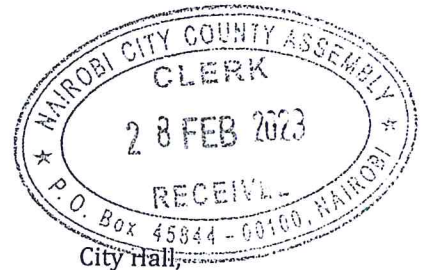
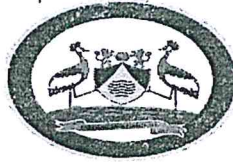


Telephone: +254 20 2221349
Website: www.nairobi.go.ke

NAIROBI CITY COUNTY



City Hall,
P. O. Box 30075-00100
Nairobi,
Kenya.

FINANCE AND ECONOMIC PLANNING

HOCT(A)/MKW/063/2023

28TH FEBRUARY 2023

The Clerk,
Nairobi City County Assembly,
City Hall Building,
P. O. Box 45844-00100,
NAIROBI.

RE : MEDIUM TERM DEBT STRATEGY PAPER FOR THE FY 2023

Pursuant to section 123 of the Public Finance Management Act 2012 we are pleased to submit the Medium Term Debt Management Strategy Paper for financial year 2023.

Thank you for your continued support.

CHARLES K. KERICH
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

*III Set Austin
Please deal as per
II. Max
Per chs
01/03/2023*

*II Per L&P
Prepare for meeting.
(Signature)
Dks
1/2/2023*

*① Dks
Kindly deal
for CCA
28/2/2023*

NAIROBI CITY COUNTY



**Medium Term
Debt Management Strategy
Paper**

February 2023

*DCM LSP
prepared for
DCM
1/3/2023*

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

Table of Contents	
Acknowledgement	vi
List of Abbreviations.....	vii
EXECUTIVE SUMMARY	viii
CHAPTER ONE	1
1.0 MEDIUM TERM DEBT MANAGEMENT STRATEGY	1
Introduction	1
1.1 LEGAL FRAMEWORK	2
1.2 SCOPE AND OBJECTIVES	3
CHAPTER TWO	4
2.0 STOCK OF COUNTY DEBTS	4
• Audit of Pending Bills	7
• Special Audit of the Pending Bills by OAG.....	8
• Annual Procurement Plan and Budget	8
2.4 THE ASSUMPTIONS UNDERLYING THE DEBT MANAGEMENT STRATEGY.....	13
CHAPTER 3	14
3 STRATEGIC MEASURES FOR DEBT MANAGEMENT	14
3.0 Increase in Revenue Collection	14
3.1 Expenditure Capping	15
3.2 Debt/Swap	15
3.3 Debt Restructuring	15
3.4 Pending Bills Repayment Plan	15
CHAPTER 4.....	17
4.1 SUMMARY/CONCLUSION	17
REFERENCES.....	18

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 2023/2024 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.



CHARLES K. KERICH

COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

Acknowledgement

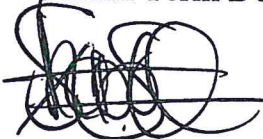
The Medium-Term Debt Management Strategy (MTDMS) paper has been prepared as per the requirement of Public Finance Management (PFM) Act, 2012. It sets out the debt management strategy of the County Government over the medium term with respect to actual and potential liabilities.

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 2023 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 2023/2024 Medium Term Debt Management Strategy Paper.



ASHA ABDI
COUNTY CHIEF OFFICER FINANCE

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 City 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 Government guaranteed loans taken in the 1980's to finance construction of Umoja II housing project, pending bills to various contractors and suppliers of goods and services, utility companies, statutory bodies, loan from commercial bank and unpaid personnel emoluments.

Further, the County's debt portfolio worsened over the years due to failure to achieve revenue projections 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 is the primary concern for debt management. 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

1.0 MEDIUM TERM DEBT MANAGEMENT STRATEGY

Introduction

The PFM 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 2023 MTDS will guide the County Government operations in 2023/2024. 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 LEGAL FRAMEWORK

Section 123 of the PFM Act 2012 requires the County Treasury;

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.
3. 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.

1.2 SCOPE AND OBJECTIVES

The MTDS covers debts and potential liabilities i.e. it covers all loans and other debts that require payments of principal with or without interests by the County Government to the creditor at a date or dates in future.

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 2023 Medium-Term Debt Management Strategy (MTDS) will guide the County Government operations in 2023/2024.

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.

CHAPTER TWO

2.0 STOCK OF COUNTY DEBTS

The stock of debt is mainly composed of unpaid statutory deductions, unpaid suppliers, contractors, 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 these 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 projects guaranteed by the National Treasury.

The debts remained in the books of the former City Council of Nairobi until the year 2013 when the County Government took over. Further, the County also inherited huge debts owed to various statutory creditors and merchants

The County debt as at 30th June 2022 was Kshs99.3billion. This includes Kshs 21.8billion old book debts.

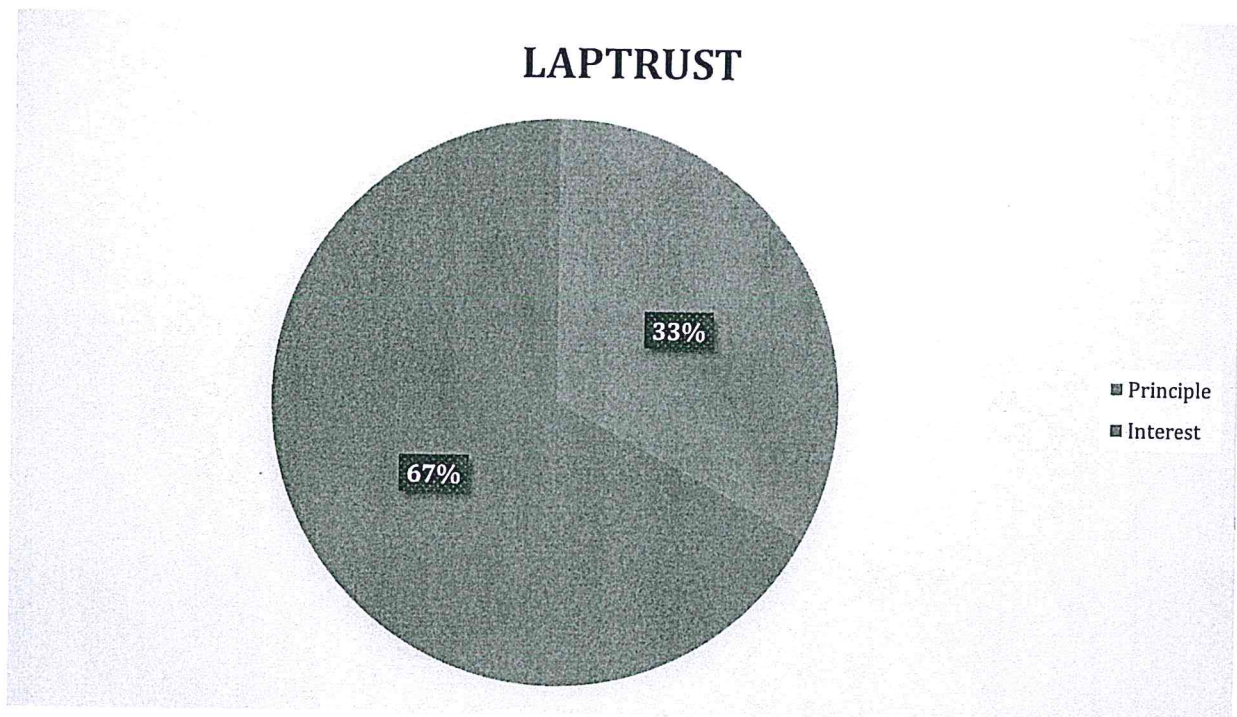
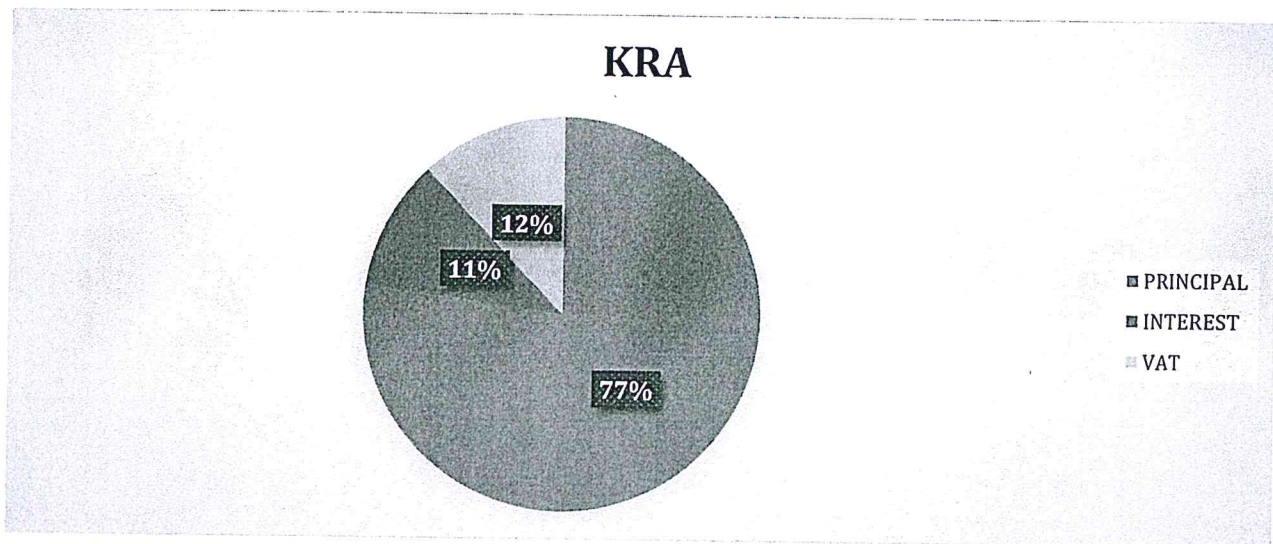
Table I: Summary of Outstanding Liabilities as at 30th June 2022.
Debt Management Department
Debt Summary For Year Ending 30th June 21 & 30th June 22

S/NO		30 TH JUNE 2021	30 TH JUNE 2022	NET CHANGE	REMARKS
1	STATUTORY				
	KRA-PAYE PRINCIPAL	526,754,010.41	762,382,808.46	235,628,798.05	Unpaid principal
	PAYE (PENALTIES & INTEREST)	105,797,983	105,797,983	0	Unpaid penalties and interest
	KRA (VAT)	118,553,546	118,553,546	0	Unpaid VAT
	Subtotal KRA	751,105,635	986,734,338	235,628,798.05	
	NSSF	381,157,936	282,821,839	-98,336,097	
	NHIF	0		0	
	LAPTRUST PRINCIPAL	6,570,318,711	6,691,762,594	121,443,883	
	LAPTRUST PENALTY& INT	10,839,659,604	13,653,622,502	2,813,962,898	Interest charged against unpaid cumulative debt (15% p.a compounded)
	Subtotal LAPTRUST	17,409,978,315	20,345,385,095	2,935,406,780	
	LAPFUND PRINCIPAL	771,810,078.82		-771,810,078.82	
	LAPFUND PENALTY& INTEREST	22,327,542,955.44	24,991,527,302	2,663,984,346.6	Interest charged against unpaid cumulative debt (36% p.a compounded)
	Subtotal LAPFUND	23,099,753,034	24,991,527,302	1,892,174,267.78	
2	UTILITIES				
	KPLC	477,771,272	293,633,341	-184,137,931	
	WATER	234,997,059	234,997,059	0	
3	OTHERS				
	LITIGATIONS	6,766,923,142	21,210,002,361	14,443,079,219	
	LOANS & BANK OVERDRAFTS	4,449,656,189	4,504,199,426	54,543,237	
	SUPPLIERS & CONTRACTORS	2,658,200,676	4,532,362,657	1,874,161,981	
	STAFF RETIREES	138,208,116	222,411,928	84,203,812	
4	CONTINGENT LIABILITIES				
	ACTUARIAL DEFICIT (IAPTRUST)	2,624,372,573	2,624,372,573	0	
	GOK GUARANTEED LOANS	19,143,925,000	19,143,925,000	0	
	TOTAL	78,136,048,947	99,372,372,918	21,236,323,971	

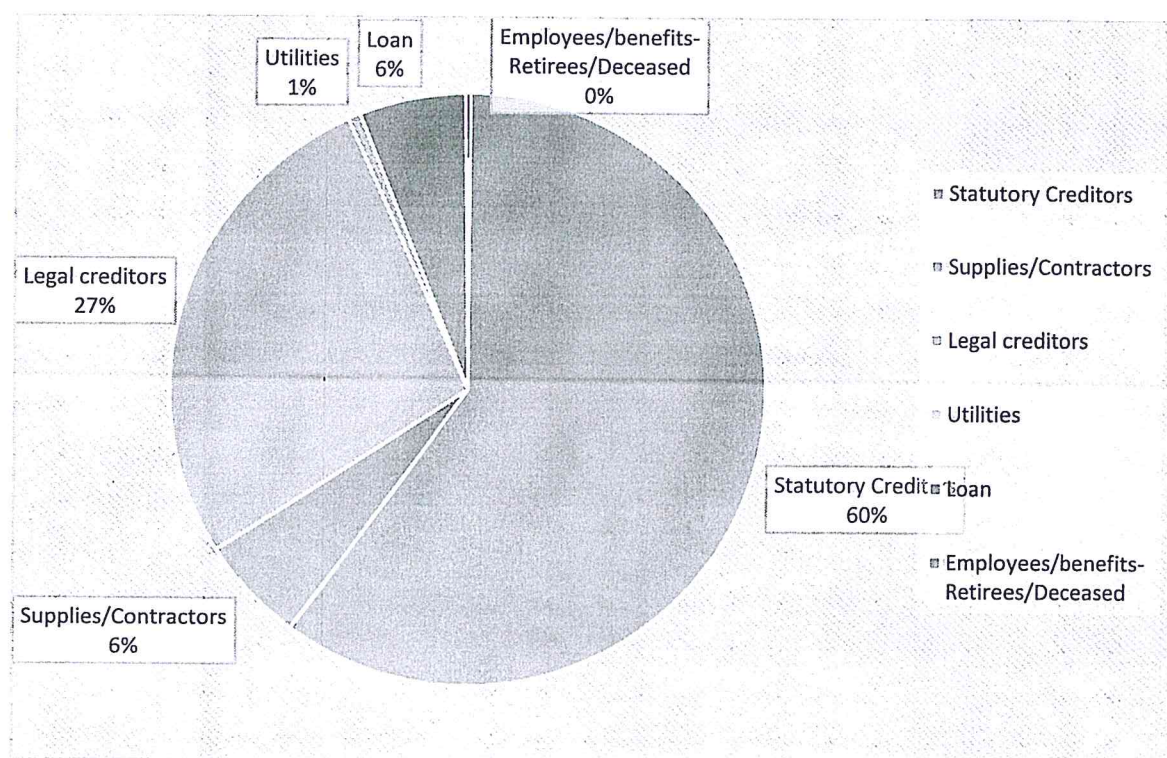
Source: NCCG Financial Statement

STATUTORY PRINCIPAL DEBT

The above chart represents statutory principal without penalty and interest.



2.1 STOCK OF COUNTY DEBT AS 30TH JUNE 2022



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

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

These measures include:

- **Audit of Pending Bills**

His Excellency the Governor of Nairobi County directed the Internal Audit & Risk Management to carry out among other things to review and ascertain the authenticity of county pending bills as at 30th June 2022. The audit was carried out and a preliminary report issued as at 30th January 2023. Those pending bills verified and approved have been forwarded to sectors for processing of payments upon confirmation that no prior payment has been made for similar services or goods.

Provision of Supplementary Budget to Pay Pending bills.

The county is committed to continuously make payments towards clearing of pending bills. In this regards the county proposed and submitted a supplementary budget to pay pending bills within the current financial year. A supplementary budget of 1.4B. was approved to pay pending bills within the current financial year ending 30th June 2023.

- **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 2019. The OAG report verified and recommended the eligible pending bills for immediate payment and ineligible pending bills for further scrutiny. The county is committed to implement the recommendations of the Auditor General's Report and clear all the eligible pending bills

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

The County Government has committed to remit the statutory deductions from gross salary every month as opposed to the past where the County was paying salaries without remitting the statutory deductions leading to huge accumulation of interest and penalties. This has helped check the previously ever-increasing interest which are charged on compounded rate.

It is evident that the marginal increment of the outstanding debt has significantly reduced as compared with previous years. We also intend to engage the funds for a reconciliation exercise and also negotiate on writing off the interests.

- **Annual Procurement Plan and Budget**

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

Collection of Accounts Receivables

These are amounts owed to the County Government as at 30th June 2022 which have continued to accumulate with time as per the table below.

NO.	REVENUE STREAM/FY	30/06/2022	30/06/2021	30/06/2020	30/06/2019	30/06/2018
		KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
	SUNDRY DEBTORS	860,063,437	592,165,564	644,497,003	415,077,733	382,137,689
2	RENTAL HOUSES-EOTE	360,094,713	91,588,684	198,947,354	132,439,814	94,963,031
	RENTAL HOUSES-EASTLANDS	420,717,575	254,128,096	205,419,929	140,902,441	92,809,848
	RENTAL MARKET STALLS/TPS	154,763,412	94,782,336	114,593,792	82,256,347	68,901,023
	LAND RATES	1,479,708,989,415	1,157,787,656,964	825,474,177,521	587,401,038,906	419,961,575,555
6	LOADING ZONES-PRIVATE	16,740,000	0	23,760,000	16,460,000	30,620,000
	LOADING ZONES-GOK	813,920,000	449,960,000	787,124,800	677,600,800	577,100,800
	OA & BILL BOARDS	341,765,306	333,667,701	268,054,967	281,206,502	209,022,876
9	SINGLE BUSINESS PERMITS	549,401,500	806,519,500	904,617,500	467,013,500	815,870,689
	WAYLEAVES	89,869,277	226,893,711	115,048,003	946,143,955	860,130,868
11	KPLC	856,345,290	856,345,290	856,345,290	820,000,000	1,132,465,298
	TOTAL	1,484,172,669,924	1,161,493,708,846	829,592,586,159	591,405,046,998	424,225,597,677
	LAND RATES PENALTIES (INTEREST)	1,460,065,271,190 19,643,718,225	1,134,498,436,102 26,995,272,744			

If the county is able to collect the above account receivables it will be easy to pay all the debts. A large percentage of these accounts receivables include due from the national government, in terms of land rates, loading zones and wayleaves to Kenya Power.

The county is pursuing negotiations with national government to clear their dues which will go a long way towards the county clearing its debts.

The County is in the process of collecting the same by the use of the following strategies:

- Debt swaps say wayleave with electricity bills.
- Negotiation with National government to clear their dues
- Robust debt collection unit to follow up on defaulters.
- Issue of waiver on land rates to encourage compliance.
- Issuance of demand notices followed with enforcement upon expiry of the notices.
- Implementation of the Nairobi City County Revenue Administration Act 2021.

2.2 LOANS TO THE COUNTY GOVERNMENT

The defunct Nairobi City Council had a credit facility with Equity Bank of Kshs 5B in the year 2011. Following successful negotiation, the outstanding loan balance of Kshs 3.3B was transferred to KCB bank. However, as at 30th June 2022 the loan balance was Kshs 4.5B, due to none payment of the principal, interest and penalties.

The County is at risk of losing its creditworthiness (reduced credit rating) hence affecting any future access to credit.

This paper recommends the county to set aside adequate funds in our annual budget to service the loan.

2.3 PRINCIPAL RISKS ASSOCIATED WITH LOANS/DEBTS

DEBT CATEGORY	NATURE OF RISK	LEVEL OF RISK	MITIGATION/STRATEGY
KCB Bank loan Kshs 4.5B	Changes in interest rates Loss of credit worthiness	High	-Negotiation to restructure repayment by installment of Kshs 55m per month for 8 years. -Reactivation of a call account.
Statutory deductions of Kshs 46.6B	-Litigation -Freezing of Bank Accounts -Withheld pensions	High	-Negotiate for installment payments and stoppage of accrued interest. -Ensure current deductions are paid in full. -Form a reconciliation team.
Outstanding Legal fees Kshs 21.2B	-Litigation	High	-Formation of a reconciliation team. -Negotiate and spread the payments -Explore alternative dispute resolution i.e. mediation, arbitration
Employee terminal Benefits Kshs 222.4M	-Low staff morale -Depressed retirees	Medium	Payoff
Merchants Debts Kshs 4.5B	-Compromised service delivery -Litigation	High	Have a payment plan. Actualize cash flow management based on AIE.
Utilities Debt of Kshs 528.6M	-Disruption of services	Medium	-Negotiate debt swap with Kenya Power. Set an office to handle KPLC issues. -Seek exemption for water bills for County facilities
Book debts Kshs 21.8B	-Highly leveraged organization	High	-Write off with the authority of County Assembly.

2.4 THE ASSUMPTIONS UNDERLYING THE DEBT MANAGEMENT STRATEGY

In the preparation of this Debt Management Strategy Paper the following assumptions were made;

- There will be constant growth of own source revenues upon full implementation of the revenue raising measures.
- The procurement will be tagged to actual cash flow.
- Base lending Rate will not increase.
- Top management will spearhead the negotiations with our creditors.
- The County will maintain a realistic balanced budget.
- The County to continue strengthening the Internal Control Systems.
- The macro economic factors will remain stable.

2.5 EMERGING ISSUES

The current harsh economic condition has generally affected our revenue collection with some businesses closing and daily collection charges being affected by low business. We hope this trend to change favorably, and hence improve on our economy and businesses/traders revert to paying levies.

CHAPTER 3

3 STRATEGIC MEASURES FOR DEBT MANAGEMENT

The following Debt Management Strategies have been proposed.

3.0 Increase in Revenue Collection

- Implementation of Nairobi City County Administration act for efficient revenue management
- Full roll out of the GIS based on Valuation roll capturing all properties and locations and rates charged based on the current land value. The current land rates are charged based on 1980 Valuation roll. The new valuation roll will also cleanse the rates data base. This will increase rates from the current annual Kshs 2.8B to about 6B.
- Accurate data on single business permit increasing the number of registered businesses from current 188,000 to appx. 500,000 increasing revenue collection from 2b to appx. 5b.
- Operationalization of Finance Bill 2023.
- Mapping of the revenue streams to establish and increase actual potential.
- More publicity of the new revenue management system the Nairobi pay to bring all clients aboard, and integrate with all other collection platforms for efficient and effective revenue collection and monitoring.
- Adoption of enhanced revenue forecasting methodologies which will result in realistic budgeting. This will ensure that the County does not commit funds well beyond its ability to honor them.
- Aggressive follow up on account receivables.

3.1 Expenditure Capping

The County should institute measures to control expenditure based on the actual revenue collected.

Procurement plan to be tied to cash inflows and not the budget.

Manage the debts by tracing and ensuring payment within the stipulated time.

Top management to constitute a committee with representatives from all sectors to oversee expenditure capping based on actual revenue collected.

3.2 Debt/Swap

Swapping of debt between the County and NSSF is being implemented. The rates due from NSSF properties are cancelled against the County debt due to NSSF.

The County is in negotiation with KPLC to swap its debts against wayleaves owed to the County.

3.3 Debt Restructuring

The main objective of debt restructuring is to spread repayment of the loan over a number of years and negotiate on capitalization on interest so that it is not compounded. The debt strategy paper proposes the county to negotiate to restructure repayment of KCB loan by monthly installment over a period of time.

3.4 Pending Bills Repayment Plan

The county should prepare a pending bills repayment plan to continuously pay pending bills. This Should include criteria and amounts to pay in relation to projected cash flows.

This will avoid further accumulation of debts

3.6 Writing off debts: Contingent Liabilities (old book debts).

It is worth noting that The County inherited a large debt portfolio from the defunct City Council of Nairobi, part of these 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 projects guaranteed by the National Treasury. These loans have remained in our books for years. The debt strategy paper proposes that the county seek mechanisms to write off these loans.

3.7 Outstanding Pension Debt

The amount is huge and holds back efforts to roll out Voluntary Early Retirement Program which has the potential of drastically reducing the wage bill. The debt strategy paper proposes a committee to be formed to carry out a reconciliation of the outstanding debt with our repayments records.

The county should also negotiate waiver of the interest and penalties which form a bigger percentage of the pension debt.

CHAPTER 4.

4.1 SUMMARY/CONCLUSION

The Medium-term Debt Management Strategy for year 2023 outlines the County Government's strategic priorities for the management of the debt over the medium-term.

It provides an assessment of the relative costs and risks for the debt portfolio. MTDM considers alternative financing strategies to meet the broad objectives of rising adequate funding at the lowest possible costs at prudent levels of risk.

The paper focuses on clearing outstanding debt in the shortest possible time to avoid various risks such as litigation, high interest, penalties, loss of credit worthiness, depressed retirees, low staff morale, compromised service delivery and disruption of services among others.

Through the proposed debt management strategies such as, debt restructuring, revenue mobilization, debt swaps and collection of debts owed to the county by other entities, the County is focused on reducing debt to sustainable levels and eventually clearing all outstanding debts.

The County management should fast track formation of a committee that will ensure total expenditure including debt servicing costs do not exceed revenue collected, by tying all procurement to cash in flows.

This will help in avoiding creation of more pending bills. There is need for constant monitoring and review of performance on progress made on medium term debt strategy.

REFERENCES

- Public finance management act 2012
- PFM (County Regulations) 2015
- Constitution of Kenya 2010
- County Fiscal Strategy paper
- Annual Financial Statements 2022
- OAG special report on pending bills
- Transition to devolved government act 2012

