COUNTY GOVERNMENT OF NAKURU

COUNTY TREASURY

MEDIUM TERM DEBT MANAGEMENT

STRATEGY PAPER

February 2018

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Foreword

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. This is the fourth debt strategy paper to be prepared after devolution took effect, and the first under the current county administration succeeding the 2017 general election.

The MTDMS 2018 details the Nakuru county‘s debt both from the defunct local authorities (pre-devolution) and those encountered in the first county government. Debts associated with the defunct local authorities are estimated at 1.021B while those arising from the first county government (2013-2017) are estimated at 3.069B. Although the debt level is still manageable, there is an upward growth in debt levels, a situation that needs addressing.

The MTDMS aims 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, so as 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 will further cushion the county from a situation of debt overhang.

Considering the current level of debt both inherited and pending bills arising from county departments, the MTDMS 2018 will reinforce measures geared towards reduction of county debt as proposed in 2017 MTDMS and has also formulated additional strategies to deal will future debt. Further, the county awaits the recommendations of the ITGRC to enable address pre-devolution obligations.

In addition, the county government will continue to build capacity of debt management unit in term of staffing and training to ensure that it is in position to handle all matters relating to borrowing and servicing of debt. The county treasury will continue to maintain effective linkages with the National Treasury for effective debt administration and provision of technical advice.

Joseph Kiuna
County Executive 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 covers a period of three years 2018/2019 to 2020/2021. The MTDMS sets out the debt management strategy of County Government over the medium term with respect to actual and potential liabilities.

The current Debt situation in Nakuru County is specifically debt inherited from the defunct Local Authorities as well as the pending bills incurred by the County Government both estimated at Ksh. 4.1 billion. However a conclusive report by the County Assets and Liabilities Committee will provide a clear view on the debt inherited by the County.

Let me take this opportunity to acknowledge the C.E.C Finance and Economic Planning for his overall leadership, the Ag. Director Economic Planning for overseeing the preparation of MTDS and the debt management committee members for their contribution and the secretariat for compilation, editing and finalization of the document on time.

Joseph Nyamora,
Chief Officer-Finance and Economic Planning.

Abbreviations and Acronyms

PFM	Public Finance Management
MTDS	Medium Term Debt Management Strategy Paper
CBROP	County Budget Review Outlook Paper
CRA	Commission of Revenue Allocation
CFSP	County Fiscal Strategy Paper
TA	Transition Authority
NSSF	National Social Security Fund
LAP	Local Authority Pension
KBRR	Kenya Bank Reference Rate
CBR	Central Bank Rate
KSH	Kenya Shilling

Legal basis for publication of medium term debt management strategy

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

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

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

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

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

(c) The principal risks associated with those loans;

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

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

(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.

1.0 INTRODUCTION

The PFM Act 2012 under Section 104 cites the mandate of the County Treasury as that of monitoring, evaluating and overseeing the management of public finances and economic affairs of the County Government, including managing the county government's public debt and other obligations and developing a framework of debt control for the county.

To this effect the County Treasury is required under Section 123 to prepare and 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, on or before the 28th February in each year.

The information in the statement shall include -

(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.

Further, the Act includes other sections that guides on the management of the county debt, as follows:

- Section 140 on authority for borrowing by county governments, requires that borrowing by county governments is undertaken in accordance with the debt management strategy of the county government over the medium term;
- Section 141 on obligations and restrictions to county borrowing, requires that a county government shall ensure that it's 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;
- Section 142 which deals with borrowing by county government entities;
- Section 143 that deals with persons who are authorized to execute loan documents at county government level;
- Section 144 which deals with issuance of county government securities

As such maintaining a sustainable level of debt as approved by the county assembly is highlighted as one of the fiscal responsibility principles, under Section 107 of the Act. Other documents that guide the preparation of debt management strategy are; county fiscal strategy paper (CFSP), county budget review and outlook paper (CBROP), sector reports and the annual financial statement.

The PFM (County Regulations) 2015 which gave effect to the provisions of the Public Finance Management Act, 2012 stipulates that debt service payments shall be a first charge on the County Revenue Fund. Under Section 41 on budget execution, the county governments are required to ensure that they don't default obligations to the extent possible.

Part XIV of PFM County Regulations is detailed on provisions of the county public debt management as follows;

- Section 176 highlights the guiding principles for county government borrowing
- Section 177 highlights the borrowing powers of the county government
- Section 178 details the purposes for borrowing
- Section 179 gives the county total public debt threshold, pursuant to section 50(5) of the Act. According to part one (1) of section 179, a county public debt shall not exceed twenty percent (20%) of the county government's most recent audited revenues, as approved by county assembly. Part two(2) under this section, further states that the annual debt service cost of a county government shall not exceed fifteen (15%) percent of the most recent audited revenue of that county government, as approved by county assembly.
- Section 180 guides on setting of debt limit in the County Medium Term Debt Management Strategy, pursuant to Section 141 of the Act
- Section 187 highlights the requirement and process for preparation of the county medium term debt management strategy

1.1 Background on Nakuru County Debt

The genesis of the Nakuru County debt is two-fold. First, there are those debts that existed at the onset of devolution, belonging to the 4 defunct local authorities. The constitution of Kenya 2010 gave the Transition Authority (TA) a lifetime of three years for which they were required to have completed the process of devolving all functions to county government including the verification of asset and liabilities as stipulated in section 7 (e) of Transition to Devolved Government Act 2012. However by the end of it tenure the TA was not able to finalize the process of liability verification and handing over to the county government.

To bridge the gap created by delay of TA in creating an inventory of asset and liability as inherited from the defunct local authorities, the County Treasury formed a Debt Management Committee to verify all liabilities inherited from the defunct local authorities. The main goal of the committee was to establish the debt position of Nakuru County Government as inherited from the four defunct Local Authorities, namely; County Council of Nakuru, Municipal Council of Nakuru, Municipal Council of Naivasha and Town Council of Molo.

The committee performed the function of debt verification until the creation of debt management department. Debt amounting to KShs1.02 billion were identified by the debt management committee by the time it operations were taken over by the debt management office.

Notably, the role of verification of county assets and liabilities was taken over from the T.A by the IGTRC, who formed the County Assets and Liabilities Committees (CALC). These committees have already forwarded their findings to the IGTRC, and the body is in the process of reports validation, which will form a basis for implementation of their recommendations by counties.

Second, the County Government of Nakuru during its first tenure (2013-2017) has also encountered debts either in form of pending bills or contingent liability. This debts amounts to Ksh 3,068,988,781 as informed by the report by the Internal Audit Office

1.2 Objective of debt management

- The principal objective of debt management is to ensure that the financing needs and payment obligations of county government are met at the lowest possible cost in the market and is consistent with a prudent degree of risk.
- The second objective is ensuring that the overall level of public debt is sustainable.
- The third objective is ensuring that both the burden of and benefit from public borrowing is shared equitably between the current and future generation as stipulated under article 201 of the constitution.

1.3 Scope of Medium Term Debt Management Strategy

- The Medium-Term Debt Management Strategy (MTDS) covers actual and potential liability i.e. It covers all loans and other debt that require payment of principal with or without interest by the county government to the creditor at a date or dates in future.
- Potential liability includes all those debt that have been brought to the attention of county treasury through the issue of debt notes or other written demands but the verification of the said debt have not been completed to ascertain whether it is payable and the actual amount to be paid. I.e. it excludes any debt that may exist but has not been officially

forwarded to the county treasury.

- The MTDMS is prepared annually on a three year rolling basis and reviewed annually, and therefore the 2017 debt management strategy covers financial year 2018/19-2020

2.0 REVIEW OF NAKURU COUNTY PUBLIC DEBTS

2.1 Stock of debt

The total stock of debt as at 31st December, 2017 stood at Ksh 4.1 billion. This comprises of both inherited debt of approximately Ksh 1.0 billion and pending bills arising from all ministries on a commitment basis amounting to Ksh 3.1 billion.

2.2 Source of loans/debts made to the County Government

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

1. Pending bills from ministry
2. Inherited debt from defunct local authorities

2.2.1 Pending bills from Departments

The outstanding debt on a commitment basis as at 31st December, 2017 amounted to Ksh 3.1 billion, however majority of this debt were captured in FY 2017/18 budget.

Other major cause of pending bills may be explained by the cash flow constraints in the transfers from the national treasury thereby creating a challenge in facilitating payment of existing commitments. The outstanding pending bill on a commitment basis as at 31zt December, 2017 is illustrated in the following table.

SUMMARY OF THE OUTSTANDING PENDING BILLS AS AT 31ST DECEMBER 2017					
VOTE NO	**VOTE TITLE**	**RECURRENT**	**DEVELOPMENT**	**TOTAL**	**% OF TOTAL DEBT**
1	Office of the Governor and Deputy Governor	40,022,066	0	40,022,066	1.3%
2	County Treasury	30,088,091	31,442,042	61,530,133	2.0%
3	County Public Service Board	4,786,932	3,497,152	8,284,084	0.3%
4	Public Service Management	90,922,444	16,814,162	107,736,606	3.5%
5	County Health Services	180,614,473	205,242,195	385,856,669	12.6%
6	Trade, Industrialization and Tourism	33,804,375	107,548,067	141,352,442	4.6%
7	Roads, Public Works and Transport	55,488,974	1,155,655,721	1,211,144,695	39.5%
8	ICT and E-government	1,973,401	10,630,912	12,604,314	0.4%
9	Agriculture, Livestock and Fisheries	21,967,178	43,301,358	65,268,536	2.1%
10	Lands ,Physical Planning and Housing	2,671,607	298,952,299	301,623,906	9.8%
11	Education, Sports, Youth and Social Services	36,201,399	387,740,708	423,942,107	13.8%
12	Environment, Water and Natural Resources	11,999,172	297,624,053	309,623,225	10.1%
13	County Assembly	-	-	0	
	TOTAL	**510,540,112**	**2,558,448,669**	**3,068,988,781**	**100%**
	PERCENT OF TOTAL DEBT	17%	83%		

Source: Departmental Summaries as at 31st December 2017

Development pending bills accounted for 83% of the total departmental debts while recurrent pending bills accounted for 17%. Under recurrent pending bills, significant proportion of the bills were under public service management and the department of Health. The huge recurrent pending bill in this ministry is attributed to legal fees owed to advocates for representing the county as well as pending bills related to supply of drugs and non-pharmaceuticals.

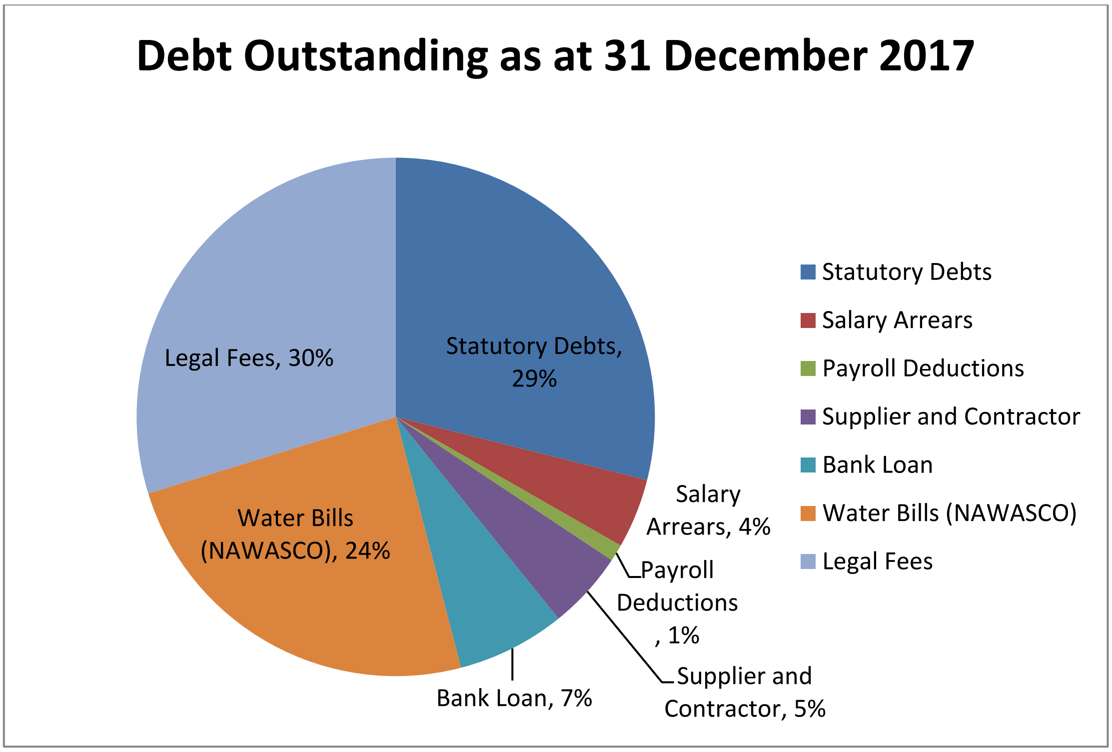
All the other ministries has shown great improvement in the management of recurrent expenditure as recommended in MTDMS 2017 that proposed settlement of recurrent expenditure as a first charge in the budget.

2.2.2 Inherited debt from defunct local authorities

The outstanding debt as at 31st December, 2017 as inherited from the four defunct local authorities amounted to Ksh1.0 billion as illustrated in table 2 below.

Description	Debt Outstanding as at 31 December 2016
Statutory Debts	295,415,852
Salary Arrears	44,355,311
Payroll Deductions	10,823,164
Supplier and Contractor	49,686,678
Bank Loan	68,986,375.84
Water Bills (NAWASCO)	248,000,000
Legal Fees	304,057,453
SUB TOTAL	**1,021,324,834**

The composition of this debt is illustrated in the following diagram;



Legal fee constitute the highest proportion of inherited debt with 30% followed by statutory debt with 29%. The water bills comes in third with 24% followed by bank loan with7% suppliers of goods and service, salary arrears and payroll deductions with 5%, 4% and 1% respectively.

a. **Legal fees**

The county government inherited huge legal debt from defunct local authorities as summarized below.

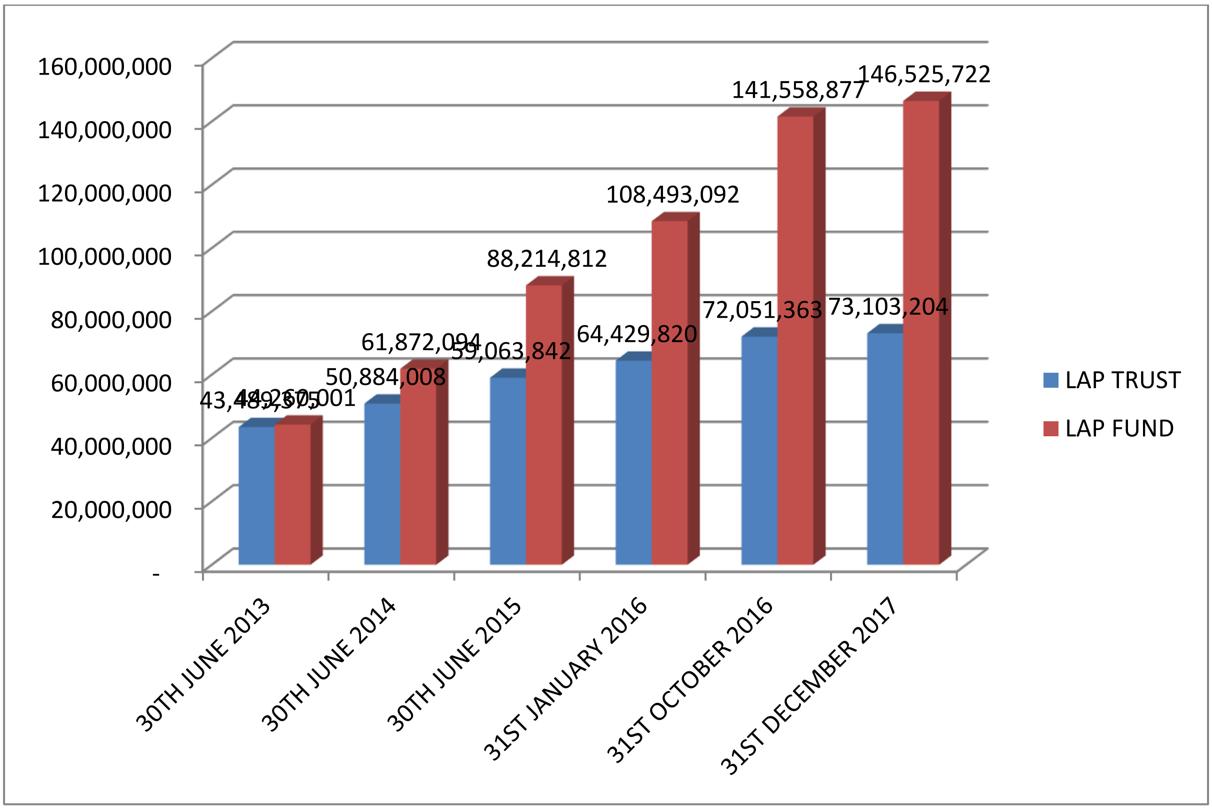
Outstanding legal Debt from Defunct Local Authorities As At 31st October 2016	
Defunct Local Authority	**Outstanding Balance**
County council of Nakuru	63,369,179.00
Municipal Council of Nakuru	131,590,403.17
Municipal Council of Naivasha	102,837,181.00
Town Council of Molo	6,260,690.00
TOTAL	**304,057,453.17**

Source: Legal Department

Under the defunct municipal council of Naivasha Ksh 66 million of outstanding legal fee relate to court judgment in favour of dismissed staffs that were later reinstated by court. In addition 40 staff dismissed in Molo town council following a strike in year 2004 were later reinstated by court without loss of salary or benefit giving rise to salary arrears. The total salary arrears arising out of court judgment from all defunct councils is Ksh 97,826,570.00. Other court judgments in favour of other parties is Ksh 8.7million. It is worth noting that most of this cases are still continuing and therefore legal fee may increase once the cases are concluded.

a. Statutory Debts

This consists of pension contribution owed to both County pension fund (LAPTRUST) and local authority pension fund (LAPFUND). The amount outstanding as at 30th June, 2013 has since grown due to interest penalty charges on principal amount and accrued interest. Debt owed to Laptrust attracts an interest penalty at a compounded interest rate of 1.25% per month while debt owed to Lapfund attracts a penalty of 3% compounded monthly. The growth in pension debt since 30th June, 2013 to 31st October, 2016 is illustrated below.



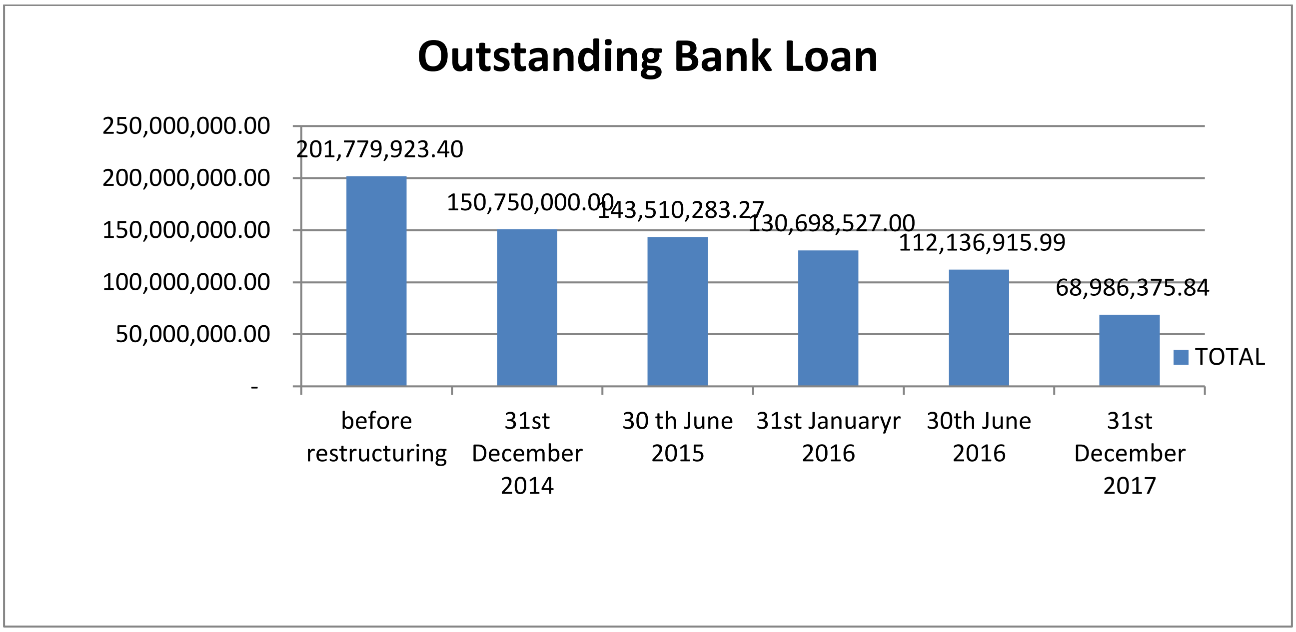
As illustrated in the graph above the debt outstanding as at 30th June , 2013 was approximately the same for both Lapfund and Laptrust but due to interest rate disparities as the years progressed the gap between the debt owed to LAPTRUST and LAPFUND keeps on increasing. Due to interest rate penalties the amount outstanding as at 30th June 2013 increased from 43.4

million to 64.4 million and 44.2 million to 108.5 million as at 31st January, 2016 for LAPTRUST and LAPFUND respectively.

The projected debt as at 31st December, 2017 was Ksh 73 million and 146 million for LAPTRUST and LAPFUND respectively. In addition to the principal contribution and the accumulated penalties, all the defunct local authorities had outstanding actuarial deficit arrears amounting to Ksh122 million.

b. Bank Loan

Defunct municipal council of Nakuru had a credit facility with family bank consisting of both overdraft and long-term loan. This loan had increased to 201.7 million before restructuring, however following a successful negotiation with the bank the various credit facility were restructured in to a long-term loan payable in sixty month starting in December, 2014. The settlement of the loan has led to reduction of outstanding loan balance from 150 million disbursed (restructured) to Ksh 68 million as at 31st December, 2017 as illustrated in the chart below.



c. Salary arrears and payroll deductions

Salary arrears amounting to Ksh 44 million comprises of amount awarded by court to reinstated member of staff from defunct town council of Molo when the industrial court ruled in favour of dismissed staff under cause No. 58 of 2007 and interpretation application NO. 1-58.

Outstanding arrears for the 40 staff dismissed and later reinstated by court is Ksh26 million. It also includes salary arrears owed to staff of defunct municipal council of Nakuru following staff rationalization exercise that led to promotion and staff upgrading, and staff from defunct town council of Molo for leave allowance, arrears from implementation of 2010 CBA and salary conversion anomalies.

Payroll deductions relates to amount deducted from employees monthly pay to be submitted to third party but was not remitted by the time the defunct local authorities ceased to exist. Defunct municipal council of Nakuru did not remit a total of Ksh 10.8 million to various third parties by 30th June 2013.

d. Suppliers and contractors

This relates to debt owed to various suppliers and contractors for goods and services supplied but not paid. Most of the project affected were procured in financial year 2012/13 and by the time the project were completed most of the defunct local authorities had already ceased to exist and other could not pay due to liquidity constraints.

2.3 Principal risk associated with Loans/Debt

The risk associated with various categories of debt is illustrated in the following table

Debt Category	Nature Of Risk	Level Of Risk	Step Taken To Mitigate Against The Risk Identified
Bank loan Ksh 68,986,375.84	1. Changes in interest rate. 2. Auction of secured asset in case of default	Low	The county government has already negotiated and agreed with bank to restructure the loan and make equal monthly instalment of Ksh 3,527,258.03 per month for a period of 60month.
Statutory fund Ksh 295,415,852	1. penalties 2. staff unrest	Low	-Clearing all debt in full for staff proceeding on employment - Deliberation with both Lap fund and LAPTRUST to spread payment of the remaining debt over a period of five years.
Legal fee 304,057,453	Instituting legal proceedings	High	Spreading payment based on fiscal space and liquidity.
Suppliers, and contractors Ksh 49,686,678 68,728,480 Payroll Deductions and Salary arrears of Ksh. 44 million	-Instituting legal proceedings to claim their debt -staff unrest	High	Payment of outstanding debts debt in financial year 2017/18.

In case of bank loan the risk is low since an agreement with the bank to restructure the loan has already been agreed by both parties and the county will only be required to pay monthly instalment. The interest rate charged on family bank loan is pegged on base lending rate set by central bank i.e. The loan attract an interest rate of 14.25% (KBRR Rate of 9.13 plus 5.12 margin). Therefore any changes in central bank rate (CBR) which is a component of KBRR will affect the interest rate on loan. The capping of interest rate at 4% above the CBR rate will further cushion the county government against arbitrary increase in interest rate.

The stability of the Kenya shilling against other major currencies and maintenance of inflation rate within the target rate translate to stable interest rate over the medium term.

The risk associated with pension fund is low since only two firms are involved i.e. Lap-fund and Lap-trust and it is possible to reach an agreement with the two firms on a convenient debt settlement plan

In case of legal fee and debt owed to suppliers and contractors the risk involved is high since many parties are involved and reaching an agreement with all parties is challenging, however effort will be made to negotiate with creditors who are owed substantial amount while at the same time settling small debt to minimize the risk.

2.4 Assumptions underlying the Debt Management Strategy

The county government will continue to pursue the fiscal responsibility principles and policies outlined in county fiscal strategy paper 2018. This will help the county government to reorient expenditure to priority Programmes in infrastructure, health, education and agriculture and avoid accumulation of pending bills in ministries.

Over the medium term the county government will continue to maintain a balanced budget where total revenue equal total expenditure i.e. the preparation of MTDS does not envisage borrowing to finance the budget and over the medium term the focus will be on ensuring the sustainability of current debt through debt servicing.

Annual revenue growth is expected to be maintained as projected in county fiscal strategy paper 2018. This will ensure that sufficient resources are allocated toward debt servicing, otherwise a negative change in any of the variable will affect the ability of the county government in making payment to its creditor and ultimately causing an increase in debt levels.

The KBRR rate is not expected to surpass 10% otherwise any increase beyond this may subject the county to higher interest payment and consequently raise the cost of servicing the loan. A summary of this assumption is illustrated in the following table

BASE LINE MACRO-ECONOMIC ASSUMPTION				
	2017/18	**2018/19**	**2019/20**	**2020/21**
Bal BF	**2,120,792,460**			
LOCAL REVENUE	3,111,050,000	2,611,050,000	2,872,155,000	3,159,370,500
Equitable share Donor Funding Conditional Grants	9,271,400,000	9,451,400,000	10,396,540,000	11,436,194,000
Other Conditional Grants	889,268,467	889,268,467	889,268,467	889,268,467
TOTAL REVENUE	**15,392,510,927**	**12,951,718,467**	**14,157,963,467**	**15,484,832,967**
GROWTH RATE		-16%	9%	9%
Interest Rate on Loan	14.25	14.25	14.25	14.25

2.5 Sustainability of debt

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

The County Government recognizes the need to manage debt prudently to avoid unwarranted debt burden. Within the County Treasury the Debt Management office is mandated to ensure that the county debts are managed prudently and debt level is sustainable. The County Treasury acknowledges the need to maintain debt at sustainable levels and is closely monitoring spending by ministries and working with all government entities to cut on pending bills.

The national government measures sustainability based on various parameters, borrowing from those parameters the debt sustainability will be measured based on two parameters.

a) Debt to Revenue Ratio
b) Debt Service to Revenue Ratio

INDICATOR	2017/18	2018/19	2019/20	2020/21
Debt to Revenue Ratio	26.57%	31.58%	29%	26%
Debt service to Revenue Ratio	2.60%	3.09%	2.83%	2.58%

Over the medium term the Debt to Revenue ratio is expected to be maintained below 20% while Debt Service to Revenue Ratio is expected to be 3% on average as envisaged in the PFM (County Government) Regulations 2015.

However in year 2015/16 the Kenyan government had a Debt to Revenue Ratio of 187.6 percent and debt service to revenue ratio of 24.7 which according to World Bank threshold is sustainable. Therefore benchmarking with the national government and sustainability threshold set by the World Bank the county debt can be considered as sustainable.

Following the adoption of public finance regulation by the national assembly a bill that set the annual limit of debt will be formulated and presented to the county assembly for adoption. This will guide future borrowing and ensuring that at any given time the debt held by the county government is sustainable.

3.0 STRATEGIES OF DEALING WITH DEBT

3.1 Debt Servicing

The county treasury will set aside Ksh 350 million in the 2018/19 budget for settling outstanding debt. However, the actual ceiling will be firmed up in the County Fiscal Strategy Paper 2018.

Payment of inherited debt will be prioritized as follows

a) Bank loan
b) Statutory deductions and pension contribution
c) Salary arrears, suppliers and Legal fees.

3.2 Debt Restructuring

The main objective of debt restructuring is to spread repayment of debt over a number of years. Given that the current debt level is over 3.0 billion and only Ksh 350 million has been set aside for debt repayment then the county treasury cannot accommodate all payment in one year hence the need to spread debt payment over many years. The major area of restructuring will be on substantial debt held by the county but for small debt, prioritization will be undertaken based on the fiscal space and liquidity. Following the successful restructuring of bank loan the county treasury will undertake to restructure the outstanding pension contribution in order to spread the debt burden.

3.3 Prioritization of Programmes

As proposed in 2017 MTDMS, recurrent pending bills arising from all ministries will have to be cleared as a first charge in the succeeding year's budget from the corresponding votes of that ministry. This will not only prevent accumulation of pending bills over the years but also instil disciplined spending by all ministries.

County departments that have accumulated huge recurrent bills will face liquidity challenges in the initial phase and implementation of some of the Sector's Programmes may be compromised but is a necessary measure in ensuring that the county does not accumulate debt in the succeeding years. In addition the adoption of this strategy will require all ministries to prioritize Programmes taking cognizance of resource constraints.

Development pending bills which arise when project are rolled over from one financial year to the other will be paid from amount set aside for debt resolution if and when that project is not provided for in the succeeding years budget. However payment will be permitted for projects with commitment before closure of financial year otherwise uncommitted project should be allowed to lapse or necessary provision be made in the budget without necessarily increasing the debt level.

4.0 IMPLEMENTING THE 2018 MTDMS

The County Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce the risk of macro-economic instability. Thus upon approval of budget, a program will be developed for debt repayment based on priorities and cash flow forecast and forwarded to the county treasury for implementation.
After verification of the pending bills, a report detailing on the approved pending bills will be availed for payment or otherwise as it deem fit. This will ensures that all pending bills approved are settled as a first charge in the budget.

A bill that propose annual borrowing limit will be drafted and presented to county assembly for adoption. This will not only guide the sustainability of debt but will also lay the ground for future borrowing to finance the budget if need be.

Negotiation with various parties owed substantial amount will be fast tracked to ensure that those negotiations are concluded by the end of June 2018 so that implementation of the agreement can start at the beginning of year 2018/19. Timely conclusion of this agreement will facilitate their inclusion in 2018 debt repayment program.

The County Treasury will continue to strengthen the debt management office in term of staffing, training and provision of working tools and equipment to ensure that the office is in position to give comprehensive, accurate and timely information on debt.

The county treasury will continue to maintain effective linkages with the national treasury to facilitate future borrowing when the need arise to bridge the budget deficit through borrowing or for management of cash flow as stipulated by PFM Act and capacity building on debt management.

5.0 CONCLUSION

The 2018 medium term debt management strategy is a forward-looking framework that describes the sustainability of the county debt in the medium term. Given the current debt level estimate of Ksh 4.1 billion, it is important that the county government continue to implement prudent debt management practice and policies to avoid unnecessary accumulation of debt. The high debt level calls for sufficient allocation of fund in the 2018/19 budget and over the medium term in order to improve the debt position of Nakuru County and avoid unnecessary cost such as interest and penalties.

Due to many competing needs that the county government has, the FY 2018/19 budget may not accommodate payment of all debt in that year. However the allocations in the budget of Kshs 2.2 billion will go a long way in clearing some of the pending bills. Since the county government may not be able to settle all the debt in year 2018/19, some debts will have to be schedule for payment in the following years.

The county fiscal strategy paper 2017 did not envisage any borrowing to finance the budget therefore the medium term debt management strategy paper has emphasized more on management of existing debt and formulating additional measures to avoid future accumulation of debts. The successful implementation of 2018 MTDMS will not only improve the sustainability of debt but will also lay ground for future borrowing. Going forward all ministries are expected to be more conscious while spending and ensure that programmes implementation is in line with the budget and availability of fund.

The government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce risk of macro-economic activities. The debt management strategy development needs a robust legal framework, the government has enacted legislation governing both external and internal borrowing under Public Finance Management Act 2012 with the provisions that are in line with the requirements of the Constitution of Kenya 2010 and best international practice.

Comprehensive, accurate and timely information on the public debt is critical in managing investors' sovereign risk and the cost of debt. The debt information will be published more regularly to enhance transparency and accountability in debt management in accordance with the best international practice.

ANNEX

APPENDIX 1: DEBT STRATEGY MATRIX

STRATEGY	COURSE OF ACTION		TOTAL COST YEAR 2018/19
	Setting aside Ksh 350 million in the budget toward debt repayment This repayment is analysed as follows;		
	TYPE OF DEBT ANNUAL REPAYMENT		
1. Debt servicing	Bank loans	42,327,097.00	
	Statutory fund	65,000,000	
	Salary arrears and payroll deductions	55,178,475	
	SUPPLIERS and contractors	187,494,428	
	Total cost	**350,000,000.00**	
2. debt restructuring	a. The county government has already negotiated and agreed with bank to restructure the loan and make equal monthly instalment of Ksh 3,527,258.03 per month for a period of 60 month.		42,327,096
	b. The county treasury will clear outstanding pension contribution amounting to 80 million in 2018/19 being principal contribution and interest penalties.		65,000,000
	c. Salary arrears and payroll deductions		55,178,475
	d. Inherited debt relating to suppliers, contractors and legal fees		60,000,000
3.Prioritization of programmes	- Recurrent Pending bills arising from all ministries will have to be cleared as a first charge in the succeeding year budget. This will also require all ministries to prioritize programmes taking cognizance of resource constraints.		510,540,112
	Development pending bills will be paid from amount set aside in the budget for debt settlement (Ksh 187494428) and balance carried forward from FY 2016/2017 to settle the balance (Ksh 2.3 billion) upon verification.		2,558,448,669
			3,291,494,352

REFERENCES

- Public finance management act 2012
- PFM(County Regulations) 2015
- Constitution of Kenya 2010
- County fiscal strategy paper 2017 and 2018
- Annual Financial statement 2017
- Sector reports 2016
- Ministry pending bills report December 2017
- Debt management committee reports
- transition to devolved government act 2012