



COUNTY GOVERNMENT OF KITUI
THE COUNTY ASSEMBLY
THIRD ASSEMBLY – (SECOND SESSION)

COUNTY BUDGET AND APPROPRIATIONS COMMITTEE

REPORT

ON

CONSIDERATION OF

THE KITUI COUNTY DEBT MANAGEMENT STRATEGY PAPER, 2023/2024

elene
Approved.
[Signature]
16/5/2023

CLERK OF ASSEMBLY CHAMBERS
P. O BOX 694 - 90200
KITUI

APRIL, 2023

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ABBREVIATIONS

CFSP	County Fiscal Strategy Paper
GDP	Gross Domestic Product
KCDMSP	Kitui County Debt Management Strategy Paper
PFM	Public Finance Management Act

1. PREFACE

Mr. Speaker,

On behalf of the Members of the County Budget and Appropriations Committee and pursuant to the provisions of Standing Order 179, I beg to lay the following report on the floor of the County Assembly, the report by the committee on consideration of the Kitui County Debt Management Strategy Paper, (KCDMSP) 2023/2024.

Mr. Speaker,

The Select Committee of County Budget and Appropriations is established pursuant to Standing Order 186. It was formed on inauguration of the Third Assembly after the general elections held on August, 2022. As currently constituted, the Committee comprises of the following;

1.1 Membership

- | | |
|-----------------------------------|-------------------|
| 1. Hon. Zacchaeus Ivutha Syengo | -Chairperson |
| 2. Hon. Jacquelyne Cate Kalenga | -Vice Chairperson |
| 3. Hon. Alex Mutambu Nganga | -Member |
| 4. Hon. Boniface Mukwate Katula | -Member |
| 5. Hon. Sylvester Kitheka Munyalo | -Member |
| 6. Hon. Kyalo Kimuli | -Member |
| 7. Hon. Mary Mwendu Mutune | -Member |
| 8. Hon. Mercy Muliwa Muema | -Member |
| 9. Hon. Malinga Munyao | -Member |

1.2 Committee Mandate

Mr. Speaker,

The Committee is conferred the following mandate/responsibilities by Standing Order 186(5): -

- (a) investigate, inquire into and report on all matters related to coordination, control and monitoring of the of the County budget,
- (b) discuss and review the estimates and make recommendations to the County Assembly;
- (c) examine the County Budget Policy Statement presented to the County Assembly;
- (d) examine Bills related to the county budget, including Appropriations Bills; and
- (e) evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays.

1.3 The Kitui County Debt Management Strategy Paper, (KCDMSP) 2023/2024

Mr. Speaker,

The KCDMSP 2023/2024 was submitted to the County Assembly on 28th February, 2023 together with County Fiscal Strategy Paper (CFSP), 2023/2024. It was laid on the floor of the Assembly on 4th April, 2023 during the afternoon sitting and subsequently committed to the County Budget and Appropriations Committee for consideration and recommendations for adoption by the Assembly.

Mr. Speaker,

Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding and to meet any other objectives set by the government. The County Debt Management Strategy is a framework that will guide the County Government to ensure that debt levels stay affordable and sustainable. A sustainable level of a county government's debt and obligations is required to be maintained as set in the medium-term debt strategy approved by the County Assembly.

Mr. Speaker,

In reviewing the KCDMSP, the Committee held a total of four sittings at Pride Inn Azure with effect from 3rd to 7th April, 2023. The Committee took ample time to scrutinize the document whose objectives are to ensure that the county governments' financing needs and payment obligations are met at the lowest possible cost, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

1.4 Acknowledgement

Mr. Speaker,

At this juncture and on behalf of the Committee, allow me to thank the Office of the Hon. Speaker of the Assembly and that of the Clerk of Assembly for the logistical support accorded in successfully undertaking this exercise. It is good noting that, the County Assembly has never undertaken this kind of an activity to scrutinize the County Debt Management Strategy Paper with the

feeling that the County has never at any fiscal year indicated a financial deficit or an intent to borrow.

My special gratitude is hereby extended to the able members of the Committee for being enthusiastic in consideration of this critical budget document. The members worked tirelessly and demonstrated the desire to deliver in undertaking this exercise. I will not hesitate however to acknowledge the Secretariat of the Committee for their significant contribution in providing technical support and compiling this report.

Mr. Speaker,

It is now my pleasant duty and privilege, on behalf of the County Budget and Appropriations Committee to table this report and recommendations for adoption by the Assembly.



Hon. Zacchaeus Ivutha Syengo, MCA

Chairperson,

Committee on Budget & Appropriations November, 2022.

2. EXAMINATION OF THE KITUI COUNTY DEBT MANAGEMENT STRATEGY PAPER, (KCDMSP) 2023/2024

Mr. Speaker,

The requirement for submission of the KCDMSP is guided by Section 123 of the Public Finance Management Act (PFM), 2012 which inter alia states;

“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 Executive Committee for Finance, Economic Planning and Revenue Management in adherence to the above provisions submitted the KCDMSP on 28th February, 2023. Subsequently and as indicated above, the paper was committed to the relevant Committee for consideration and approval by the Assembly.

Mr. Speaker,

Sub Section 123(2) of the PFM Act, 2012 outlines the requirements to be adhered to in preparation of the CDMSP, that the statement should include the following information;

- i. the total stock of debt as at the date of the statement,
- ii. the sources of loans made to the county government,
- iii. the principal risks associated with those loans,
- iv. the assumptions underlying the debt management strategy, and

- v. an analysis of the sustainability of the amount of debt, both actual and potential.

Borrowing from the above provisions, it is important noting that the County has never borrowed and as such the Paper submitted could not address the requirements for;

- i. the total stock of debt,
- ii. the sources of loans, and
- iii. the principal risks associated with loans.

Mr. Speaker,

The KCDMSP serves to fulfill two main objectives namely;

- i. To ensure that the County Government's financing needs and its payments are met at a lower cost, and
- ii. To ensure debt levels are sustainable and affordable and that borrowed funds are used to improve wellbeing of Kitui residents.

The paper thus sets out the strategies that the Government will use in the event of future borrowings to ensure those objectives have been met.

The CFSP, 2023/2024 approved by the Assembly had no financing deficit and thus depicts a situation where the County Government may not borrow in the medium term. This Notwithstanding, the KCDMSP has highlighted on instances when the County can borrow pursuant to the requirements of sections 140 and 142 of the PFM Act, 2012 which includes the following purposes;

- i. Financing county government budget deficits,
- ii. Cash management,
- iii. Refinancing outstanding debt or repaying a loan prior to its date of repayment, Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted, and
- iv. Meeting any other development policy objectives as the County may deem necessary.

Compliance to Legal and Fiscal Responsibility Guidelines

Mr. Speaker,

County borrowing must comply with legislative requirements as outlined in Sections 58 and 142 of the PFM Act, 2012 and Article 212 of the Constitution of Kenya 2010. In addition, new borrowing should be in line with the fiscal responsibility principles and financial objectives in the CFSP and the County Debt Management Strategy over the medium term.

Mr. Speaker,

New borrowing must be authorized by the County Assembly and approved by the National Treasury. The borrowing must be: -

- i. For a fit purpose,
- ii. From an acceptable source, and
- iii. With favorable terms and conditions.

3. COMMITTEE OBSERVATIONS

Mr. Speaker,

The Committee upon scrutiny of the submitted KCDMSP made the following observation: -

1. That some of the debt management strategies that the County intends to employ are;
 - i. Maintaining debt at sustainable and affordable levels by ensuring that the debt is properly structured in terms of maturity, and debt associated costs,
 - ii. Ensuring that any new borrowing follows generally acceptable fiscal responsibility guidelines; is from allowable sources; and under acceptable terms and conditions,
 - iii. Developing the domestic debt market, and
 - iv. Setting up a debt management unit at Kitui Ministry of Finance, Economic Planning and Revenue Management for effective management of the debt.
2. Although the County has never borrowed any loans, there is large portfolio of the County liabilities in form of pending bills. These liabilities have been consolidated to form the county domestic debt obligation.
3. The unsettled pending bills may attract interest charges and some may also result into civil litigations against the County which may increase costs of litigations in the event the County loses. To address these, County Government has continually adopted various strategies to reduce and curb these debts namely;

- i. Verification of outstanding claims to boost validity and hence reduce fraudulent claims through audit firms and internal audit directorate,
 - ii. Increase budgetary allocation on the pending bills vote and decentralize the same to sectors,
 - iii. Robust assumptions and forecasts in the fiscal framework as a means of enhancing credibility and realism of the annual budget. The county should have realistic revenue targets/projections that should be in tandem with the expenditure in order to avoid procurement of goods and services beyond the county's ability to finance its payments,
 - iv. Timely remittance of statutory deductions and other obligations to avert any interest and penalties on late remittance or non-remittance, and
 - v. Adhering to annual procurement plans and budgetary provisions to guide the county expenditures.
4. The KCDMSP propose the County Public Debt threshold not to exceed twenty (20%) percent of the County Governments' most recently audited revenues as approved by County Assembly or (2%) percent of the national Gross Domestic Product (GDP), whichever is lower.
5. That this KCDMSP does not propose for borrowing both internal and external as the CFSP did not depict any financing gap that may require any borrowing.

4. COMMITTEE RECOMMENDATIONS

To this end, the Committee recommends the following;

1. That during any County borrowing which may be forthcoming, the County must adhere to the law as set out in the Constitution, the PFM Act, 2012 and any other relevant law,
2. That for any borrowing, approval must be granted by the County Assembly as set in law,
3. That there is a looming danger of accumulation of pending bills by the County that is posing a serious threat of a huge domestic debt. The County must seek to address this forthwith by providing adequate funds in future budgets to address this and desist from creating additional pending bills by compliance to procurement laws and budgetary provisions.
4. That the County should establish a Debt Management Unit before embarking on any borrowing.
5. That all other components/principles of prudence in County borrowing as contained in the KCDMSP are recommended as submitted.

The Report was compiled by:

Charles Nyaga

Mulandi Kavali

Senior Fiscal Analyst I

First Clerk Assistant

ANNEX I

SIGNED LIST OF MEMBERS OF THE COUNTY BUDGET AND APPROPRIATIONS COMMITTEE CONFIRMING LEGITIMACY OF THE REPORT ON CONSIDERATION OF THE KITUI COUNTY DEBT MANAGEMENT STRATEGY PAPER, 2023/2024

We, the Honourable members of the Committee on Budget and Appropriations, do hereby affix our signatures to this report to affirm its accuracy, validity and authenticity; -

- | | | |
|-----------------------------------|-------------------|---|
| 1. Hon. Zacchaeus Ivutha Syengo | -Chairperson |  |
| 2. Hon. Jacquelyne Cate Kalenga | -Vice Chairperson |  |
| 3. Hon. Alex Mutambu Nganga | -Member |  |
| 4. Hon. Boniface Mukwate Katula | -Member |  |
| 5. Hon. Sylvester Kitheka Munyalo | -Member |  |
| 6. Hon. Kyalo Kimuli | -Member |  |
| 7. Hon. Mary Mwendu Mutune | -Member |  |
| 8. Hon. Mercy Muliwa Muema | -Member |  |
| 9. Hon. Malinga Munyao | -Member |  |



ANNEX II

COUNTY ASSEMBLY OF KITUI

MINUTES OF THE COMMITTEE ON BUDGET AND APPROPRIATIONS MEETING HELD AT PRIDEINN AZURE NAIROBI ON 6TH APRIL, 2023 AT 4.00PM.

MEMBERS PRESENT

- | | |
|-----------------------------------|-------------------|
| 1. Hon. Zacchaeus Ivutha Syengo | -Chairperson |
| 2. Hon. Jacquelyn Cate Kalenga | -Vice Chairperson |
| 3. Hon. Alex Mutambu Nganga | -Member |
| 4. Hon. Boniface Mukwate Katula | -Member |
| 5. Hon. Sylvester Kitheka Munyalo | -Member |
| 6. Hon. Kyalo Kimuli | -Member |
| 7. Hon. Mary Mwende Mutune | -Member |
| 8. Hon. Mercy Muliwa Muema | -Member |
| 9. Hon. Malinga Munyao | -Member |

IN ATTENDANCE:

- | | |
|-----------------------|-----------------------|
| 1. Charles Nyaga - | Senior Fiscal Analyst |
| 2. A. Mulandi Kavali- | First Clerk Assistant |

AGENDA

- 1) Prayer
- 2) Communication from the chair
- 3) Adoption of Committee report on consideration of the Kitui County Debt Management Strategy Paper for the Fiscal year 2023/2024.

MIN (BAC) 013/2022: PRAYER

The proceedings commenced with a prayer at 4.00 PM.

MIN (BAC) 014/2022: COMMUNICATION FROM THE CHAIR

The Chairperson thanked and welcomed the Members for the effort they had shown in delivery of their mandate. He explained to the Committee that the meeting convened was for the purpose of adopting the Committee report on consideration of the Kitui County Debt Management Strategy Paper for the Fiscal year 2023/2024. The adoption exercise was as provided for under the provisions of Standing Order 179(4). He finally guided that at the end of the meeting, the Committee will adjourn since it will have concluded the exercise/business before under consideration.

MIN (BAC) 015/2022: ADOPTION OF THE COMMITTEE REPORT ON CONSIDERATION OF THE KITUI COUNTY DEBT MANAGEMENT STRATEGY PAPER FOR THE FISCAL YEAR 2023/2024.

The Members were taken through the draft report, deliberated and adopted the same as the final copy for onward transmission to the Office of Speaker for approval.

MIN (BAC) 016/2022: ADJOURNMENT

There being no other business, the meeting was adjourned at 6.30PM



MULANDI KAVALI
For: CLERK OF ASSEMBLY
COUNTY ASSEMBLY OF KITUI.



CONFIRMED BY:
(HON. ZACCHAEUS IVUTHA SYENGO)
CHAIRPERSON, COMMITTEE ON BUDGET AND APPROPRIATIONS.
COUNTY ASSEMBLY OF KITUI.