



REPUBLIC OF KENYA
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Ref. DGIPE/A/1/10 (52)

Date: 13th December, 2023

NATIONAL TREASURY CIRCULAR NO. 13/2023

To: All Principal Secretaries/Accounting Officers

All Chief Executive Officers of State Corporations

GUIDELINES FOR THE PREPARATION OF THE ANNUAL BUDGET FOR STATE CORPORATIONS FOR FINANCIAL YEAR 2024/2025 AND MEDIUM TERM PROJECTIONS FOR FYs 2025/2026 & 2026/2027

A. Introduction

1. In accordance with the State Corporations Act, Cap. 446, Sections 11 and 12 and the Public Finance Management Act, 2012 (PFMA), Section 68, all State Corporations are required to prepare and submit their proposed budgets to the Parent Ministry and the National Treasury & Economic Planning latest by end of January each year. The proposed budgets should indicate the projected revenue and expenditure for the subsequent financial year and medium-term projections.
2. The purpose of this Circular is to provide guidelines for the preparation and submission of the Annual Budget for State Corporations for **Financial Year 2024/2025** and Medium-Term projections for **FYs 2025/2026 & 2026/2027**.
3. The calendar for the preparation and approval of the FY 2024/2025 Annual Budget has been aligned to the timelines for the National Budget as per Treasury Circular No. 8/2023 dated August 7, 2023 on Guidelines for Preparation of the FY 2024/2025 and Medium-Term Budget. In this regard, State Corporations are required to submit their itemized Annual Budgets for FY 2024/2025 and projections for FYs 2025/2026 & 2026/2027 to their respective Line Ministries and the National Treasury & Economic Planning, not later than **31st January 2024** for approval.
4. As per the Treasury Circular No. 8/2023, it is expected that State Corporations whose operations and development programmes are funded through the National Exchequer would have confirmed their budgetary allocations from respective Sector Working

Groups. Line Ministries are required to confirm the agreed State Corporations' funding levels through GIMIS. In this regard, the preparation and submission of the itemized Annual Budgets is **NOT** an additional resource bidding process.

5. The itemized annual budget should be within the budgetary allocation for the respective State Corporation and any other resources that may be received either from development partners, donors, or internally generated revenue by the State Corporation. In this regard, the National Treasury & Economic Planning will **NOT** approve or recommend for approval proposed budget with operating deficit.
6. In efforts towards enhancing the operational and financial oversight role on Government investments, the National Treasury and Economic Planning continued to leverage on ICT with the operationalization of Government Investments Management Information System (GIMIS). GIMIS has capabilities for the preparation, submission, analysis/review and approval of State Corporations budgets as well as submission and reporting of statutory returns to TNT. State Corporations are therefore expected to submit their FY 2024/2025 budget estimates and revised budgets through GIMIS.

B. General Guidelines

7. The FY 2024/2025 and the Medium-Term Budget is being prepared against the background of Government's efforts geared towards fiscal consolidation. Taking into account the resource constraint, State Corporations are therefore required to prioritize their expenditures (recurrent and Development) within the available resource envelope.
8. In this regard, in preparing their FY 2024/2025 proposed budgets, State Corporations will be required to develop and implement measures that will enhance diversification and increase internally generated revenues. Further, State Corporations should rationalize personnel, operational and administrative costs and leverage on ICT in delivery of services among other measures with a view to minimizing dependence on the support of the National Exchequer.

Policy Priorities

9. State Corporations should harmonize their FY 2024/2025 and the Medium-Term Budget with priorities of the Government. Consequently, unnecessary expenditures not supportive of the core mandate like travel, training, seminars, consultancies, legal expenses, overtime, and all non-core activities must be scaled down to the bare minimum.
10. The FY 2024/2025 budget will focus and prioritize on implementation of Bottom-up Economic Transformation Agenda (BETA). This is geared towards economic turnaround and inclusive growth aimed at increasing investments in the five sectors namely: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

Further, State Corporation budgets should be directed towards enhancing productivity and realization of Vision 2030 Medium Term Plan IV (2023 – 2027).

11. Prioritization and allocation of the Corporation's available resources should be in support of set objectives of the State Corporation Strategic Plan and planned activities for FY 2024/2025. In doing so, it is understood that the Strategic Plan under implementation by the respective State Corporation has already been aligned to the Medium-Term Plan IV and the Government's priority agenda.

Estimates of Revenue

12. It is noted that some State Corporations do not make full disclosure of internally generated revenues or under-estimate such revenues at the time of budget preparation. State Corporations are required to disclose all revenues that accrue to the respective entity, including grants. Please note that any revenues over and above the approved FY 2024/2025 budget will require a fresh approval before spending.

Expenditure Control

13. In the FY 2024/2025, the Government will continue to pursue a fiscal consolidation policy with the overall objective of reducing the fiscal deficit and debt accumulation. This will be supported by increased revenue mobilization, reprioritization and rationalization of expenditures.
14. State Corporations are required to entrench prudent financial management practices in their planning. As a matter of priority, State Corporations should enhance cost control measures with the aim of delivering services in the most cost-effective manner. Chief Executives Officers of State Corporations are reminded that incurring expenditures that are NOT approved by their Line Ministry and the National Treasury & Economic Planning is irregular, and they will be held personally liable for such expenditures in accordance with provisions of the Public Finance Management Act, 2012.

Payment of Dividends and Remittance of Surplus Funds

15. All commercial State Corporations are expected to generate reasonable returns, declare and pay dividends to the National Treasury & Economic Planning and to other shareholders. In this regard, all commercial State Corporations are required to upload their approved dividend policies before submission of their Annual Estimates for the FY 2024/2025.
16. State Corporations with arrears of unremitted dividends and surplus funds to the National Exchequer should remit the same immediately.
17. State Corporations are reminded that the State Corporations Act empowers the Cabinet Secretary National Treasury & Economic Planning under Section 16(3) to recall the whole or part of the surplus funds to be paid to the Consolidated Fund.

18. In accordance with the Public Finance Management (2012) Regulations, Regulatory Authorities are required to remit 90% of the operating surplus reported in the audited financial statements to the National Exchequer. Kenya Revenue Authority has been delegated to collect the 90% of the operating surplus on behalf of the National Treasury.
19. However, it has been noted with concern that Regulatory Authorities are adjusting operating surplus by netting capital expenditure from the operating surplus purposely to determine the 90% of the operating surplus to remit to the National Exchequer. As it has been advised earlier, operating surplus are all revenues generated including budgetary allocations received by a corporation less total operating/recurrent expenses incurred excluding capital expenditure.

Settlement of Pending Bills/Outstanding Obligations

20. It is Government policy vide Treasury Circular No. 10 dated June 16, 2020 that MDAs including State Corporations should prioritize payment of pending bills. For purposes of common understanding, pending bills are any undisputed invoices due for payment but are outstanding for more than the Corporation's credit period.
21. Pending bills have adversely impacted on economic activities especially on the small and medium enterprises. In this regard, Accounting Officers of State Corporations are reminded of their cardinal responsibility of prudent financial management and directed to comply and settle all pending bills. Payment of pending bills including interest and principal loans repayment should therefore be the first charge of the entity's revenue.
22. In accordance with the PFM Act (2012) Section 74(d), Accounting Officers are reminded that accumulation of confirmed and verified liabilities/pending bills is prohibited and may invite punitive actions against those responsible. State Corporations should therefore not initiate implementation of new projects prior to ensuring that all outstanding obligations/pending bills are cleared.
23. In order for TNT to perform its mandate of financial and operational oversight and monitor accumulation of pending bills as the pose huge fiscal risk to the National Exchequer, State Corporations are required to submit the status of pending bills on monthly basis through GIMIS. The National Treasury & Economic Planning will **NOT** grant or recommend approval annual budgets for State Corporations without clear action plan to settle pending bills.

Pension Schemes

24. All State Corporations are expected to have converted their pension schemes from Defined Benefit (DB) pension schemes to Defined Contribution (DC) pension schemes, in accordance with Treasury Circular No. 18/2010 of 24th November, 2010.

25. It is noted that some State Corporations have not been remitting sponsor and staff Pension contributions to the respective schemes. Consequently, these State Corporations have accumulated huge arrears of sponsor and staff pension contributions contrary to existing laws and Government policies. In this regard, State Corporations should budget for and honour their staff pension obligations including the arrears. **The Board of Directors are reminded of their responsibility to protect the interests of the pensioners and to provide oversight for effective operations of such schemes.**
26. State Corporations are required to submit monthly status of sponsor and staff pension contributions including arrears through GIMIS.

Borrowings

27. State Corporations are reminded that they should not procure any loan, overdraft facility and/ or any form of credit facility with financial institution without prior approval of the Cabinet Secretary, Line Ministry with the concurrence of the Cabinet Secretary, the National Treasury & Economic Planning.
28. The National Treasury & Economic Planning will not give concurrence for borrowings or, where applicable, grant guarantees for State Corporations which are in default of loan repayments and pending bills.

Cash Management and Bank Accounts

29. In accordance with Section 28(1) of the PFMA, no State Corporation should open and operate bank accounts without prior approval of the National Treasury & Economic Planning.
30. State Corporations should provide details of all bank accounts, including the balances in each bank account at the end of each month through GIMIS.

Remuneration and Benefits to Employees

31. Employees of State Corporations are remunerated in accordance with categorization as per Circular No. OP/CAB.9/21/2A/LII/43 dated 23rd November, 2004 and respective approved salary structures by Salaries and Remuneration Commission (SRC). This is subject to financial sustainability as confirmed by the respective Boards and the National Treasury & Economic Planning.
32. Adjustment of salaries and other remunerative benefits to staff of State Corporations should only be done after receiving approval from the SRC. In this regard, State Corporations are reminded to first get written **approval from the National Treasury & Economic Planning confirming availability of funds before putting requests to SRC.**

Capital Budget

33. The capital projects to be prioritized for execution should be those that adhere to Public Investment Management (PIM) framework and for which the State Corporation concerned can mobilize the requisite resources (including donor grants, borrowings and Exchequer funding allocated under sector/ministerial ceilings). The capital budgets should be realistic and consistent with sector/ministry strategic objectives and geared to the furtherance of the Corporations mandate.
34. Further, the CEOs of State Corporations are required to ensure that the following conditions are met before the start of execution of any new project:
 - i. The new project has a specific approval of the National Treasury & Economic Planning before being included in the budget;
 - ii. Funding is secured and confirmed;
 - iii. All conditions precedent including land acquisition are fulfilled; and
 - iv. Detailed designs are completed and relevant approvals obtained where applicable.
35. State Corporations are required to take into account funding requirements of all ongoing projects, multi-year funding requirements of capital projects up to their completion before initiating any new projects. Further, State Corporations should submit a full breakdown of the capital expenditure for 2024/2025 FY, including all ongoing projects indicating the status of implementation, Implementation level, amounts required to complete the project, new projects and other capital items.

Revision of Budgets

36. As State Corporations implement approved annual budget for revenue and expenditure during the respective FY, it is possible that unforeseen and unavoidable events may impact their operations and revision of the budget becomes necessary. Consequently, any revision exceeding 10% of the approved budget for revenue and expenditure must be submitted for review and approval by the line Ministry and The National Treasury & Economic Planning.
37. The revised annual budget for FY 2023/2024 must be submitted separately from the proposed annual budget for FY 2024/2025. The revised budget should be done and submitted through GIMIS at the earliest time possible when the unforeseen/unavoidable events emerge but NOT at the end FY or after the expenditure has been incurred since TNT has NO Legal basis to approve the expenditure which has already been incurred.

C. Submission of 2024/2025 Annual Budget and Projections for 2025/26-2026-27 FYs

38. State Corporation will be required to ensure that all the data submitted through the GIMIS is correct and factual.

39. Consequently, Ministries, State Departments and State Corporation are notified that all submission of budgets, monthly, quarterly, and other statutory reports shall be done through GIMIS. **NO** hard copies will be accepted for the above listed submissions.
40. The information required in the submission of the FY 2024/2025 budget proposal is as outlined in the GIMIS platform. State Corporation are therefore, required to submit **ALL** information for each interface without exception.

Please note that GIMIS will NOT allow capturing and submission of the 2024/2025 FY budget for State Corporations that have NOT provided all the required information/data for the already designed, developed, rolled out and operationalized GIMIS Modules. Complete and accurate data/information should be fully captured and submitted through GIMIS:

41. The proposed FY 2024/2025 Annual Budget and Medium-Term Projections should include the following: -
- i. Statement of the State Corporation's background information, short-term objectives, performance review for the last FY and outlook as approved by the Board, the degree to which a program will address the core mandate of the Corporation, job creation and poverty reduction;
 - ii. Updated State Corporations Board of Directors/Governing Bodies and Top management;
 - iii. Main assumptions including key economic parameters for the FY 2024/2025 and Medium Term;
 - iv. Summary of the proposed recurrent and capital budget as per agreed budgetary allocations in the Sector Working Groups ceilings and other information;
 - v. Detailed remedial action plan for any outstanding liabilities/pending bills including outstanding debt and pension scheme liabilities.
42. State Corporations are directed to provide comprehensive explanatory notes for recurrent and capital budget justifying the proposed expenditures. Further, provide notes for the accompanying statement of financial position and cash flow statement.
43. The following guidelines should be taken into consideration while preparing the Statement of Financial Performance: -
- i. All estimates of revenue and expenditure should be realistic;
 - ii. Grants from GoK and development partners should be as agreed and confirmed by Line Ministries; and
 - iii. State Corporations should ensure that funds are prioritized towards the achievement of their respective core mandates and the realization of Key Result

Areas (KRAs) identified in their respective sectors as articulated in the MTP IV, entity's strategic plan and the Government priority policy agenda.

44. The capital and development budget proposed for implementation should comply with the following guidelines: -
- i. Ongoing projects: An implementation schedule clearly indicating the level of completion for on-going projects, projected work(s) to completion and time frame to complete the project as well as sources of funding should be provided;
 - ii. New projects should have received prior National Treasury approval & Economic Planning before been included in the FY 2024/2025 budget for funding and implementation;
 - iii. Project preparation costs including feasibility studies must be budgeted separately and the National Treasury & Economic Planning approval granted;
 - iv. Budget for Capital Items are for purchase of motor vehicle, computers, spare parts and other normally procured items on a one-off basis to support the Operations and Maintenance and whose useful life is beyond one financial year.
 - v. Plans in place to revive stalled projects.
45. The Statement of Cash Flow and projections should be consistent with other statements in the submitted budget and should not reflect any overdrawn position (negative cash flow) unless a State Corporation has in place bank overdraft facilities which have been approved by the Line Ministry with the concurrence of the National Treasury & Economic Planning.

D. Deadlines for Submission of FY 2024/2025 Annual Budget and FYs 2025/2026 & 2026/2027 Projections

46. Annual budget for FY 2024/2025 and projections for the FYs 2025/2026 & 2026/2027 for State Corporations should be submitted through the GIMIS platform not later than **31st January, 2024.**
47. The respective Line Ministries should review the submitted annual budget by State Corporations within the timelines indicated in the Annex. The Line Ministry should critically review, analyze and approve the proposed budget for respective State Corporations under their jurisdiction in GIMIS.

E. Responsibility for Submissions

48. Responsibility for ensuring that the State Corporations comply with the provisions of this Circular lies with the Board of Directors/Governing Bodies and Chief Executive Officer of the State Corporation. The Accounting Officer of the respective line

ministry should, as part of their oversight role, ensure that State Corporations falling within their dockets comply with this Circular.

49. Extracts of minutes of the relevant meeting of the Board of Directors/Governing Bodies at which the annual estimates and projections of revenue and expenditure were approved should be included in the submission. **The Board Resolution should clearly indicate the approved amount for recurrent and development expenditure.**

F. Conclusion

50. The National Treasury & Economic Planning will NOT approve or recommend to the line Ministries approval for the proposed budgets that are not submitted in line with this Circular. Further, Accounting Officers and CEOs are reminded to ensure that NO State Corporation commences the implementation of programmes or incurs expenditure for the financial year where approval of the proposed budget has not been granted by the line ministry and the National Treasury & Economic Planning.



NJUGUNA S. NDUNG'U, CBS
CABINET SECRETARY

Copied to: All Cabinet Secretaries

The Hon. Attorney General
Sheria House
NAIROBI

Head of the Public Service
Executive Office of the President
Harambee House
NAIROBI

The Auditor-General
Office of the Auditor General
NAIROBI

The Controller of Budget
Office of the Controller of Budget
NAIROBI

The Inspector-General Corporations
Inspectorate of State Corporations
Executive Office of the President
NAIROBI

Annex: Deadlines for Submissions of FY 2024/2025 Annual Budget and the 2024/2025- 2025/2026 Projections

Submission of FY2024/2025 Annual Estimates of Revenue and Expenditure (Budget Proposals) and projections for FYs 2025/2026-2026/2027 by State Corporations to the line Ministry.	January 31, 2024
Submission of Recommendations by line ministries to the National Treasury & Economic Planning, with specific comments and recommendations, for each State Corporation.	February 9, 2024
Review and Analysis of the Annual Budget Proposals and the projections by the National Treasury & Economic Planning.	February 15 to April 15, 2024
Submission of Annex of Estimates of Revenue and Expenditure for State Corporations FY 2024/2025 to the National Assembly.	April 29, 2024

