



REPUBLIC OF KENYA



COUNTY GOVERNMENT OF NYERI

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

2024/25-2026/2027

FEBRUARY, 2024

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FOREWORD

This Nyeri County Government 2024/2025-2026/2027 Medium Term Debt Management Strategy is prepared in line with section 123 of the Public Finance Management (PFM) Act 2012, and the guidelines outlined in the Debt and Borrowing Policy. It is also aligned with the County Government Development Agenda over the medium term. The strategy underscores the objectives of the debt management objectives over the medium term to ensure that the County Government financial needs and payment obligations are met at the most efficient and cost effective way, consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

The sustainability of debt is a key fiscal responsibility principle and this will be duly addressed in this paper. Through a resolution of the Nyeri County Assembly as required under the PFM Act section 107 (2) (e) and section 107 (4) that deals with sustainability of debt, an annual borrowing limit has been set for any future requirements.

The County Treasury shall ensure that the Medium-Term Debt Management Strategy is consistent with the broad strategic priorities and policy goals set out in the County Fiscal Strategy Paper(CFSP), 2024. The Policy goals and strategic priorities are geared towards the sustaining the bottom-up economic transformation for inclusive growth. To ensure sustainability, the MTDMS has proposed measures to be carried out aimed at reducing the debts to a manageable level.

With the existing debt, both inherited and county pending bills, the 2024/2025-2026/2027 MTDMS largely recommends approaches of reducing and managing future debts. The county Government will attempt to guarantee that both the burden and benefits from public borrowing is shared equitably between the current and future generation as stipulated under Article 201 of the Constitution.

Further, the County Treasury will enhance its capacity in terms of training the technical officers to ensure that it is in a position to effectively handle matters relating to borrowing and servicing of debt should they arise. Meaningful linkages will also be established with the National Treasury to facilitate the management of the inherited debts, future borrowing and provision of technical advice.

Sincerely,



Robert Thuo Mwangi

**County Executive Committee Member
FINANCE AND ECONOMIC PLANNING**

ACKNOWLEDGEMENT

The Medium-Term Debt Management Strategy (MTDMS) for the period spanning 2024/2025 to 2026/2027 aims to provide a framework for managing debt and borrowing activities during the fiscal year 2024/2025 and beyond. It takes into consideration assessed costs and risks associated with different methods of financing the budget deficit. This policy document outlines the approach by which the debt management objectives of County Governments, as well as their financing requirements and other payment obligations, will be addressed.

This MTDMS will be submitted to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council as per PFM Act 2012. In addition, MTDMS strategy will be published and made available in the county website, www.nyeri.go.ke, to ensure wide circulation as envisaged under the PFM Act, 2012.

I wish to extend my heartfelt gratitude to His Excellency the Governor and the entire County Executive for their exemplary leadership and guidance in crafting this document. I would also like to express my sincere appreciation for the steadfast direction provided by the County Executive Committee Member for Finance and Economic Planning, whose oversight was instrumental in effectively coordinating the development of this strategy.

I am thankful to the county's departments and other entities for their substantial contributions and the information provided, which greatly facilitated the preparation and finalization of the MTDMS. Additionally, I acknowledge and value the invaluable comments and contributions from members of the public and public institutions, which have enriched this document.

I am particularly pleased to commend the dedicated efforts and considerable time invested by the team from the County Economic Planning Unit in crafting the MTDMS, ensuring its adherence to required standards. Lastly, I wish to acknowledge the contributions of all stakeholders and individuals involved in the preparation of the MTDMS, whose involvement throughout the process has been crucial to its success.



Mercy W. Ngacha

CHIEF OFFICER, ECONOMIC PLANNING, BUDGETING, M&E

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
BPS	Budget Policy Statement
CIDP	County Integrated Development Plan
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
FY	Financial Year
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management Information System
IGRTC	Intergovernmental Relations Technical Committee
Kshs.	Kenya Shillings
LA	Local Authority
LAPFUND	Local Authority Provident Fund
LAPTRUST	Local Authority Pension Trust
LGLA	Local Government Loans Authority
MTDMS	Medium Term Debt Management Strategy
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay as You Earn
PFM	Public Finance Management
TA	Transition Authority
VAT	Value Addition Tax

LEGAL BASIS FOR PUBLICATION OF MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

The debt management strategy is published in accordance with section 123 of the Public Financial 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.

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.

EXECUTIVE SUMMARY

The formulation of the 2024/2025-2026/2027 Medium Term Debt Strategy aligns with the stipulations of the Public Finance Management Act of 2012. This strategic planning is essential to ensure compliance with fiscal responsibility principles and is closely linked with various budgetary documents, including departmental reports, the county budget review and outlook paper, annual financial statements, and the County Fiscal Strategy Paper for 2023.

Upon assuming office, the County Government inherited approximately Kshs 592,807,561.54 in debts from defunct local authorities, namely the Nyeri County Council, Nyeri Municipal Council, Karatina Municipal Council, and Othaya Town Council. The County Treasury, in collaboration with the Intergovernmental Relations Technical Committee, has been engaged in verifying the liabilities inherited from these defunct local authorities. However, progress in this verification process appears to have never been concluded. Nevertheless, the County Government has initiated efforts to verify certain debts, particularly those related to personal emoluments and employee benefits, with the intention of addressing them.

The county debt burden consists of inherited debt and pending bills arising from County Government departments and spending units. As at 30th June, 2023 the county debt was Kshs. 921,043,186.97 comprising of Kshs. 592,807,561.54 as inherited debts from defunct local authorities Kshs. 29,580,150.43 as pending bills accruing from the FY 2022/2023 and Kshs. 298,655,475 as ongoing projects rolling over from the same period.

It is also important to note that some commitments arising from ongoing projects rolled over to the current financial and funds have already been appropriated in the supplementary budget. Further, most of the pending bills have been settled as first charge in accordance with section 41 of the PFM (County Governments) Regulations, 2015. Commitments should therefore be well planned for to avoid the risk of becoming potential debts in future.

In an endeavor to maintain the county debt at considerable and sustainable level, an amount is usually set aside in the annual budget for settlement of pending bills and commitments. In the current financial year, the county treasury allocated funds for settlement of the pending bills that could not be paid as first charge as well as the amount required to settle the ongoing and roll over projects. The allocation was made in full in the approved first supplementary budget for the FY 2023/24 and the processing of payments progressing.

In dealing with the inherited liabilities, the County Government undertook an exercise to verify the staff claims accruing from pre-devolution era that partly contributed to the inherited debt burden. These included unpaid leave days, staff uniform as well as overtime allowances. During

the exercise, the County Government cleared Kshs. 58 million out of a total claim of Kshs. 129.7 million and the County Treasury allocated and settled Kshs. 30 million in the FY 2021/2022 and the balance to settle the remaining claims has been provided for in the current financial year budget. However, the County Government is still waiting for the liabilities and debts to be handed over, after which it will negotiate with creditors to spread the debt burden for a period of time to avoid unnecessary fiscal pressure. This arrangement will be necessary since the fiscal space may not accommodate all the payments in one year.

To ensure manageable levels of pending bills that can be settled without giving undue pressure to the overall budget, all county entities will be required to align their projects and programs to the available funds and cash flow forecast. Further, procurement of good and services should be done in the first three quarters of the financial year so that most of the suppliers can be paid by the end of the financial year. The pending bills should also be cleared as a first charge in the approved budget, to avoid accumulation, as provided for under section 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

The County Treasury will create and strengthen a debt management committee to handle matters relating to borrowing and management of debt. The County Treasury will also continue to work closely with the National Treasury to enhance the capacity of the staff and also offer technical expertise in issues relating to borrowing and repayment of debts especially those inherited from the defunct local authorities. Close collaboration between the County Government and the National Treasury should also be enhanced to ensure that county disbursements are made on time to reduce the risk of pending bills arising from cash flow shortfalls.

1 INTRODUCTION

1.1 Background

The debt management strategy is prepared in accordance with section 123 of PFM Act, 2012 that requires the County Treasury to 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 and its plans for dealing with those liabilities. The statement should, among other information, contain:

- (a) The total stock of debt as at the date of the statement;
- (b) The sources of loans made to the County Government, if any;
- (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.

There are other sections of PFM Act that guides the management of county debt, this include PFM Act sections 107, 140,141,142,143 and 144. Other documents that guide the preparation of debt management strategy are County Fiscal Strategy Paper (CFSP) and County Budget Review and Outlook Paper (CBROP).

This Medium Term Debt Management Strategy (MTDMS) places a strong focus on ensuring the sustainability of current debt and establishing necessary frameworks to facilitate potential future borrowing where feasible. The County Fiscal Strategy Paper for 2024 does not anticipate any borrowing to finance the budget, thus the MTDMS is primarily oriented towards servicing the existing debt.

Given the current debt obligations, the County Government may not have the capacity to engage in further borrowing to meet its expenditure needs. Therefore, over the medium term, the government will prioritize the settlement of debts inherited from defunct local authorities once they have been verified.

The County Treasury will establish a debt management committee to verify all liabilities inherited from defunct local authorities following the conclusion of the handover process by the Intergovernmental Relations Technical Committee (IGRTC). The primary objective of this initiative is to ascertain the County Government of Nyeri's actual debt position and devise a plan for debt clearance, while also exploring strategies to minimize such debts in the future.

The debt management committee will be expected to undertake the following.

- a) Compile list of all creditors both statutory and sundry.
- b) Establish whether the claims are genuine or not.
- c) Establish whether all procedures were followed in incurring the debts.
- d) Establish whether all supporting documents are available.
- e) Prioritize the debt.

The establishment of the committee will be the first step in ensuring that the County Government is in a position to handle its current debt and is ready to undertake future borrowing to finance the budget within the legal framework.

1.2 Objective of debt management

The following are the main objectives of debt management strategy in the county;

- a) To ensure the servicing and management of the County Government's financing and payment obligations are met on a timely basis, at the lowest possible cost in the market and is consistent with a prudent degree of risk.
- b) To ensure that the overall level of public debt is sustainable and debt shall never exceed twenty (20%) percent of the County Governments total revenue at any one time as stipulated in the Public Finance Management (County Government) Regulations section 25 (1)(d).
- c) To ensure 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.
- d) To ensure that the County Government is able to deal with the existing debt portfolio in order to release resources to service delivery. The strategy seeks to balance cost and risk of public debt while taking into account the financing needs of the County and to develop initiatives for new funding sources.

1.3 Scope of Medium Term Debt Management Strategy

The Medium Term Debt Management Strategy (MTDMS) covers actual and potential liability i.e. it covers all loans and other debt, whether inherited or created by the County Government, that require payment of principal with or without interest by the County Government to the creditor at a date or dates in future. The MTDMS is prepared for financial year 2024/25 but also makes projection for year 2025/26 and 2026/27.

2 REVIEW OF NYERI COUNTY PUBLIC DEBTS

2.1 Stock of debt

The total stock of debt as at 30th June 2023 stood at Kshs. 921,043,186.97. This consists of Kshs. 592,807,561.54 inherited debts from the defunct local authorities, Kshs 29,580,150.43 for pending bills and Kshs. 298,655,475 accruing and rolling over from the FY 2022/2023 respectively. Despite lack of a conclusive report on the inherited debts, the County Government undertook an exercise to verify the staff claims accruing from pre-devolution era that partly contributed to the inherited debt burden. These included unpaid leave days, staff uniform as well as overtime allowances.

During the exercise, the County Government cleared Kshs. 58 million out of a total claim of Kshs. 129.7 million. Subsequently, the County Treasury allocated Kshs. 30 million in the supplementary budget for FY 2021/22 where part of the claims were settled based on the available funds at the time. Further, the balance has currently been accommodated in the approved supplementary budget FY 2023/24 and the remaining claims are being processed for payment. This therefore indicates that once the process of all the inherited debts is conducted, the amount will end up reducing significantly.

By the end of the financial year 2022/2023, the county pending bills amounted to Kshs 29,580,150.43 as compared to Kshs. 446,963,865 recorded in the previous financial year. In addition, it is imperative to note that there were some commitments arising from projects and programmes that were still ongoing by the end of the financial year 2022/23 amounting to Kshs. 298,655,475 rolled over to the current financial year. To ensure that the commitments do not pose risk of debt in future, priority was given by allocating adequate funds in the first supplementary budget to service the pending bills and these commitments before considering any new projects.

2.2 Source of loans/debts made to the County Government

The source of debt to the County Government can be categorized as follows;

1. Pending bills arising from works done and not paid by the end of a financial year.
2. Inherited debt from defunct local authorities.
3. Commitments entered into near the closure of the financial year 2022/23 and rolled over to the current financial year mainly classified as ongoing projects.

However, apart from the inherited debts, all the others are just potential debts if not well managed.

2.2.1 Pending bills from the County Departments.

The County Government accrued pending bills amounting to Kshs. 29,580,150.43 by the end of the financial year 2022/23. However, as compared to the previous period under review, the pending bills have significantly reduced thus reflecting prudent management of available resources through expenditure control on nonessential areas.

This pending is mainly attributed to the delay by the national treasury to release the expected disbursements, Vis-a-Vis the time taken to complete a payment process. Other reasons are as a result of delay by the county departments in availing physical payment vouchers (as some debts were for the previous years), and electronic returns on merchant's payments due to wrong bank details or personal details.

It is important to note that the County Government did not realize its own source revenue target. This posed the risk of future debt if all contracts signed during the financial year 2022/2023 were all implemented within the financial year.

While pending bills are considered as those payment vouchers which had reached the treasury and not settled, there were other contracts which had been signed but not fully executed by the end of the financial year, 2022/2023 including the multi-year projects. These could have easily increased the accumulated debts if not well planned and appropriated for in the financial year 2023/2024. They also include all ongoing works, commitments and roll over projects accruing from the same period. If the contracts fail to be adequately budgeted for in the current financial year, they would easily become debt and exacerbate the present situation.

2.2.2 Inherited debt from defunct local authorities

The Budget Policy Statement, 2017, indicated that to finalize the transfer of assets and liabilities from the defunct Local Authorities to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are:

- i) Pending bills;
- ii) Tax arrears;
- iii) Statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE.

In this context, County Assets and Liabilities committees were formed to identify, verify, and validate the assets and liabilities of the defunct LAs as at 27th March 2013. This exercise was concluded, and Intergovernmental Relations Technical Committee (IGRTC) was validating the report as a basis to implementing its recommendations. However, the recommendations have never been shared with the counties for implementation.

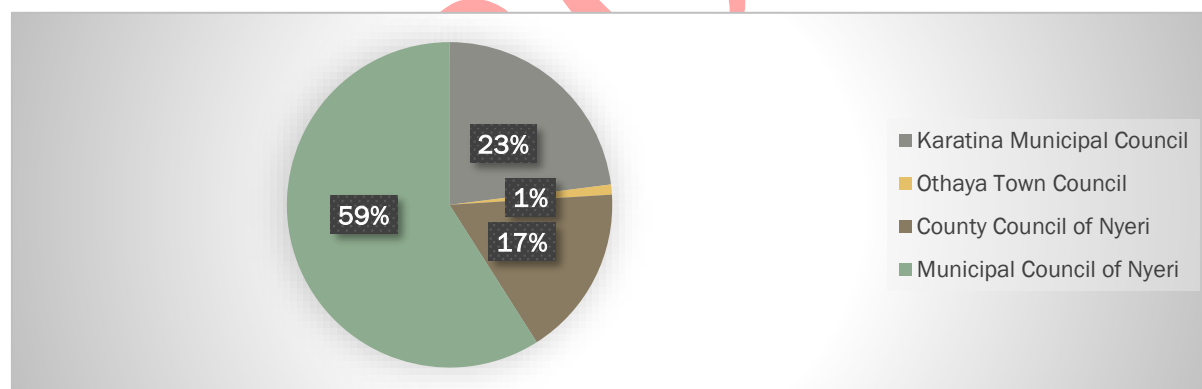
The inherited debt as reported by all defunct local authorities is shown in the table below;

Defunct local authority	Outstanding Debt as at 30 th June 2013
Karatina Municipal Council	137,505,036.75
Othaya County Council	5,262,092.09
County council of Nyeri	100,917,404.70
Municipal Council of Nyeri	349,123,028.00
Total	592,807,561.54

Source: Nyeri County Assets and liability report, 2014

Most of the debt were inherited from defunct municipal council of Nyeri with 59% of the total debt inherited, followed by Municipal council of Karatina with 23%. County council of Nyeri had 17% while Othaya Town Council had the least debt inherited with only 1% of the total debt.

2.2.3 Outstanding Debt as at 30th June 2013



Source: Nyeri County Assets and liability report 2014

A detailed analysis on specific debts are shown below per defunct local authority;

(a) Defunct Municipal Council of Nyeri

Item	Debt as at 31st December 2014
Loan from LGLA	320,319,642
Unpaid emoluments	3,544,357
Creditors	25,259,029
TOTAL	349,123,028

(b) Defunct Town Council of Othaya

Item	Debt as at 31st December 2014
LAPTRUST	2,582,956
LAPFUND	267,250.09

Item	Debt as at 31st December 2014
Creditors	2,411,886
TOTAL	5,262,092.09

(c) Defunct Municipal Council of Karatina

Item	Debt as at 31st December 2014
Loan from LGLA	38,931,070.20
Loan from NHC	258,929
Unpaid emoluments	7,401,096
LAPTRUST	15,488,531.56
LAPFUND	3,533,102.20
Creditors	71,892,307.79
TOTAL	137,505,036.75

(d) Defunct County Council of Nyeri

Item	Debt as at 31st December 2014
Unpaid emoluments	17,573,065
NSSF	26,927,359
LAPTRUST	3,558,619
LAPFUND	34,510,344.70
Creditors	18,348,017
TOTAL	100,917,404.70

In an endeavor to ease the debt burden, the County Government established a task force to verify the claims for the defunct local authority staff. These included the unpaid leave days, staff uniform allowances as well as overtime claims that amounted to Kshs. 129,766,324.76. After the verification exercise, Kshs. 58,385,502.27 was cleared and agreed upon by the County Government and the staff union.

Subsequently, considering the available allocation outlay, the County Treasury provided Kshs. 30 million for settlement of these claims in FY 2021/22 and the remaining amount was allocated in the current budget and the payment process is ongoing. Notably, the verification exercise significantly reduced the claims which shows that once all the inherited debts are scrutinized and verified the resultant amount may be even much lower.

2.3 Assumptions underlying the debt management strategy

This Medium-Term Debt Strategy recognizes the medium-term macroeconomic framework as provided in the County Fiscal Strategy Paper, 2024 whose targets are anchored on the priorities articulated in sustaining the bottom up economic transformation agenda for inclusive growth, Medium Term Plan IV of the Kenya Vision 2030 and the draft ADP for Financial Year 2024/2025. The key priorities of the County Government in the medium term are grounded on key strategic objectives as outlined in the CIDP 2023-2027

Risks to the Macroeconomic Assumptions in the 2024/25-2026/27 MTDMS

Major risks to the macroeconomic framework include:

- A high county wage bill that is putting pressure on the available resource basket and limiting the capital outlay for execution of projects and programmes.

- ii. Overdependence on the equitable share and underperformance of own source revenue despite the efforts directed towards its mobilization may strain the resources directed to development activities.
- iii. Declining long term growth as a result of expected slow productivity growth and aging workforces.
- iv. The framework is exposed to economic growth and fiscal risks. The projected growth assumes favorable weather conditions and therefore any adverse weather conditions will have negative impact on the growth.
- v. Public expenditure pressures especially recurrent expenditures.

2.4 Sustainability of debt

Public debt sustainability is the ability of a country/ county to service its debt obligations as they fall due without distracting its budget implementation. The sustainability of debt is guided by PFM Act section 107 (2)(e) and section 107 (4). According to section 107 (2)(e) the county debt shall be maintained at a 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 through the County Treasury will attempt to maintain public debt and obligations at sustainable levels in line with section 15 (d) of the Public Finance Management (PFM) Act 2012. In line with this, the County Government has set the debt level at five percent (5%) but should never exceed twenty per cent (20%) of the annual revenue.

The current actual and potential debt is at 10.05 percent of the total County revenues for the current financial year which is within the set limits. The potential debt consists of the pending bills and roll over/ ongoing projects while the actual debt comprises the inherited debts. However, if the own revenue source targets were met as initially planned, the percentage could be way lower since most of the pending bills could have been settled.

3 STRATEGIES OF DEALING WITH DEBT

3.1 Debt servicing

Payment of the inherited debts is one of the County Government's key priorities. However, these debts must be clearly handed over and strategies of settling them be arrived at. The debt will be paid either in part or in full depending on the available funds in the budget for the FY 2024/25 and subsequent years.

The County Government embarked on verification of some of the liabilities inherited from its defunct local authorities consisting of unpaid leave days, uniform allowances as well as overtime claims for staff amounting to Kshs. 129,766,324.76. Out of this, Kshs. 58,358,502.27 was verified and cleared for settlement. The county treasury subsequently provided an allocation of Kshs. 30 million that the budget was able to accommodate in the FY 2021/2022. The allocated funds were subsequently paid to the owed personnel while the remaining amount will have been allocated in the current budget and processing of payment is ongoing.

In addition, the pending bills that accrued from the FY 2022/2023 were either paid as first charge in the respective departments' original budget or allocated funds in the subsequent supplementary budgets to cater for items that did not have corresponding votes to qualify as a first charge in the initial budget. In addition, the commitments and roll over projects arising from the same period were also appropriated funds in the supplementary budget for the current financial year. To ensure proper planning for debt servicing, funds should be allocated for anticipated bills as at the end of the financial year 2023/24 since the County Fiscal Strategy Paper (CFSP), 2024 will inform the possible savings after considering and allocating funds to all spending units.

Some of the pending bills also arise from shortfall in the local revenue and it is imperative to put in place all the necessary measure for its mobilization to ensure that the set targets are met. The county government will therefore be required to intensify its revenue mobilization strategies to release more funds for settlement of the budgeted projects and programs. The unmet revenue target usually give rise to potential debts in future in form of pending bills.

3.2 Debt Restructuring

The main objective of debt restructuring is to spread repayment of debt over a number of years. The County Government is exploring the possibility of debt restructuring as one method of dealing with huge debts particularly for bank loans and pension funds inherited from the defunct local authorities once the handing over is concluded. This will spread the substantial

debt burden over a period of time since the existing debt cannot be cleared within a year due to budgetary constraints. However, for small debt such as the pending bills and rollover projects, prioritization will be undertaken based on the fiscal space and liquidity. Restructuring will also help the county to avoid payment of penalties and interest that have accrued and the costly litigations.

3.3 Prioritization of programmes

The pending bills arising from all the county departments and spending units will have to be cleared as a first charge in the succeeding year's budget from the corresponding votes of those departments and units. This will not only prevent the possibility of pending bills turning into debts over time but also inculcate disciplined spending by all the accounting officers.

Further, to avoid accumulation of additional debts in line with section 41(2) of the PFM (County Government) Regulations, 2015, departments will also be required to prioritize projects/programmes taking into account the constrained resource basket. County departments that have accumulated huge recurrent bills will face liquidity challenges in the initial phase and may compromise implementation of some of the critical projects/programmes as well as service delivery.

In order to avoid accumulation of debts in succeeding years, necessary measures will be put in place. The County Treasury shall prepare a report on cash flow projections in early April, 2024 so as to advise on commitments, thus minimizing or avoiding pending bills by the end of the financial year as per section 44(5) of the PFM (County Government) Regulations, 2015.

The pending bills for development activities arises from projects that were completed, invoices received for payment, but not cleared by the end of the financial year. This can be due to various challenges which includes delayed release of equitable share by the National Treasury and IFMIS malfunctions. The settlement of such commitments will be made from the allocation set aside for debt resolution or as a first charge in the respective departmental/spending units' budgets for in the succeeding year's budget.

To avoid debt arising from projects that are rolled over from one financial year to the other, the departments should give priority, when settling debts, to the already completed projects before starting implementation of new contracts. Initiating of new projects should be determined by the availability of funds to avoid increasing the debt level.

4 IMPLEMENTING THE 2024/25-2026/27 MTDMS

In order to avoid unnecessary debt burden to the future generation and reduce the risk of macro-economic instability, there is need for the County Government to manage its potential and existing debt prudently. After the approval and adoption of this Strategy, the County Treasury will develop a plan for repayment of pending bills that will emerge by the end of the financial year based on priorities and cash flow projections.

Further, in line with the National Treasury's directive to prioritize payments of bills owed to suppliers, the County Treasury will ensure that the commitments already executed as roll over projects from FY 2023/24 are also paid as first charge in the respective department's allocations in the coming financial year. This will ensure that the County does not suffer cash flow sanctions for not meeting its financial obligations.

A debt management committee should be formed, based at the County Treasury, to review all accruing debt and make recommendation for payment or otherwise as it deem fit as a new financial year starts. The committee should also be strengthened to ensure availability of comprehensive, accurate and timely information on debt.

The PFM Act sets the ceiling for borrowing by counties at 5 percent of the county's local revenue for the purposes of development only. The County Treasury shall provide a budgetary allocation for payment of pending bills and any other possible debt. This will not only guide the sustainability of debt but will also lay the ground for future borrowing to finance the budget.

In addition, effective linkages will be established with the National Treasury to facilitate training on debt management skills and offer direction and support on future borrowing. The National Government is expected to guarantee borrowing by County Governments and therefore the National Treasury plays a critical role in ensuring the success of debt management in the county.

The County will also continuously engage the Debt Management Office (DMO) at the National Treasury in order to improve the capacity on debt management and especially concerning the debts guaranteed by the National Treasury. Specifically, and in-order to clear already outstanding debts.

5 CONCLUSION

This Medium-Term Debt Management Strategy is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate financing of development projects. The stock of debt in the county has remained within manageable limits. However, it is essential for the County Government to establish and implement structures to maintain the debt level within the current range and to reduce further escalation of the liabilities.

The current debt level necessitates for adequate allocations of finances to service the existing debts in FY 2024/25. This calls for continuous budgetary allocations in consecutive years in an effort to ensure that all county debts are cleared without imposing budgetary pressure on the county resources. However, since this MTDMS envisages no borrowing to finance the budget, more emphasis has been put on management of current debt.

Going forward, all county departments and other entities are expected to be more conscious while spending and ensure that projects and programmes implementation is in line with the approved budget and availability of funds. The procurement processes should be fast tracked to avoid pending bills in subsequent years.

Further, it is expected that the National Treasury will be releasing the exchequer as per the agreed cash flow schedules to avoid last minute rush in processing of payments for goods and services rendered. The County Treasury will also continue to capacity build its technical personnel on IFMIS and update them with the requisite skills to guarantee smooth processing of payments thereby minimizing possible delays.