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Date: 28th October, 2021

NATIONAL TREASURY CIRCULAR NO 15/2021

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 2022/2023 and Medium-Term Projections for FYs 2023/2024 &
2024/2025**

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 & Planning latest by end of January each year. The proposed budgets should indicate the projected revenue and expenditure proposed to be incurred in the succeeding financial year.
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 2022/2023** and Medium-Term projections for **FYs 2023/2024 & 2024/2025**.
3. The calendar for the preparation and approval of the FY 2022/2023 Annual Budget has been aligned to the timelines for the National Budget. Given that 2022 will be a General Election year, preparation of the 2022/23 – 2024/25 Medium-Term Budget should be fast-tracked to ensure that the Budget Estimates are approved by Parliament before recess in readiness for the General Elections slated for August 2022. In this regard, State Corporations are required to submit their Annual Budgets for FY 2022/2023 and projections for FYs 2023/2024 & 2024/2025 to their Line Ministries and the National Treasury & Planning, not later than 15th December, 2021 for approval.
4. Cognizant of the Covid-19 realities, the National Treasury developed the Government Investment Management Information System (GIMIS) an end-to-end automated platform for preparation, submission, analysis and approval of State Corporations

budgets. Building on the success registered in its initial year of operation, GIMIS functionality has been improved to allow submission of other statutory returns besides the budget estimates. In view of the above, State Corporations are expected to submit their FY 2022/2023 budget estimates and revised budgets through GIMIS.

A. General Guidelines

5. The FY 2022/2023 and the Medium-Term Budget is being prepared on the background of strong but uneven economic recovery. The emergence of new COVID-19 variants could lead to reinstatement of containment measures thereby disrupting economic activities. Further, it is expected that 2022 being an election year, heightened political activities especially in the fourth quarter of FY 2021/2022 which are likely to erode investor confidence and affect projected growth. The Government will however continue to monitor these developments and take appropriate measures to safeguard the economy and livelihoods.
6. In preparation of the FY 2022/2023 proposed budgets, State Corporations are therefore required to take into account the observed effects of COVID-19 Pandemic on revenue outturn and business operational environment, consider and implement measures that would improve financial performance and efficiency. In this regard, State Corporations will be required to develop and implement measures that will allow diversification and increase internally generated revenue, rationalize personnel, operational and administrative costs and leverage on ICT in delivery of services among other measures with a view to minimizing dependence on National Exchequer support.
7. Consequently, unnecessary expenditures not supportive of core mandate like travel, training, seminars, consultancies, legal expenses, overtime and all non-core activities must be brought down to the bare minimum.
8. In preparation of the Medium-Term Budget for FYs 2022/23-2024/2025 Medium Term Budget, State Corporations are required to undertake a Program Performance Review (PPR). This entails a detailed assessment of the progress achieved towards realization of the targeted outputs after the implementation of the FYs 2018/2019 – 2020/2021 Budgets. This should include but not limited to analysis of the previous budgetary allocations, actual expenditures and achievement of actual outputs.
9. Prioritization and allocation of budgetary resources should be in support of set objectives of the State Corporation Strategic Plan and planned activities in FY 2022/2023. In doing so, it is understood that the Strategic Plan under implementation by the respective State Corporation has already been aligned to the Vision 2030, the Medium-Term Plan III and the Big 4 Agenda. Experiences and lessons learned should form the basis for guiding expenditures allocations in the Medium-Term Budget.
10. State Corporations are expected to seek specific approval from the Line Ministry, the National Treasury & Planning and other relevant authorities prior to:
 - i. Initiating new capital projects/programmes;

- ii. Review of the Human Resource Policy Instruments and Recruitment of staff.

Estimates of Revenue

11. 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 approved FY 2022/2023 budget will require a fresh approval before spending.
12. This budget exercise is not a resource bidding process. State Corporations with projects and programs to be financed from the National Exchequer are therefore, required to ensure budgetary requirements to be funded through the National Budget are as agreed with the line Ministries during the sector working Groups before being factored in the FY 2022/2023 budget and the Medium-Term Expenditure Framework. Line Ministries required to confirm the agreed State Corporations funding levels through GIMIS.

Expenditure Control

13. State Corporations should, as a matter of priority, 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 & Planning is irregular and they will be held personally liable for such expenditures in accordance with provisions of the Public Finance Management Act, 2012.
14. State Corporations are required to entrench prudent financial management practices in their planning. In this regard, the National Treasury & Planning will not approve or recommend for approval proposed budget with operating deficit.

Engagement of External Legal Counsel

15. Circular Ref: OP.CAB.26/1/3A dated July 16, 2020 on Presidential Directive on Delivery of State Programs and Projects, sets out general guidelines on legal representation of State Corporations. In particular, the Circular directed State Corporations not to engage external legal counsels or consultants to render legal services without prior approval of the Attorney General. In this regard, State Corporations are required to comply and take necessary steps to build internal legal capacity to defend litigation matters internally.

Payment of Dividends and Remittance of Surplus Funds

16. All commercial State Corporations are expected to generate reasonable returns, declare and pay dividends to the National Treasury & Planning and to other shareholders, where the State Corporation is not wholly owned by the Government. In this regard, all commercial State Corporations are required to upload their approved dividend policies before submission of their Annual Estimates for the FY 2022/2023.

17. State Corporations with arrears of unremitted dividend and surplus funds to the National Treasury should remit the same immediately.
18. State Corporations are reminded that the State Corporations Act empowers the Cabinet Secretary National Treasury under Section 16(3) to call for the whole or part of the surplus funds to be paid to the Consolidated Fund.
19. All Regulatory Authorities are required to remit to the National Exchequer 90% of the operating surplus for the preceding financial year by 31st October 2021 based on draft Annual Financial Statements as submitted for audit. In this regard, Regulatory Authorities are expected to comply.

Settlement of Pending Bills/Outstanding Obligations

20. There have been numerous reminders to State Corporations to prioritize settlement of pending bills, it is noted that the level of compliance to these directives is still very low. Consequently, Treasury Circular No. 10 dated June 16, 2020 on prioritization of pending Bills was issued. For purposes of this Circular, pending bills means any outstanding and undisputed invoices/payment due for more than the Corporation's credit period and in any event more than 90 days from the due date.
21. The Circular reminded Accounting Officers of State Corporations of their cardinal responsibility of prudent financial management and directed settlement of all pending bills. In particular, the Circular reminded Accounting Officers to take necessary steps and ensure payment of pending bills, interest and principal loan are the first charge of the entity's revenue.
22. State Corporations in default of loan repayments, with pending bills and other obligations must reduce non-core expenditures and go slow on implementation of new projects to ensure that all outstanding obligations are cleared.
23. Accounting Officers were also reminded that accumulation of confirmed and verified liabilities and pending bills is prohibited and may invite punitive actions against those responsible in accordance with Section 74 (d) of the PFMA. State Corporations are also, required to comply with the law not to initiate procurement without budgetary provisions and confirmed sources of funding.
24. In this regards, State Corporations are required to submit monthly all verified pending bills in terms of nature and type. The National Treasury will **NOT** grant or recommend for approval of budgets for State Corporations with no remedial action to address the accumulation of pending bills.

Pension Schemes

25. 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.
26. It is noted that some State Corporations have not been remitting staff Pension contributions to the respective schemes. Consequently, these State Corporations have

accumulated huge arrears of 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.**

27. State Corporations are required to submit monthly, the status of staff pension contributions.

Borrowings

28. 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 Line Ministry with the concurrence of the National Treasury.
29. The National Treasury & 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

30. 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 & Planning.
31. State Corporations should provide details of all bank accounts, including the balances in each bank account at the end of each month through the GIMIS.

Remuneration and Benefits to Employees

32. Currently, members of staff of State Corporations are remunerated in accordance with categorization as per Circular No. OP/CAB.9/21/2A/LII/43 dated 23rd November, 2004. State Corporations should comply with their respective approved salary structures by Salaries and Remuneration Commission (SRC) subject to financial sustainability as confirmed by the respective Boards and the National Treasury & Planning.
33. 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 confirming availability of funds before putting requests to SRC.**

Capital Budget

34. 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.

35. 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 before being included in the budget;
 - ii. Funding is secured;
 - iii. All conditions precedent including land acquisition are fulfilled;
 - iv. Detailed designs are completed and relevant approvals obtained where applicable;
 - v. Detailed resource requirement including funding sources and personnel to operationalize the project are planned for.
36. State Corporations are required to take into account funding requirements of all on-going projects, multi-year funding requirements of capital projects up to their completion before initiating any new projects. State Corporations are required to submit a full breakdown of the capital expenditure for 2022/2023 FY, including all on-going projects indicating the status of implementation, new projects and other capital items.

Revision of Budgets

37. As State Corporations submit their respective annual budget for revenue and expenditure within the set time limits, 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 & Planning.
38. The revised annual budget for FY 2021/2022 must be submitted separately from proposed annual budget for FY 2022/2023 and should be done and submitted through the GIMIS system at the earliest time possible when the unforeseen/unavoidable events emerge. The line Ministry and the National Treasury & Planning will not approve any expenditure which has already been incurred.

B. Submission of 2022/2023 Annual Budget and Projections for 2023/24-2024-25 FYs

39. The National Treasury with the support of Information Communication Officers (ICT) from the State Department of ICT and Innovation continues to undertake the design, development and roll out of GIMIS in phases. Already, the design and development of State Corporation's Corporate information module, submission, review and analysis of the budget, submission of monthly, quarterly and other Statutory requirements have been completed, training of users conducted and successfully rolled out. State Corporation will be required to ensure that all the data submitted through the GIMIS is correct and factual.
40. Consequently, Ministries, State Departments and State Corporation are notified that all submission of budgets, monthly, quarterly and other statutory reports shall be

performed through the GIMIS. **NO** hard copies will be accepted for the above listed submissions.

41. The information required in the submission of the FY 2022/2023 budget proposal is as outlined in the GIMIS platform. State Corporation are therefore, required to submit **ALL** information for each interface without exception.
42. The proposed FY 2022/2023 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 programme addresses 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 2022/2023 and Medium Term;
 - iv. Concise explanatory notes on the proposed recurrent and capital budget.
 - v. Summary of the proposed recurrent and capital budget as per agreed figure in the sector working groups ceilings and other information;
 - vi. Detailed remedial action plan for any outstanding liabilities/ pending bills including outstanding debt and pension scheme liabilities;
 - vii. How resources allocation has been linked to entity's post Covid-19 economic recovery strategy, the "Big Four Agenda" either as a driver or enabler and, how the programme in question is aligned to the specific priorities, outcomes and outputs of the Medium-Term Plan III of the Vision 2030.
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;
 - iii. State Corporations should ensure that funds are prioritized towards the achievement of their respective core mandates and the realization of the Key Result Areas (KRAs) identified in their respective sectors as articulated in the MTP III, entity's strategic plan and post Covid-19 economic recovery strategy, and
 - iv. The statement of financial performance for the period must clearly and realistically indicate all sources of revenue (earmarked to fund recurrent expenditure).
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 before being included in the FY 2022/2023 budget for funding and implementation;
 - iii. Project preparation costs including feasibility studies must be budgeted separately and the National Treasury 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 previously been approved by the Line Ministry with the concurrence of the National Treasury & Planning.

C. Deadlines for Submission of FY 2022/2023 Annual Budget and FYs 2023/2024 & 2024/2025 Projections

46. Annual budget for FY 2022/2023 and projections for the FYs 2023/2024 & 2024/2025 for State Corporations should be submitted through the GIMIS platform not later than 15th December, 2021
47. The respective Line Ministries should review the submitted annual budget by State Corporations within the timelines indicated in Annex I. The Line Ministry should critically review, analyze and approve the proposed budget for respective State Corporations under their jurisdiction in GIMIS.

D. 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.**

E. Conclusion

50. The National Treasury & 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 & Planning.



HON. (AMB) UKUR K. YATAN, EGH
CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

Copied to: All Cabinet Secretaries

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The Hon. Attorney General
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The Auditor-General
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The Controller of Budget
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Annex I: Deadlines for Submissions of FY 2022/2023 Annual Budget and the 2023/2024 - 2024/2025 Projections

Submission of FY2022/2023 Annual Estimates of Revenue and Expenditure (Budget Proposals) and projections for FYs 2023/2024-2024/2025 by State Corporations to the line Ministry with a copy to the National Treasury & Planning. December 15, 2021

Submission of Recommendations by line ministries to the National Treasury & Planning, with specific comments and recommendations, for each State Corporation (Chief Executive Officers of State Corporations should follow up with their line ministries to ensure that this timeline is met). January 8, 2022

Review and Analysis of the Annual Budget Proposals and the projections by the National Treasury & Planning. January 28, 2022

Submission of Annex of Annual & Medium-Term Budgets for FY 2022//2023 - 202/2025 for State Corporation to the National Assembly by the National Treasury and Planning. January 31, 2022