NAIROBI CITY COUNTY

Paper laid by Dep. Speaker H Kamangu on Thursday 1/3/1

1/3/19.

Medium Term Debt Management Strategy

2018/2019

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FOREWORD

The importance of counties to pay serious attention to management of debts is of great emphasis particularly in respect of the huge stock of debts inherited from the former councils. Nairobi City County inherited substantial debts from the former City Council of Nairobi that has continued to pose serious liquidity problems.

The constitution and the Public Finance Management Act, 2012 provides the requisite framework to ensure the country continue with prudent debt management. The PFMA has laid strict procedures, accountability and reporting requirements for counties.

The Medium Term Debt Management Strategy (MTDS) is one of the important deliverables of the County Treasury as provided for under the PFMA. It provides the guidance to the Counties on the amount, type of borrowing to undertake over the medium term. It evaluates the costs and risks of various scenarios and recommends an optimal strategy for implementation. The 2018 /2019, MTDS is in line with the broad strategic priorities and policy goals set out in the County Fiscal Strategy Paper 2018, which shall be tabled in the County Assembly on or before February 2017.

The intergovernmental Relations Technical Committee (IGRTC) took over the residual functions of the Transition Authority (now defunct) pursuant to Section 12 (b) of the Intergovernmental Relations Act, 2012. IGRTC vide a legal notice no. 858 published in the Kenya Gazette of 27th January, 2017 in consultation with the relevant stakeholders is to develop guidelines and liquidation options for settlement of the liabilities of the defunct local authorities. Due to the huge amount of debt inherited from the now defunct Council the County needs to exercise caution before considering borrowing to finance development expenditure.

The National Treasury has developed guidelines for country domestic and external borrowing to guide engagement between the GOK and development partners, counties and National Government to ensure proper coordination not only in the area of loans but also grants and on other forms of aid. The DMOs has undertaken to train Counties on preparation of debt strategies.

Veska Kangogo
CEC MEMBER FOR FINANCE

ACKNOWLEDGEMENT

This is the fifth MTDS to be tabled in the County Assembly since the onset of devolution under the PFM Act 2012.

The MTDS sets out the debt management strategy of the County over the medium term with respect to actual and potential debts liabilities for both loans and other payables.

As required by the PFMA the MTDS will be formally tabled to the County Assembly, submitted to the Intergovernmental Relations office and will be published and publicized.

To ensure circulation of the MTDS, it is available in the County website. www.nairobi.go.ke.

Let me take this opportunity to acknowledge the staff of the County Treasury who were involved in the preparation of the 2018/2019 MTDS. Specifically, I wish to thank Alice Mundia and Kefa Omanga.

Ekaya G. Alumasi
Chief Officer Finance and Economic planning

LEGAL BASIS FOR THE PUBLICATION OF THE MEDIUM TERM DEBT MANAGEMENT STRATEGY

The Medium Term Debt Management Strategy Paper is published in accordance with Section 123 of the Public Finance Management Act, 2012. The law states that:

- The County treasury shall submit to the county assembly on or before 28th February in each year ,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 loans.
- The information to be included in the MTDS includes:

  a) The total stock of debt as at the statement date
  b) Sources of the loans made to the county government
  c) Principal risks associated with those loans.
  d) The assumptions underlying the debt management strategy
  e) An analysis of the sustainability of the amount of debt, both actual and potential

- As soon as practicable after the debt management strategy has been submitted to the assembly the County Executive Member for Finance shall publish the statement and submit a copy to commission for revenue allocation and the Intergovernmental Budget and Economic Council.

LIST OF ABBREVIATIONS

B.	Billion
CBA	Collective Bargaining Agreement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
DMD	Debt Management Department
DMO	Debt Management Office
FY	Financial Year
GOK	Government of Kenya
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
PFMA/PFM	Public Finance Management Act, 2012

EXECUTIVE SUMMARY

The accumulation of government expenditure arrears is one of the most common problems in public financial management (PFM). Government debts are financial obligations incurred by any level of the public sector for which remain unpaid when due. Payments may be overdue based on a particular legal obligation (such as payment of social security benefits, or salaries), a specific contractual commitment (such as payment for construction of a road), or a continuing service arrangement (such as payment for electricity supply).

Debt remains one of the major economic policy issues facing County Governments. Nairobi County Government (and its predecessor the defunct City Council) has been heavily in debt for more than a decade.

The County Government debt portfolio comprises of both short and long-term debts. These include historical on-lent water loans taken to finance water infrastructure in the 1970's and a guaranty (government guaranteed loans) taken in the 1980's to finance construction of Umoja II housing project, owing's to various contractors and suppliers of goods and services, utility companies, statutory bodies, loans to commercial banks and unpaid personnel emoluments.

Further, the County's debt portfolio worsened over the years due to a growing wage bill and high-compounded interest/ penalties charged by the statutory creditors. This has made servicing of the debts quite a challenge and the result is an ever-growing debt portfolio.

CHAPTER ONE

OVERVIEW AND STRATEGIES OF DEBT MANAGEMENT

1.1 Background information

The legal framework for Public Finance Management requires County Governments to disclose specific fiscal risks with potentially significant impact on the county economic environment, and to prudently manage such risks.

The County has continued to face the challenge of a growing wage bill and growth in its debt portfolio, which affects service delivery to the people of Nairobi hence the need for a robust debt management strategy in conformity with the PFMA.

1.2 Objective of Debt Management in Nairobi City County

The County government is required to maintain its debt and obligations at a sustainable level; borrowing level is set in the Medium Term Debt Strategy approved by the County Assembly. The strategy aims at ensuring public debt sustainability and minimizing the level of contingent liabilities. Our debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable in the medium term so long as we implement strategies outlined in this strategy paper. However, robust strategies need to be adopted to mitigate against further growth of the debt.

The principal objective of the County Government debt management is to meet the County Governments financing requirements at the least cost possible with a prudent degree of risk. The secondary objective is to service and retire the existing debt portfolio in order to release resources to service delivery.

The 2018, MTDS will guide the County Government operations in 2018/2019. The strategy seeks to balance cost and risk of public debt while taking into account the financing needs of the county and to develop initiatives for new funding sources.

1.3 Recent Developments

1.3.1 Developments in the Domestic Debt Market

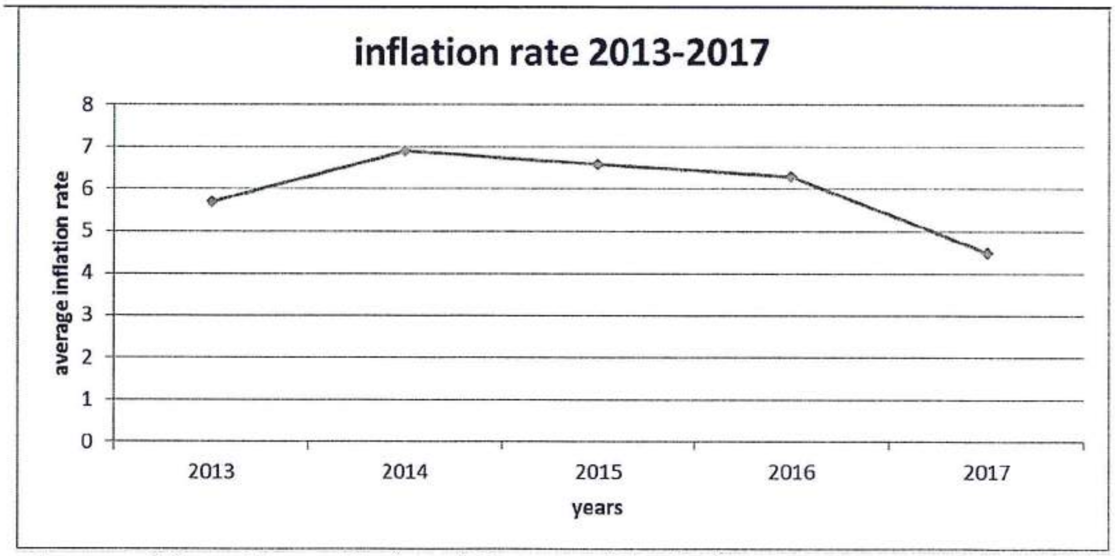
a) Interest rates

Interest rates remained stable and low in the period 2013-2017 except June to December 2015 when world currencies were under pressure. The Central Bank Rate (CBR) was revised downwards to 10.0 percent to cater for market expectation and the same rate has maintained up to now. The interest rate spread narrowed to 6.0 percent in September 2017 with commercial banks, average lending interest stabilizing at 13.7 percent over the same period.

b) Inflation

Key macroeconomic indicators remained fairly stable in 2017. Inflation rate has been low, stable and within government target range of 5+/-2.5 percent in the period of 2013 to 2017 as a result of prudent monetary and fiscal policies. Annual average inflation eased to 6.3 percent in 2016 compared to an average of 6.6 percent in 2015. This was mainly due to decline in prices of transportation, housing and utilities and communication (Economic survey, 2017). However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and measures taken by the government to address the food shortages took effect. For instance; allowing duty free imports of major food items and introducing a temporary subsidy on maize flour prices. As a result, overall month on month inflation was 4.5 percent in December 2017.

Chart 2: Kenya's Inflation Rate 2013-2017



Source of data: Kenya National Bureau of Statistics

1.3.2 External Domestic Debt Market

The Kenya shilling Exchange Rate

The Kenya shilling exchange rate remained broadly stable against major international currencies. As at December 2017, the shilling exchange rate against the Dollar was at Kshs.103.1 from Kshs. 102.1 in December 2016. Against the Euro and the sterling Pound, the shilling weakened to Kshs. 122.0 and 138.2 in December 2017 from Kshs. 107.7 and Kshs. 127.7 in December 2016 respectively (Central Bank of Kenya).The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies has continued to display relatively less volatility. This stability is attributed to resilient receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. More so, receipts from tourism, coffee exports and Diaspora remittances remained strong.

1.4 Nature of the County Debt

1.4.1 Key Highlights on the debt

The overall debt consists of statutory creditors, owing to merchants, legal creditors, personnel emoluments, loans and contingent liabilities.

The total debt portfolio stood at Kshs.56.5B as at 30th June, 2017 from Kshs.48.2B as at 30th June, 2016. The stock of debts is mainly composed of unpaid statutory deductions Kshs.23.02B. unpaid supplies, contractors and litigations of Kshs.6.13B, Utilities Kshs.0.487B. owed to Kenya power, owing's to retirees and bank loans and overdrafts Kshs.4.97B.

In addition, the County inherited debts a large debt portfolio from the defunct City Council of Nairobi, part of this debt are long-term loans amounting to Kshs.19.14B.from taken from development partners for the expansion of water infrastructure in the 70's by the defunct Council and a housing guaranty guaranteed by the National Treasury. The debts remained in the books of the former City Council of Nairobi until the 2013 when the County Government took over. Further, the County also inherited debts owed to various statutory creditors and merchants. The County also inherited Kshs.5 B. loan from Equity bank, which the defunct City Council of Nairobi had taken to finance payment of statutory creditors. The County occasionally obtained short-term loans from commercial banks to address cash flow shortfalls, which has since been repaid in full.

1.4.2 Stock of Debts

Table I: Summary of Outstanding Debts as at 30th, June 2017 in billions (B.)

	SUMMARY NAIROBI CITY COUNTY LIABILITIES		
		30.06.2016	**30.06.2017**
1	Statutory creditors	17,654,546,481	23,018,436,066
2	Suppliers/Contractors	2,842,692,524	3,787,610,031
3	Legal Creditors	2,088,543,410	2,339,264,112
4	Utilities	401,480,120	487,276,629
5	Loans	3,434,509,885	4,973,231,829
6	Contingent Liabilities	21,768,297,573	21,768,297,573
7	Employee benefits-Retirees/ Deceased	107,548,846	142,249,068
	TOTAL	**48,297,618,839**	**56,516,365,308**

Source: Financial Statements

The debt has risen to Kshs.60.17B in the unaudited draft figures as at 31st December, 2017 *(Source: Quarterly Financial Statements).*

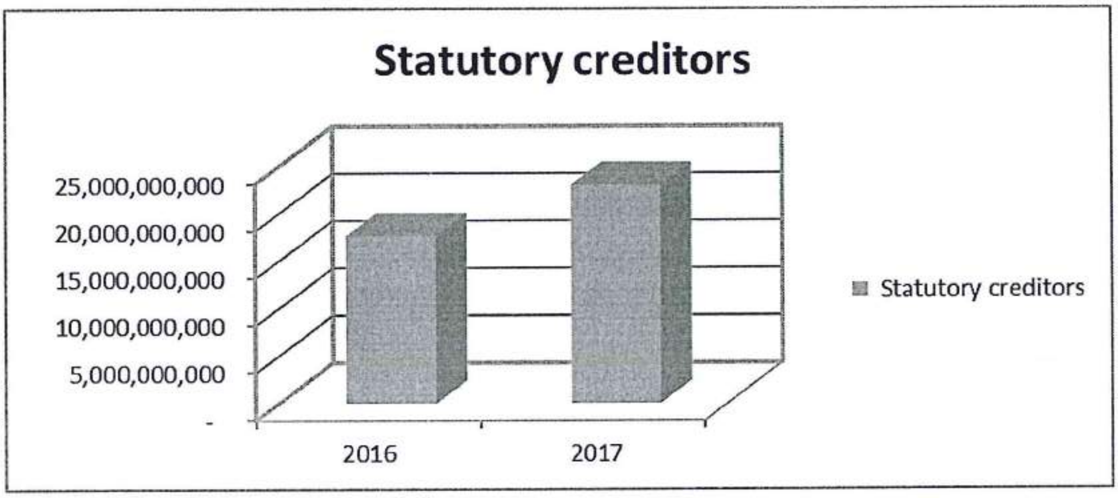
The intergovernmental Relations Technical Committee (IGRTC) took over the residual functions of the Transition Authority (now defunct) pursuant to Section 12 (b) of the Intergovernmental Relations Act, 2012. IGRTC vide a legal notice no. 858 published in the Kenya Gazette on 27th January, 2017 is mandated in consultation with the relevant stakeholders to develop guidelines and liquidation options for settlement of the liabilities of the defunct local authorities. Negotiations are ongoing to obtain more information on those debts for ease of settlement.

1.5 Breakdown and Strategy for each Debt Component

a) Statutory Creditors

Statutory creditors consist of unpaid remittances to KRA, Lap-trust, Lap-fund and NSSF. Part of this debt is historical in nature and dates back to the era of the defunct council.

Statutory creditors charge high interest and penalties in accordance with the Section 53 of the RBA Act Cap 197 with Lap-trust charging interest @ 1.25% per month (15% per annum) compounded and Lap-fund charging 3% per month (36%per annum) compounded. Since the debt is historical in nature, the debt has continued to grow even when the County remits statutory payments as at when the salary is paid. However, there have been gaps in settlement of the same in the past leading to increase in the debt.



Growth in the statutory debt

Strategy to deal with the Debt

Strategy 1: Debts /Asset Swops;

Where the County owes various statutory creditors/utility firms who also owes us various debts in terms of rate, the County will enter into negotiations with various creditors with a view to effect debts/assets swops.

To settle the outstanding amounts on the KRA Account the County will approach the National Government and negotiate a debt swap against the amounts owed by the National Government in outstanding rates. At the meantime, the County shall continue to pay monthly deductions of PAYE as and when the salary is paid.

To settle this amount owed to Lap-trust the County in the past has negotiated with the statutory creditor for a property swop to transfer to the scheme one of our prime asset/Estate in respect to accrued debts. Parties did not reach an agreement and there is intention to pursue the same during the period. If agreeable then the estate(s) or Land shall be valued by *three professional valuer's including the government as an independent entity in order to establish the correct value.*

Currently a debt swap negotiated with NSSF is still in force against property rates.

The County is in the process of negotiating with Lap-Fund with a view to regularize the earlier transfer of Mariakani Estate (LR/209/6612 IR No.20935/1). Further, any outstanding balance will be addressed by collaborating with Lap-fund in the Urban Renewal project and cede part of our interest to the extent of the balance.

Strategy 2 : Debt rescheduling/renegotiation;

The County will seek to renegotiate with various statutory creditors on the debt owed with a view of interest freeze and interest waivers on older amounts owed.

Strategy 3: Payment of Current Statutory deductions as at when they fall due;

The County treasury intends to pay all statutory deductions as at when salary is paid every month to mitigate against growth of the debt.

b) Suppliers of goods and services/ Legal Creditors

The County initiated projects whose payments have over-time been rolled over to consecutive financial years. Sectors procure late in the year leading to rollovers and growth in pending bills. This is mainly due to fluctuating revenues, that affect the cash flow projected leading to growth in unpaid merchants at each year-end. The volatility of the economy and government policy affects revenue collection.

Growth in litigations by and against the County has led to an increase in amounts owed to legal creditors.

Strategy 1: Verification of arrears

Data on outstanding claims is available but the same needs verification to boost validity and reduce fraudulent claims. The internal audit department of the County, private audit firms or an appointed committee will undertake verification.

Strategy 2: Increase budgetary allocation on the pending vote and decentralise the same to sectors.

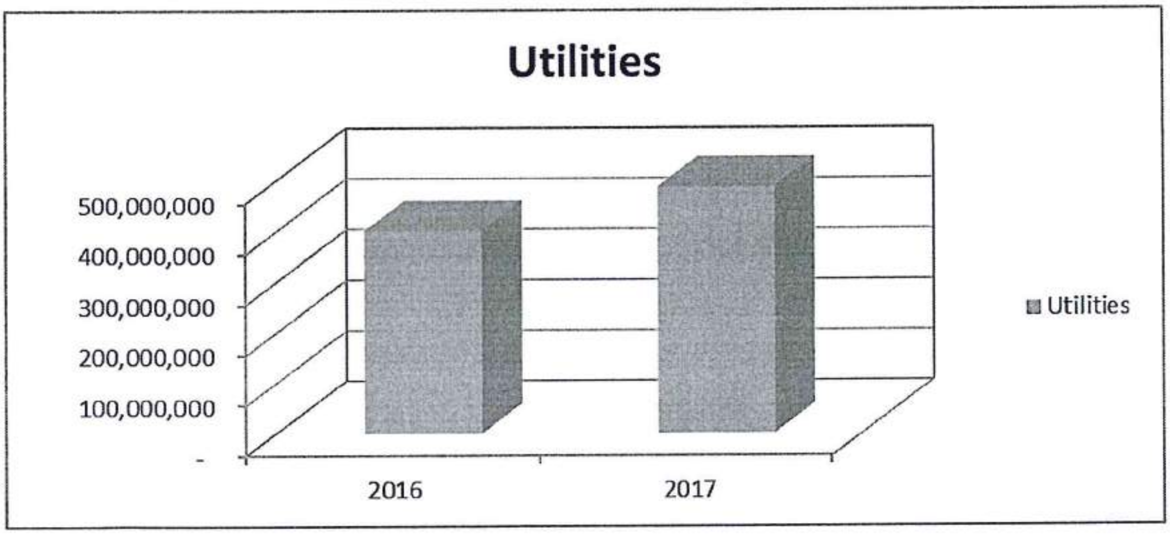
Strategy 3: Enhance compliance to the legal framework and upscale capacity of the County legal services

No new commitments for supply of goods and services shall be done after 31st May of each year in accordance with the provisions of Section 50(1) of the Public Finance Management (County Governments) Regulations, 2015 except with express authority of the Accounting officer in writing.

Enhance compliance to the law inorder to reduce litigations against the County while reducing legal cases against other government entities.

c) Utilities

The debt has accumulated, as KPLC has been unwilling to remit its way leave debt of approximately Kshs.694.7M as at the close of the FY 2016/17. While the County on the other hand has accumulated debt on the monthly electricity bills over time, this led to litigation.
On the other hand, the County owes Nairobi Water & Sewerage Company for water consumption to its various entities. The debt accumulated as a result of withdrawal of the lease rentals by the company.



Strategy 1: Debt swap/ Debt Renegotiation

Since the Court ruled in favour of the County, a debt swap on the wayleave debt visa vis electricity bills shall be pursued once reconcilitiation of the debt is complete.

After the swap the existing debt will be cleared completely from our books of Accounts.

d) Contingent Liabilities

This consists of on lent water loans and government guarantees that date back to the defunct council for construction of water infrastructure, Umoja II housing and historical actuarial deficit, interest and penalties owed to Lap-trust. The loans were obtained years back by the defunct City Council of Nairobi for the development of water infrastructure and construction of Umoja II housing scheme. The loans were obtained from the World Bank, USAID, and Local Government Loans Authority (LGLA).The loans were guaranteed by the National Government and in view of lack of documentation for the loans the County has approached the National Debt Management Office with a view to write off these loans from our books. The guaranty and on-lent water loans have remained un-serviced and static in the books since the era of the defunct council and now in the County.

Strategies to deal with the debt

Strategy 1: Debt Renegotiation and write offs

In order to clean our balance sheet and improve our credit-worthiness, the County shall enter into negotiations with the GOK with a view to write off debts that were guaranteed by the National Government to the former City Council of Nairobi.

On the acturial deficit and interest dating back the County intends to renegotiate with the statutory creditors.

e) Bank Loans

At the close of the financial year 2016/2017 the County had a long-term loan owed to KCB which was inherited from the defunct Council. The Loan is repayable at the rate of 13% per annum for 9years. The loan is repayable on a quarterly basis at Kshs. 141 Million per quarter and budgeted from our revenue hence the need for re-negotiation of the loan. An overdraft oustanding during the same period has since been repaid in full.

Strategies to deal with the debt

Strategy 1: Debt Rescheduling

There's need to renegotiate with the banks to reschedule the current bank loans with a view to obtaining favorable terms and for a longer period.

Strategy 2: Repayment plan

The County Treasury intends to come up with a detailed, realistic repayment plan, which can be adopted in servicing the loan.

1.6 Other Strategies to deal with the debt

a) Public Private Partnerships

The County will seek to identify commercial or residential estates to collaborate especially with the pension schemes to develop these areas. Part of the proceeds can be shared on an agreed formula, which will go towards settling the debt.

The County is considering engaging private partners to develop high investment return projects like multi-storey parking, increasing the parking slots and modernizing stadiums under the Urban-Renewal projects.

b) Enhancing credibility and realism of the budget

One of the first steps in addressing a persistent arrears problem is to strengthen the realism of the annual budget. This will depend on robust assumptions and forecasts in the fiscal framework, which determines the budget. Internal revenues should be realistic and should be in tandem with the expenditure. The County should enhance revenue collection while setting up realistic revenue targets.

In the past, one of the causes of increased pending bills have been unrealistic revenue projections that encourage procurement of goods and services beyond the County's ability to finance payments.

c) Strengthening commitment controls

Commitment controls are part of the internal control system, which should prevent the County from initiating expenditure without available budget and cash. IFMIS as an efficient tool of financial management shall enforce commitment control to ensure that expenditure incurred in a financial year is in tandem with the budget.

d) Improving cash and debt management

Reliable cash forecasting should ensure that liquidity is available to meet payment obligations as they arise. For effective cash management, the county treasury seeks to develop accurate and timely short-term estimates of cash inflows and outflows.

Regulation 86 (1) of the PFM Act, 2012 advices the County Executive Committee Member for finance to establish a Cash Management Advisory Committee which is key in improving cash flow management.

The County Treasury shall increase budgetary allocation on debt servicing every year to reduce the debt burden.

e) Strengthening legal and regulatory framework

The legal framework or related regulations should define payment terms (and when a payment is in arrears); reporting requirements; controls at the budget authorization, commitment, and payment stages; and the sanctions associated with any breach of those provisions.

In this regard, the County Treasury intends to draft a payments policy that will prioritize payment based on urgency, availability of funds and the age of the payment.

f) Enhancing revenue collection

Further the County shall also explore ways of enhancing revenue collection in order to liquidate these debts to improve liquidity.

CHAPTER TWO

KEY ASSUMPTIONS AND POTENTIAL FINANCING SOURCES

2.1 Key Assumptions - MTDS 2018/2019

2.1.1 Objectives and scope

In the 2018 MTDS , Nairobi County shall continue pursuing broad objectives of funding the County Government Budget while maintaining a prudent level of risk taking into account costs. This will be achieved through diversifications of sources of financing and lengthening the average time to maturity of the domestic debt.

The scope of the analysis of the 2018 MTDS relies on data on the combined county government debts including contingent liabilities. The debt has risen to Kshs.60.17B in the unaudited figures as at 31st December, 2017 (Source: Quarterly Financial Statements).

2.1.2 Macroeconomic Environment and Risks

The Macroeconomic framework underpinning the MTDS is consistent with the projections included in the 2018 County Fiscal Strategy (CFSP). It is hoped that fiscal policy will continue to support economic activity within the context of a sustainable public financing. In the FY 2018 /2019, the County has reoriented expenditure towards priority programs such as health, education, infrastructure under the Medium Term Expenditure Framework (MTEF).This process has been strengthened by a revamped legislative framework to enable accommodation of critical programs that will accelerate socio-economic development.

The medium outlook for 2018-2019 assumes a balanced budget with no deficits. In order to realize the budget objectives, the County needs to realize all the potential revenues both from the GOK and internally generated revenues to finance all our budget activities. Overall growth of the economy will depend on the pace of global economic growth, weather patterns and fuel prices which will impact negatively or positively on revenues of both the National and County Governments .

Increased investment in infrastructure may necessitate the County Government to take in more debt to finance these additional expenditures. The crystallization of contingent liabilities would represent a significant increase in risk to the current debt burden. The harmonization of staff benefits and implementation of staff rationalization will have an impact on the pension schemes of the officers transferred to the counties and those who may exit service on a voluntary basis.

2.2 Potential Financing Sources

In line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose an unwarranted debt burden on future generations. Adherence to the ratio of development to recurrent expenditures of at least 30:70 over the medium term, as set out in the PFM Act is also crucial and statutory leaving little resources to debt servicing.

The preferred source of financing remains our own revenues in view of the cost and risk of other sources of financing. However to raise additional finance for development the county the other alternative sources of financing are:

a) Borrowing from Central Bank of Kenya/ National Government

The County shall pursue borrowing from central bank through the national treasury as commercial banks charge high interest on borrowing. Borrowing from the CBK attracts low interest rate but requires the National Treasury to formulate guidelines. Further borrowing from the commercial banks leaves the county exposed to interest rate fluctuations.

Borrowing from national government or pursuing a grant with national government for the purpose of debt servicing is cheap and the best option in the medium term.

b) External Borrowing

The County may float international bonds or borrow from foreign banks. This is subject to volatility of the international money market and specifically fluctuation of the exchange rate since the bonds is denominated in dollars.

The County may borrow from the money market and Capital Market through issuance of County bonds. Borrowing from the capital and money market is subject to very strict conditions by the capital market authority.

c) Borrowing from the Money and Capital Markets

The County will pursue to engage in public- private partnerships to finance projects. The process is very lengthy and rigorous and requires approval from the National Treasury.

d) Engineering Procurement and Construction

This is where the contractor finances the projects and the County contributes in kind for things like land.

2.3 Outcomes of analysis of potential Financing Strategies

From the analysis of the potential financing strategies, it is important that among other measures, the County;

i) Implements robust strategies of managing the debt portfolio

ii) Adopts robust strategies to enhance own-source revenues

iii) Accurately forecast own-source revenue to avoid negative impacts on the budget. Which has been a source of cyclical pending bills

In the medium-term enhancing revenue is the best financing option while negotiating with various statutory creditors and adhering to fiscal responsibility principles as stipulated in the PFMA.

NB: Any borrowing from national government or CBK should be capped at 15% of total revenues realized in the previous year subject to approval by the county assembly in accordance with section 141(2) of the PFMA.

2.3 Strategies of Revenue enhancement

A. Draft National Policy to Support Enhancement of County Governments' Own-Source Revenue;

Most County Governments are yet to enact or operationalize required legislation to underpin revenue-raising measures. Many Counties maintain fees and charges by the defunct Local authorities, which were regulated through by-laws that are no longer relevant. Others are mobilizing revenue using outdated policies and guidelines developed by the Local authorities this clearly indicates that Nairobi County just like most Counties lack principle legal frameworks to support revenue collection and management.

The National Treasury in this regard has prepared a draft policy framework to support County Governments' own-source revenue (OSR) efforts. The draft Policy proposes measures to broaden County Governments' tax bases, while strengthening their revenue administrative capacity.

The Policy proposes a standardized institutional, policy and legal framework own source revenue raising measures and enforcement that would be applicable to all County Governments and proposes measures to broaden the Counties' revenue bases and enhance revenue administrative capacity.

The draft Policy focuses on four distinct but interrelated themes as follows:

g) Legal and institutional framework for own source revenues

This aims to provide direction towards a more unified and coherent legal framework underpinning County Governments' taxation efforts.

ii) Revenue potential

This aims to guide assessment of the counties' revenue potential, by examining efficiency improvements. In this context, the National Treasury will undertake a County revenue potential study. The study will establish the current base for each county's local revenue, and articulate each county's tax potential and tax effort. It is expected that the Study's findings will help the counties improve their revenue forecasting.

iii) Revenue assignments

This aims to clearly delineate revenue mandates both between the two levels of Government and among the counties to eliminate disputes.

iv) Capacity for revenue administration

This aims to assess counties' existing capacity to manage revenue - related responsibilities, including collection and administration of taxes, fees and service charges and make recommendations on how to strengthen counties' institutional capacity for better tax administration.

B) Internal Revenue enhancement Strategies

i) Strengthening the legal and institutional framework;

The County has drafted several laws in respect to the various revenue streams that includes but is not limited to the NCC Rating Bill, 2018, NCC trade licensing bill, 2018, and the Nairobi City County Revenue Administration Bill, 2018 which should be enacted by year-end in order to streamline revenue collection.

ii) Enforcement of existing law;

The County shall endeavor to pursue defaulters aggressively while adhering to the laid down laws.

iii) Negotiations with National government for payment of contribution in lieu of rates and reserved parking;

The national government owes the County Kshs. 65.3B in contribution in lieu of rates which if paid can be used in retiring existing debts.

iv)Identification of new revenue streams and enhancing collection within the existing revenue streams;

The County shall seek to identify new revenue streams and enhance revenue collection in the existing streams through capacity building of existing staff, adoption of better and efficient technology and sensitization of taxpayers.

2.4 Debt Sustainability

The County Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce risk of macroeconomic instability. Significant efforts have been made to improve the institutional debt management as well as capacity to assess risks.

The growing wage bill has put a lot of weight on debt servicing and has been cyclical in nature. Since Salary is a non-discretionary item of the budget, it gets preference to other budgetary expenditure hence; the County intends to undertake a rationalization programme (voluntary retirement) taking into consideration staff exit through retirement and natural attrition.

From Table 1, the total debt excluding contingent liabilities stands at Kshs.34.8B. as at June 30, 2017.The total budgeted revenues for 2017/2018 are projected to be Kshs.35.9B. Out of which internal revenues of Kshs.19.8B will be generated. The debt shall remain sustainable in the medium term as long as the strategies outlined in the MTDS are implemented. Considering that apart from the bank loan to Kenya Commercial Bank inherited from the defunct council all the other debts are current debts payable to utility firm KPLC, Pension schemes and PAYE ,this leaves the County exposed to these creditors.

The total debt including contingencies stood at Kshs.56.52B. as at June 30, 2017. However, most of the contingent liabilities are owed to the national government because of guaranteed loans to former local authorities.

As the county embraces strong fiscal responsibility measures such as paying current and part arrears of statutory deductions, the debts are expected to significantly reduce by 30th June 2018 to about Kshs.21B since most statutory creditors are being paid as at when salary is paid.

The projected borrowing is set at a maximum of 15% of total revenues. The projected revenue for 2017/2018 is Kshs.35.79B. In case the County borrows a maximum of Kshs 8 billion from the national government deductible from the monthly exchequer releases in the long-term this will push the total debts to about Kshs 43.9B excluding contingent liabilities. From the analysis above the results is that the County debts remains sustainable over the medium term since the loans are long term with fixed interest terms.

2.5 Implementation of the 2018 MTDS

The Government has enacted legislation governing both external and internal borrowing under the PFMA provisions that are in line with the requirements of the Constitution of Kenya, 2010 and best international practices. However, the County intends to borrow from the Central Bank or request for a grant from the National government to finance debt serving within the medium term. The total debt including contingencies stood at Kshs 56.52 billion as at 30th June 2017. However most of the contigent liabilities are owed to the national government on account guaranteed loans to former local authorities.

Negotiations are ongoing with the National government to pay dues owed to the County running into millions of shillings which if received can help the County retire part of its outstanding debts.

The County has established a debt management office/ credit control office to strengthen the institutional arrangement for management of debts. Comprehensive, accurate and timely information on public debt is critical in managing of debts. Public debt information published more regularly to enhance transparency on debt management in accordance with best practice.

The County will also continuously engage the Debt Management Office (DMO) at the National Treasury in order to manage to improve on debt management and especially concerning the debts guaranteed by the National Treasury.

2.6 Conclusion

The 2018 MTDS is a spirited framework for prudent debt management. It provides a systematic approach to decision making on the appropriate financing of development projects. The 2018 MTDS has considered the current macroeconomic environment both at the local and external environment and other the related vulnerabilities.

The recommended strategy is one that seeks to borrow from the National Government whose repayments can be deducted from our monthly exchequer releases in agreeable bullet payments while enhancing our own source revenues and undertaking a staff rationalization programme through voluntary retirement in the medium term.