by Hon. Ogada Chair Budget & Appropriation Committee

COUNTY GOVERNMENT OF NAIROBI CITY

NAIROBI CITY COUNTY ASSEMBLY

FIRST ASSEMBLY – THIRD SESSION

REPORT OF THE COUNTY ASSEMBLY BUDGET AND APPROPRIATIONS COMMITTEE

ON

THE DEBT MANAGEMENT STRATEGY PAPER FOR THE FY 2015/16 AND OVER THE MEDIUM TERM

JUNE 2015

Mr. Speaker Sir, the provisions of Section 123 (1) of the Public Finance Management Act, 2012 require that on the 28th of each year the County Treasury shall prepare and make to be submitted to the County Assembly a statement setting forth the debt management strategies for the county government over the medium term including actual and potential liabilities. The provisions dictate that the statement shall detail the loans how the county government would wish to deal with those loans. In complying with these provisions of the law, the County Treasury submitted the Debt Management Strategy Paper (DMSP) which was tabled in the County Assembly and subsequently committed to the County Assembly Budget and Appropriations Committee.

Mr. Speaker Sir, the County Assembly Budget & Appropriations Committee comprises of the following 19 Members:

1. **Hon. Michael Okumu, MCA** — **Chairperson**
2. **Hon. George Ochola, MCA.** — **Vice Chairman**
3. Hon. Alfred Ambani, MCA.
4. Hon. Maurice Akuk, MCA
5. Hon. Oscar Lore, MCA
6. Hon. Osman Ibrahim, MCA.
7. Hon. Jackson Gikandi, MCA.
8. Hon. Kenneth Muroki, MCA
9. Hon. David Kairu, MCA
10. Hon. Petronilla Nafula, MCA
11. Hon. Herman Azangu, MCA
12. Hon. Emmaculate Musya, MCA
13. Hon. Joash Omwenga, MCA
14. Hon. Kennedy Oduru, MCA
15. Hon. Isaac Ngige, MCA
16. Hon. Ngaruiya Chege, MCA
17. Hon. Samuel Irungu, MCA
18. Hon. Benedette Wangui, MCA
19. Hon. Victoria Alali, MCA

Committee's Mandate

Mr. Speaker Sir, the Nairobi County Assembly Budget and Appropriations Committee is constituted under the provisions of Standing Order 187. Its mandate pursuant to Standing Order 187(3) is to:-

a) investigate, inquire into and report on all matters related to coordination, control and monitoring of the of the county budget;

b) *discuss and review the estimates and make recommendations to the County Assembly;*
c) *examine the County Fiscal Strategy Paper presented to the County Assembly;*
d) *examine Bills related to the county budget, including Appropriations Bills; and*
e) *evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlay*

Examination of the Debt Management Strategy Paper

In reviewing the Debt Management Strategy Paper, the Committee held a total of three (3) sittings. During this undertaking the County Treasury explained to the Committee the proposed strategies and their overall implication in the County's debt portfolio.

Acknowledgment

Mr. Speaker Sir, the Committee thanks the Offices of the Speaker and the Clerk for the support extended during the execution of its mandate.

Mr. Speaker Sir, It is therefore my pleasant duty and privilege, on behalf of the Budget & Appropriations Committee to table this Report and recommend it to the Assembly for adoption

SIGN.. DATE...27/6/15...............

Hon. Michael O. Okumu, MCA (Chairman)

Scrutiny of the DMSP by the Budget Committee

a) Introduction

1. **Mr. Speaker** the 2015 debt management strategy paper provides that at the end January 2015 the County owed various entities in excess of Kshs. 30billion. The bulk of the county debt portfolio is loans from commercial banks and other creditors including pending bills from the Collective Bargaining Agreements. These amounts were those that accrued to the defunct City Council of Nairobi through loans advanced by the Local Governments Loans Authority as well as the National Government Guaranteed Loans. Since there has never been clarity on which of the loans were repaid and which ones were not, the loans have continued to remain in the county books of account as required by any good accounting practice.

2. The paper has been prepared at a time when the County is trying to implement various reforms aimed at ensuring that there is fiscal discipline in the management of financial resources. The paper has in this regard undertaken to implement reforms in establishment of fiscal, legal, institutional and operational framework to strengthen issues of debt management. These, **Mr. Speaker**, would have the net effect of increasing the investment in infrastructure.

3. **Mr. Speaker Sir,** the County Assembly not long ago approved the 2015/16 County Fiscal Strategy Paper which underlined a number of measures that the County would wish to employ in order to achieve its financial priorities for the coming financial year. The cornerstone of these priorities included proper asset management as well containing wanton expenditures by the county government. The DMSP has been underpinned on the 2015 County Fiscal Strategy Paper and the fiscal responsibility principles in the two papers are consistent.

4. The aim of any debt strategy paper is to provide the measures that the respective county government would wish to pursue in order to restrict the growth of public debt as well as clear any accrued liabilities. The DMSP for the FY 2015 /16 has undertaken to implement debt rescheduling, external borrowing, borrowing from money and capital market, debt/asset swop and debt write-offs as possible strategies of alternative financing.

b) The Debt Management Strategies

5. **Mr. Speaker** the first strategy in this category is debt rescheduling/ renegotiation which the Committee noted is already in place. As members are aware on the 30th

August 2014, the County transferred a total of Kshs. 3.060 billion from Equity Bank to the Kenya Commercial Bank. The loan was apparently bought by KCB which offered better terms that Equity Bank.

6. The second strategy that the County would aim to employ is external borrowing. **Mr. Speaker**, the Budget Committee was of the view that this provides a more lenient source of loans for the County. However, the Committee was not convinced that this would in the long run not solve the debt problem but would rather increase it. The Committee has proposed to the County Treasury that there is need for the County to prioritize cleaning our balance sheet before we continue entering into any new debt obligations. This, the Committee believes, is the only way the County may be able to achieve guarantee from the national government which would be important for this form of deficit financing.

7. **Mr. Speaker Sir**, trading in treasury bonds and issuance of municipal instruments has been used by many cities across the world as an alternative and a risk- free source of financing. The County has in this regard proposed to consider borrowing in money and capital markets as a possible way of financing its activities. Despite having been well thought out, the Budget Committee noted that this strategy relies heavily on forces of demand and supply. Further the Committee was alive to the fact that the demand for bonds and depends on the status of the balance sheet of the given entity in question. In this regard therefore, the Committee continues reiterate that there is need for thorough clean-up of our balance sheet before we could engage in some of these initiatives.

8. **Mr. Speaker Sir**, there are a number of cases where the County's account payables and account receivables refer to similar institutions. In fact it is sometimes the case that there are government institutions that owe the County more than we owe them with an example in case being Kenya Power and Lighting Company. The Budget Committee is of the considered the opinion that negotiation in order to cancel out the liabilities and accounts receivables for the various institutions would be a workable option. This debt paper has in an attempt to clean up our accounts undertaken to explore another option of negotiation for asset and debts swop. As members may recall this is the same strategy that the County utilized in the transfer of Mariakani Estate in attempt to clear debts owed to LAPFUND. The Budget Committee is doubtful whether this strategy would have the long-run effect of reducing our debt portfolio. The Committee is even more unconvinced whether these swops would lead to a beneficial arrangement for the County. This, the Committee believes, is dependent on the valuation system of County Assets which must be up to date and most authentic. The Budget Committee would wish to recommend that before this

option is explored the County must contract a reputable firm to undertake exhaustive valuation of County Assets. However, this should only be used as the solution of last resort.

9. The last strategy that the County has proposed to utilize is that of debt write-offs. The Budget Committee while weighing the pros and cons of this strategy was not persuaded that it would be easy to roll out. The Committee was particularly not sure whether the institutions that the County owes would be willing to rid their account receivables. This **Mr. Speaker** therefore needs a little more thought and intensive negotiation in order to make it successful.

c) Status of Liabilities

10. **Mr. Speaker Sir,** the tabulation of liabilities presented to the fore a number of issues that need to be addressed in the final version of the paper. Of concern to the Budget Committee is that the amount owed to National Social Security Fund has significantly increased with a percentage change of about 1000%. The interest rate on the loan seems to be growing disproportionately making the debt spiral out of control. Further the Budget Committee noted that there is a contradiction in the paper in that whereas it assumes a balanced budget with no deficit it in part proposes some areas of borrowing for infrastructure development. Of more concern to the Budget Committee was that the details of these borrowing were not provided.

11. The DMSP attempts to comply with the provisions of Section 107(4) of the PFM Act, 2012 by setting the debt to revenue ratio at 25% of the total revenues. This the Budget Committee believes is a good direction to limit the expenditure on debt repayments but it was not out rightly clear from the statement in the paper whether this was meant to set the debt: revenues figures for the coming financial year or the debt ceiling. The Budget Committee noted that such a ceiling needs to be set through a Sessional Paper. At the time of considering this paper the Senate and National Assembly were both in the process of considering the draft Public Finance Management Act Regulations which if adopted would have sweeping effect on both national and county government public finance management. The draft regulations propose that the county public debt shall not exceed 20% of County Government total revenue implying that, if approved, the County's ceiling would be illegal. This would therefore call for an immediate amendment to comply with the national guidelines.

d) Committee's Recommendations

12. **Mr. Speaker Sir,** in summary and pursuant to the provisions of Section 123 of the PFM Act, 2012 the Committee recommends that this Assembly resolves as follows:

i. The County Treasury should present to the County Assembly a Sessional Paper on the debt ceiling for approval; and

ii. The Debt Management Strategy Paper should be amended to include the Accounts Receivables.

13. **Mr. Speaker Sir, in conclusion and pursuant to the provisions of Article 212(b) of the Constitution and Section 123 of the Public Finance Management Act 2012 the County Budget and Appropriation Committee recommends that:**

This County Assembly adopts the Nairobi City County Debt Management Strategy Paper for the FY 2015/16 with amendments that:

i. The recommendations contained in this report are adopted.

CLERK
NAIROBI CITY
COUNTY ASSEMBLY
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NAIROBI