County Government of Samburu

The County Treasury

Medium Term Debt Management Strategy

February 2018

Enquiries covering the publication should be addressed to:

Chief Officer -Finance
County Treasury
P.O. Box3-20600 Maralal, Kenya
Tel: (065) 624569
Fax: (065) 62075
Email: info@samburu.go.ke

This publication is available at the County Website at: www.samburu.go.ke

Table of Contents **Page**

FOREWORD

The Debt Management Strategy provides a framework that will guide County government to ensure that debt levels stay affordable and sustainable. The County Government of Samburu has no plans of incurring debt in the financial year 2018/2019 since the budget proposals contained in the fiscal strategy paper 2018 are balanced with the resources available hence there will be no anticipated need for deficit financing. However, as county government matures and its strategic needs grow, there is need for the preparation of a Debt management strategy as part of the documents supporting budget to enable it meet its financial needs from the financial and money markets. The current debt portfolio comprises of pending bills and unpaid statutory deductions amounting to **ksh 743,436,856.**

The purpose of the 2018 MTDS is to guide County Government borrowing in the future financial years while providing a path for sustainable level of debt over the medium term. It evaluates both costs, risks of various scenarios, and recommends an optimal debt management strategy for implementation in the future.

As we implement the constitution of Kenya, 2010, it is important that both the burden of and benefit from public borrowing is equitably shared between the present and future generations. Indeed, it is one of the key principles of public finance under Article 201 of the Constitution of Kenya, 2010.It is therefore expected that going forward County Government's fiscal strategies will be geared towards maintaining a sustainable level of debt.

Jonathan K. Leisen
CECM – Finance, Economic Planning & ICT

ACKNOWLEDGEMENT

The county government is required to prepare a strategy for managing its debt. This fact is in compliance to the Public Finance Management Act (2012) section123 that requires them to submit a debt management strategy over the medium term to the County Assembly on or before 28 February in each year. The treatment of debt and its management is further emphasized by the public Finance management regulations of 2015 section 171 to 196.

The MTDS sets out the debt management strategy of County Government over the medium term with respect to actual and potential liabilities. As required by the PFM Act 2012, the MTDS will be formally submitted to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council which normally monitor the operations of the County to ensure sound borrowing principles are adopted .

Let me take this opportunity to acknowledge the C.E.C – Finance, Economic planning and ICT for his overall leadership, and the County Executive Members for their input and for dedicating their time to provide leadership in the entire Debt Management Strategy preparation process. The Budget and County Planning team also spent a significant amount of time to put together the report. In this regard, I am grateful for their technical input and commitment to the success of the process. Thank you all for the excellent support and work.

Daniel N. Lenolkirna
Chief Officer- Finance, Economic Planning & ICT

LEGAL BASIS

Legal Basis for the Publication of the Debt Management Strategy

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

1) On or before 28 February in each year, the County Treasury shall submit to the CA 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.

ABBREVIATIONS AND ACRONYMS

CA	County Assembly
CBK	Central Bank of Kenya
CEC	County Executive Member
FY	Financial Year
GOK	Government of Kenya
Ksh	Kenya Shilling
MTDS	Medium Term Debt Strategy
NT	National Treasury
PFM	Public Financial Management

EXECUTIVE SUMMARY

County Governments are required by law to prepare a strategy to manage their debt – this fact is recognized by the Public Finance Management Act (2012) section 123 and its regulations sections 176 to 195 that require submission of a Debt Management Strategy over the Medium Term to the County Assembly on or before 28th February each year.

The debt management strategy paper provides clear objectives for debt management as well as a framework for achieving these objectives. The main objective is to ensure that the servicing and management of County Government financing requirements and payment obligations are met on timely basis and at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

In practical terms, County Government must not go into arrears when it assumes borrowing, decisions will not be made on an ad hoc basis, debt levels must be sustainable and affordable, and borrowed funds must be used to increase the wellbeing of residents of the County.

The County has experienced debts arising from payment arrears (end-year pending bills), these are unpaid bills owed to suppliers of goods and services are deemed to be arrears –'pending bills', however, all pending bills are deemed to be arrears, as funds are not available to pay them off and so they have to be paid out of future budgets. As at the close of 2016/17 financial year, the County had Ksh. 743,436,856. There is need to ensure effective management of pending bills by aligning procurement plans to cash flow projections, adequate budgetary provision, strives to pay pending bills on a first come-first served basis and manage the record of pending bills. We need to ensure that all pending bills are confirmed with all the supporting documents such as invoices, contract numbers and project status.

1. OUTLINE OF THE 2018 MTDS

The Structure MTDS 2017 is as follows;

1. Section II outlines the basis on which the 2018 MTDS is prepared. It provides the intention of the Debt management strategy for the FY 2018/19.

Recent Developments

2. Section III provides an overview of the recent economic developments in both the domestic and external front.

Characteristics of Samburu County's Public Debt

3. Section IV describes the salient features of Samburu County outstanding public debt. It provides guidance on how to deal with the cost and risk considerations of the debt portfolio.

2018 MTDS: Key assumptions

4. Section V outlines the fiscal framework that aims at supporting rapid economic growth while at the same time ensuring that public debt is sustainable. It also highlights the future financing and pricing assumptions.

Debt Sustainability

5. Section VI provides the debt sustainability thresholds for Samburu County.

Implementing the 2018 MTDS

6. Section VII outlines the commitment of County Government in implementing the 2018 MTDS.

Conclusion

7. Section VIII conclusion of the document.

I. OBJECTIVE OF MTDS IN SAMBURU COUNTY

8. The main objective of Samburu Debt Management Strategy is to ensure that the County Government financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Specifically, the Strategy aims at:

a) Covering financing needs and payment obligations, while minimizing medium and long term costs;

b) Limiting risk in the public debt portfolio. The limitation of risks attached to the County Government Debt portfolio is an important objective set in this Strategy, aiming at providing an optimal and sustainable composition of the public debt;

9. In summary, the strategy seeks to balance cost and risk of public debt while taking into account county government financing needs. In addition, the strategy incorporates initiatives to leverage on the domestic debt market, seek new funding sources, support macroeconomic stability and achieve debt sustainability.

II. RECENT DEVELOPMENTS

Review of Samburu County public debts
Stock of Debt

10. The total stock of debt as at 30th June 2017 stood at ksh 743.4 million. This comprises of both inherited debt of ksh 34.8 million and county government debt of ksh 708.5 million.The debt is projected to be fully paid by 30th June 2018 taking into consideration interest charged on outstanding pension contribution. Inherited debts included as part of county debts are as follows;

Table 1: Outstanding Debt as at 30th June 2017.

Description	Ksh
Statutory debts	19,611,796
Suppliers and contractors	15,266,141
Pending bills	708,558,919
Totals	**743,436,856**

Source: County Treasury 2017

Pending bills per department and type

SAMBURU COUNTY YR 2016/17 PENDING BILLS			
Departments	**Development**	**Recurrent**	**Totals**
County Executive	-	58,859,011.00	58,859,011.00
Public Service Board	4,558,000.00	296,165.00	4,854,165.00
Finance & Economic planning	11,457,060.00	59,289,877.20	70,746,937.20
Agriculture, Livestock, Veterinary & Fisheries	43,054,134.86	5,432,726.12	48,486,860.98
Environment & Natural Resources	6,562,183.00	714,925.00	7,277,108.00
Education, Youth Affairs & Social Development	20,131,790.00	40,211,597.00	60,343,387.00
County Health Services	51,161,433.00	32,277,277.00	83,438,710.00
Lands, Physical Planning and Urban Development	3,189,730.00	10,599,582.00	13,789,312.00
County Transport, Public Works and Water Services	298,085,574.75	7,826,640.00	305,912,214.75
Trade, Tourism, Cooperatives and Enterprise Development	27,269,297.00	7,493,677.00	34,762,974.00
Culture, Social Services and Gender	16,610,660.00	3,477,579.00	20,088,239.00
Totals	**482,079,862.61**	**226,479,056.32**	**708,558,918.93**

Source: County Treasury 2017

11. The debt for the county government may be grouped into two;

a) Pending bills from departments and statutory deductions

b) Inherited debts from defunct local authorities

12. Pending bills from departments

The county government accumulated huge pending bills from departments for the financial year ending 30 June 2017. This was contributed by late disbursement of equitable share from the NT . In addition, the county government was expecting to collect ksh 341.86 million from local levies but managed to collect ksh 187.7 million only hence a shortfall of about ksh 154.1 million from this source.

13. Inherited debt from defunct local authorities

The inherited debt as reported by the defunct local authorities is illustrated in the following table;

Table 2: Debt Outstanding Debt as at 30 June 2013 per institution

Defunct Local Authority	Ksh
County Council of Samburu	31,837,590
Town Council of Maralal	3,040,347
TOTAL	**34,877,937**

Source: Asset and liability report 2015

Majority of the debt were from defunct Samburu County council as shown.

14. DEFUNCT COUNTY COUNCIL OF SAMBURU

The outstanding debt as at 30 June 2013 included creditors of ksh 15,266,141 and Pension funds ksh 12,283,435 formed most part of the debt.

DEFUNCT MARALAL TOWN COUNCIL

The council had a total debt portfolio of ksh 3,040,347.

15. Principal risk associated with various debts are indicated below;

Table 3: Principal risks and mitigation measures

DEBT CATEGORY	NATURE OF RISK	LEVEL OF RISK	STEP TAKEN TO MITIGATE AGAINST THE RISK IDENTIFIED
statutory fund ksh 19.6 million	1.penalties	low	The county treasury proposes to clear contribution amounting to 19.6 million in 2018/19 being principal contribution. The interest charges and penalties will be factored thereafter when the final figure is agreed upon.
Suppliers and contractors ksh 723.7 million	instituting legal proceedings to claim their debt	high	Payment of various debts amounting to kshs 723.7 million in 2018/19.

16. The risk associated with pension fund is low since only two firms are involved i.e. Local Authority Provident Fund and Local Authority Pension Trust and it is possible to reach an agreement with the two firm on a convenient debt settlement

17. In case of debt owed to suppliers and contractors the risk involved is high since it involves many parties and reaching an agreement with all parties is challenging .However, mutual negotiations will continue with creditors who are owed substantial amount while at the same time settling small debt to minimize the risks

III. CHARACTERISTICS OF COUNTY PUBLIC DEBT

Sources of Loans made to the county Government

18. Potential Financing Sources

The preferred source of financing remains our own revenues in view of the cost and risk of other sources of financing. The County will pursue revenue enhancement strategies in order to raise more resources for financing development. Specifically the county will enhance collection of SNR, land based revenuel and single business permits. The cost involved is minimal and only requires improving our revenue collection efficiency by improving our operations. However to raise additional finance for development the county have other alternative sources of financing are:

19. Short term borrowing

The CA may authorize short term borrowing by county government entities for cash management purposes only. Any borrowing shall not exceed five percent of the most recent audited revenues of the entity. The county government entity shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

20. Long term borrowing

a) **Borrowing from commercial banks:** The County will pursue borrowing from commercial banks or central bank. Borrowing from the CBK attracts low interest rate but requires the NT to formulate guidelines. Further borrowing from the commercial banks leaves the county exposed to interest rate fluctuations.

b) **External borrowing:** External financing is usually at concessional rates at longer periods than commercial banks. The County may float international bonds or borrow from foreign banks. This is subject to volatility of the international money market and specifically fluctuation of the exchange rate since the bonds is denominated in dollars.

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

d) **Public Private Partnership Projects:** The County will pursue to engage in public- private partnerships to finance projects. The process is very lengthy and rigorous and requires approval from TNT.

e) **Engineering Procurement and Construction:** This is where the contractor finances the projects and the contributes in kind for things like land.

IV: 2018 MTDS: KEY ASSUMPTIONS

Assumptions underlying the debt management strategy

21. The county government will continue to pursue the fiscal responsibility principles and policies outlined in fiscal strategy paper and budget policy statement. This will help the government to reorient expenditure to priority programmes in infrastructure, health, education and agriculture and avoid accumulation of pending bills in departments.

22. 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.

23. Revenue growth is expected to be maintained as earlier projected in budget review and outlook paper (CBROP) .This will ensure that sufficient resources are allocated toward debt servicing and ensure that the current levels of debt falls below 10% of the total budget by year 2018/19.

V: DEBT SUSTAINABILITY

24. Guidelines on borrowing

In borrowing money, Samburu county government shall ensure that its' 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 County public debt is sustainable. The County Treasury shall include the following information in the statement

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

b) The sources of loans made to Samburu county government;

c) The principal risks associated with those loans;

d) The assumptions underlying the debt management strategy; and an analysis of the sustainability of the amount of debt, both actual and potential.

25. Debt ceiling

A County public debt shall not exceed twenty percent (20%) of the County government's most recent audited revenues, as approved by county assembly. 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. The county shall manage supplier credit and utilities bills prudently.

26. Evaluation and recommendation by the debt unit office

The debt unit will receive all the external loans application proposals, evaluate and prepare a report on;

a) The cost benefit analysis of the programme to be funded

b) The level of risk

c) The effect on future cash flows

d) The effect on the other programmes being implemented by the County.

e) The effect on the county and country's economy

f) The overall cost, outcome and impact of the project/programme.

The report will be considered by the CEM of Finance and Planning and tabled to the County Executive Committee for consideration.

27. Approval by CEC

The respective loan applicant department will through the CEC in charge inform the CEC Finance in writing of the proposed engagement of securing a loan facility. The CEC Finance will make comments and forward to the County Executive Committee for consideration. In considering an application for loan the County Executive Committee shall take note of the debt unit recommendation.

28. Approval by CA

Upon receiving a loan proposal from the County Executive the County assembly shall proceed as provided in the standing orders.

29. Signing of Debt instrument

The County Executive Committee member for Finance or a person designated by the County Executive Committee member for Finance in writing shall be the only authorized person to execute loan documents for borrowing by the county government.

30. Maintenance of debt records

The County Treasury shall maintain a record of all loans made to the county government and make the record available to the CA within seven days of request. The said debt shall not exceed the limit approved by the CA. A loan register shall be maintained at all time and shall reflect the following.

a) The principal of the loan and the terms and conditions of the loan, including interest and other charges payable and the terms of repayment;
b) The amount of the loan advanced at any particular time;
c) The principal amount, interest and other charges paid at any particular time.
d) The balance of principal, interest and other charges outstanding at any particular time.
e) The county treasury shall maintain the following additional information with respect to every such loan, the names of the parties to the loan, the amount of the loan and the currency in which it is expressed and in which it is repayable;
f) The terms and conditions of the loan, including interest and other charges payable and the terms of repayment;

The amount of the loan advanced at any one time.

VI: IMPLEMENTING THE 2017 MTDS

31. Upon approval of budget the debt management office will develop a program for debt repayment based on priorities and cash flow forecast and forward the same to county treasury for implementation.

32. A pending bill committee which draw membership from all departments will be formed and this committee will sit at the end of each financial year to review all pending bills from departments and make recommendation 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.

33. 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.

34. Negotiation with various parties owed substantial amount will be fast tracked to ensure that those negotiation are concluded by the end of June 2018 so that implementation of the agreement can start at the beginning of year 2018/19 .

35. 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. In addition effective linkages will be established with the national treasury to facilitate training on debt management techniques and offer guidance and support on future borrowing. The national government is expected to guarantee borrowing by county government therefore the national treasury plays a critical role in ensuring the success of future borrowing by county government.

Table **4: Medium Term Debt Repayment Plan**

Current Debt status

Pending bills	708,558,919
Other Suppliers and Contractors (inherited)	15,266,141
Statutory deductions (inherited)	19,611,796
Total	**743,436,856**

Source: County Treasury 2017

Table 5: DEBTS REPAYMENT PLAN

Type of Debt	2017-18	2018-2019	2019-2020	2020-2021
Pending bills	**83,516,247**	**300,000,000**	**225,042,672**	-
Other Suppliers and Contractors		15,266,141		-
Statutory deductions		19,611,796		-
Total	**83,516,247**	**334,877,937**	**225,042,672**	-

Source: County Treasury 2017

36. County demands and needs will always exceed the available resource, it therefore requires that the County prudently manages the present situation and live within its means so as to reduce fiscal risks and avoid overburdening the future generation. We however realize that implementation of mega development agendas and normal cash flow management pressure will at time require that the County seeks credit , but this should only happen when planned and all risks considered. The County shall be steady fast in ensuring that debt is always the last option.

VII: CONCLUSION

37. The 2017 medium term debt management strategy is a forward looking framework that describe the sustainability of the county debt in the long-term. Even though the current debt level is high it is sustainable, however 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 levels calls for sufficient allocation of fund in the 2017-18 budget and consecutive budgets in order to improve the debt position and avoid unnecessary cost such as interest and penalties.

38. The current stock of debt is in excess of 723 million however the 2018 county fiscal strategy paper provide for 300 million toward debt repayment in the budget. This clearly illustrate that the county government may not be able to settle all the debt in year 2018/19 and some debts will have to be schedule to the following years.

39. The MTDS for the County do not envisage borrowing in financial year 2018/19 to finance the budget .The County will focus on management of current debt. The departments are urged to be more conscious while spending and ensure that programmes implementations are in line with the budget and availability of fund.