REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

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Ref. DGIPE/A/1/10 **Date: 16th December, 2024**

NATIONAL TREASURY CIRCULAR NO. 15/2024

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 2025/2026 AND MEDIUM-TERM PROJECTIONS FOR FYS 2026/2027 & 2027/2028

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 **FY 2025/2026** and Medium-Term projections for **FYs 2026/2027 & 2027/2028;**

3. The calendar for the preparation and approval of the FY 2025/2026 Annual Budget has been aligned to the timelines for the National Budget as per Treasury Circular **No. 11/2024** dated **August 23, 2024** on Guidelines for Preparation of the FY 2025/2026 and Medium-Term Budget. In this regard, State Corporations are required to submit their itemized Annual Budgets for FY 2025/2026 and projections for FYs 2026/2027 & 2027/2028 to their respective Line Ministries and the National Treasury & Economic Planning, not later than **31st January 2025** for approval;

4. As per the calendar for the preparation and approval of the FY 2025/2026 Annual Budget, it is expected that, State Corporations whose operations are funded through the National Budget resource allocations, have confirmed their budgetary allocations from respective Sector Working Group through their Line Ministries. 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. The National Treasury & Economic Planning will therefore, NOT approve or recommend for approval proposed budget with operating deficit; and

6. In efforts towards enhancing operational and financial oversight role on Government investments, the National Treasury and Economic Planning continues 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, therefore, are expected to submit their FY 2025/2026 budget estimates and revised budgets through GIMIS.

B. General Guidelines

7. The FY 2025/2026 and the Medium-Term Budget is being prepared against the background of Government's efforts geared towards fiscal consolidation. Taking into account the resource constraints, State Corporations are therefore required to prioritize their expenditures (recurrent and development) within the available resources;

8. State Corporations must continue implementing policy measures to enhance revenue generation and expenditure rationalization in line with the Government's fiscal consolidation efforts as reiterated vide Treasury Circular No.2/2024 dated 27th March 2024;

9. In this regard, in preparing the FY 2025/2026 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 National Exchequer funding; and

10. The base for 2025/2026 FY expenditure estimates should be the approved rationalized budget for 2024/2025 FY with minimal projected increase to cater for cost-of-living adjustment. Consequently, expenditures not supportive of the core mandate of the corporation like travelling, training, seminars, consultancies, legal expenses, overtime, and all non-core activities should be scaled down to the bare minimum.

Policy Priorities

11. The FY 2025/2026 and the Medium-Term Budget will continue to support the Government's Bottom-up Economic Transformation Agenda (BETA). This will be done through continued implementation of a growth responsive fiscal consolidation plan designed towards slowing down public debt without compromising service delivery. State Corporation budgets should therefore be directed towards enhancing productivity and realization of Vision 2030 Medium Term Plan IV (2023 – 2027); and

12. 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 2025/2026 and to projects and programmes with high impact on growth. In doing so, it is underscored that the Strategic Plan under implementation by the respective State Corporation has already been aligned to the Medium-Term Plan IV, BETA and Government's priority agenda.

Estimates of Revenue

13. 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 2025/2026 budget will require a fresh approval before spending.

Expenditure Control

14. In the FY 2025/2026, 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; and

15. State Corporations are required to entrench prudent financial management practices in their planning and enhance cost control measures with the aim of delivering services in the most cost-effective manner. Chief Executives Officers/Accounting Officers of State Corporations are reminded that incurring expenditures without approval by 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

16. All commercial State Corporations are expected to generate reasonable returns, declare and pay dividends to the National Exchequer and other shareholders. As reiterated vide Treasury Circular No. 2 /2024 dated 27th March 2024, all commercial state corporations should revise their dividend policies and provide 80% of profit after tax for payment of dividends;

17. Further, in accordance with the PFM (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; and

18. However, it has been noted with concern that some Regulatory Authorities are adjusting operating surplus by providing for capital expenditure to determine the 90% to be remitted to the National Exchequer. No state corporation should provide for capital expenditure from operating surplus without a written National Treasury approval.

Accumulation of Pending Bills

19. 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/commitments prior to ensuring that all outstanding obligations/pending bills are cleared; and

20. In order for TNT to perform its mandate of financial and operational oversight and monitor accumulation of pending bills as they pose huge fiscal risk to the National Exchequer, State Corporations are required to submit the status of pending bills on monthly basis through GIMIS.

Borrowings

21. 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; and

22. 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

23. 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; and

24. 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

25. 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) subject to financial sustainability as confirmed by the respective Boards and the National Treasury & Economic Planning; and

26. 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

27. 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;

28. 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;

29. 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. Further, State Corporations should submit a full breakdown of the capital expenditure for 2025/2026 FY, including all on-going projects indicating the status of implementation, Implementation level, amounts required to complete the project, new projects and other capital items.

Multi-Year Projects/Carry-Over Funds

30. In accordance with Section 11 and 12 of the State Corporation Act, approved budgets are effective for the respective Financial Year for which the approval was granted. These guidelines have clearly outlined how multi-year projects should be budgeted for each respective financial year over the project implementation period;

31. On acquisition of plant, machinery and equipment with long lead time beyond the financial year, state corporations should clearly confirm sources of funds for the acquisition, and budget amount required to initiate the acquisition amount required on delivery for each respective financial year; and

32. As provided under Section 12, any expenditure or use of public funds beyond the financial year requires fresh approval from the Cabinet Secretary for the National Treasury. In this regard, there should be No Carry-Over funds for purposes of implementing projects the respective financial year.

Revision of Budgets

33. 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 of the approved budget for revenue and expenditure from one sub-item to another must be submitted for review and approval by the line Ministry and The National Treasury & Economic Planning through GIMIS.

C. Submission of FY 2025/2026 Annual Budget and Projections for 2026/27-2027-28 FYs

34. 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;

35. The information required in the submission of the FY 2025/2026 budget proposal is as outlined in the GIMIS platform. State Corporation are therefore, required to submit **ALL** information for each interface without exception; and

Please note that GIMIS has been configured to block the capturing and submission of the FY 2025/2026 budget for State Corporations that have NOT captured & submitted all the required information/data for the already designed, developed rolled out, and operationalized GIMIS Modules. Complete and accurate data/information of the following should be fully captured and submitted through GIMIS:

36. The proposed FY 2025/2026 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 2025/2026 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; and

    v. Detailed remedial action plan for any outstanding liabilities/pending bills including outstanding debt and pension scheme liabilities.

37. 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 cashflow statement;

38. 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.

39. 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 2025/2026 budget for funding and implementation;
    iii. Project preparation costs including feasibility studies must be budgeted separately and the National Treasury & Economic Planning approval granted; and
    iv. Budget for Capital Items is 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.

40. 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 2025/2026 Annual Budget and FYs 2026/2027 & 2027/2028 Projections

41. Annual budget for FY 2025/2026 and projections for the FYs 2026/2027 & 2027/2028 for State Corporations should be submitted through the GIMIS platform not later than **31st January, 2025; and**

42. 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

43. 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; and

44. 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

45. 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.

HON. FCPA JOHN MBADI NG'ONGO, EGH
<u>CABINET SECRETARY</u>

Copy to: **All Cabinet Secretaries**

The Hon. Attorney General
Sheria House
<u>NAIROBI</u>

Chief of Staff & Head of the Public Service
Executive Office of the President
Harambee House
<u>NAIROBI</u>

The Auditor-General
Office of the Auditor General
<u>NAIROBI</u>

The Controller of Budget
Office of the Controller of Budget
<u>NAIROBI</u>

The Inspector-General Corporations
Inspectorate of State Corporations
Executive Office of the President
<u>NAIROBI</u>

All Chairpersons of State Corporations

Annex: Deadlines for Submissions of FY 2025/2026 Annual Budget and the 2026/2027- 2027/2028 Projections

Submission of FY2025/2026 Annual Estimates of Revenue and Expenditure (Budget Proposals) and projections for FYs 2026/2026-2026/2027 by State Corporations to the line Ministry.	January 31, 2025
Submission of Recommendations by line ministries to the National Treasury & Economic Planning, with specific comments and recommendations, for each State Corporation.	February 14, 2025
Review and Analysis of the Annual Budget Proposals and the projections by the National Treasury & Economic Planning.	February 15 to April 15, 2025
Submission of Annex of Estimates of Revenue and Expenditure for State Corporations FY 2025/2026 to the National Assembly.	April 30, 2025