

COUNTY GOVERNMENT OF TAITA TAVETA

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MEDIUM TERM

COUNTY DEBT MANAGEMENT STRATEGY PAPER

FEBRUARY 2018

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The document is also available on the County Government website: www.taitataveta.go.ke

Foreword

The 2018 Debt Management Strategy (DMS) has been prepared in accordance with the Public Finance Management Act 2012 section 123 (1). It is provided 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 Strategy provides guidance to the County Government on the amount and type of borrowing to undertake over the medium term. It also evaluates the costs and risks of various debt management strategies and provides recommendations on optimal strategy for implementation.

The strategy further outlines priorities that will assist in the financial risk reduction. The County Government recognizes the need for prudence in debt management so as to avoid unwarranted financial risks that emanates from poor debt management strategies. The County is employing significant efforts and resources to ensure improvement in the debt management as well as enhancing capacity of assessing risks.

The Taita Taveta County Government's debt will only realize sustainability if a prudent debt management and borrowing policy is adopted by the County Government.

Hon. Dr. Vincent Masawi
CEC-Finance and Planning

Acknowledgement

This Medium Term Debt Management Strategy sets out the debt management strategy for the County Government.

It is worth noting that the preparation of DMS is a relatively technical process that requires critical analysis and formulation of an optimal borrowing strategy that will guide the County government borrowings.

We are particularly grateful to the County Executive Committee Member for Finance and Economic Planning, Chief Officer Finance and Planning for his role, direction and guidance in developing this document, County Executive Committee Members, Chief Officers, County Treasury Staff and Technical Team for their input in providing much needed information to the team working on this first MTDS.

Finally, it is our sincere conviction that this 2018 Medium Term Debt Management Strategy will guide the debt management strategy for Taita Taveta County Government.

Joyce M Kambe
County Chief Officer- Finance and Planning

LIST OF ABBREVIATION

DMS	Debt Management Strategy
FY	Financial Year
KSH	Kenya Shillings
NHIF	National Housing Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management
PPP	Public Private Partnership

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EXECUTIVE SUMMARY

The 2018 County Government Debt Management Strategy prepared in line with section 123 of the Public Finance Management Act 2012. The law stipulates that on or before the 28th February of 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.

This Debt Management Strategy is structured in two chapters: Chapter one provides an overview of the Debt Management Strategy by defining debt and debt management. The chapter also highlights the impact of unsustainable debt in the County. The chapter further provides broad explanations on the financial burden the county government is likely to shoulder if debt is not closely monitored, strategized and repaid. The chapter also discusses the objectives, goals and principles of debt management and the need for the County Government to develop the same.

Chapter two provides the characteristics of the County Government's public debt with emphasis on specific strategies the County Government intends to employ in dealing with debts. It also provides details of Debt reduction policies and strategies designed to assist the County in its effort to reduce debts in a fast and prudent manner.

The analysis of County Government's debts indicate that though there are no external loans, the total amount of development pending bills as enumerated by the Task Force stands at Kshs. 692,740,092. On the other hand, the amount of pending bills provided by the County Treasury stands at Ksh.724, 065,736 comprising Kshs 285,976,194 as recurrent and Kshs. 438,089,542 as development pending bill.

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: 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.

The County Treasury shall include the following information in the statement-

- a) The total 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 assumption 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.

CHAPTER 1: OVERVIEW OF DEBT MANAGEMENT STRATEGY

Introduction

The 2018 Taita Taveta County Debt Management Strategy is aimed at guiding sustainable debt management and demonstrate sound financial management practices, in the interest of the citizenry, credit institutions, investors and other stakeholders. The document is prepared in accordance with the provisions of the PFM Act Section 123.

The main objective of debt management strategy is to enable the county government to prudently meet its financial obligations with sustainable risk levels.

Goals for the debt management strategy

The Debt Management Strategy spells out the Government's debt financing plans for FY 2018/2019. In addition, the strategy provides policy framework for liability management and thus enable the county government to meet both recurrent and capital financing needs as well as financing statutory obligations.

The Debt Management Strategy is also expected to provide debt ceilings for the county government. The limit must:

- a) Not exceed the nominal value of the total public debt that is determined in accordance with fiscal responsibility principles.
- b) Be specified annually in the county fiscal strategy paper and the medium term debt management strategy
- c) Guide the level of new annual government debt to ensure it is consistent with that limit
- d) Guide the amount of county government debt(s) that are not denominated in shillings after they are recalculated at the prevailing exchange rate of the Central Bank of Kenya for the purposes of monitoring compliance with debt limits.

Debt Management Strategy Financing Principles

The debt management strategy will address the County government's financing requirements at the lowest cost and a prudent degree of risk by adhering to the following principles:

- a. Financing must be taken up in a balanced way to ensure debt sustainability over long term.
- b. Prudence must be observed when contracting debt while taking into account the cost and risk implications.
- c. Debt must be contracted to support expenditure in the identified County priority areas that are geared towards poverty reduction and promotion of overall County development.
- d. Debt must be guaranteed.
- e. The debt must be for capital projects

CHAPTER 2: COUNTY PUBLIC DEBT SITUATION

Analysis of Taita Taveta County Government's Public Debt

The debts owed by the County government comprises of pending bills, outstanding claims by officers, defunct local authorities debts and a loan owed to National Housing Corporation(NHC) for Mbela estate.

The total amount of development pending bills as enumerated by the Task Force stands at Kshs. 692,740,092. On the other hand, the amount of pending bills provided by the County Treasury stands at Ksh.724, 065,736 comprising Kshs 285,976,194 as recurrent and Kshs. 438,089,542 as development pending bill.

The Transition Authority's (TA) reports further show that the defunct local authorities had liabilities amounting to Kshs. 89.4 Million.

Taita Taveta County Government Public Debt

The total amount of pending bills as submitted by the County Treasury stands at Ksh.724 Million comprising Kshs 285 Million as recurrent pending bills and Kshs. 438 Million as development pending bills.

Summary of Pending Bills as Submitted by the County Treasury

DEPARTMENT	RECURRENT (Kshs)	DEVELOPMENT (Kshs)	TOTAL (Kshs)
County Treasury	1,727,770	7,465,404	9,193,174
Statutory Deductions	85,138,877	-	85,138,877
Agriculture	4,001,787	16,090,584	20,092,371
Health Services	89,841,407	72,733,503	162,574,910
Administration & Devolution	9,663,785	5,891,754	15,555,538
Livestock and Fisheries	3,993,280	773,970	4,767,250
Education and library services	5,152,000	96,210,587	101,362,587
Environment and Natural resources	12,867,501	2,000,000	14,867,501
Governor and Deputy Governor	33,238,652	-	33,238,652
ICT & Industrialization	494,000	5,968,700	6,462,700
Trade and Community Affairs	13,818,562	29,683,952	43,502,514
Water & Irrigation	12,940,509	39,494,893	52,435,402
Public Works	13,098,064	161,776,195	174,874,260
TOTAL	285,976,194	438,089,542	724,065,736

Debt reduction strategies

The county will apply the following strategies towards the reduction of its debts.

- a. Ensure total adherence to the budgetary ceilings during budget implementation
- b. Stakeholder participation during projects planning, designs ,formulation ,monitoring and evaluation will be strengthened to avoid project variations and changes
- c. Embrace austerity measures to manage recurrent expenditure by departments and promote the savings for capital investments.
- d. Enhance revenue generation by departments by exploring and exploiting new and wider revenue streams.
- e. Only engage in debt whose interest rates are sustainable by the county
- f. Conduct assets and liabilities assessment on quarterly basis
- g. Encourage cost sharing especially for services like extension services in all sectors.
- h. Contract management should be conducted in adherence to all statutory requirements as well as full adoption of e-Procurement
- i. Strengthen county audit and legal offices
- j. Reduce the role of the county government in business related ventures and allow for private sector and Public /Private Partnership(ppp)

Annex : Liabilities owed by Former Local authorities

Liabilities - Loans

Type	Balance	Local Authority	Remarks
National Housing Corporation loan	21,719,829	County Council of Taita Taveta	Loan in account 50620010001 was to be repaid in biannual instalments with the final instalment scheduled for 01 July 2031. Loan balance recorded is as at 30 Jun 2013
National Housing Corporation loan	985,952	Municipal Council of Voi	Loan was to be repaid in biannual instalments with the final instalment scheduled for 01 Jan 2003.
TOTAL	22,705,781		