective service delivery.
6. **Participation** – Encouraging active involvement of citizens, private sector, and stakeholders in urban governance.
7. **Innovation** – Leveraging technology and creative approaches to improve urban financing and management.

1.9 Policy constitutional and legal Framework

The development of this policy is founded on the following policy, constitutional and legal framework:

1.9.1. International framework

1.9.1.1. The New Urban Agenda (NUA)

Adopted at the **United Nations Conference on Housing and Sustainable Urban Development (Habitat III)** in 2016, the **New Urban Agenda** provides a global vision for sustainable urbanization. It emphasizes the creation of inclusive, safe, resilient, and sustainable cities through improved urban governance, efficient resource management, and equitable access to services.

1.9.1.2 Sustainable Development Goal 11 (SDG 11): Sustainable Cities and Communities

As part of the **United Nations 2030 Agenda for Sustainable Development**, **SDG 11** seeks to “make cities and human settlements inclusive, safe, resilient, and sustainable.” This goal underscores the importance of effective urban planning, adequate financing, and equitable service delivery.

1.9.2. National Framework

1.9.2.1 Constitution of Kenya, 2010

Firstly, the Constitution establishes two levels of government; national and county as specified under Article 6(2) and the Fourth Schedule specifying their functions and powers. Of importance to this policy is Article 184 which provides the foundation for the governance and management of cities and urban areas. It directs Parliament to enact legislation that defines the criteria for classifying areas as cities or urban areas, sets out the principles for their governance and management and ensures the participation of residents in their administration and development. The aforementioned Article forms the constitutional basis for the Urban Areas and Cities Act, 2011, which guides counties in establishing and managing their urban areas.

Continually, Section 18 of the Sixth Schedule to the Constitution also provides for the continuation of the existing local authorities in the following terms: “all local authorities established under the Local Government Act (Cap. 265) existing immediately before the effective date shall continue to exist subject to any law that might be enacted”.

Through the aforementioned Articles, the County aligns its urban governance and financing framework with the constitutional principles of participation, accountability, inclusivity, and sustainable development.

1.9.2.2 County Governments Act

Section 48(1) of the County Governments Act provides for decentralization of the functions and provision of services of each county government to various entities including “(a) the urban

areas and cities within the county established in accordance with the Urban Areas and Cities Act (No. 13 of 2011)”.

Section 134 of the Act provided for the repeal of the Local Government Act, effectively abolishing the existing local authorities in the following manner:

134(1) The Local Government Act is repealed upon the final announcement of all the results of the first elections held under the Constitution.

(2) All issues that may arise as a consequence of the repeal under subsection (1) shall be dealt with and discharged by the body responsible for matters relating to transition.

1.9.2.3. Transition to Devolved Government Act, 2012

The Transition to Devolved Government Act of 2012 established a Transition Authority with responsibility to facilitate, coordinate and deal with matters relating to transition from the hitherto centralized government to the devolved system of governance, including transfer of the functions of the abolished local authorities including those of the urban local authorities to the 47 county governments.

1.9.2.4 Urban Areas and Cities Act, 2011

The Urban Areas and Cities Act as amended in 2019 was enacted to give effect to **Article 184 of the Constitution**, which provides for the governance and management of cities and urban areas. The Act makes provision for the criteria for the classification of different categories of urban areas; establishment of the urban areas; the principles of governance and management of urban areas; the governance and management of urban areas by boards and committees; the functions and powers which the boards and or committees of urban areas may perform and exercise; the participation of the residents in the governance and management of urban areas; and the financing of urban areas. The management of a city and municipality is vested in the county government and administered on its behalf by a board, a manager, and such other staff or officers as the county public service may determine. Section 43 identifies sources of funds for Boards of cities and municipalities.

Through the guidance of the **Urban Areas and Cities Act, 2011**, this policy enables the **County** to strengthen the governance, financial sustainability, and service delivery capacity of its towns and urban centers in line with constitutional principles of **devolution, equity, participation, and accountability**.

1.9.2.5 Public Finance Management Act, 2012 (PFMA)

The **Public Finance Management (PFM) Act, 2012** provides the overarching legal framework for the management of public finances in both national and county governments. In

relation to this policy is Section 172 which requires county governments to allow cities and urban areas to retain revenue arising from rates, fees, levies, charges and other revenue raising measures and use it for the purpose of defraying their costs for providing services. Continually, Section 173 requires the county, through county legislation, to establish criteria for allocation to cities and/or urban areas, of monies to enable the cities and urban areas manage and deliver services.

Through adherence to the stated provisions, the County through this policy ensures that the financing of its urban areas is guided by principles of transparency, efficiency, equity, and fiscal responsibility, fostering sustainable urban growth and improved service delivery.

1.9.2.6 National Urban Development Policy March 2016 (NUDP)

The **National Urban Development Policy (NUDP)** provides a national framework for guiding the sustainable development, governance, and management of Kenya’s urban areas. The Policy seeks to promote well-planned, productive, inclusive, and resilient urban centers that contribute to national and county development goals. It provides for the promotion of effective governance and management of urban areas; building of efficient financial management systems in urban areas; and creation of systems for vibrant growth and development in urban areas among other matters.

Through alignment with the National Urban Development Policy, the County seeks to create financially empowered, well-managed, and sustainable urban areas that drive local economic growth and improve the quality of life for all residents.

1.9.3. County and Municipal Context

1.9.3.1. County Integrated Development Plan III

CIDP 3 identifies key thematic pillars including “promotion of productive sectors”, “strong governance”, “reliable infrastructure”, and “extensive resource mobilisation. emphasises revenue and business development and public finance management (e.g., streamlining tax/levy administration, improving collection) within its economic planning framework. also emphasises infrastructure, service delivery and spatial planning, which are core components of urban areas and cities development. Urban financing must support these service-delivery and infrastructure ambitions (roads, water, sanitation, public amenities) in the urban policy.

Other notable plans under the county include the **Integrated Development Plan (IDeP)** which provides a detailed framework for coordinating county sectoral plans and aligning them with broader development objectives. It supports the operationalization of the CIDP by ensuring that planning, financing, and implementation across departments are harmonized. Also, the **Integrated Strategic Urban Development Plan (ISUDP)** which provides a spatial and strategic framework for guiding the physical growth and development of urban areas within the County. It identifies priority infrastructure, land use zones, and investment opportunities, serving as a roadmap for sustainable urbanization.

1.9.3.2. Municipal Charters

Municipal charters are formal instruments issued by the County Government under the authority of the Urban Areas and Cities Act, 2011 (and other enabling law). Among the charters in county that have been gazetted are Mairo-Inya Municipal Charter which sets out that municipality's name, boundaries and functions and Engineer Municipality Charter.

CHAPTER TWO

SITUATIONAL ANALYSIS OF ESTABLISHMENT AND FINANCING OF URBAN AREAS BY THE COUNTY GOVERNMENT

2.0 Introduction

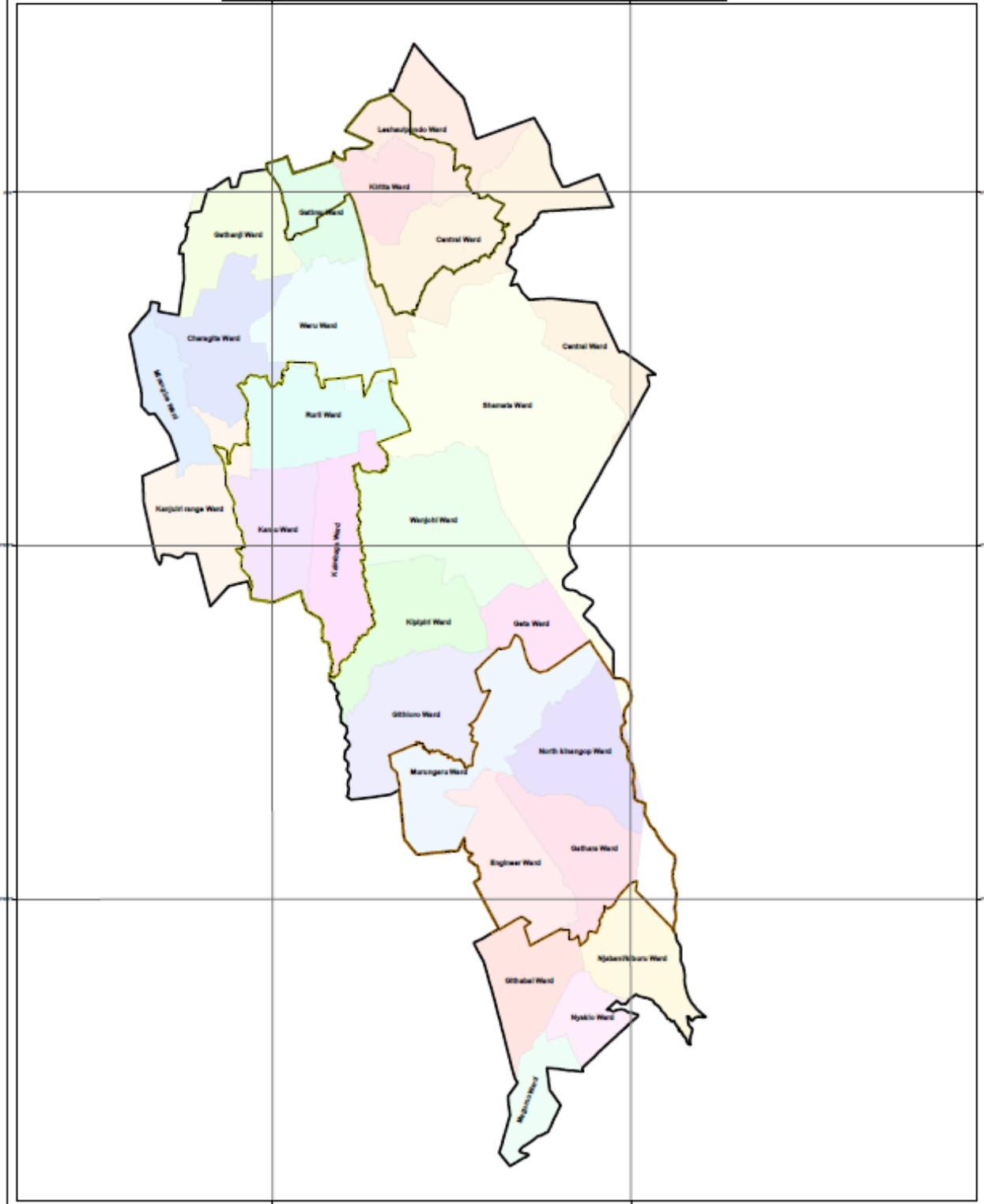
This chapter provides an overview of the establishment, management, and financing of urban areas within Nyandarua County. It outlines the constitutional and legal framework governing urban areas, examines the current institutional and financial arrangements, and identifies existing gaps between policy provisions and practice. The chapter further highlights key areas that require policy and legislative interventions to ensure effective establishment, financing, and sustainable management of urban areas in Nyandarua County.

2.1 Nyandarua County Overview

2.1.1. Geographical location

Nyandarua County lies in the central part of Kenya between latitude 0°8' North and 0°50' South and between Longitude 35° 13' East and 36°42' West. Nyandarua borders Nyeri County to the East, Laikipia to the North, Nakuru to the West, Muranga to the Southeast and Kiambu to the South. Nyandarua County has a total area of 3,246 Km² and had a population of 638,239 according to 2019 Kenya Population and Housing Census.

MUNICIPALITIES IN NYANDARUA COUNTY



- Legend**
- NYANDARUA COUNTY
 - OLKALOU MUNICIPALITY
 - MAIRO-INYA MUNICIPALITY
 - ENGINEER MUNICIPALITY



SCALE 1:175,000

0 3 6 12 18 24
 Kilometers

2.1.2. Socio-economic context

The socio-economic mainstay in Nyandarua is Agriculture and related industries. The main agricultural produce includes Irish potatoes, cabbages, carrots, peas, floriculture, pyrethrum, sugar beet, cereals, poultry and dairy. This is due to the favourable climate and natural resources such as fertile soils. The high agricultural production has made Nyandarua County a top producer of Irish Potatoes accounting for over a third of the national production and the second top producer nationally of Milk in turn becoming a food basket and a strategic county in national food security. The sector employs about 69% of the population and contributes approximately 73% of household incomes. Other significant contributors to the county economy are general commerce including wholesaling and retailing, tourism-related activities as well as timber sector which in turn has created significant employment opportunities.

Nyandarua County's economy has continued to post steady and resilient growth, largely driven by the vibrant agricultural sector and a strong service industry anchored on a stable microeconomic environment and supportive government policies. To deliver on its mandate the county government strives to prioritize the developmental needs and essential service delivery to the citizenry.

2.1.3. Revenue performance of the County Government

The major source of revenue for the county government is the equitable share from the National treasury. Other sources include conditional grants, donations from development partners and own source revenue collection. The major expenditure includes staff emoluments, service delivery and infrastructural development. The county's total revenue for the past three years are as shown in table 1 below.

Revenue source	2022/2023	2023/2024	2024/2025	
Equitable share	6,124,079,770	5,433,497,971	6,409,000,509	
Grants and donations	287,620,283	441,472,248	361,900,746	
Own source revenue	505,913,306	615,744,465	653,235,341	
Total revenue	6,917,613,359	6,490,714,684	7,424,136,596	

2.2 Municipalities within Nyandarua County

2.2.1. Establishment of Municipalities within Nyandarua County

Section 9 of the Urban Areas and Cities Act empowers the county governor, with the resolution of the County Assembly, to grant municipal status to a town by issuing a charter. Section 9 details the process for a town to become a municipality. A town must satisfy the criteria for being a municipality including population threshold (at least 50,000 residents, as per the 2019 amendment), an integrated development plan, demonstrate revenue collection potential and sufficient infrastructure.

Pursuant to the Urban Areas and Cities Act (No. 13 of 2011), Nyandarua County issued charters establishing:

1. **Ol’Kalou Municipality** vide Gazette Notice No.of
2. **Mairo Inya Municipality** vide Kenya Gazette Supplement No. 10 of 2023 (Nyandarua County Legislative Supplement No. 3)
3. **Engineer Municipality** vide Kenya Gazette Supplement No. 11 of 2023 (Nyandarua County Legislative Supplement No. 4)

These urban areas were created to promote efficient service delivery and local economic development. However, their operationalization has faced challenges, particularly in delegation of functions, fiscal empowerment, and integration within county planning and budgeting processes.

Despite financial support from the World Bank’s Kenya Urban Support Programme (KUSP), many urban functions remain under county departments, limiting the autonomy and performance of urban boards.

2.2.2. Municipalities Geographic Location, Area and Population

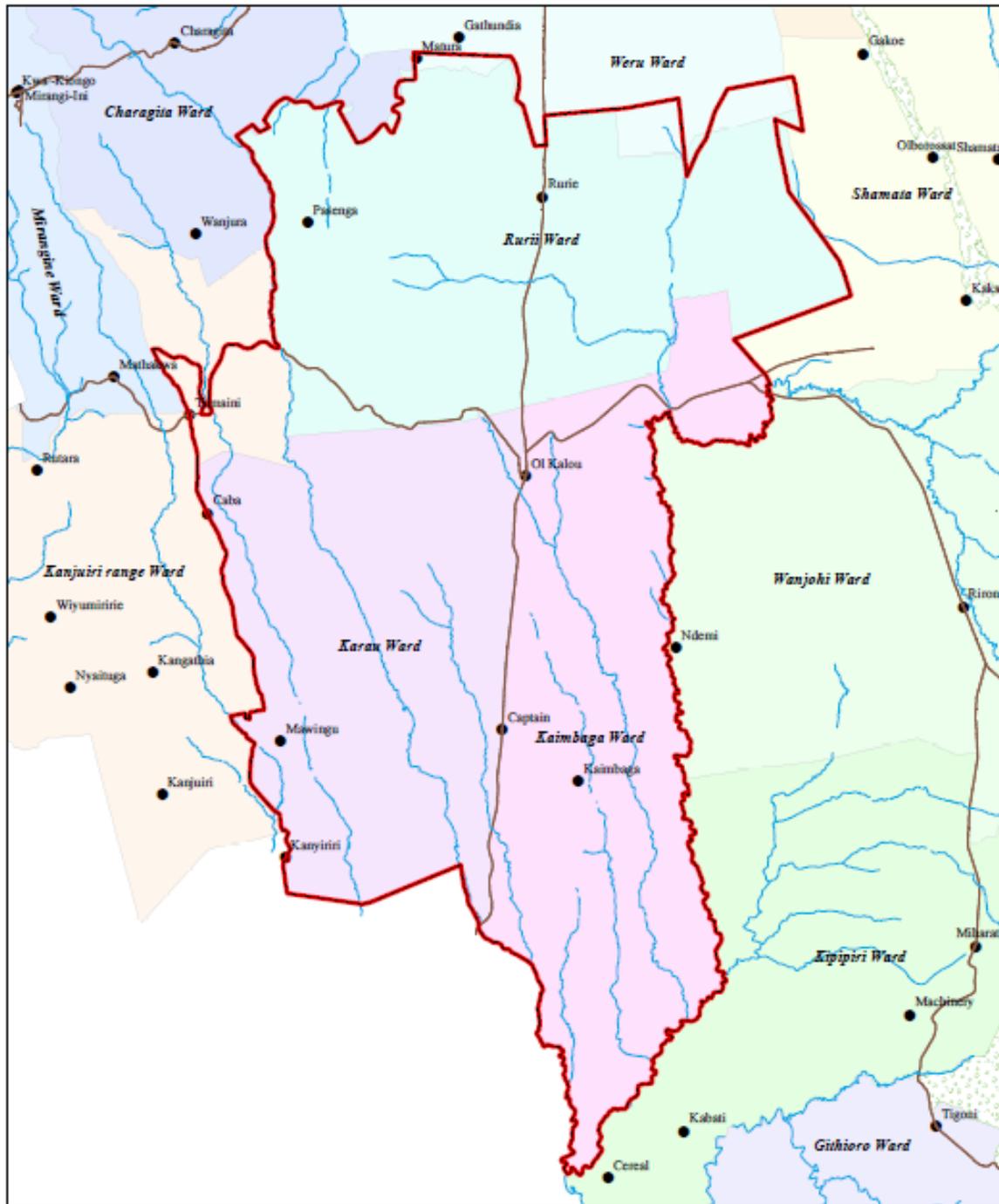
2.2.2.1. Ol Kalou municipality

Ol’ Kalou Municipality is located in Ol ’Kalou Sub County in Nyandarua County. It lies in latitude 0.0003390 ° N and longitude 36.4182880 ° west of the Aberdare Ranges, about 40 km east of Nakuru city, and about 150 km northwest of Nairobi along the Gilgil-Nyahururu Road. The municipality has an approximate area of 364.66 Km². It encompasses the whole wards of Rurii, Kaimbaga, and Karau, as well as Ndemi and Tumaini market centers in Wanjohi and Kanjuiri Ridge wards, respectively.

According to the 2019 Kenya Population and Housing Census, Ol’Kalou Municipality had a population of 78,502 people with 38,951 and 39,551 number of males and females respectively. However, the population of Tumaini and Ndemi centres in Kanjuiri Ridge and Wanjohi wards are based on estimates since they are partially covered in the plan.

Figure 1: Location of Ol’Kalou Municipality

WARDS IN OLKALOU MUNICIPALITY



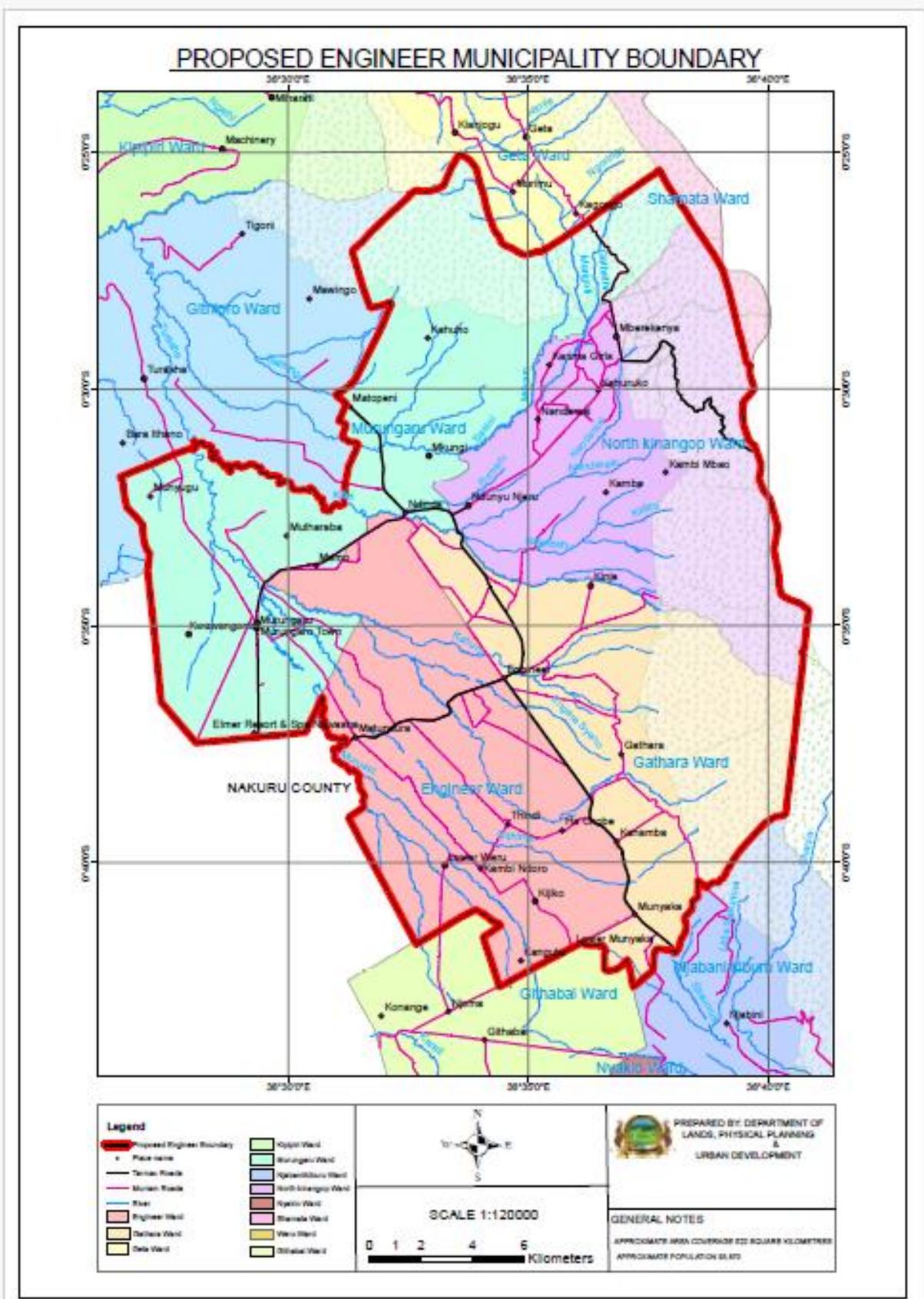
<p>Legend</p> <ul style="list-style-type: none"> Tarmac Roads Olkalou Municipal Boundary Place name Wards 	<p>Scale 1:75,000</p> <div style="text-align: center;"> <p>N S</p> </div>	<p>PREPARED BY:</p> <div style="text-align: center;"> </div> <p>GENERAL NOTES:</p> <p style="text-align: center;">APPROIMATE AREA IS 349.82 SQUARE KM</p>
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2.2.2.2. Engineer municipality

Engineer Municipality lies in latitude 0.0003390 ° N and longitude 36.4182880 ° E which is predominantly on the northernmost parts of Nyandarua County. It is located west of Aberdare Ranges and approximately 120kms West of Nairobi. The municipality covers an area of 531 sq.km which include four wards namely Gathara, Engineer, North Kinangop and Murungaru wards. It borders Kipipiri, Aberdare ranges, Nyeri, Murang'a and Nakuru Counties.

It has a geographical size of 528.3km² and an approximate human population of 61,663 / 93,870.

Figure 2: Location of Engineer municipality



2.2.2.3. Mairo Inya municipality

Mairo Inya Municipality is located in Nyandarua County on the leeward side of the Aberdare Range, covering approximately 264 km². Its jurisdiction spans across Leshau Pondo, Kiriita, Ndaragwa Central and Gatimu wards.

The municipality has a projected population of 66,261 by 2025, underscoring its position as a growing urban centre. The increasing population has intensified demand for public services, social amenities, and infrastructure. This growth trajectory presents significant opportunities for investment and improved livelihoods, while posing challenges in terms of provision of equitable service delivery and long-term development planning.

PROPOSED MAIRO-INYA MUNICIPALITY BOUNDARY

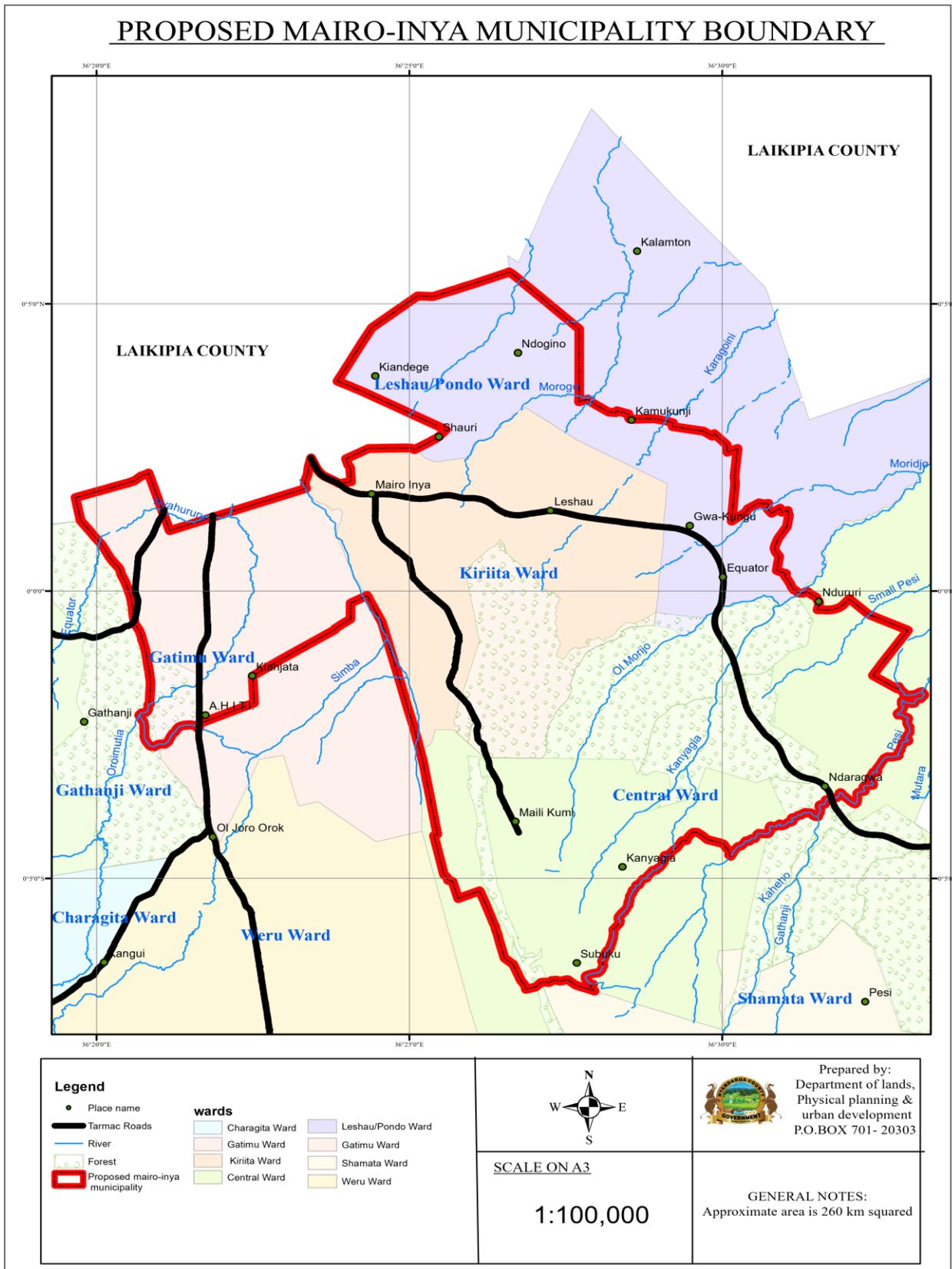


Figure 3: Location of Mairoinya municipality

2.3. Functions of the Municipalities

2.3.1. Statutory Functions of Municipalities

Section 20 (1) of the Urban areas and cities Act, No. 13 of 2011 sets out the governance and management functions of municipal boards. The Municipal Charter crystallises the functions as follows:

- a) Promotion, regulation and provision of refuse collection and solid waste management services;
- b) Promotion and provision of water and sanitation services and infrastructure (in areas within the municipality not served by the water and sanitation provider);
- c) Construction and maintenance of urban roads and associated infrastructure;
- d) Construction and maintenance of storm drainage and floods control;
- e) Construction and maintenance of walkways and other non-motorized transport infrastructure;
- f) Construction and maintenance of recreational parks and green space;
- g) Erection and maintenance of street lighting;
- h) Maintenance and regulation of traffic controls and parking facilities;
- i) Construction and maintenance of bus and taxi stands;
- j) Regulation of outdoor advertising;
- k) Construction, maintenance and regulation of municipal markets and abattoirs;
- l) Maintenance of fire stations; provision of firefighting services, emergency preparedness and disaster management;
- m) Promotion and regulation of municipal sport and cultural activities;
- n) Regulation and provision of animal control and welfare;
- o) Enforcement of municipal plans and development control;
- p) Municipal administrative services (including maintenance of administrative offices);
- q) Promoting infrastructural development and services within municipality; and
- r) Any other function as maybe delegated by the County Government.

2.3.2. Delegation and transfer of functions from the County Government to Urban Areas

Under sections 20 and 21 of the Urban Areas and Cities Act, boards of municipalities may only perform substantive functions or exercise powers that have been formally delegated and transferred by the County Government.

In Nyandarua, while the urban charters list the functions of the Municipalities, the executive order published in Kenya Gazette No. 4698 of 17th April 2024 does not effectively delegate and transfer all the functions to the Municipalities, since its wording limit the extent of delegation and transfer of functions and accountability.

The Kenya Gazette No. 4698 of 17th April 2024 transferred the following functions from the county government to Ol Kalou, Engineer and Mairo Inya municipalities.

- a) Promotion, regulation and provision of refuse collection and solid waste management services;

- b) Promotion and provision of water and sanitation services and infrastructure;
- c) Maintenance of urban roads and associated infrastructure;
- d) Maintenance of storm drainage and floods control;
- e) Maintenance of walkways and other non-motorized transport infrastructure;
- f) Maintenance of recreational parks and green space;
- g) Maintenance of street lighting;
- h) Maintenance and regulation of traffic controls and parking facilities;
- i) Maintenance of bus and taxi stands;
- j) Regulation of outdoor advertising;
- k) Maintenance and regulation of municipal markets and abattoirs;
- l) Maintenance of fire stations: provision of firefighting services, emergency preparedness and disaster management;
- m) Promotion and regulation of municipal sport and cultural activities;
- n) Regulation and provision of animal control and welfare;
- o) Enforcement of municipal plans and development control;
- p) Municipal administrative services;
- q) Promoting infrastructural development and services within municipality; and
- r) Any other function as maybe delegated

Below is an analysis of the status of delegation and transfer of functions from the County Government to the Municipalities:

S/No	Statutory Function under Section 20, UACA & Municipal Charter	Functions Delegated/Transferred by County Government (Kenya Gazette No. 4698 of 17 April 2024)	Gaps / Limitations	Policy Remarks
1	Control of land use, subdivision, land development and zoning	Partially delegated – municipalities participate in development control and enforcement under the County Department of Lands, Housing and Physical Planning.	<ul style="list-style-type: none"> • Not implemented. • No exclusive planning or approval authority • final approvals remain centralized at county headquarters. 	Require formal delegation of local planning control and representation in County Physical Planning and Lands Committees.
2	Promotion and undertaking of infrastructural development and services	Partially delegated – limited to maintenance of minor roads,	<ul style="list-style-type: none"> • Partially implemented for donor funded projects and small projects. 	Allocate capital budgets to municipalities and establish

		drainage, lighting, and waste systems.	<ul style="list-style-type: none"> • Major infrastructure (roads, water, markets) managed by parent department • no fiscal autonomy. 	Appropriation-in-Aid (AIA) accounts to finance O&M.
3	Management and maintenance of public transport, markets, and parking	Delegated – management of bus parks and markets; regulation of parking operations.	<ul style="list-style-type: none"> • Partially implemented. • Tariff setting and fee retention powers not delegated • revenues remitted to County Revenue Fund. 	Implement delegation and Operationalize retention under PFMA Section 109(2)(b) to enhance service sustainability.
4	Promotion and regulation of trade and local economic development	Delegated – markets regulation, and vendor management. Not delegated - trade licensing	<ul style="list-style-type: none"> • Weak collaboration with County Trade Department • Limited business development support. 	Institutionalize Local Economic Development Units in municipalities and link to County Revenue and Trade Directorates.
5	Promotion of safe and healthy environment	Delegated – solid waste collection and public sanitation.	<ul style="list-style-type: none"> • Partial implementation – SWM. • Environmental regulation, Water and public health enforcement retained at county level. 	Develop joint implementation framework between municipalities and County Environment and Public Health Departments.
6	Policy, planning, and performance management	Not fully delegated – municipalities draft IDePs and sector plans but approval rests with County Executive.	<ul style="list-style-type: none"> • No authority to approve or operationalize local plans independently. 	Amend municipal charters to allow Board approval of plans within county planning policy.

7	Regulation of outdoor advertising, signage, and public nuisances	Delegated – permit issuance and fee collection.	<ul style="list-style-type: none"> • Enforcement remains with County Revenue Directorate and Enforcement and Inspectorate Directorate. 	Delegate inspection and compliance enforcement powers to municipal inspectorates.
8	Facilitation and regulation of public transport and traffic management	Delegated – County Transport Department retains all operational authority.	<ul style="list-style-type: none"> • Partially implemented. • No municipal participation in route management or parking revenue sharing. 	Develop inter-departmental MoUs for co-management of transport infrastructure and revenues.
9	Development and maintenance of parks, recreational areas, and open spaces	Delegated – basic maintenance of parks and green spaces.	<ul style="list-style-type: none"> • Land ownership and capital budgets remain with the County Government. 	Transfer park titles and allocate maintenance budget votes to municipalities.
10	Formulation and implementation of Integrated Development and Spatial Plans	Partially delegated – municipalities prepare IDePs but do not control implementation.	<ul style="list-style-type: none"> • Plans not linked to dedicated budgets or revenue sources. 	Empower municipalities to implement IDePs through conditional transfers and budget votes.
11	Revenue collection from rates, fees, levies, and charges	Not Delegated – County Revenue Department collects all revenue.	<ul style="list-style-type: none"> • No authority to collect, retain or utilize locally raised revenues. 	Delegate and Gazette revenue-raising power, retention mechanisms and authorize municipal bank accounts under PFMA Section 179.
12	Entering into contracts, partnerships, or joint ventures	Delegated - Allowed under PPAD but some type of contracts are subject	<ul style="list-style-type: none"> • No full autonomy in procurement and contracting. 	County to issue PPP and contracting guidelines

		to County Executive approval.		tailored to urban boards.
13	Monitoring and regulation of outsourced or external service providers	Minimal – limited to cleaning services and small contractors.	<ul style="list-style-type: none"> • No monitoring or regulatory role over utilities or larger service providers. 	Establish Service Delivery Agreements (SDAs) defining roles, standards, and accountability mechanisms.
14	Maintenance of urban data, GIS, and asset information systems	Not implemented.	<ul style="list-style-type: none"> • Lack of updated and structured GIS-based data systems. 	Develop Municipal Asset Management and Urban Information Systems integrated with county databases.
15	Budget preparation and submission to County Treasury	Implemented – municipal budgets submitted through County Treasury.	<ul style="list-style-type: none"> • No predictable and objective funding criteria. • Overlap between Municipalities and Directorate of Urban Development. 	Enact a funding criteria law. Include separate municipal votes in County Appropriation Act to enable direct disbursement.
16	Promotion of cultural, recreational, and sports activities	Delegated, but not implemented - County Sports Department retains function.	<ul style="list-style-type: none"> • No municipal role or budget for local recreation initiatives. 	Delegate community-level cultural and sports programming through shared funding.
17	Facilitation of citizen participation and resident forums	Operational – Resident Forums established under UACA and charters.	<ul style="list-style-type: none"> • Weak institutional linkage with County Public Participation Act and budget support. 	Harmonize municipal forums with County Public Participation

				structures and resource them adequately.
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Summary of Key Findings:

- i. Delegation remains nominal and administrative, with most functional and fiscal powers centralized at the County level.
- ii. Municipalities lack financial autonomy, despite Gazette delegation - particularly in own-source revenue retention and budget control.
- iii. Charters require amendment to provide clear mandates, authority, and accountability lines consistent with PFMA and UACA.
- iv. A county legislation on delegation and financing of urban areas should be enacted to operationalize PFMA Sections 172, 173, and 179.

To achieve the spirit of the UACA of functional decentralization, the County should revise the charters, executive orders or enact enabling regulations specifying:-

- i. Delegated functions and powers per urban area;
- ii. The scope of autonomy in planning and budgeting; and
- iii. Reporting and oversight mechanisms to ensure accountability.

2.4. Financing of Cities and Urban Areas

2.4.1. Municipalities' Sources of Revenue

The municipalities' major source of revenue is the allocation by the county treasury. In addition, donation by the world bank through the KUSP programme has highly supported both institutional and infrastructural development of the municipalities. The revenues are utilized in priorities of development projects, programmes, recurrent expenditures, and provision of essential municipal services. Table 2 below represents the analysis of municipalities revenue sources in the past years.

	Revenue source	2022/2023	2023/2024	2024/2025
OI Kalou municipality	Share from the county treasury	53,702,691	28,885,564	69,684,200
	KUSP	2,299,915	0	16,154,650
Engineer municipality	Share from the county treasury	-	10,000,000	57,972,867
	KUSP	-	0	16,154,650
Mairoinya municipality	Share from the county treasury	-	11,500,000	27,535,350
	KUSP	-	0	0

Nyandarua's current charters and executive order contained in Kenya Gazette No. 4698 do not authorize municipalities to collect, retain, and utilize revenues arising from delegated

functions. As such, in Nyandarua County, revenue-raising powers remain centralized, with the function being undertaken by the County Treasury.

2.4.2 Delegation and transfer of revenue raising powers to urban areas

Sections 20 and 21 of the Urban Areas and Cities Act set out the function and powers of urban boards which include the exercise of delegated revenue-raising functions and powers by counties. Specifically, section 20 (1) (m) and (n) provide thus:

(m) as may be delegated by the county government, collect rates, taxes levies, duties, fees and surcharges on fees;

(n) settle and implement tariff, rates and tax and debt collection policies as delegated by the county government.

Below is an analysis of the delegated functions and corresponding revenue types of that would be realised by urban areas if they would optimally exercise of their functions:

S. No.	Delegated and Transferred Function	Type of Revenue to be Collected
1	Regulation and control of land use, subdivision, and development within the urban area	Development approval fees building plan approval fees change-of-user fees, inspection charges
2	Management of markets and trade facilities	Market stall rents hawkers' fees trade licence fees daily market entry fees
3	Management of solid waste collection and disposal services	Garbage collection fees, waste disposal charges, business waste management levies
4	Regulation and management of public transport and parking	Parking fees, bus park entry charges, motorcycle/boda-boda registration fees
5	Maintenance of urban roads, street lighting, and storm water drainage	Wayleave charges, street light maintenance levies, road excavation permits
6	Provision and maintenance of public amenities such as recreational parks and open spaces	Park entry fees, recreation facility hire charges, advertising permits within parks
7	Regulation and control of outdoor advertising and signage	Billboard permit fees, advertising licence fees, signboard inspection charges
8	Regulation and control of building standards, safety, and occupation certification	Occupation certificate fees, inspection fees, enforcement penalties

9	Management of public health, sanitation, and hygiene facilities	Public toilet user fees, sanitation inspection fees, waste water disposal charges
10	Management of local markets, fairs, and events	Temporary market licence fees, event permit fees, venue hire charges
11	Administration of business permits and trade licensing within the urban area	Single business permit fees, business renewal fees, penalty charges for non-compliance
12	Control and regulation of livestock, agricultural produce, and slaughter facilities within urban areas	Slaughter fees, livestock market levies, produce inspection fees
13	Management of public cemeteries, crematoria, and related services	Burial plot fees, maintenance charges, exhumation or reallocation fees
14	Urban housing, estates, and rental management	House rent, tenant service charges, estate maintenance fees
15	Regulation of environmental management and tree planting within the urban area	Environmental permit fees, tree-cutting permit fees, conservation levies
16	Control and regulation of informal sector operations and street trading	Informal trader registration fees, daily operation levies, sanitation levies for informal zones
17	Fire prevention and emergency services	Fire inspection fees, fire safety certificate fees, training and compliance charges

For the Municipalities to deliver on their mandates and functions, it is imperative for the County Government to delegate the revenue-raising power to them, as envisaged in section 20 (1) (m) and (n) of the UACA.

The delegation of revenue-raising powers will enhance the financial sustainability of urban areas and enable compliance with section 172(a) of the Public Finance Management Act (PFMA), which allows cities and municipalities to retain revenues as Appropriations-in-Aid (A-I-A) for service delivery.

2.4.3. County Allocations to Urban Areas

Under section 43 of the Urban Areas and Cities Act and section 172(b) of the PFMA, counties are required to allocate funds - from county revenue - to cities and urban areas through their budget processes. This forms the major source of funds for urban areas, alongside other supplementary sources such as donor and development partner funding.

The full realization of this source of funds for cities and urban areas requires the county government to, through county legislation, establish an objective criteria for allocating funds to urban areas or cities. Section 173 of the PFMA codifies this requirement in the following terms:

173 (1) In allocating funds to the urban areas or cities under section 172(b), the county government shall use objective criteria reflecting the service demand and responsibilities of the urban area or city.

(2) The objective criteria to be prescribed in county legislation, may include, among others, adjustments for -

a) the proportional population, calculated as the population of the urban area or city divided by the total population of the county;

b) the relative area, calculated as the area of the urban area or city divided by the total county area;

c) the relative poverty levels based on objective measures of relative poverty;

d) the relative per capita revenue collection estimated as urban area or city per capita revenue collection divided by the County per capita revenue collection;

e) an objective measure to account for price differentials in providing similar services in the urban area and city relative to the rural areas of the county;

f) a minimum amount to ensure effective delivery of essential services and responsibilities assigned to the urban area or city; and

g) incentives to encourage urban areas and cities to exercise prudent financial management as well as transparency and accountability in public financial management.

(3) In approving the criteria in subsection (2), the County Assembly will seek the recommendations of the Commission on Revenue Allocation.

The County Government is yet to enact legislation establishing such criteria. Consequently, allocations to its municipalities have remained ad hoc and insufficient, undermining urban service delivery.

2.4.4. Retention of revenue raised by cities and urban areas under Section 109(2)(b) of the PFMA.

Both Section 43 of the Urban Areas and Cities Act (UACA) and Section 172 of the Public Finance Management Act (PFMA) recognize that retained revenue arising from the functions performed by cities and urban areas is a key source of funding for their Boards and Committees.

Specifically, Section 43(1)(b) of the UACA provides for “monies or assets that may accrue to the Board in the course of the exercise of its powers or the performance of its functions under this Act,” while Section 172(a) of the PFMA identifies “revenue arising from rates, fees, levies, charges and other revenue-raising measures which is retained by the urban area or city for the purpose of defraying its costs for providing services” as a legitimate source of funds.

In practice, such retained revenue is expected to be applied as Appropriation-In-Aid (A-I-A) by the respective urban area to meet its operational and service delivery obligations.

The full realization of this funding mechanism requires policy and legislative action by the County Government to lawfully exclude certain revenues generated by urban areas from being paid into the County Revenue Fund (CRF). This flows from Article 207 of the Constitution, which establishes the CRF for each county and requires that all money raised or received by or on behalf of the county government must be paid into that Fund, except where otherwise excluded by an Act of Parliament.

Accordingly, Section 109(2) of the PFMA provides the legal basis and options for exclusion of such monies from the CRF.

Under the three alternatives provided by Section 109(2), the second option, set out in Section 109(2)(b), is the most practical and legally sound pathway for establishing an Urban Areas Fund. This provision allows for “money that may, in accordance with other legislation, this Act or County legislation, be retained by the county government entity which received it for the purposes of defraying its expenses.”

In this context, a municipality qualifies as a county government entity, and the retained funds can lawfully be used to finance its operational and developmental functions. This option is reinforced by Section 5(1) of the PFMA, which empowers the County Executive Committee Member (CECM) for Finance, with the approval of the County Executive Committee and the County Assembly, to declare, by order in the Gazette, any county corporation, authority, or body as a county government entity for the purposes of the Act.

Once declared, such an entity is permitted to receive, retain, and utilize revenues generated from its operations as Appropriations-In-Aid, in accordance with Regulation 59 of the Public Finance Management (County Governments) Regulations, 2015.

In applying this option, Nyandarua County can establish an Urban Areas Fund through the steps below:

1. Gazetting each urban area i.e. municipality as a county government entity under Section 5(1) of the PFMA;
2. Delegating and transferring to them the revenue-raising functions and associated powers, consistent with Sections 20 - 21 of the UACA;
3. Authorizing the retention and use of revenue from such functions as A-I-A for operational and service delivery costs; and
4. Issuing County Legislation or Regulations to formalize the retention mechanism, financial reporting standards, and oversight framework.

It is against this backdrop of the constitutional and legal requirements that the County Government has developed this Policy seeking to operationalize sections 172 and 173 of the Public Finance Management Act while promoting fiscal autonomy, accountability, and efficiency in the management of municipal finances.

CHAPTER THREE

POLICY OBJECTIVES, STATEMENTS AND INTERVENTIONS

3. Introduction

This chapter outlines the policy objectives, strategies and interventions that the Nyandarua County Government will implement to ensure effective governance, financing and management of its cities, municipalities, and towns. These measures operationalize Sections 172 and 173 of the Public Finance Management Act (PFMA) and relevant provisions of the Urban Areas and Cities Act (UACA).

The chapter addresses:

1. Establishment and categorization of urban areas within Nyandarua;
2. Delegation and transfer of functions to municipalities and urban areas;
3. Delegation and transfer of revenue raising powers;
4. Reorganization of county government structures to align with urban governance;
5. Retention and use of own-source revenue raised by cities and urban areas as Appropriation-in-Aid (AIA);
6. Implementation of urban charters and transition from county departments;
7. Designation of Managers as Accounting Officers and revenue collectors;
8. Establishment of urban area bank accounts; and
9. Prudent and accountable management of urban revenues.

These interventions are intended to promote well-governed, financially sustainable, and service-oriented urban areas consistent with constitutional principles of devolution, efficiency, and public participation.

3.1 Establishment and Categorization of Cities and Urban Areas

Policy Objective:

To ensure that Nyandarua County establishes, classifies, and manages its urban areas in accordance with the criteria stipulated under the Urban Areas and Cities Act, including population thresholds, infrastructural requirements, and governance capacities.

Policy Strategies:

The County Government will -

- Establish municipalities and towns through formal Charters as required under Sections 8, 9 and 10 of the UACA.
- Ensure each Charter clearly defines:

- The boundaries of the urban area;
- Delegated and transferred functions;
- Delegated revenue raising powers;
- Principal–agent relationship between the County Government and the urban area;
- Accountability and reporting arrangements;
- Mechanisms for public participation and resident engagement.
- Regularly review existing charters to ensure compliance with updated legal and policy frameworks.

3.2 Delegation and Transfer of Functions to Municipalities and Towns

Policy Objective

To ensure clarity, efficiency and legality in the delegation and transfer of functions from Nyandarua County Government to its municipalities and towns.

Policy Strategies:

Nyandarua County will—

- Use Charters to explicitly outline the functions being transferred to urban areas in accordance with the First Schedule functions of UACA.
- Review all approved Charters to close gaps, resolve overlaps and ensure seamless transfer of responsibilities.
- Establish structured performance agreements detailing obligations, standards, and deliverables for each delegated function.

3.3 Delegation and Transfer of Revenue Raising Powers

Policy Objective:

To ensure proper, transparent and effective delegation of revenue-raising powers to municipalities and towns, consistent with UACA, PFMA, and county revenue laws.

Policy Strategies:

Nyandarua County will—

- Delegate revenue-raising powers through Charters, specifying the exact taxes, fees, charges, and cess an urban area is authorized to collect.
- Review revenue provisions in Charters to ensure clarity, legality, and consistency with the PFMA, County Revenue Laws and the Annual County Finance Acts.
- Provide capacity-building on revenue administration, compliance and enforcement.

3.4 Reorganization of County Government Structures

Policy Objective:

To realign county departments, structures and personnel to effectively support the established urban governance institutions.

Policy Strategies:

The County will;

- Ensure county departments cease performing functions formally transferred to municipalities or towns.
- Harmonize reporting lines between municipal/town managers and county administrative officers (sub-county and ward administrators).
- Rationalize staff deployments to eliminate duplication and enhance efficiency.
- Redeploy or redesignate Sub-County Administrators where boundaries are subsumed into urban areas to prevent overlaps in service delivery.

3.5 Establishment of Urban Area Departments

Policy Objective:

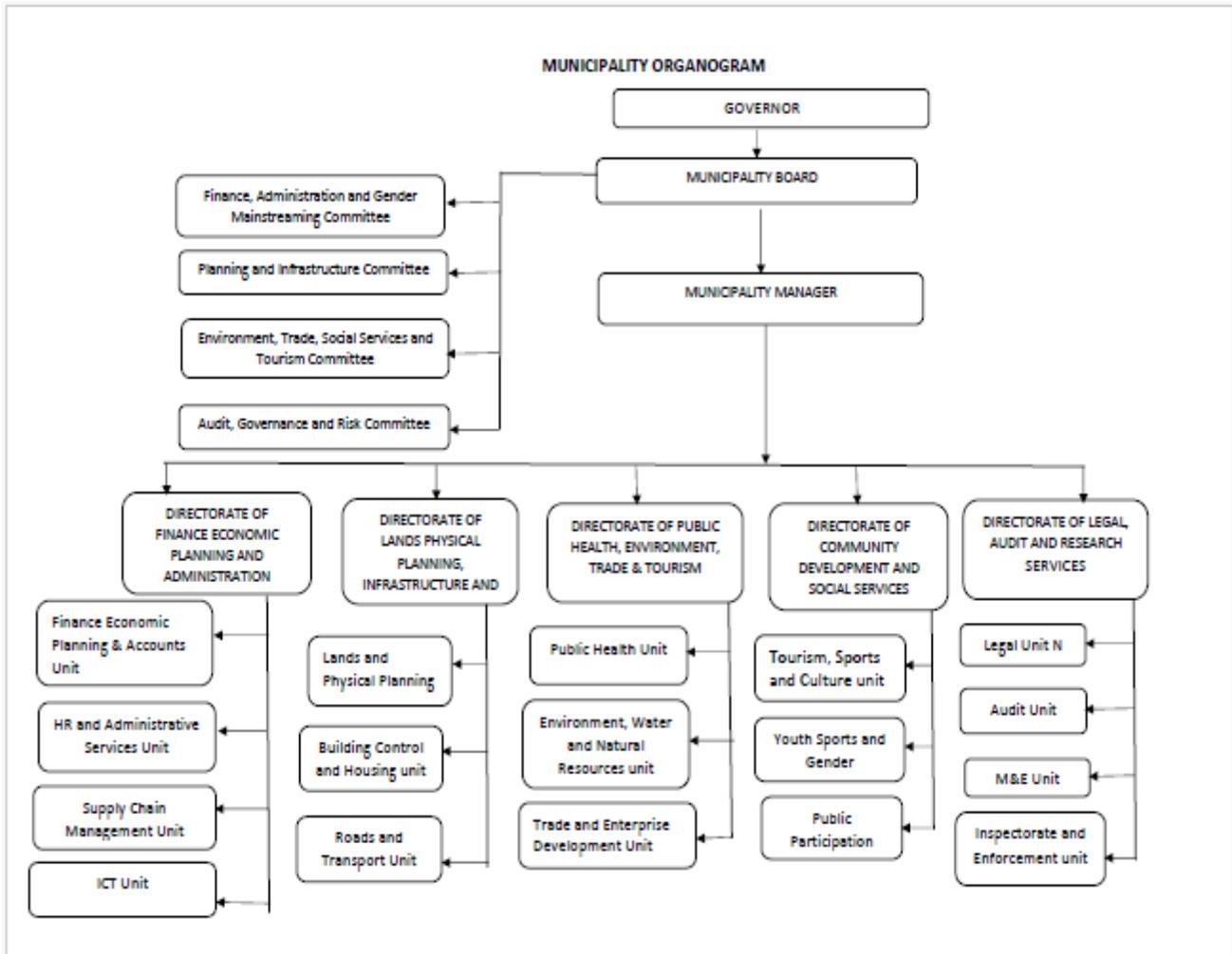
To establish and operationalize functional directorates within municipalities and towns to promote professional, efficient, and accountable service delivery.

Policy Strategies:

The County will—

- Establish urban directorates based on:
 - Typical structures of Kenyan municipalities;
 - Lessons from defunct local authorities;
 - Best practices in urban service delivery.

The directorates and administrative units of the municipalities are as per the organogram below:



3.6 Retention and Use of Locally Raised Revenue

Policy Objective:

To authorize municipalities and towns in Nyandarua to retain and use a defined portion of the revenue they collect as Appropriation-in-Aid (AIA) in line with Section 109(2) of the PFMA.

Policy Strategies:

Nyandarua County will—

- Determine what percentage of own-source revenue will be retained by urban areas.
- Ensure all retained revenue is administered strictly as AIA, subject to the financial laws and regulations.

3.7 Implementation of Charters and Transition Mechanisms

Policy Objective:

To ensure structured and well-managed transition processes as functions, personnel and resources shift from county departments to municipalities and towns.

Policy Strategies:

The County Governor shall appoint a Transition Implementation Committee, chaired by the County Secretary, to:

- Oversee cessation of county execution of transferred functions;
- Ensure budget processes are used to enforce transition and avoid duplication;
- Prevent county departments from budgeting for functions already transferred; and
- Coordinate with the County Treasury to set consolidated budget ceilings for municipalities and towns, reflecting their full functional mandates.

3.8 Opening and Maintenance of Urban Area Bank Accounts

Policy Objective:

To ensure all funds for municipalities and towns are banked in properly authorized accounts as required by Section 179 of the PFMA.

Policy Strategies:

The County will—

- Open bank accounts for every municipality or town, subject to PFMA regulations and County Treasury instructions.
- Put in place regulatory mechanisms specifying:
 - The account types;
 - Account operation procedures;
 - Designated signatories;
 - Reporting and compliance obligations.

3.9 Designation of Urban Managers as Accounting Officers

Policy Objective:

To ensure that the Municipal and Town Managers are designated as Accounting Officers and authorized revenue collectors/receivers for their respective urban areas.

Policy Strategies:

The County Executive Committee Member (CECM) for Finance will—

- Formally designate Municipal/Town Managers as Accounting Officers under Sections 148 and 151 of the PFMA.
- Authorize Urban Managers to collect and receive revenue for their jurisdictions.
- Ensure compliance with procurement, financial reporting, and audit requirements.

3.10 Establishment of Criteria for Allocation of County Funds to Urban Areas

Policy Objective:

To adopt a transparent, equitable and predictable formula for allocating county funds to municipalities and towns, as required under Section 173 of the PFMA.

Policy Strategies:

Criteria will be based on:

- Population Impact Factor (blending day and night population)
- Own-Resource Effort
- Proportional Contribution
- Regional Balance Index
- Poverty/Need
- Density & Demand
- Functions Load
- Development Needs
- Service Cost Differential
- Equipment & Capital
- Coverage/Area

3.11 Prudent and Accountable Management of Urban Revenues

Policy Objective:

To establish a framework enabling sound, transparent, responsible and accountable management of urban revenues.

Policy Strategies:

The County will—

- Develop a standard financial management framework for all municipalities and towns.
- Ensure each urban area establishes a fully functional Accounts Unit and Procurement Unit.
- Enforce compliance with PFMA, PFM Regulations, and Accounting standards

CHAPTER FOUR

FRAMEWORK FOR POLICY IMPLEMENTATION

4.1 Implementation Strategy and Principles

The successful execution of this Policy requires a comprehensive implementation strategy anchored on Kenya's constitutional principles, particularly Devolution and Public Participation as enshrined in Article 10 of the Constitution.

The policy will be implemented using a decentralized and participatory approach, which recognizes the constitutional mandate of the County Government to delegate functions and resources to urban areas and cities.

The implementation shall be guided by the following principles:

1. **Clarity of Mandate:** Ensuring the functions, resources, and fiscal powers delegated to the urban area are clearly defined and communicated to all actors.
2. **Top-Down and Bottom-Up Coordination:** Integrating decisions from the County Executive and County Assembly (top-down) with the practical implementation insights and citizen feedback from the urban area Boards (bottom-up).
3. **Accountability and Transparency:** Establishing clear reporting lines and oversight mechanisms to track performance and ensure prudent use of devolved finances.
4. **Inter-Agency Collaboration:** Promoting synergy and efficient communication between County Departments (Lands and Urban Development, Finance, and Others) and the urban area Boards.

4.2 Institutional and Implementation Structure (Roles and Responsibilities)

The policy's implementation will be driven by various actors, whose roles are defined below:

4.2.1 The County Governor

The County Governor will be responsible for:

1. Issuing charters for establishment of cities and urban areas;
2. Reorganization of the county activities, departments and administration through Executive Orders; and
3. Appointment of the implementation and transition committee.

4.2.2. The CECM for Lands and Urban Development

The CECM shall have the overall responsibility for the Policy's execution and shall be responsible for:

1. **Transfer of Functions:** Ensure clear
2. **Policy Stewardship:** Providing executive and administrative direction for the implementation.
3. **Regulation Development:** Formulation of legislation and developing and submitting all necessary supporting regulations and guidelines to the County Assembly for enactment/approval.
4. **Technical Assistance:** Providing continuous technical support and capacity-building to the urban areas Boards.

4.2.3 The County Department of Lands and Urban Development

The Department will serve as the technical lead and coordination center for the Policy, responsible for:

1. **Implementation Coordination:** Ensuring all actors adhere to the established implementation plan.
2. **Data Management:** Collecting and maintaining records on the performance of the Urban Areas, including revenue generation and expenditure patterns.

4.2.4 The Urban Areas Boards

As the primary implementation agents, the Boards shall be responsible for:

1. **Budgetary Planning:** Preparing, submitting, and executing their budgets, ensuring they are aligned with the budget ceilings set by the County.
2. **Revenue Management:** Collecting and retaining revenue from designated sources, as delegated, and administering these funds under the Public Finance Management (PFM) Act.
3. **Service Delivery:** Effectively executing the delegated and transferred urban functions.
4. **Financial Reporting:** Ensure compliance with financial reporting as envisaged under the PFM Act and Regulations.

4.2.5 The CECM for Finance

The CECM for Finance shall ensure the fiscal integrity of the policy by:

1. **Designation of Accounting Officers:** Formally designating City and Municipal Managers as the Accounting Officers and Revenue Collectors/Receivers, in line with the PFM Act.
2. **Budgetary Alignment:** Preventing duplication of spending by ensuring that County Departmental budgets do not fund functions already transferred to the Urban Areas.
3. **Financial Provision:** Ensuring budgeting for all operational costs of the policy and ensuring additional funding allocations to urban areas meet the established criteria.

4. **Budget Ceiling Compliance:** Ensuring that the Urban Area Boards' budgets are included and contained within the overall County budget ceilings.

4.2.6 The County Assembly

The Assembly shall exercise its mandate in law-making and oversight by:

1. **Enacting Legislation:** Passing any necessary supplementary legislation required to give the Policy legal effect.
2. **Oversight:** Scrutinizing the Policy's performance and providing oversight to the County Executive Committee during implementation.

4.3 Resource Mobilization and Capacity Building

Successful implementation requires the strategic deployment of all necessary resources:

1. **Financial Resources:** The County shall ensure sufficient budgetary allocations are committed to the implementation of this Policy and to the Urban Area Boards. This includes supporting the Boards' efforts to improve their Own-Source Revenue (OSR) collection systems.
2. **Human Capacity:** The County Government will invest in targeted training programs for staff at the County Departments and the Urban Area Boards. This capacity building will focus on public finance management, revenue administration, urban planning, and public participation skills.
3. **Technological Resources:** Investment in modern Information and Communication Technology (ICT) will be prioritized to facilitate transparent financial reporting, efficient revenue collection, and inter-departmental communication.

4.4 Public Participation and Communication Framework

In compliance with the national values and principles of governance, a robust communication and public participation plan will be utilized:

1. **Continuous Engagement:** Stakeholders, including citizens, civil society, and the private sector, shall be involved in the implementation process through continuous consultations, not only at the planning stage but also during execution.
2. **Information Sharing:** Key decisions, particularly those related to delegated functions and financial allocations, shall be widely publicized to ensure the public is informed of the scope and impact of the implementation.
3. **Feedback Mechanism:** A formal mechanism will be established to record, evaluate, and provide feedback on how public inputs are incorporated into the policy implementation adjustments.

4.5 Monitoring, Evaluation, and Learning (MEL)

The implementation framework is designed with a view towards continuous assessment and learning. All implementing actors are required to adhere to the monitoring framework detailed

in Chapter Five by submitting timely and accurate performance reports to the County Department of Lands and Urban Development.

CHAPTER FIVE

MONITORING, EVALUATION, LEARNING AND REPORTING, AND REVIEW

5.1. Monitoring, Evaluation, Learning and Reporting

5.1.1. Monitoring and Evaluation

Monitoring and evaluation of this Policy shall be carried out by the County Department responsible for Urban Development in collaboration with the County Treasury, the County Directorate of Economic Planning, and the Municipal Boards. The objective of M&E is to track progress in the implementation of this Policy, assess the effectiveness of delegated functions and financing arrangements, and ensure accountability in the governance and management of urban areas.

The Department responsible for Urban Development shall develop an M&E framework and results matrix aligned with the County Integrated Monitoring and Evaluation System (CIMES). The framework will include performance indicators, baseline data, targets, and reporting timelines to measure outcomes related to:

- i. The delegation and transfer of functions and revenue-raising powers to municipalities;
- ii. Allocation and utilization of county funds in line with Sections 172 and 173 of the PFMA;
- iii. Service delivery improvements and financial performance of the municipalities; and
- iv. Compliance with governance, transparency, and accountability principles.

5.1.2 Data Collection and Management

Each municipality shall establish a data collection and reporting system to capture quantitative and qualitative information on its operations, finances, and service delivery. Data shall include, but not be limited to:

- i. Revenue collection and expenditure reports;
- ii. Implementation of delegated functions and service coverage;
- iii. Infrastructure development progress;
- iv. Public participation and stakeholder engagement records; and
- v. Environmental and social impact indicators.

Municipalities shall submit quarterly reports to the Department responsible for Urban Development through standardized reporting templates. The Department shall consolidate the data, validate it, and submit an annual performance report to the County Executive Committee and the County Assembly.

The County Directorate of Economic Planning shall integrate this data into the County Annual Progress Report (CAPR) and the County Statistical Abstract, ensuring consistency with the National Integrated Monitoring and Evaluation System (NIMES).

5.1.3 Learning, Review, and Policy Adjustment

Findings from M&E activities will facilitate policy-oriented learning and adaptive management. The Department responsible for Urban Development shall convene annual review meetings bringing together key departments, municipal boards, and development partners to:

- i. Review implementation progress and performance trends;
- ii. Identify systemic and operational challenges;
- iii. Recommend adjustments to delegation instruments, financing criteria, and capacity-building plans; and
- iv. Update the policy and implementation framework accordingly.

The M&E findings shall also inform budget preparation, resource allocation, and capacity development priorities for the following financial year, ensuring that lessons learned are institutionalized across the County Government and municipalities.

5.2 Policy Review

This Policy will be reviewed after every ten (10) years or earlier in the light of operating experience and/or further changes in legislation or need to align the policy to regional and international frameworks or other significant circumstances that may render it inoperable.

ANNEX

EXECUTIVE SUMMARY

This document presents a transparent and formula-based framework for allocating resources to municipalities within Nyandarua County.

The funding model consists of an Equitable Baseline Allocation (EQ_i), a Formula-Based Allocation ($TB * WF_i$), and Conditional Grants (G_i).

The process involves step-by-step computation of the weighted scores, normalized indicator values and demonstration of application of the formula.

Based on computed weighted scores, the formula shares are as follows for the base year 2024/2025.

Table 1; Municipalities Allocations for F/Y 2024/2025

Municipality	Total Allocation (Ksh)
Ol Kalou	147,415,779
Engineer	122,013,671
Mairo inya	73,782,690

1. INTRODUCTION

The County Government of Nyandarua has adopted an objective, transparent and formula-based approach to allocating resources to municipalities. The framework ensures allocations reflect service demand, historical funding patterns, development priorities and municipal revenue performance.

The municipalities covered are Ol Kalou, Engineer and Mairo-Inya.

Expected Structural Outcome

Based on economic structure:

Ol Kalou

- Higher population
- Higher administrative functions (county HQ)
- Likely higher development needs

→ Expected to receive highest share

Engineer

- Industrial and transport node

- Moderate density
- Medium share
- Mairo-Inya
- Smaller population
- Lower revenue base
- Protected by baseline + poverty + regional balance index

2. FUNDING PRINCIPLES AND FORMULA

The allocation formula is guided by principles of equity, efficiency, service demand alignment and development needs.

General Formula:

$$FA_i = EQ_i + (TB * WF_i) + G_i$$

Where; $WF_i = (\alpha PIF_i + \beta ORE_i + \gamma PCR_i + \delta RBI_i + \varepsilon POV_i + \zeta DNI_i + \eta FLI_i + \theta DNN_i + \kappa SCD_i + \lambda EQP_i + \mu COV_i) + SI_i + G_i$

Where;

FA_i means the annual allocation to city or urban area i ;

EQ means the equitable baseline allocation per city or urban area, being a fixed shilling amount set in the annual County Fiscal Strategy Paper, to guarantee minimum financing;

TB means the total budget envelope set aside for financing cities and urban areas in the financial year;

PIF_i (Population Impact Factor) means the normalized population share of i , blending day and night population, with weights w_{dwd} and w_{nwn} respectively (default 0.4 and 0.6);

ORE_i (Own-Resource Effort) means the normalized per capita own-source revenue effort of i , measured against the county average;

PCR_i (Proportional Contribution Ratio) means the share of total county own-source revenue contributed by i ;

RBI_i (Regional Balance Index) means the normalized inverse of historical per capita allocations over the preceding three years, to favour underserved areas;

POV_i (Poverty/Need Index) means the normalized share based on headcount poverty or multi-dimensional poverty index;

DNI_i (Density & Demand Index) means the normalized factor reflecting service demand intensity, including built-up density, traffic or informal settlement coverage;

FLI_i (Functions Load Index) means the normalized share of the costed functions actually delegated to i under its charter and Executive Order;

DNN_i (Development Needs Index) means the normalized share of priority backlogs and projects for *i* derived from approved spatial and integrated development plans;

SCD_i (Service Cost Differential) means the normalized index of unit input costs for *i* (e.g. waste collection, road maintenance, energy costs);

EQP_i (Equipment and Capital Requirement Index) means the normalized index of confirmed equipment and capital replacement needs for *i*;

COV_i (Coverage/Area Factor) means the normalized built-up or service coverage area of *i*;

SI_i (Special Initiatives) means a ring-fenced amount for time-bound projects for *i*, approved by the County Assembly;

G_i means earmarked conditional grants or donor transfers directly attributed to *i*;

α...μ are weights set by the County Treasury such that their sum equals one, and no weight is negative.

Rules of application

(a) The County Treasury shall publish the data series and normalized indices used in computing allocations, together with the annual budget estimates.

(b)	Default starting weights are—	o	Population Impact Factor	
(α)	0.25	o	Own-Resource Effort (β)	0.10
		o	Proportional Contribution (γ)	0.10
Balance Index (δ)	0.10	o	Poverty/Need (ε)	0.10
		o	Density & Demand (ζ)	0.05
Load (η)	0.10	o	Development Needs (θ)	0.10
Cost Differential (κ)	0.04	o	Equipment & Capital (λ)	0.04
		o	Coverage/Area (μ)	0.02

(Sum = 1.00)

(c) No city or urban area shall receive less than the equitable baseline (EQ).

(d) The combined contribution of ORE_i and PCR_i shall not exceed 0.30 of the weighted bracket.

(e) The combined contribution of POV_i and RBI_i shall not be less than 0.20 of the weighted bracket.

(f) Year-on-year allocations shall not decrease by more than 10% nor increase by more than 30%, excluding special initiatives and grants.

County variation

(a) A county may, by regulation and with County Assembly approval, vary the weights in subparagraph 3(2), provided that—

- (i) no single weight exceeds 0.35; and
- (ii) not more than two weights exceed 0.20 in the same year.
- (b) Reasons for variation shall be set out in the County Fiscal Strategy Paper.

3. FUNDING CRITERIA DEVELOPMENT

EQ – Baseline allocation for each municipality. We take 2024/25 FY as our baseline year then;

EQ for Ol Klou = Ksh 69,684,200

EQ for Engineer =Ksh 57,972,867

EQ for Mairoinya =Ksh 27,535,350

TB – Total allocation for all municipalities

TB = Ksh 155,192,417

SI – Flagship projects

No Flagship project has been identified for the municipalities

Gi – Conditional grant

Gi for Ol kalou = Ksh 20M

Gi for Engineer = Ksh 15 M

Gi for Mairoinya =0

SCD- No data is available to compute the service cost differential ie Total maintenance cost for the municipalities.

EQP- No data is available to compute the equipment and asset needs ie equipment replacement needs or new capital asset needs.

Therefore the formula is reduced to; $WFi = (\alpha PIFi + \beta OREi + \gamma PCRi + \delta RBIi + \varepsilon POVi + \zeta DNIi + \eta FLIi + \theta DNNi + \mu COVi) + Gi$

4. COMPUTATION OF THE WEIGHTED SCORES

FINAL WEIGHTS (Adjusted After Removing SCD and EQP)

Where certain indicators lacked reliable data, their weights are proportionally redistributed to maintain the structural integrity of the model.”

When SCD (4%) and EQP (4%) lacked data, their combined 8% had to be redistributed proportionally across the remaining indicators.

Mathematically; Remaining active share is $(100\% - 8\% = 96\%) = 0.96$

Each active weight is divided by 0.92 (the remaining active share).

Example:

$$\text{New Population Weight} = 0.25 \div 0.92 = 0.272$$

Table 2: Computation of The Weighted Scores

Indicator	Original weights	New weights
PIF	0.25	0.272
ORE	0.10	0.109
PCR	0.10	0.109
RBI	0.10	0.109
POV	0.10	0.109
DNI	0.05	0.055
FLI	0.10	0.109
DNN	0.10	0.109
COV	0.02	0.018

Total = 1.000

5. COMPUTATION OF NORMALIZED INDICATOR VALUES

1. PIF_i – Population Impact Factor (25%)

What it means:

Bigger population = more services needed = more money

Data Needed:

- Night population (residents)
- Day population (commuters, traders, students)

Source of Data:

- Kenya National Bureau of Statistics (2019 Census)
- County Planning Department
- Municipal Integrated Development Plans (MIDPs)

Since day and night population data is not available, we use total population only.

Calculation using total population only;

Municipality	Population
OI Kalou	78,502
Engineer	93,870
Mairo-Inya	66,261

Total = 238,633

Normalized PIF:

- OI Kalou = $78,502 / 238,633 = 0.329$
- Engineer = $93,870 / 238,633 = 0.393$
- Mairo-Inya = $66,261 / 238,633 = 0.278$

2. ORE_i – Own Revenue Effort (10%)

What it means:

Municipalities that try harder to collect revenue are rewarded.

Data Needed:

- Revenue collected within municipality
- Population

Formula:

Revenue per capita ÷ County average revenue per capita

Source:

- County Revenue Department
- IFMIS reports
- Municipal revenue registers

County average revenue per capita = $653,240,000 / 638,239 = 1,023.5$

Revenue per capita for OI kalou = $78,234,541 / 78,502 = 996.6$

Revenue per capita for Engineer = $38,386,806 / 93,870 = 408.9$

Revenue per capita for Mairoinya = $44,430,719 / 66,261 = 670.5$

ORE for OI kalou = $996.6 / 1,023.5 = 0.97$

ORE for Engineer = $408.9 / 1,023.5 = 0.40$

ORE for Mairoinya = $670.5 / 1,023.5 = 0.66$

Normalize:

Total = 2.03

- Ol Kalou = 0.478
- Engineer = 0.197
- Mairo-Inya = 0.325

3. PCR_i – Proportional Contribution Ratio (10%)

What it means:

If a municipality generates bigger percentage of total municipal revenue, it gets recognition.

Source:

- Revenue breakdown by revenue source and location

PCR for Ol kalou = $78,234,541/653,240,000 = 0.12$

PCR for Engineer = $38,386,806/653,240,000 = 0.06$

PCR for Mairoinya = $44,430,719/653,240,000 = 0.07$

Normalized:

Total = 0.12

- Ol Kalou = 0.48
- Engineer = 0.24
- Mairo-Inya = 0.28

4. RBI_i – Regional Balance Index (10%)

What it means:

Municipalities that received less funding in the past get compensated. “Which municipality has historically been underfunded per person?”

Data Needed:

- Last 3 years’ municipal allocations
- Divide by population to get per capita allocation

Source:

- County Treasury budget books
- Approved Program-Based Budgets (PBB)

Note: we use the inverse ($1 \div$ value) because the less funded municipality receives more.

Defined precisely: $RBI_i = \sum (1/\text{HistoricalPerCapita}) / \text{HistoricalPerCapita}_i$

Municipality (KshM)(2023/24,2024/25,2025/26)	Average Population	Annual	Allocation
Ol Kalou	(32.89+69.68+40.2)=ksh	47.59	78,502
Engineer	(10.0+57.97+34.2)=ksh	34.06	93,870
Mairo-Inya	(11.5+27.54+36.4)=ksh	25.15	66,261

Per Capita for Ol kalou=Allocation/ Population=47,590,000/78,502= 606.23

Per Capita for Engineer = Allocation/ Population=34,060,000/93,870= 362.84

Per Capita for Mairoinya = Allocation/ Population=25,150,000/66,261= 379.56

Take the Inverse ($1 \div$ Per Capita)

Ol kalou = $1/606.2 = 0.00165$

Engineer = $1/362.84 = 0.00275$

Mairoinya = $1/379.56 = 0.00263$

Normalize (Make Them Add Up to 1) ie Add them and divide each by the total

Total=0.00703

Normalized RBI OlKalou= 0.235

Normalized RBI Engineer= 0.391

Normalized RBI Mairoinya= 0.374

What Does This Achieve?

- Engineer was historically underfunded considering its high population:
- It now gets 39.1% of the 10% RBI weight
- Ol Kalou gets only 23.5% of that portion
- Mairoinya gets 37.4% of that portion

This gently corrects imbalance without punishing anyone too harshly.

5. POV_i – Poverty / Need Index (10%)

What it means:

Poorer municipalities get slightly more funds.

Data Needed:

- Poverty headcount ratio

- Informal settlement population

Source:

- KNBS poverty reports
- County CIDP
- Ward-level poverty statistics

Since poverty data for the municipalities is not available, we temporarily assign equal shares:($1/3=0.33$), This must be replaced with KNBS data when available.

6. DNI_i – Density & Demand (5%)

What it means:

More crowded towns need more waste collection, roads, lighting.

Data Needed:

- Municipalities land areas
- Population density
- Informal settlements coverage

Source:

- Physical Planning Department
- GIS Unit
- Urban mapping data

This answers “Which municipality experiences the highest service pressure per square kilometre?”

Density=Population/Land area

Density for Ol kalou= $78,502/364.66= 215.3$

Density for Engineer= $93,870/531= 176.8$

Density for Mairoiya= $66,261/260= 254.85$

Normalize:

Total =646.95

DNI for Ol kalou= 0.33

DNI for Engineer=0.27

DNI for Mairoinya=0.39

7. FLI_i – Functions Load Index (10%)

What it means:

More delegated functions = more money.

Data Needed:

- List of functions delegated to municipality
- Cost estimate of each function

Source:

- Municipal Charter
- Executive Order on function delegation
- Departmental budgets

The Functions Load Index SHOULD be computed based on the costed value of functions formally delegated to each municipality under its Charter and Executive Order but since the functions have not been costed, we use the number of fully delegated functions in this case 5 functions for each municipality ie

1. urban roads
2. waste management
3. street lighting
4. markets
5. storm drainage

Normalize:

Total = 15

FLI for each = $5/15 = 0.33$

8. DNN_i – Development Needs Index (10%)

What it means:

Infrastructure backlog = higher funding priority.

Data Needed:

- Unpaved roads
- Drainage backlog
- Markets needed
- Public lighting gaps

Source:

- Municipal Infrastructure Audit

- CIDP
- Annual Development Plan

Since backlog data is not available, we use total value of priority projects in ADP per municipality in financial year 2024/25

Municipality	ADP Priority Value
OI Kalou	10.8M
Engineer	6.0M
Mairo-Inya	4.4M

Normalize:

Total = 21.2

Normalized DNN for OI kalou= 0.51

Normalized DNN for Engineer= 0.28

Normalized DNN for Mairoinya= 0.21

9. COV_i – Coverage / Area Factor (2%)

What it means:

Larger service area = higher service cost.

Data Needed:

- Official municipal boundary size (sq. km)

Source:

- Survey Department
- Approved municipal charters

It answers: How large is the physical area the municipality must serve?"

Even if population is small, a municipality that covers a large geographic area will incur higher costs $COV_i = \text{Area}_i / \text{TotalArea}$

- COV for OI kalou= $364.66 / 1155.66 = 0.316$
- COV for Engineer = $531 / 1155.66 = 0.460$
- COV for Mairoinya = $260 / 1155.66 = 0.225$

NB: This method automatically produces normalized shares because:

$$\sum COV_i = 1$$

6. COMPUTATION OF THE TOTAL WEIGHTED SCORES FOR EACH MUNICIPALITY

The weighted score for each municipality (WF_i) is calculated using the formula;

$$WF_i = 0.272PIF_i + 0.109ORE_i + 0.109PCR_i + 0.109RBI_i + 0.109POV_i + 0.055DNI_i + 0.109FLI_i + 0.109DNN_i + 0.018COV_i$$

Each step involves:

1. Taking the normalized indicator value
2. Multiplying it by its assigned weight
3. Summing all weighted components

Step-by-Step Computation of weighted scores for Ol Kalou municipality

Normalized Values (Ol Kalou):

$$PIF = 0.329 * 0.272 = 0.0895$$

$$ORE = 0.478 * 0.109 = 0.0521$$

$$PCR = 0.480 * 0.109 = 0.0523$$

$$RBI = 0.235 * 0.109 = 0.0256$$

$$POV = 0.333 * 0.109 = 0.0363$$

$$DNI = 0.330 * 0.055 = 0.0182$$

$$FLI = 0.333 * 0.109 = 0.0363$$

$$DNN = 0.510 * 0.109 = 0.0556$$

$$COV = 0.316 * 0.018 = 0.0057$$

$$\text{Total} = 0.3716 = 37.16\%$$

Step-by-Step Computation of weighted scores for Engineer municipality Normalized Values (Engineer):

$$PIF = 0.393 * 0.272 = 0.1069$$

$$ORE = 0.197 * 0.109 = 0.0215$$

$$PCR = 0.240 * 0.109 = 0.0262$$

$$RBI = 0.391 * 0.109 = 0.0426$$

$$POV = 0.333 * 0.109 = 0.0363$$

$$DNI = 0.270 * 0.055 = 0.0149$$

$$FLI = 0.333 * 0.109 = 0.0363$$

$$\text{DNN} = 0.280 * 0.109 = 0.0305$$

$$\text{COV} = 0.460 * 0.018 = 0.0083$$

$$\text{Total} = 0.3160 = 31.6\%$$

Step-by-Step Computation of weighted scores for Mairoinya municipality Normalized Values (Mairoinya):

$$\text{PIF} = 0.278 * 0.272 = 0.0756$$

$$\text{ORE} = 0.325 * 0.109 = 0.0354$$

$$\text{PCR} = 0.280 * 0.109 = 0.0305$$

$$\text{RBI} = 0.374 * 0.109 = 0.0408$$

$$\text{POV} = 0.333 * 0.109 = 0.0363$$

$$\text{DNI} = 0.390 * 0.055 = 0.0215$$

$$\text{FLI} = 0.333 * 0.109 = 0.0363$$

$$\text{DNN} = 0.210 * 0.109 = 0.0229$$

$$\text{COV} = 0.225 * 0.018 = 0.0041$$

$$\text{Total} = 0.2977 = 29.8\%$$

7. APPLICATION OF THE FORMULA (For the base year 2024/25)

Total Formula Pool (TB) = Ksh 155,192,417

Municipality	Share	Formula Allocation (Ksh)
OI Kalou	37.2%	57,731,579
Engineer	31.6%	49,040,804
Mairo-Inya	29.8%	46,247,340

Final Municipal Funding

Including Baseline (EQ_i) and Conditional Grants (G_i):

Municipality	Baseline (Ksh)	Formula (Ksh)	Grants (Ksh)	Total (Ksh)
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Ol Kalou	69,684,200 147,415,779	57,731,579	20,000,000
Engineer	57,972,867 122,013,671	49,040,804	15,000,000
Mairo-Inya	27,535,350	46,247,340	0 73,782,690

THE FORMULA

$$FA_i = EQ_i + (TB)(0.272PIFi + 0.109ORE_i + 0.109PCRI + 0.109RBI_i + 0.109POVi + 0.055DNI_i + 0.109FLI_i + 0.109DNN_i + 0.018COVi) + G_i$$

CONCLUSION

The Proposed Objective Criteria for Funding Municipalities establishes a transparent, rational, and data-driven framework for municipal financing in Nyandarua County.

The model balances equity, efficiency, service demand, and development needs while reducing subjectivity in municipal funding decisions.

RECOMMENDATIONS

- Adopt the formula formally through County Treasury regulations.
- Improve municipal data systems for accurate indicator computation.
- Undertake formal costing of delegated municipal functions.
- Establish an annual review mechanism for indicator validation.
- Enhance transparency by publishing computation sheets annually.