REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYERI

COUNTY TREASURY

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

2020/21-2022/2023

FEBRUARY, 2020

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FOREWORD

The 2020/2021-2022/2023 Medium Term Debt Management Strategy is prepared in accordance with section 123 of the Public Finance Management (PFM) Act 2012 and is consistent with County Government development agenda. The main objective of MTDMS is to ensure that the County Government financial needs and payment obligations are met at the lowest possible cost in the market, which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

The sustainability of debt is a key fiscal responsibility principle and this, among other issues, will be dealt with in this document. Through a resolution of the Nyeri County Assembly as required under the PFM Act section 107 (2) (e) and section 107 (4) that deal with sustainability of debt, an annual borrowing limit has been set for any future requirements.

The County Treasury shall ensure that the Medium-Term Debt Management Strategy is aligned to the broad strategic priorities and policy goals set out in the County Fiscal Strategy Paper, 2020. The Policy goals and strategic priorities are geared towards unlocking the potential of our people through a robust social-economic investment.

The County Government inherited a huge debt from the four defunct local authorities i.e. Nyeri County Council, Nyeri Municipal Council, Karatina Municipal Council and Othaya Town Council. The inherited debt will continue to increase the county debt burden and therefore, to ensure sustainability, the MTDMS has proposed measures to be undertaken to reduce the debts to a manageable level.

Considering the current level of debt, both inherited and county pending bills, the 2020/2021-2022/2023 MTDMS largely proposes strategies on how to reduce the current debts level and how to manage future debts. The county will endeavor to ensure that both the burden of and benefit from public borrowing is shared equitably between the current and future generation as stipulated under Article 201 of the Constitution.

Further, the county government will form a debt management committee, within the County Treasury, and build its capacity in terms of staffing and training to ensure that it is in a position to handle all matters relating to borrowing and servicing of debt. Effective linkages will be established with the National Treasury to facilitate the management of the inherited debts, future borrowing and provision of technical advice.

Robert Thuo Mwangi

C.E.C.M - FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2020/2021-2022/2023 Medium Term Debt Management Strategy (MTDMS) is prepared and tabled in the County Assembly in accordance with section 123 of the PFM Act, 2012. It is meant to guide debt management operations and borrowing for the fiscal year 2020/21 based on evaluated costs and risks of various options of financing the budget deficit. The asserts the County Governments debt management objectives of ensuring that its financing needs and payments obligations are met.

The MTDMS will formally be submitted to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council as per PFM Act 2012. In addition, MTDM strategy will be published and made available at the county website, www.nyeri.go.ke, to ensure wide circulation as envisaged under the PFM Act, 2012.

I wish to therefore take this chance to recognize and appreciate the overall stewardship of the C.E.C.M Finance and Economic Planning in making this process a success. It is my honor to distinguish the role played by the entire Cabinet in the adoption of this document. I also appreciate the county departments and spending units for providing considerable data inputs to enable the preparation and finalization of the MTDMS. Likewise, I wish to thank members of the public or public institutions for their invaluable comments and contributions to enrich the document.

It is also my pleasure to distinguish the efforts made and substantial amount of time spent by the team from the Economic Planning Unit in compilation, editing and finalization of the MTDMS while ensuring that the it is within the required standards. Finally, I wish to recognize our key stakeholders and any person or persons who made this process fruitful through their vital involvement.

Francis Maranga Kirira

C.O. - ECONOMIC PLANNING, BUDGETING, M&E

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
BPS	Budget Policy Statement
CIDP	County Integrated Development Plan
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
FY	Financial Year
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management Information System
IGRTC	Intergovernmental Relations Technical Committee
Kshs.	Kenya Shillings
LA	Local Authority
LAPFUND	Local Authority Provident Fund
LAPTRUST	Local Authority Pension Trust
LGLA	Local Government Loans Authority
MTDMS	Medium Term Debt Management Strategy
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management
TA	Transition Authority
VAT	Value Addition Tax

LEGAL BASIS FOR PUBLICATION OF MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

The debt management strategy is published in accordance with section 123 of the Public Financial Management (PFM) Act, 2012. The law states that:

(1) On or before the 28th February in each year, the County Treasury shall submit to the county assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.

(2) The County Treasury shall include the following information in the statement—

(a) The total stock of debt as at the date of the statement;

(b) The sources of loans made to the county government;

(c) The principal risks associated with those loans;

(d) The assumptions underlying the debt management strategy; and

(e) An analysis of the sustainability of the amount of debt, both actual and potential.

As soon as practicable after the statement has been submitted to the county assembly under this section, the County Executive Committee member for finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

EXECUTIVE SUMMARY

The 2020/2021-2022/23 Medium Term Debt Strategy Paper has been prepared in accordance with PFM Act, 2012. The preparation of the strategy is in line with fiscal responsibility principles and is interlinked with other budget documents such as departmental reports, county budget review and outlook paper, annual financial statements and the County Fiscal Strategy Paper.

The County Government inherited approximately Kshs 592,807,561.54 from defunct local authorities i.e. Nyeri County Council, Nyeri Municipal council, Karatina Municipal council and Othaya Town Council. In dealing with inherited debts, the county treasury through the help of the Intergovernmental Relations Technical Committee has been verifying liabilities inherited from these former local authorities.

The inherited debt together with pending bills arising from county government departments and spending units has caused a sharp rise in debt since the county government assumed power. As at 30th June, 2019 the county debt was Kshs. 654,494,093.03 comprising of inherited debt of Kshs. 592,807,561.54 and pending bills from county government departments amounting to Kshs 61,686,531.50 accruing from the FY 2018/19. It is also important to note that commitments amounting to Kshs. 383,437,097.25 were entered into for implementing projects and programmes, most of which that rolled over from the previous financial year in the current one. If not well planned for, the commitments risks being potential debts in future.

To reduce the county debt to manageable levels, budgetary reserves, are allocated in the annual budget to cater for debt repayment in form of pending bills. The County Treasury requires Kshs. 61,686,531.50 to settle pending bills during the financial year 2019/20. however, the county treasury has allocated Kshs. 60,100,000 has been factored in the approved supplementary budget and the difference was settled as first charge in the respective departments budget. In dealing with the other substantial liability inherited, the county government is still waiting for them to be handed over, after which it will negotiate with creditors to spread the debt burden for a few years. This arrangement will be necessary since the fiscal space may not accommodate all the payments in one year.

Going forward, to ensure manageable levels of pending bills that are can be settled without giving undue pressure to the overall budget, all county entities will be required to align their projects and programs to the available funds and cash flow forecast. Further, procurement of good and services should be done in the first three quarters of the financial year so that most of the suppliers can be paid by the end of the financial year. The pending bills should also be cleared as a first charge in the approved budget, to avoid accumulation, as provided for under section 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

The County Treasury will create and strengthen a debt management committee to handle matters relating to borrowing and management of county debt. The County Treasury will also continue to work closely with the National Treasury to enhance the capacity building of staff and also offer technical expertise in issues relating to borrowing and repayment of debts especially those inherited from the defunct local authorities.

1 INTRODUCTION

1.1 Background

The debt management strategy is prepared in accordance with section 123 of PFM Act, 2012 which requires the County Treasury to submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability and its plans for dealing with those liabilities. The statement should, among other information, contain:

(a) The total stock of debt as at the date of the statement;

(b) The sources of loans made to the county government, if any;

(c) The principal risks associated with those loans;

(d) The assumptions underlying the debt management strategy; and

(e) An analysis of the sustainability of the amount of debt, both actual and potential.

There are other sections of PFM Act that guides the management of county debt, this include PFM Act sections 107, 140,141,142,143 and 144. Other documents that guide the preparation of debt management strategy are County Fiscal Strategy Paper (CFSP) and County Budget Review and Outlook Paper (CBROP).

In this MTDMS more emphasis has been put in ensuring the sustainability of the current debt and establishment of necessary structures to facilitate future borrowing. The County Fiscal Strategy Paper, 2020 does not envisage any borrowing to finance the budget and therefore the MTDM strategy will be geared toward servicing of existing debt. With the current level of debt, the County Government may not be able to accommodate additional borrowing to finance it expenditure and therefore over the medium term the government will put more emphasis on servicing of existing debts namely those inherited from the defunct local authorities and the pending bills.

The County Treasury will form a debt management committee to verify all liabilities inherited from the defunct local authorities once the handing over is concluded by the National Treasury. The main goal of this exercise will be to establish the debt position of County Government of Nyeri and ascertain the borrowing power available.

The debt management committee will be expected to undertake the following;

a) Compile list of all creditors both statutory and sundry.

b) Establish whether the claims are genuine or not.

c) Establish whether all procedures were followed in incurring the debts.

d) Establish whether all supporting documents are available.

e) Prioritize the debt.

The establishment of the committee is the first step in ensuring that the county government is in a position to handle its current debt and is ready to undertake future borrowing to finance the budget within the legal framework.

1.2 Objective of debt management

The following are the main objectives of debt management strategy in the county;

a) To ensure the financial needs and payment obligations of county government are met at the lowest possible cost in the market and is consistent with a prudent degree of risk.

b) To ensure that the overall level of public debt is sustainable and debt shall never exceed twenty (20%) percent of the county governments total revenue at any one time as stipulated in the Public Finance Management (County Government) Regulations section 25 (1)(d).

c) To ensure that both the burden of and benefit from public borrowing is shared equitably between the current and future generation as stipulated under Article 201 of the constitution.

1.3 Scope of Medium Term Debt Management Strategy

The Medium Term Debt Management Strategy (MTDMS) covers actual and potential liability i.e. it covers all loans and other debt, whether inherited or created by the county government, that require payment of principal with or without interest by the county government to the creditor at a date or dates in future. The MTDMS is prepared for financial year 2019/20 but also makes projection for year 2020/21 and 2021/22.

2 REVIEW OF NYERI COUNTY PUBLIC DEBTS

2.1 Stock of debt

The total stock of debt as at 30th June 2019 stood at Kshs 654,494,093.03. This included both inherited debt, though unverified, of Kshs. 592,807,561.54 and county government pending bills amounting to Kshs. 61,686,531.49. This was a great improvement in reduction of the pending bills as compared to a total of Kshs 367,755,519 for the financial year 2017/2018. This can be credited to proper planning and timely project implementation by departments.

However, there is need for continued efforts by all County government entities to implement projects and programmes in time in order for the county treasury to make payments before the closure of the financial year. They should also strictly adhere to treasury circular/ guidelines on end of financial year activities.

2.2 Source of loans/debts made to the County Government

The source of debt to the county government will be categorized into two namely;

1. Pending bills arising from works done and not paid during the financial year 2018/2019.
2. Inherited debt from defunct local authorities
3. Commitments entered into near the closure of the financial year 2018/19 and possibly rolled over to the current financial year and have not been adequately budgeted for.

2.2.1 Pending bills from the County Departments.

The county government accrued pending bills from departments during the financial year ending 30th June, 2019 amounting to Kshs. 61,686,531.49. This may be attributed to departments not availing physical payment vouchers (as some debts were for the previous years), electronic returns on merchant's payments due to wrong bank details or personal details. However, this is significantly lower as compared to the previous financial year highly ascribed to adherence to the PFM act and extension of payment period by the National Treasury.

Additionally, failure by the County Government to realize its local revenue target by a total of Kshs. 162,605,063 could have led to a more budget deficit if contracts signed during the financial year 2018/2019 were all implemented in the same period.

The summary of pending bills for the county by departments, as reported, is shown in the table below;

Department	Recurrent	Development	Total
Executive Office of the Governor and Deputy Governor	216,673.45		216,673.45
Office of the County Secretary	1,547,442.00		1,547,442.00
Finance & Economic Planning	7,639,355.68		7,639,355.68
Lands, Housing, Physical Planning and Urbanization	100,000.00		100,000.00
Health Services	25,026,907.66	18,247,672	43,274,579.66
Gender, Youth and Social Services	637,466.40		637,466.40
County Public Service Management	767,740.95		767,740.95
Agriculture, Livestock and Fisheries	3,243,774.05	321,921.20	3,565,695.25
Trade, Culture, Tourism and Cooperative Development	553,484.90		553,484.90
Education, Sports, Science and Technology			0.00
Water, Sewerage and Sanitation, Environment and Natural Resources	223,053.45		223,053.45
County Public service Board	134,550.00		134,550.00
Transport, Public Works, Infrastructure and Energy		3,026,489.75	3,026,489.75
County Assembly			
TOTAL	40,090,448.54	21,596,082.95	61,686,531.49

Source: County Treasury, 2020

While pending bills are considered as those payment vouchers which had reached the treasury and not settled, there were other contracts which had been signed but not executed by the end of the financial year, 2018/2019. This can easily lead to accumulation of debts if not considered as first charge by the department in the financial year 2019/2020. The total ongoing works and commitments amounts to Kshs. 383,437,097.25. The debt would arise if the contracts have not been adequately budgeted for in the current financial year since most of them are roll over projects.

2.2.2 Inherited debt from defunct local authorities

The Budget Policy Statement, 2017, indicated that to finalize the transfer of assets and liabilities from the defunct LAs to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are:

i) pending bills;

ii) Tax arrears;

iii) Statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE.

In this context, County Assets and Liabilities committees were formed to identify, verify, and validate the assets and liabilities of the defunct LAs as at 27th March 2013. This exercise was concluded, and Intergovernmental Relations Technical Committee (IGRTC) was validating the report as a basis to implementing its recommendations. However, the recommendations have never been shared with the counties for implementation.

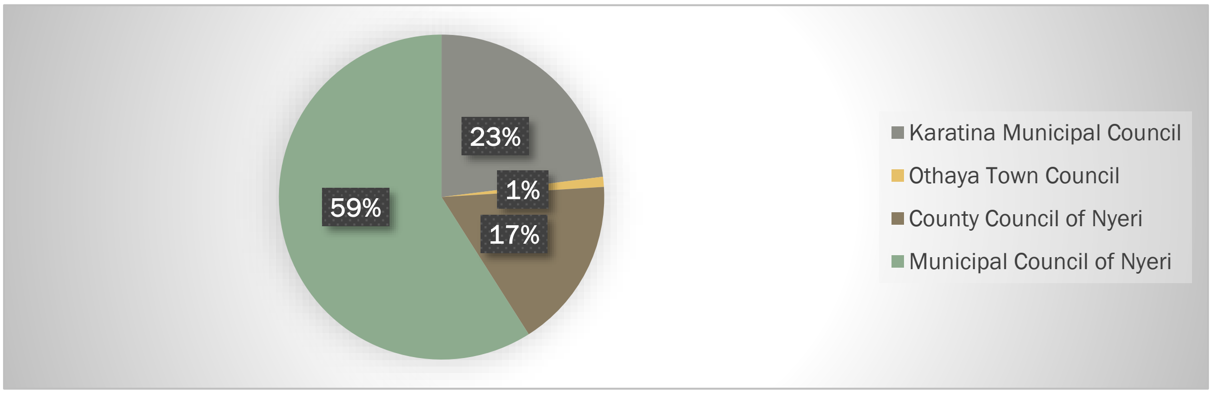
The inherited debt as reported by all defunct local authorities is shown in the table below;

Defunct local authority	Outstanding Debt as at 30th June 2013
Karatina Municipal Council	137,505,036.75
Othaya County Council	5,262,092.09
County council of Nyeri	100,917,404.70
Municipal Council of Nyeri	349,123,028.00
Total	**592,807,561.54**

Source: Nyeri County Assets and liability report, 2014

Most of the debt were inherited from defunct municipal council of Nyeri with 59% of the total debt inherited, followed by Municipal council of Karatina with 23%. County council of Nyeri had 17% while Othaya Town Council had the least debt inherited with only 1% of the total debt.

2.2.3 Outstanding Debt as at 30th June 2013



Source: Nyeri County Assets and liability report 2014

A detailed analysis on specific debts are shown below per defunct local authority;

(a) Defunct Municipal Council of Nyeri

Item	Debt as at 31st December 2014
Loan from LGLA	320,319,642
Unpaid emoluments	3,544,357
Creditors	25,259,029
TOTAL	**349,123,028**

(b) Defunct Town Council of Othaya

Item	Debt as at 31st December 2014
LAPTRUST	2,582,956
LAPFUND	267,250.09
Creditors	2,411,886
TOTAL	**5,262,092.09**

(c) Defunct Municipal Council of Karatina

Item	Debt as at 31st December 2014
Loan from LGLA	38,931,070.20
Loan from NHC	258,929
Unpaid emoluments	7,401,096
LAPTRUST	15,488,531.56
LAPFUND	3,533,102.20
Creditors	71,892,307.79
TOTAL	**137,505,036.75**

(d) Defunct County Council of Nyeri

Item	Debt as at 31st December 2014
Unpaid emoluments	17,573,065
NSSF	26,927,359
LAPTRUST	3,558,619
LAPFUND	34,510,344.70
Creditors	18,348,017
TOTAL	**100,917,404.70**

2.3 Assumptions underlying the debt management strategy

This Medium Term Debt Strategy recognizes the medium-term macroeconomic framework as provided in the County Fiscal Strategy Paper, 2020 whose targets are anchored on the priorities articulated in the CIDP 2018-2022, the ADP for Financial Year 2020/2021, Medium Term Plan III of the Kenya Vision 2030 and the “Big Four” agenda.

The key priorities of the County Government in the medium term are grounded on key strategic objectives as outlined in the CIDP 2018-2022 namely:

- Improve productivity in agriculture and overall food and nutrition security.
- Promote shared economic growth and job creation.
- Enhance good governance and active citizenry.
- Enhance basic infrastructure for effective service delivery.
- Promote sustainable use of natural resources.
- Improve financial sustainability and resilience.
- Provide accessible and quality health care services.
- Scale up institutional development, transformation and innovation.

Risks to the Macroeconomic Assumptions in the 2020/21-2022/23 MTDMS

Major risks to the macroeconomic framework include:

i. Declining long term growth as a result of expected slow productivity growth and aging workforces.
ii. The framework is exposed to economic growth and fiscal risks. The projected growth assumes favorable weather conditions and therefore any adverse weather conditions will have negative impact on the growth.
iii. Public expenditure pressures especially recurrent expenditures.

2.4 Sustainability of debt

Public debt sustainability is the ability of a country to service its debt obligations as they fall due without distracting its budget implementation.

The sustainability of debt is guided by PFM Act section 107 (2)(e) and section 107 (4). According to section 107 (2)(e) the county debt shall be maintained at a sustainable level as approved by county assembly. Section 107 (4) further states that every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by resolution of the county assembly.

The County Government through the County Treasury will attempt to maintain public debt and obligations at sustainable levels in line with section 15 (d) of the Public Finance Management (PFM) Act 2012. In line with this, the County Government has set the debt level at five percent (5%) but should never exceed twenty per cent (20%) of the annual revenue.

The current debt is at 11.2 % of the total County revenues for the current financial year which is within the set limits.

3 STRATEGIES OF DEALING WITH DEBT

3.1 Debt servicing

Payment of the inherited debts is one of the county government's key priorities. However, these debts must be clearly handed over and strategies of settling them be arrived at. The debt will be payed either in part or in full depending on the available funds in the budget for the FY 2020/21.

The pending bills arising from the FY 2018/19 are currently being paid from the budgeted amount in the department of Finance and Economic Planning amount in the current financial year as budgetary reserves. The commitments from the previous financial year by the departments are being serviced as a first charge in the respective departments. To ensure proper planning for debt servicing, funds should be allocated for anticipated bills by the end of the financial year 2019/20 considering that the County Fiscal Strategy Paper (CFSP), 2020 will inform the possible savings after considering and allocating funds to all sectors.

3.2 Debt Restructuring

The main objective of debt restructuring is to spread repayment of debt over a number of years. The County Government is exploring the possibility of debt restructuring as one method of dealing with huge debts particularly for bank loans and pension funds inherited from the defunct local authorities once the handing over is concluded. This will spread the substantial debt burden over a period of time since the existing debt cannot be cleared within a year due to budgetary constraints. However, for small debt such as the pending bills and carryovers, prioritization will be undertaken based on the fiscal space and liquidity. Restructuring will also help the county to avoid payment of penalties and interest that have accrued and costly legal battles.

3.3 Prioritization of programmes

The pending bills arising from all the county departments and spending units will have to be cleared as a first charge in the succeeding year's budget from the corresponding votes of those departments and units. This will not only prevent increasing pending bills over the years but also inculcate disciplined spending by all the accounting officers.

Further, to avoid accumulation of additional debts in line with section 41(2) of the PFM (County Government) Regulations, 2015, departments will also be required to prioritize projects/ programmes taking into account the constrained resource basket. County departments that have accumulated huge recurrent bills will face liquidity challenges in the initial phase and may compromise implementation of some of the critical projects/programmes as well as service delivery.

In order to avoid accumulation of debts in succeeding years, necessary measures will be put in place. The County Treasury shall prepare a report on cash flow projections in early April, 2020 so as to advice on commitments, thus avoiding pending bills by the end of the financial year as per section 44(5) of the PFM (County Government) Regulations, 2015.

Development pending bills arising from complete projects whose invoices for payment has been received and has not been paid by the end of the financial year due to delayed release of funds and IFMIS challenges, will be paid from amount set aside for debt resolution as budgetary reserve if and when that project is not provided for in the succeeding year's budget.

To avoid debt arising from projects that are rolled over from one financial year to the other, the departments should give priority, when settling debts, to the already completed projects before starting implementation of new contracts. Initiating of new projects should be determined by the availability of funds to avoid increasing the debt level.

4 IMPLEMENTING THE 2019/20-2021/22 MTDMS

In order to avoid unnecessary debt burden to the future generation and reduce the risk of macro-economic instability, there is need for County Government to manage debt prudently. After the approval and adoption of this Strategy, the County Treasury will develop a plan for repayment of pending bills that will emerge by the end of the financial year based on priorities and cash flow projections.

Further, in line with the National Treasury's directive to prioritize payments of bills owed to suppliers, the County Treasury will ensure that the commitments already executed as roll over projects from FY 2018/19 are also paid as first charge in the respective department's allocations. This will ensure that the County Government does not suffer cash flow sanctions for not meeting its financial obligations.

A debt management committee will be formed, based at the County Treasury, to review all pending bills from the departments and make recommendation for payment or otherwise as it deem fit as a new financial year starts. The committee will be strengthened to ensure availability of comprehensive, accurate and timely information on debt.

The PFM Act sets the ceiling for borrowing by counties at 5 percent of the county's local revenue for the purposes of development only. The County Treasury shall provide a budgetary allocation for payment of pending bills and any other possible debt. This will not only guide the sustainability of debt but will also lay the ground for future borrowing to finance the budget.

In addition, effective linkages will be established with the National Treasury to facilitate training on debt management skills and offer direction and support on future borrowing. The National Government is expected to guarantee borrowing by county governments and therefore the National Treasury plays a critical role in ensuring the success of debt management in the county.

5 CONCLUSION

This Medium-Term Debt Management Strategy is a pro-active framework that aims at ensuring effective management of debts and maintenance of sustainable debt levels within the county. The stock of debt in the county has remained within manageable limits. However, it is essential for the county government to establish and implement structures to maintain the debt level within the current range and to reduce further escalation of the liabilities. In addition, the county government develop strategies to avoid debts and reduce reliance on commitments in financing or running its activities.

The current debt level necessitates for adequate allocations of finances to service the pending bills and debts in FY 2020/21. However, given the budgetary and expenditure constraints currently experienced by the County Government, the outstanding debts will eat into the FY 2020/21 departmental budgets. This calls for continuous budgetary allocations in consecutive years in an effort to ensure that all county debts are cleared without imposing budgetary pressure on the county. However, since this MTDMS envisages no borrowing to finance the budget more emphasis has been put on management of current debt.

By the end of the financial year 2018/19, the County Government had a debt amounting to Kshs. 654,494,093.03 which consisted of Kshs 61,686,531.49 as pending bills and Kshs. 592,807,561.54 worth of liabilities inherited from the defunct local authorities. The County has allocated Kshs. 60.1 million to settle the debt arising from pending bills and the difference will settled as first charge in the approved budget. Henceforth, all county departments and other entities are expected to be more conscious while spending and ensure that projects and programmes implementation is in line with the approved budget and availability of funds.

The procurement processes should be completed prior to the end of third quarter to avoid pending bills in subsequent years. Further it is expected that the National Treasury will be releasing the exchequer as per the agreed cash flow schedules to avoid last minute rush in processing of payments for good and services rendered. The County Treasury will also continue to capacity build its technical personnel on IFMIS and update them with the requisite skills to guarantee smooth processing of payments thereby minimizing possible delays.