GOVERNMENT OF NAIROBI CITY COUNTY

Paper laid on 3/3/2020

THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

SECOND ASSEMBLY-FOURTH SESSION

NBI CA. PLC. 2020 / (008) 3rd March,2020.

PAPER LAID

Pursuant to the provisions of Section 123 of the Public Finance Management Act,2012, I beg to lay the following Paper on the Table of the Assembly, today Tuesday 3rd March, 2020.

THE NAIROBI CITY COUNTY DEBT MANAGEMENT STRATEGY PAPER FY 2020/2021
(The Leader of Majority Party)

Copies to:
The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press

Approved
3/3/2020

NAIROBI CITY COUNTY

Telephone:+254 20 344 194
Email:info@nairobi.go.ke
Facebook: NairobiCityCountyOfficial
Twitter: @county_nairobi

City Hall,
P.O Box 30075-0010,
Nairobi,
KENYA.

FINANCE AND ECONOMIC PLANNING

NCC/FIN/DDM/065/2020

28th February, 2020

The Clerk,
Nairobi City County Assembly,
City Hall Building, 2nd Floor,
P.O. Box 45844 – 00100,
NAIROBI.

RE: DEBT MANAGEMENT STRATEGY PAPER FOR THE FY2020/2021

The above mater refers.

Pursuant to section 123 of the Public Finance Management Act, 2012, forwarded here with please find the Medium Term Debt Management Strategy Paper for the financial year 2020/2021.

Nyangoma

PAULINE KAHIGA-WAITITU
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

NAIROBI CITY COUNTY ASSEMBLY
CLERK'S CHAMBER
28 FEB 2020
RECEIVED
Sign:..............
P.O. Box 30075 - 00100, NAIROBI

II C.A - Arthur / Robert
Kindly deal
Ag. S.C.A
3/03/2020

I: Ag. SCA (Crispo)
Prepare for tabling on 03/03/2020
Ag. Clerk
02/03/2020

NAIROBI CITY COUNTY

Medium Term
Debt Management Strategy

2020/2021

Enquiries covering this Debt Strategy Paper may be addressed to;

Nairobi City County,
County Executive Member-Finance & Economic Planning,
P.O. Box 30075,
Nairobi.

Telephone: +254 2022221349
Website: www.nairobi.go.ke

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FOREWORD

The Public Finance Management Act 2012 section 123 (1),Provides that 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 clearly showing its actual liability in respect of loans and its plan for dealing with those liabilities

The preparation of the County medium term debt management strategy (MTDMS), is guided by the Public Finance Management Act of 2012 and the PFM County Regulations of 2015. These provide the requisite framework to ensure the County continues 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 County 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 main objective of the Medium Term Debt Management Strategy is to ensure sustainability of the County debt, having undertaken an analysis of the existing level of debt, associated risks and strategies to address management of the debt. There is need for fiscal prudence in management of County's resources and emphasis of operational efficiency, to ensure that the County Government financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

This involves developing a strategic position to ensure that the servicing and management of County's financing requirements and payment obligations are met on a timely basis and at the lowest possible cost over the medium to long run.

Considering the current level of debt both inherited from the defunct Nairobi City Council and pending bills arising from County Government, the MTDMS 2020 will reinforce measures geared towards reduction of County debt. The County will continue to maintain effective linkages with the National Treasury for effective debt management and provision of technical advice.

NAIROBI CITY COUNTY
COUNTY EXECUTIVE COMMITTEE MEMBER FOR FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The Medium-Term Debt Management Strategy (MTDMS) paper has been prepared as per the requirement of Public Finance Management (PFM) Act, 2012. It sets out the debt management strategy of the County Government over the medium term with respect to actual and potential liabilities.

The Debt Management Strategy Paper (DMSP) provides guidance on the amount and type of borrowing to undertake over the medium term. It evaluates the costs and risks of various Debt Management Strategies and provides recommendations on meeting its obligations geared towards clearing of debts.

As required by the PFMA the Medium-Term Debt Management Strategy Paper will be formally tabled to the County Assembly on or before 28th February 2020 and will be published and publicized.

To ensure circulation of the Medium-Term Debt Strategy Paper, it will be available in the County website. www.nairobi.go.ke.

I also take this opportunity to acknowledge the staff of the County Treasury who were involved in the preparation of the 2020/2021 Medium Term Debt Management Strategy Paper.

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. 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 of Nairobi) has been heavily in debt for decades.

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, loan to Commercial Bank 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.

The County Government will ensure servicing debt as the primary concern for debt management, as the main risks would be inability to make repayments, large volume and high cost of debt all of which will have a negative impact on debt sustainability and affordability. Measures will be introduced to strengthen debt management and establish a borrowing framework by ensuring that the County meets fiscal, legal, institutional and operational measures thus increasing transparency and accountability.

CHAPTER ONE

MEDIUM TERM DEBT MANAGEMENT STRATEGY

1. Introduction

The PFMA Act, 2012 section 107(2e) requires that Nairobi City County debt be maintained within a sustainable level, as approved by the County Assembly, section 107(3) requires that short term borrowing be restricted to management of cash flows and not exceed 5% of recent audited Government revenue.

The 2020 MTDS will guide the County Government operations in 2020/2021. The strategy seeks to balance cost and risk of public debt while considering the financing needs of the County and to develop initiatives for new funding sources.

The principal objective of the County Government debt management is to meet the County Government 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 Nairobi County Government Medium-Term Debt Management Strategy (MTDS is developed within the context of the Fiscal Responsibility Framework and guided by the Public Debt Management Act 2012 section 107(2e).

1.1 Background

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

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 Inter-Governmental Budget and Economic Council.

The PFMA 2012 section 107(2e) requires that County debt be maintained within a sustainable level, as approved by the County Assembly, section 107(3) requires that short term borrowing be restricted to management of cash flows and not exceed 5% of recent audited Government revenue.

Long-term borrowing will only be used to finance development projects as approved in the CIDP (to a limit of 5% of the recently audited financial statements) and projects funded by debt will only be funded for their expected useful life. Operations and management expenditure will not be funded through debt.

To maintain debt at sustainable levels, the County's borrowing per the debt management strategy will be capped at 15% of total revenues.

The MTDS for FY 2020/21 examines the costs and risks to the debt portfolio relative to established targets. Further, it considers alternative financing strategies, geared toward meeting the following broad debt management objectives of Nairobi County Government:

- Raising adequate funding to satisfy County Government financing needs, at the lowest possible costs and at prudent levels of risk.
- Minimizing exposure to and managing the main risks inherent in the public debt portfolio.
- Maintaining and encouraging further development of an efficient debt Portfolio for the County Government.
- Broadening the County Government's investor base and diversifying funding sources.

To ensure long-term financial sustainability, sound financial principles must be applied. The County must adhere to the principles of public finance in financial management as outlined in Article 226 of the Constitution of Kenya and Public Finance Management Act 2012.

With the increased appetite, for funding of large capital projects there is need to be cautious on the level of debt accumulation. Domestic borrowing and revenue raised are used to service public debt and little resources are freed for development expenditure. The Public Finance Management Act (PFMA 2012) Section 107 (2e) requires the debt to be maintained at a sustainable level as approved by County Assembly. Section 107 (3) requires that the short term borrowing is restricted to management of cash flows and not exceed 5% of the recent audited County Government revenue.

CHAPTER TWO

STOCK OF COUNTY LIABILITIES

The stock of debt is mainly composed of unpaid statutory deductions, unpaid suppliers and contractors and legal bills, utilities owed to Kenya Power and Nairobi water. There are also benefits owed to retired and deceased staff of the County as well a Commercial Bank loan.

It is worth noting that The County inherited a large debt portfolio from the defunct City Council of Nairobi, part of this debts are long-term loans taken from development partners for the expansion of water infrastructure in the 70's by the defunct Council and housing 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 huge debts owed to various statutory creditors and merchants.

2.1 Stock of County Liabilities

The County debt as at 31st December 2019 stood at Ksh 76.7 Billion

Table I: Summary of Outstanding Liabilities as at 31st December 2019.

S/NO.		
1	Statutory Creditors	39,491,470,144
2	Supplies/Contractors	4,680,962,442.62
3	Utilities	847,657,804
4	Loan	4,310,087,246
5	Contingent liabilities	21,768,297,573
6	Employees/benefits-Retirees/Deceased	171,662,290
	TOTAL	**76,794,373,964.17**

With strained County revenues and due to accrued interests and penalties especially on statutory debts, the County debt has continued to grow which is a worrying trend.

The County Government has undertaken specific measures to reverse this trend. These measures include:

- **Gazettement of the Pending Bills Committee**

By Gazette Notice No. 2101 of 9th March 2018, His Excellency the Governor of Nairobi County established a committee of the County known as Committee on Finalization of Pending Bills and Audit of Procurement Processes.

The terms of reference and mandate of the Committee was among others, to analyze any unpaid claims or bills on account of provision of goods and services to Nairobi City County. The County Government is focused on settling all its pending bills and it's in this regard that His Excellency the Governor gazetted this committee. The committee gave a final report of their recommendations on 28th February 2019.The pending bills were forwarded to the sectors for processing as per the recommendations.

- **Special Audit of the Pending Bills by OAG**

The National Government keen on resolving the issue of pending bills through the Office of the Auditor General (OAG) conducted a special Audit of the Pending Bills and issued an audit report in May of 2019.The OAG report verified and recommended the eligible pending bills for immediate payment.

- **Remittance of statutory deductions from gross salary**

The County Government has committed to remit the statutory deductions from gross salary every month unlike in the past.

This has avoided any interest and penalties accruing for late remittance or non-remittance, these penalties and interests have in the past contributed immensely to growth of statutory debt.

- **Annual Procurement Plan and Budget**

Every Sector in the County must come up with an annual procurement plan. The County is focused on adhering to procurement plans which must be tied to a realistic budget. In its daily operations the County is committed to follow the annual procurement plan and engage its professionals to come up with revenue forecasts that will guide in its expenditure plans. The County must consciously move from the culture of procuring beyond the revenue available.

- **Enhanced Revenue forecasting**

The County has adopted enhanced revenue forecasting methodologies which result in realistic budgeting. This will ensure that the County does not commit funds well beyond its ability to honor them.

- **Discussions with National Government**

The County in its endeavor to clean up its books has engaged the national Government for support. The County Government and the National treasury are in discussions on how to assist in resolving the financial challenges facing the County by considering writing off the historical debts still in our books to date.

- **Amounts Owed to the County Government**

Amounts owed to the County Government have also continued to grow. A large percentage of this amounts due to the County are rates charged on national Government properties, wayleaves and reserved parking spaces. The County Government is in discussions with national Government and various parastatals to offset these debts as this will go a long way in significantly reducing the stock of debt.

The County will seek to reschedule current bank loan with a view to obtaining favorable terms for a longer period. This is aimed at releasing scarce resources to service delivery by easing pressure on cash flows;

Negotiations will be entered with the National Government with an aim of writing off debts that were guaranteed by the Central Government to the defunct Local Authority. This is aimed at cleaning the balance sheet and improve the City County's credit worthiness.

Revenue and Expenditure

With the increased appetite, for funding of large capital projects there is need to be cautious on the level of debt accumulation. Domestic borrowing and revenue raised are used to service public debt and little resources are freed for development expenditure. The Public Finance Management Act (PFMA 2012) Section 107 (2e) requires the debt to be maintained at a sustainable level as approved by County Assembly. Section 107 (3) requires that the short term borrowing is restricted to management of cash flows and not exceed 5% of the recent audited County Government revenue.

Over 50% of the budget is currently funded by the National Government making the County heavily dependent on National Government funding. To satisfy the increasing funding needs, the development of new capital financing strategies need to be initiated such as Public Private Partnerships, lease financing, labour trade off platforms. The County is leveraging on external funding for resource mobilization as stipulated in the CIDP.

The County is increasingly using technology and innovation to widen the tax base and reduce lost revenue. These include the introduction of waivers to encourage payment of accrued fees, as well as a graduated rate scale for business licenses and land valuation among others. There is, however, need to further develop and implement financial strategies that will put the County in a financial position to fund all planned projects.

It is imperative that during the budgeting process, projects are prioritized in a manner that objectively balances risk, capital limitations and regulatory requirements as well as matching with the actual cash flow projections. The Finance and Economic Planning Sector is responsible for providing consultation on budgeting matters such as the budget reviews, the Fiscal Strategy Paper and Outlook Papers.

CHAPTER THREE

COST AND RISK ANALYSIS (SITUATIONAL ANALYSIS)

Paramount to the effective management of the public debt is ensuring an appropriate balance between the relative costs and risks in the public debt portfolio.

The MTDS provides a diagnostic framework through which cost and risk assessments of alternative financing strategies are conducted. While cognizant of the varied risks to the debt portfolio, the MTDS focuses on the quantification and management of market and refinancing risks. Market risks relate to changes in macroeconomic or financial variables that impact the debt portfolio, either through valuation effects or debt service costs.

In line with prudent management of risks envisioned in section 107 (2)(f) of the PFM Act, 2012 the County Executive Committee Member shall in the County Fiscal Strategy Paper include a statement of fiscal risks outlining the potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook and the statement shall include:-

(a) Potential policy decisions affecting revenue, taxpayer behavioral responses and court decisions that are likely to affect revenue bases and overall tax and revenue collections and Government income, including tax concessions (or tax expenditures), increase in tax rates, tax minimization and avoidance by tax and rates payers;

(b) Potential policy decisions that could increase or decrease expenses depending on decisions taken, and which constitute risks to the fiscal forecasts only to the extent that they cannot be managed within existing baselines or budget allowances;

(c) Potential capital decisions that are risks to the fiscal forecasts only to the extent that they cannot be managed within existing County Government balance sheet;

(d) Matters dependent on external factors such as the outcome of negotiations or international obligations; and

(e) A list of contingent liability including debt guarantees.

Market Analysis

The main market risks are exchange rate, interest rate, and inflation risks. Given the current trajectory of interest rates in the external and domestic markets and considering the monetary policy dynamics at play, there are potential upside risks to interest costs over the medium-term.

Inflation risks are subdued due to low exposure and low and stable inflation expectations over the medium-term.

Interest Analysis

Interest rate risk measures the portfolio's exposure to changes in market interest rates.

Adverse movements in interest rates can increase debt service costs for variable-rate debts.

Inflation Analysis

Upward movements in the inflation rate will increase the nominal value of inflation-linked debt, thereby increasing the costs to the County Government.

The extent of the impact will depend on the inflation rate.

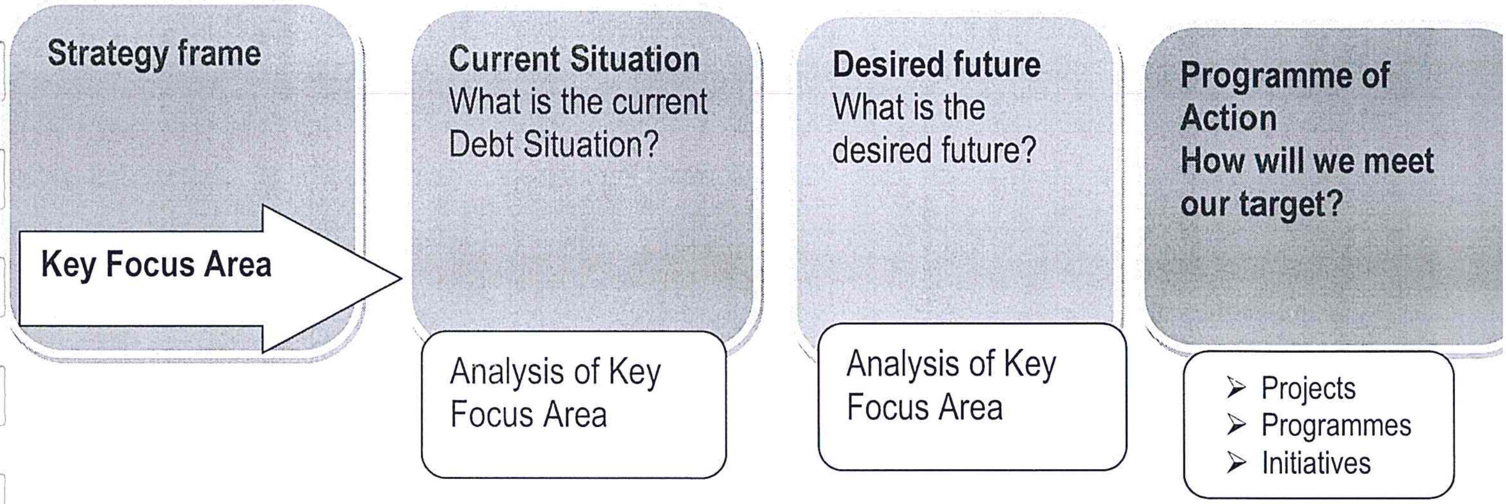
Refinancing risk

Refinancing risk is the probability that debt will have to be refinanced at unfavourable terms, or in extreme cases cannot be refinanced at all. Refinancing risk is measured by assessing the share of debt maturing in one year or less; the average-time-to-maturity (ATM) of the debt portfolio; and the maturity profile to identify the concentration of debt maturing within a given period. The share of debt maturing in one year or less gives an indication of the immediate refinancing risk in the debt portfolio.

Gap Analysis and Programme of Action

The programme of action is based on the results of the gap analysis within the County Debt Management Portfolio. Firstly, the 'current state' of each Key Focus Area (KFA) determined as per the current stock of County debt.

Subsequently, the 'desired future' is outlined. The difference, or gap, between the two situations presents clearly, which actions need to be undertaken to achieve the desired future situation. These actions form the programme of Action, implementation of the programme of action and subsequent monitoring of progress.



DEBT MANAGEMENT

Current Situation	**Desired Future**
➢ Weak Debt Management System ➢ Lack of debt policy ➢ Weak internal control system ➢ Lack of Debt repayment plans ➢ Constrained resources ➢ Increasing debt in the County	➢ A robust automated Debt payment system ➢ Minimize Debt profile ➢ Establish Debt Policy, procedure and Registry ➢ Debt repayment plan ➢ Expenditure control ➢ Measures to increase County revenue ➢ Ensure commitments are honoured to stop creating more pending bills

Programme of Action

Projects

- ➢ Automated Debt Payment System
- ➢ Capacity Building on Debt management
- ➢ Activate Debt management modules on IFMIS

Programme

- ➢ Develop and implement Debt Strategy Policy, Procedure and controls
- ➢ Review monthly payment status of debtors

- Develop and implement debt trucking processes
- Budget and expenditure monitoring and control
- Matching of expenditure commitments with cash flows

Initiatives

- Comply with legal requirements
- Monitor cash flow management framework
- Comply with Accounting Standards
- Co-ordinate Debts across the sectors
- Develop and implement a plan to increase revenue collection
- Develop and implement a plan to meet debt repayment targets
- Engage national Government on writing off old Government guaranteed loans
- Seek Government intervention on collecting debts from Government institutions for debt swap purposes
- Engage statutory creditors on repayment plans and
- Negotiate with statutory creditors on freezing of interests and penalties and writing off the same on repayment of principal debt

Programme of Action for Debt Management

To realize the programme of action, the projects, programmes and initiatives having been identified within the Debt Management Department, for implementation of the identified activities across other sectors within the County based on their debt profile to monitor and evaluate their debt portfolio through quarterly and annual targets are monitored to determine the performance of each sector.

CHAPTER FOUR

STRATEGIES OF ADDRESSING DEBT

Debt strategies proposed in the Medium-Term County Debt Strategy Paper 2020

The following debt management strategies have been proposed and will be discussed in detail in the Medium-term Debt Strategy Paper 2020

1. Debt/Asset Swap
2. Debt rescheduling/renegotiation
3. Payment of Current Statutory deductions as at when they fall due
4. Increase budgetary allocation on the pending bills vote
5. Enhance compliance to the legal framework and upscale capacity of the County legal services
6. Writing off debts: Contingent Liabilities (old book debts)
7. Clear Debt Repayment plan
8. Public Private Partnerships
9. Enhancing credibility and realism of the budget
10. Strengthening commitment controls
11. Improving cash flow management
12. Strengthening legal and regulatory framework
13. Enhancing revenue collection

Strategies to deal with statutory Debt

1. Debts /Asset Swaps
2. Debt rescheduling/renegotiation;
3. Payment of Current Statutory deductions when they fall due
4. Waiver of interests/penalties on statutory debts

Strategy 1: Debts /Asset Swaps

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

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. In 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 swap to transfer to the scheme one of our prime asset/Estate in respect to accrued debts.

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

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 when they fall due

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

Strategy 4: Waiver of interests/penalties

The County should as a matter of priority, pursue for a waiver of the same through national Government as a way of reducing these debts bearing in mind they constitute a huge chunk of the County's total debt accrued over many years. The interest rates are very high making it impossible for the County to clear them, with Lapfund charging 30% compounded annually on outstanding debt and Laptrust charging 15% compounded annually just but to name a few.

Debt owed to Suppliers of goods and services

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 of pending bills. This is mainly due to fluctuating revenues, that affect the cash flow projected leading to growth in unpaid merchants at the end of each financial year.
Growth in litigations by and against the Countyhas led to an increase in amounts owed to legal creditors.

Strategies to deal with debt owed to suppliers of goods and services

1. Verification of arrears
2. Increase budgetary allocation on the pending vote
3. Enhance compliance to the legal framework
4. Automation of the procurement process
5. Decentralisation of payment process to sector level
6. Internal capacity building

Strategy 1. Verification of arrears

A Pending Bills Committee was gazetted by H.E. The Governor to scrutinize and verify the pending bills of the County.
Verification of arrears to boost validity and reduce fraudulent claims needs to be a continuous process through our internal audit department or an appointed committee to undertake verification where need be.
The National Government through the Office Of the Auditor General should also undertake a special audit of the County Pending Bills annually.

Strategy 2. Increase budgetary allocation on the Pending Bills vote

The proposal is to increase budgetary allocations to cater for the growing debt portfolio.Sectors should also factor in their budget proposal allocations to meet their pending bills.As a matter of principle pending bills and roll over project should be given priority in any new financial year or budget allocation.

Strategy 3. Enhance compliance to the legal framework

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. This will reduce or eliminate roll over of projects and growth of pending bills at the end of the financial year.

Enhanced compliance to the law in order to reduce litigations against the County while reducing legal cases against other entities will minimise the legal debts,which are mainly legal fees and decretal sums against the County.

Strategy 4. Automation of the procurement process

Automation of the procurement process will ensure timely ,accurate and efficient procedures to avoid unnecessary delays leading to creation of pending bills at the end of the financial year.

Strategy 5. Decentralisation of payment process to sector level

Delegating the payment process to sector levels will ease and fastrack payments to suppliers of goods and services as per their sector budgets and priorities hence avoiding unnecessary pending bills.

Strategy 6. Internal capacity building

The County having its own expertise and proffessional staff should focus on internal capacity building to reduce unnecessary pending bills incurred from outsourcing those services.Like in the case of legal services,gabbage collection and public works just to name a few.

Debt owed to Utilities Firms

This is an accumulation of electricity bills owed to Kenya Power and also the County owes Nairobi Water & Sewerage Company for water consumption to its various entities. The debt accumulated because of withdrawal of the lease rentals by the company.

Strategies to deal utilities Debt

1 Debt swap
2 Verification of arrears
3 Realisting payment plan

Strategy 1: Debt swap

The County is in negotiations with Kenya Power to swap its debt against wayleaves owed to the County.

The County is also pursuing debt swap with Nairobi Water against what the water company owes the County for use of County infrustructure.

2 Verification of arrears

Verification of debts between the Countyand these utilities companies is paromount in negotiations and plans on way forward to clear the debts.

3 Realisting payment plan

A clear and realistic payment plan must be put in place to ensure this debts are cleared by the County Government. This plan must be in line with the realistist cashflow forecast.

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 guarantee 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 contigent liabilities

1 Debt Renegotiation
2 Debt write offs

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.

Bank Loan

At the close of the financial year 2018/2019 the Countyhad 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 9 years. 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. The current loan balance stands at Ksh 4.3B.

Strategies to deal with the loan debt

1 Debt Rescheduling
2 Repayment plan

Strategy 1. Debt Rescheduling

There is need to renegotiate with the banks to reschedule the current bank loan with a view to obtaining favorable terms and for a longer period. Negotiations are underway with various banks for rescheduling of the loan terms.

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. A clear and realistic payment plan must be put in place to ensure this loan is serviced to avoid additional cost in terms of interest and penalties.This plan must be in line with the realistic cashflow forecast.

Other Strategies to deal with the debt
Public Private Partnerships

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. The County also has plans to build low cost housing in partnership with private investors.

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 has been unrealistic revenue projections that encourage procurement of goods and services beyond the County's ability to finance payments.

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.

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. The County Treasury proposes every sector to budget for pending bills. In line with accounting policies the debts should take first charged in every new financial year.

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.

Enhancing revenue collection

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

CHAPTER FIVE

SUMMARY/CONCLUSION

The Medium-term Debt Management Strategy for FY 2020/21 outlines the County Government's strategic priorities for the management of the public debt over the medium-term.

It provides an assessment of the relative costs and risks for the debt portfolio and considers alternative financing strategies to meet the broad objectives of raising adequate funding at the lowest possible costs at prudent levels of risk and focusing on clearing outstanding debt in the shortest possible time to avoid litigation and focus on more development projects .

Servicing debt is the primary concern for debt management. The County Government must make sure that total expenditure including debt service costs do not exceed revenue collected. The main risk for the debt portfolio is the County Government's inability to make repayments or 'repayment risk'.

Through the proposed debt management strategies, the County is focused on reducing debt to sustainable levels and eventually clearing all outstanding debts.

Given the negative effect pending bills have on the growth of the economy, there is need for urgent action to ensure there is no further accumulation of pending bills and those verified should be paid without further delay.